

BANK FOR INTERNATIONAL SETTLEMENTS

THIRTY-SECOND ANNUAL REPORT

1st APRIL 1961 — 31st MARCH 1962

BASLE

4th June 1962

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THIRTY-SECOND ANNUAL REPORT

submitted to the

ANNUAL GENERAL MEETING

of the

BANK FOR INTERNATIONAL SETTLEMENTS

held in

Basle on 4th June 1962.

Gentlemen,

I have the honour to submit herewith the Annual Report of the Bank for International Settlements for the thirty-second financial year, which began on 1st April 1961 and ended on 31st March 1962. 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 1962.

The accounts for the thirty-second financial year closed with a surplus of 20,185,172 gold francs, against 27,324,105 gold francs for the previous year. After deduction of 7,500,000 gold francs transferred to the provision for contingencies, the net profit amounted to 12,685,172 gold francs, compared with 14,974,105 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. 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 4,500,000 gold francs, will represent an extraordinary distribution of 22.50 gold francs per share. The total distribution will thus amount this year to 60 gold francs, payable in Swiss francs in the amount of 85.75 Swiss francs per share.

Part I of this Report deals with the policy problems and tendencies which arose in European countries and the United States in 1961 and the early months of 1962. In Part II a survey is given of developments in the fields of production, credit, prices, external payments and international reserves and of the working

of the European Monetary Agreement. Part III deals with the operations of the Bank and 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

POLICY PROBLEMS AND TENDENCIES IN 1961-62.

In the past six months economic activity on the continent of Europe has been expanding fairly vigorously, reversing the slow-down which was evident up to the autumn of 1961. Demand forces and supply possibilities, particularly with respect to manpower, have been uneven among the countries and some have recently been obliged to take measures to restrain inflationary pressures. While continued expansion is in prospect over the coming year, its tempo is likely to be slower than in the 1959-60 boom.

In the United Kingdom internal demand has been under tight restraint since the sterling crisis in the middle of 1961. Production suffered a small setback in the latter half of 1961; by the spring of 1962 this movement had begun to reverse itself and the indications for the coming months were for a moderate recovery.

In the United States the upswing of the economy proceeded very rapidly after its start early in 1961. In 1962 the rise has continued, but at a less vigorous pace. A significant reduction of unemployment has been achieved and the prospects for both output and employment seem favourable — though not as rosy as they did at the beginning of this year.

In the year since the Bank's last Annual Report the disequilibrium in international payments has lessened, the deficits of both the United States and the United Kingdom having fallen and some of the surplus positions of continental countries also having been reduced. The exchange and gold markets have at times shown some agitation, but none of menacing proportions since the outflow of funds from London was stopped after July 1961. Further improvement in the payments situation is still needed, however, to ensure a safe workable balance.

What was the outstanding feature of the past year in the economy of the western countries? Rather than the statistical ups and downs, it was the readiness of the various responsible authorities to venture new policy initiatives to deal more effectively with the economic problems facing them. Of these problems, the payments disequilibrium and wage-cost pressures are of most immediate importance from the standpoint of the sound management of the economy. But the problems of adequate growth and freer international trade have also been in the spotlight. An appraisal of the policy initiatives relative to these problems is essential for an insight into how and where the economy is going.

Developments in 1961 in the centrally-planned economies of eastern Europe largely continued to follow the characteristic pattern of recent years. As industrialisation has advanced, however, annual growth rates have tended to decline in most cases, and in the highly industrialised countries of the group the rates are at levels not uncommon in the more dynamic of the free-enterprise economies.

Industrial production exceeded plan targets in almost all the eastern countries in 1961. The exceptions were Czechoslovakia and eastern Germany, the former having had only a relatively small rise in labour productivity, owing partly to a shortage of skilled labour, and the latter being hampered by a general manpower shortage.

Output of capital goods was everywhere greater than planned targets, which continue to provide for higher rates of expansion in this sector than in the consumer-goods industry. In the U.S.S.R. production of consumer goods actually fell short of the target.

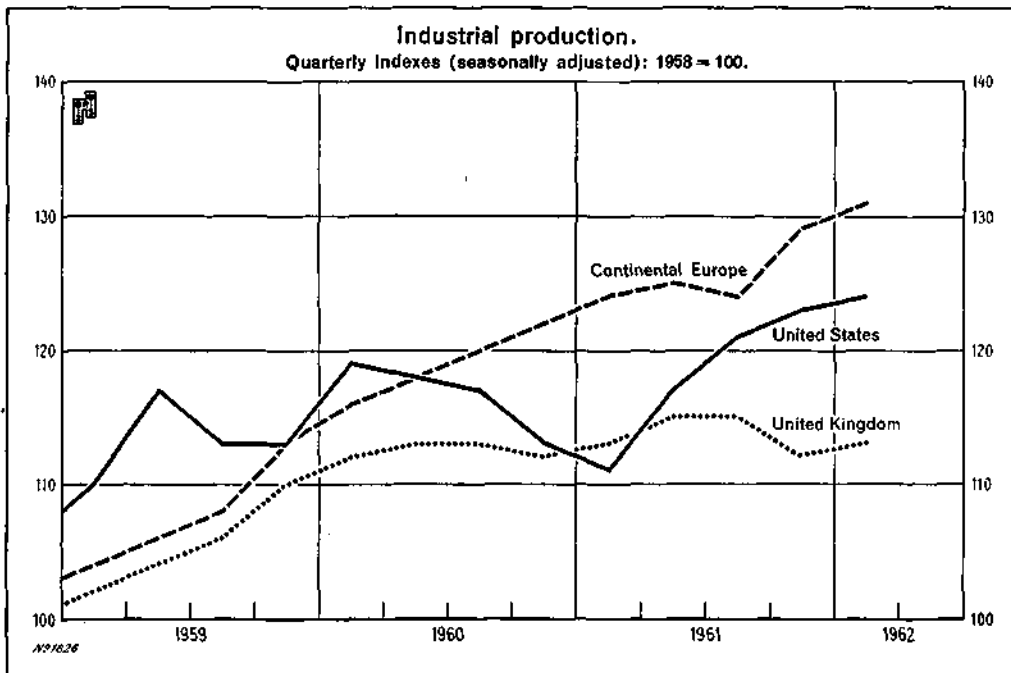
Except in Albania and Poland, agricultural output made very little progress, largely because of unfavourable weather conditions. An additional factor, however, is the time needed for investment in the agricultural sector to produce results, especially when larger investment is accompanied by radical structural changes in farm management, calling for the formation of a huge body of skilled labour at all levels.

Before analysing the international payments problem, it will be helpful to examine internal developments in the western countries and the efforts made by those countries towards freer trade.

Internal economic developments.

Europe: slower expansion. The rate of industrial expansion in western Europe slowed down markedly in the early part of 1961. Although there was some upturn towards the end of the year, which continued into 1962, output is still not rising as rapidly as it did during the period 1959-60. As this movement occurred in most of the industrial countries, it may look at first sight like a repetition of the 1958 "recession". Despite some statistical similarity, however, the two periods differ fundamentally as regards the forces responsible for the change of pace. Whereas the pause of 1958 was induced by restraining policies in the main countries, the recent slow-down took place while fairly free rein was being given to demand forces — except, notably, in the United Kingdom.

The first steps of restraint in the United Kingdom had already been taken during the second quarter of 1960 in an effort to counteract incipient inflation and a weakening of the external position. They were only partially effective, however, as a rapid rise of money incomes continued and the balance of payments remained adverse. In 1961 sterling came under severe strain, so that more decisive measures had to be taken in July. With regard to the



domestic economy, these measures immediately checked demand pressures; the labour market eased and production drifted downwards until January 1962, after which there was some recovery. Although Bank rate has been brought down again to $4\frac{1}{2}$ per cent., below the level of last July, special deposits have not been released and the scope for credit expansion remains restricted. Moreover, the cautious tone of the 1962-63 budget, providing as it does for a smaller overall deficit than that registered in 1961-62, indicates the authorities' intention to hold domestic demand in check pending the improvement in exports hoped for in the current year.

The much lower rate of expansion of the west German and Dutch economies in 1961 was not due to any measures of restraint. In Germany there was some easing of demand in the capital-goods and export sectors, resulting partly from the currency revaluation of March 1961 and partly also from reduced inventory accumulation; but the tight labour situation would in any case have limited the gain in output to some extent. Industrial production was still growing at an annual rate of over 8 per cent. during the first quarter of 1961 but has since risen only slightly. At the present time there is a certain amount of excess capacity in some industries, notably steel, but overall demand remains very high, with private consumption expenditure particularly buoyant. The number of unemployed still totals less than half of job vacancies. At the beginning of April 1962 measures were announced — including a 20 per cent. cut in Federal building plans and a complete ban on certain kinds of non-residential construction — aimed at curbing the inflationary effects of the building boom.

In the Netherlands the main factor behind the failure of industrial output to rise during 1961 was the reduction in working hours which occurred

in the early part of the year. The acute labour shortage has kept investment demand at a high level and consumer demand has continued to be boosted by sizable wage increases. Exports suffered some setback from the revaluation of the guilder, although their growth has probably been limited more by the capacity of the export industries. Since the end of 1961 the upward movement of production has been resumed; the authorities have been endeavouring to prevent the boom from getting out of hand by restricting the expansion of credit.

A rather similar situation prevails both in Austria and in the Scandinavian countries. All these countries are more or less bumping against the full-employment ceiling and in all of them restrictive monetary or fiscal policies have been applied in an effort to moderate inflationary pressures on the price level (and in Denmark, Norway and Finland on the trade balance also). Private consumption has tended to become the most dynamic demand component in recent months, particularly in Sweden, Finland and Austria, where the private investment and stock-building boom has slackened. Export demand for certain raw materials and semi-manufactured products — notably wood-pulp, ores and iron and steel — has fallen off slightly, but that for finished goods remains vigorous. The slow-down in industrial expansion has been most marked in Austria; after the very substantial increase (11 per cent.) of 1960, expansion decelerated from the beginning of 1961 until, in the first quarter of this year, output almost ceased to rise and pressure on the labour market eased slightly. In Sweden, where restraining forces have been operative longest, and in Finland and Denmark the increase in industrial output since early 1961 — 3 per cent., 7 per cent. and approximately 5 per cent. respectively — has been about half that achieved in the previous year. Norwegian industry alone maintained its earlier growth rate of $7\frac{1}{2}$ per cent. right up to the end of 1961. While the Austrian economy probably has scope for a renewed acceleration of growth in 1962, expansion in the Scandinavian countries is now so dependent on productivity gains that an improvement on last year's overall rate of advance seems hardly possible.

The rate of industrial growth in France has not been much slower over the past twelve months than it was a year earlier. After a hesitant start to 1961, economic activity accelerated in the second quarter, chiefly in response to higher external demand and a further increase in private industrial investment. Since then all components of demand have been strong and industrial production has expanded, despite a short-lived flattening-out in the third quarter of the year, at a rate of about 6 per cent. per annum. The immediate prospects are for this expansionary trend to continue, with private consumption and public investment perhaps becoming the more active elements. Recent credit measures are intended to facilitate the provision of medium and long-term finance to industry and commerce, while at the same time offsetting some of the liquidity created by the external surplus. Although the manpower situation has become much tighter, it is expected for more than one reason that the labour supply will exhibit sufficient elasticity to enable the present rate of growth to be maintained.

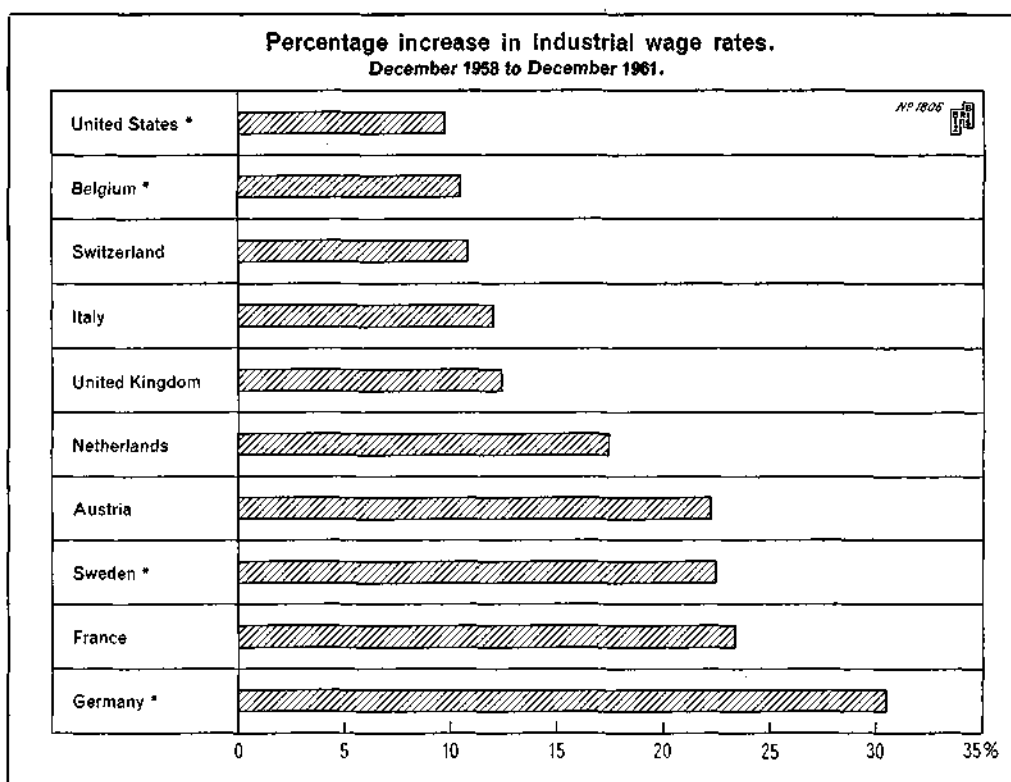
Only Belgium, Italy and perhaps Switzerland showed a higher rate of industrial expansion during 1961 than in 1960. Belgium is a special case in that a large amount of output was lost during the fourth quarter of 1960 and first quarter of 1961 as a result of the strikes that accompanied the government's crisis measures. The ensuing recovery slowed down noticeably in the latter part of 1961. It remains to be seen whether the improvement in the public finances in 1961, the gradual lowering of interest rates and the introduction of greater flexibility into the monetary system through the reforms of January 1962 will help to stimulate a faster rise in production this year. In Italy the rate of growth of output accelerated strikingly in the final quarter of 1961 (simultaneously with a new rise in the external surplus), when industrial production was nearly 14 per cent. above the level reached in the fourth quarter of 1960. Given the satisfactory external position and the continued existence of unemployed labour in Italy, the authorities have had no reason to check the present expansionary trend. This is not the case in Switzerland, where concern has been aroused by the rise in the consumer-price index and the substantial increase in the trade deficit. Steps were taken early in 1962 to damp down the boom by limiting monetary expansion and requesting industry to restrict its investment plans and manpower demands.

Thus, in most countries the rapid expansion of 1959 and 1960 could not continue at the same rate in 1961 owing to limitations on the supply side; for a few there was, in addition, a distinct levelling-off of demand. While exports and capital outlays have slackened, increased purchasing power in the hands of consumers and rising public expenditure are making for a more pronounced expansion of demand in 1962; at the same time, the rate of growth of output, though unlikely to be much slower overall than in 1961, continues to be limited in various sectors by labour shortages. There is little doubt, therefore, that the European economy will continue to find itself fully employed in the near future. On a longer view, however, recent experience suggests that certain changes may be in progress at the present time. The expansion of exports and the large current-account surplus on the Continent, which have provided such a significant impetus to business investment and to total demand in recent years, will perhaps be a less powerful force in the period ahead. Moreover, the approach in certain major industries — the most recent examples being steel and basic chemicals last year — of a condition of fairly adequate capacity may mean that the share of industrial investment in total output will not continue to rise. In both these respects, therefore, demand stimuli to economic activity are likely to be less spontaneous than in the past and to become more dependent upon deliberate policy measures.

Europe: higher prices and wages. In the past year the upward movement of prices and wages has tended to accelerate in most countries. For retail prices the movement was distinctly sharper after the middle of 1961 and was largely concentrated on food and services (including rents). Food prices were affected by unfavourable harvests and in a number of countries by higher government support prices for farm products. However, prices of

industrial goods also tended to increase, as is shown more clearly by the industrial-goods component of wholesale-price indexes.

Wage rates rose very sharply, surpassing the high rate of increase in 1960 and substantially exceeding the gain in productivity; the main exceptions were Italy and Belgium. The resulting increase in costs was reflected to some extent in higher industrial prices, though it appears that the main effect thus far has been to narrow profit margins. While industry on the Continent has been in a position which has enabled it to absorb some weakening of its competitive standing, there is no doubt that the wave of wage increases is reaching dangerous proportions; if it continues it will threaten the high level of investment needed for economic growth as well as the balance on external account. In the United Kingdom the wage rise practically halted during the "pause", but has since been renewed.



* Hourly earnings.

The excessive wage increases occurred in an economic climate of very high demand and negligible unemployment. None the less, it was only in rare cases that demand was the primary force behind them. Switzerland is the purest example of demand inflation, in which the pressure of organised labour groups has played only a minor rôle. In the other countries the pressure of demand has been evident in individual sectors, particularly construction, but for the wage movement as a whole the persistent pressure exerted by labour in the bargaining process has been an important factor.

Wage rates in Switzerland, which has had as intense a labour shortage as any other country, rose by 4.3 per cent. in 1961, while in many other countries wages increased by between 7 and 9 per cent.

The rise of prices in France over the past year gives a good illustration of the process of creeping inflation as it takes place in a full-employment economy. Between December 1960 and December 1961 the index of wholesale prices in France rose by 3.5 per cent., while prices at the consumer level increased by 4 per cent. The increase was more sustained than in 1960 and, as prices declined a little during the first half-year, the increase in the second half was more marked than that recorded for the year as a whole. There is no indication of a sudden emergence of excess domestic demand, and it may be assumed that a pressure on costs would have made itself felt more gradually.

A clearer picture is obtained by examining which groups of prices rose and by how much. Prices of industrial products rose by 2 per cent. at the wholesale level and 2.7 per cent. at retail level, i.e. much less than the general indexes. This rise should be seen in relation to an increase in wage rates of around 8 per cent. (7 per cent. in 1960) and an even larger rise in earnings. The difference was made possible by a gain in productivity, a moderate fall in the cost of imported materials and — as manufactured imports were competitive in price — some squeeze on profits. On the other hand, prices of foodstuffs rose much more than the general indexes, showing increases of more than 6 per cent.

The increase in prices of agricultural products in the second half of 1961 was to some extent due to unfavourable harvest conditions. It was mainly attributable, however, to the measures taken by the authorities, under great pressure from the farmers, to improve farm incomes. These measures consisted of straight increases in the prices paid for deliveries of foodstuffs to official agencies and of support purchases by specialised institutions which reduced market supplies temporarily or permanently (by sales abroad below cost).

The upward adjustment of farmers' incomes, although resulting from administrative action, must be regarded as a delayed effect, concentrated in time, of continuing increases in wages. In order to prevent a renewal of inflation after the stabilisation of the franc at the end of 1958, the authorities have since limited the rise of incomes in fields where they have a measure of direct responsibility, namely, public-sector wages and agricultural support prices. At the same time, however, wage increases have been obtained fairly easily in the past few years in industries with the largest productivity gains, and these wage increases have been extended to the rest of the private sector through the wage-bargaining process. This wage-wage spiral was sooner or later bound to turn into a wage-price spiral, and industrial prices have tended to move upwards. In these circumstances, the farmers were unwilling to accept the deterioration of the parity between agricultural and industrial prices or to be left out of the rising income trend of the non-farm population.

Recovery in the United States. In contrast to Europe, the U.S. economy in 1961 was making a vigorous recovery from the recession of 1960. The margin of unused resources at the start of the year was at about a post-war peak, but, with the stimulus of monetary ease and an expansionary fiscal policy, the gross national product had increased by 9.4 per cent. by the first quarter of 1962. Free reserves in the banking system were maintained at about a half-milliard dollar level and total Federal expenditure (on a national accounts basis), which had risen at a rate of \$7.5 milliard from the first quarter of 1960 to the first quarter of 1961, was increased by a further \$9 milliard by the first quarter of 1962. As might be expected, unemployment did not respond at once to the expansion of output, but by March 1962 it had declined from 7 to 5.5 per cent. of the labour force.

United States: Gross national product and its components.

Items	1st quarter			Difference: 1st quarter 1961 to 1st quarter 1962
	1960	1961	1962	
	seasonally adjusted, in milliards of dollars at annual rates			
Personal consumption	323.8	330.7	352.0	+ 21.3
Durables	44.7	39.4	44.6	+ 5.2
Non-durables	150.5	153.7	160.2	+ 6.5
Services	128.6	137.5	147.2	+ 9.7
Government purchases of goods and services	98.9	105.0	115.5	+ 10.5
Federal	51.8	54.7	61.2	+ 6.5
State and local	45.0	50.3	54.3	+ 4.0
Gross private domestic investment (fixed) . .	68.0	63.8	70.0	+ 6.2
Residential construction	21.5	19.3	21.3	+ 2.0
Other construction	19.3	20.4	20.5	+ 0.1
Producers' durable equipment	27.1	24.2	28.2	+ 4.0
Change in business inventories	10.9	— 4.0	7.5	+ 11.5
Net exports of goods and services	1.8	5.3	4.0	— 1.3
Gross national product.	501.5	500.8	549.0	+ 48.2
Total Federal expenditure*	90.5	98.0	107.3	9.3
Federal surplus or deficit*	6.5	— 5.5	— 2.0	3.5
as a percentage of civilian labour force				
Unemployment	5.2	6.8	5.6	—

* National accounts basis.

Thus, in 1961 the primary emphasis in fiscal and monetary policy was on domestic recovery. A sharp rise in imports between the first and second halves of the year, and a higher level of capital exports, indicated clearly that the conflict between internal and external requirements of financial policy was still present; further demand stimulus to the internal economy would risk aggravating the balance-of-payments deficit, as commercial exports were not rising. In these circumstances, a shift in financial policy was initiated at the end of 1961. As regards fiscal policy, the Administration proposed a balanced (administrative) budget for the coming fiscal year; while Federal expenditure would increase in the first half of (calendar) 1962, this would reflect mainly contracts placed earlier rather than a continued rise in new commitments.

In monetary policy the Open Market Committee of the Federal Reserve System decided that operations should continue to "be conducted with a view to providing reserves for bank credit and monetary expansion . . . but with a somewhat slower rate of increase in total reserves than during recent months". The aim, it seems, was not to impose restraint and higher interest rates but to allow these results if market demand for credit expanded strongly.

In 1962, up to the spring months, this had not occurred; recovery continued but at a much slower pace. The Federal financial position (on a national accounts basis) was not far from in balance in the first quarter and private demand seemed only just strong enough to overcome this handicap — together with that of the leakage of purchasing power via the balance-of-payments deficit. As the demand for consumer durables and business investment was not as active as had been expected, the outlook was uncertain. It was uncertain also because it was not clear whether the authorities intended to avoid pressure on the external deficit by slower internal recovery or whether greater stimulus would be applied if demand forces failed to strengthen in the near future.

The expansion has been noteworthy for the general stability of prices and the moderate rate of wage increases which have prevailed. Industrial prices even declined somewhat in the course of 1961. The Administration has laid great stress on the need to avoid a new wage-price spiral and has brought pressure to bear to this end in a number of cases. There has appeared to be much greater public recognition of the problem.

Fifty per cent. expansion by 1970? An initiative aimed at adequate economic growth was taken by the first Ministerial Council of the O.E.C.D. in November 1961. The Council set a target of a 50 per cent. increase in the real output of the member countries combined to be achieved over the decade from 1960 to 1970. As there were some differences of opinion on the matter, a few questions about this action may be discussed. One may ask if it is sensible to set such a target at all and, if so, whether the 50 per cent. figure is reasonable. Most important, perhaps, is the question of what the authorities, in their own countries and in co-operation, must do year by year to meet the target.

The answer to the first question must depend upon the spirit in which the production goal was set. If the intention was to impose rigid objectives on the various countries, to sacrifice other important values, or to make excessive demand pressure and consequent inflation the order of the day, then indeed the target would be worse than not sensible. The Ministerial Resolution makes it quite clear, however, that nothing of the sort is intended. Rather, starting from the lesson of experience that the creative energies of the economic system should normally result in an adequate growth of output over the years, the purpose of the target is to be a spur to deeper appraisal when growth appears insufficient. In particular, it is meant to incite reflection

as to whether economic policies are providing a proper climate for the enterprise system and whether international co-operation has risen to the challenges presented. In this light, a target is sensible and desirable; it is even dangerous to avoid policy reappraisal in the face of lagging growth. As such, the target should give a useful focus for an important aspect of the work of the O.E.C.D.

Is the 50 per cent. target reasonable, implying as it does an average rate of increase in output of 4.1 per cent. a year? One must here consider the United States and Europe separately, since the output of the United States is greater than that of all western European countries, and the factors governing the prospects of the two areas are not the same.

For the United States, and Canada too, the growth rate from 1955 to 1960 was disappointing and below the potential of the economy; it averaged 2.3 per cent. a year for the United States and 3.2 per cent. for Canada. The trouble manifested itself in too frequent recessions and in a growing slackness in the use of available labour and capital resources. In the 1960-70 period the rate of growth can benefit from this slack at the starting-point as well as from the prospective rapid increase in the labour force. Hence, if full employment could be reached and reasonably maintained, with fewer backward steps into recession, the target for the United States (and Canada) would not be a difficult one. It would require a yearly gain in productivity of about 2 per cent.

For Europe the situation is quite different. Growth in the 1955-60 period was 4.2 per cent. a year for the countries as a group, which might suggest by simple projection that the target is easily attainable. This is not the case, however, as may be seen from the recent situation and prospects of the principal groups of industrial countries.

Rate of growth of gross national product
at constant prices.

Countries	1950-55	1955-60
	in percentages	
Austria	7.0	5.2
Belgium	3.3	2.4
France	4.5	4.2
Germany	9.0	6.0
Italy	6.0	5.9
Netherlands	5.7	4.2
Denmark	2.1	4.6
Norway	3.6	3.3
Sweden	3.1	3.3
Switzerland	5.7	4.4
United Kingdom	2.6	2.4
Canada	4.6	3.2
United States	4.3	2.3

(1) *The Six and Austria.* These countries together had a growth rate from 1955 to 1960 of just under 5 per cent. There was a downward trend in the rate from 1950 to 1960, however, which would have been more marked but for the exceptionally large gain in output in 1960. The growth rate in the present decade can hardly match that of the preceding five years because the growth of the labour force is not rapid, and because demand is likely to shift towards services. Moreover, the rate of productivity increase is likely to be lower for several of the larger countries.

The growth rate should be higher in Belgium, which has faced special difficulties in the last five years, and the average may be somewhat higher in France, which had to mark time to stop inflation and to stabilise the franc. These possible increases will not be sufficient, however, to offset the likely declines for the other countries. In short, this group should more than meet the target, but not by so wide a margin as in the years 1955-60.

(2) *The Scandinavian countries and Switzerland.* This group had an average growth rate of 3.9 per cent. from 1955 to 1960, made up of 3.3 per cent. for Sweden and Norway and about 4.5 per cent. for Switzerland and Denmark. The high rate for Denmark is partly a compensation for some years of stagnation earlier in the decade; a lower rate is to be expected from 1960 to 1970. For Switzerland also a lower rate is to be expected in the present ten-year period because the importation of manpower on as massive a scale as during the past five years is hardly likely.

(3) *The United Kingdom.* The growth rate for 1955-60 of 2.4 per cent. a year was unsatisfactory. If the persistent balance-of-payments obstacle to expansion could be overcome, a better record could be achieved in the present decade, within the limits imposed by a low level of unemployment at the beginning of the period and a low rate of increase in the labour force.

That, however, is just the point. The target for the European countries as a group is reasonable if the growth rate in the United Kingdom can be raised significantly. But the growth rates of the major continental countries will not be high enough to make up for an inadequate rate in the United Kingdom, given the latter's heavy weight in the aggregate.

Thus, although not easy, the overall target is reasonable; it is not so high as to require the economy to be operated under forced draught, nor so low that it will be reached by the mere passage of time. A few countries will have to better their 1955-60 performance substantially, particularly the United States and the United Kingdom because of their large weights and, it may be hoped, also Canada and Belgium. All four have the potential to do so.

Since the target will not be reached automatically, the third question is relevant, namely, what are the authorities to do about it?

For the continental countries whose rate of growth has been satisfactory the answer in the main is obviously that they do not have to do very much that is different. Of course, they must see to it that public services and facilities keep pace with the needs of the economy, and they must avoid falling into the error of excessive total demand from over-ambitious plans or projects. They must also see that there is adequate incentive to productivity growth by not sheltering excessively the less productive enterprises and sectors of the economy. Finally, as they cannot expect so powerful an impetus from balance-of-payments surpluses and from pent-up demand in a few sectors, they will

probably have to give greater attention to maintaining real demand at a stimulating level. For the rest, there is no reason to suppose that they cannot rely upon the creative energies of the enterprise system, without having to dissipate their own energies by embarking on a variety of new paths and techniques for stimulating growth.

For the United Kingdom the solution of the problem is being sought by the authorities themselves along the most feasible lines. The weakness of the balance of payments must be corrected by a faster growth of exports; then the growing volume of imports needed to support a higher rate of growth of real demand would not have to be held in check by frequent recourse to restraining policy measures. In this context, the government is trying to give a significant stimulus to both exports and imports by seeking to join the Common Market. Greater export competitiveness involves, of course, an ending of continuous wage-cost inflation.

The problem for the United States, as indicated above, is to maintain economic activity closer to a full-employment level and to avoid too much loss of growth through frequent recessions. Why has the United States had this problem? First, the freedom of the authorities to pursue an expansionary policy has been circumscribed by wage-price inflation and, since 1958, by balance-of-payments difficulties. (This is discussed later in the chapter.) Secondly, the policy instruments used to counteract business-cycle forces and to maintain full employment have been inadequate.

The important initiative by the Administration in proposing to Congress to provide for greater flexibility in fiscal policy is aimed at the latter difficulty. This would give the President two new policy instruments on a stand-by basis for stimulating the economy when demand and employment were lagging: power to initiate a reduction in income-tax rates, and power to initiate an increase in public capital improvements. Leaving aside the question of the appropriateness of these particular proposals, one may say that greater fiscal flexibility would help the authorities to cope with the stabilisation problem, as it would permit rapid and easily reversible fiscal action when this was needed.

During much of the time since 1956 the United States has found itself with unused labour and capital resources, partly because a decision could not be made on the appropriate fiscal action to induce the resources to be taken up for either public services or private wants. To permit this state of affairs, when restraint is not deliberately sought to counter inflationary tendencies or to correct an external deficit, implies either regretting the level of saving that the private economy chooses for its own welfare or hoping for a level of investment which the country's private enterprises consider unjustified under existing demand conditions. Neither the regret nor the hope is wise in a country like the United States, where enterprises are enterprising and the distribution of income is not so biased as to yield too much saving for the nation's needs. It is rather fiscal policy which should make the necessary adaptation. Without it the United States will risk continuing to have a rate

of growth well below that of Europe — east and west. One might wish only that flexibility could be provided in the other direction also — to allow more prompt action against excessive demand.

Towards freer trade.

The past year has been particularly fruitful of new initiatives on the road to freer trade. Together they underline the fact that commercial policy has been irreversibly shifted onto a new tack. While their repercussions will be gradual, they are bound to affect profoundly the shape of future economic developments, not only for the western industrial countries but also for the countries in the process of development.

Stage II of the Common Market. Since the signing of the Treaty of Rome in 1957 the European Economic Community has been a major influence on economic developments in the six member countries and has changed the conception of the techniques by which trade barriers can be reduced under present circumstances. This influence will be intensified by the success of the Common Market in passing to Stage II of its transitional period in January 1962. This step is important above all because it shows the readiness of the Six to compromise differences on basic issues of policy, as well as a political will to achieve their grand design. In addition, it is significant from a legal standpoint: although numerous matters of Community policy which will eventually be decided by majority vote remain subject to the unanimity rule during the second stage of transition, the future moves to Stage III and finally to full integration will themselves take place automatically, in the sense that only a unanimous resolution of the Council of Ministers can prevent them. This in itself is a powerful assurance for the continued development of the Common Market.

The major hurdle which had to be surmounted by the Council of Ministers in January was to settle the broad lines of agricultural policy, as France and the Netherlands were not prepared to go ahead with the move to Stage II in the non-agricultural sectors alone. The essence of the agreed future policy is that Community target prices for cereals will constitute the basis of a system of common variable import levies to replace other forms of support for a number of agricultural products. While it is intended that the costs of such support should ultimately be borne by the import levies alone, the latter will then be paid into the Community's general budget and will not be tied a priori to expenditure in the agricultural sphere. For Germany, as the major importer, the compromise reached involved accepting the basic implication of this system of protection; for other countries, notably France, it involved accepting a more gradual transition to the new policy than they had wished, as well as some weakening of the link between import levies and the subsidisation of agricultural development in the Community.

Although detailed implementation of the agricultural policy remains to be agreed upon in future negotiations, the entry into Stage II has brought the attainment of the goals embodied in the Rome Treaty appreciably nearer. It is indeed a mark of wisdom in those responsible to have recognised that what seem big obstacles today can succumb to gradual adjustment in the course of time and that in any case the problems themselves are liable to change in our rapidly changing economy.

United Kingdom application for membership of the E.E.C. The other initiatives in trade policy were all taken in the light of the new environment that is resulting from the integration of the Six. First may be mentioned the various requests for membership of or association with the Common Market, of which that of the United Kingdom has the widest significance. For the United Kingdom, its application for membership, accompanied by its acceptance of the full political and economic implications of the Rome Treaty, represents a major change of course from traditional policy.

In the agricultural sphere the main problems would seem to be those connected not with British acceptance of the E.E.C.'s farm-support system but with Commonwealth exports, notably from Australia, New Zealand and Canada. Other Commonwealth difficulties may prove less serious than previously thought: on the one hand, the Six appear increasingly to favour a policy of "more aid, less preference" towards their associated underdeveloped territories, mainly producers of tropical foodstuffs; and, on the other hand, the conviction is growing — as evidenced by the five-year agreement on cotton textiles reached in G.A.T.T. in February of this year — that the West has a responsibility for ensuring satisfactory market outlets not only for such foodstuffs but also for manufactured exports from the less-developed countries. United Kingdom preferences on manufactured imports from developed Commonwealth countries are likely to be less of a stumbling-block than the E.E.C. tariff on certain Commonwealth semi-manufactures, notably lead, zinc, aluminium and wood-pulp, the last two of which are subject to the additional complication of being produced in quantity by other members of the E.F.T.A.

The successful compromise of such differences is by no means a foregone conclusion; in fact, negotiations have not yet reached a stage where definite results are foreseeable.

The tariff agreement in G.A.T.T. Another event of importance in trade policy was the satisfactory conclusion of the G.A.T.T. negotiations which had been started in September 1960 following proposals made by Mr. Dillon when he was U.S. Under-Secretary of State. Both the E.E.C. and the United Kingdom signed major agreements with the United States in March of this year, as a result of which tariffs on a wide range of products will be reduced, broadly speaking, by 20 per cent. The United Kingdom is expected to make its reductions effective before the end of this year, the United States in two stages by July 1963, and the E.E.C. gradually over the next few years as the common external tariff is established. In addition to its new concessions,

the E.E.C. is taking steps under Article XXIV of the G.A.T.T. to incorporate in its common external tariff all concessions previously made by one or more of the Six acting individually.

The significance of these agreements is twofold. First, they should allay fears that the establishment of the Common Market will encourage protectionist policies in world trade. Secondly, they represent the first departure from the item-by-item type of trade negotiation which has been followed in G.A.T.T. since its inception. Unfortunately, the United States could not accept a straight 20 per cent. "linear" tariff reduction because of restrictions imposed by the existing Trade Agreements legislation. This was appreciated by the E.E.C., which in fact granted more concessions than it received.

The Trade Expansion Bill in the United States. As it is evident that the types of reciprocal concession that have been made within the G.A.T.T. for many years are no longer feasible, the President of the United States has laid before Congress a new bill designed to eliminate the restrictions of the older legislation and hence to permit "linear" tariff negotiations as the only practical means to freer trade. Three kinds of authority are sought by the bill. The first is power to reduce existing tariffs by 50 per cent. in reciprocal negotiations. The second is authority to reduce or eliminate tariffs on groups of products for which the United States and the E.E.C. together account for 80 per cent. of world trade. This may be of limited significance at present, but it will become very much more important if the United Kingdom — and other countries — join the E.E.C. The third is power to free, in concert with the E.E.C., imports from less-developed countries of tropical agricultural products not produced in quantity in the United States. This reflects the widespread desire to ensure that underdeveloped countries participate in the continued rapid expansion of world trade which is in prospect.

The bill also provides for "trade adjustment assistance", which shows a will to face up to the implications of free trade for competition and structural change in the domestic economy. However, the decision in March 1962 to raise the tariff on carpets and glass indicates very clearly the difficulties with sectional interests that have to be overcome in pursuing a freer trade policy. During the past eight years, in fact, resort by the United States to increased protection (through tariffs or quotas) has not been negligible in scope or amount.

The international payments problem.

The main problem of the North American/west European economy is still the imbalance in international payments, with the two reserve currencies, the dollar and sterling, beset by weakness in the basic balance of payments, roughly paralleled by a surplus position for the continental group of countries. There has been significant movement towards a better overall balance in the positions of many of the countries. This has been most evident in the immediate changes away from large deficits or surpluses, as the case may be.

The indications are also that the basic disequilibria are being corrected, probably more so than is suggested by statistics as yet available; but these statistics give emphasis more to what remains to be done than to what has already been accomplished.

Many aspects of financial and economic policy have to some degree had to reflect the requirements of the external payments problem, and the past year has been noteworthy for the firmer hand with which policy has been directed and, particularly, for the new departures that were made.

What is the essence of the complex of measures by means of which the various authorities have been seeking to resolve the payments problem? With regard to the basic disequilibria, the adjustment sought has two main aspects. One is to use shifts in government net external transactions as part of the mechanism of adjustment. The other is to influence market conditions so as to secure shifts in private trade and capital flows; the United States and the United Kingdom have exercised direct restraint on costs and prices to improve their competitive positions and have tried to discourage net capital outflow; the continental countries have "played the rules of the game" by giving quite free rein to the monetary expansion inherent in their external surpluses so as to reduce their trade surplus and to promote net capital outflow.

With regard to the immediate situation (as basic adjustments obviously require time to take effect), action has been directed towards securing temporary accommodation, maintaining order in the exchange markets and having the means at hand to counteract possible speculative waves against any of the financial centres. In all this, one can say that a new and more determined effort at international co-operation has been evident among the responsible national authorities. The Organisation for Economic Co-operation and Development has provided a meeting ground for discussions among governmental representatives, and the meetings at the B.I.S. have facilitated co-operation among the central banks. This co-operation has shown itself not only in international and bilateral arrangements but in changes of policy in particular countries. Before the actions of the individual countries are discussed, two international initiatives may be mentioned.

I.M.F. special funds. A major buttress to the international monetary system was secured in December 1961 by the agreement among a group of ten industrial countries enabling the International Monetary Fund to borrow supplementary resources under Article VII. A sum of \$6 milliard has been pledged on a stand-by basis, the purpose of which is to put the Fund in a position to aid a member of the group whose currency is threatened by a flight of short-term capital. It is also intended to provide effective resources in the event of a large drawing by the United States or others in the group, without impairing the Fund's more usual operations. The special procedure agreed upon for the use of the Fund involves the co-operation of this group of countries and provides safeguards by leaving the principal decisions in the hands of the lending countries.

There was initially some difference of opinion among the countries on the ways and means by which this protection should be provided. From the start, however, there was full accord on the need to safeguard the principal currencies against large movements of funds and, particularly, to support the dollar as the central currency of the whole system. It is not surprising that an agreement to amass a fund of \$6 milliard required some discussion of the terms and conditions governing the use of the resources and even some negotiation on the relative contributions of the various countries. If anything is surprising, it is the ease and speed with which a compromise was found.

The operations of the Fund itself have been skilfully conducted so as to contribute to better international balance. In 1961 net drawings on the Fund, including the large U.K. drawing to fund the short-term assistance provided under the Basle arrangements, were at a record level of \$1.7 milliard, of which less than one-fifth was provided by the United States.

Co-operation in the gold market. Another international effort was that arranged among the central banks which meet monthly at the B.I.S., aimed at maintaining the gold market on an even keel. The flare-up on the market in the last quarter of 1960 showed that an unchecked speculative movement in gold could threaten the international monetary system and important steps were taken at that time to minimise this danger. The U.S. and U.K. authorities came to an understanding which facilitated intervention by the Bank of England to overfeed speculative appetites; the United States made it illegal for its citizens to buy or hold gold abroad; and the group of central banks agreed informally not to purchase on the market when the latter was under pressure.

This co-operation respecting gold has been strengthened at various times during the past year — the understanding among the central banks being changed when needed from month to month. When the supply on the market was short the banks agreed to refrain from purchasing gold and to participate with the United States in supplying gold to the market. In addition, arrangements were made to avoid unco-ordinated buying, which had at times contributed to the pressure on the market price.

Owing to the volume of ordinary central-bank operations during the year, notably substantial sales of gold by the United Kingdom at the time of severe pressure on sterling, it is not easy to determine the precise amount of gold used specifically to prevent excessive movements in its price. The scale of intervention varied according to need but was much less than the unofficial guesses that have been in circulation. Of course, over the year as a whole private demand absorbed only a part of the new supplies of gold coming onto the market.

Strengthening the dollar. At the start of 1961 the policy-makers in the United States were faced with a difficult dual problem — a recession in economic activity and a balance-of-payments deficit. The margin of unused resources in the economy was large and the recession likely to deepen unless

counteracted by effective measures. The external deficit, on the other hand, although particularly large in the last months of 1960 owing to a flight of capital, was narrowing because of the recession at home, contrasted with very high demand abroad. As the President could, and did, give the assurances that would stop the capital flight, general fiscal and monetary policy was therefore directed to stimulating an internal recovery. At the same time, various steps were set in motion to promote a basic improvement in the balance of payments. This improvement could only be gradual, partly in the nature of the case, and partly because political and economic responsibilities to the outside world could not be neglected. Hence, other measures were taken to protect the shorter-term position of the dollar, i.e. to guard against an excessive outflow of gold reserves and the possible renewal of currency speculation. Such, in brief, is the logical framework behind official policy in 1961, into which the many measures taken and proposed may be readily fitted.

The measures aimed at containing current pressures on the dollar were expertly conceived and managed.

(1) The intention to maintain the international value of the currency was strongly reaffirmed, with the huge gold stock of the United States pledged to this objective. This stopped the flight of capital from the country and there has been little sign of further speculative movements against the dollar.

(2) While maintaining monetary ease by providing ample reserves to the banking system, the authorities acted to prevent short-term interest rates from falling to the low levels of previous recessions in order to limit the incentive to short-term capital outflow. To this end, the Federal Reserve's open-market purchases of government securities were shifted towards longer-term issues and Treasury cash-financing was concentrated in short-term securities. In December 1961 interest rates payable on deposits of six months or more under Regulation Q were raised to allow banks to compete more effectively for deposits in the international money market.

(3) Official dealing in foreign exchange, in close consultation with foreign central banks, was entered into to help avoid temporary disturbances on the exchange markets which could increase the outflow of dollars. The operations were begun by the Treasury, with the New York Reserve Bank acting as its agent, and later taken up also by the Federal Reserve System on its own behalf. Resources for such operations were obtained in the form of Deutsche Mark received as a result of the German debt prepayments and from various arrangements with monetary authorities of other countries which made foreign exchange funds available.

The measures taken or proposed to secure a basic reduction of the deficit were less incisive. Some of these measures had been started by the previous Administration.

(1) Agreement was reached, particularly with Germany, for some offset to military expenditure abroad through foreign purchases of defence equipment in the United States.

(2) Procurement abroad under military and aid programmes was restricted.

(3) The government moved actively towards establishing a wages policy so as to limit cost and price increases that would impair the competitive position of U.S. industry.

(4) Revisions of depreciation schedules for tax purposes were initiated and a tax credit on new investment proposed with the aim of increasing capital outlays to promote higher productivity and new-product development, and thereby raise the competitiveness of industry.

(5) Changes in the taxation of business earnings abroad were proposed so as to reduce the incentive to invest abroad or to hold earnings abroad purely to gain a tax advantage.

(6) Steps were taken to encourage foreign tourism in the United States and the duty-free allowance for returning U.S. tourists was reduced from \$500 to \$100.

To turn to the results achieved by the steps taken thus far, supplemented as they were by measures taken abroad and internationally, new strength has been given to the international financial system, with the dollar at its centre. As to a more basic improvement in the U.S. external deficit, the gains to date may be somewhat greater than indicated by the latest statistical information. As it is, available statistics show that the improvement has been relatively small and has been proceeding more slowly than is desirable. For 1961 as a whole, for example, the overall deficit was \$2.5 milliard, as against \$3.9 milliard in 1960. But of the reduction, \$0.7 milliard is accounted for by foreign debt prepayments and a further large amount (of unknown size) must have been gained by the stopping of capital flight — which means that the extent of the "basic" improvement is difficult to assess. In addition, the deficit was substantially bigger in the second half of the year than in the first half, mainly owing to an increase in capital exports and a smaller current-account surplus. Here again, special transactions and random changes in certain categories of net payments make it difficult to assess the precise trend of the basic change. But, with exports flat over the year (excluding aid-financed shipments), there was a sharp rise in imports from the first to the second half of the year, reflecting the import demands of internal expansion. This trend continued into the first three months of 1962, when exports were marginally down and imports slightly up on the totals for the final quarter of 1961.

This situation warranted a reappraisal of internal and external policy, since it was apparent that continued rapid domestic expansion could easily lead to a growing payments deficit. It gives the rationale for the shift of emphasis at the end of 1961, when it was decided to taper off the fiscal stimulus to expansion and to provide reserves for bank credit and monetary expansion at a slower rate. Since, at the same time, continued rapid expansion based on rising consumer-durables and investment demand was foreseen, the overall orientation of policy is somewhat obscure.

The objectives of the government include safeguarding the dollar without import restrictions or exchange controls, maintaining adequate forces overseas, keeping to foreign aid commitments and continuing domestic recovery. These goals taken together are not an operating policy because they do not specify an order of priorities and because they may implicitly restrict possible action to put a given priority into effect. Balance-of-payments developments over the past year indicate a need for a higher priority on achieving a fairly rapid decline in the external deficit; while the attainment of full-employment levels of domestic activity remains a fundamental need of the American economy, the pace of further expansion (whether spontaneous or policy-stimulated) must be consistent with and guided by rapid progress on external account.

This could, of course, occur of its own accord, which would be a happy turn of events. However, greater assistance may be needed from policy measures; the present programme appears to postpone the re-establishment of external equilibrium too far into the future. The main payments flows in the foreign balance may be considered from this standpoint.

One must assume that military expenditures abroad are being thoroughly combed for possible savings, and that all feasible arrangements are being made for an offset from purchases by foreign countries of defence equipment and services in the United States. A substantial increase in the latter is expected.

Further tying of government grants and loans to foreign countries may also be possible, though with almost three-quarters of such assistance already tied the limit to balance-of-payments savings from this source is probably being approached.

On trade account, the rise of imports due to continued internal expansion could be sharply limited only by increased tariffs or quotas. Either would be a disaster for sound commercial policy in the world and contrary to both the immediate and the longer-term interests of the U.S. economy. As for exports, a rising trend may be anticipated. However, there is not in prospect a rise big enough to offset the present deficit and, in addition, the exceptional increase in imports that would accompany full use of internal resources — both in a year or two.

The Administration's aim to stimulate higher productive investment so as to raise productivity is highly desirable. But this is not a miracle drug; it cannot change the competitive position of U.S. industry very substantially in a short space of time because the United States is not a country of low productivity. In terms of output per man-hour, the productivity of U.S. industry at present is more than twice that of European industry, which accounts for the much higher level of real income that U.S. industry can afford to pay its employees. Nor is it apparent that U.S. management has missed many opportunities for productivity increase. Business attitudes in this matter cannot be measured by statistics or geiger counters. There seems no reason, however, to doubt the commonly-held judgement that the U.S. business man is generally more ready to take risks than his opposite number in Europe, that he more

easily changes old equipment for new, and that he still leads the world in new-product development.

Moreover, the flow of international business depends on relative costs and prices, in which productivity is only one factor. This underlines the importance of the Administration's efforts to institute a wages policy and to prevent a new wave of rising prices. Some government responsibility in this regard is necessary to maintain stable money when monopolistic forces have been contributing to the process of creeping inflation. The fact that industrial prices declined somewhat during the sharp recovery of 1961 suggests renewed cost-consciousness on the part of management and labour. What must be realised is that cost and price-consciousness will have to be maintained over the longer run. European industry, only in part because of the Common Market, is in the course of developing a large mass market. In the years ahead it will benefit from economies of scale, as U.S. industry did decades ago when it discovered mass-production methods. As European industry has the opportunity for some catching-up on American standards of productivity, a tight rein will have to be kept on money costs and prices in the United States to maintain the country's competitive position. Thus, here again, it would not seem prudent to count too heavily on the possibilities of widening the trade surplus, even though wage costs in Europe have been rising.

Finally, there is the net outflow of private long and short-term capital. U.S. capital exports have continued at a very high rate, though the erratic movements in the short-term outflow — very high in the fourth quarter of last year and low in the first quarter of this year — obscure the immediate trend. Capital inflow from abroad rose in 1961 but was still only a minor offset to capital exports.

The volume of foreign investment may subside through some change in market forces; unless near-term indications provide the basis for substantially more than vague hopes, however, a review of policy measures will be called for. There is a wide margin in this flow for improving the balance-of-payments position and the policy instruments now intended to assist in this direction are of limited scope. The United States is the only country that has not put major emphasis in monetary measures on external requirements, which has been seen to be necessary since the return to convertibility. Monetary ease has been maintained to encourage domestic recovery. At the same time the authorities have set their face firmly against exchange controls on the various types of capital outflow, while clearly recognising that there exist alternative instruments by means of which the size of this outflow may be influenced. It is necessary to see that, if the policy of monetary ease produces a large net outflow of capital, it is apt — instead of contributing to internal recovery — to involve the maintenance of a margin of unused domestic resources, either because the capital exported is not invested at home or because it prevents more internal stimulus by other policy measures.

Prevailing opinion in the United States appears to consider it more desirable to move towards external equilibrium by raising the trade surplus

than by lowering the capital-account deficit. Besides the fact that it is not a question of "either . . . or", this is a doubtful proposition in present circumstances, because the practical possibilities of raising the trade surplus over the next year or two are likely to be considerably less than the possibilities of narrowing the deficit on capital account. This requires a tightening of financial liquidity and an appropriate incentive from a higher level of interest rates to attract foreign investment funds to the United States as well as to keep U.S. funds at home. There is ample European experience to show that the possible internal restraint of a tighter monetary policy can be alleviated by fiscal and other policy means. Over the longer run the United States, as a great financial centre, should be an exporter of capital and have an interest rate structure that facilitates the investment of its excess savings overseas. Given its other burdens, however, the United States has no excess savings on external account at the moment, and it is not appropriate that the combination of policies followed on both sides of the Atlantic should be encouraging a net flow of capital towards Europe which has to be financed by U.S. gold losses and the piling-up of short-term dollar liabilities.

External payments of continental countries. There has not been a consistent pattern of balance-of-payments changes over the past year among the continental countries. In some countries, notably Germany, the Netherlands, Switzerland and Portugal, there was a marked decline in the basic external surplus. In contrast, however, there were higher surpluses in France, Italy and Belgium and, on a smaller scale, in Austria and Sweden. On balance, there has been some reduction in the surplus position of the Continent as a whole. The rise in official reserves, however, has been at a much lower level, owing principally to special compensatory transactions designed to hold down reserve gains and to a turn-round in short-term capital flows.

Germany. The massive accumulation of gold and foreign exchange reserves by the Bundesbank which continued throughout 1960 was reversed in the second quarter of 1961. In that and the following quarter reserves fell by DM 3.9 milliard, since when month-to-month fluctuations had resulted in a further net decline of about DM 1.6 milliard up to the end of April 1962. Over the same period the basic balance of payments moved conspicuously closer to equilibrium. For both these satisfactory developments government and central-bank measures were to a considerable extent responsible. The measures taken were in part designed to compensate the underlying imbalance; in part they aimed at correcting it.

The essentially compensatory financing was obtained in several ways: by increased lending through the I.M.F. and the I.B.R.D., by prepayment of foreign debt, and by the provision of special swap facilities to the commercial banks to encourage the export of short-term funds. The two former were particularly important and accounted for DM 4.7 milliard, or about 35 per cent., of the turn-round in reserve movements during the twelve months ending March 1962 as compared with a year earlier. Over the same period there was a net improvement of DM 1.7 milliard in the commercial banks' foreign

position, while the total net short-term capital outflow (including unrecorded items) amounted to just under half this size. During the time between the revaluation of the Deutsche Mark and the United Kingdom's July measures the export of bank funds stimulated by the provision of the swap facilities together with the lowering of domestic money-market rates did not suffice to offset the gross short-term capital inflow. Since then, however, the correlation between changes in the banks' foreign asset portfolios and the net outflow of short-term capital has been much closer. Since the beginning of 1962, with the basic accounts closer to balance, the Bundesbank has in fact offered rather less favourable swap terms for money exports than before; moreover, as from 1st May it once again authorised the payment of interest on foreigners' term deposits, which had been banned since June 1960.

Steps have been taken also to use direct government transactions to reduce the basic external surplus. This involves higher expenditure on long-term development aid and on foreign purchases of military goods. Actual outlays have so far risen only moderately, but substantial commitments have been made which will lead to a much larger volume of payments in the next few years.

Finally, measures have been adopted in order to influence commercial transactions through changes in market conditions. Even before the revaluation of the Deutsche Mark the gradual abandonment of monetary restraint after November 1960 had indicated the authorities' intention to allow free play to expansionary forces. The introduction of a régime of monetary ease was aimed at affecting both the current and capital accounts of the balance of payments. The currency revaluation of March 1961, on the other hand, had the double purpose of influencing the surplus on goods and services and of enabling internal expansionary forces to function with less danger of price inflation.

The impact of this policy in narrowing Germany's surplus went hand in hand with other forces which were partially independent — the continued rise in domestic wage costs, a generally slower rate of increase of export demand and the upward trend of German payments on invisible account.

The results of all this show up strikingly in the development of the current balance since the first quarter of 1961. The trade surplus for the year was actually DM 1.4 milliard larger than that for 1960, but this was only because of the substantial net amounts earned in the first half; thereafter a downward trend set in. Towards the end of 1961 exports virtually ceased to rise, while greatly increased imports of consumer goods (and to some extent also of food, owing to the inferior harvest) outweighed the decline in imports of raw materials and semi-finished goods due to the slower rate of industrial expansion and stock-building. In the first quarter of 1962 (allowing for a change in the timing of trade statistics as from 1st January) the trade surplus was only about half as large as it had been a year earlier. The surplus from services, including receipts from foreign troops, began to decline rather earlier and had in fact disappeared completely by the end of 1961. Finally, the outflow in the form of donations (mostly restitution payments) again rose by

several hundred million marks last year. Thus, all in all, the current surplus is decreasing appreciably.

On long-term private capital account the position is less satisfactory. The net inflow declined in 1961 and there was even a small outflow in the second half of the year, but only because a fall in German residents' capital exports was more than offset by a reduction in the net import of foreign capital after the Berlin crisis in August. The main reason why German capital has not sought more long-term employment abroad is the persistently high level of long-term interest rates within the Federal Republic. While short-term rates have come down between two and three percentage points since the abandonment of the tight-money policy, long-term rates have fallen little more than a point and remain only marginally below 6 per cent.

In sum, however, Germany has made a substantial adjustment in its external position, largely attributable to strong and varied policy measures directed to this end. Given the fact that government outlays abroad and imports of consumer goods and services are continuing to rise, it seems unlikely that Germany will be absorbing international liquidity on a substantial scale in the coming months.

Netherlands. Balance-of-payments developments in the Netherlands since the revaluation of the guilder have resembled those in Germany in that the country's previous absorption of international reserves has been halted, thanks largely to official policy measures. In the Netherlands, moreover, the basic external position has come much closer to equilibrium than it has in Germany.

During 1961 domestic expansion was allowed to continue more or less to the full possibilities of the economy — although an agreement was reached with the banks in July to set certain limits to the growth of lending so as to avoid an inflationary outburst. At the same time other and more direct steps were taken to reduce the external surplus: the currency was revalued and the export of long-term capital furthered. As a result, official reserves, including government foreign exchange balances, declined by Fl. 200 million over the year, after an increase of Fl. 1.5 milliard in 1960. The whole of this movement can be put down to the current and long-term capital accounts, because an increase of nearly Fl. 400 million in guilder drawings on the I.M.F. was offset by a turn-round in the commercial banks' foreign position and there was little change in other short-term capital items.

Since the end of last year, on the other hand, with the external position in better balance and the current surplus still falling, the Nederlandsche Bank has enforced a more restrictive monetary policy in order to suppress internal inflationary tendencies. The restrictions on credit expansion were substantially tightened on 1st January, and on 25th April the discount rate was raised from 3½ to 4 per cent. Simultaneously, the outflow of both private and, more especially, public long-term capital has been brought well below last year's level, so that reserves actually rose by some Fl. 130 million between the beginning of 1962 and the end of April, compared with a fall of more than twice that amount in the corresponding months of 1961.

The decline in the current surplus during the period March 1961–March 1962 as compared with a year earlier resulted entirely from a rise in the trade deficit; changes in other current items cancelled one another out. The extent to which this movement was due to the currency revaluation is difficult to assess, since the persistence of boom conditions in the Dutch economy last year — more so than in Germany — made a somewhat larger trade deficit probable in any case. Neither export prices expressed in foreign currencies nor the terms of trade had risen above their pre-revaluation level by the beginning of 1962, which suggests that Dutch exporters felt unable to raise their prices under existing circumstances; in the event, however, the expansion of Dutch exports since the revaluation has probably been limited more by industrial capacity than by demand factors. The increase in total imports, on the other hand, has been moderated (as in Germany) by lower demand for raw materials and semi-finished products, in line with the levelling-off of industrial expansion and stock-building.

As to long-term capital, government and former E.P.U. debt prepayments plus development aid produced an outflow on public account some Fl. 450 million higher than in 1960. In addition, the authorisation of foreign flotations on the Netherlands capital market resulted in a large net export of private long-term funds as against a net import in the previous year. The quota for such flotations for the first three quarters of 1962 has been cut by more than half in view of the changed balance-of-payments situation.

Switzerland. The Swiss balance of payments in 1961 exhibited unusual features in two major respects. Owing to the continuing boom and a record import surplus, there was a deficit on current account of some Sw.fcs. 800 million. Secondly, a gross capital inflow took place, whose abnormal proportions even by Swiss standards (Sw.fcs. 4.6 milliard, including errors and omissions) reflected primarily speculative movements after the March revaluations and also the effects of the Berlin crisis. Since capital exports amounted to Sw.fcs. 2 milliard, official reserves rose by Sw.fcs. 1.8 milliard. In the first quarter of 1962 the trade gap widened still further, totalling over Sw.fcs. 1 milliard, compared with Sw.fcs. 720 million in the corresponding period last year. By the end of April 1962 the reserves had fallen by about Sw.fcs. 400 million since the second week in January.

Although Switzerland is a traditional haven for savings from abroad, its capital imports are in normal times more or less offset by capital exports. Hence, a capital surplus of last year's dimensions is unlikely to become a regular occurrence. Indeed, if the capital account is normally about in balance, it can be argued that the current deficit in 1961 was rather larger than would be desirable under ordinary circumstances.

With the inflow of funds swamping any possible effects of the current deficit upon the growth of internal liquidity, the Federal authorities have had to seek ways of reconciling domestic restraint with the need to avoid aggravating the external surplus. To this end they have, in the first place, provided

resources totalling Sw.fcs. 282 million for compensatory and development financing in the form of loans to the United Kingdom and the I.B.R.D. respectively. Secondly, they have continued to encourage the export of private long-term capital; the amount of foreign bond issues, in particular, rose substantially after the beginning of 1961. Thirdly, the National Bank has endeavoured to inhibit the further net inflow of funds by influencing conditions in the foreign exchange markets in co-operation with other central banks. During the late summer and autumn of last year it helped to bring down the discount on forward dollars by means of fairly large-scale purchases for account of the Federal Reserve Bank of New York. Finally, measures have been adopted to restrict domestic liquidity and credit expansion, but without raising interest rates and without attempting to improve the trade balance. Thus, the above-mentioned forward dollar purchases were combined with spot sales of foreign exchange to the commercial banks; bank balances and Federal funds have been sterilised at the National Bank; and another gentleman's agreement has been concluded with the banks setting limits to the growth of lending and giving high priority to import credits.

There have also been requests made to industry to cut its investment programme; such cuts would, of course, tend to reduce the trade deficit. A step of this kind, however, was necessary in view of the tremendous strain on Swiss productive resources and does not betoken any official reluctance to allow the import surplus to rise at a time of excessive domestic demand pressure.

The fall in reserves since the beginning of 1962 and the occasional weakness of the Swiss franc on the exchanges during the first quarter suggest that the efforts being made to cope with last year's undesired external surplus are perhaps beginning to bear fruit.

France. Since the first quarter of 1961 the increase in official reserves in France has not only been at a considerably higher level than in 1960 but has become the largest in Europe by a wide margin. Between March 1961 and March 1962 reserves went up by NF 4.1 milliard, compared with NF 2.7 milliard over the previous twelve months. This occurred despite the fact that the general orientation of the financial and economic policy pursued by the authorities was consistent with the requirements of the balance-of-payments position. It was due in large measure to the buoyancy of exports and to rising imports of private foreign capital for the purpose of both direct and portfolio investment. The latter appears to have risen further since the beginning of 1962 and is in part of a speculative character.

As in the other principal continental countries, internal financial policy was strongly expansionary and from early 1961 onwards the volume of money grew, in line with the external surplus, even more rapidly than it did in the previous year. Thus, the authorities aimed to encourage the flow of medium and long-term credit to business enterprises, though, with wages and prices moving upward fairly sharply, they also had to limit the inflationary potential inherent in the expansion of monetary resources. The overall minimum

liquidity ratio of the banks was, therefore, raised early in 1962, while the compulsory Treasury bill component of this ratio and the rate of interest on Treasury paper were again lowered. The maintenance of financial ease led, indeed, to a vigorous growth of demand and output, neither of which had shown any significant slow-down by the spring of 1962. Imports increased accordingly; nevertheless, the trade surplus widened because exports (to countries outside the franc area) moved to a substantially higher level in the first half of 1961. Exports benefited particularly, as in Italy, from the upsurge of import demand in other continental countries.

Special government transactions on capital account were undertaken in order to compensate in part for the external surplus. Large debt prepayments were made to former E.P.U. creditors in August 1961, completing the amortisation of the country's medium-term foreign debt, and part of an I.B.R.D. loan was repaid in February 1962. There were also sizable French franc drawings on the I.M.F. However, the total amount of these various transactions came to little more than in 1960 and thus did not provide an increased offset to the basic balance-of-payments surplus. A few special measures to liberalise remaining exchange controls were taken, including two increases in the tourist allowance and the freeing of overseas transactions in securities for French residents. To facilitate the purchase of foreign shares, arrangements have been made recently to have a wider range of dealings on the Paris stock exchange.

The development of France's strong surplus position on its balance of payments since the currency stabilisation programme was initiated at the end of 1958 has indeed been a remarkable phenomenon. It has surpassed the results that could be anticipated purely and simply from the restoration of competitiveness brought about by the devaluation.

On trade account, imports have risen from a monthly level of about NF 2.3 milliard in 1958 to one of NF 2.8 milliard in 1961, which must be considered moderate alongside the resurgence of the economy. The franc area's newly-exploited resources of oil and natural gas have played an important rôle in limiting the rise — being estimated to have saved over NF 1.5 milliard (equivalent to \$300 million) in foreign currency in 1961. In addition, there has been a striking growth of French exports from a monthly level of NF 2.1 milliard in 1958 to about NF 3.0 milliard in 1961. Industrial exports, particularly of products like steel, aluminium, motor vehicles, aircraft, machine tools and scientific instruments, have registered very large gains, with the value of sales abroad in a number of cases doubling or even trebling in the past three years. At the same time, various agricultural exports, such as cereals, fruit and dairy products, have also increased very markedly. The better alignment of French prices and costs with those abroad resulting from the devaluation was a necessary condition for the resurgence of exports; there is, however, evidence of a new competitive spirit in French industry, in part associated with the stimulus which came from the formation of the E.E.C., in part the product of long-laid plans which have finally borne fruit.

It is likely, therefore, that a sizable external surplus will persist and that ways should be sought to lessen its international impact as well as to minimise the tendency towards inflation that it can have at home. As general policy is now based on the Fourth Plan, which aims at an annual growth rate of 5½ per cent., a more expansionary internal policy cannot be contemplated. Perhaps a further lowering of short-term interest rates would help to limit capital imports; it seems, however, that it is lower costs for long-term borrowing which are needed to bring about a real change in the net balance on private capital account. This would require steps to increase the flow of savings to the long-term capital market as well as to reduce the cost of flotations on that market, which would also benefit the domestic economy. As a more immediate offset to the external surplus, prepayment of foreign long-term debt offers considerable possibilities. It is clear also that agricultural policies which produce surpluses that have to be exported at subsidised prices do not fit France's present balance-of-payments position; nor do they encourage the shift of manpower needed for the full development of the industrial potential.

Italy. Italy's external position has undergone a further strengthening since the spring of 1961. At the end of March 1962 official reserves stood \$343 million above their level a year earlier; in the previous twelve-month period the rise had been \$101 million. Of this \$242 million increase in the reserve gain the more favourable current balance accounted for about \$100 million, the capital account for about \$60 million and a turn-round in monetary movements for the remainder.

The current surplus has shown a persistent rising trend. The trade deficit fell after the first few months of 1961, when imports for stock-building levelled off and, simultaneously, exports accelerated sharply; in the first quarter of 1962 exports were seasonally weaker, but the trade deficit was not much more than half that of the previous year and the volume of foreign trade was still expanding more rapidly than in other European countries. The surplus on services continues to grow steadily, thanks to increasing net receipts from tourism and emigrants' remittances.

The small increase in the net capital inflow was actually concentrated in the earlier part of 1961 and had disappeared by the end of the year. There was a further rise in foreign direct investments and loans to the private sector, increasingly offset in the second half of the year by an outflow of Italian capital. As regards monetary movements, the increase since March 1961 of lira drawings on the I.M.F. plus the higher outflow under other items was insufficient to compensate for the large turn-about in the foreign position of the credit institutions. This deteriorated over the past year, after a large net build-up in 1960.

Faced with this growing external surplus, the authorities have continued to encourage domestic expansion while further liberalising the foreign payments régime. As in previous years, the growth in the volume of money and credit was allowed to reflect the increase in the country's reserves; the Bank of

Italy augmented the commercial banks' lending capacity by according them special foreign exchange credits to the amount of \$310 million in 1961, and by lowering their compulsory reserve ratios from 25 to 22.5 per cent. on 13th January 1962. In addition, a long-term plan for higher fiscal expenditure on public investment and the economic infra-structure was elaborated. In the sphere of foreign payments there was a further liberalisation of imports, notably of certain foodstuffs from the dollar area in July 1961 and of motor vehicles from the United Kingdom in January of this year. Furthermore, the first steps were taken to open the Italian capital market to foreign bond issues, and in December Italian residents were given permission to trade in bonds issued by international institutions of which Italy is a member. Finally, full lira convertibility was granted to non-residents at the beginning of 1962, when their capital-account balances were made freely transferable to current accounts.

Although this policy has not yet brought about a fall in the balance-of-payments surplus, the Italian authorities have made it clear that they have no desire to accumulate international reserves but wish to employ the country's external savings to stimulate economic growth and the absorption of remaining unemployed resources at home. Italian unemployment is in fact fast disappearing, and as domestic incomes rise both official policies and the natural economic mechanism may be expected to push the external accounts more effectively in the direction of equilibrium.

Belgium. It was widely feared in 1960 that the loss of the Congo would seriously weaken Belgium's balance of payments. It has become clear, however, that these apprehensions were exaggerated and that the country's external payments situation has in fact changed little. Thanks to the effect of official measures on the inflow of funds, the National Bank's reserves actually increased rather more in 1961 than in 1960 (B.fcs. 11.7 milliard as against B.fcs. 10 milliard).

There has indeed, since the Congo became independent, been a certain loss in exports and invisible receipts, as well as initially some outflow of private funds. Moreover, after the current account had already moved into deficit in the second half of 1960, the strikes which followed the government's austerity measures resulted in a further deterioration in the early months of 1961. But since then exports and net invisible receipts have picked up quite strongly, while imports, after showing no increase at all between March 1961 and the end of the year, rose about in line with exports in the first quarter of 1962. In the event, the current surplus for 1961 as a whole was much smaller than that of 1960 but rather larger than that of the boom year 1959.

The aim of the authorities in taking steps to bring about the greatly increased inflow of foreign funds during 1961 was to improve the Treasury situation without impairing incentives to economic expansion. Thus, on the one hand, the Treasury borrowed B.fcs. 7.3 milliard abroad at long term, and the remainder of the public sector a total of B.fcs. 2.2 milliard. The replacement by the Treasury of direct short-term foreign debt totalling B.fcs. 12.9 milliard with indirect debt owed through the commercial banks

had no effect on the balance of payments. On the other hand, the maintenance of a generally high level of creditor interest rates was designed to induce private investment capital to enter — or not to leave — the country.

With the balance of payments and the public finances both looking much healthier, official policy has assumed a distinctly expansionist tone since the middle of last year. Between August 1961 and March 1962 the discount rate was lowered in four stages from 5 to 4 per cent., and by April long rates, which had been tending downwards almost throughout 1961, were standing below $5\frac{1}{2}$ per cent., compared with nearly 6 per cent. a year earlier. In addition, measures were introduced on 1st January to make the monetary system more flexible by relaxing the banks' previous "cover requirements" in Treasury bills and establishing a variable cash ratio.

Other countries. Three other countries — Austria, Spain and Sweden — added a total of \$651 million to their official reserves between March 1961 and March 1962, compared with \$432 million a year earlier. Higher reserve gains in Austria and Spain were principally due to increased borrowing abroad at both long and short term, although foreign direct investment and earnings from tourism also rose. At the same time the Spanish trade balance deteriorated sharply. In Sweden, by way of contrast, there was a striking fall in the trade deficit, combined, however, with a turn-round in short-term capital flows as the banks began to rebuild foreign asset positions previously run down during the credit squeeze.

Finally, reserves fell marginally during the period under review in Denmark and Norway, and more substantially in Portugal. The Danish and Portuguese results reflect last year's trend in the basic balances, but in Norway there was an outflow of short-term funds because the rise in long-term capital imports (largely to finance purchases of ships) more than offset the current-account deterioration.

The defence of sterling. Financial and economic policy in the United Kingdom during the past year has been directed to the defence of sterling and to the creation of an external position from which sustained economic growth would be feasible. Although some measures of restraint were taken in the second quarter of 1960, the basic balance of payments remained in deficit, offset in that year by the substantial inflow of short-term funds. But after the pressure on the dollar eased in January 1961, and particularly after the movement of short-term funds was reversed following the German and Dutch revaluations, the deficit position was abruptly exposed. Starting in February 1961, official reserves declined month by month, despite the substantial temporary foreign exchange resources obtained through the Basle arrangements. Consequently, with the outflow of reserves reaching a crescendo in June and July, the authorities initiated a series of measures on 25th July intended to correct both the immediate and the longer-term situations.

The measures were aimed first at stopping the drain on reserves and at getting a quick reduction in the external deficit. Having arranged a

substantial drawing on the I.M.F. in order to bolster reserves and to liquidate the outstanding obligations incurred under the Basle arrangements, the authorities announced the following steps: an increase of 10 per cent. in excise and purchase taxes so as to damp down private consumption; a tight credit squeeze to check stock accumulation and certain capital outlays; a self-denying ordinance on the increase of expenditure in the public sector; a close review of government expenditure abroad; and a 7 per cent. Bank rate to fortify the credit squeeze and to turn the international net flow of capital in London's favour.

In this swing to restraint there is an evident suggestion of play-back from the exchange crisis of 1957. This time, however, the government took the additional serious step of instituting a wages policy. This began with a wage and salary pause, after which ways were to be sought of arriving at a more rational determination of increases in money incomes. In addition, the government set up the National Economic Development Council for co-operative planning with labour and business for the purpose of promoting sound economic growth. With an eye also on longer-term objectives, it was seeking participation in the Common Market in an effort to stimulate productivity and competitiveness through a freer flow of imports and exports.

The logical purpose of these measures was to stop the continual erosion of the competitive position of British industry and in the longer run to establish the firmly rising trend of exports which was needed for sound economic growth. Only in this way could the balance of payments stand the rise in imports required for continuous expansion; and only in this way would an adequate surplus on current account be created as the firm basis for lower interest rates that the London financial market needs to enable it to play the rôle in the financing of international trade for which it has both the skill and the efficiency.

The rescue aspect of this programme worked with classical precision, giving the kind of results that could reasonably be expected of it. From the information available by budget time in April 1962, the basic balance-of-payments position had shifted from a deficit to a small surplus, with imports and the net outflow of long-term capital both on a lower level. In addition, short-term funds had moved to London in substantial volume, official reserves had risen, and repayments to the I.M.F. had got off to a good start. The price of these gains was some easing of economic activity and the creation of a margin of unused productive resources. One might say, therefore, that the position of sterling was improved by shifting the cyclical position of the United Kingdom vis-à-vis that of the outside world — a welcome gain, but one which still had to be consolidated and extended. It may seem a failure of the programme that exports did not rise to take up the "room allowed for them" by the freeing of productive resources. But, although governments are ever hopeful of such a short-term windfall, it is not an automatic consequence of demand restraint; the rise in exports must be expected to materialise more slowly with the gradual improvement in relative costs and prices and with the help of active demand conditions in foreign markets.

The wage pause was a good beginning in this direction. The number and size of wage increases were very restricted in the second half of 1961 and the early months of 1962, and the relative gain has been helped by rising costs in many continental countries. The real trial period will be in the future, however, when not only the good sense of labour and management but also the determination of the government to make the wage negotiation machinery yield reasonable results on a continuing basis will be put to the test. Both the few breaches in the wage pause and the wage agreements recently concluded which exceed the guide-lines indicated by the government show that an easy victory is unlikely.

Official policy has been subjected to considerable criticism. In the main this has concerned the tactics of its execution, about which some charges can fairly be made. The July measures, for example, were late in coming, so that the loss of reserves was larger than necessary; the Bank rate of 7 per cent. seems on the high side, as it had to be reduced pretty soon because the inflow of funds to London was larger than desirable; the government has not held down its own expenditure to the extent anticipated; and, also, the dosage of restraint may have been somewhat severe. Such faults, however, do not imply a challenge to the basic strategy of official policy.

But this has also been criticised; as official policy involves a period of readjustment and the containing of economic activity until the balance-of-payments position permits a higher level of imports, there have been suggestions of seemingly more attractive alternatives. An alternative strategy, hotly advocated, is based on what may be called the "external balance through expansion" theory. The idea is to press for expansion and productivity increase by financial policy stimulus and to hold back the flood of imports by direct controls in the hope that the gain in efficiency will eventually lead to an adequate volume of exports. This is dangerous medicine, with many failures and currency devaluations on its record in both industrialised and less advanced countries. It has succeeded only in special circumstances — for instance in small countries where the balance-of-payments problem was partly structural, or in a large country, such as Germany in 1950, where there was a large and obviously competitive export potential which could not be mobilised at once. It in no way fits the present British situation, as expansion would make the task of containing the rise in money incomes (the crux of the problem) much more difficult, particularly as the spur of foreign competition in the home market would be reduced. It must be remembered that the rate of wage increase in the United Kingdom since 1953 has not only far outrun the actual productivity increase but has been more than double the rate of productivity increase likely to occur over the years under conditions of uninhibited expansion of real demand and economic activity.

Advocates of this course often seek support in continental experience, which has been of rapid expansion and productivity growth and rising exports going hand in hand. But they do not distinguish cause and effect; for on the Continent the competitiveness and buoyancy of exports were there from the start and have been the key element in expansion, high industrial investment

and rising productivity — not the other way round. A true application of the theory was in France in 1956-57, when expansion was pushed to the limit, with disastrous reserve losses, full import controls, stagnant exports and two devaluations as the consequences. When a wiser policy in France finally prevailed, it took almost two years of stern restraint and economic pause to correct the situation. The result on balance was that economic growth from 1955 to 1960 was very probably less than it could have been otherwise.

The initial response of labour and management to the government's incomes policy has generally been reasonably good in the sense that the wage pause was successful. But as the wage pause occurred when there was a sterling crisis and as there is a tendency for wage awards to edge ahead of the guide-lines suggested by the government, it is not evident that the need for a permanent change in attitudes towards the rise in money incomes has been recognised. Moreover, no basic reform of the machinery of wage negotiations has been undertaken by the government.

It is an axiom of political economy that no group in society — government, labour, business, farmers, or even bankers — ever confesses to any responsibility for inflation. But an objective appraisal of what the interested parties have obtained by their past behaviour should, none the less, be possible.

Since 1953 the principal inflationary factor in the British economy has been rising wage rates. This has not come from freely competitive forces in the labour market; only rarely did the pull on wages from excessive demand bear any relation to the size of the wage increases, and even then higher wage income contributed in large measure to making demand excessive. It has resulted rather from the whole process of wage negotiation, with monopolistic power groups on both sides of the bargaining table and with an arbitration process that was not guided by considerations of the broader national interest. With what result? It is a statistical fact that the greater part of the wage rise has been lost to labour in rising prices. Even more, the momentum of wages has pushed costs and money demand to levels that have continually impaired the balance of payments and raised consumption demand to a height that has persistently limited the volume of investment — essential for the higher standard of living that was the object of the wage demands in the first place. If some small section of labour has gained by this process, the bulk has lost through the consequent slow growth of the economy. The way in which the United Kingdom has lost ground relative to continental countries over the past decade is shown in the following table, in terms of comparative real per capita output. While some relative gains on the Continent were to be expected, particularly in Germany and Italy, there was no reason why the United Kingdom's commanding lead in 1950 should have largely evaporated by 1961. In an economy where government policy maintains full employment, labour's self-interest demands attention to price stability, competitiveness and growth rather than to the danger of exploitation that unemployment formerly made a real problem. Nor is management's task at this time fulfilled simply

Comparative real per capita gross national products.

Countries	1950	1955	1961
	Average European price weights, U.K. per capita G.N.P. = 100		
United Kingdom	100	100	100
France	79	84	92
Germany	66	86	102
Italy	40	47	60
Belgium	95	96	99
Netherlands	75	82	87
Denmark	95	90	103

Source: O.E.E.C., *Comparative National Products and Price Levels, 1958*; extrapolated to 1961 by real output indexes.

by falling in with the momentum of the wage round, without close attention to costs, prices and export requirements. Individual cases have been scarcely credible, such as the first breach in the wage pause being made by a gigantic public enterprise or the hasty wage agreements made by several large firms in excess of the guide-lines suggested by the government.

In the 1962 budget the authorities showed their intention to maintain restraint in the fiscal sphere in the immediate future; some useful reforms in taxes were introduced but the overall impact of government finances will be neutral. This policy was again criticised for not being expansionist, even by some who have not advocated import controls. While the authorities have no need, and presumably no intention, to let economic activity drift downward, a premature expansion to recapture the situation of a year ago would certainly not make sense. In setting their standard on a firm wages policy, if they hold to it, and in looking for exports to give the next real impetus to expansion, if they wait for it, the government has chosen the only road to future vigour for the British economy.

PART II

SURVEY OF ECONOMIC AND MONETARY DEVELOPMENTS.

I. THE OUTPUT AND DEMAND SITUATION.

The development of demand forces and of production over the past year has differed greatly as between the principal areas of the western economy. On the continent of Europe, the western industrial countries as a group experienced a slowing-down of the expansion of output in the first three quarters of 1961; in the fourth quarter output again began to move up more actively and it continued to expand in the early months of 1962. In the United Kingdom there was a distinct break in the development after July 1961, as demand and production were being contained in order to secure an improvement in the balance of payments. In the United States, on the other hand, the recovery from the recession was very strong during 1961, but the rate of expansion in 1962 has been slower. As regards the two latter countries, it is evident that the production trends were determined entirely by the changing impetus from the demand side, as there was in both a margin of productive capacity that would have permitted a higher level of output. Among the continental countries, on the other hand, limitations on the supply side were the dominant factor holding down the rate of expansion, although there was in some countries and some industries an easing of demand pressures.

Continental western Europe.

In analysing the production trends in the continental countries and weighing their significance for the future, it is important to see the two fairly distinct phases that occurred over the past year — a pause in the expansion in the earlier part of the period and a renewed rise in late 1961 and early 1962. Equally important is the blending of supply and demand factors that lay behind these movements. These are rather difficult to distinguish merely from the statistics of output and expenditure because they reflect the interaction of both supply and demand; hence, the feel of the market is needed to complete the picture.

The broad development in the continental countries is indicated by the movement of the gross national product and its components shown in the following table, although these data, which are on an annual basis, do not bring out the new upswing in the last few months of 1961.

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

Countries	Years	Sources of demand						Resources	
		Consumption		Gross domestic investment			Exports of goods and services	Imports of goods and services	Gross national product
		Private	Public	Total	Of which fixed investment in				
					plant and equipment	dwellings			
in percentages									
Austria	1960	7.0	2.6	31.9	.	.	11.1	20.5	8.4
	1961	6.5	1.7	1.1	.	.	8.4	7.7	4.6
Denmark ¹ . . .	1960	6.0	5.4	12.2	7.9	3.8	8.3	10.0	7.0
	1961	5.6	6.3	1.4	5.1	14.2	3.8	3.8	4.5
Finland ¹	1960	8.1	2.6	18.9	.	.	14.4	25.6	8.6
	1961	6.9	7.0	7.0	.	.	6.1	6.9	6.8
France	1960	5.9	1.7	12.4	6.7	4.7	15.3	16.7	6.4
	1961	5.5	4.7	2.1	6.0	2.2	5.4	6.9	4.4
Germany	1960	7.1	7.4	16.4	16.9	3.6	13.4	16.9	6.8
	1961	7.6	6.4	4.5	10.7	4.3	4.2	9.0	5.3
Italy	1960	6.7	11.3	18.4	20.9	—	19.1	36.7	7.7
	1961	6.8	4.9	10.4	13.2	5.0	17.6	15.0	7.9
Netherlands . .	1960	6.8	5.4	20.5	12.7	— 2.2	13.1	16.8	8.2
	1961	4.5	3.0	3.7	8.5	3.0	4.0	7.4	2.5
Norway ¹	1960	6.3	1.8	9.4	0.2	1.9	9.3	11.4	6.2
	1961	5.5	5.5	9.5	9.4	8.3	6.3	8.7	5.6
Sweden ¹	1960	2.1	2.9	15.6	4.1	— 2.7	12.1 ²	18.1 ³	3.9
	1961	5.9	4.3	5.1	6.3	8.1	3.7 ²	0.3	6.5
United Kingdom	1960	3.5	2.0	19.9	9.2	13.4	4.0	10.4	4.3
	1961	1.4	5.7	— 0.5	7.9	4.6	2.4	0.1	2.3
United States .	1960	3.1	0.4	— 0.9 ⁴	5.0	— 7.9	14.0	— 2.9	2.9
	1961	1.8	5.2	— 1.5 ⁴	1.4	0.5	0.8	— 0.4	1.8

¹ In the case of Denmark, Finland, Norway and Sweden the official figures for domestic investment include maintenance and repairs; as regards the latter two countries it has been possible to exclude these from the above figures. ² Including net income on services. ³ Imports of goods only. ⁴ Private investment and new civil public construction.

As will be seen, in all the countries, with the exception of Italy and Sweden, the annual rate of growth of the gross national product decreased from 1960 to 1961. The biggest declines occurred in Germany, Austria and the Netherlands. The deceleration in the latter country was particularly pronounced, with the annual growth rate falling from 8.2 to 2.5 per cent. The large increase in the rate of growth in Sweden, which occurred in the face of a slowing-down of industrial production, was due to the intensification of the building boom and the relatively large increase in agricultural output. By far the biggest growth in 1961 was recorded in Italy, with an annual rate of increase over 1960 of 7.9 per cent.

Looking at the movement of the different components of expenditure, the general tendency was that of a shift of emphasis in the sources of demand from exports to domestic expenditure, and, within the latter category, from fixed investment to consumption.

In most of the countries exports had been the strongest expansionary factor in 1960 and in all cases they had expanded at a higher rate than the

gross national product. In 1961 the rate of increase fell steeply in most countries and was brought more into line with the overall growth rate. In Germany, Sweden, Denmark and Finland it even fell below the latter.

The rate of expansion of investment in plant and equipment declined in all continental countries except Norway and Sweden. It remained, however, a strong expansionary factor, in several countries supplanting exports as the main driving force behind the expansion. The building boom continued unabated, gross investment in dwellings in 1961 generally increasing at a faster rate than in the previous year.

Private consumption was hardly affected by the slowing-down in the expansion of the gross national product and continued its upward trend at a practically undiminished pace.

Public consumption showed rather erratic changes in its rate of increase. In France and the Scandinavian countries it became a more important expansionary element in 1961 than in the previous year. In the other countries its rate of increase fell off, the sharpest decline being registered in Italy.

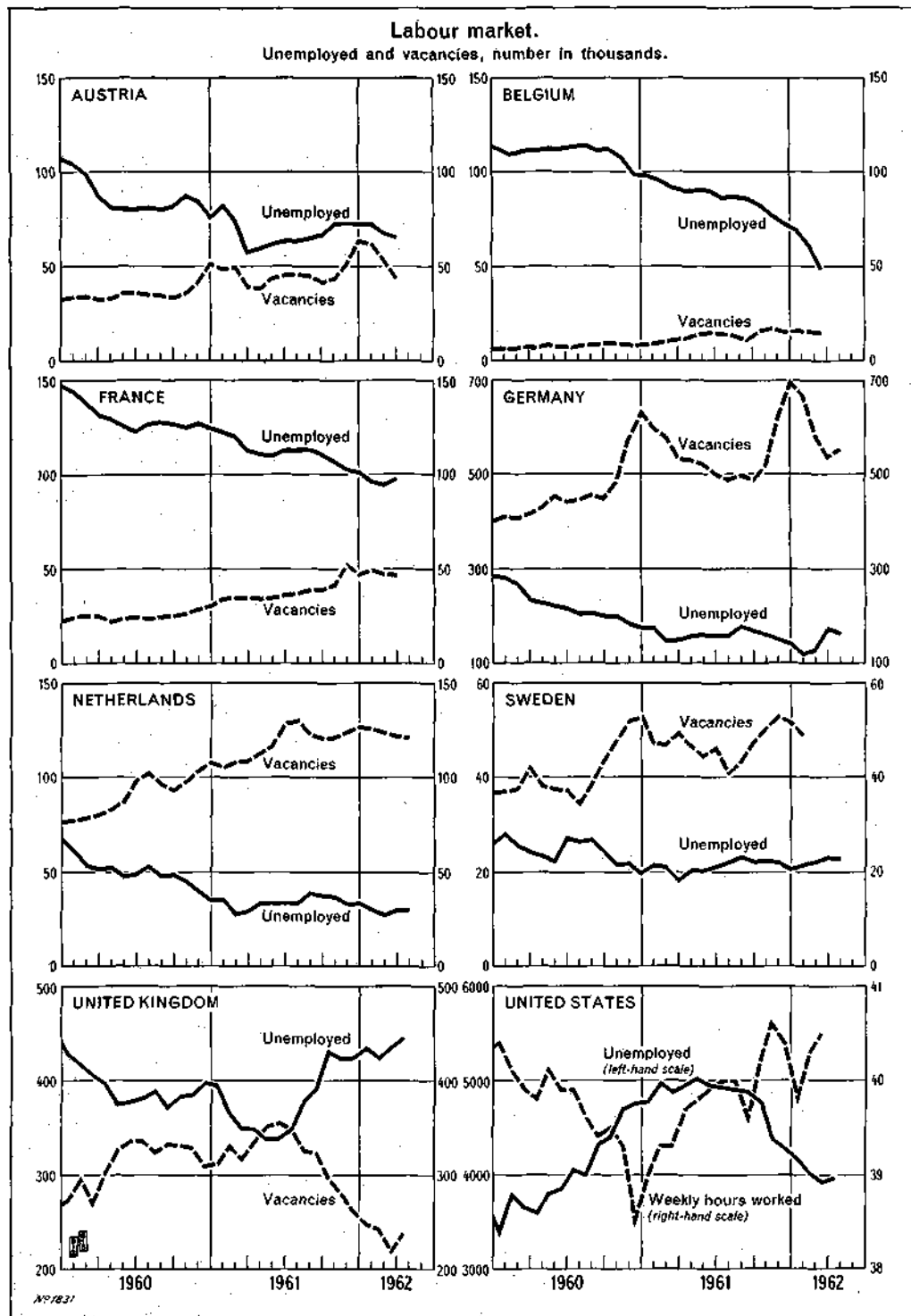
Stock-building ceased to be an expansionary factor in all the countries mentioned, except Norway. The easing of the supply situation in steel contributed materially to this decline.

The slowing-down of expansion on the Continent can in part be seen as a passing of the expansionary process into a new phase. In most of the countries the very substantial rise in output in 1959 and 1960 had virtually exhausted manpower reserves, so that a check to the high rates of economic growth had become more or less inevitable. With overall demand very high, output was bumping against capacity ceilings and inflationary strains became more apparent, not only in the upward tendency of prices but also in the rising volume of imports.

The scarcity of labour was not relieved by the decline in demand which occurred in specific branches of the economy in a number of countries. With the prospects for the overall level of demand still pointed upwards, producers generally were not inclined to release labour in cases of a temporary reduction of demand and output. This phenomenon of labour hoarding was most obvious in Germany but probably played a not unimportant rôle in the Netherlands as well. The importance of general labour scarcity is brought out by the contrasting case of Italy; as there were still reserves of labour, there was no slowing-down of the expansion of output.

In the Netherlands and Germany the labour shortage was made even more acute by the movement towards shorter working hours. In the Netherlands, where this movement was abruptly accelerated in the first half of 1961 by the introduction of the five-day week, this alone was sufficient to cause an actual decline in industrial production after the spring months.

However, the two factors of employment and working hours together account for only part of the deceleration in the rate of growth in the continental



countries. The other part reflected a decline in the growth of labour productivity which occurred in most countries. This change was most pronounced in the case of the Netherlands. There an increase of about 10 per cent. in

Changes in employment, working hours and productivity in industry.

Countries	Years	Employment	Hours worked per worker	Industrial production	Productivity per man-hour
		percentage change of the annual average over the previous year			
Austria ¹	1960	3.2	— 0.9	10.9	8.5
	1961	2.7	— 0.9	4.6	2.8
France ²	1960	1.0	1.3	10.5	8.0
	1961	1.0	0.4	5.0	3.6
Germany ¹	1960	3.6	— 0.2	11.5	7.9
	1961	2.0	— 1.9	5.0	4.9
Italy ³	1960	4.2	1.3	15.5	9.4
	1961	5.5	— 0.5	9.5	4.4
Netherlands ³	1960	2.8	—	12.9	10.2
	1961	2.7	— 3.0	1.3	1.6

¹ Excluding construction and public utilities.

² Manufacturing industry only.

³ Excluding construction.

labour productivity per man-hour in 1960 was reduced to about 2 per cent. the next year, and this change accounted for practically the whole of the deceleration in production growth.

Changes of such magnitude in productivity growth can only to a small extent be explained by autonomous factors, such as diminished returns on capital investment. For the most part they were more the result than the cause of changed conditions of demand and supply. The very high rates of productivity increase in 1959 and 1960 in part reflected the fuller and more efficient use of available productive resources following the recession of 1957-58; the recession allowed a spurt in productivity which had apparently exhausted itself by 1961. In part also, the shift in the structure of demand, with reduced rates of expansion in exports and capital outlays, would tend to reduce the rate of productivity increase because it meant a shift away from the sectors of higher productivity. In a few countries there may in addition have been efficiency losses due to conditions of over-full employment. In the Netherlands, moreover, the large-scale introduction of the five-day working week may well have caused certain dislocations in productive processes. The movement of labour productivity may also to a certain extent reflect the partial weakening of demand and the concomitant hoarding of labour which were mentioned earlier. Such effects would be temporary, however, whereas the other reasons for a lower rate of productivity increase are likely to continue in the coming years.

Besides the forces on the supply side which contributed to the slower rate of expansion there was at the same time definitely some reaction on the side of demand after the first quarter of 1961. Investment demand, although remaining an important expansionary factor and nearly everywhere increasing at a faster rate than gross national product, began to fall off from its previous high rate of growth, while consumption demand continued its rise more or less unchanged in spite of the slower growth of real national income. This shift of emphasis on the demand side can to a certain extent be regarded as the natural complement to the situation on the supply side, inasmuch as the slowing-down of the expansion brought to light certain imbalances in the

previous investment boom, thereby exposing some sectors to an actual reduction of demand. The relative stability of the growth of consumer demand in the face of declining overall rates of expansion can to a large extent be explained by the continued marked increase in wage incomes, influenced both by the pressures on the labour market and by the large demands made by labour in wage negotiations.

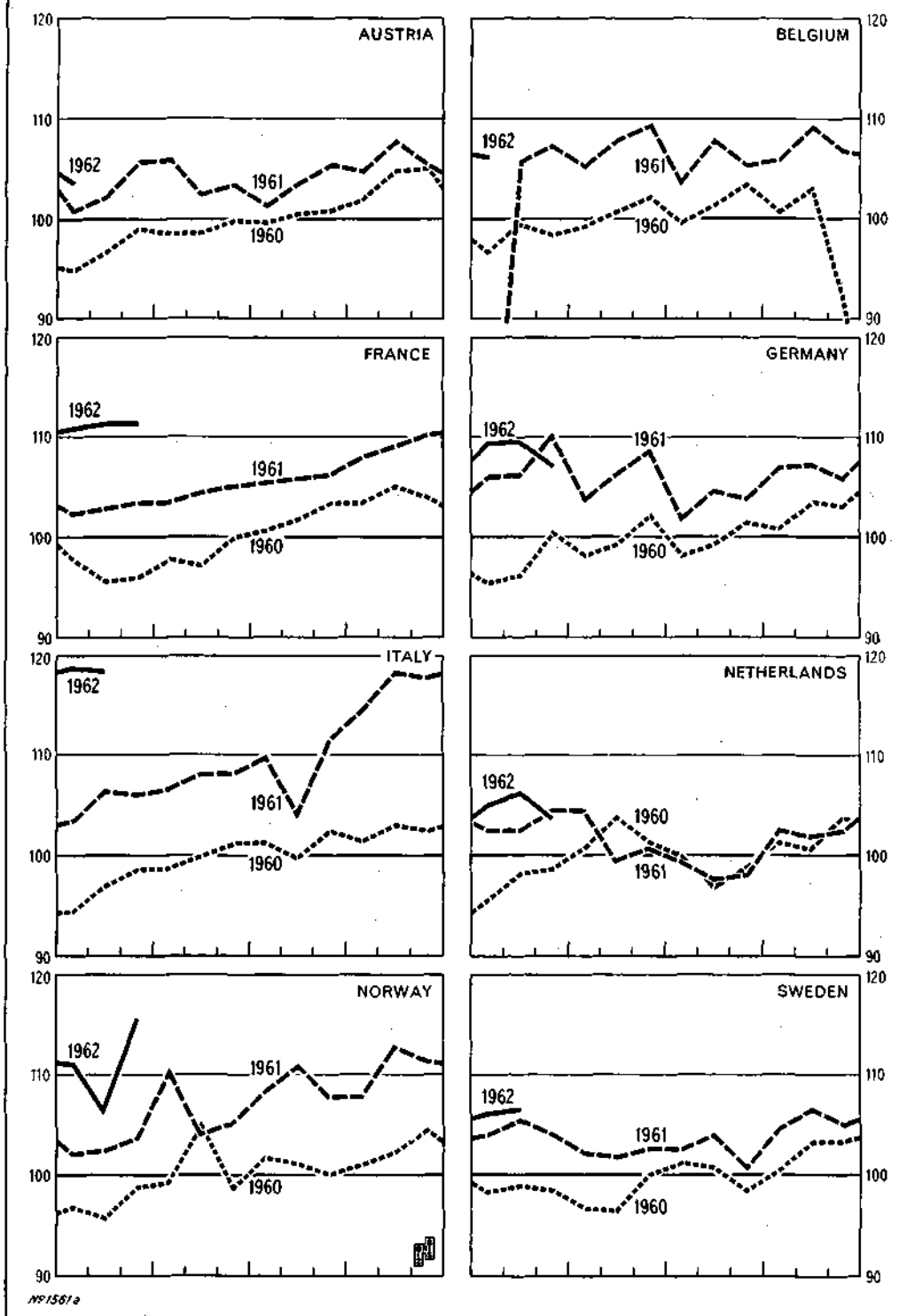
Another general feature of the slowing-down process in the countries concerned was the sharp fall in the rate of growth of exports, especially overseas exports. Except in Germany, however, the rate of increase of industrial exports did not fall below that of industrial production, which suggests that capacity ceilings were a limiting factor in this field as well.

The revaluation of the German and Dutch currencies early in March 1961 also contributed, however, to the slowing-down of exports, particularly in Germany, where exporters in general increased their prices quoted in foreign currencies, as the rise in wages had already made severe inroads into profit margins. In the Netherlands exporters generally left their prices in foreign currencies unchanged. The easing of the European investment boom may also have contributed to the levelling-off of German exports, as investment goods form a relatively large part thereof. In Sweden it was the decline in foreign demand for timber and pulp which was a setback to exports.

Industrial production. The two phases of the output trend over the past year can best be seen from the monthly indexes of industrial production. In most countries there was a period in 1961 when the curve of industrial production tended to taper off or to decline. The length of this period and its timing differed somewhat from country to country, but for the group as a whole it occurred in the second and third quarters of the year. In the fourth quarter of 1961 and the first quarter of 1962 the indexes of production generally showed a renewed advance. Besides the basic forces which led to the slower expansion of the economy, a falling-off of the increase in inventory accumulation was a significant factor contributing to the period of pause. The continuing upward trend of consumption demand was the main factor which led to renewed expansion in the closing months of 1961 and in 1962.

In Germany industrial production declined moderately after the first quarter of 1961. In the autumn it began to expand again at a temperate pace, so that its level in the last quarter was 4 per cent. above that attained a year earlier. The corresponding rise in 1960 had been nearly 8 per cent. In Austria and the Netherlands the levelling-off process was even more marked. In Austria, where industrial production between the last quarter of 1959 and the last quarter of 1960 had risen by about 10 per cent., the rate of increase was reduced to about 2 per cent. in the following year. In the Netherlands a rise in industrial production of 11 per cent. during 1960 was followed by a decline which lasted up to the autumn of 1961. In the subsequent recovery the ground lost earlier was regained, so that by the end of 1961 industrial production was again at the level reached a year before. In Sweden a rise

Industrial production.
Adjusted monthly indexes: 1960 = 100.



of 4.5 per cent during 1960 was followed by one of 3.1 per cent. in the course of 1961. It may be added that in all four countries the trend during the last half-year, i.e. from October 1961 until March 1962, was a moderately rising one and that prospects for the year 1962 as a whole are for a continuation of this trend.

Industrial production in selected countries.

Countries	Change over previous year		Change in end-of-year figures ¹		Change in	
	1960	1961	1960	1961	4th quarter 1961	1st quarter 1962
	seasonally adjusted					
	in percentages					
Austria	10.5	3.9	10.1	2.2	2.2	.
Belgium	6.5	4.2	2.7 ²	5.8 ²	1.7	.
Finland	14.1	7.2	11.4	6.3	3.1	2.6 ³
France	11.4	5.7	7.4	4.7	3.2	2.1
Germany	10.7	6.0	7.6	4.1	3.2	1.7
Italy	15.5	9.5	10.2	14.2	7.6	0.4
Netherlands	12.9	1.3	10.9	0.4	4.1	2.7
Norway	7.7	7.1	7.7	7.7	1.5	0.3
Sweden	7.9	3.3	4.5	3.1	3.0	0.9 ³

¹ Fourth quarter over corresponding quarter of previous year. ² Based on October–November figures, in order to eliminate as far as possible the effect of the strikes in December 1960. ³ January and February.

Of the other developed countries on the Continent, France up to the autumn of 1961 experienced a slower rate of growth than in 1960, but after that the rate picked up again, and although over 1961 as a whole industrial production increased less than in 1960 — by 4.7 per cent. as against 7.4 per cent. — fundamentally the trend has remained unchanged, as is shown by recent experience. In Italy, where up to the third quarter of 1961 the expansion had gone on at the same pace as before, the process was accelerated in the last quarter. Over the year as a whole industrial production increased by 14 per cent., which compared with a rise of 10 per cent. in 1960. In Belgium the rate of increase of industrial production went up from 2.7 per cent. during 1960 to 5.8 per cent. in the following year, these figures being adjusted to eliminate the effect of the strikes at the turn of the year. However, a levelling-off has been clearly discernible for some time now.

In Switzerland and Norway the expansion has gone on unabated up till now in spite of the severe tensions on the labour markets in these two countries. In Norway industrial production increased by about 8 per cent. in the course of 1961, the same rate as recorded in the previous year. The unchanging trend in that country may, to a certain extent, be explained by the substantial increase in investment in plant and machinery after 1959.

Although the slowing-down of the rate of expansion in the countries concerned affected nearly all sectors of the economy, its extent varied appreciably from one sector to another. Broadly speaking, one may say that the deceleration was reflected more in the production of capital goods than of consumer goods. This was most noticeable in the case of Austria. The figures

for Belgium, one of the countries where growth accelerated, reveal that the accent shifted from consumption to investment. In Norway, on the other hand, the expansion has now become more heavily based on the consumption sector.

Increase in output of capital and consumer goods.

Countries	Capital goods		Consumer goods	
	Increase in second half of year over corresponding period of previous year			
	1960	1961	1960	1961
	in percentages			
Austria	14.3	1.0	8.9	3.8
Belgium ¹	1.2	7.9 ²	3.6	2.4 ²
Germany	13.7	4.7	5.2	2.8
Italy	17.4	11.7	8.8	7.8
Norway ³	6.7	6.3	7.8	11.3
Sweden	8.0	4.3	1.3	1.2

¹ Producer goods instead of capital goods. ² Third quarter. ³ Production for the home market.

An important sector which went through a phase of diminishing demand was steel-making. Here the supply position had improved as a result of capacity enlargement and a decline in the rate of consumption, which in its turn was partly connected with reduced output of motor-cars. This induced steel-users to follow a more prudent stock-building policy, with a consequent fall in steel output in most European countries. Another weak spot, especially in the German and Dutch economies, was shipbuilding.

The United Kingdom.

In the United Kingdom there was a marked contrast between developments before and after the measures taken by the authorities in July 1961 to put the economy on an even keel.

At the beginning of 1961 there had been no general expansion for nine months. Restraining policies during 1960 had held back consumers' and public expenditure, while allowing private fixed investment to maintain the upward trend begun in the latter part of 1959. There had also been no increase in exports. In the first half of 1961, however, a moderate overall advance was resumed, with the gross domestic product and the seasonally adjusted index of industrial production both rising by slightly over 2 per cent. This was associated with a renewed rise in nearly all categories of demand. Partly owing to an easing of hire-purchase terms in January, consumers' expenditure, especially on motor vehicles and other durables, increased by nearly 2 per cent. (seasonally adjusted at constant prices) between the last quarter of 1960 and the first quarter of 1961; thereafter it remained on a plateau until the autumn. Private fixed capital formation continued to go up, to the particular benefit of the engineering and construction sectors, while exports rose above the level reached in the spring of 1960. Public spending also increased noticeably at the

beginning of 1961 but fell back slightly in subsequent months. Stock-building, on the other hand, was at a much lower rate in 1961 than in the previous year, and this led to a fall in imports as well as to a decline in the domestic output of steel, paper and certain chemicals.

The labour situation gradually tightened, until in the first week of July the unemployment percentage had sunk to a four-year low of 1.2 and the total of unfilled vacancies clearly exceeded the number of jobless. At the same time wage rates and earnings advanced rather more rapidly than in the preceding six months, though no faster than retail prices. With manufacturing industry's selling prices increasing about as fast as its production costs, the squeeze on profits was moderated.

Since the second half of 1961, following the government's July measures, this pattern has changed significantly. The measures themselves increased retail prices by some $1\frac{1}{2}$ per cent. and, with hire-purchase terms tightened again and the pay pause holding back rises in incomes, consumers' expenditure in the final quarter was 1.2 per cent. below the level of the second quarter. The consumer-durables industries, which had benefited earlier in the year, were hardest hit by this. Fixed capital formation also turned down in the last quarter of 1961, although it was still $2\frac{1}{2}$ per cent. higher than twelve months previously. The earlier trend in inventory movements was to some extent reversed, owing, it would seem, to involuntary stock accumulation by manufacturers; distributors' stocks fell sharply in the second half of the year.

Industrial production declined slightly between August and October and has shown little change since, though signs of recovery, particularly in the motor-vehicle and metallurgical industries, became apparent towards the end of the first quarter of 1962. The downturn affected most branches of industry, except food, drink and tobacco, electricity and gas, shipbuilding and certain chemicals, but was rather more pronounced in the manufacturing sector than elsewhere. There was an increase in short-time working and by the beginning of this year unemployment had increased to 2 per cent., subsequently remaining at that level throughout the first quarter. Again there were some signs of a change in March and April, when the number of unfilled vacancies, having fallen steadily since July 1961, began to increase once more.

By April the significant features of the economic situation appeared to fall under four main heads. First, with the ending of the pay pause money incomes were resuming more pronounced growth. Secondly, private capital spending, though still at a high level, had ceased to be the dynamic element that it was between 1959 and 1961. If anything, investment plans were tending downwards. Thirdly, commodity exports, which actually fell somewhat in the second half of 1961, had begun to move ahead once more. The continued expansion of sales to western Europe was being reinforced by a recovery of exports to certain sterling-area countries, particularly Australia. Finally, the economy's unused capacity, though probably not back at the end-of-1958 level, was nevertheless such as to leave scope for a faster expansion of output when the balance-of-payments situation permitted it.

The United States.

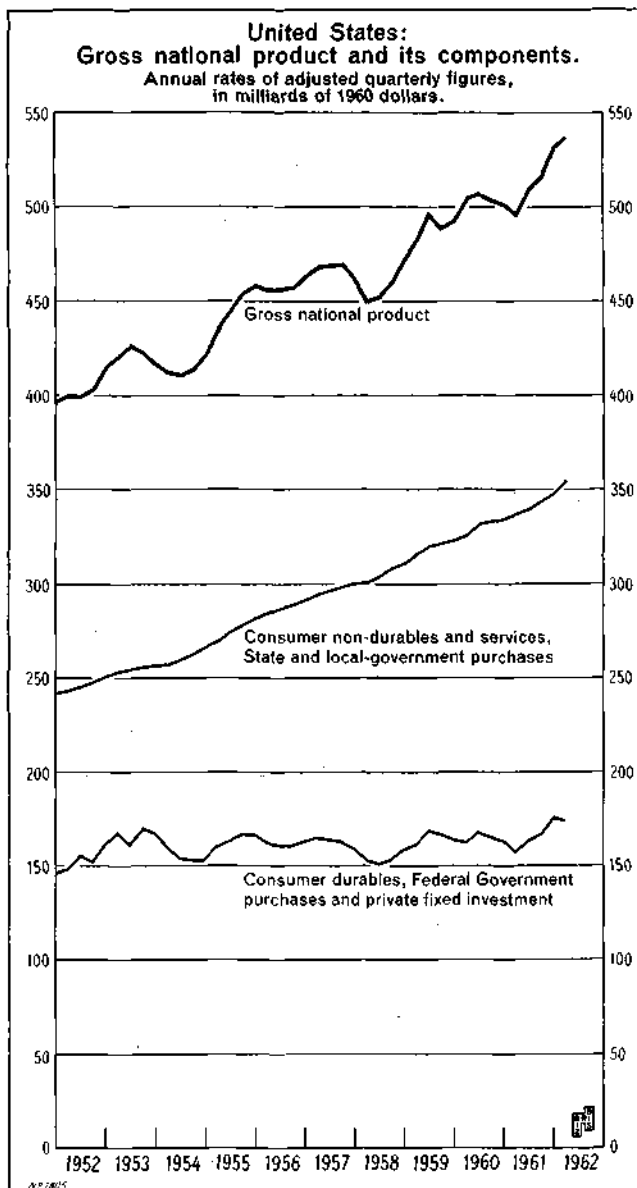
During the first three quarters of the cyclical upswing in the U.S. economy which began in February 1961 the rate of growth of the gross national product (over 8 per cent. per annum) was comparable to, and even marginally higher than, that achieved in the previous recovery of 1958-59. The upswing, moreover, was more broadly based than last time, with all components of domestic demand contributing to it in appreciable measure. More particularly, this meant that government purchases of goods and services played a relatively larger rôle in 1961 than in 1958 and private inventory accumulation a relatively smaller one. Inventory movements were nevertheless of primary significance in the recent expansion, showing a turn-round from a \$4.0 milliard liquidation in the first quarter of 1961 (seasonally adjusted annual rate) to a \$5.3 milliard accumulation in the last quarter. Of the various demand factors other than inventories, the most important in absolute terms during the earlier stages of the present recovery were government outlays, which rose by \$8.2 milliard, and consumers' services, which went up by \$7.4 milliard. On a percentage basis, however, investment in producers' durable equipment headed the list with a 16 per cent. increase (from \$24.2 to 28 milliard), followed by expenditure on consumer durables, including motor-cars, which was 15 per cent. (motor-cars alone, 30 per cent.) higher in the last quarter of 1961 than in the first quarter. Construction outlays rose over the same period by \$3.7 milliard, or 10 per cent., and sales of non-durable consumer goods by \$4.4 milliard, or 3 per cent.

The upswing began with productive capacities substantially underemployed and has much improved their utilisation. At first, a higher rate of plant utilisation was obtained through a reduction in short-time working and an increase in overtime, but without any substantial rise in the employed labour force. Between February and December 1961 output in manufacturing industry went up by 14 per cent., while employment rose by only 3.5 per cent. and the average working week was lengthened from thirty-nine to forty hours. This yields a figure of slightly over 7 per cent. for the increase in productivity per man-hour. As income payments to employees rose rather less, there was the usual cyclical swing in the distribution of income in favour of corporate profits, which went up by nearly one-third. The first significant drop in unemployment occurred in November, and by March 1962 the figure had fallen to 5.5 per cent. of the labour force.

Since the beginning of this year, however, the pace of expansion has become considerably slower, although April saw a renewed improvement on the results of the first quarter. The weakening of the recovery was most evident in the industrial production index, which rose by barely one point between the third and fourth quarters of the upswing, compared with an increase of nearly seven points at the corresponding stage of the previous cycle. Three principal factors have been directly responsible for this slackening-off: first, the downturn in residential construction outlays after November; secondly, a decline in motor-car sales after the turn of the year; and thirdly, some falling-off in inventory accumulation, which was accentuated by the steel

wage settlement in March. Moreover, business fixed investment and consumers' expenditure on durables other than motor-cars have not so far risen sufficiently to enable the earlier rate of growth to be maintained. More generally, the current recovery has depended to a far greater extent than the previous one on increased demand for services as opposed to goods, and this seems to have made it more difficult for the recovery to be sustained.

When one turns from the current cycle to the longer-term trend, it becomes apparent that the same sort of factors have been behind the failure of the U.S. economy in the past six years to exploit fully its productive potential. In the following graph the cyclically more stable components of demand over the past ten years, i.e. State and local-government purchases



and consumers' expenditure on non-durables and services, have been separated from the more fluctuating elements (excluding inventories), i.e. consumers' expenditure on durables, Federal Government outlays and private fixed investment.

The curves reveal very clearly that the latter elements as a group have not only fluctuated more than the former but have also shown virtually no growth since the post-Korea recession of 1954. In particular, that recession itself was marked by the post-Korea decline in government disbursements, while the setback of 1957-58 was associated with a sharp fall in business investment from the peak reached in 1956. The recession of 1960 may from one point of view be seen as a failure of both expenditure on consumer durables and business investment to move ahead, while from another standpoint it may be attributed to the large and rapid shift

in the Federal fiscal position from deficit to surplus. While there is certainly no necessity for all demand categories to show an equal rising trend during a period of general expansion, it would seem that business fixed investment at any rate ought to have increased more in the second half of the 1950s if the U.S. economy was to attain full-employment levels of output and steady growth. In fact, the ratio in real terms of such investment (i.e. producers' durable equipment plus private non-residential construction) to the gross national product fell from 9.7 per cent. in 1955 to 8.4 per cent. in 1961, these two years being roughly comparable from the cyclical standpoint. Despite this declining share of productive investment in national output, excess capacity and unemployment have tended upwards over the period. It is therefore of some importance that the efforts now being made by the Administration to give greater stimulus to business investment by means of tax credits and more liberal depreciation allowances should not be ultimately frustrated by a continued failure of final demand to rise in line with the growth of productive capacity.

Eastern Europe.

Economic expansion in the eastern European countries' economies continued at a high rate in 1961. Most of the growth in industrial production was due to increased output per worker. In eastern Germany the rise in productivity was actually greater than that in output, which points to the existence of serious labour shortages there.

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

Countries	Annual increases					
	National income		Industrial production		Output per worker in industry	
	Average 1958-60	1961	Average 1958-60	1961	Average 1958-60	1961
	in percentages					
Bulgaria	11½	3	16½	10	4½	8
Czechoslovakia	7½	7	11½	9	7	5
Eastern Germany	8	.	10½	8	9	6½
Hungary	7½	5½	11½	11	6½	8
Poland	5½	8	10	10½	9	7½
Rumania	8	10	12	15½	8	9
U.S.S.R.	9½	7	10½	9	6	4
Yugoslavia	8½	5	13	7	4	4

Once again, the highest rates of industrial growth were attained in countries, such as Rumania, Poland and Bulgaria, where the industrial sector still represents a relatively small part of the economy. The more industrialised of the countries, such as Czechoslovakia and, particularly, eastern Germany, though still expanding fast, show growth rates comparable to those achieved for some years now by Japan, Italy, western Germany, etc.

A comparison of actual industrial production results in 1961 with the plans for that year reveals that in the U.S.S.R. the targets were slightly exceeded, and in Bulgaria, Hungary, Poland and Rumania the plans were substantially over-fulfilled, while in Czechoslovakia and eastern Germany output fell short of the targets. Within industry itself, output of capital goods continued to rise faster than that of consumer goods in 1961, and the plans for 1962 give no indication of a change of direction.

In all countries national income rose less than industrial output. This reflects mainly the generally disappointing agricultural results — Poland excepted — due largely to the unfavourable weather conditions that prevailed in these countries.

Quite apart, however, from what happened last year there is reason to suppose that the relatively frequent changes in the directives regarding production and, in particular, regarding the institutional set-up of agriculture must have had a retarding influence. Furthermore, although the transformation of farming into something like an industry holds out prospects of rapid advance, it raises vast problems in connection with the training of labour and managers, the more so because agriculture competes with the rest of the economy in this respect.

Lastly, when what is happening in agriculture, and in industry too, is looked at from a longer-term point of view and compared with what is happening in other countries whose economic structure is more or less similar, one finds that, although the data are not perfectly comparable, there is not much difference as between West and East in the basic tendencies.

Agriculture and Industry in selected European countries.

Countries	Agri- culture	Agriculture: annual growth rate ²			Industry: annual growth rate ²			Share in total investment ³	
	Share in national product ¹	Vege- table	Animal	Total	Capital goods	Con- sumer goods	Total	Agri- culture	Industry and building
in percentages									
Turkey	68	2½	3	3	—	—	—	—	—
Greece	53	4	8	5½	—	—	9½	8½	41
Denmark	33	3	4	3½	5½	4½	5	6½	34
Italy	32	4	4	4	9½	7	9	11½	57
Norway	24	½	1½	1	6	5	6	7½	39
Austria	20	2½	3½	3	10½	7½	9	14½	63½
Germany (F.R.) .	11	3½	2½	3	11	8	9	8	56½
Yugoslavia . . .	30	7	6½	7	15	14	14½	18½	49½
Rumania	35	4½	4½	4½	14½	10½	13	16½	58
Bulgaria	34	5	3½	4½	15	11	12	13½	71
Hungary	30	2½	1½	2½	13	8½	11	20	54
Poland	24	2	3	2½	14½	11½	13	12½	62
U.S.S.R.	21	4	6	4½	12½	10	11½	18½	62
Czechoslovakia .	13	2	1½	2	12½	9	11	16½	60
Germany (D.R.) .	12	5½	6	6	12	10½	11½	10½	55½

¹ According to countries, in the period 1958-60. To reduce dissimilarities between western and eastern countries, services have been excluded from the national product of the former group. ² Period 1952-60 for western Europe and Yugoslavia; 1950-60 for the other countries. ³ Generally 1959-60.

In the industrial sector, both in eastern and in western countries, the output of capital goods has over the last decade shown relatively higher rates of increase than that of consumer goods; furthermore, growth rates of industry as a whole have been higher than those of agriculture, and in all these countries, with the sole exception of Czechoslovakia, the ratio of investment in agriculture to total investment is smaller than the farm sector's share in the national product.

The only way in which agricultural developments in the West and the East seem to have differed is in the rise of vegetable and animal output. While in five of the seven countries of western Europe included in the table animal production has increased more than vegetable production (in western Germany it has risen less and in Italy both have risen about equally), eastern agriculture shows a less clear tendency, very likely because the availability of feeding stuffs in these countries is a prerequisite for an expansion of animal products.

* * *

The following table shows, for a number of western countries, the total amount of savings (defined here as the part of the gross national product not

National savings, domestic investment and the foreign balance
(at current prices).

Countries	Years	Gross domestic investment	Net export of goods and services = net foreign investment	Gross national savings = overall investment	
		1	2	3 = 1 + 2	
		In milliards of national currency units			as percentages of gross national product
Austria	1960	38.0	— 1.4	36.6	24.7
	1961	40.0	—	40.0	24.7
Denmark*	1960	12.8	— 0.4	12.4	27.8
	1961	13.9	— 0.6	13.3	27.0
Finland*	1960	541.7	— 14.2	527.5	34.1
	1961	612.2	— 23.9	588.3	34.5
France	1960	55.5	3.3	58.8	20.6
	1961	58.0	3.1	61.1	19.8
Germany	1960	75.7	8.0	83.7	29.6
	1961	83.3	7.3	90.6	29.2
Italy	1960	4,746	6	4,752	24.9
	1961	5,358	135	5,493	26.2
Netherlands	1960	11.6	1.2	12.8	30.1
	1961	12.2	0.6	12.8	28.9
Norway*	1960	9.6	— 0.9	8.7	27.2
	1961	10.9	— 1.5	9.4	27.3
Sweden*	1960	16.8	— 0.6	16.2	25.9
	1961	18.1	—	18.1	26.6
United Kingdom	1960	4.7	— 0.2	4.5	17.7
	1961	4.8	—	4.8	18.1
United States	1960	72.4	3.1	75.5	15.0
	1961	69.6	4.0	73.6	14.1

* In the case of Denmark, Finland, Norway and Sweden the official figures for domestic investment include maintenance and repairs; as regards Norway and Sweden it has been possible to exclude these from the above figures.

used for private and public consumption) in 1960 and 1961 and the way in which they went to increase the national wealth — either through domestic investment or through a net increase in financial claims on other countries, the latter also being the counterpart of net exports of goods and services.

With the gross national product in most countries expanding less in 1961 than in the past two years and consumption, both private and public, gaining in importance as an element of demand, total savings generally increased only moderately. Expressed as a percentage of the gross national product they even showed a decline in five out of the eleven countries appearing in the table: Denmark, France, Germany, the Netherlands and the United States. The largest relative decline occurred in the United States, where savings also fell off in absolute terms. In Austria and Norway the share of savings in the gross national product remained the same, by and large, as in 1960. In the United Kingdom, Sweden and Finland, and even more in Italy, their share went up. It should be borne in mind that the relatively moderate rise in savings in 1961 followed a year in which they had generally increased substantially, as may be seen from the table on page 38.

In a number of countries — notably Austria, Sweden and the United Kingdom — part of the rise in savings in 1961 went to improve the foreign balance, in others — for example Denmark, Norway and the Netherlands — the foreign balance deteriorated in 1961, the increase in domestic investment thus exceeding that in total savings.

Complete information about the contribution to national savings by the various sectors of the economy is not available for most countries. In general, however, it seems to have been the personal sector that in 1961 expanded its savings, while corporate savings registered a decline, in some countries in absolute terms, in others at least in relation to the value of production. This shift in the sectoral pattern of savings ran more or less parallel to the shift in the distribution of income which occurred in a number of countries where wage pressure was strong. The consequent reduction of profits generally led not to a corresponding cut in dividend payments but to a decline in retained profits and hence in the possibilities of self-financing. With private investment expenditure continuing to rise, this goes a long way to explain the greater recourse which enterprises had in 1961 to external sources of finance, notably the capital market.

II. MONEY, CREDIT AND CAPITAL MARKETS.

Since the return to convertibility in 1958 monetary objectives and techniques have undergone extensive changes. These have been made in response to two distinct, though often interrelated, external considerations. First, the emergence of disequilibria in the basic external accounts of various countries has led to large-scale shifts in international currency reserves. This has posed the question of how far and how fast these shifts should be permitted to be reflected in changes in the domestic credit base, thereby helping towards the restoration of external equilibrium. Secondly, under convertibility there has been a new freedom for arbitrage and speculative funds to move in response to international interest rate differentials and exchange rate uncertainties, which has exercised an important influence of its own in shaping policy. In this regard policy measures have taken diverse forms, depending on the individual country's need to attract or repel capital and on the type of capital in question.

Under these conditions external considerations have in some cases been in conflict with domestic monetary objectives relating to employment, growth and price stability. But these very conflicts, by throwing into relief the constraints that convertibility places upon the use of monetary policy for domestic purposes, have contributed to a reappraisal of the need for a wider gamut of economic policy instruments. As a result, three favourable policy developments have been seen over the past year or so. First, more emphasis has been placed upon fiscal and wage-price policies as a means for dealing simultaneously with structural problems of growth and external imbalance. Secondly, as a corollary to this, monetary authorities have in some cases been freer to direct policies more towards shorter-term external considerations. And finally, where policy conflicts have persisted, new efforts have been made to employ monetary instruments more selectively so as to deal, though within narrow limits, with external and internal needs independently.

In the light of the foregoing remarks, several questions are of special interest in assessing national monetary policies since the beginning of 1961. To what extent were the policies adopted compatible with the requirements of both domestic and international equilibrium? Where there were competing objectives, how was policy fashioned so as to deal more selectively with each? Finally, where a conflict of ends still remained, what was the nature of the compromise reached by the monetary authorities?

The changing objectives and techniques of monetary policy.

In the United States monetary policy in 1961 and early 1962 was oriented predominantly towards the domestic scene. In order to strengthen the forces making for economic recovery, conditions of credit ease were maintained

with little perceptible change over the entire period. In order to minimise the tendency for funds to move abroad, monetary and debt-management policies were closely co-ordinated and shaped so as to buoy up short-term interest rates while bringing downward pressure to bear on longer-term ones. While these efforts may have limited the outflow of capital, both the short-term and the long-term capital outflows were still large. Looking further ahead, it was hoped that credit ease would contribute to strengthening the country's basic external balance. For, in anticipation of approximate balance in the Federal budget, relatively low interest rates and ready credit availability were considered necessary to transform the additional margin of national saving into productive private investment. This seemed to accord with the Administration's view that a basic improvement in the country's competitive position would largely depend upon an acceleration in the rate of domestic investment.

By contrast, monetary policies in most western European countries were more directly oriented to external considerations. The extent to which this was so, however, varied with the circumstances and general economic aims of the countries concerned.

In the principal continental countries the monetary authorities' attitude towards credit expansion in 1961 bore a certain common imprint. Appropriately enough, it was in these countries, where external reserve positions have been most substantially built up in recent years, that bank credit was permitted to increase most rapidly. Thus in Germany, France, Italy, Belgium, the Netherlands, Switzerland and Austria commercial-bank loans to the private

Changes in commercial-bank lending to the private and public sectors.

Countries	Claims on private sector			Claims on government		
	Percentage change		Outstanding at end of 1961 ¹	Percentage change		Outstanding at end of 1961 ¹
	1960	1961		1960	1961	
United States	+ 5.9	+ 5.2	127.1	+ 3.2	+ 10.6	88.7
Canada	+ 4.7	+ 5.4	8.2	+ 8.6	+ 18.9	4.7
Austria	+ 20.7	+ 16.7	52.4 ²	.	.	.
Belgium	+ 15.4	+ 18.4	57.8	+ 5.2	+ 29.2	90.7
France	+ 15.3	+ 19.5	74.1	+ 15.1	- 18.4	10.3
Germany	+ 15.1	+ 18.1	42.1 ³	+ 14.8	- 7.7	2.1
Italy	+ 22.6	+ 19.6	9.3	+ 6.7	+ 4.0	2.3
Netherlands	+ 19.9	+ 17.1	4.3	+ 1.5	-	2.6
Switzerland	+ 20.2	+ 20.4	14.5	+ 21.1	+ 8.7	0.3
United Kingdom	+ 14.0	+ 1.7	3.6	- 17.5	-	2.8
Denmark	+ 16.4	+ 12.6	11.7 ⁴	.	.	.
Finland ⁵	+ 22.0	+ 15.7	368.4	- 4.4	+ 7.1	51.2
Norway ⁶	+ 10.9	+ 10.2	13.1	- 1.6	+ 0.8	2.3
Sweden	+ 7.4	+ 3.7	15.8	- 16.0	+ 0.7	4.2
Japan ⁷	+ 21.9	+ 22.0	11.0	+ 20.9	+ 18.0	0.5

¹ In milliards of national currency units; for Italy and Japan, in thousand milliards. ² Commercial credits of all banks. ³ Includes only loans to business and private customers. ⁴ Advances only. ⁵ Includes Post Office Savings Bank. ⁶ Includes savings banks. ⁷ All banks.

sector rose by close on one-fifth in 1961. Such specific credit measures as were taken were directed less at altering the rate of credit growth than at keeping bank liquidity under orderly control by easing strains and absorbing excesses. From the external angle, credit expansion on this scale was clearly conducive to an improved equilibrium in the world economy. Domestically, moreover, it seems in most cases to have contributed to a sustained rise in output. While in some of the countries this entailed a certain risk of inflation, the price increases that occurred were in fact mostly due to special factors.

A striking development of the year was the reorientation of German monetary policy towards external payments objectives. Commencing in November 1960 and continuing up to about the middle of 1961, credit restraint was progressively relaxed. In this context the revaluation in March 1961 was intended to help to protect domestic price stability. In France, under the influence of the continuing large external surplus, monetary policy was principally aimed at bringing bank liquidity under better control. The monetary authorities in Italy, confronted with a declining trend of bank liquidity, reduced the banks' reserve requirements in January 1962 in order to avert an automatic braking of the credit expansion. In Belgium a strengthening of the budget and external positions permitted a general lowering of interest rates from August 1961 onwards.

The Swiss authorities continued to encourage the export of surplus liquid funds by maintaining low interest rates, and also had recourse to several special measures in 1961 in order to sterilise part of the massive influx of speculative and flight capital from abroad. The Netherlands, which has for similar reasons kept short-term interest rates low for several years, moved still closer to the Swiss pattern in 1961 by permitting a substantial volume of foreign bond issues to be floated on the Dutch capital market. Although in Switzerland, the Netherlands and Austria the growth of bank credit remained relatively unimpeded in 1961, all these countries took action early in 1962 to slow down the expansion.

A different set of circumstances prevailed in 1961 in the United Kingdom and the Scandinavian countries, where monetary policies were aimed more specifically at restricting the growth of credit. A weak or deteriorating external position was an important underlying consideration in all these countries except Sweden. And without exception, though in the United Kingdom only up to the summer of 1961, excessive internal demand pressures constituted a basis for restrictive credit policies.

The policy of credit restraint adopted by the United Kingdom contrasted with the conditions of credit ease maintained in the United States, although both countries were faced with a fundamentally weak external position. This divergence is largely to be explained by the heavy immediate external pressure on sterling in 1961, together with the fact that home demand and employment in the United Kingdom were at high levels at mid-year. In the first six months of 1961 credit conditions became gradually more stringent; then in July, when the flight from sterling led the government to introduce an

Changes in official discount rates since 1959.

Country and date of change	Official discount rate	Country and date of change	Official discount rate	Country and date of change	Official discount rate
	in %		in %		in %
Austria		Germany (contd.)		Sweden	
17th November 1955 . . .	5	23rd October 1959 . . .	4	3rd May 1958	4½
23rd April 1959	4½	3rd June 1960	5	15th January 1960 . . .	5
17th March 1960	5	11th November 1960 . .	4	6th April 1962	4½
		20th January 1961 . . .	3½		
Belgium		5th May 1961	3	Switzerland	
28th August 1958	3½			15th May 1957	2½
8th January 1959	3½	Greece		26th February 1959 . .	2
24th December 1959 . .	4	1st May 1956	11		
4th August 1960	5	1st April 1959	10	Turkey	
24th August 1961	4½	1st October 1959 . . .	9	6th June 1956	6
28th December 1961 . . .	4½	1st April 1960	7	29th November 1960 . .	9
18th January 1962	4½	1st November 1960 . .	6	1st July 1961	7½
22nd March 1962	4				
Denmark		Iceland		United Kingdom	
15th August 1958	4½	2nd April 1952	7	20th November 1958 . .	4
19th September 1959 . .	5	22nd February 1960 . .	11	21st January 1960 . . .	5
26th January 1960	5½	28th December 1960 . .	9	23rd June 1960	6
23rd May 1961	6½			27th October 1960 . . .	5½
Finland¹		Ireland		8th December 1960 . . .	5
1st October 1958	7½	28th November 1958 . .	4½	26th July 1961	7
1st April 1959	8½	29th January 1960 . . .	4½	8th October 1961	6½
30th March 1962	8	30th June 1960	5½	2nd November 1961 . . .	6
28th April 1962	7	3rd November 1960 . . .	5½ ²	8th March 1962	5½
France		Netherlands		22nd March 1962	5
16th October 1958	4½	15th November 1958 . .	3	26th April 1962	4½
5th February 1959	4½	21st January 1959 . . .	2½	United States	
23rd April 1959	4	16th November 1959 . .	3½	7th November 1958 . . .	2½
6th October 1960	3½	25th April 1962	4	6th March 1959	3
Germany		Spain		29th May 1959	3½
27th June 1958	3	22nd July 1957	5	11th September 1959 . .	4
10th January 1959	2½	3rd August 1959	6½	10th June 1960	3½
4th September 1959 . . .	3	1st April 1960	5½	12th August 1960	3
		9th June 1961	5		

¹ Basic rediscount rate. ² As from November 1960 the rediscount rate for Exchequer bills, fixed monthly. The rate fixed on 5th May 1962 was 4½ per cent.

emergency economic programme, the credit restraint policy was sharply reinforced and new fiscal restrictions were imposed. Significantly, as funds thereafter flowed in from abroad, it then became the object of policy to sustain the effectiveness of domestic credit restraint while reducing the attraction of interest rates for foreign funds. Thus, as Bank rate was lowered, first in two steps in the autumn and then three times in March and April 1962, no changes were made in other instruments of credit policy, even though production itself had fallen off.

In three Scandinavian countries — Denmark, Norway and Finland — a deterioration in the central government's cash budget position helped to put undue strains on the mechanism of credit control. Moreover, in all three cases the restrictiveness of monetary policy, and of the automatic credit-tightening effects of an adverse movement of the current external balance, was weakened by an inflow of short-term funds from abroad. In Sweden, on the other hand, the central government's cash budget deficit, which had already been sizably reduced in 1960, changed over to a surplus in 1961 and permitted some repayment of short-term government debt held by the central bank.

The money supply, quasi-monetary assets and interest rates.

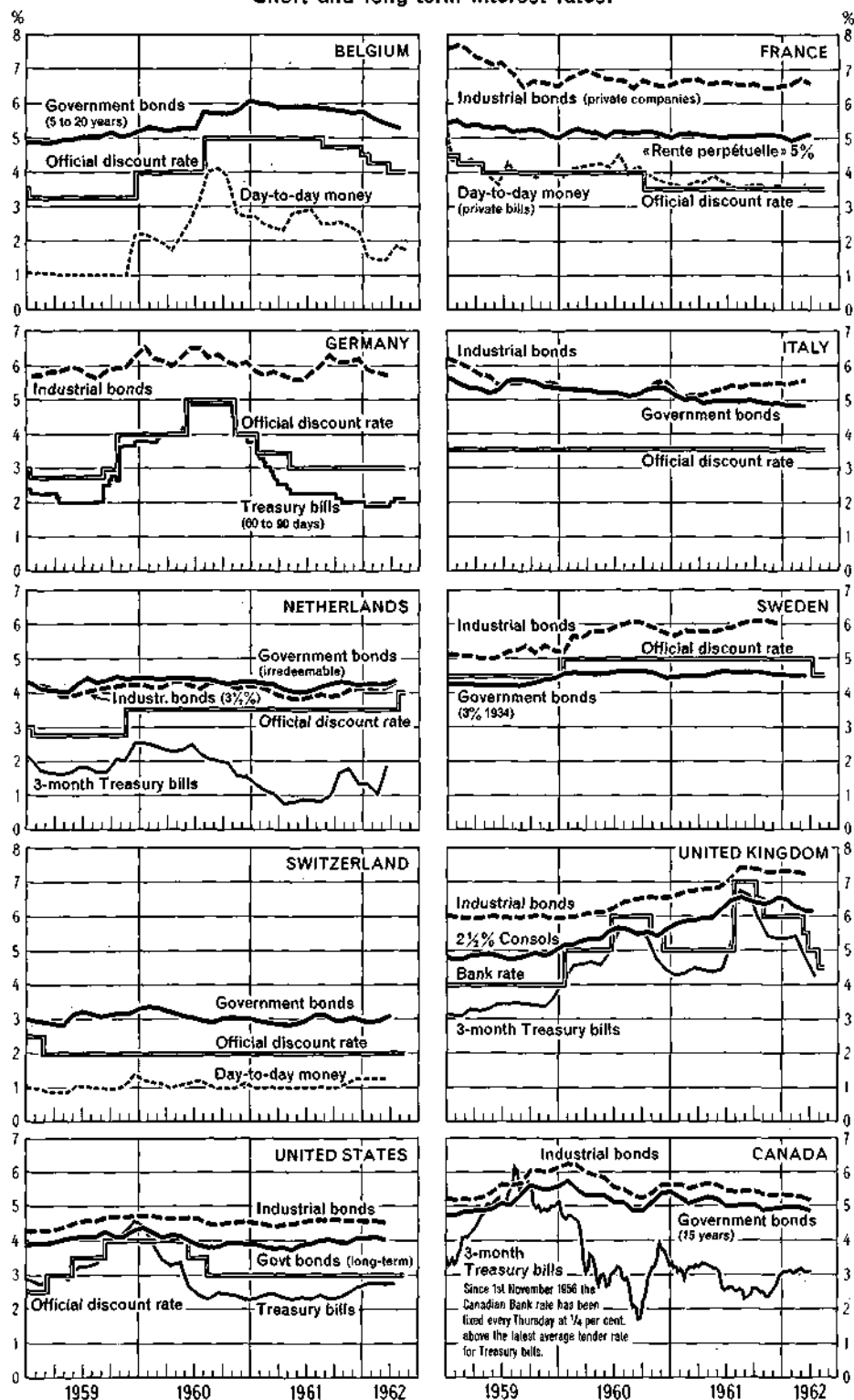
The differences in national monetary policies were reflected in the behaviour of liquid assets and interest rates over the past year. In relation to the growth in gross national products, the increase in the stock of money and quasi-monetary assets tended to be greatest in the central group of continental countries, where credit expansion was rapid and credit policies permissive. Measured in this way, the increase in liquidity in all these countries was appreciable compared with the changes in 1960, although in Austria, Belgium and Germany a strengthening of the public finances tended to limit the size of the increase.

In none of these countries, moreover, was the central bank's discount rate raised in 1961, and in two of them — Germany and Belgium — it was substantially lowered. Late in April 1962, however, the Nederlandsche Bank increased its discount rate from 3½ to 4 per cent.

Money supply, quasi-money and gross national product.

Countries	Years	Money supply			Quasi-money	Money and quasi-money	Gross national product (at market prices)	Money supply	Money and quasi-money
		Currency	Demand deposits	Total					
		annual averages, in milliards of national currency units								as percentages of gross national product
Austria	1960	18.0	14.5	32.5	37.8	70.3	148.2	22.0	47.4
	1961	19.9	15.3	35.2	42.4	77.6	162.2	21.7	47.8
Belgium	1960	121.9	93.1	215.0	41.0	256.0	825.9	34.4	40.9
	1961	127.8	98.4	226.0	48.1	274.1	660.0	34.2	41.5
Denmark	1960	2.7	7.3	10.0	10.5	20.5	44.5	22.5	46.1
	1961	2.9	8.0	10.9	11.3	22.2	49.2	22.1	45.2
Finland	1960	63.1	78.8	141.9	470.0	611.9	1,548	9.2	39.5
	1961	69.6	83.7	153.3	555.3	708.6	1,704	9.0	41.6
France	1960	37.1	50.1	87.2	7.8	95.0	285.9	30.5	33.2
	1961	42.2	59.4	101.6	10.9	112.5	309.1	32.9	36.4
Germany	1960	20.1	24.7	44.8	57.1	101.9	282.4	15.9	36.1
	1961	22.0	27.0	49.0	64.7	113.7	310.4	15.8	36.6
Italy	1960	2,398	4,270	6,668	5,009	11,677	19,078	35.0	61.2
	1961	2,648	5,004	7,652	5,805	13,457	20,975	36.5	64.2
Netherlands	1960	4.8	6.1	10.9	13.0	23.9	42.3	25.8	56.5
	1961	5.2	6.6	11.8	14.7	26.5	44.4	26.6	59.7
Norway	1960	3.5	3.7	7.2	11.1	18.3	35.6	20.2	51.4
	1961	3.8	3.9	7.5	11.9	19.4	38.4	19.5	50.6
Sweden	1960	6.1	5.0	11.1	36.1	47.2	68.8	16.2	68.7
	1961	6.5	5.3	11.8	37.8	49.6	74.9	15.7	66.2
Switzerland	1960	6.7	11.1	17.8	26.5	44.3	36.9	48.2	120.1
	1961	7.3	12.8	20.1	30.0	50.1	40.5	49.8	123.8
United Kingdom	1960	2.1	3.7	5.8	2.5	8.3	25.3	22.9	32.8
	1961	2.2	3.7	5.8	2.6	8.5	26.7	21.8	31.6
Canada	1960	1.8	4.0	5.8	7.2	13.0	35.9	16.2	36.1
	1961	1.9	4.5	6.4	7.6	14.0	36.8	17.3	37.9
United States	1960	29.0	111.3	140.3	68.1	208.4	504.4	27.8	41.3
	1961	29.1	113.3	142.4	78.3	220.7	521.3	27.3	42.3

Short and long-term interest rates.



Equally significantly, long-term interest rates in these countries remained relatively unaffected by the strong demand for credit. In France and Italy the yield on long-term government securities continued to hover around 5 per cent., while in Belgium, parallel with the discount rate reductions, the yield came down from 6 to below $5\frac{1}{2}$ per cent. In Germany, on the other hand, a further decline in yields in the first half of 1961 was abruptly reversed early in the summer, by which time the probability of a rise in long-term rates had begun to outweigh that of a further fall. The lifting of rates in the United Kingdom, the new Berlin episode and domestic political uncertainties further aggravated the reversal. These events were not without influence also in Switzerland and the Netherlands.

In the United States, too, liquid assets increased considerably in 1961. Three interconnected factors – large consumer financial saving, government deficit financing via the banking system and relatively low government security yields – contributed to a high rate of formation of deposits, particularly of time accounts.

On the other hand, in the United Kingdom and all the Scandinavian countries except Finland total money and quasi-monetary assets declined in relation to gross national product in 1961. As regards Finland, this helps to explain why subsequently, in March 1962, the central bank had sharply to raise its basic discount rate from $6\frac{3}{4}$ to 8 per cent. (it was brought back to 7 per cent. one month later). In the United Kingdom the enhanced yields of alternative financial assets were an important factor limiting the formation of bank deposits in 1961. For instance, the yield on $2\frac{1}{2}$ per cent. Consols edged upwards to new highs during the first six months, moved to above $6\frac{1}{2}$ per cent. in July and, after two Bank rate reductions, was back at this high level towards the year's end. In May 1962, by which time Bank rate was down to $4\frac{1}{2}$ per cent., the yield on Consols had dropped to about 6.1 per cent. but was still well above the early 1961 level. In Denmark, partly as a consequence of widespread strikes and new wage settlements, the Nationalbank increased its discount rate by a full point to $6\frac{1}{2}$ per cent. in May 1961. In Sweden, as a move towards easing its restrictive policy, the Riksbank in April 1962 reduced its discount rate from 5 to $4\frac{1}{2}$ per cent.

Monetary policy and new capital issues activity.

Although for diverse reasons, private new issue activity in both the United States and most countries of western Europe rose to new high levels in 1961. In the United States the short-term financing of the government's deficit, together with the monetary authorities' net open-market purchases of long-term government securities, made it possible for private industry and local authorities to borrow substantially more by way of new issues. In the United Kingdom new private-sector issues also increased, but for the more compelling reason that company profits were falling and bank credit was tight. The flotation of new issues was also favoured by the continued growth of institutional funds, together with the buoyant state of the equities market

in the early part of 1961. In Sweden, where pressure on profits and the credit squeeze also induced companies to make larger new issues, the availability of funds was eased by the improvement in the finances of the government, which from a net borrower became a net supplier of long-term funds in 1961.

New issue activity by the private sector increased markedly in Germany, France, Italy and Switzerland. In Germany, under the influence of narrowing profit margins, the rise was very noteworthy, especially in view of the slowing-down in the rate of new fixed investment and of the securities-market setback that occurred in the summer. In the other three countries the large overall volume of financial savings, the continuation of the investment boom and the more or less inactive rôle of the central government in the market all contributed to a large rise in private issues. In Switzerland this included a further big increase in foreign issues, which accounted for about one-third of the total.

Capital market: Net new issues.

Countries	Years	Public			Private ¹			Foreign	Total
		State	Local authorities and public bodies	Total	Bonds	Shares	Total		
in milliards of national currency units									
Belgium	1960	15.89 ²	8.02	21.91	7.64	7.55	15.19	- 1.53	35.57
	1961	5.02 ²	9.41	14.43	13.02 ³	3.58	16.60	—	31.03
France	1960	—	0.02	0.02	4.53	2.37	6.90	—	6.92
	1961	—	0.24	0.24	5.32	3.25	8.57	—	8.81
Germany	1960	0.62	0.56	1.18	3.16	1.90	5.06	0.05	6.29
	1961	1.18	0.87	2.05	5.93	2.19	8.12	0.01	10.18
Italy	1960	123	39 ⁴	162	631	529	1,160	—	1,322
	1961	5	67 ⁴	72	1,037	532	1,569	30	1,671
Netherlands	1960	0.59 ⁵	0.68	1.27	0.14	0.17	0.31	- 0.04	1.54
	1961	0.27 ⁵	0.18	0.45	0.05	0.13	0.18	0.43	1.06
Sweden	1960	0.65	0.08	0.73	1.01	0.35	1.36	—	2.09
	1961	- 0.12	0.05	- 0.07	1.51	0.67	2.18	—	2.11
Switzerland	1960	- 0.30	0.13 ⁶	- 0.17	0.92 ⁶	0.91 ⁶	1.83	0.56	2.22
	1961	- 0.21	0.05 ⁶	- 0.16	1.18 ⁶	1.23 ⁶	2.41	0.66	3.11
United Kingdom . .	1960	0.09 ⁷	0.05	0.14	0.09	0.34	0.43	0.01	0.58
	1961	- 0.21 ⁷	0.04	- 0.17	0.14	0.44	0.58	0.01	0.42
United States . . .	1960	0.93 ⁸	7.33	8.26	9.10	2.07	11.17	0.66	20.09
	1961	- 3.32 ⁸	8.57	5.25	9.34	3.72	13.06	0.60	18.91

¹ Includes issues of semi-public credit institutions and nationalised industries. ² Change in medium and long-term direct debt. ³ Includes gross issues of private companies. ⁴ Mainly railway bonds. ⁵ Excludes payments into pre-subscription accounts. ⁶ Includes privately-placed issues. ⁷ Change in marketable debt (excluding Treasury bills) in public hands. ⁸ Change in public holdings of marketable debt having a maturity of one year or more.

In Belgium and the Netherlands, despite a decline in new issues by the central government, private issues changed relatively little in 1961. Private companies, which in both these countries tend to have little recourse to new issues, had strong liquidity positions and easy access to bank credit. In Belgium the reduction in Treasury loans, which reflected partly an improved budget position but also more borrowing at short term, was approximately

offset by an increase in issues by the semi-public credit institutions and local authorities. In the Netherlands not only the central government but also local authorities curtailed their new-issue activity, thus facilitating the reopening of the capital market from May 1961 onwards to foreign issues.

Credit developments in individual countries.

The United States. Compared with 1959, the last recovery year, credit expansion in 1961 displayed interesting new features. Though the overall net increase in credit and equity-market instruments outstanding, which came to over \$51 milliard, was nearly one-third more than in 1960, it was still appreciably below the figure for 1959, when a record growth of over \$61 milliard took place. Clearly, the limited tendency for interest rates to rise in 1961, as compared with the sharp increases that occurred in 1959, was due partly to the more moderate global demand for credit.

United States:
Net increase in credit and equity-market instruments, 1958-61.

Instruments	Net increase				Change between recession year and recovery year	
	1958	1959	1960	1961	1958 to 1959	1960 to 1961
in milliards of dollars						
Federal obligations ¹	9.0	11.3	- 2.2	6.6	+ 2.3	+ 8.8
State and local obligations	5.7	4.9	3.6	5.3	- 0.8	+ 1.7
Corporate bonds and shares ²	11.0	8.9	9.1	10.7	- 2.1	+ 1.6
Mortgages	15.3	19.2	15.4	18.3	+ 3.9	+ 2.9
Consumer credit	0.3	6.4	3.9	1.4	+ 6.1	- 2.5
Bank loans	1.3	7.5	3.2	2.1	+ 6.2	- 1.1
Security credit	1.7	0.1	0.4	2.2	- 1.6	+ 1.8
Other loans	2.0	2.9	5.9	4.9	+ 0.9	- 1.0
Total	46.3	61.2	39.5	51.3	+ 14.9	+ 11.8

¹ Short and long-term. ² Including foreign bonds.

Moreover, practically the whole of the \$11.8 milliard increase in net credit growth was the result of greater borrowing by the public sector, \$8.8 milliard being due to the shift by the Federal Government from net debt repayment in 1960 to substantial net borrowing in 1961. In contrast, at about \$39 milliard, the total expansion of credit to the private sector was approximately the same as in 1960. Compared with the upswing from 1958 to 1959, the acceleration of mortgage credit was weak, while the demand for bank loans and consumer credit, far from speeding up as in 1959, showed a smaller rise than in 1960. Part of the slack in the demand for bank credit was a reflection of greater borrowing in the capital market; long-term borrowing by corporations and State and local authorities showed a big rise between 1960 and 1961, whereas in the preceding upswing it had declined.

Thus it was against a background of relatively weak credit demand that the monetary authorities undertook to maintain conditions of credit ease in

1961 and early 1962. In its essentials this meant supplying the banks with sufficient reserves to enable them, through their purchases of government securities, to finance approximately the equivalent of the Federal Government's cash deficit. In augmenting bank reserves the Federal Reserve authorities relied principally upon open-market security purchases. As this implicitly entailed offsetting the drain on reserves caused by continuing gold losses, the purchases had necessarily to be on a large scale. Altogether the Federal Reserve System's portfolio showed a net increase, concentrated in the second half of the year, of approximately \$2 milliard. Confirming the policy of credit ease, the banks' "free reserves" fluctuated rather narrowly around the level of \$500 million throughout 1961 and early 1962.

Within the environment of credit ease, however, the monetary authorities sought on several fronts to lend support to the dollar's external position. Early in the year the Federal Reserve began to broaden its open-market transactions to include securities with maturities of up to ten years and more. Thus, by acting at times to lengthen its security portfolio, it helped to shore up money-market interest rates while concurrently easing the availability of funds on the capital market. Debt-management operations were also directed towards this end. In its new cash offerings the Treasury confined itself very largely to securities within a one-year maturity range and on certain occasions augmented its issue of Treasury bills when these were in strong demand. In addition, the government trust funds and investment accounts used their new accruals of funds to purchase long-term securities and also shifted partly from short to longer-term holdings. Partly as a result of these concerted actions, the yield on three-month Treasury bills did not fall below about $2\frac{1}{4}$ per cent. during the year, while long-term rates, despite a large volume of new capital issues, rose only moderately. In still another move to support short-term interest rates, the Federal Reserve raised, as from 1st January 1962, the maximum permissible interest rates that commercial banks may pay under Regulation Q. The maximum payable on all savings deposits and on time deposits at six months or more was put at $3\frac{1}{2}$ per cent. and that on deposits at one year or more at 4 per cent.

On the domestic side, the effect of monetary policy in contributing towards a general build-up in liquidity was more clearly apparent than its immediate influence on spending. For not only was the adverse liquidity effect of the external deficit compensated but also the government's deficit was financed via the banking system. Viewed from this angle, there was, as a counterpart of last year's credit expansion of over \$51 milliard, a considerable increase in the public's holdings of financial assets, mostly of a fairly liquid nature. These changes followed a year, however, in which monetary policy had intentionally refrained from a quick, massive injection of liquidity as in earlier recession years.

All the major economic sectors — banks, consumers and corporations — improved their liquidity positions. The commercial banks, whose total assets increased by \$14.8 milliard, added \$5.8 milliard to their government security portfolio. Their holdings of short-term government paper rose even more, i.e.

by \$9.4 milliard, as they reduced their long-term holdings while purchasing a record \$3.6 milliard of other securities, mostly those of State and local governments. Conversely, the commercial banks' loan/deposit ratio, at 55.5 per cent. at the end of 1961, was appreciably below the high of almost 59 per cent. obtaining in the middle of 1960, just before output began to decline. Consumers, with expenditure on housing and durable goods lagging behind their rising incomes, increased their money and savings claims by \$31 milliard in 1961, as against a rise of about \$24 milliard in 1960. Corporations, despite their rising profits and depreciation allowances, augmented their financial resources by borrowing heavily on the capital market.

United States: Changes in financial assets and liabilities, by sectors.

Sectors	Years	Net acquisition of financial assets					Less: net increase in financial liabilities	Equals: financial surplus or deficit ⁴ (—)
		Money ¹	Savings claims ²	Credit and equity-market claims ³	Other assets	Total		
		in milliards of dollars						
Consumer ⁵	1960	0.3	24.1	2.4	— 4.9 ⁶	21.9	16.2	5.7
	1961	0.9	30.1	1.6	— 2.2 ⁶	30.4	16.2	14.2
Corporate	1960	— 0.7	—	— 2.1	6.2 ⁷	3.3	10.9	— 7.6
	1961	1.3	—	— 0.4	11.5 ⁷	12.4	16.8	— 4.4
Non-corporate and farm. . .	1960	— 0.3	—	0.1	—	— 0.2	3.2	— 3.4
	1961	0.3	—	0.5	—	0.8	4.3	— 3.5
Federal Government	1960	0.9	—	2.3	0.5	3.7	— 0.1	3.8
	1961	0.3	—	2.8	0.2	3.4	9.6	— 6.2
State and local government .	1960	0.2	1.4	1.0	—	2.6	6.0	— 3.4
	1961	0.3	0.7	2.1	—	3.1	9.1	— 5.0
Commercial banking ⁸	1960	— 1.7	—	10.0	—	8.4	6.4	2.0
	1961	— 0.9	—	16.2	—	15.6	13.4	2.2
Other financial institutions .	1960	0.6	—	24.7	0.6	25.9	22.1	3.8
	1961	0.8	—	27.6	0.6	28.9	25.2	3.7
Rest of the world ⁹	1960	1.7 ¹⁰	0.3	1.1	1.0	4.1	5.0	— 0.9
	1961	1.1 ¹⁰	0.8	0.9	0.5	3.1	5.0	— 1.9
Total ¹¹	1960	1.0	25.8	39.5	3.4	69.7	69.7	—
	1961	4.1	31.6	51.3	10.6	97.7	98.6	— 0.9

¹ Currency and demand deposits. ² Fixed-value claims in the form of time and savings deposits, shares in savings and loan associations and credit unions, consumer-held U.S. savings bonds and equity in life insurance and pension funds. ³ Includes Federal obligations, State and local obligations, corporate bonds and shares, mortgages, consumer-credit claims, bank credits and other miscellaneous loans. ⁴ 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. ⁵ Includes non-profit-making organisations. ⁶ Proprietors' net investment in unincorporated business. ⁷ Mainly gross trade-credit claims. ⁸ Includes the Federal Reserve System. The entry for money represents net gold purchases. ⁹ Net change in financial assets or liabilities vis-à-vis the United States. ¹⁰ Foreign deposits in U.S. currency and net gold purchases. ¹¹ Includes statistical discrepancies.

Compared with the restrictive combination of fiscal and monetary policies applied during the preceding upswing in 1959 and early 1960, the monetary authorities sought in 1961 and early 1962 to achieve a more gradual approach to budget balance, while adhering to an easy money policy. However, the economy's loss of forward momentum in the early months of 1962, viewed in conjunction with external considerations regarding interest rates, raises certain doubts as to whether the optimum combination of policy has yet been found.

This will remain to be seen during the coming months, particularly since certain parts of the government's fiscal programme have not yet been put into effect.

France. The external factors forming a counterpart to the increase in domestic liquidity gained further force in 1961. They were composed of two elements. First, in relation to foreign countries, the current-account surplus was further strengthened, while long-term capital continued to flow into the country on a substantial scale. Secondly, in relation to the rest of the French franc area, an increase in the net outflow of funds on current account appears to have been more than offset by a rise in the return flow of funds, mostly unidentified capital movements, to metropolitan France. These developments, together with an acceleration in short-term bank lending at home, contributed to an unusually large growth in the money supply. Total monetary resources (including time deposits) rose in 1961 by 17 per cent., compared with increases of 16 and 14 per cent. in 1960 and 1959 respectively. But once again, as in the two preceding years, the effect of monetary expansion on actual spending was mitigated by a decline in the rate of money turnover.

Despite a lower rate of inventory accumulation, the enterprise sector's net absorption of funds from other sectors (i.e. its "financial deficit") increased in 1961, owing to both a rise in its net fixed investment and a decline in its net saving. The growth in borrowing reflected itself partly in a larger volume of new issues; net sales of bonds and shares by non-financial companies rose by NF 1.5 milliard to NF 6.4 milliard, of which approximately NF 4.9 milliard was taken up within the sector itself. In addition, even though net inventory accumulation dropped off in 1961, short-term bank borrowing increased substantially, perhaps partly in anticipation of need. This found a counterpart in enterprise holdings of money and liquid deposits, the growth in which, at NF 6.1 milliard, was still greater than in 1960.

In the household sector net saving increased in 1961 by rather more than net investment, the financial surplus rising to almost NF 10 milliard. At the same time, however, the sector's financial assets showed a gain of nearly NF 20 milliard. Of the difference between these two sums, only about NF 4 milliard, mainly representing long-term housing finance, can be explained by identified changes in domestic borrowing. The remainder, NF 6.2 milliard against NF 3.8 milliard in 1960, consisted mostly of an unidentified inflow of funds from overseas, principally North Africa.

In order to satisfy a strong private demand for liquidity and to avoid impeding economic growth, the monetary authorities followed a rather liberal credit policy in 1961. At the same time, however, a number of steps were taken to prevent liquidity expansion from reaching such a scale as would threaten monetary equilibrium. This action, centring on the introduction and application of a new compulsory ratio called the "coefficient de trésorerie", was designed to induce the banks to increase their holdings of medium-term rediscountable paper, i.e. paper representing credits which can be granted only with the approval of the central bank.

France: Changes in financial assets and liabilities, by sectors.¹

Items	Years	House-holds	Enter-prises ²	Public authorities other than the state	State (Treasury)	Banking system ³	Other financial institutions ⁴	Rest of the world ⁵
		in milliards of new francs						
Financial surplus or deficit (—)	1960	8.94	—12.39	—0.63	1.89	0.50	3.12 ⁶	1.43 ⁷
	1961	9.84	—14.24	0.25	0.84	0.52	3.35 ⁶	0.56 ⁷
Corresponding changes in financial assets and liabilities (increase —)								
Money	1960	10.09	1.36	—	— 2.06	— 8.62	— 0.76	0.01
	1961	11.49	3.13	0.80	— 2.16	—12.17	— 1.09	—
Other deposits	1960	3.79	3.88	1.26	— 3.12	— 2.71	— 3.77	— 0.67
	1961	3.81	2.99	1.59	— 0.57	— 2.61	— 4.46	0.75
Short-term securities	1960							
	1961	1.26	— 0.78	0.68	— 1.54	0.23	0.37	0.22
Bonds and shares	1960	4.35	— 1.54	— 0.11	— 2.67	— 0.24	— 0.48	— 0.69
	1961							
Short-term credit	1960	— 0.67	— 7.83	— 0.29	0.41	7.30	0.63	— 0.45
	1961	— 0.26	— 9.21	— 0.17	0.44	9.09	0.53	0.42
Medium-term credit	1960	—	— 1.17	—	—	0.03	1.14	—
	1961	—	— 1.05	—	—	1.74	— 0.89	—
Long-term loans	1960	— 2.28	— 8.31	— 2.08	7.72	—	5.82	0.87
	1961	— 3.31	— 8.56	— 1.85	8.31	0.25	7.22	2.06
Gold and foreign exchange	1960	0.52	—	—	— 0.01	3.35	—	3.86
	1961	—	—	—	—	4.20	—	4.20
Net transactions between intermediaries	1960				0.41	0.04	— 0.45	
	1961				— 1.44	— 1.03	2.47	
Statistical adjustment ⁸	1960	— 3.77	0.46	— 0.20	0.08	0.88	0.14	— 2.41
	1961	— 6.24	—	— 0.01	— 1.07	1.29	— 0.15	— 6.18

¹ Provisional estimates. ² Includes nationalised industries. ³ The Bank of France and commercial banks. ⁴ Public credit institutions and insurance companies. ⁵ French territories, overseas departments and the rest of the world. ⁶ Includes increase in technical reserves of life assurance companies. ⁷ 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. ⁸ Including unrecorded movements of funds from North Africa to the metropolitan area.

Upon its introduction as from 31st January 1961, the new coefficient was established at 30 per cent. of deposit liabilities, while at the same time the ratio already in force with respect to Treasury bills was reduced from 25 to 20 per cent. The banks were to satisfy the remaining 10 per cent. requirement by some combination of cash assets, additional Treasury bills, and/or redis-countable medium-term paper and paper representing cereal and export credits. Secondly, with effect from 30th June 1961, the requirement as regards Treasury bills was further reduced to 17½ per cent., while the overall coefficient was kept unchanged. Thirdly, as from 28th February 1962, the overall coefficient was increased from 30 to 32 per cent., but the ratio applicable to Treasury bills was left the same. Finally, with effect from the end of March, the Treasury bill ratio was reduced again from 17½ to 15 per cent., while as from 12th March the interest rate on two-year bills subscribed to by the banks was cut from 3¾ to 3¼ per cent. Combined, the effect of the measures taken since the introduction of the "coefficient de trésorerie"

was to increase substantially — from 10 to 17 per cent. of deposit liabilities — the requirement as regards holdings of assets which in large part tend to be at medium term, subject to the original approval of, and rediscountable with, the Bank of France. Viewed from another angle, the working-out of these measures had the effect of reducing the banks' potential recourse to central-bank assistance from NF 2.49 milliard at the end of March 1961 to NF 1.32 milliard by the end of the year.

In 1961 the banks' total resources increased by more than their total lending. Of the total growth in the economy's money and quasi-monetary assets, i.e. NF 17.6 milliard in 1961, NF 5.2 milliard represented an expansion of the currency circulation, NF 1.9 milliard an increase in postal cheque deposits and NF 10.5 milliard a rise in the banks' deposit liabilities. An increase in the banks' own capital brought the growth in their total resources up to NF 11.8 milliard. Their total lending, on the other hand, rose by NF 9.9 milliard, the difference of NF 1.9 milliard reflecting a reduction in rediscounting with the central bank, mostly of medium-term paper. But since the banks diminished their holdings of government paper by NF 2.7 milliard during the year, other types of lending, mostly to the private economy, showed an increase of NF 12.6 milliard. Significantly, the volume of medium-term paper carried by the banks rose by over NF 2.5 milliard, though the total of such credits outstanding for the economy as a whole increased by only NF 1.7 milliard.

Since the Treasury again in 1961 recorded a modest financial surplus (i.e. excess of net saving over net investment), its borrowing needs were related primarily to its rôle as a lender to other sectors. The growth in lending, mostly at long term either through the Fund for Economic and Social Development or for low-cost housing, levelled off in 1961. This was due partly to the greater volume of capital-market funds available to industry and partly to the fact that the specialised credit institutions, which experienced a larger growth of deposits and other resources last year, were able to take over a greater share of the lending programme. This, together with a substantial growth in the volume of deposits kept by these institutions with the Treasury, helped to increase the availability of funds to the latter. Also contributing towards the same result were the Treasury's larger sales of bills outside the banks, its smaller domestic debt repayments and its access in 1961 to an appreciable inflow of unidentified funds. The Treasury, in order to lengthen the average maturity of the public debt, was able in 1961 successfully to open for public subscription a new series of three to five-year bills carrying an effective yield of almost $4\frac{3}{4}$ per cent. Altogether, these factors enabled the Treasury not only to reduce its reliance on bill financing via the banks but also to repay a large volume of external debt.

Capital issues in 1961 reached a new high of NF 8.8 milliard, compared with NF 6.9 milliard in the preceding year. The significance of this total was enhanced by the fact that the Treasury, for the third consecutive year, did not place a loan on the market. Moreover, despite the large volume of issues,

the effective yield on newly-issued industrial obligations remained throughout the year at about 5.7 per cent.

In late April and early May 1962 the money market came under increasing pressure, indicating that the measures taken with respect to the "coefficient de trésorerie" were beginning to have a restrictive effect. The interest rate on day-to-day funds was at times as high as 8 per cent., and the banks also had recourse to borrowing from the central bank at penalty rates.

The Netherlands. As the result of a swift return towards external equilibrium, to which monetary policy significantly contributed, the foreign balance was no longer an important liquidity-generating factor last year.

The public authorities' debt-management operations, which since 1958 have been an important element of domestic liquidity control, continued on a diminished scale in 1961. The local authorities, while borrowing much less on the capital market than in 1960, acquired sufficient funds in excess of needs to enable them to carry their consolidation of floating debt to completion. The central government, whose financial surplus almost disappeared in 1961, cut its net borrowing from the capital market to Fl. 490 million. This amount, together with funds accruing from the sale of Treasury paper, found a counterpart very largely in special external transactions, which came to over Fl. 660 million for the year.

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

Items	Years	Central government	Local authorities	Institutional investors ¹	Private sector	Rest of the world
		In millions of florins				
Financial surplus or deficit (—)						
Transactions basis	1960	540	— 850	2,910	— 1,450	1,150 ²
	1961	280	— 720	3,440	— 2,380	600 ²
Cash basis	1960	350	— 730	2,960	— 1,260 ³	1,320 ²
	1961	10	— 710	3,530	— 2,210 ³	620 ²
Corresponding changes in financial assets and liabilities (increase —)						
Primary liquid resources	1960	—	70	40	610	1,710 ⁴ 270 ⁵
	1961	—	20	30	860	
Secondary liquid resources	1960	30 ⁴	390	80	480	
	1961	50 ⁴	160	80	130	
Bank credit	1960	790	110	20	750	
	1961	310	120	60	1,130	
Capital market (net)	1960	— 630	— 1,310	2,980	— 1,690	— 650
	1961	— 490	— 970	3,480	— 1,720	300
Lending or borrowing (—) abroad	1960	160	10	—	90	260
	1961	140	10	—	90	50

¹ Includes the increase in financial resources at the disposal of the savings banks, life assurance companies, pension funds and social insurance funds. ² Net foreign investment (i.e. balance of payments on current account) plus unilateral transfers. ³ Includes retained profits of the central bank and the commercial banks. ⁴ Includes change in short-term Treasury indebtedness to local authorities. ⁵ Total domestic liquidity surplus or deficit (equals increase or decrease in net foreign exchange assets).

The amount by which the public authorities reduced their recourse to the capital market (i.e. Fl. 480 million) was almost exactly matched by the increase in funds taken up by foreigners following the reopening of the Dutch market to foreign issues in May 1961. The net new funds raised by means of such issues came to Fl. 432 million in 1961, as against net redemptions of Fl. 39 million in the preceding year. Thus, while serving, as did public-authority borrowing, to limit the domestic economy's access to funds, the reopening of the market had an important direct effect of its own in speeding external adjustment.

Domestically, the counterpart of the decline in the external current surplus was reflected mostly in a large increase in the private sector's financial deficit. This in turn was probably the composite result of a growth in the financial surplus of households and a larger rise in the financial deficit of companies. On the one hand, wage gains outstripped productivity increases in 1961, thereby tending to shift income and saving from companies to persons, while, on the other, investment in fixed capital increased. The financial surplus of institutional investors, reflecting mostly individual savings claims, rose sharply in 1961, the funds placed on the capital market increasing by Fl. 500 million above those of the preceding year. Moreover, the placing of funds by the banks on the capital market (which appears in the table under the private sector) rose from Fl. 230 million in 1960 to Fl. 460 million in 1961. Thus, despite a reduction in the inflow of foreign capital between the two years, the total volume of funds taken up by the private sector on the capital market increased from Fl. 1,920 million in 1960 to Fl. 2,180 million in 1961.

The growth in the private sector's financial deficit was accompanied by greater recourse to bank credit, which increased by Fl. 1,130 million in 1961, as against a rise of only Fl. 750 million in 1960. In July the Nederlandsche Bank acted to put into effect the plan, agreed upon with the banks in 1960, whereby a maximum rate of credit expansion would be laid down for the banking system as a whole and for individual banks. Under this scheme, if the maximum rate of expansion established for the system as a whole is exceeded, banks whose credits are over the amount of the corresponding individual ceilings are required to maintain non-interest-bearing deposits with the central bank. In view of the expected increase in production, the permissible rate of credit expansion was put at 1 per cent. per month. In practice, the ceilings applied during 1961 proved to be generous, owing to the limitation on production that resulted from a reduction in the working week in the spring. As from 1st January 1962 the credit agreement was extended for four months and the norm for the permissible expansion in credit was reduced from 1 to $\frac{1}{2}$ per cent. per month. In April 1962, with the recourse of the private sector to bank credit continuously increasing, the Nederlandsche Bank, in support of its policy of credit restriction, increased its discount rate, for the first time since November 1959, from $3\frac{1}{2}$ to 4 per cent.

As another element of policy, the authorities intervened as necessary on the money market in order to keep short-term interest rates at a low level

and thus to encourage the banks to extend their liquid holdings and credits abroad. This would serve to check both the increase in official exchange reserves and domestic credit expansion. In fact, during the whole of 1961 and so far in 1962 money-market rates have remained well below the official discount rate. As a consequence of the relatively high cost of forward coverage during a great part of 1961, however, a substantial repatriation of short-term bank funds held abroad could not be avoided.

Germany. The reversal of credit policy initiated late in 1960 was essentially completed by the middle of 1961. From a level of 5 per cent. in November 1960 the Bundesbank's discount rate had been reduced in three steps to 3 per cent. by the following May. In order to stimulate the acquisition of foreign money-market assets, the Bank's selling rate for domestic paper had been brought down even more sharply, that on two to three-month Treasury bills falling from $4\frac{3}{4}$ per cent. in October 1960 to $2\frac{1}{4}$ per cent. by the spring. Another key element of policy was the progressive reduction of reserve requirements. In the first half of 1961 the requirement as regards sight deposits, for instance, was lowered from 155 to 125 per cent. of the level obtaining in October 1959, when the credit squeeze was initiated. Altogether, these reductions provided the credit institutions with about DM 2 milliard of additional liquidity. Rediscount quotas were also substantially raised.

These changes constituted a major realignment of monetary policy towards external payments objectives. Although the public finances had become more restrictive during the period, absorbing, together with the development aid loan and the partial sale of the Volkswagen concern, some DM 6 milliard, this drain on liquidity was offset to the extent of DM 4.4 milliard by the credit institutions' sale to the Bundesbank of net accruals of foreign exchange. Concurrently, thanks to the lowering of reserve requirements, these institutions were able both to increase their domestic lending and to improve their foreign position without having to reduce their holdings of domestic money-market assets. In the first six months of 1961 they shifted on foreign account from a net short-term liability position of DM 2.5 milliard to one of virtual balance. During the same period the institutions' total loans to business and private customers rose by DM 9.8 milliard, as against an expansion of DM 6.8 milliard in the same period of 1960. This increase reflects both a narrowing of business firms' profit margins and a relative shift from foreign towards domestic sources of credit; new short-term foreign borrowing by trade and industry, though amounting to DM 2.4 milliard in this period, was on the point of falling back sharply. The credit institutions' total deposit and other liabilities rose by DM 10.2 milliard, compared with a rise of DM 6.6 milliard in the first half of 1960. In line with their improved liquidity position, the institutions' central-bank borrowing declined from DM 1.8 milliard at the end of 1960 to DM 1.1 milliard by the middle of 1961.

In the capital market net new issues of bonds and shares jumped to DM 5.9 milliard in the first half of the year, as against DM 3.1 milliard in the comparable period of 1960. A growth in mortgage and local-authority

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

Items	Years	House- holds ¹	Enter- prises ¹	Public author- ities	Financial institutions			Rest of the world ³
					Banks and Bundes- bank	Insur- ance com- panies ²	Building and loan associa- tions	
in milliards of Deutsche Mark								
Financial surplus or deficit (-)	1960	14.31	- 20.78	10.62	.	.	.	4.15 ⁴
	1961	16.36	- 27.61	12.64	.	.	.	1.39 ⁴
Corresponding changes in financial assets and liabilities (increase -)								
Currency and sight deposits.	1960	1.35	1.35	1.71	- 4.89	0.01	0.07	- 0.40
	1961	2.43	4.04	1.86	- 8.80	0.01	0.21	- 0.35
Time and savings deposits .	1960	6.92	0.34	0.91	- 8.60	0.03	0.55	0.14
	1961	6.40	- 0.22	1.80	- 8.57	0.04	0.40	- 0.14
Other funds placed with banks	1960	0.06	3.37	1.97	- 6.88 ⁵	0.29	-	- 1.18
	1961	0.04	2.63	4.30	- 8.07 ⁵	0.12	-	- 0.98
Bank credits								
Short-term	1960	- 0.30	- 5.48	- 0.13	5.75	-	-	- 0.16
	1961	- 0.21	- 6.97	- 1.53	9.41	-	-	0.71
Medium and long-term . .	1960	- 0.54	- 9.93	- 1.01	12.02	-	-	0.54
	1961	- 0.46	- 13.85	- 5.21	20.73	-	-	1.21
Building and loan associations								
Claims against	1960	1.87	0.19	-	-	-	- 2.06 ⁵	-
	1961	1.93	0.24	-	-	-	- 2.18 ⁵	-
Borrowing from	1960	-	- 1.42	-	-	-	1.42	-
	1961	-	- 1.64	-	-	-	1.64	-
Insurance companies								
Claims against	1960	2.53	0.76	-	-	- 3.29 ⁵	-	-
	1961	2.80	0.89	-	-	- 3.69 ⁵	-	-
Borrowing from	1960	- 0.02	- 1.64	- 0.31	-	1.97	-	-
	1961	- 0.04	- 2.37	- 0.17	-	2.58	-	-
Money-market paper ⁶								
Assets	1960	-	0.16	0.81	0.06	-	0.03	- 0.27
	1961	-	- 0.05	- 0.03	0.04	-	- 0.02	- 0.18
Liabilities.	1960	-	0.52	- 0.44	- 2.27	-	-	- 0.85
	1961	-	0.02	0.61	0.06	-	-	0.82
Security transactions								
Assets	1960	2.52	1.47	2.21	0.37	1.03	0.07	- 2.21
	1961	3.66	1.74	0.68 ⁷	4.48	1.03	0.06	- 1.93
Liabilities.	1960	-	- 4.58	- 0.71	- 3.54	- 0.04	-	1.00
	1961	-	- 4.74	- 1.23	- 6.00	- 0.10	-	1.42
Other financial transactions .	1960	- 0.08	- 5.37	5.60	-	-	-	- 0.38
	1961	- 0.20	- 7.34	11.56	-	-	-	4.02
Gold and foreign exchange holdings of the Bundesbank	1960				8.01			8.01
	1961				- 3.35			- 3.35

¹ In their rôle as savers individuals are regarded as being part of the private-household sector, while as purchasers of capital goods (i.e. new housing) they are classed as enterprises. ² Includes pension funds. ³ Includes foreign countries, West Berlin and eastern Germany. A positive figure indicates an increase in Germany's claims vis-à-vis the rest of the world. ⁴ Net foreign investment (i.e. balance of payments on current account minus unilateral transfers). ⁵ Includes own resources. ⁶ Includes earmarked issues of Treasury certificates. ⁷ Includes a negative item representing proceeds realised from sale of the Volkswagen concern.

Source: Preliminary estimates of the Deutsche Bundesbank.

issues, taken up mostly by the credit institutions, was largely responsible for the change. However, the rising trend of security prices also attracted DM 1.3 milliard of foreign investment funds. Between October 1960 and July 1961 the average effective yield on new issues of fixed-interest securities fell from 6.4 to 5.4 per cent.

From August onwards the credit institutions' liquidity position began to come under considerable strain. Large withdrawals of foreign funds and credit repayments to foreigners were one contributory factor. Others were the continued (though smaller) "internally-effective" cash surplus of the Federal Government, a further growth in bank lending and a heavy flow of currency into circulation. In order to compensate the emergent strains, the Bundesbank made further cuts in reserve requirements, bringing that in respect of sight deposits down in the second half of 1961 from 125 to 100 per cent. of the October 1959 level. It also released the banks from their commitment to hold for another year the issue of DM 1 milliard's worth of special Treasury bills that they had been obliged to take up one year earlier. With effect from 1st November, rediscount quotas were raised back to their October 1959 level. In addition, the Bundesbank initiated in the autumn further reductions in its selling rate for money-market paper, lowering the rate on two to three-month Treasury bills to $1\frac{7}{8}$ per cent. in January.

The growth of the credit institutions' total deposit and other liabilities quickened in the second half of the year, rising by DM 13.3 milliard, as against DM 11.6 milliard in the same period of 1960. At DM 9.7 milliard, the increase in the institutions' loans to the private sector was also well above that of the second half of 1960 (DM 8.4 milliard). Moreover, as hopes of a further decline in interest rates had faded, there was a relative shift away from short-term credits towards medium and long-term ones. Industrial production was beginning to recover, it is true, but the strength of credit demand was chiefly bound up with the reduced availability of internal funds and the concurrent decline in business firms' net short-term liabilities to foreigners, which fell by about DM 1.5 milliard in the second half of 1961. Finally, if end-of-year window-dressing operations are disregarded, the credit institutions also further improved their net foreign balance during the period.

On the capital market the downward movement in interest rates was abruptly reversed at about the middle of the year. It was at this time, moreover, that foreigners shifted from net buying to net selling of fixed-interest securities. The setback was intensified by the sharp increase in the United Kingdom's Bank rate and by the political uncertainties besetting Germany late in the summer. Subsequently conditions on the capital market became somewhat more normal, but the average effective yield on new bond issues remained at about 6 per cent., or $\frac{1}{2}$ per cent. above the mid-year low. In the second half of 1961 total net new issues of bonds and shares, at DM 4.2 milliard, were about one-third higher than in the same period of 1960 but considerably below the figure for the first six months of 1961.

Domestically, the reduction in Germany's current-account external surplus in 1961 was reflected in a marked rise in the enterprise sector's financial deficit, offset in part by an increase in the surpluses of the household and public-authority sectors. Partly a consequence of the revaluation in March, this change, together with the special external transactions of the government and the shift by industry back to domestic sources of credit, has contributed to a more balanced external situation. Hence in the early months of 1962, when the public finances began once again to absorb bank liquidity, the monetary authorities refrained from a further general reduction in reserve requirements, impelling the credit institutions instead to reduce their holdings of money-market paper. Concurrently, the Bundesbank raised its selling rates on 60 to 90-day Treasury bills in two steps to $2\frac{1}{8}$ per cent. in April 1962.

Italy. Thanks to the country's strong external position, the monetary authorities have been able since 1958 consistently to follow a liberal credit policy aimed at encouraging rapid economic growth. With this object in view, the essential task of policy has been to ensure that credit expansion, though proceeding swiftly, was orderly and smooth. Whereas in 1960 this had prompted action designed to sterilise a certain volume of excess liquidity, in 1961 and early 1962 the monetary authorities found it necessary to take positive measures to ease the pressures that converged on the credit institutions.

The official gold and foreign exchange reserves, it is true, began to increase buoyantly from the spring of 1961 onwards. But while the banks thus gained substantial lira funds through their net sales of exchange to the authorities, this effect was more than offset by other factors tending to decrease liquidity. Broadly, an increase in the currency circulation drained away Lit. 355 milliard, the placing of funds to obligatory reserves took another Lit. 286 milliard and a rise in Treasury deposits with the Bank of Italy absorbed Lit. 105 milliard. The latter increase stemmed from the fact that the Treasury's borrowings, largely savings funds made available through the usual channels, rose to Lit. 260 milliard (Lit. 222 milliard in 1960), while its cash deficit dropped to Lit. 155 milliard (Lit. 225 milliard in 1960). The decline in the deficit was more apparent than real, however, because the Treasury's net payments arrears to other sectors showed a more than offsetting increase last year.

To some extent the credit institutions satisfied their liquidity needs in 1961 by recourse to central-bank credit, increasing their discounts and advances by approximately Lit. 100 milliard. In addition, the monetary authorities, in order to provide these institutions with temporary assistance, arranged late in 1961, in operations effected through the Bank of Italy and the Italian Exchange Office, to make available to them Lit. 192 milliard. Shortly thereafter, as a more fundamental measure, the obligatory reserve requirement of the commercial banks was reduced on 13th January from 25 to $22\frac{1}{2}$ per cent. and that of the savings banks was lowered accordingly, so that liquidity was increased to an amount of Lit. 190 milliard. This, together

with a seasonal reflux of currency from circulation, enabled the credit institutions to return a large part of the temporary assistance earlier received.

Total current and savings accounts with the credit institutions increased in 1961 by Lit. 1,738 milliard, representing a rise of 17 per cent., compared with one of 15 per cent. in 1960. In relative terms the total loans of these institutions showed an even greater gain, rising by Lit. 1,442 milliard, or 20 per cent. Investments in securities also continued to grow, but more slowly. Thus, the loan/deposit ratio, which had risen from a low of about 65 per cent. in the middle of 1959 to 71.3 per cent. in December 1960, increased further to 73 per cent. by the end of 1961.

New lending by the special credit institutions to industry, building and agriculture also showed a big advance, namely Lit. 770 milliard in 1961, as against Lit. 579 milliard in 1960. But the greater part of these loans was financed by recourse to the capital market, where the net issues of the special credit institutions totalled Lit. 540 milliard, compared with Lit. 430 milliard in 1960. On this market there was also an increase in indirect borrowing on Treasury account — Lit. 158 milliard, against Lit. 50 milliard in 1960. Of this total Lit. 118 milliard was borrowed through the Credit Consortium for Public Works and used to help finance the "Green Plan" for agriculture. Both these developments with respect to new issues were facilitated by the fact that the Treasury, after having borrowed Lit. 123 milliard in 1960, took virtually no net funds from the market through its own issues in 1961. Reflecting a continuation of the high rate of financial savings in Italy, total capital issues amounted in 1961 to Lit. 1,640 milliard, or slightly more than in 1960. During the year the yield on industrial bonds rose from about 5.1 to 5.5 per cent. That on government bonds continued to fall, however, reflecting the strength of institutional demand and the lack of new issues. In the first quarter of 1962 private industry raised Lit. 360 milliard of new money through bond and share issues, as against Lit. 253 milliard in the corresponding period of 1961.

Monetary survey.¹

Countries	Years	Changes in liabilities			Changes in assets				Balance-sheet total
		Money	Quasi-money	Other	Net foreign assets ²	Claims on government	Claims on private sector	Other	
in milliards of national currency units ³									
Italy	1960	0.89	0.69	0.38	0.21	0.10	1.44	0.20	15.34
	1961	1.25	0.93	0.62	0.68	0.02	1.57	0.53	18.14
Belgium.	1960	4.10	6.10	.	4.30	5.40	4.90	.	.
	1961	17.00	9.70	.	6.00	13.90	8.10	.	.
Switzerland	1960	1.80	3.20	0.90	1.16 ⁴	0.28	4.03	0.43	52.00
	1961	2.91	3.53	0.94	1.88 ⁴	0.61	4.92	- 0.03	59.38
Austria	1960	1.77	5.40	1.95	- 0.70	3.37	6.31	0.14	96.00
	1961	2.85	5.23	1.48	2.73	- 1.07	7.09	0.81	105.56

¹ 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 (except in Belgium) and, in some cases, certain other monetary institutions. ² Including net I.M.F. position. ³ For Italy in thousand milliards. ⁴ Holdings of National Bank and Confederation only.

Belgium. The independence of the Congo and the competitive implications of the Common Market have intensified the need to stimulate private investment and quicken economic growth. For monetary policy this has implied the desirability of a generally lower structure of interest rates and easier availability of capital, the main obstacles to which have been the Treasury's absorption of long-term funds for deficit-financing purposes and, in the twelve months up to August 1961, the precarious external balance. In stimulating private investment, therefore, much reliance continued to be placed on the granting by semi-public lending institutions of long-term credits at preferentially low interest rates.

In 1961 the country made considerable progress towards its objectives. Concurrently with a marked reduction in the budget deficit there was a recovery of the basic external balance, particularly in the second half of the year. Reflecting the budgetary improvement, the total direct public debt rose by only B.fcs. 14.0 milliard in 1961, as against an increase of B.fcs. 22.2 milliard in 1960. Owing to unsettled capital-market conditions early in the year, the Treasury floated only two loans in 1961, so that the increase in the consolidated debt was only B.fcs. 5.8 milliard, or about one-third as great as in 1960. Moreover, whereas the government's total foreign debt had risen by B.fcs. 10.2 milliard in 1960, the increase in 1961 was only B.fcs. 2.7 milliard. Thus, although the Treasury's cash deficit was smaller in 1961, it was partially financed by an increase in short-term debt expressed in Belgian francs, whereas in 1960 this debt had diminished.

The total currency circulation plus deposits with the monetary institutions (excluding the savings banks) expanded sharply in 1961 — by B.fcs. 26.5 milliard, as against a rise of only B.fcs. 9.9 milliard in 1960. This change reflected in part a higher rate of lending to the private sector, the total claims on which increased by B.fcs. 8.1 milliard, or over half as much again as in 1960. But even more it was associated with the growth in claims against the public authorities, which, after rising by B.fcs. 5.4 milliard in 1960, increased by B.fcs. 13.9 milliard in 1961. This latter figure includes a substantial volume of Treasury certificates denominated in foreign currencies, hitherto held abroad, which were purchased last year by Belgian banks with the proceeds of their own borrowing from foreign banks. Finally, a small portion of the growth in money and quasi-monetary assets in 1961 had a counterpart in a net expansion in the monetary institutions' foreign assets; the rise of B.fcs. 2.4 milliard (excluding the change in the central bank's net I.M.F. position) reflected an increase of B.fcs. 12.2 milliard in the National Bank's holdings as offset by a rise of B.fcs. 9.8 milliard in the net foreign liabilities of the other monetary institutions. As their liquidity position was strong throughout the year, the banks acquired Treasury certificates in excess of cover requirements (which pertain only to securities expressed in Belgian francs) and improved their net position vis-à-vis the central bank. Not all the funds invested in certificates were placed at the disposal of the Treasury: the Fonds des Rentes sterilised part of the proceeds of its own sales (which it suspended towards the end of the year) by building up deposits with the National Bank.

Parallel with the improvement in the budget and external positions, the National Bank lowered its discount rate between August 1961 and March 1962 in four steps from 5 to 4 per cent. As liquidity was high and the capital market not very active, long-term interest rates also moved downwards, the yield on five to twenty-year government bonds declining from 6 to below $5\frac{1}{2}$ per cent. In a broader setting, a revision of techniques for regulating bank liquidity, aimed at making policy more flexible and responsive to the needs of economic growth, was put into effect as from 1st January 1962. In order to widen the margin of funds which the banks could lend to enterprises, they were authorised to invest freely the counterpart of their new current liabilities in so far as they exceeded the average level of liabilities outstanding at the end of the month in the period from 31st January to 31st October 1961. With regard to liabilities up to this reference level, however, the old cover ratios were to continue in force. In addition, the fixed 4 per cent. cash ratio for the banks was abolished, and a variable "monetary reserve ratio" was at the same time instituted. This ratio, introduced at zero, may be raised to up to 20 per cent. of deposits at up to one month and 7 per cent. of other deposits. Finally, in the interests of greater policy flexibility, changes in the banks' creditor interest rates, henceforth to be subject to agreement between the National Bank and the Belgian Banking Association, were no longer to be rigidly linked to adjustments in the discount rate.

Switzerland. By rights the emergence of a large external deficit on current account, together with an increase in the outflow of long-term capital, should have brought the banks under considerable liquidity pressure in 1961. The effect of these changes was more than offset, however, by a huge influx of funds from abroad, mostly consisting of short-term capital. The monetary authorities continued in 1961 with their basic policy of low interest rates, the object being to encourage the export both of short and of long-term capital. In addition, the 1960 gentleman's agreement with the banks, restricting the terms on which foreign deposits can be accepted, was renewed for another year as from August 1961.

Two further elements of policy were applied during the year. First, in connection with the heavy influx of funds following the March revaluations, Sw.fcs. 1,035 million of bank funds was frozen in a special account with the National Bank. Secondly, the Confederation's cash budget surplus, instead of being used to retire debt, was effectively sterilised, partly by increasing the government's deposits with the central bank and partly by placing funds abroad.

Despite the liquidity absorption implied in these measures, as well as in the deterioration in the basic external balance, the stock of money and quasi-monetary assets increased by about 13 per cent. in 1961, compared with a rise of 8 per cent. in 1960. Some of the counterpart consisted of the increase in the National Bank's gold and foreign exchange reserves, which rose by almost Sw.fcs. 1.9 milliard during the year. Significantly, however, the banking system's lending to the private sector advanced by approximately

14 per cent., thereby giving added stimulus to excessive demand pressures. For the five large commercial banks alone the increase was over 20 per cent.

In the capital market net new issues jumped up from Sw.fcs. 2,220 to 3,110 million between 1960 and 1961. Of this difference Sw.fcs. 300 million was accounted for by foreign issues, which totalled Sw.fcs. 860 million in 1961. Long-term interest rates, however, showed little change, the yield on government bonds fluctuating around 3 per cent. over the year.

In the spring of 1962, with aggregate demand still running to excess and exchange reserves falling, the monetary authorities introduced a measure intended to restrict the growth of new lending. In an agreement with the banks and banking associations it was laid down that banks above a certain size should restrict the granting of new credits to a certain percentage of the increase in new credits granted in either 1961 or 1960. For the period April to December 1962 the increase in commercial and current credits must not exceed 65 per cent., and that of mortgage credits 85 per cent., of the increase in the whole of the chosen base year. The agreement, which came into force on 1st April 1962, will expire at the end of the year unless conditions warrant otherwise.

Austria. Though broad in scope, the restrictive credit measures taken in March 1960 had more the effect of absorbing excess bank liquidity than of slowing down at once the record rate of credit expansion. By June 1961 the credit institutions' liquidity had reached a low point. This situation proved short-lived, however, because their liquidity soon began to rise again in conjunction with a renewed inflow of gold and foreign exchange, together with a substantial redemption of bank-held Treasury bills. Thus, the total volume of commercial credits granted by these institutions increased over the year as a whole by Sch. 7.5 milliard, i.e. only just short of the big expansion in 1960. Coincident with this development the growth in industrial production was diminishing, while strong price and wage pressures persisted. In January 1962, therefore, a new series of credit measures was introduced, designed primarily to absorb liquidity but also to temper expectations and check the flow of new credit. With effect from 1st February minimum reserve requirements were raised by $\frac{1}{2}$ per cent., bringing the ratio to $9\frac{1}{2}$ per cent. for sight and time deposits and $7\frac{1}{2}$ per cent. for savings deposits. Secondly, in a move towards the use of open-market operations, the National Bank converted into $3\frac{1}{2}$ per cent. Treasury certificates Sch. 560 million of its total Sch. 1.69 milliard claim against the Federal Government and placed them with the credit institutions for a period of one year. Finally, the limit for new loans beyond the level of 31st January was established at 50 per cent. of new deposits, as compared with the average of 75 per cent. prevailing hitherto.

The United Kingdom. In the first six months of 1961 the external weakness of sterling, together with the buoyancy of domestic spending and borrowing, was the signal for a gradual further tightening of existing credit

restraint. A partial relaxation of hire-purchase restrictions in January had been followed by an increase in borrowing to finance durable-goods purchases, and private house-building was also rising. In the company sector a decline in the rate of inventory accumulation tended to offset a further rise in fixed investment but, as the result of a fall in profits after the first quarter, a rise in tax payments and, towards the middle of the year, an adverse shift in the external terms of payment, companies' needs for borrowed funds increased substantially. In this situation the additional element of credit restraint brought to bear was the less than full support given by the authorities to the government securities market. Though intervening in support of the market, the authorities did so only while permitting security prices to sink lower. Thus the yield on long-term government securities, which at the end of December 1960 stood at 6.08 per cent., had moved by mid-1961 to 6.38 per cent.

The expansion of bank lending in the first half of 1961 was effected only at the expense of a further decline in the general liquidity position of the banks. In this period the London clearing banks' advances and bills discounted jumped by £340 million to reach £3,724 million. Owing partly to the high yields of other financial assets, however, the banks' net deposits rose by only £98 million to £6,360 million. Thus, in increasing their advances and bills, the banks found it necessary to reduce their holdings of other assets. Their investments (mostly government stock) were cut back by £204 million and their holdings of Treasury bills and other liquid assets by £77 million. In broader perspective, in the three years up to the middle of 1961 the London clearing banks' advances had risen from 29.2 to 46.4 per cent. of total deposits, while their holdings of long-term securities had declined from 32.7 to 13.6 per cent. Hence, even before the emergency measures of 25th July, the shift into advances was already beginning to approach a limit.

In themselves, moreover, the July credit measures were potent ones. Bank rate was raised from 5 to 7 per cent., and a new call for special deposits was made, raising the requirement for the London clearing banks from 2 to 3 per cent. of total gross deposits and that for the Scottish banks from 1 to 1½ per cent. In addition, the Bank of England made it clear that the effect of this call should fall upon advances and at the same time requested the banks to favour loans for exports and productive industry. Other financial institutions were also asked to co-operate along these lines. Finally, hire-purchase terms were tightened.

The impact of the new restrictions was immediate and pronounced. According to the monthly returns of the London clearing banks, total advances outstanding, which on 19th July had stood at £3,550 million, declined steadily from August onwards, reaching a low of £3,209 million on 13th December. The banks' net deposits also fell, though by a much smaller amount; but, because of the need to augment their special deposits, the banks did not add to their investments until the fourth quarter. The largest percentage declines were in advances to local authorities and hire-purchase

United Kingdom: Financial surplus of the private sector.¹

Items	1959	1960	1961
	in millions of £ sterling		
Financial surplus of the private sector	660	440	720
Corresponding changes in claims on and liabilities to (increase —)			
Public sector: ² Currency	135	100	85
National savings and tax reserve certificates	340	325	150
Marketable government debt ³	80	685	— 220
Claims on local authorities (net)	365	305	500
Miscellaneous ⁴	— 50	30	— 68
Total	870	1,445	450
Banking sector: Deposits	430	—	170
Advances ⁵	— 805	— 640	— 130
Money-market assets ^{6, 4}	— 70	— 55	— 155
Private securities ⁷	45	5	80
Total	— 400	— 690	— 35
Overseas: Short-term capital (net)	— 5	— 290	315
Long-term capital (net)	145	100	— 50
Total	140	— 190	265
Other transactions (net) ⁸	50	— 125	40
Memorandum: Increases in			
Shares and deposits in building societies	268	205	198
Building societies' net advances	226	241	217
Life assurance, superannuation funds, etc.	710	790	830
Deposits with members of the Finance Houses Association	73	77	41
Hire-purchase debt	293	86	— 8
Special deposits with Trustee Savings Banks	39	55	66
Net capital issues of quoted U.K. companies:			
Financial companies (excluding banks)	81	90	102
Non-financial companies	251	319	421

¹ For sources and methods see Bank of England Quarterly Bulletin, December 1960 and June 1961. For 1961 the figures are estimated and in some cases the sources 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, excepting 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. ² Central government, local authorities and public corporations. ³ Includes Treasury bills and Iron and steel securities. ⁴ Partly residual. ⁵ Figures for 1961 adjusted by £40 million to offset a transfer, in the London clearing banks' statistics, of approximately the same amount from "Advances" to "Money at call and short notice". ⁶ Money at call and short notice (net) and trade bills. ⁷ Includes bank securities sold to the private sector. ⁸ Comprises the balance-of-payments balancing item and the banking sector's net claims, not otherwise specified, on customers.

finance companies, both of which turned to some extent to increased borrowing from the public and from overseas. Companies also continued up to October to make large new capital issues; but thereafter, as fixed investment fell off and economic expectations deteriorated, issue activity also dropped markedly.

Shortly after the July increase in Bank rate the yield on both Treasury bills and long-term government securities rose to about 6.7 per cent. This successfully called forth a turn-round in the government securities market, accompanied by an easing-off of interest rates. Although private non-bank holdings of marketable debt rose by only a small amount in the third quarter, the trend of demand was favourable from August onwards, overseas demand becoming prominent in the autumn. Bank rate was brought down in two steps in October and early November to 6 per cent. These reductions, it

was officially stated, were not intended as a signal for an easing of domestic credit restraint. In the fourth quarter, with foreign funds an important demand factor up to November, the authorities again became large net sellers of securities.

In 1961 the increase in bank advances and commercial-bill lending of all banks to the private sector as a whole amounted to only £245 million (against £680 million in 1960), representing mostly a rise in loans to the company sector. Non-financial companies borrowed more by means of new issues (£421 million compared with £319 million in 1960) and probably drew also upon their liquid assets. The principal reason, however, for the sharp swing in the private sector's holdings of marketable debt (which in the table includes non-official overseas holdings) lay in the turn-round in the movement of foreign funds. Thus the sector's shift from net acquisitions of government securities of £685 million in 1960 to net sales of £220 million in 1961 is reflected partly in the counterbalancing changes seen under net capital claims against foreigners. In the personal sector an increase in the financial surplus had as its main counterpart a reduction in various types of borrowing. The sector's acquisition of identifiable assets continued on much the same scale as in 1960, a fall in the growth of National Savings being offset by an increase in net personal bank deposits and a further rise in assurance and pension claims.

The total of marketable debt in the hands of the public showed a net rise of £85 million in 1960 and a decline of £426 million in 1961. From the point of view of the Exchequer this decline was counterbalanced by a shift of similar size in the financing of the Treasury's net external transactions. For, whereas the latter (including the financing of net sales of sterling by the Exchange Equalisation Account) had in 1960 increased the Exchequer's cash requirement by almost £400 million, their effect in 1961, when the Account was a large purchaser of sterling, was to reduce the cash requirement by £316 million. Otherwise neither the Exchequer's overall budget deficit nor its sources of finance altered very much between the two years.

By the early spring of 1962 the economic climate had changed. The basic balance of payments had improved, there was a new influx of capital from abroad and domestic demand was picking up slowly. Against this background Bank rate was brought down in two steps in March from 6 to 5 per cent., and then again towards the end of April to 4½ per cent. However, the yield on long-term securities, which at the end of 1961 stood at 6.45 per cent., was still as high as 6.1 per cent. in May 1962.

Sweden. Monetary and fiscal policies, though as in 1960 directed towards restraint, changed their focus in 1961. In 1960 the emphasis in fiscal policy had been on reducing the cash budget deficit (which declined to S.Kr. 1.0 milliard from S.Kr. 1.9 milliard in 1959) and on financing this deficit outside the banking system. In 1961, with the budgetary improvement continuing, a cash surplus of over S.Kr. 0.3 milliard was realised and used mostly to repay

short-term debt held by the central bank. Bank liquidity was also reduced as the result of additional net in-payments (S.Kr. 84 million against S.Kr. 859 million in 1960) by companies into tax-privileged investment fund accounts with the central bank. Under the influence of these two factors, bank liquidity, which had already been brought down considerably by the end of 1960, fell well below the Riksbank's recommended ratios during the first three quarters of 1961. A substantial growth in official gold and foreign exchange reserves, which itself stemmed partly from the domestic policy of financial restraint, was an offsetting factor helping to sustain bank liquidity. In the late spring, when for seasonal reasons the banks were under particularly heavy liquidity pressure, the Riksbank put a ceiling on the amount it would normally be prepared to lend to individual banks and established a penalty interest rate of 9 per cent. for borrowing in excess of the ceiling. In another move the Riksbank in November warned the banks to pursue a restrictive lending policy, but at the same time lowered its recommended liquidity ratios (30 per cent. for the big banks) to bring them more in line with reality.

Sweden: The flow of financial funds.

Lenders \ Borrowers	Years	Public sector		Private sector		Total
		Central government	Local authorities	Housing	Rest of the economy	
		net amounts, in millions of kronor				
Riksbank	1960	1,175	—	75	—	1,250
	1961	— 250	—	—	—	— 250
Commercial banks	1960	— 1,250 ¹	— 100	300	900	— 150 ¹
	1961	—	50	125	425	600
Other credit institutions ²	1960	375 ¹	100	1,600	500	2,575 ¹
	1961	— 25	100	1,900	650	2,625
National Pension Insurance Fund . .	1960	150	50	175	100	475
	1961	— 25	100	425	200	700
Capital market ³	1960	625	200	75	350	1,250
	1961	— 50	125	125	525	725
Total	1960	1,075	250	2,225	1,850	5,400
	1961	— 350	375	2,575	1,800	4,400

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

In their combined effect, monetary and fiscal policies in 1961 helped not only to reduce the total flow of credit but also to shift private borrowing away from the banks towards a widening market for longer-term funds. The total growth of credit and equity-market claims declined from S.Kr. 5.4 milliard in 1960 to S.Kr. 4.4 milliard in 1961, a drop of S.Kr. 1.3 milliard in public-sector borrowing being partly offset by a rise of S.Kr. 0.3 milliard in private-sector borrowing. As against an increase of S.Kr. 1.2 milliard in 1960, commercial-bank lending to the private sector rose in 1961 by only S.Kr. 550 million, while the growth in total deposits with these institutions came to S.Kr. 840 million. On the other hand, private-sector borrowing from other

credit institutions, the National Pension Insurance Fund and the capital market jumped up from about S.Kr. 2.8 milliard in 1960 to over S.Kr. 3.8 milliard in 1961.

By the spring of 1962 the investment boom had lost some of its impetus and demand pressures had eased. As an initial move towards easier credit, the Riksbank reduced its discount rate in early April from 5 to $4\frac{1}{2}$ per cent.

Denmark. Largely as the result of a sharp rise in personal incomes, together with a shift in the government's budget from surplus to deficit, domestic demand pressures contributed to the emergence of a sizable external deficit on current and long-term capital account in 1961. Inevitably, a heavier burden of policy restraint was thrust upon monetary weapons. The most important move came in May 1961, following upon widespread strikes and large wage and other income settlements, when the Nationalbank raised its discount rate from $5\frac{1}{2}$ to $6\frac{1}{2}$ per cent., increased the interest rate for its advances on securities to $7\frac{1}{2}$ per cent. and requested the banks to curb their lending except for exports. This request was repeated in the autumn, when total lending was still running to excess.

In the circumstances the tendencies making for increased bank liquidity were strong. Most important, whereas in 1960 the government's large cash surplus had resulted in a sterilisation of D.Kr. 402 million with the central bank, the swing to a cash deficit in 1961, stemming mostly from an increase in expenditure, led the government to draw down its current account with the Nationalbank by D.Kr. 325 million. In addition, the banks obtained another D.Kr. 178 million directly from the central bank by way of advances, security transactions and a drawing on sight deposits. Finally, partly owing to the attraction of higher interest rates for foreign depositors, the banks increased their net foreign liabilities in 1961 by D.Kr. 170 million. While this borrowing helped to limit the central bank's reserve losses, it weakened appreciably the tightening effect of the May measures.

Thus, despite the liquidity drain associated with the adverse turn in the basic external balance and an unusually large increase in the note circulation, total deposits with the commercial and savings banks rose by D.Kr. 1.6 milliard in 1961, as against only D.Kr. 1.1 milliard in 1960. At just over D.Kr. 2.0 milliard, the increase in bank lending (advances and investments) to the private sector slightly exceeded the high 1960 figure. As the result of a sharp rise in long-term interest rates, however, the commercial banks, which in 1960 had reduced their private security holdings, increased them from May 1961 onwards. Accordingly, bank advances rose somewhat less rapidly last year than earlier. For its part, the government, in covering its cash deficit through withdrawals from its central-bank account, left the capital market free for other borrowers. The outstanding volume of circulating government bonds quoted on the stock exchange actually declined by some D.Kr. 200 million in 1961, while those of all other types increased by D.Kr. 2.4

milliard, as against D.Kr. 1.7 milliard in 1960. The yield of long-term government bonds (1987), which at the end of 1960 had stood at 6.12 per cent., was 7.17 per cent. one year later.

On 21st March 1962, with a further loss of foreign exchange in prospect, the Nationalbank reduced from 70 to 60 per cent. of the purchase price the percentage rate at which it grants advances against bonds quoted on the Copenhagen stock exchange; and with effect from 21st May this rate was cut again to 50 per cent.

Monetary survey.*

Countries	Years	Changes in liabilities			Changes in assets				Balance-sheet total
		Money	Quasi-money	Other	Net foreign assets	Claims on government	Claims on private sector	Other	
		In milliards of national currency units							
Denmark	1960	0.23	0.99	0.72	- 0.12	- 0.12	1.97	0.11	26.19
	1961	1.00	0.88	0.19	- 0.18	- 0.02	2.06	0.21	28.26
Norway	1960	0.43	0.78	0.32	0.15	0.20	1.18	-	24.29
	1961	0.36	0.68	0.19	- 0.43	0.19	1.26	0.23	25.51
Finland	1960	4.60	79.30	11.40	2.60	- 10.80	96.70	6.80	920.40
	1961	14.90	83.70	19.40	- 0.50	- 0.10	105.60	13.00	938.40

* See footnotes 1 and 2 to table on page 73.

Norway. In the first half of 1961 domestic demand took on inflationary proportions. Unlike in Denmark, however, this was not due to the public finances, which remained about as contractive in their liquidity effect as in 1960. Although the central government realised a smaller cash surplus, while also increasing its lending to the state banks, it compensated most of this change by issuing a larger net volume of domestic loans. Moreover, the local authorities improved their fiscal position in 1961. Excessive demand pressures originated instead mainly in the private sector, particularly in credit-financed categories of expenditure. During this period the banks' capacity to lend was increased by extensive short-term borrowing abroad. In the first six months their net foreign position deteriorated by about N.Kr. 400 million. In the same period the total private-sector lending of the commercial and savings banks rose by N.Kr. 1,242 million, almost half as much again as the already large increase of N.Kr. 845 million in the first half of 1960.

As early as February 1961 the monetary authorities requested the credit institutions to show greater restraint in their lending activity, particularly with respect to consumer credit and building loans, and they were also asked to participate in new government loans on a greater scale than originally envisaged. By July it was clear that stronger measures were needed. The authorities did not increase the discount rate, but chose instead to revert to the system of ceilings on bank lendings applied in the upswing of the previous cycle. Specifically, the commercial banks were asked to reduce their total lending by a prescribed amount by 1st November 1961, with an increase in holdings of government bonds to be more than offset by reductions in advances and

building loans. The savings banks were asked to keep their total loans outstanding at a level not more than 7 per cent. higher than that one year earlier and also to reduce building loans and increase government bond holdings by stipulated amounts. The insurance companies were also requested to take more government bonds than they had previously agreed to for 1961. By the latter part of the year the targets with respect to reductions in bank lending had been reached or surpassed and the ceilings were relaxed. Whereas in the second half of 1960 the banks' lending to the private sector had risen by N.Kr. 330 million, in the latter half of 1961 this total showed a net decline of N.Kr. 30 million.

Finland. Throughout 1961 and early 1962 the credit institutions' lending activity mounted steadily, contributing to rapid economic advance but also to a larger external deficit on current account. In addition to this deficit, an unusually large growth in the note circulation was also a factor tending to reduce the liquidity of the banks. On the other hand, as in Denmark and Norway, the central government's cash budget position deteriorated, its overall surplus of FM 9.1 milliard in 1960 shifting to a deficit of about FM 8.2 milliard in 1961. While the surplus in 1960 had been used largely to repay debt held by the central bank, the deficit in 1961 was covered by a combination of foreign borrowing (FM 4.5 milliard), domestic borrowing (FM 1.1 milliard) and a net deterioration in the Treasury's position vis-à-vis the central bank (FM 2.6 milliard). And, as was also the case in Denmark and Norway, the Finnish commercial banks bolstered their liquidity in 1961 by recourse to short-term foreign credits, their net exchange position deteriorating by FM 8.6 milliard. The credit institutions as a whole also increased their rediscounting with the central bank by FM 8.9 milliard during the year. On balance, these various factors affecting bank liquidity made it possible for the credit institutions to increase their total loans to the private sector by FM 105.6 milliard in 1961, as against FM 96.7 milliard in 1960. The growth of deposits, though lagging behind that of loans, was also greater than in the preceding year.

Although its aim was to slow down the credit expansion, the Bank of Finland did not increase its basic rate for rediscounting in 1961, but relied rather heavily on the efficacy of the penalty borrowing rate, whose progressive scale can rise as high as 4 per cent. above the rediscount rate. This scale was slightly steepened in February 1961, while in March the commercial banks were encouraged, without raising the average level of their lending rates, to differentiate them more in favour of exports and against consumption. Shortly thereafter a cash reserve agreement was concluded, under which, for the period May 1961 to April 1962, the credit institutions were to place on interest-bearing deposit with the central bank the equivalent of the increase in their lending (calculated cumulatively) in excess of 80 per cent. of the corresponding rise one year earlier. In this way the credit institutions' liquidity was reduced by FM 4.3 milliard by the end of 1961.

In the spring of 1962, when inflationary symptoms began to appear side by side with a marked increase in the credit institutions' recourse to

rediscounting, further action was taken. At the end of March the central bank raised its basic rediscount rate from 6¾ to 8 per cent., but lowered it again one month later to 7 per cent. In April a new cash reserve agreement, almost identical to that operative in 1961-62, was concluded with respect to new lending during the period May 1962 to April 1963.

Yugoslavia. The policy of restraining the expansion of consumption and investment was continued in 1961. In the credit sphere the most important measures were as follows: (1) the National Bank avoided a further expansion of its credits to the banks during the first six months of the year; (2) the Bank also, when debiting and crediting individual banks, retained certain amounts on their giro accounts kept with it; (3) the banks were authorised to grant loans for the financing of fixed investment only to the extent of 20 per cent. of savings deposits; (4) new measures were introduced to ensure timely repayment of credits granted to enterprises for the purchase of foreign exchange; and (5) a limit was set for Federal Government borrowings, while the republics and local authorities were not allowed further recourse to bank credit.

Towards the same end certain measures of an essentially fiscal nature were applied. As a type of obligatory reserve requirement, 10 per cent. of the total current receipts of social investment funds, of the funds of enterprises and of budget revenue had to be placed on a restricted account. In addition,

Yugoslavia:
Saving, Investment and changes in financial assets, by sectors.

Items	Years	House- holds ¹	Socialist enter- prises	Invest- ment funds	Govern- ment	Others	Rest of the world
Saving	1960	113	361	380	122	124	
	1961	164	408	518	103	171	
Investment (—)	1960	— 74	— 861	—	— 86	— 133	
	1961	— 110	— 1,039	—	— 105	— 179	
Financial surplus or deficit (—) . . .	1960	39	— 500	380	36	— 9	— 54 ²
	1961	54	— 631	518	— 2	— 8	— 69 ²
Corresponding changes in financial assets and liabilities (increase —)							
Currency and sight deposits	1960	40	3	4	69	116	
	1961	79	11	— 11	— 44	127	
Non-liquid deposits	1960	14	39	— 9	— 14	10	
	1961	14	— 24	— 10	137	41	
Bank credit	1960	— 16	— 158	— 56	— 19	— 21	
	1961	— 39	— 194	47	— 95	28	
Investment loan funds	1960	—	— 326	387	—	— 61	
	1961	—	— 440	508	—	— 68	
Other sources of funds	1960	1	— 58	54	—	— 53	
	1961	—	16	— 16	—	— 136	

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

enterprises were obliged to allocate 40 per cent. of their current net income to a restricted account not to be drawn upon until their own final accounts had been approved. Finally, the dinar equivalent of foreign finance allocated out of external credits granted in support of the Yugoslav exchange reform was to be deposited on a special restricted account.

As a result of these measures, bank credit expanded in 1961 by Din. 253 milliard, compared with Din. 270 milliard in 1960, while the amount of liquid resources placed on restricted accounts rose to Din. 158 milliard from Din. 40 milliard in the preceding year. Consequently, the expansion of the money supply was much more moderate in 1961, i.e. Din. 162 milliard as against Din. 232 milliard in 1960.

Japan. In 1961, for the third consecutive year, demand moved strongly upwards, receiving its impetus in particular from a boom in capital investment. As in the advanced phase of previous economic upswings, a wide deficit opened up in the basic external account. Although this deficit was partly covered by a further substantial increase in short-term borrowing abroad, a decline in the official exchange reserves commenced in the spring. As subsequently the reserve loss accelerated, the Bank of Japan raised its

Japan: Changes in financial assets and liabilities, by sectors.¹

Items	Years	Personal	Corporations	Central government	Government enterprises and local authorities	Bank of Japan	Banks and other financial institutions	Rest of the world
in milliards of yen								
Financial surplus or deficit (-)	1960	1,372	- 1,398	249	- 160	.	.	63
	1961	1,909	- 2,422	482	- 315	.	.	- 346
Corresponding changes in financial assets and liabilities (Increase -)								
Money	1960	441	313	- 9	40	- 204	- 581	
	1961	561	266	- 4	2	- 369	- 456	
Time and savings deposits	1960	905	380	- 151	39		- 1,173	
	1961	1,001	487	- 160	53		- 1,380	
Insurance and trust claims	1960	336	43	- 116	2		- 265	
	1961	399	68	- 131	3		- 338	
Securities (net)	1960	520	- 488	86	- 122	- 76	164	
	1961	972	- 949	371	- 180	- 281	242	
Bank of Japan credits	1960					162	- 162	
	1961					784	- 784	
Loans	1960	- 522	- 1,931	341	- 103		2,215	
	1961	- 593	- 2,496	432	- 169		2,626	
Official reserves	1960			71		110		181
	1961			67		55		122
Other foreign claims (net)	1960		- 93	19	- 6		- 38	- 118
	1961		- 202	23	- 10	- 33	- 3	- 225
Miscellaneous transactions ²	1960	- 309	378	8	- 9	- 153		
	1961	- 430	404	17	- 15	- 150		

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

discount rate towards the end of July from 6.57 per cent. to 6.935 per cent., simultaneously lowering the discount rate on export bills, however, from 4.745 to 4.38 per cent. These moves were followed in late September by a further increase in the discount rate to 7.3 per cent., together with a raising of the penalty rates for rediscounting. In addition, for the first time since the system was introduced in September 1959, reserve requirements were altered. For the larger banks this meant a doubling of existing rates to 1 per cent. of time deposits and 3 per cent. of other deposits. Although these measures were ancillary to a broader government programme of restraint, the country's exchange reserves continued to fall until the turn of the year, when they were bolstered by a loan from a group of American banks.

The financial deficit of corporations, as well as that of government enterprises and local authorities, rose sharply in 1961, while the surpluses of the personal and central-government sectors, though markedly higher than in 1960, were less than compensating. Following a trend earlier in evidence, a greater proportion of the corporate sector's borrowing requirement was satisfied by recourse to the capital market in 1961, the increase in security purchases by individuals being especially notable. Nevertheless, an unduly large part of business financing still takes the form of bank loans, which registered a very big increase in absolute terms in 1961. As usual, reflecting the "over-loan" position of the Japanese banking system, a substantial proportion of new lending had to be financed by recourse to the central bank. In 1961 the deterrent effect of the two increases in the discount rate proved to be insufficient, and the volume of rediscounting was particularly great.

III. DOMESTIC AND INTERNATIONAL PRICES.

The rise in the consumption of raw materials over the past year has not kept pace with the expansion in their production. As a result, commodity quotations on world markets have shown in the aggregate a rather precarious stability.

On the domestic side the picture was different. Prices and costs rose nearly everywhere, sometimes sharply. Except in Finland, the Netherlands and the United States, wholesale prices began or continued to move upwards, the rise deriving its impetus chiefly from the domestic sector and being moderated only to a limited extent by the decline in import prices.

Prices at consumer level rose more markedly. In contrast to the previous year, smaller crops had an adverse effect on food prices, and the rise in these, together with continuing higher prices for services, accelerated the increase in the cost of living. Wages continued to go up, in many countries at a faster rate than before. There was at the same time an improvement in productivity, but in most cases it did not match the wage rise. The exceptions to this general tendency were the United States and — among European countries — Belgium.

Domestic prices and wages.

Consumer prices. Consumer prices continued to mount in the period under review in all western European countries. Almost without exception the rises were greater than in the preceding year, although the growth in aggregate demand was slower and raw-material prices were stable. The pace of the increases even accelerated during 1961, but they were more evenly distributed, many European countries being affected to roughly the same extent. In the United States and Canada, by contrast, consumer prices rose only moderately.

For western Europe as a whole the rise in retail prices in 1961 may be estimated at over 3 per cent.; foodstuff prices advanced by approximately the same amount. In the two preceding years the overall increase had been about 2 per cent. In the United States retail prices went up by only $\frac{1}{2}$ per cent. in 1961 and foodstuffs actually cheapened by nearly 1 per cent.; in the two preceding years the increase in the cost of living ($1\frac{1}{2}$ per cent.) had also been smaller than that in Europe.

In Europe two phases are distinguishable. To begin with, consumer prices remained more or less stable during the first half of 1961. Subsequently they began to rise and in the latter half of the year they climbed to roughly 3 or 4 per cent. above their end-of-1960 level. This trend was most marked in the United Kingdom, Switzerland and France.

In Sweden the cost-of-living index, which had risen by 3.9 per cent. in 1960, moved up by 2.5 per cent. in 1961. In 1960, however, it had been affected by the introduction of a general 4.2 per cent. purchase tax, which explains the smaller increase in 1961. In January 1962 the tax was raised to 6.2 per cent. Retail prices also rose sharply in Switzerland. In Belgium, despite an increase in indirect taxation, retail prices went up less than in other western European countries, as the pressure of demand during the year was moderate, productive capacity was not fully utilised and labour costs per unit of output did not rise.

During the first quarter of 1962 changes in consumer prices were not uniform. In some countries (e.g. Belgium, Switzerland and the United Kingdom) the rate of increase seems to have slackened, whereas in others it was maintained or even quickened.

The principal factors determining the trend during the period under review were the movements in the prices of foodstuffs and services (including rents). Food accounts for between one-third and one-half of all personal expenditure, whereas rent may account for as much as 20 per cent. of the average family budget. The demand for and prices of services in general tend constantly to increase, while the growth of productivity in the service sector usually lags behind that in other parts of the economy.

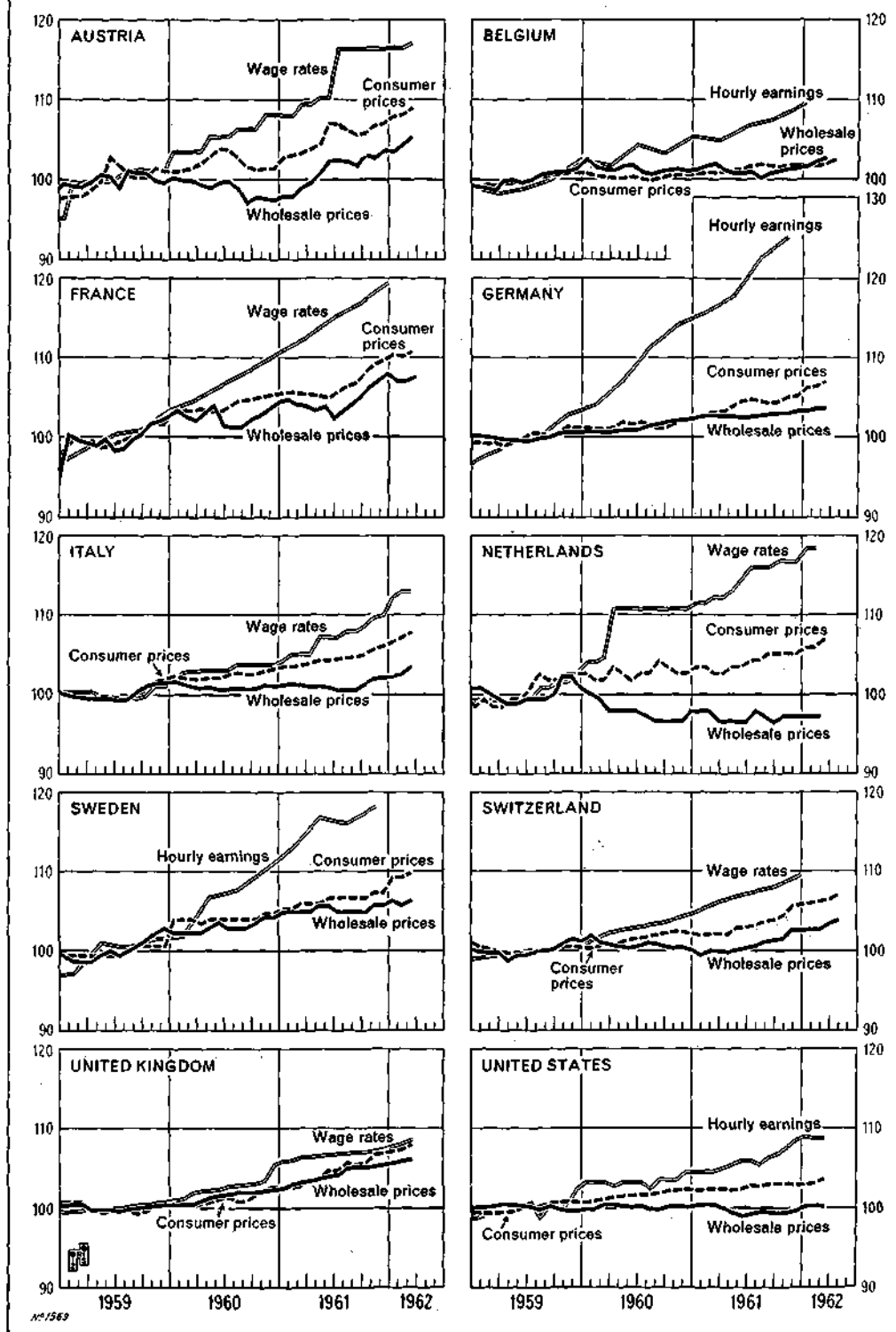
Consumer-price changes during 1960 and 1961.

Countries	Total index 1960	Total index and components, 1961				
		Total	Food	Rent	Light and fuel	Clothing
		percentage change				
Austria	0.8	5.3	5.6	7.7	3.0	3.1
Belgium	— 0.2	1.0	1.2	.	0.1	0.8
Denmark	0.4	4.3	6.7	5.0	2.2	5.8
Finland	2.9	1.4	0.7	5.2	2.0	1.1
France	3.6	4.0	6.1	13.7	1.1	2.3
Germany	1.0	3.1	3.8	3.4	1.5	2.4
Italy	1.4	2.8	1.8	9.2	1.6	0.2
Netherlands	—	2.5	5.8	—	0.7	1.1
Norway	0.5	4.5	6.1	5.8	2.5	3.0
Spain	0.6	2.6	2.6	2.6	.	1.4
Sweden	3.9	2.5	3.4	5.0	0.7	0.8
Switzerland	1.8	3.5	4.2	5.8	1.2	1.5
United Kingdom	1.8	4.4	1.9	5.0	4.0	1.7
Canada	1.3	0.4	0.3	0.3	— 1.1	—
United States	1.6	0.6	— 0.9	1.1	0.1	0.3

Food prices underwent a marked increase in European countries last year. Only in Belgium, Finland, Italy and the United Kingdom was the rise fairly modest. In the other countries it was often steep and in most cases much greater than the increase in the overall index. The biggest advances were recorded in Denmark, Norway and France (over 6 per cent.). Unfavourable

Wholesale and consumer prices and industrial wages.

Indexes: 1959 = 100.



crops in most countries of western Europe (except Italy) caused food prices to rise in the second half of the year; in many of them, furthermore, government measures to support agricultural incomes also pushed these prices up.

Prices for services, including rents, generally rose more sharply than food prices, and thus also more than the total consumer-price index. In the Netherlands alone were rents stable after the increase decreed in 1960; another sharp increase — following a two-year interval — is due in the middle of 1962 and will be accompanied by a special wage adjustment. Rents rose least in Canada and the United States, where they were decontrolled many years ago. In Germany the rise in rents ($3\frac{1}{2}$ per cent.), although not as great as that in food prices, exceeded the increase in the cost of living. Rents rose most in France and Italy — on an average by about 14 and 9 per cent. respectively — where, however, they represent only a small percentage of consumer expenditure.

In European countries generally the extent of rent increases depended largely on whether measures had been enacted for relaxing rent controls, particularly on old houses, during the period under review. Thus, in Switzerland a rise of 5 per cent. in controlled rents, which was authorised as from 1st October 1961, is already partly reflected in the index. Similar measures were applied in Italy (where controlled rents were raised as from 1st January 1962 by 20 per cent.) and in Denmark.

In western Europe, according to available statistical evidence, prices of finished goods also rose in 1961-62, though less than other prices. In the United States the "commodities less food" index component rose by no more than 0.6 per cent. (equal to the increase in the total index), while food prices declined by 0.9 per cent.

Contrary to expectations, neither the tariff reductions effected in 1961 within the framework of the Common Market and the E.F.T.A. nor the revaluations by Germany and the Netherlands in March 1961 caused corresponding reductions in retail prices. This led the Dutch authorities to impose certain new controls on prices and on trade margins for imported goods.

Wholesale prices. The level of wholesale prices in most western European countries rose more in 1961 than in the preceding year. The increase averaged 2 per cent., as against 1 per cent. in 1960 and 2 per cent in 1959. The upward tendency persisted in general in the first few months of 1962. As with consumer prices, the rise in wholesale prices occurred chiefly in the second half of 1961; in the first half they had remained stable or even declined. In the United States, where wholesale prices had risen by only $\frac{1}{2}$ per cent. in 1960, they dropped by 0.3 per cent. in 1961 but rose again by the same amount in the first quarter of 1962. The trend was thus generally stable. In a few European countries (e.g. the Netherlands) the index actually fell for the second year running. Price movements varied from sector to

Wholesale-price changes during 1960 and 1961.

Countries	Total index 1960	Total index and components, 1961			
		Total	Agricultural products	Raw materials	Manufactured goods
		percentage change			
Austria	- 2.0	6.1	6.0	6.3	.
Belgium	- 0.4	0.4	6.9	2.1	- 1.1
Denmark	- 1.0	2.9	3.1	—	2.8
Finland	2.7	- 0.1	1.0	- 0.8	1.1
France	1.6	3.5	6.7	3.0	1.5
Germany . . . . .	.	.	4.3	0.8	1.0
Italy	- 0.3	0.9	3.7	- 0.8	1.4
Netherlands	- 2.8	- 0.7	0.8	- 2.4	—
Norway	—	1.8	2.5	4.3	1.9
Spain	2.7	3.1	4.6	2.0	1.0
Sweden	1.4	1.3	1.3	—	2.1
Switzerland	- 1.2	2.6	4.1	0.9	.
United Kingdom . . . . .	.	.	- 1.4	- 0.6	3.0
Canada	0.3	2.6	- 1.2	5.6	1.4
United States	0.5	- 0.3	- 1.0	1.0	- 0.5

sector. Agricultural products — and foodstuffs in particular — rose more than the general index and were in fact chiefly responsible for the overall increase.

Differing trends were observable in the price movements of raw materials and finished products. Whereas most raw-material quotations remained more or less stationary or even fell, the prices of some groups of finished products, particularly capital goods, moved upwards. Prices of consumer goods showed little change. Recently, however, signs of a reversal of even this slight upturn in the prices of manufactured goods have appeared in certain countries (e.g. Belgium). In Europe this movement is being assisted by the deceleration in the growth of demand, which has given rise to margins of unused capacity in some sectors (e.g. steel) where in recent years investment has been particularly high, while the increasing liberalisation of foreign trade and growing competition from abroad are creating a keener competitive atmosphere for consumer durables (notably cars, television sets and household appliances), as well as for some capital goods.

Prices of steel on the Continent have weakened over the past year — prices of E.C.S.C. exports to third countries are now well below the list prices within the Community. In the United Kingdom, notwithstanding unused capacity, which increased during 1961 from 10 to 25 per cent., steel prices were raised in February 1962 by 25s. per ton, or 2½ per cent.; this had the effect of bringing British prices more into line with the higher continental ones in anticipation of Britain's entry into the Common Market. In the United States the leading steel companies raised the steel price by 3½ per cent., or \$6 per ton, early in April 1962 but rescinded this measure in the face of strong resistance from the public and the government.

In general, wholesale prices went up less than consumer prices (except in Austria and Spain) and in some countries the discrepancy was quite considerable. In others, such as Finland, the Netherlands and the United States, a fairly small rise in consumer prices coincided with a corresponding fall in wholesale prices. In Belgium and the United States the cheapening — and in the Netherlands the stability — of prices of manufactured goods helped to keep down the overall level of wholesale prices.

Wholesale prices in Austria rose sharply; the overall increase and the increases in the sub-groups agricultural and industrial raw materials were about 6 per cent. (the index does not include finished goods). Austrian prices were pushed up notably by dearer imports, as nearly half Austria's imports come from Germany and the Netherlands and it consequently suffered from the revaluations last year. Most other countries, by contrast, benefited from stable or cheaper import prices.

Building costs. Building activity is one of the principal factors in the present overheated economic situation. Building costs have a high wage content and react sharply to tensions on the labour market, while being largely unaffected by foreign competition. In France and the United States they went up to approximately the same extent as consumer prices. In general, however, they rose much more — and in Germany even by three times as much (9.0 compared with 3.1 per cent.).

Wages. The level of wages has continued to rise over the past year. In western Europe the increases tended to be larger than in 1960, except in Belgium, the Netherlands and the United Kingdom. In Canada and the United States the slowing-down of the wage rise continued. Heading the list of wage increases were two of the smaller countries — Denmark and Austria.

In Denmark the rise of 11.5 per cent. in earnings in 1961 resulted from the conclusion of new labour contracts after strikes that had been among the most extensive the country had ever experienced, costing more than 2½ million working days. In Austria wage rates last year rose by 6.9 per cent. and earnings by 10.5 per cent.; early in 1962, however, the wage and price situation seemed to be calming down.

In Germany the rises in wage rates and earnings were, at 7.9 and 9.9 per cent. respectively, again spectacular, although a certain slowing-down was discernible. In France the increase in rates (7.6 per cent.) was only slightly smaller. Earnings in Italy, Switzerland, Norway, Finland and Sweden rose by around 7 or 8 per cent. In Sweden workers in private industry obtained considerable wage increases last year. This year and next the salaries of state employees will be raised correspondingly, namely by 6.5 and 3.5 per cent. respectively, while the increases for industrial workers agreed upon in negotiations held in March 1962 between trade unions and employers' associations are only half as great (2.75 and 2.25 per cent.).

Increases in wage rates and earnings in industry.

Countries	Wages	1959	1960	1961
		annual averages, in percentages		
Austria	Rates	5.3	5.4	6.9
	Earnings	6.6	7.1	10.5
Belgium	Earnings	1.5	3.8	3.6
Denmark	Earnings	7.7	6.5	11.5
Finland	Earnings	5.7	5.4	7.7
France	Rates	6.3	6.7	7.6
Germany	Rates	3.6	6.7	7.9
	Earnings	5.1	9.4	9.9
Italy	Rates	1.6	3.1	3.8
	Earnings	2.4	4.9	6.6
Netherlands	Rates	2.3	9.1	4.9
Norway	Earnings	8.8	4.2	7.3
Sweden	Earnings	4.4	6.6	8.8
Switzerland	Rates	1.8	3.3	4.3
	Earnings	2.4	5.3	6.8
United Kingdom	Rates	2.7	4.9	6.0
	Earnings	3.8	8.3	6.6
United States	Earnings	3.8	3.2	2.7
Canada	Earnings	3.6	3.5	2.8

In the United States a settlement was reached in the spring of 1962 on the conditions of a new two-year labour contract covering the country's 450,000 steel workers. The terms (fringe benefits only and no pay increase) were in conformity with the government's non-inflationary wages policy. In other branches of the economy the trend was similar. In general, wage rises have been fairly moderate in recent years and have been steadily diminishing. They have not exceeded increases in productivity and consequently the competitive position of U.S. industry has improved. From 1959 to 1961 the rise in earnings became smaller each year, and in the first few months of 1962 earnings remained stationary or actually fell. The increase in wages and fringe benefits combined (which, broadly speaking, comprise labour costs) has been tapering off in U.S. manufacturing industry, having declined from 6.2 per cent. in 1956 to 3.4 per cent. in 1961.

Viewed over a longer period, wage developments in various groups of countries reveal a certain degree of uniformity. For instance, in the three years up to 1961 earnings in Austria, Germany and Denmark rose by between 26 and 28 per cent., or about 8 per cent. per annum; another group, comprising Finland, the United Kingdom, Sweden and Norway, showed an aggregate increase of some 20 per cent., or 6-7 per cent. per annum; for France and the Netherlands the cumulative increases in wage rates (no data on earnings are available) worked out at 22 and 17 per cent. respectively. In Italy and Switzerland earnings rose by 15 per cent., or 5 per cent. per annum. In the United States and Canada earnings went up by only 10 per cent.; and in Belgium they increased by 9 per cent., or about 3 per cent. per annum.

The relationship between wage increases and productivity gains has deteriorated in most industrialised countries, the main exceptions being the United States and Belgium. It is true that this has ironed out some differences in the competitive position of the various economies. Nevertheless, the gap between wage rises and improvements in overall and industrial productivity remains a critical problem.

This problem has led to wider acceptance of the need for a wages policy. Thus, in the United Kingdom the pay pause instituted in July 1961 has been followed by efforts to establish a wages and incomes policy, the future guiding-lines for which are to be studied by the National Economic Development Council.

The tensions on the labour market in Germany caused the authorities to sound a warning and to call for wage restraint. Their aim is apparently to set up a body along the lines of the above-mentioned council in Britain, which would be concerned with examining what rate of wage increase is justifiable in the light of the general economic situation. In the United States, too, the Administration has taken steps to secure wage and price restraint as an essential basis for sound economic growth.

Production and prices of raw materials.

Production.

Overall raw-material output rose by about $2\frac{1}{2}$ per cent. in 1961, marking a further slowing-down in the rate of increase. Production of industrial raw materials expanded by about $4\frac{1}{2}$ per cent., whereas that of the main foodstuffs contracted by about $1\frac{1}{2}$ per cent.

Among agricultural products declines occurred particularly in the output of rice, wheat and maize, where they were attributable to poor harvests, and in that of sugar and cotton, where they were due more to a reduction in planting. However, the output of cocoa, coffee and soya beans increased in 1961.

Decreases in the output of industrial raw materials in 1961 were more exceptional. There was a levelling-off in aluminium production after fifteen years of uninterrupted growth. Production of tin and tungsten declined somewhat, although the combined output of non-ferrous metals showed a slight increase (1 per cent.). Steel output rose by 5.5 per cent. to a new record level.

The output of fuels expanded at about the same rate as that of industrial raw materials. The "newer" fuels rose faster than the average, while the increase in coal production was much smaller. There was a further sharp expansion in the production of man-made fibres.

Estimates of world production of basic commodities.

Commodities	Units	1937	1960	1961 preliminary	Percentage change		
					1960 over 1959	1961 over 1960	1961 over 1937
Aluminium ¹	1000 tons	493	4,543	4,521	+ 11	- 1	+ 817
Natural gas	milliard m ³	80	465	490	+ 9	+ 5	+ 513
Man-made fibres	1000 tons	835	3,317	3,529	+ 7	+ 6	+ 323
Hydro-electricity	milliard kWh	177	690	730	+ 9	+ 6	+ 312
Cement	million tons	82	315	335	+ 8	+ 6	+ 309
Crude oil	million tons	280	1,051	1,119	+ 7	+ 6	+ 300
Rubber, natural	1000 tons	1,229	2,032	2,139	+ 7	+ 5	+ 286
Rubber, synthetic	1000 tons	63	2,700	2,850			
Nickel ²	1000 tons	119	319	330	+ 13	+ 3	+ 177
Steel	million tons	136	344	363	+ 12	+ 6	+ 167
Brown coal	million tons	252	649	655	+ 4	+ 1	+ 160
Soya beans	million tons	13	27	31	- 4	+ 16	+ 144
Manganese ore	million tons	6	13	14	+ 4	+ 4	+ 134
Sugar	million tons	25	57	54	+ 13	- 6	+ 111
Zinc ¹	1000 tons	1,636	3,111	3,285	+ 5	+ 6	+ 101
Copper ³	1000 tons	2,534	4,977	5,055	+ 15	+ 2	+ 99
Mercury	tons	4,590	8,877	9,000	+ 9	+ 1	+ 96
Maize	million tons	115	220	210	+ 2	- 5	+ 83
Coffee, green	1000 tons	2,409	3,974	4,378	- 16	+ 10	+ 82
Fats and oils ⁴	million tons	19	31	32	0	+ 3	+ 68
Hard fibres	1000 tons	529	855	858	0	0	+ 62
Cocoa	1000 tons	732	1,034	1,170	+ 15	+ 13	+ 60
Lead ¹	1000 tons	1,692	2,555	2,645	+ 5	+ 4	+ 56
Rice, rough	million tons	151	240	235	+ 6	- 2	+ 56
Hard coal	million tons	1,300	1,975	2,000	+ 4	+ 1	+ 54
Cotton	1000 tons	6,661	10,266	10,120	0	- 1	+ 52
Jute	1000 tons	1,965	2,320	2,950	- 11	+ 27	+ 50
Wool, greasy	1000 tons	1,718	2,536	2,569	0	+ 1	+ 50
Tungsten (60%WO ₃)	1000 tons	39	63	58	+ 18	- 8	+ 49
Wheat	million tons	167	244	235	- 2	- 4	+ 41
Tin ¹	1000 tons	205	207	203	+ 21	- 2	- 1

¹ Smelter production. ² Metal content of mine production. ³ Refinery production. ⁴ Oil equivalent.
Note: Tons are metric tons. Pre-war data for agricultural products are 1937-38 or 1935-39 averages.

A comparison with the pre-war position reveals only one case, namely tin, in which output has remained stable; all the other basic materials show increases ranging from 40 to 800 per cent. The list is headed by the newer industrial materials. Between 1937 and 1961 production of aluminium increased ninefold and natural gas sixfold, while there were fourfold increases in the output of man-made fibres, hydro-electricity, cement, crude oil and, if the natural and the synthetic products are combined, also of rubber.

Over the same period materials of agricultural origin showed an expansion in volume of 60 per cent., while those of industrial origin increased by almost 200 per cent. Total production of all commodities included in the above table rose by 125 per cent. Meanwhile the value of production of agricultural commodities went up by just over 200 per cent., that of industrial commodities by about 450 per cent., and that of all the commodities under review by well over 300 per cent. Prices for raw materials as a whole thus nearly doubled between 1937 and 1961. The implicit prices of foodstuffs advanced by much less than the average and those of all agricultural products by only slightly more than food, whereas the price rise for commodities of industrial origin, in particular textiles and metals, was above the average.

Prices in general.

Raw-material prices over the past year again remained practically stable, with only a small margin between the highest and lowest index figures. The gentle downward drift of prices has continued now for almost ten years, interrupted only by the short-lived upswing during the Suez episode. Never before in this century — in fact not since the decade 1862-71 — have commodity prices remained relatively steady for so long. This stability has not resulted from specific policy measures or intervention by supra-national authorities but has been due to the adequacy of supplies. Huge U.S. stockpiling in earlier years caused some distortions in the market but at the same time stimulated production, so that supplies remained abundant. Planned reduction of these stockpiles has now begun to influence the markets in some cases (e.g. tin).

In the first four months of 1961 raw-material prices in general became somewhat firmer; they did not, however, maintain their gains and most prices turned softer from May onwards, with only slight fluctuations between then and the end of April 1962. The latent pressure on the markets has continued despite sustained demand.

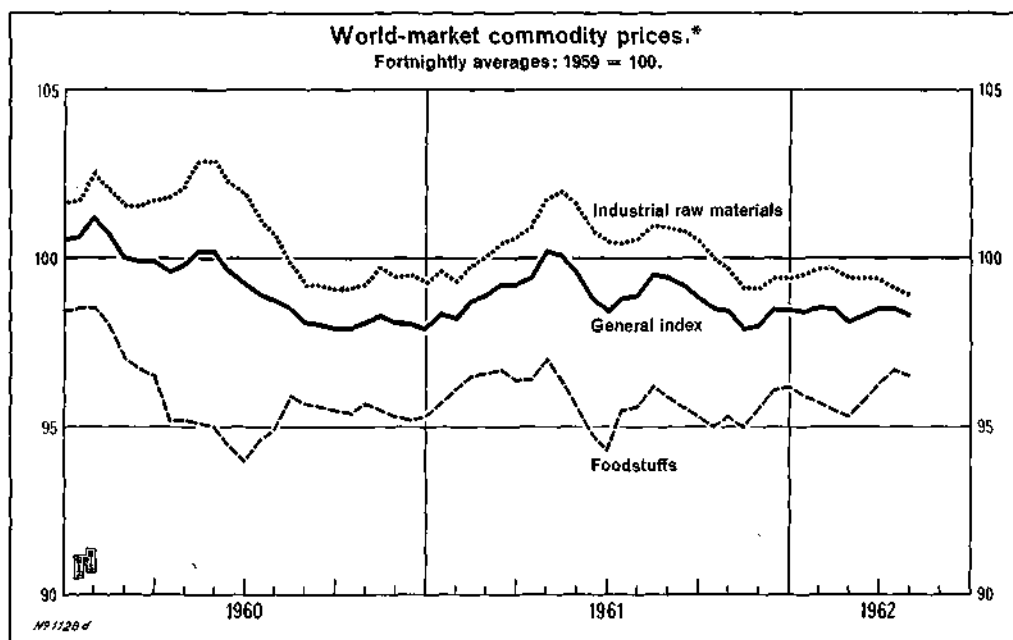
World-market commodity prices.*

Commodity groups	Percentage changes during			
	1959	1960	1961	1962 January to April
Cereals	- 1.9	- 0.2	+ 5.8	+ 2.1
Beverages	- 11.8	- 4.5	- 7.7	- 1.0
Meat	- 7.5	+ 11.0	- 1.8	+ 0.6
Fats	+ 12.7	- 15.5	- 2.8	- 1.3
Oilseeds	+ 1.1	- 9.7	+ 5.3	- 1.5
Hides and skins	+ 13.7	- 18.3	+ 11.6	- 4.7
Textiles	+ 6.7	+ 0.7	- 1.2	- 0.1
Coal	- 8.1	+ 0.1	+ 0.3	- 0.1
Iron and steel	- 0.8	- 2.4	+ 2.3	- 3.5
Non-ferrous metals	+ 7.6	- 6.5	+ 5.8	- 0.1
Rubber	+ 37.3	- 27.1	- 6.0	+ 0.3
Foodstuffs	- 3.0	- 3.1	+ 1.0	+ 0.3
Industrial raw materials	+ 5.2	- 2.3	+ 0.1	- 0.4
Total	+ 2.5	- 2.6	+ 0.5	- 0.2

* Schulze's Index.

Prices of foodstuffs increased by just 1 per cent., while those of industrial raw materials showed virtually no change. In 1960 the prices of both these groups had moved downwards.

The prices of cereals advanced by nearly 6 per cent., most of the rise occurring in the second half of the year. Those of oilseeds and vegetable oils increased by almost the same percentage but weakened during the second half of the year. Prices of beverages (coffee, cocoa, tea, etc.) fell by nearly 8 per cent. Meat and animal fats became cheaper by 2 and 3 per cent. respectively; prices of fats, however, moved upwards again towards the end of the year.



Among industrial raw materials, hides and skins rose most, namely by about $11\frac{1}{2}$ per cent. Metals, both ferrous and non-ferrous, showed a distinct gain, making up part of the loss suffered in 1960. Prices of textile fibres declined by 1 per cent., and rubber went down by 6 per cent.

Prices for foodstuffs.

Wheat. Demand for wheat and for cereals in general increased again in 1961 and prices rose. The world harvest fell by about 4 per cent. over the year, from 244 to below 235 million tons; output in the West diminished from 142 to 130 million tons, or by $8\frac{1}{2}$ per cent. The U.S. crop also declined by 9 per cent. and that in Canada was nearly halved as a result of drought. Western Europe's import requirements increased, as its harvest, although of better quality, was smaller than in the preceding years. China, owing to severe crop failures since 1959, had imports of wheat in 1961 of about 5.5 million tons. They will remain high in 1962 and probably also in 1963 even if crops improve, as restocking will be necessary. Total world exports of wheat have gone up from 36 to 41 million tons and are expected to rise still further in the current year. At the same time wheat stocks may be reduced.

Oils and fats. Harvest failures in China have also reduced the amount of exportable food, not least oilseeds and oils. The price of soya-bean oil was the first to rise and other oils and fats followed suit, but as supplies proved to be adequate soya beans, groundnuts and other seeds, together with their oils, cheapened again. The price of copra remained depressed. The demand

Changes in the prices of major commodities.

Commodities	Markets	Percentage changes during				1961 percentage difference of high over low
		1959	1960	1961	1962 January to April	
Materials of industrial origin						
Crude oil	Bradford, Pa.	+ 8.6	+ 9.1	- 3.6	0.0	3.7
Crude oil	Venezuela	- 8.2	0.0	0.0	0.0	0.0
Coal	United States	- 1.6	- 0.8	- 0.9	+ 0.1	0.9
Copper	London	+ 15.6	- 9.6	- 0.5	+ 1.9	15.0
Tin	London	+ 4.3	+ 0.8	+ 19.3	0.0	27.2
Lead	New York	- 3.7	- 9.1	- 9.9	- 7.3	10.0
Zinc	St. Louis	+ 9.7	- 4.0	0.0	- 4.0	4.3
Steel bars	Antwerp	+ 15.6	- 4.8	- 9.9	- 11.2	22.3
Steel, section	Pittsburgh	0.0	0.0	- 4.2	0.0	4.4
Steel scrap	Pittsburgh	- 1.0	- 35.0	+ 32.5	- 12.2	33.3
Aluminium ingots	United States	+ 4.9	0.0	- 7.7	0.0	8.3
Mercury	New York	- 2.8	- 2.4	- 9.1	+ 1.1	11.2
Rubber, synthetic	New York	0.0	0.0	0.0	0.0	0.0
Rayon yarn	New York	+ 7.9	0.0	0.0	0.0	0.0
Rayon staple	New York	+ 6.5	- 15.2	- 3.6	0.0	3.7
Materials of agricultural origin						
Wool	Melbourne	+ 21.8	- 19.7	+ 19.8	+ 0.3	22.2
Cotton	New York	- 7.7	- 2.3	+ 8.3	+ 2.2	10.5
Cotton	Alexandria	+ 8.6	- 8.1	- 5.6	- 1.6	15.1
Jute	London	+ 7.6	+ 85.2	- 28.4	- 13.2	71.5
Sisal	London	+ 25.6	+ 6.1	- 15.9	+ 10.7	28.8
Hides	Chicago	+ 20.0	- 15.0	+ 17.6	- 6.9	32.7
Rubber	Singapore	+ 40.5	- 26.6	- 9.5	+ 0.9	23.4
Wood-pulp	Sweden	- 5.1	+ 5.2	- 3.7		6.0
Foodstuffs						
Wheat	Winnipeg	+ 1.2	+ 0.6	+ 13.3	+ 1.6	13.3
Maize	New York	- 4.5	- 4.7	+ 4.5	+ 2.1	13.7
Sugar	New York	- 15.9	+ 2.3	- 18.5	+ 4.3	40.7
Cocoa	New York	- 24.5	- 19.0	+ 2.4	- 20.3	42.5
Coffee	New York	- 14.8	+ 1.7	- 5.8	0.0	12.6
Copra	London	- 3.4	- 27.4	- 8.7	+ 5.2	14.1
Soya beans	Chicago	- 0.2	+ 2.9	+ 10.6	+ 2.7	54.7
Cotton oil	New York	- 14.9	+ 10.0	+ 18.9	- 3.5	29.4
Lard	New York	- 24.5	+ 30.2	- 12.6	+ 7.6	58.0

for these tropical fats and oils has been kept down by the increased production and consumption of butter.

Sugar. The world sugar crop, which reached the record level of 57 million tons in 1960-61, declined by 6 per cent. in 1961-62, but still exceeded consumption by a wide margin. The two major market factors were the supply situation and the conflict between Cuba, the biggest producer, and the United States, the biggest importer. Prices first rose — from 2.95 cents per lb. in January 1961 to 3.42 cents in May — but subsequently slumped, reaching their lowest post-war level, 2.05 cents per lb., at the end of January 1962. The London price fell from over £30 to less than £20 per long ton. Since then prices have recovered to last autumn's level of about £24 per long ton, partly because Cuba's sales for the current season have ceased as its supplies are exhausted.

Coffee. The 1960-61 coffee crop fell to 4 million tons, or by 16 per cent.; nevertheless, surpluses were not significantly reduced. Coffee stocks at the end of last season had risen to 3.8 million tons. They may increase further, as a crop of 4.4 million tons is expected for the season 1961-62 and the growth of consumption has long been lagging behind the continuous expansion of production. Whereas prices were depressed though fairly stable in the first half of 1961, they fell during the second half from about 38 to 34 U.S. cents per lb. (New York, Santos 4), at which level they remained until the end of April this year.

Cocoa. Prices for cocoa, which were fairly stable in 1960, fluctuated in 1961. The decline began in October 1960 and continued until March 1961, when prices were at their lowest level since 1947. From May to October 1961 they remained steady but then suddenly increased until the end of November, after which they fell back to about the same level as in the previous year. Here, too, abundant supply was the operative factor. The world crop for 1960-61 once more exceeded the million-ton level and set a new record of 1.17 million tons. Consumption is rising; it approached the million-ton mark in 1961 and for 1962 may be 1.08 million tons.

Prices for industrial raw materials.

Textile fibres. Demand for textile fibres has recently been quite keen in the United States — the most important consumer country. Overall consumption of wool, cotton and man-made fibres, which fell during 1959 and 1960, rose again throughout 1961 and by autumn had regained the level at which it stood in the spring of 1959. Europe, Japan and the eastern-bloc countries were heavy buyers of wool. Quotations for the cheaper qualities were on the average fairly stable, but those for the more expensive qualities fluctuated more. As in the case of most other raw materials, their prices rose until May 1961 but subsequently (i.e. in the first half of the current wool season) declined until the beginning of 1962, when they recovered most of their loss owing to a revival of purchases by eastern European countries and China, as well as by the E.E.C. countries and Japan. Supply and demand are at present practically in balance.

Prices for cotton strengthened in 1961 from quarter to quarter, one of the reasons being the new support and export programme of the United States for the 1961-62 crop. Supply and demand in the western countries had been more or less balanced in 1960-61; for the 1961-62 season the quantities available contracted owing to a smaller crop in India and Egypt, but the supply situation was unaffected. The West continues to be a net exporter of cotton to the eastern countries.

The situation for industrial fibres appears to be somewhat different. The bad jute harvest of 1960-61 caused prices to rocket. The price for L.J.A. Firsts soared in 1960 from £98 per ton at the beginning of the year to over £200

at the end; early in 1961 the record price level of £211 per ton was reached. The normal harvest which followed gradually brought the price down and, with the current harvest expected to rise sharply, in mid-May 1962 it had fallen to £105. Prices for sisal drifted consistently downwards in 1961. In November, however, a recovery set in, based on expectations of a fall in production; flood damage in East Africa has had a serious effect on the sisal harvests in Kenya and Tanganyika, which account for about two-fifths of world output.

Rubber. Rubber prices, which had fallen steeply in 1960, experienced some fluctuations in 1961. Until October 1961 quotations generally exceeded 24d. per lb., but from then until April 1962 they were frequently below that level. Consumption of natural rubber seems at present to be on a plateau, while supplies (including strategic-reserve releases) are still increasing. But, above all, the effect of the growing consumption of synthetic rubber is being felt. Not only is synthetic rubber competitive in price — and becoming increasingly competitive in quality — but its output is far more flexible.

Tin. Tin is another typical agreement commodity; its price curve, however, differs from that of other materials. After having remained fairly steady for some years, the price suddenly began to climb steeply in 1961, rising by about 25 per cent. from £780 to nearly £1,000 per ton, its highest level since 1952; in the spring of 1962 a reverse set in.

Tin has for some time now been the only product whose output, owing to the restrictive policy of the industry, has remained substantially below consumption. This is the case in the West at least, where, despite the lifting of restrictions, only about 136,000 long tons were produced last year, while 161,000 tons were consumed. The deficiency was covered by imports from the East and releases from stockpiles. Production is expected to rise in 1962 and consumption to remain unchanged, but it is estimated that there will still be a deficiency of about 12,000 tons. The gap can only be filled by releases from the large U.S. stockpile, which consisted at the end of 1961 of 349,000 tons. This figure has recently been revealed to be 164,000 tons in excess of the target. The contemplated release of some 50,000 tons of U.S. stockpile tin would normalise supplies and prices.

Lead and Zinc. Conditions have been equally unsatisfactory for lead and zinc. Their prices, which had fallen in 1960, continued to recede in 1961. In the case of lead considerable over-production has exerted pressure on the market, while the high prices that have obtained for some years have induced consumers to seek substitutes. Output of zinc, too, was considerably in excess of consumption last year. Sales from the East, in particular from the U.S.S.R., had a marked effect on markets. The price of zinc fell continuously from April until November, dropping from about £84 to £68 per ton; from then until May 1962 it remained more or less stationary. The price of lead moved in a similar way; in November 1961 it reached its lowest point for fifteen years at about

£60 per ton, and it remained at approximately that level until May 1962. The only solution proposed by the International Lead and Zinc Study Group for this problem of falling prices is a more restrictive production policy.

Copper. Restriction also seems to be the watchword for copper. At the end of 1960 leading copper producers, including Katanga and Northern Rhodesia, had agreed to limit output and supply. Nevertheless, in 1960 and 1961 production reached new peaks, far above the level of consumption, although this too had been rising. It is true that in 1961 losses due to strikes and political unrest in important production centres led to sporadic price recovery, but these reactions were much more limited than they would have been in similar circumstances only a few years earlier. Copper prices followed the general trend of commodities in 1961, rising until May by some 15 per cent., i.e. from £218 to £248 per ton, then declining to £230. There has been little change since.

Petroleum. Consumption of petroleum and petroleum products expanded significantly in all regions in 1961; in western Europe alone it rose by 13 per cent. Nevertheless, higher output in the West and increased Soviet exports sharpened competition and intensified the pressure on prices. Since 1960 posted prices have remained more or less unchanged. Generally speaking, weighted world-market prices for oil and its derivatives fell by some 2 per cent. in 1961 and the price decline thus continued.

Commodity agreements.

Remedies for the situation which prevails in respect of certain commodities have been sought in various kinds of international agreements to stabilise prices. But for the most part these endeavours were again unavailing last year, though a few limited arrangements were made.

Early in March 1962 a new wheat agreement, the fifth, was signed for the period August 1962 to July 1965. In accordance with current market conditions, this raised the quotations for wheat by 12.5 cents per bushel, so that they now range from \$1.625 to \$2.025 (for the basic quality Northern I Manitoba).

For tin, too, the prices under the current agreement have been adapted to prevailing conditions by the Tin Council, which on 12th January 1962 raised the range from £730-880 to £790-965 per ton. This revision will have no immediate effect on buffer-stock operations, since the pool is empty.

The current sugar agreement came into force in January 1959 and is valid until the end of 1963. Three conferences held at the end of 1961 and in the spring of 1962 ended inconclusively, no compromise on the disputed basic export quotas being achieved, and the regulation of the world's "free market" for sugar was thus terminated.

Coffee is the product constantly in surplus supply. On 1st October 1961 the current coffee agreement was renewed for another year. This agreement regulates exports and is adhered to by twenty-eight American and African producer countries, which account for 90 per cent. of world crops and 95 per cent. of world exports. In the face of chronic over-production, this agreement, too, was only moderately successful, and early in 1962 a further agreement was drafted in Washington in an attempt to remedy the situation. Under this the consumer countries would be obliged to limit imports from non-member countries.

IV. WORLD TRADE AND PAYMENTS.

World trade.

The expansion of world trade, which had been very rapid in 1960, slowed down to a rate of 4 per cent. last year, corresponding exactly to the average rate of growth for the last decade. With regard to the trend in the course of the year, as compared with the corresponding quarters of 1960, there was a quickening of expansion in the first three quarters and a levelling-off in the fourth quarter.

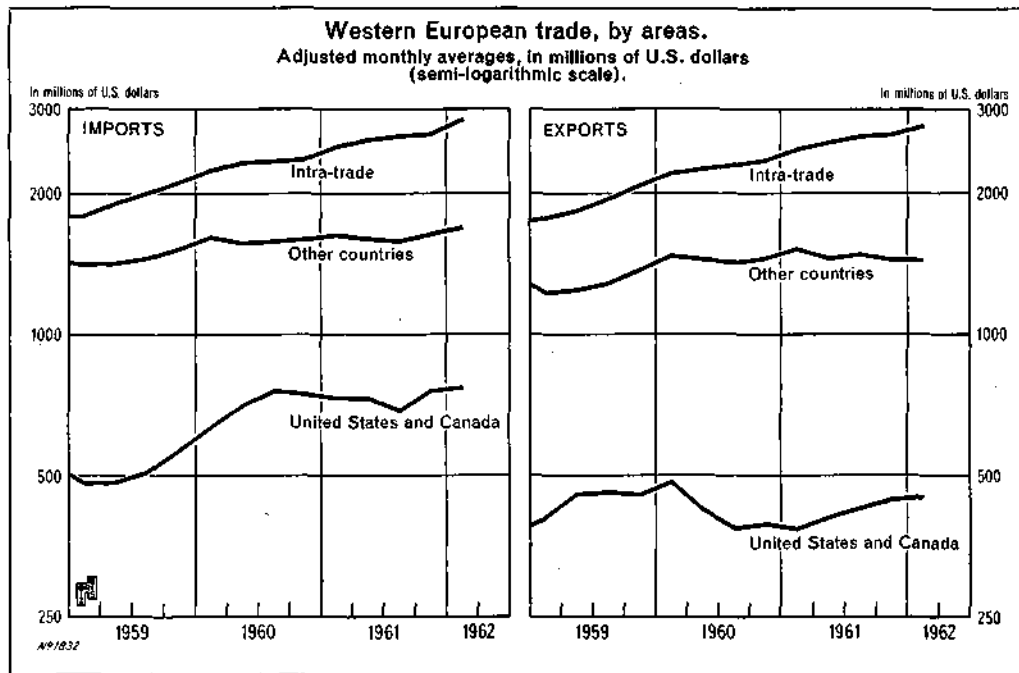
International trade, by areas.

Areas	Trade turnover				Annual rates of growth		
	1951	1959	1960	1961	1952-61	1960	1961
	in milliards of U.S. dollars				in percentages		
Developed areas							
Western Europe							
E.E.C.	29.0	49.6	59.3	64.5	8.3	19.7	8.6
E.F.T.A.	29.7	37.1	41.8	43.1	3.7	12.6	3.2
Other countries	5.3	7.0	8.0	8.8	5.0	13.8	10.9
Total for western Europe	64.0	93.7	109.1	116.4	6.1	16.5	6.7
United States and Canada	35.1	46.1	48.6	49.3	3.4	5.4	1.5
Japan	3.4	7.1	8.5	10.1	11.4	21.1	17.6
Australia, New Zealand and South Africa	8.0	8.3	9.3	9.3	1.5	11.2	0.4
Total for developed areas	110.5	155.2	175.5	185.1	5.2	13.1	5.5
Developing areas							
Latin America	18.1	19.5	20.2	20.9	1.4	3.4	3.2
Other areas	30.2	33.8	36.9	36.5	1.9	9.4	- 1.2
Total for developing areas	48.3	53.3	57.1	57.4	1.7	7.2	0.5
World total	158.8	208.5	232.6	242.5	4.3	11.6	4.3

In all areas the rate of growth was lower than in 1960. Among developed countries, Japan's trade expanded most. In western Europe the E.E.C., as in previous years, showed a high rate of expansion. The trade of E.F.T.A. countries rose by only 3 per cent., declining imports into the United Kingdom exerting a retarding influence.

In 1960 the 5 per cent. increase in the value of trade of the United States and Canada was the result of a steep rise in U.S. exports, partly offset by a decline in imports. In 1961 exports rose slightly, imports remaining practically unchanged.

In the primary-producing areas the rates of growth fell sharply in 1961, and in some countries trade actually declined. However, in terms of volume,



exports from developing countries increased by some 4 per cent. although part of the rise was offset by a fall in prices. Imports remained fairly stable in both volume and value. While the terms of trade of developing areas once more deteriorated somewhat, those of developed areas continued to improve slightly.

The value of western Europe's imports and exports increased by 6.5 and 7 per cent. respectively in 1961. These rates, while lower than the exceptional ones of 18 and 14.5 per cent. in 1960, maintained the tendency for western European trade to grow faster than production. In contrast with 1960, when both intra-European imports and those from the rest of the world moved in line, the former rose by 12 per cent. in 1961, while the latter remained almost stationary. Exports to the rest of the world, which had gone up by 9 per cent. in 1960, hardly increased in the following year, so that practically the whole of western Europe's trade expansion took place within western Europe itself. The overall stability of trade with other areas conceals divergent movements vis-à-vis individual countries, among which a rapid growth of trade with eastern European countries and Japan is noteworthy, though in value such trade represented only 8 and 2 per cent. respectively of total trade with countries outside western Europe. Western European imports from the United States, which had risen steeply in 1960 when the boom was in full swing, remained stable last year (higher imports of machinery and food compensating lower imports of aircraft and raw materials). Exports to the United States, which, particularly in the case of iron and steel products, machinery and vehicles, were for the year as a whole below their 1960 level, recovered in the course of 1961. U.S. imports of motor-cars from Europe, which had fallen by one-third in 1960, declined by a further 50 per

cent. in the first nine months of 1961. Although all exporting countries were affected, U.K. manufacturers were particularly hard hit, their sales declining by 70 per cent. for the year as a whole.

The trend of western Europe's trade during 1961 shows for imports a rise in the first quarter, a falling-off in the middle of the year and a subsequent recovery, which seems to have levelled out in the first quarter of 1962. Exports, on the other hand, increased throughout most of 1961, flattened out towards the end of the year and turned upwards again in the first quarter of 1962, when they stood 6 per cent. above the previous year's level. Intra-European trade, which represents roughly half the value of western European trade, rose during the first half of the year and levelled off in the second. Exports to the United States and Canada rose fairly steadily throughout 1961; imports recovered after a dip in mid-year but had by the fourth quarter only regained the level of a year earlier. As for trade with other countries, imports remained stable, while exports showed a slight decline.

European Economic Community.

As already mentioned in Part I, the E.E.C. moved to its second four-year stage on 1st January 1962. The main implications of this move are summarised below.

Whereas prior to 1st January 1962 all Council decisions required unanimity, in the second stage some decisions need only a majority, or a qualified majority.

With regard to trade, (1) tariffs between members of the Community will be reduced by 10 per cent. on 1st July 1962, when they will amount to one-half of their initial level (further reductions will take place on or before 31st December 1964 and 31st December 1965); (2) a second adjustment of 30 per cent. towards the creation of a common external tariff will be made by the end of the second stage at the latest; and (3) export duties and taxes and quantitative restrictions on exports have to be abolished immediately.

The advance to the second stage on the road to economic integration was made possible by the agreement on agricultural policy which the member countries reached at the end of 1961. The Council of Ministers adopted in January 1962 an agricultural code with general rules applicable to all products and detailed regulations for a number of important commodities. A common market in agricultural products is to be established gradually over a period of not more than seven and a half years from mid-1962, when the first measures come into force.

Marketing boards are to be set up at once for the following products: cereals, pig meat, eggs, poultry, fruit and vegetables, and wine. Later on similar boards will be created for beef, sugar, dairy produce, rice and potatoes. For the first four groups of commodities a system of variable levies, corresponding to the difference between domestic and import prices,

will replace the present nationally-imposed tariffs, quotas and minimum prices. During the transitional period there will also be levies on imports from other members of the Community. These levies will be lower than those on imports from third countries.

Producers of cereals will also benefit from price guarantees geared to so-called basic target prices. During the transitional period these will be determined by and for each country; by the end of the period a single target price will apply throughout the whole of the Community. Actual prices will fluctuate around the target price, depending on supply and demand conditions and taking into account regional differences. Since imports are not (except under the safeguard clause) subject to quantitative restrictions, the target price is in fact a maximum. On the other hand, prices cannot fall below the level of the intervention price (i.e. the target price reduced by at most 10 per cent.) at which the marketing board buys any surplus production.

For fruit and vegetables and wine there will be no levies. Liberalisation of trade in these commodities will be subject to quality standards and there will be tariffs on non-member countries' produce.

An Agricultural Fund is to be set up in the course of 1962. For the first three years the Fund's resources will for the most part be directly contributed by member countries. Its main purpose is to finance interventions by the different marketing boards, help in selling surpluses outside the Common Market area at world-market prices and finance structural improvements in production and marketing.

The move to the second stage will also enable steps to be taken with a view to combating cartels, to allowing free migration of labour and free access to non-salaried employment within the Community and to adjusting women's to men's wages.

Balances of payments.

The United States. The U.S. balance-of-payments deficit in 1961 amounted to \$2.5 milliard — an improvement of \$1.4 milliard on the previous year. On current account the surplus rose by \$1 milliard, thanks to higher exports and invisible receipts and to lower imports. The net outflow from unilateral transfers and long-term capital hardly changed, an increase in government loans and grants being balanced by larger loan repayments from foreign governments. On short-term capital account and in respect of unrecorded transactions net out-payments were \$0.2 milliard below their 1960 level.

The deficit on current and long-term capital account was \$0.6 milliard for the year, this figure being the net product of two contrasting periods. During the first half of the year there was a surplus of \$0.9 milliard, as imports were low and \$0.7 milliard of advance loan repayments was received from foreign governments (chiefly Germany). In the absence of the latter and with the higher imports called forth by the upswing, a deficit of \$1.5 milliard was recorded for the last six months.

United States: Balance of payments.

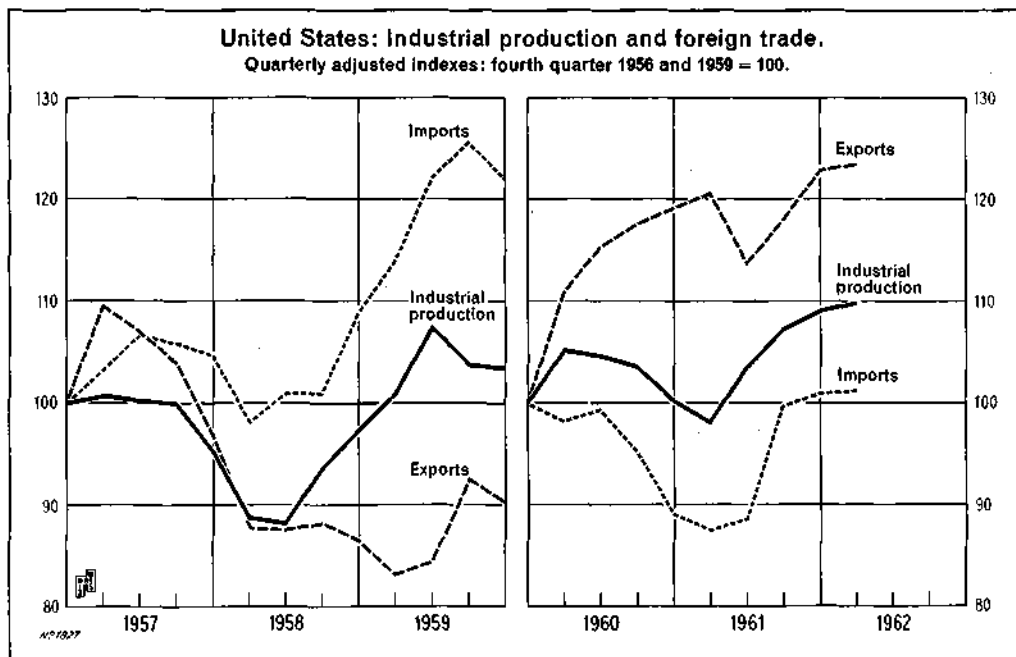
Items	1960		1961	
	1st half	2nd half	1st half	2nd half
seasonally adjusted, in milliards of dollars				
Trade and services				
Commercial exports	8.7	8.9	8.8	8.8
Aid-financed exports	0.8	1.0	1.0	1.3
Commercial imports	- 7.6	- 7.1	- 6.8	- 7.7
Balance of trade	+ 1.9	+ 2.8	+ 3.0	+ 2.4
Balance of services ¹	+ 0.5	+ 0.6	+ 0.8	+ 0.7
Current balance	+ 2.4	+ 3.5	+ 3.8	+ 3.1
Main government transactions				
Military expenditure, less receipts	- 1.3	- 1.4	- 1.3	- 1.3
Government loans and economic grants	- 1.6	- 1.8	- 1.8	- 2.3
Repayments on government loans	+ 0.3	+ 0.3	+ 1.0 ²	+ 0.3 ³
Total	- 2.6	- 2.8	- 2.1	- 3.2
Private long-term capital (net outflow -)				
U.S. capital	- 1.1	- 1.5	- 1.2	- 1.4
Foreign capital	+ 0.3	- 0.0	+ 0.3	+ 0.1
Total	- 0.8	- 1.5	- 0.9	- 1.3
Balance on current and long-term capital account	- 1.0	- 0.9	+ 0.9	- 1.5
Short-term capital (net outflow -)	- 0.3	- 1.1	- 0.5	- 0.7
Unrecorded payments, errors and omissions	- 0.1	- 0.5	- 0.5	- 0.1
Overall balance, seasonally adjusted	- 1.4	- 2.5	- 0.2	- 2.3
Overall balance, unadjusted for seasonal variations	- 1.5	- 2.4	- 0.3	- 2.2
Corresponding to				
Changes in liquid liabilities (increase -)	- 1.4	- 0.8	- 0.3	- 1.5
Changes in gold and convertible currency holdings (sales -)	- 0.1	- 1.6	- 0.0	- 0.7
Total	- 1.5	- 2.4	- 0.3	- 2.2

¹ Including pensions, remittances and non-military government services. ² Including prepayments from Germany (\$587 million), the Netherlands (\$40 million) and the Philippines (\$20 million). ³ Including a prepayment from Italy of \$40 million.

Exports went up by \$500 million during 1961. This was entirely accounted for by higher sales financed by government grants or loans, from which no net benefit accrued to the balance of payments. Aid-financing is especially important for agricultural exports, as much as 30 per cent. of food exports being paid for in this way. In all, aid-financed exports came to 9 per cent. of the total in 1960 and to 11.5 per cent. last year. Imports rose, following the economic recovery at a distance of about five months, from an annual rate of \$13.6 milliard to one of \$15.5 milliard between the first and second halves of the year. During the latter half there were large deliveries of industrial materials and manufactured goods, including commercial aircraft.

The development of the trade balance during the latest downward and upward swings of the cycle can be seen in the table. The connection between

imports and business activity is obvious and requires no special comment. For exports, the level of overseas demand is the decisive factor; in 1960 this had been particularly high, so that both components of the trade balance improved simultaneously. Last year the upswing in the United States coincided with lower expansion rates in Europe, and as a result imports rose while exports were stable. Comparing the latest cycle with its predecessor, one finds that in 1957-58 the decline in imports was 8 per cent. and that in industrial production 12 per cent., while the increases in the upswing were 28 and 22 per cent. respectively. In 1960-61 imports fell by 12 per cent. and production by 7 per cent.; in the subsequent recovery imports rose by 16 per cent. and production by 12 per cent.



As part of the aftermath of Suez, exports declined more than imports in 1957-58 and continued to fall when imports revived. Consequently, the trade surplus of \$1.8 milliard for the first quarter of 1957 had been nearly wiped out by the second quarter of 1959. Following their rise in 1960, the stability of exports last year meant that the decline in the trade surplus between the first and last quarters of 1961 was only \$400 million.

In a longer perspective, U.S. imports have developed in line with consumers' expenditure (excluding services) and investments, of which they represented 5.5 per cent. in both 1952 and 1961. In relation to the gross national product they fell somewhat, as the share of services therein rose. Over the last decade imports have increased by 35 per cent. and exports by 52 per cent.

The balance on services account, excluding military items, improved from a surplus of \$1.1 milliard to one of \$1.5 milliard. This resulted from an

increase in private investment income from \$2.9 to 3.3 milliard, perhaps partly due to expectations that a law might be passed subjecting unremitted earnings abroad to taxation in the United States.

Net military expenditure abroad was running at the same level as in 1960. New loans and grants by the U.S. Government rose (parallel with aid-financed exports) by \$0.5 and 0.2 milliard respectively, and together amounted to just over \$4 milliard, of which loans accounted for slightly more than half. This increase reflects in part the beginning of disbursements under the Alliance for Progress programme announced in March 1961, under which U.S. aid to Latin America has been considerably stepped up. The increase in new loans and grants in 1961 was exactly offset by prepayments of debt to the United States by foreign governments. The most important of these was one of \$587 million by western Germany; Italy, the Netherlands and the Philippines also prepaid debt to a total of \$100 million.

The outflow of private long-term capital from the United States continued at the rate of about \$2.5 milliard a year which has been maintained since 1956. There was hardly any change in its composition between 1960 and 1961, direct investment having dropped from \$1.7 to 1.6 milliard, while purchases of foreign securities by U.S. residents went up from \$0.2 to 0.3 milliard. There was, however, a change in the geographical distribution of direct investment. Investment in western Europe fell by \$300 million — roughly the size of the 1960 Ford investment — and in Canada by nearly \$200 million. In the rest of the world it rose by \$400 million, from \$250 to 650 million; of this increase \$100 million represented investment in Latin America.

Foreign investment in the United States — other than in liquid dollar assets — was \$0.4 milliard higher in 1961. The most important change here, however, was in foreign commercial credits (mainly from Europe) to U.S. firms, which, after having declined by \$100 million in 1960, rose by about \$150 million last year.

Altogether the current and long-term capital account produced a deficit of \$0.6 milliard — \$1.3 milliard less than in 1960. The remaining improvement in the overall balance of payments came from a small decline in the net outflow of short-term capital, which at \$1.2 milliard was not far short of its 1960 level and far greater than in any other previous year. The main element in the outflow was U.S. financing — chiefly by banks — of the country's own foreign trade and of other international trade. In 1961 the biggest items under this heading were rises of \$640 million in the short-term claims of U.S. banks on Japan and \$300 million in the claims of non-financial U.S. concerns in Canada.

Half of the U.S. balance-of-payments deficit in 1961 occurred in the last quarter, when the figures were affected by certain special transactions. The United States paid its subscriptions, of \$110 and 62 million respectively, to the Inter-American Development Association and the International Development Association. In addition, there were private bank loans of

\$150 million to Japan and over \$100 million to the Philippines and a very short-term outflow of some \$100 million, which was reversed at the beginning of 1962.

In the first quarter of 1962 the overall deficit was reduced to \$450 million, against \$1.5 milliard in the previous quarter. (In the first quarter of 1961 the deficit had amounted to \$340 million.) The improvement seems to be attributable to a decline in the outflow of short-term funds. The balance of trade deteriorated somewhat.

European O.E.C.D. countries. The combined surplus on current and long-term capital account of European O.E.C.D. countries declined from nearly \$1.1 milliard in 1960 to \$800 million in 1961, the change being due equally to a reduction in the current surplus and a larger net outflow of long-term capital. The current balance deteriorated by \$145 million, as a decline in net receipts from invisibles more than offset a reduction in the trade deficit.

The major shifts that occurred in 1961 were a deterioration of \$1.3 milliard in the German balance on current and long-term capital account, which switched from a surplus to a deficit, and a reduction of \$1.2 milliard in the U.K. deficit. Other important movements were recorded for Belgium, France and Italy, which increased their surpluses, and for Portugal and Switzerland, which increased their deficits. In the Netherlands a substantial surplus was practically eliminated.

The balance of trade worsened in eleven countries by a total of \$1.4 milliard, Switzerland, the Netherlands and Spain accounting for over 60 per cent. of the deterioration. In the first two countries a very high level of economic activity pushed up imports, while in Spain poor crops and the replenishment of stocks worked in the same direction. Nearly half of the improvement of \$1.6 milliard for the remaining six countries was accounted for by a reduction in the U.K. deficit, while the German and French export surpluses rose by \$400 and 300 million respectively. Both higher exports and lower imports combined to cut the U.K. deficit, while a greater rise in exports than in imports boosted the export surplus in France and Germany. In Sweden and Austria a similar movement reduced the import surplus.

The decline in total net receipts from invisibles reflects, *inter alia*, the increase in German interest and dividend payments outside Europe and higher government expenditure in overseas countries by the United Kingdom.

The net outflow of long-term capital increased by \$135 million in 1961. This was the result of widely divergent movements, of which the most important were a rise of nearly \$1 milliard in the net German outflow and a shift of \$600 million in the U.K. account, a net outflow of \$565 million in 1960 having been converted into a small net inflow, owing chiefly to increased portfolio and direct investment by foreigners.

Other noteworthy changes in the capital account were a turn-about of \$285 million from a net outflow to a net inflow in Belgium, a change of

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

Countries	Years	Balance of trade (f.o.b.)	Net invisible items ¹	Balance on current account	Net inflow (+) of long-term capital	Balance on current and long-term capital account
in millions of U.S. dollars						
Belgium-Luxemburg. . .	1960	- 40	+ 150	+ 110	- 70	+ 40
	1961	- 115	+ 205	+ 90	+ 215	+ 305
France	1960	+ 90	+ 545	+ 535	- 50	+ 585
	1961	+ 400	+ 530	+ 930	- 80	+ 850
Germany	1960	+ 1,245 ²	- 200	+ 1,045	- 70	+ 975
	1961	+ 1,840 ²	- 910	+ 730	- 1,080	- 330
Italy	1960	- 1,015 ²	+ 1,290	+ 275	+ 165 ³	+ 440
	1961	- 1,085 ²	+ 1,450	+ 365	+ 215 ³	+ 580
Netherlands	1960	- 105	+ 455	+ 350	+ 60	+ 410
	1961	- 375	+ 540	+ 165	- 155	+ 10
Total for E.E.C. . . .	1960	+ 175	+ 2,240	+ 2,415	+ 35	+ 2,450
	1961	+ 465	+ 1,815	+ 2,280	- 865	+ 1,415
Austria	1960	- 265 ²	+ 180	- 85	+ 25 ³	- 60
	1961	- 260 ²	+ 235	- 25	+ 120 ³	+ 95
Denmark	1960	- 210	+ 150	- 60	+ 55	- 5
	1961	- 225	+ 140	- 85	-	- 85
Norway	1960	- 585 ²	+ 460	- 125	+ 90 ³	- 35
	1961	- 695 ²	+ 480	- 215	+ 200 ³	- 15
Portugal	1960	- 175	+ 70	- 105	+ 5	- 100
	1961	- 320	- 15	- 335	- 15 ⁴	- 350
Sweden	1960	- 335	+ 220	- 115	+ 15	- 100
	1961	- 180	+ 230	+ 50	- 0	+ 50
Switzerland	1960	- 380 ²	+ 455	+ 95	- 320	- 225
	1961	- 660 ²	+ 475	- 185	- 460	- 645
United Kingdom	1960	- 1,095	+ 290	- 805	- 565	- 1,370
	1961	- 375	+ 180	- 195	+ 20	- 175
Total for E.F.T.A. . .	1960	- 3,025	+ 1,825	- 1,200	- 695	- 1,895
	1961	- 2,715	+ 1,725	- 990	- 135	- 1,125
Greece	1960	- 265	+ 205	- 60	+ 45	- 15
	1961	- 350	+ 285	- 65	+ 95	+ 30
Iceland	1960	- 15	+ 5	- 10	+ 20 ³	+ 10
	1961	- 0	+ 5	+ 5	+ 5 ³	+ 10
Ireland	1960	- 205 ²	+ 205	- 0	- 5	- 5
	1961	- 230 ²	+ 230	- 0	+ 40	+ 40
Spain	1960	+ 55	+ 305 ⁵	+ 360	+ 160	+ 520
	1961	- 260	+ 425 ⁵	+ 165	+ 235	+ 400
Turkey	1960	- 150 ²	+ 10	- 140	+ 140	+ 0
	1961	- 165 ²	- 10	- 175	+ 190	+ 15
Grand total	1960	- 3,430	+ 4,795	+ 1,365	- 300	+ 1,065
	1961	- 3,255	+ 4,475	+ 1,220	- 435	+ 785

¹ Including donations. ² Imports c.i.f. included in capital account. ³ Total capital. ⁴ First half at annual rate. ⁵ Public transfers

\$215 million in the opposite direction in the Netherlands, a rise in the net outflow from Switzerland and a rise in the net inflow into Austria, Norway and Spain. The Belgian inflow seems to be mainly the result of larger direct investments, while the Dutch outflow is connected with the reopening in April 1961 of the capital market to foreign issues, which amounted to \$150 million in that year. Switzerland continued to favour the export of long-term capital, and there was a significant rise in both foreign issues and bank credits, to which must be added credits granted by the Confederation to the

United Kingdom and to the International Bank for Reconstruction and Development. In all, the net capital outflow was \$140 million larger than in 1960.

In both Austria and Norway the capital inflow exceeded the 1960 level by \$100 million. In each of the two countries the rise was due mainly to heavy borrowing abroad, though in the case of Austria direct investments also played a part. In Spain an increase in the inflow of private capital (repatriations and loans) more than offset a drop in receipts of official capital and in transfers (the latter being included in capital movements) following the cuts made in U.S. aid.

The favourable payments positions obtaining in several countries enabled them to make prepayments of debt during 1961 amounting in all to \$1.2 milliard, of which \$500 million went to European countries and \$700 million to the United States. The most important individual transactions were the German payments of \$587 million to the United States and \$189 million to the United Kingdom and the French payments of \$141 million to Germany and \$76 million to the United Kingdom. These together accounted for over 80 per cent. of the total.

The United Kingdom. The balance on current and on long-term capital account showed a decisive improvement in 1961. On current account the change was due both to falling imports and to rising exports; on capital account special receipts turned the 1960 net outflow into a small net inflow. The trade deficit amounted to £112 million in the first half of 1961 but narrowed to £23 million in the second half, the current deficit being consequently reduced from £60 to 10 million.

The total decline in imports, at c.i.f. values, was £140 million. Despite a rather higher level of production than in 1960, imports of basic materials and semi-manufactured goods were £138 million down — a lower level of stock-building having reduced their volume by 7 per cent. Imports of food, drink and tobacco also fell, by £54 million; this was entirely due to a 3½ per cent. drop in their prices, the volume remaining unchanged. On the other hand, imports of finished manufactured goods increased again, by 8 per cent., or £45 million; purchases of machinery and instruments were £65 million up, while those of aircraft and of motor-cars were down by £25 and 15 million respectively. Fuel imports rose by 5 per cent. in volume but cost no more than they had in 1960.

By areas, easily the greatest part of the decline in imports was in deliveries from North America, imports from the United States having fallen by £85 million and those from Canada by £25 million, about half of the latter decline being accounted for by cereals.

Exports were £130 million higher than in 1960. Sales of machinery and instruments, which at present account for 30 per cent. of total exports, rose by £135 million, or 14 per cent., compared with rises of 8 per cent. in 1959 and 11 per cent. in 1960. Ship exports went up by £35 million and exports

of commercial vehicles by £20 million; on the other hand, sales of passenger cars fell by £75 million, or one-third.

Geographically, the largest rise was in exports to Europe, which bought nearly £200 million's worth more than in 1960. Exports to the E.E.C. countries were £95 million higher than in 1960 and they grew continuously throughout the year. E.F.T.A. countries took £52 million's worth more than in 1960. Relatively speaking, the largest increase was that of 36 per cent., worth £30 million, in U.K. sales to the Soviet Union and eastern Europe. Sales to North America, on the other hand, were £45 million down, motor-car exports alone falling from £100 to 40 million. Sales to this area had been declining in 1960 and this continued into the first quarter of 1961; a turn-round had, however, occurred by the middle of the year, and by the last quarter exports were running 10 per cent. above the level of a year before. Exports to the sterling area fell by £27 million.

United Kingdom: Trade with western Europe and the Commonwealth.

Areas	Imports				Exports			
	1954	1961	Percent- age change 1954-61	Percent- age share 1961	1954	1961	Percent- age change 1954-61	Percent- age share 1961
	in millions of £ sterling				in millions of £ sterling			
Western Europe	870	1,380	+ 58	31	800	1,265	+ 58	34
Commonwealth	1,515	1,560	+ 3	36	1,125	1,310	+ 16	36
Other areas	975	1,460	+ 50	33	725	1,105	+ 53	30
World total	3,360	4,400	+ 31	100	2,650	3,680	+ 39	100

Looking back over a longer period, the growth of British foreign trade has been almost entirely outside the Commonwealth. On both the import and the export side trade is now about evenly divided between the three areas distinguished in the table. The rise in transactions with western European countries and the United States has brought about a better balance in the United Kingdom's external trade, roughly half of which was formerly orientated towards countries where it enjoyed special preferences. The big rise in trade vis-à-vis western Europe has been accompanied by the maintenance of approximate balance between imports and exports. By the first quarter of 1962 total British exports to Europe were a little higher than sales to sterling-area countries.

In 1961 the invisible surplus showed a further decline, to only £65 million. Government expenditure overseas rose by £51 million, of which higher economic grants to developing countries accounted for £16 million and increased military expenditure for £18 million. The latter resulted mainly from the termination of German support payments. Instead, the Government of the Federal Republic agreed in March 1962 to spend £54 million (DM 600 million) per annum in the United Kingdom for the next two years. This expenditure will be mostly on armaments.

On long-term capital account there was almost exact equilibrium, after an outflow of about the normal size — £200 million — during 1960. The difference between the two years corresponds approximately to the special

United Kingdom: Balance of payments.

Items	1959	1960	1961
In millions of £ sterling			
Merchandise trade (f.o.b.)			
Imports	3,611	4,098	3,998
Exports and re-exports	3,507	3,707	3,863
Balance of trade	- 104	- 391	- 135
Invisible items (net)			
Government transactions	- 233	- 284	- 337
Investment income	+ 272	+ 245	+ 257
Other services	+ 190	+ 142	+ 145
Total invisible items	+ 219	+ 103	+ 65
Balance on current account	+ 115	- 288	- 70
Long-term capital account (net outflow -)*			
Official	- 353	- 103	- 41
Private	- 146	- 99	+ 49
Total long-term capital movements	- 499	- 202	+ 8
Balance on current and long-term capital account	- 384	- 490	- 62
Corresponding to			
Balance of monetary movements	- 405	- 184	+ 19
Errors and omissions	+ 21	- 306	- 81
Total	- 384	- 490	- 62

* Including special transactions (see table on page 115).

receipts of £131 million from investment by the Ford Motor Company of America in its U.K. subsidiary and of £90 million in respect of debt pre-payments by France and Germany and a loan from Switzerland.

On private account U.K. long-term investment abroad rose a little, by £21 million; direct investment fell by £36 million, while other types rose by £57 million. The decline in direct investment occurred entirely in the latter half of 1961, no doubt partly as a result of the restrictions imposed in July on any such investment outside the sterling area which would not clearly and commensurately help to improve the balance of payments.

The same sort of change occurred in private long-term investment in the United Kingdom during 1961. The year before, direct investment had accounted for £135 out of a total of 237 million; in 1961 (excluding the Ford investment) it represented £94 out of 275 million. From information which has recently become available it appears that there was a considerable net increase in foreign holdings of U.K. securities in the second half of both 1960 and 1961. Non-direct investment rose between the first and the second halves of the latter year from £26 to 155 million.

The net outflow of government funds on long-term account, excluding the special items shown in the table, rose from £100 to 120 million, mainly as the result of an expansion in loans to developing countries.

United Kingdom: Long-term capital account and special transactions.

Items	1960	1961
	in millions of £ sterling	
Official capital (net outflow —)		
Inter-governmental loans	— 91	— 14
Other	— 12	— 27
Total official capital	— 103	— 41
Private capital (net outflow —)		
Foreign investment in the United Kingdom	+ 237	+ 406
U.K. investment abroad	— 336	— 357
Total private capital	— 99	+ 49
Total capital	— 202	+ 8
Special transactions		
I.D.A. subscription	— 11	— 9
Transactions with Germany, France and Switzerland	+ 8	+ 90
Ford transaction	—	+ 131
Total special transactions	— 3	+ 212
Total capital movements less special transactions	— 199	— 204

France. On the basis of customs statistics, the balance of trade with countries outside the franc area improved from a deficit of \$50 million to a surplus of \$140 million in 1961. Following the devaluation, exports to foreign countries had risen by as much as 40 per cent. in 1959; since then their rate of growth has slackened and last year they went up by 11 per cent., or \$530 million, to a total of \$5.3 milliard. Over 40 per cent. of last year's rise was in sales of investment goods — machinery, aircraft and ships — while a further 25 per cent. was accounted for by cereals and dairy products. Motor-car exports, which amounted to \$400 million, were \$90 million down from their 1960 level. The share of manufactured goods in French exports outside the franc area was 73 per cent.; this was a little below the 1960 level, though well above that of, say, 1957, when the figure was 66 per cent. Imports from outside the franc area were some \$350 million, or 7 per cent., higher than in 1960. Half of the rise was in consumer goods and a third in investment goods. Oil imports declined by \$45 million.

Something like 70 per cent. of last year's rise in exports to foreign countries went to France's partners in the Common Market and nearly all the rest to other western European countries. Sales to Italy and the Netherlands were up by over 20 per cent. and those to Belgium, Germany and Switzerland by over 15 per cent. On the import side, purchases from the Common Market increased by \$250 million and those from other western European countries by \$150 million. Imports from other non-franc-area sources were rather lower. France's trade balance with Europe improved by \$100 million and that with the rest of the non-franc area by almost as much.

Still on the basis of customs statistics, exports to the rest of the franc area, which represent about a third of France's total exports, declined by \$170 million in 1961 because of lower sales to Algeria. Imports, on the other hand, went up by \$65 million — oil deliveries alone being \$100 million higher. The share of Saharan oil in total oil imports was 48 per cent., compared with 5 per cent. two years before, and the value of deliveries was \$240 million.

The export surplus vis-à-vis countries outside the franc area, on a cash and f.o.b. basis, as recorded in the balance of payments, rose from \$90 to 400 million in 1961; net receipts from invisibles fell off slightly, yielding \$530 million in the year. On travel account the rise in French expenditure abroad more than offset the increase in tourist receipts. For the first time since the end of the war the deficit in respect of transport was eliminated, mainly owing to higher earnings from land and air transport. Workers' remittances have risen in both directions, the net deficit increasing, however, by \$25 million. Receipts in respect of restitution payments from Germany —

France: Balance of payments.

Items	1959	1960	1961 ¹
	in millions of U.S. dollars		
Merchandise trade (f.o.b.)			
Exports	3,810	4,500	5,170
Imports	3,375	4,410	4,770
Balance of trade	+ 435	+ 90	+ 400
Invisible items (net)			
Travel	+ 185	+ 235	+ 210
Others ²	+ 120	+ 310	+ 320
Total net invisible items	+ 305	+ 545	+ 530
Balance on current account	+ 740	+ 635	+ 930
Long-term capital account (net outflow —)			
Official	— 275	— 355	— 440 ³
Private	+ 570 ⁴	+ 305	+ 360
Balance on long-term capital account	+ 295	— 50	— 80
Balance on current and long-term capital account	+ 1,035	+ 585	+ 850
Short-term capital account (net outflow —)			
Overall balance	— 1,035	+ 525	+ 765
Corresponding to			
Balance of rest of French franc area (deficit +)	— 60	+ 20	— 70
Changes in net position of banks (increase +)	— 55	+ 15	— 105
Changes in official assets (increase +)			
Gold and convertible currencies	+ 670	+ 345	+ 870
I.M.F.	+ 215	+ 185	+ 225
Others	+ 210	— 15	— 75
Errors and omissions	+ 55	— 25	— 80
Total	+ 1,035	+ 525	+ 765

¹ Preliminary. ² Including donations. ³ Including the prepayment of the E.P.U. debt of \$320 million. ⁴ Private capital movements cannot be separated into long and short-term; they are therefore shown under long-term.

both private and official — produced a net surplus of \$65 million in donations despite the French contribution of \$45 million to the European Development Fund for overseas countries and territories.

On long-term capital account, the net outflow in the public sector rose more than the net inflow in the private sector, so that the total deficit increased from \$50 to 80 million in 1961. The inflow of foreign private capital, at \$420 million, was a third higher than in 1960; most of the rise came from direct investments, though portfolio investment was also substantial. The latter declined towards the end of the year but has since picked up again. The outflow of private capital increased by \$55 million between 1960 and 1961.

The large inflow of private long-term capital, coupled with the favourable results on current account, enabled the French Government to reduce further its foreign debt by means of advance repayments. In 1961 the consolidated E.P.U. debt of \$320 million was paid off; together with contractual repayments, this brought the total external debt down from \$2,140 million at the end of 1960 to \$1,765 million a year later. In early 1962 further repayments were made, so that at the end of April the foreign debt, which is now entirely at long term, stood at \$1,650 million — compared with about \$3,300 million at the end of 1958 before special repayments were initiated.

Italy. In the first half of 1961 imports rose faster than exports and the balance of trade (based on customs data) deteriorated by \$120 million as compared with the corresponding period of 1960. In the second half the movement was reversed and the balance improved by \$160 million, leaving a small net improvement for the year as a whole.

All categories of exports increased in 1961, rises of 20 per cent. being recorded for engineering products and textiles. Over the last three years exports of engineering products have nearly doubled and they now represent a third of the total, while the share of foodstuffs has fallen from 20 to 15 per cent. During the same period Italian export prices of manufactured goods have declined by 6 per cent.

Italy: Foreign trade in engineering products.

Items	1955	1958	1961	1955	1958	1961
	in millions of U.S. dollars			as percentages of total		
Exports	405	765	1,415	22	30	34
Imports	360	400	975	13	12.5	19

With regard to imports, engineering products again rose sharply in 1961, overtaking both raw materials and foodstuffs, hitherto the most important groups. Raw-material imports, which had been very large in 1960, remained fairly stationary during the following year in the face of a 10 per cent. increase in industrial production. In the food sector the approximate balance between exports and imports prevailing in the 1950s has shifted to an import surplus.

The trade deficit, as recorded in the balance of payments, rose by \$70 million in 1961, but this was more than offset by an increase of \$160 million in receipts from invisible items, chiefly tourist receipts, emigrants' remittances and, to a lesser degree, freights. The current surplus consequently increased to \$365 million.

Italy: Capital account.

Items	1960	1961
	in millions of U.S. dollars	
Private transactions (net inflow +)		
Investments by foreigners in Italy	+ 460	+ 540
Italians abroad*	- 285	- 415
Total	+ 175	+ 125
Loans granted abroad	- 0	- 30
received from abroad	- 10	+ 75
Total	- 10	+ 45
Total private	+ 165	+ 170
Official transactions (net inflow +)	+ 30	+ 50
Non-classified movements	- 30	- 5
Total capital	+ 165	+ 215

* Including the equivalent of repatriated Italian bank-notes which have been credited to non-residents' accounts (\$185 million in 1960 and \$330 million in 1961).

The net inflow of total private capital in 1961 was practically the same as in the previous year, a rise in foreign investment and loans to Italy being offset by higher Italian capital exports. At the end of 1961 the total claims of the rest of the world vis-à-vis Italy amounted to \$4.1 milliard, two-thirds of which represented foreign holdings of Italian equities.

Germany. The overall balance of payments turned over from a surplus of DM 5.9 milliard to a deficit of DM 340 million in 1961, most of the switch being due to an increase in the net long-term capital outflow.

For the tenth year in succession exports exceeded imports, and there was a record trade surplus in 1961 of DM 6.6 milliard. However, in the course of the year the surplus contracted and in the last quarter it was DM 550 million less than in the corresponding period of 1960. In the first quarter of 1962 the trade balance deteriorated by DM 1.3 milliard compared with a year earlier. If allowance is made for the change in customs procedure which inflated the import figure for this quarter by over DM 400 million, the export surplus works out at DM 1 milliard, or about half its size a year earlier.

Larger imports of foodstuffs in 1961 were mainly due to heavy deliveries of wheat in the last quarter on account of the year's poor crops. The decline in imports of raw materials and semi-finished goods reflects a lower accumulation of stocks in the second half of the year, while the increase in fully-finished manufactures was connected with the higher level of private consumption.

Germany: Balance on current account.

Quarters	Exports f.o.b.	Imports c.i.f.	Balance of trade	Services	Dona- tions	Receipts in respect of foreign troops	Total in- visibles	Balance on current account
in milliards of Deutsche Mark								
1960 1st quarter	11.4	10.0	+ 1.4	- 0.2	- 0.6	+ 1.0	+ 0.2	+ 1.6
2nd quarter	11.5	10.6	+ 0.9	- 0.3	- 0.8	+ 0.9	- 0.2	+ 0.6
3rd quarter	11.5	10.4	+ 1.1	- 0.7	- 0.7	+ 1.0	- 0.4	+ 0.8
4th quarter	13.5	11.7	+ 1.8	- 0.5	- 0.6	+ 1.0	- 0.3	+ 1.5
Whole year	47.9	42.7	+ 5.2	- 1.7	- 2.9	+ 3.9	- 0.7	+ 4.5
1961 1st quarter	12.3	10.3	+ 1.9	- 0.4	- 0.6	+ 1.0	- 0.0	+ 1.9
2nd quarter	12.8	11.1	+ 1.7	- 1.0	- 0.8	+ 1.0	- 0.8	+ 0.9
3rd quarter	12.6	10.9	+ 1.7	- 1.4	- 1.0	+ 0.9	- 1.6	+ 0.1
4th quarter	13.3	12.1	+ 1.3	- 1.1	- 1.0	+ 0.9	- 1.2	+ 0.1
Whole year	51.0	44.4	+ 6.6	- 3.9	- 3.5	+ 3.8	- 3.6	+ 3.0
1962 1st quarter*	12.6	12.0	+ 0.6	.	- 1.0	.	- 0.6	- 0.2

* Preliminary.

Total exports, which had risen by 16 per cent. in 1960, increased by 6 per cent. in 1961, the corresponding rises for fully-finished manufactures, which represent over 60 per cent. of all exports, being 16 and 9 per cent. After declining in the first half of 1961 (on a seasonally adjusted basis) exports remained stable in the second half and rose again in the early months of 1962. New foreign orders, which had risen almost continuously until mid-1960, levelled off in the second half of that year and fell noticeably during the first eight months of 1961, after which they picked up again, but in early 1962 they were running at a level some 5 per cent. below that of the previous year.

The rise in the trade surplus was more than offset by the increase in the deficit on invisible items, which went up from DM 0.7 to 3.6 milliard, chiefly on account of rises in tourist expenditure and dividend payments, transfers by foreign workers and donations.

In 1961 net tourist expenditure totalled DM 1.5 milliard, against DM 800 million in the previous year. Net payments in respect of interest and

Germany: Composition of foreign trade.

Items	Imports			Exports		
	1960	1961	Change	1960	1961	Change
	in millions of Deutsche Mark		in per- centages	in millions of Deutsche Mark		in per- centages
Foodstuffs	11,250	11,670	+ 4	1,090	1,075	- 2
Raw materials	9,270	9,090	- 2	2,180	2,175	- 0
Semi-finished goods	8,060	7,540	- 6	5,010	5,280	+ 5
Manufactured products						
Partly-finished	5,770	6,030	+ 4	9,870	9,730	+ 1
Fully-finished	7,970	9,520	+ 19	29,830	32,520	+ 9
Total*	42,720	44,360	+ 4	47,950	50,980	+ 6

* Including returned goods and replacement deliveries not mentioned separately.

dividends went up from DM 800 million to DM 1.3 milliard, a large part being accounted for by the profits of German subsidiaries of U.S. companies. Net remittances by foreign workers (who totalled 545,000 in the autumn of 1961, compared with 325,000 a year earlier) and pension payments rose from DM 750 million in 1960 to DM 1.2 milliard. In all, the net deficit on services account proper amounted to DM 3.9 milliard, slightly outweighing net receipts in respect of foreign troops. German indemnification payments and grants rose from DM 2.9 to 3.5 milliard.

The current surplus thus amounted to DM 3 milliard in 1961; however, it contracted sharply in the course of the year — from DM 1.9 milliard in the first quarter to DM 80 million in the fourth — and was replaced by a deficit of DM 160 million in the first quarter of 1962. The main reasons were, in the second quarter of 1961, large interest and dividend payments and, in the third quarter, a marked increase in travel expenditure.

The net outflow of long-term capital increased from DM 0.3 to 4.3 milliard in 1961, almost entirely on account of special public transactions. The net outflow of official capital came to DM 5.2 milliard, of which DM 3.1 milliard represented advance debt repayments (\$587 million to the United States, £67.5 million to the United Kingdom and \$5.3 million to France) and DM 900 million credits to the I.B.R.D., while most of the remainder took the form of credits to developing countries.

Germany: Balance of payments.

Items	1959	1960	1961 ¹
	in millions of Deutsche Mark		
Balance on current account	+ 4,085	+ 4,525	+ 2,985
Long-term capital account (net outflow —)			
Official ²	— 2,740	— 1,270	— 5,155
Private	— 1,145	+ 980	+ 890
Total long-term capital outflow . .	— 3,885	— 290	— 4,265
Balance on current and long-term capital account	+ 200	+ 4,235	— 1,280
Short-term capital account (net outflow —)			
Official	— 1,130	— 755	+ 90
Private ³	+ 85	+ 660	+ 605
Total short-term capital outflow . .	— 1,045	— 95	+ 695
Errors and omissions	— 45	+ 1,780	+ 245
Overall balance	— 890	+ 5,920	— 340
Corresponding to			
Official monetary reserves (increase +)	— 760	+ 9,170	— 970 ⁴
Change in foreign position of banks (increase in assets +) .	+ 1,280	— 2,255	+ 265
I.M.F. lending of Deutsche Mark (+)	+ 30	+ 170	+ 1,320
Reduction of E.P.U. claims (—)	— 1,440	— 1,165	— 955
Total	— 890	+ 5,920	— 340

¹ Preliminary. ² Excluding I.M.F. transactions. ³ Excluding net foreign position of banks. ⁴ Excluding the revaluation loss of DM 1,420 million.

Between 1960 and 1961 there was a small decline in the net inflow of private long-term funds, resulting from a simultaneous reduction in foreign net investment in Germany and German net investment abroad. Foreign net investment in Germany over the year as a whole fell by some DM 500 million, entirely owing to smaller net acquisitions of German bonds. While equity investment by foreigners represented one-third of the total in 1960, it accounted for 80 per cent. in 1961. The decline in foreign private investment in Germany was concentrated in the second part of 1961. German net private investment abroad declined by DM 400 million between 1960 and 1961, when it amounted to DM 1 milliard, and in this case, too, it was security purchases which fell.

On short-term capital account the small outflow that had occurred in 1960 gave way to a net inflow of DM 695 million; essentially this was the result of lower prepayments by the German Government in 1961 to foreign countries for armaments. It was more than offset by the decline of DM 1,535 million that occurred between the two years in unidentified receipts due to a sharp turn-round in Germany's terms of payments in August and September 1961.

The Netherlands. In 1961 the surplus on current account amounted to Fl. 620 million, less than half the previous year's figure. This decline was due chiefly to the fact that imports increased more than exports, so that the import surplus rose from Fl. 640 to 1,300 million.

After a steep rise in the last quarter of 1960 and the first quarter of 1961 both exports and imports fell off but they picked up again in the last quarter. The rise in the case of imports was very sharp but flattened out in the early months of 1962, while exports continued to increase. The main cause for the growing import surplus seems to lie in the limitations on the supply side, although a slackening of demand abroad and the revaluation of the florin may also have played a part.

Net receipts from invisibles remained practically unchanged at over Fl. 1.9 milliard. The reduction of the surplus on current account by roughly Fl. 700 million was accompanied by a turn-about of Fl. 800 million in long-term capital movements, which shifted from a net inflow of Fl. 220 million to a net outflow of Fl. 570 million in 1961.

This change was accounted for by (i) a decline of Fl. 400 million in sales of Dutch securities to foreigners, mainly owing to a fall in sales to Switzerland and to net repurchases of securities previously held by Germany, (ii) the resumption, in April 1961, of foreign issues on the Dutch market, which amounted to Fl. 540 million in that year, and (iii) prepayment of the government's foreign debt to the amount of Fl. 183 million (Fl. 144 million to the United States and Fl. 39 million to Switzerland), and was compensated to the extent of some Fl. 300 million by a decline in Dutch purchases of foreign securities and larger credits received from abroad.

Belgium. The trade deficit went up from B.fcs. 1.9 to 5.7 milliard in 1961. The balance of trade had deteriorated between the two halves of 1960 from a surplus of B.fcs. 1.1 milliard to a deficit of B.fcs. 3 milliard; in the first half of 1961 the deficit rose to B.fcs. 4.7 milliard, imports expanding fast while exports were held back by the effects of the strikes at the end of 1960 in connection with the government's post-Congo austerity programme. With exports recovering in the second half of 1961, the trade deficit was brought back to B.fcs. 1 milliard.

The invisible surplus rose by B.fcs. 2.8 milliard, compensating most of the increase in the trade deficit, so that the current account showed a deterioration of only B.fcs. 1 milliard.

Belgium: Capital account.

Items	Long-term capital			Short-term capital			Total change
	1960	1961	Change	1960	1961	Change	
net inflow (+), in milliards of Belgian francs							
Official transactions							
Government	- 2.1	+ 6.3	+ 8.4	+ 5.3	- 12.1	- 17.4	- 9.0
Public corporations . .	+ 1.3	+ 2.2	+ 0.9	+ 0.4	0	- 0.4	+ 0.5
Total	- 0.8	+ 8.5	+ 9.3	+ 5.7	- 12.1	- 17.8	- 8.5
Private transactions							
Portfolio investment . .	- 4.0	- 3.2	+ 0.8	.	.	.	.
Other*	+ 1.3	+ 5.5	+ 4.2	.	.	.	.
Total	- 2.7	+ 2.3	+ 5.0	+ 0.2	- 1.3	- 1.5	+ 3.5
Grand total . . .	- 3.5	+ 10.8	+ 14.3	+ 5.9	- 13.4	- 19.3	- 5.0

* Mainly direct investments and short-term capital transactions other than commercial credits. The item contains an appreciable margin of error.

Capital movements in 1961 were dominated by the operations of the Treasury (see page 74). The government's external debt position improved, both quantitatively and qualitatively, since there was a reduction of short-term debt amounting to B.fcs. 12.9 milliard and an increase in long-term debt of B.fcs. 7.3 milliard. The new borrowing at long term all occurred in the latter half of the year, B.fcs. 2.1 milliard being raised in the Netherlands, B.fcs. 2.5 milliard in Germany and B.fcs. 2.75 milliard in the United States. The rest of the public sector also increased its long-term foreign borrowing, by B.fcs. 1 milliard.

So far as private capital movements are concerned, direct investments in Belgium seem to have increased substantially in 1961 and there was also a reflux of funds which had left the country following the Congo crisis.

V. GOLD, RESERVES AND FOREIGN EXCHANGE.

At the end of March 1962 the monetary reserves of continental European countries amounted to \$23 milliard, having risen since the end of 1960 by \$1.8 milliard. During this same period the official gold and convertible currency holdings of the United Kingdom went up by \$200 million to \$3.4 milliard, while the sterling holdings of the rest of the world dropped by \$300 million to \$12.1 milliard. In the United States the gold stock, after falling by \$1.2 milliard in the preceding fifteen months, stood at \$16.6 milliard at the end of the first quarter of 1962 — slightly less than the combined gold reserves of western European countries. U.S. short-term liabilities to foreigners at that date totalled \$23.2 milliard; since the end of 1960 they have gone up by a further \$1.9 milliard, mostly because of a rise in privately-held dollar balances.

The market price of gold has fluctuated during the past year between \$35.05 and \$35.20. Official action, on both the supply and demand sides, has at times been necessary to keep the market orderly, but the improvement in the situation can be seen from the fact that official gold stocks went up by nearly \$600 million in 1961, compared with about \$350 million in 1960, while new supplies were only \$100 million greater, at \$1.5 milliard.

On the exchange markets conditions are quite different from what they were a year ago. The dollar has strengthened, and the pound even more so, while the Deutsche Mark and the Swiss franc are decidedly less firm than they then were. In the forward exchange markets, where the U.S. authorities have been active at times during the past year, the abnormal discounts at which the dollar stood a year ago vis-à-vis continental currencies have disappeared.

So far as changes in exchange rates are concerned, the most striking development has been the depreciation of the Canadian dollar and its fixing, early in May 1962, at a parity equal to 92½ U.S. cents.

Gold production and markets.

Total output of gold, excluding the U.S.S.R., is estimated to have amounted to 34.7 million ounces in 1961, the value of which at \$35 per fine ounce is \$1,215 million. The increase of 1.3 million ounces in total production was the same as it had been in 1960. South African output showed a further advance of 1.6 million ounces, as against one of 1.3 million ounces the year before. The estimated combined production of the other countries included in the table declined slightly, both Canadian and U.S. output being a little below their 1960 levels.

World gold production.

Countries	1929	1940	1946	1950	1959	1960	1961
weight, in thousands of fine ounces							
Union of South Africa	10,412	14,046	11,927	11,664	20,065	21,363	22,946
Canada	1,928	5,333	2,849	4,441	4,483	4,629	4,442
United States	2,045	4,799	1,625	2,375	1,389	1,386	1,246
Australia	427	1,644	824	870	1,085	1,087	1,070
Ghana	208	896	586	699	913	879	811
Southern Rhodesia	561	826	545	511	567	563	570
Colombia	137	632	437	379	398	434	380
Philippines	163	1,121	1	334	403	411	423
Japan	335	867	40	156	328	337	377
Mexico	655	893	421	408	314	299	269
Total listed	16,671	31,037	19,255	21,827	29,945	31,408	32,534
Other countries ¹	1,629	5,963	2,445	2,673	2,155	1,992	2,166
Estimated world total ¹	18,500	37,000	21,700	24,700	32,100	33,400	34,700
In millions of U.S. dollars							
Value of estimated world total at \$35 per fine ounce	650 ²	1,295	760	865	1,125	1,170	1,215

¹ Excluding the U.S.S.R. ² At the official price of \$20.67 per fine ounce then in effect, \$382 million.

The increase of almost 7½ per cent. in South African gold production was achieved with a 2½ per cent. rise to 73 million tons in the quantity of ore milled. The yield of gold per ton milled went up by 4½ per cent.; with average costs 3½ per cent. higher, average working profits, at \$4.11 per ton of ore milled, were about 6 per cent. above their 1960 level. This was only half the increase in the rate of profit recorded in 1960; the exceptional result for that year, however, was influenced by the level of gold prices in the last quarter. The average native labour force at work in the mines showed a small further increase during 1961, from 388,000 to 399,000.

Estimated sources and uses of gold.

Items	1957	1958	1959	1960	1961
in millions of U.S. dollars					
Gold production ¹	1,015	1,050	1,125	1,170	1,215
Sales by the U.S.S.R.	260	220	250	200	260
Total	1,275	1,270	1,375	1,370	1,475
Increase in official gold stocks ²	705	680	695	340	590
Other uses ³	570	590	680	1,030	885

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

It is estimated that gold sales by the U.S.S.R. were considerably larger in 1961 than they had been the year before, so that total fresh supplies of gold rose by about \$100 million to nearly \$1.5 milliard. The increase in the published gold reserves of western countries and international institutions during 1961 may be put at \$590 million, which is exactly 40 per cent. of

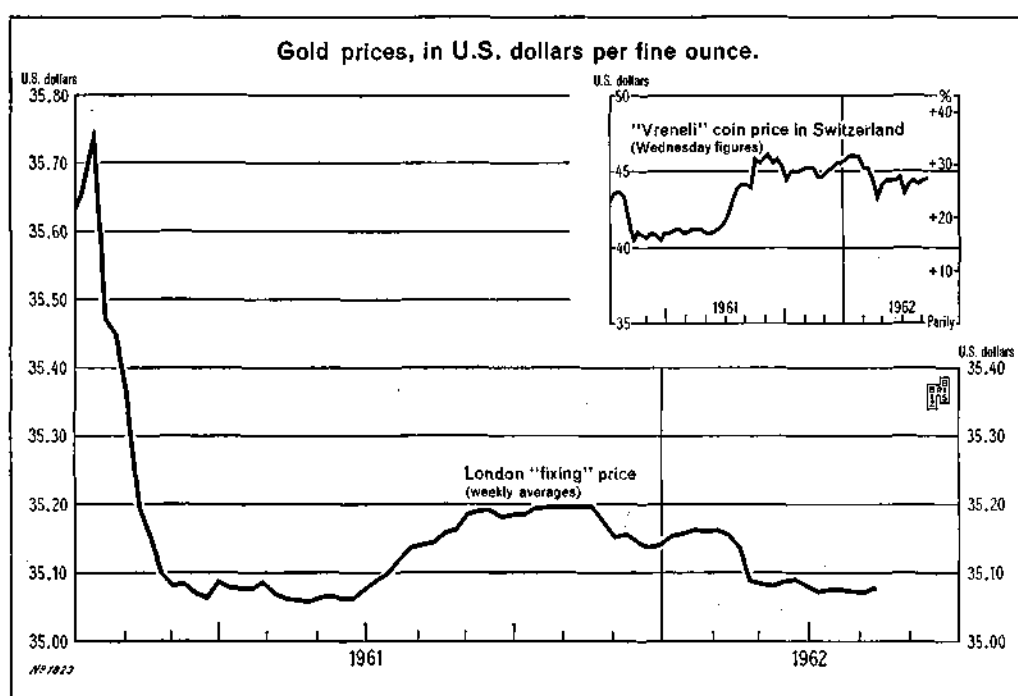
total fresh supplies. This was a much better result than in 1960, when private demand was quite exceptional in the last quarter of the year. Compared with the years 1957-59, however, when gold reserves went up by some \$700 million per annum or, on an average, by 53 per cent. of fresh supplies, private demand was still strong last year. Moreover, in 1961 there were once-for-all offerings of gold from private stocks by U.S. citizens complying with the Presidential order of January 1961 that prohibited them from holding gold abroad after 1st June 1961. Even allowing, then, for some increase in the industrial and artistic demand for gold, it would seem that private demand for hoarding purposes may not have been much below its 1960 level.

The additions to official gold holdings were very uneven during 1961. In both the first and third quarters the overall rise was not far from one-fourth of the total rise for the year. In the second quarter it was much larger and is estimated at \$255 million; in the final quarter, on the other hand, it seems to have been as little as \$60 million. As during this latter period the gold reserves of South Africa and Canada, the two biggest western producers, went up by \$93 million and \$19 million respectively, those of all other western countries combined must have fallen by about \$50 million.

Following its return to normal levels in late February 1961, the London market gold "fixing" price has since then fluctuated between a low point of \$35.05½ on 29th May 1961 and a peak of \$35.20 on 14th September 1961. However, though quotations during the period under review were at no time far out of line with the official U.S. selling price, in other respects conditions in the gold market were very different from those ruling in the past. This can be seen most clearly from the relatively modest additions made to official gold reserves last year. Moreover, the trend of prices for gold coins points to the strength of private demand. In October 1960, when the price of bar gold briefly touched \$40 per fine ounce, the Vreneli was little more than a dollar higher. At present it stands at nearly \$45 per fine ounce, almost ten dollars above the price for bars.

These facts are indicative of official measures to stabilise prices. Such action began in the autumn of 1960 when the gold price in Europe got out of line with the U.S. price. At that time a number of leading central banks agreed not to buy gold in the market when the price was much above the official U.S. selling price plus shipping costs. Furthermore, the United States made gold available from October 1960 onwards for the purpose of bringing market quotations down. The objective of stable gold prices, which was underlined early in 1961 by the U.S. Administration's reiterated pledge to maintain the present gold value of the dollar, has during the past year been the subject of further co-operative arrangements between those principally concerned.

Between mid-February and mid-June 1961 the London gold price was rather steady in the range \$35.05-\$35.10. In addition to current western output, overall supplies were augmented during that period by substantial Russian sales, by offerings from private U.S. holders required to dispose of



their stocks and by sales out of the British reserves during the sterling crisis and, to a lesser extent, out of Portugal's reserves as a result of events in Angola. This combination of circumstances enabled continental European central banks to add \$773 million to their gold reserves between the end of February and the end of June 1961 without a rise in market quotations and parallel with an increase of nearly \$200 million in the U.S. gold stock.

In the latter part of June 1961 prices began to go up, from about \$35.06, and by the end of July they stood at \$35.14. The rise continued, though more slowly, in August and reached a peak at \$35.20 on 14th September. After a slight and short-lived dip, quotations were again at that level in mid-October and it was not until 23rd November, when the price fell 2 1/4 U.S. cents in one day to \$35.15 3/4, that any real decline set in. From then until nearly the end of the year there was a downward tendency. This was reversed for a few weeks at the turn of the year. Then in February 1962 came another break and quotations fell to about \$35.08, at or around which point they have since remained.

The circumstances which had led to easy market conditions during the second quarter of 1961 could not be expected to continue. British gold losses had to be stopped and U.S.S.R. sales ceased when that country's foreign exchange requirements had been met. Furthermore, from mid-year onwards Canadian and South African supplies coming onto the market began to dwindle as these countries started to add to their own gold reserves; in the second half of 1961 Canada added \$40 and South Africa \$145 million's worth of gold to their reserves; in Canada the corresponding figure for the previous six months was \$21 million, while in South Africa there had actually been

sales from the reserves amounting to \$25 million between January and June 1961. On the supply side, therefore, conditions changed very considerably in mid-1961. At the same time the U.S. external deficit reappeared and political uncertainty arose over Berlin. Both official and private demand for gold therefore increased simultaneously with a sizable drop in supplies.

In these circumstances what was surprising was not that the London gold price went up; it was bound to do so. The remarkable thing was the resilience shown by the market, helped by some official intervention. It was at this point, in face of the fresh rise in quotations, that further co-operative stabilisation measures were agreed on between the United States and the leading European countries. The central banks concerned refrained from buying and they agreed to co-operate with the United States in putting gold onto the market if this should be necessary to keep prices in line.

These arrangements effectively prevented quotations from going beyond the \$35.20 level reached in mid-September and again in mid-October. Moreover, as the Berlin crisis went off the boil private demand for gold eased off and prices declined. There followed a temporary hardening of quotations in January 1962, but by the time that Russian sales were resumed in February the pressure of private demand on the market was certainly less than for some time past and the result was that prices fell to the \$35.08 level. In these circumstances, the countries which had been co-operating in stabilising the price of gold arranged to avoid unco-ordinated purchases in the market.

Gold and exchange holdings.

International liquidity developments during 1961 may be said to have been dominated by three principal features. The first was the continuance, although at a lower level than in 1960, of the overall U.S. deficit and European surplus. Secondly, speculation against the dollar died down and there followed a heavy outflow of funds from London, which in its turn was brought to an end in August 1961. The third feature, which arose partly out of the sterling exchange crisis and partly from the needs of developing countries (especially in the outer sterling area) was the much greater use made of the International Monetary Fund's resources than ever before.

As already mentioned, it is estimated that total official gold stocks (excluding those of the eastern countries) increased by \$593 million in 1961. Since the U.S. gold stock declined by a further \$857 million during the year, other official holdings went up by \$1,450 million, compared with a rise of \$2,044 million the year before. International institutions' gold holdings fell by \$362 million last year, so that countries other than the United States added \$1,812 million to their gold reserves, compared with \$2,012 million in 1960. As net U.S. gold sales to these countries were down from \$1,969 to 970 million, their net gold purchases from other sources went up from only \$43 million in 1960 to \$842 million last year. Of this latter amount they

obtained \$212 million from the International Monetary Fund and the remainder from current output and U.S.S.R. sales.

Apart from the U.S. and I.M.F. net sales already mentioned, the most important gold losses last year were those of \$500 million in the United Kingdom and \$109 million in Portugal. The rest of Europe's gold reserves in fact went up more last year than they had in 1960 — by \$2,138 as against 2,024 million, despite a fall in their purchases in the United States from \$1,168 to 448 million. Over 75 per cent. of the increase in continental

World gold and short-term dollar holdings.¹

Areas and countries	End of 1960			End of 1961			Change in 1960	Change in 1961
	Gold	Dollars	Total	Gold	Dollars	Total		
	in millions of U.S. dollars							
Western Europe								
Austria	293	243	536	303	255	558	+ 87	+ 22
Belgium	1,170	142	1,312	1,248	326	1,574	+ 40	+ 262
Denmark	31	54	85	31	52	83	- 83	- 2
Finland	41	46	87	47	91	138	- 22	+ 51
France	1,641	519	2,160	2,121	989	3,110	+ 215	+ 950
Germany	2,971	3,476	6,447	3,664	2,841	6,505	+ 1,823	+ 58
Greece	76	63	139	87	67	154	- 73	+ 15
Italy	2,203	877	3,080	2,225	1,234	3,459	- 39	+ 379
Netherlands	1,451	328	1,779	1,581	216	1,797	+ 162	+ 18
Norway	30	82	112	30	105	135	- 13	+ 23
Portugal	552	84	636	443	99	542	- 50	- 94
Spain	178	149	327	316	153	469	+ 173	+ 142
Sweden	170	227	397	180	406	586	- 7	+ 189
Switzerland	2,185	678	2,863	2,560	874	3,434	- 40	+ 571
Turkey	134	18	152	139	26	165	- 12	+ 13
United Kingdom	2,800	1,667	4,467	2,300	2,226	4,526	+ 977	+ 59
Others ²	136	393	529	316	354	670	- 62	+ 141
Total western Europe . .	16,052	9,046	25,108	17,591	10,314	27,905	+ 2,902	+ 2,797
Canada	885	2,439	3,324	946	2,758	3,704	+ 166	+ 380
Latin America	1,208	2,422	3,630	1,201	2,405	3,606	- 279	- 24
Asia	1,239	3,115	4,354	1,327	2,892	4,219	+ 399	- 135
of which Japan	279	1,887	2,166	304	1,590	1,894	+ 602	- 272
Other countries ³	886	352	1,238	1,027	387	1,414	- 33	+ 176
of which Union of South Africa	178	29	207	298	32	330	- 80	+ 123
All countries except the United States ³	20,280	17,374	37,654	22,092	18,756	40,848	+ 3,155	+ 3,194
International Institutions .	2,439	3,955	6,394	2,077	3,804	5,881	+ 829	- 513
Total ³	22,719	21,329	44,048	24,169	22,560	46,729	+ 3,984	+ 2,681
United States	17,804	-	-	16,947	-	-	- 1,703	- 857
Grand total ³	40,523	-	-	41,116	-	-	-	-

¹ Short-term dollar holdings consist of deposits, U.S. Government obligations with original maturities of up to one year and some other short-term paper. They cover both official and private holdings as reported by selected banks in the United States. ² Includes Yugoslavia, Bank for International Settlements, European Fund, gold to be distributed by the Tripartite Commission for the Restitution of Monetary Gold and unpublished gold reserves of certain western European countries. ³ Excluding gold reserves of the U.S.S.R., other eastern European countries and mainland China.

gold reserves last year was in Germany, France and Switzerland; smaller but still sizable additions to gold reserves were made by Belgium, the Netherlands and Spain.

In the rest of the world, official gold stocks went up by \$283 million, after having declined during 1960 by \$316 million. This reversal had two causes. Firstly, Venezuela's gold reserves, which had gone down by \$254 million in 1960, have since shown no further change. Secondly, Canada and South Africa added a combined amount of \$181 million last year to their gold reserves, whereas during 1960 they had run them down by \$135 million.

Foreign short-term dollar holdings, as measured in the preceding table, went up by \$1.2 milliard in 1961 to a total of \$22.5 milliard. The rise was \$0.8 milliard less than in 1960 and its distribution between the main categories of holder was very different. In 1960 international institutions, thanks to substantial repayments of earlier I.M.F. loans to France and the United Kingdom, had added \$797 million to their short-term dollars; in 1961 the I.M.F. became a net lender of dollars again and the short-term balances of international institutions were drawn down by \$151 million. Foreign countries' short-term dollar holdings, therefore, rose by more last year than they had in 1960 — by \$1.4 against 1.1 milliard. The privately-held part of them, which had gone down by \$29 million in 1960, went up last year by \$737 million. These two latter figures can conveniently be compared with the increase of about \$1 milliard, in both 1960 and 1961, in the short-term claims of U.S. banks on foreigners.

Taking gold and short-term dollar assets together, while those of international institutions were drawn down last year by the increased activity of the Fund, holdings of countries other than the United States rose by as much as in 1960. Very broadly speaking, this was possible because the fall in the U.S. external deficit was offset by the turn-round in Fund operations and by the rather greater amounts of new gold and Russian gold that found their way into official western stocks. Europe's gold and dollar balances went up by \$2.8 milliard, practically as much as in 1960; the rises were much more widespread than in the previous year, when they had been concentrated on Germany and the United Kingdom.

In the rest of the world, Canada's balances rose by \$200 million more than in 1960; as a result of the policy of lowering the external value of the Canadian dollar, the official monetary reserves, which had declined by \$40 million during 1960, went up by \$227 million last year. Japan's external position was sharply reversed during 1961; moreover, the fall of \$272 million in Japanese gold and short-term dollar holdings was accompanied by substantial further short-term borrowing from U.S. banks. Such credits had increased by nearly \$500 million in 1960; during 1961 they rose again, by \$640 million, to a total of \$1.4 milliard. This figure represents over 30 per cent. of all short-term claims on foreigners reported by U.S. banks.

Elsewhere, Latin American gold and dollar balances, which had fallen by \$279 million in 1960, showed little change for 1961 as a whole. Over half of

this improvement was due to the International Monetary Fund's having lent these countries \$175 million more than in 1960. Much the same remarks apply to the remaining countries in the table; after running their gold and dollars down by \$236 million during 1960, they rebuilt them last year to the extent of \$313 million. The turn-round of \$550 million in their position needs to be set against a rise of almost \$400 million in the level of their Fund drawings. In this group the country which improved its position the most was South Africa, which in the latter half of 1961 more than made good the losses totalling \$95 million suffered during the previous eighteen months.

The U.S. reserve position.

Overall changes in the gold and dollar balances of countries other than the United States (including international institutions) reflect mainly, of course, the movements that occur in the U.S. reserve position, though they are also affected by these countries' gold transactions outside the United States. Changes in the U.S. reserve position are conventionally measured by the sum of U.S. gold transactions with foreigners and of movements in foreign short-term dollar holdings. During the past year, however, the U.S. reserves have also come to include moderate holdings of a number of convertible currencies. Relative to the size of the gold stock these assets are insignificant, the highest figure at which they are recorded as having stood being \$230 million at the end of March 1962. Their importance, however, is greater than their size. They have been acquired, and used, principally to prevent or correct disorderly conditions in the exchange markets. As such conditions can lead to substantial U.S. gold losses, even relatively modest interventions in the markets may, if well-timed, produce results out of proportion to the amounts actually used.

These balances in convertible currencies have, whenever possible, been acquired outright; otherwise they have been obtained through the issue of U.S. Government securities expressed in foreign currencies or by means of swaps. So far as outright acquisitions are concerned, a part of the German debt prepayment to the United States in April 1961 was made in Deutsche Mark and credited to the account of the Exchange Stabilization Fund. More recently, with the dollar stronger against continental currencies, opportunities have been taken to purchase foreign exchange in the market. In October 1961 the U.S. Treasury borrowed \$46 million's worth of Swiss francs from the Swiss National Bank for three months; half of this was repaid in January 1962 and the remainder, after an extension, at the end of March 1962. In January and February 1962 a total of \$75 million's worth of lire was borrowed from the Bank of Italy. These operations were for account of the U.S. Treasury. In February 1962 it was announced that the Federal Reserve System was to build up currency balances of its own; by the end of March 1962 the System's foreign exchange holdings amounted to \$84 million, \$50 million's worth of French francs having been acquired through a swap operation with the Bank of France.

The next table shows the quarterly changes in the U.S. reserve position — gold, convertible currencies and short-term dollar liabilities — since September 1960, together with the considerable movements that have occurred in U.S. banking claims on foreigners.

United States: Changes in the net reserve position.

Items	1960	1961			
	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
	in millions of U.S. dollars				
Gold sales (—) to foreigners and international institutions	— 912	— 366	+ 179	— 138	— 494
Increase (+) in official holdings of convertible currencies	—	+ 25	+ 161	— 124	+ 54
Increase (—) in short-term liabilities to foreigners	— 116	+ 234	— 409	— 433	— 625
of which to					
International institutions	— 386	+ 78	— 93	+ 536	— 370
Other official holders	— 233	+ 15	+ 242	— 863	— 41
Foreign banks	+ 495	+ 20	— 459	— 88	— 78
Other private holders	+ 8	+ 121	— 99	— 18	— 136
Change in net reserve position . .	— 1,028	— 107	— 69	— 695	— 1,065
Increase (+) in short-term claims on foreigners reported by banks in the United States	+ 454	+ 353	+ 156	+ 37	+ 540

During the first half of 1961 there was little change in the net reserve position. Substantial gold losses continued into the first quarter of the year — despite a special purchase of \$100 million from Italy — but these were mostly offset by a decline in short-term foreign liabilities. Somewhat the opposite occurred during the second quarter. Owing mainly to a rise in the foreign assets of the German banking system, foreign dollar balances were rebuilt; on the other hand, British sales produced a rise in the U.S. gold stock and, in addition, balances in convertible currencies were built up.

From mid-year onwards the reserve position began to deteriorate again. It is noteworthy, however, that gold losses never approached the late-1960 rate. In the third quarter the increased deficit was reflected in gold losses and the use of convertible currency balances. The former were considerably reduced by a purchase of \$150 million's worth of gold from the I.M.F. which formed part of an operation, carried out in conjunction with the U.K. drawing, to replenish the Fund's holdings of a number of leading currencies. The shift of dollars from international institutions to other official holders reflected the \$450 million U.S. dollar tranche of the British drawing.

The final quarter of 1961 saw the U.S. deficit back again at the same size as it had been a year earlier. Gold losses increased, mainly as a result of British purchases totalling \$326 million; most of this went towards replacing the gold disposed of by the Exchange Equalisation Account during the sterling crisis earlier in the year. However, it would also seem that some U.S. gold was offered on the gold market during the quarter in order to meet private demand. The movement of dollars from the I.M.F. to other official

holders that occurred in the third quarter was largely reversed as the United Kingdom repaid two-thirds of the dollars it had borrowed.

During the early months of 1962 the U.S. external deficit has been running at a lower rate, though with gold losses rather substantial. By the end of April 1962 the gold stock was \$16,519 million, \$428 million below the end-of-1961 level. During the first three months of the year, while official holdings of convertible currencies went up by \$114 million to \$230 million, short-term liabilities to foreigners rose by \$653 million. International institutions accounted for \$601 million of this latter increase, partly through repayments of I.M.F. drawings and partly because of a shift in their holdings from medium to short-term assets. Liabilities to foreign countries were \$52 million up, official balances declining by rather less than and privately-owned ones rising by rather more than \$500 million. This shift reflects large exports of money by the German banks.

At the end of April 1962 the U.S. gold stock covered the note and deposit liabilities of the Federal Reserve Banks to the extent of about 35 per cent. The legally required gold cover for these liabilities being 25 per cent., the "free" gold reserve amounted to just under \$5 milliard. In May 1961 a bill was put before the U.S. Congress which would have amended the Federal Reserve Act so as to abolish the gold cover, but nothing came of it. On the other hand, if recent proposals for a gradual demonetisation of silver are acted upon by Congress, the substitution of Federal Reserve notes for silver certificates, of which there are some \$2.3 milliard at present in circulation, would add nearly \$0.6 milliard to the gold cover requirements.

The President's proposals regarding silver arose out of the fact that world production of silver is at present considerably less than world consumption. The gap has been filled by drawing on the "free" silver stocks of the U.S. Government, which were being made available at a fixed price and had dwindled between April 1959 and November 1961 from 222 to 22 million ounces. Accordingly, on 28th November 1961 the President directed that no more sales should be made out of the "free" stock of silver; at the same time, in view of the present supply/demand situation for silver, he proposed (a) that the legislation dating back to 1934 under which the U.S. Treasury guarantees to buy all domestically-produced silver at a fixed price be repealed, and (b) that the silver certificates, i.e. dollar notes, issued by the U.S. Treasury against the silver purchased under (a) be gradually replaced by Federal Reserve notes, thus releasing the 1.7 milliard ounces of silver in question from its present function as cover for all \$1 and \$2 notes, plus about 10 per cent. of the \$5 and \$10 notes in circulation.

European monetary reserves.

General remarks.

The combined net monetary reserves of the European countries shown in the following table amounted at the end of 1961 to \$26.7 milliard, an

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	Gross I.M.F. position	Net reserves plus gross I.M.F. position
		In millions of U.S. dollars				
Austria	1959	676	19	695	94	770
	1960	688	19	707	94	782
	1961	823	19	842	94	917
Belgium-Luxemburg . . .	1959	1,205	85	1,290	432	1,637
	1960	1,404	85	1,489	434	1,838
	1961	1,637	157	1,794	507	2,144
Denmark	1959	275	33	308	163	438
	1960	230	33	263	163	393
	1961	236	33	269	163	399
Finland	1959	266	14	280	71	337
	1960	274	14	288	71	345
	1961	303	14	317	71	374
France	1959	1,720	16	1,736	803	2,523
	1960	2,070	202	2,272	989	3,059
	1961	2,939	427	3,366	1,214	4,153
Germany	1959	4,872	268	5,140	1,056	5,928
	1960	7,056	309	7,365	1,096	8,152
	1961	6,811	637	7,448	1,425	8,236
Greece	1959	210	15	225	75	285
	1960	224	15	239	75	299
	1961	251	15	266	75	326
Italy	1959	2,953	68	3,021	338	3,291
	1960	3,080	68	3,148	338	3,418
	1961	3,419	243	3,662	513	3,932
Netherlands	1959	1,331	103	1,434	518	1,847
	1960	1,646	121	1,767	533	2,179
	1961	1,676	243	1,919	655	2,331
Norway	1959	239	25	264	125	364
	1960	272	25	297	125	397
	1961	269	25	294	125	394
Portugal	1959	808	—	808	—	808
	1960	794	—	794	—	794
	1961	692	15	707	—	692
Spain	1959	217	— 40	177	60	277
	1960	590	— 28	562	123	713
	1961	869	23	892	173	1,042
Sweden	1959	419	38	457	188	607
	1960	471	38	509	188	669
	1961	641	63	704	213	854
Switzerland	1959	2,058	—	2,058	—	2,058
	1960	2,320	—	2,320	—	2,320
	1961	2,754	—	2,754	—	2,754
Turkey	1959	— 14	— 14	— 28	72	58
	1960	35	— 11	24	75	110
	1961	95	— 21	74	65	160
United Kingdom	1959	2,736	65	2,801	2,015	4,751
	1960	3,231	488	3,719	2,438	5,669
	1961	3,318	— 559	2,759	1,392	4,710

Note: 1. Net reserves consist of central-bank and/or other official holdings of gold and foreign exchange, excluding I.M.F. positions and 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 for the U.K. 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 the member's net drawings or plus the Fund's net sales of its currency. 3. Gross I.M.F. position is twice the member's quota minus the Fund's actual holdings of its currency.

increase of \$2.3 milliard on the end-of-1960 total. Though substantial, this was little more than half the \$4.4 milliard rise in their reserves that occurred during 1960. Yet the combined current and long-term capital accounts of these countries' balances of payments appear scarcely to have deteriorated between 1960 and 1961, despite special debt payments to the United States of \$0.7 milliard in the latter year.

The divergence between changes in official gold and exchange holdings and basic balance-of-payments developments can be attributed mainly to the facts that these holdings are only part of the total external reserves of these countries and that changes in them may therefore be partially or even sometimes wholly compensated by opposite movements in the other components of reserves, using that word in a broad sense. These other components are, firstly, the drawing rights that countries have at the I.M.F. and, secondly, the net short-term foreign positions of the private sectors of these economies and in particular of their commercial banking systems.

The drawing rights of European countries at the I.M.F. are given in the second and fourth columns of the table on page 133, the former showing that part of them which is unconditionally at the member's disposal and the latter showing the country's maximum possible drawing rights under the Fund's normal procedures.

So far as changes in the foreign positions of commercial banking systems are concerned, the following table gives figures for selected continental European countries. The volume of these foreign assets and liabilities has grown considerably in recent years. Gross assets of the banking systems shown in the table rose from \$1.7 to 3.7 milliard during 1959-61 and gross liabilities from \$2.1 to 4.2 milliard. Over the same period the foreign assets of the overseas banks in London and the British acceptance houses increased from \$0.5 to 1.9 milliard and their foreign liabilities from \$2.1 to 4 milliard. Furthermore, the net foreign positions of the different banking systems have undergone considerable changes from time to time during this period.

To some extent the growth in the foreign assets and liabilities of European commercial banks reflects the rise in international trade and the increased need for working balances in different currencies. Mainly, however, it has been a consequence of the European balance-of-payments surpluses and of the greater degree of freedom allowed to banks and others in the use of foreign exchange. With the different markets for money and credit more closely connected than before, funds have been freer to move from one centre to another in response to differences in liquidity or interest rates and, on occasion, in the expectation of possible changes in exchange parities. The latter considerations also explain many of the changes that have occurred in the net foreign positions of these countries' commercial banks.

A further important aspect of the matter is that the monetary authorities have acted directly on the foreign positions of the commercial banks for purposes of monetary policy. In two countries at least, namely Germany and the Netherlands, the authorities have taken steps designed to encourage the

Foreign positions of the commercial banks in selected countries.

Countries and dates	Assets	Liabil- ities	Net position	Countries and dates	Assets	Liabil- ities	Net position
	in millions of U.S. dollars				in millions of U.S. dollars		
Austria				Italy			
1958 December	31	34	-- 3	1958 December	337	641	-- 304
1959 December	59	37	22	1959 December	488	880	-- 392
1960 December	31	37	-- 6	1960 December	859	917	-- 58
1961 March . .	37	42	-- 5	1961 March . .	969	996	-- 27
June . . .	40	45	-- 5	June . . .	1,014	1,069	-- 55
September	45	47	-- 2	September	1,048	1,094	-- 46
December	31	68	-- 37	December	1,116	1,187	-- 70
Belgium				Netherlands			
1958 December	90	198	-- 108	1958 December	321	196	125
1959 December	156	226	-- 70	1959 December	650	230	420
1960 December	198	354	-- 156	1960 December	801	324	477
1961 March . .	198	410	-- 212	1961 March . .	935	416	519
June . . .	250	600	-- 350	June . . .	931	450	481
September	242	626	-- 384	September	893	432	461
December	252	600	-- 348	December	868	425	443
Denmark				Norway			
1958 December	106	43	63	1958 December	125	71	54
1959 December	94	51	43	1959 December	123	89	34
1960 December	79	84	-- 5	1960 December	146	120	26
1961 March . .	92	99	-- 7	1961 March . .	131	110	21
June . . .	100	116	-- 16	June . . .	114	143	-- 29
September	109	114	-- 5	September	130	167	-- 37
December	86	115	-- 29	December	144	175	-- 31
Germany				Sweden			
1958 December	457	826	-- 369	1958 December	191	86	105
1959 December	826	891	-- 65	1959 December	261	91	170
1960 December	564	1,165	-- 601	1960 December	192	104	88
1961 March . .	1,108	1,265	-- 157	1961 March . .	158	96	62
June . . .	1,496	1,501	-- 6	June . . .	153	110	43
September	1,440	1,458	-- 18	September	179	99	80
December	982	1,547	-- 566	December	208	117	91

Note: Mainly owing to differences in coverage, these figures in many cases do not coincide with those used in countries' balance-of-payments statistics. It is the latter, where available, that are used in the discussion of monetary movements for individual countries.

export or limit the repatriation of money by their banking systems. In Italy, on the other hand, the banks have been asked to balance their positions in foreign exchange vis-à-vis the rest of the world, while in Switzerland an attempt has been made to stop the influx of non-resident funds to the banking system. In each of these cases the monetary authorities have implicitly set limits, in the interests of controlling domestic liquidity, to the quantity of monetary reserves that they are prepared to finance.

Another factor, chiefly affecting the ways and places in which European commercial banks' foreign investments are made, but which also, to the extent that non-European-owned funds are involved, increases the total foreign exchange resources at the banks' disposal, has been the growth of the Euro-dollar market. European banks have found themselves able to accept dollars on deposit and to re-lend them at rates inside those that result from interbank competition in the United States. On the one hand, they are free to pay higher rates of interest on deposits, whereas the deposit rates of banks in the United States are limited by Regulation Q of the Federal Reserve Board.

On the other hand, and because of the marginal nature of this business, they have been able to quote lower lending rates than banks in the United States. In this way a sizable amount of liquid dollar resources has come to be managed by European banks instead of in New York.

Lack of correspondence between monetary reserve movements and those of the basic balance of payments in 1961 was particularly marked in Switzerland and the United Kingdom. For the continental countries as a group, however, the picture is not the same. Admittedly, the fact that the rise of \$2.3 milliard in their official monetary reserves during 1961 was \$1.6 milliard less than what they had gained the year before can statistically be accounted for by the sum of their special capital transfers to the United States and the United Kingdom in 1961 (\$0.9 milliard) and of the increase in their lending through the I.M.F. over its 1960 level (\$0.7 milliard). Nevertheless, their basic position did deteriorate by about \$0.5 milliard, this being compensated by changes in short-term capital and private monetary movements.

In the first quarter of 1962 the net reserves of western European countries declined by almost \$300 million. The United Kingdom's reserves, despite substantial repayments to the I.M.F., rose by \$134 million; those of continental countries, simultaneously with a decline of \$170 million in their net I.M.F. positions, went down by \$420 million. This was more than accounted for by a fall of just over \$500 million in Germany's reserves, due to money exports by the banking system. Other substantial changes during this quarter included losses of \$150 and 140 million in Switzerland and Italy respectively and further gains of \$282 million in France and \$61 million in Spain.

The United Kingdom.

Monetary movements have been a very prominent feature of the United Kingdom's balance of payments during the past two years. It is not surprising, therefore, that the changes in the official British holdings of gold and convertible currencies have for much of this period had little to do with the state of the country's basic external position. The following table shows the size and complexity of the shifts that have occurred in the external monetary position of the United Kingdom. During 1960 there was an inflow of funds into the country of between \$2 and 3 milliard (other items plus Ford transaction plus part of the balancing item); this was offset within the monetary part of the balance of payments to the extent of \$1 milliard by British repayments to the I.M.F. and by a running-down of the sterling area's sterling balances. In addition, the current and long-term capital account was in deficit to the extent of \$1.4 milliard. The monetary reserves therefore showed a rise of \$0.5 milliard.

The combination of basic weakness and a substantial increase in reserves was only possible because of the pressure under which the dollar came in the latter half of 1960, together with the fact that Germany and Switzerland took measures to try and stop funds that had left the United States from entering their economies. When pressure on the dollar died away early in 1961,

United Kingdom: Monetary movements.

Items	1960	1961	1961	
			1st half	2nd half
			in millions of U.S. dollars	
Monetary reserves (increase —)	— 496	— 87	+ 459	— 546
International Monetary Fund (net borrowing+)	— 422	+ 1,046	— 43	+ 1,089
Sterling-area sterling balances (decrease —)	— 633	+ 428	+ 333	+ 95
Ford transaction*	+ 367	— 367	— 367	—
Basle arrangements	—	—	+ 904	— 904
Other monetary items (inflow+)	+ 1,699	— 1,073	— 1,146	+ 73
Total	+ 515	— 53	+ 140	— 193
Memorandum item / Balancing item	+ 857	+ 227	+ 76	+ 151

* This refers to the purchase of shares in the British Ford Motor Company by Ford of Detroit. The sterling for this purchase was acquired late in 1960, while the shares were bought early in 1961.

sterling, with the basic U.K. balance still weak though improving, was obviously open to attack, and as soon as the Deutsche Mark and the florin were revalued funds began to leave London on a massive scale. The table shows that there was an outflow of \$1.1 milliard in the first half of 1961, offset to the extent of almost 80 per cent. by short-term borrowing under the Basle arrangements.

When the support given to the pound under the Basle arrangements failed to turn the tide, it became necessary to consolidate these loans at the I.M.F. and to take certain other measures. In this way the situation was reversed so successfully that by the end of the year \$420 million had been repaid to the Fund and the monetary reserves were \$865 million above the end-of-July level.

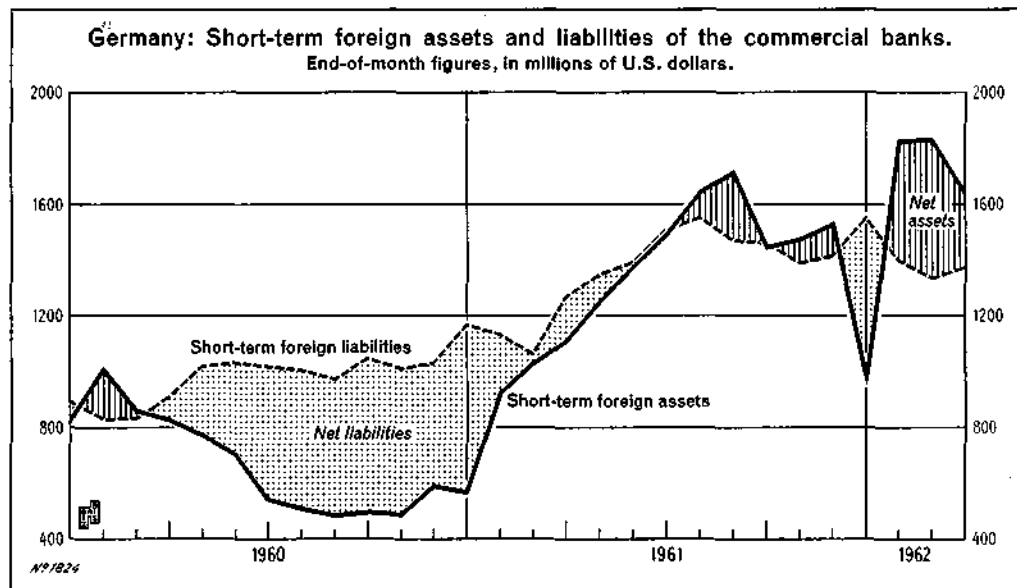
The current and long-term capital account being in approximate equilibrium, the rise in the reserves in the second half of 1961 was due partly to the excess of borrowing from the I.M.F. over repayments to European central banks, partly to net receipts from unclassified transactions and partly to a further rise in sterling-area sterling balances.

It is noteworthy that the "other monetary items", which are composed of miscellaneous capital movements and the sterling balances of non-sterling-area countries, show only a very small inflow for the second half of 1961. To some extent this is because the turn-round did not come until the end of July 1961; more important, it is because a lot of the money that left London early in 1961 has not returned. Privately-owned sterling holdings outside the sterling area were drawn down in the first nine months of 1961 by \$1.3 milliard; six months later, at the end of March 1962, they had scarcely been rebuilt at all.

During the first quarter of 1962 there was a strong inflow despite the lowering of Bank rate to below its pre-July 1961 level. The monetary reserves increased by a further \$134 million parallel with repayments to the I.M.F. totalling \$385 million, of which \$210 million was by the United Kingdom and the remainder by Australia.

The Continent.

Germany. The net official monetary reserves of Germany declined by \$245 million in 1961. Compared with the rise of \$2,184 million that occurred during 1960 there was therefore a deterioration of \$2.4 milliard. The lower current surplus and the special capital exports accounted for \$1.3 milliard of this. Most of the remainder was the result of different monetary movements from those of 1960 — the most important items being lending through the I.M.F. and changes in the foreign position of the commercial banks. Net drawings of Deutsche Mark from the Fund rose between the two years from \$40 to 329 million. In addition, whereas the net foreign liabilities of the German banking system had gone up during 1960 from \$65 to 601 million (with corresponding benefit to the Bundesbank's reserves), during 1961 taken as a whole they were slightly reduced, by \$35 million.



So far as the foreign position of the German banking system is concerned, the small net change for the year as a whole was the outcome of a considerable increase in both assets and liabilities. During the first eight months of 1961 the foreign assets of the German banks went up by \$1,150 million. Of this increase \$200 million resulted from the investment of funds belonging to the Reconstruction Loan Corporation in U.S. Treasury bills from the Bundesbank's portfolio; the remaining \$950 million was nearly all due to money exports by the banks (mostly in the form of time deposits) which were made possible by the easier monetary policy adopted in Germany towards the end of 1960, the existence of special dollar swap facilities at the Bundesbank and the exclusion in April 1961 of the banks' foreign liabilities from the minimum reserve obligation in so far as they were covered by money investments abroad.

Parallel with this big outflow, and partly offsetting it, was a rise of nearly \$400 million in the foreign liabilities of the German banks in the first seven

months of 1961 and in fact a rise of \$500 million between the revaluation of the Deutsche Mark and the end of July 1961. To some extent this may have been the result of the change in minimum reserve requirements just mentioned. Mainly, however, it resulted from expectations of further possible changes in exchange rates, which led foreigners to increase their DM assets and German residents to run up their liabilities in other currencies.

During the third quarter these tendencies were reversed. By September the deterioration of the balance of payments caused an overall exchange deficit which led the banks to repatriate money from abroad to the extent of \$250 million in one month. At the same time expectations of another DM revaluation were evaporating, so that in August, September and October the banks' foreign liabilities — at first principally non-residents' deposits and subsequently credits taken abroad — declined by \$162 million. December saw a reduction of their foreign assets by no less than \$550 million in connection with the end-of-year window-dressing; at the same time their foreign liabilities went up by \$130 million, so that their net foreign position deteriorated by nearly \$700 million.

In the first quarter of 1962 the banks' position was again sharply reversed. Thanks principally to an increase in time deposits abroad, their foreign assets went up by \$660 million; at the same time their foreign liabilities declined by \$180 million. There were repayments of Deutsche Mark to the I.M.F. during this quarter amounting to \$75 million, and the official monetary reserves went down by \$511 million.

The Netherlands. Between 1960 and 1961 the current and long-term capital account of the Netherlands deteriorated by about \$400 million to a position of approximate equilibrium. A similar, though smaller, change occurred in the movements of the Nederlandsche Bank's reserves — from a rise of \$315 million to one of only \$30 million. However, if the movements in the central bank's monetary reserves as shown in the balance of payments (including changes in other official holdings of exchange) are compared, then the turn-round was bigger than that on current and long-term capital account — from a rise of \$400 million to a fall of \$50 million.

As the inflow of short-term capital, at \$30 million, was the same in both years, monetary movements other than those of the official reserves showed a bigger outflow last year than in 1960. This was the net outcome of three factors. Firstly, an increase from \$17 to 122 million in florin drawings on the I.M.F.; secondly, a turn-round in the foreign position of the banking system from an increase of \$69 million to a decrease of \$37 million in net assets; and thirdly, a change from net receipts of \$48 million to net payments of \$10 million on account of consolidated balances arising out of payments agreements. This was mainly the result of a repayment by the Netherlands in January 1961 of \$52 million of E.P.U. debt.

Although the overall foreign position of the banks did not change very much in 1961, there were diverse movements in its components. On the one

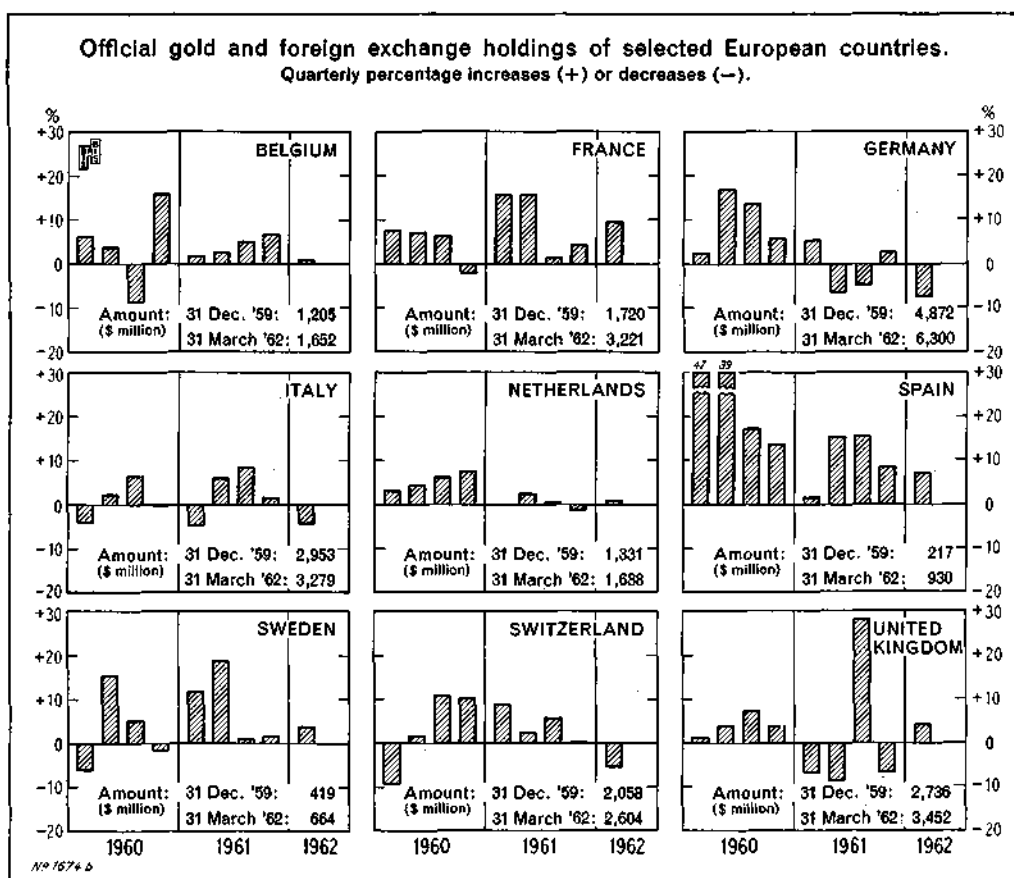
hand, the net foreign exchange position of the Dutch banks declined by \$166 million. This was partly because, from January to September 1961, covered short-term investment, either in New York or London, yielded a negative rate of interest (see page 148) and partly because of a rise in the foreign exchange liabilities of the banks between March and June 1961. On the other hand, and as a result of the continuing low level of Dutch interest rates, total net florin lending of the banks to foreigners rose during 1961 by \$129 million.

Portugal and Spain. Two other countries where the movements in net official reserves were less favourable than in 1960 were Portugal and Spain. Portugal's current-account deficit for 1961 was over \$300 million; as a result of a substantial inflow of capital, however, the monetary reserves declined by only \$102 million. Spain's central monetary reserves showed a rise of \$279 million last year, about \$100 million less than in 1960. Most of this difference can be explained by the fact that debt totalling \$74 million was repaid to the I.M.F. and the European Fund last year, compared with only \$12 million in 1960. On current and capital account combined there was very little change between the two years.

France. Turning to the countries whose official monetary reserves rose faster in 1961, France was pre-eminent among them with an increase of \$870 million. This corresponded almost exactly to the substantial surplus which, despite repayments of public debt in excess of \$400 million, was earned on current and long-term capital account. In the rest of the balance of payments there was an outflow of \$85 million on short-term capital account, which was rather more than offset by receipts of \$80 million from unidentified transactions and by the net effect of monetary movements other than changes in the official reserves.

These other monetary movements comprised four main items. Firstly, drawings of French francs from the I.M.F. rose by \$40 million to \$225 million. Secondly, the balance of other external assets and liabilities in the public sector showed a deterioration of \$75 million, probably due mainly to a rise in foreign official franc balances in conjunction with drawings on the Fund. In other words, effective lending of francs through the Fund was less than the gross amount drawn. Thirdly, the rest of the franc area showed a foreign exchange surplus of \$70 million, and fourthly, there was a deterioration in the foreign position of the French commercial banks by about \$100 million.

This change in the position of the banks was partly due to the increased needs of the rest of the world for working balances in francs. In addition, however, the foreign exchange position of the French banks deteriorated because, during the first half of the year, French residents were converting their foreign exchange receipts into francs more rapidly than is usual, in order to avoid exchange risks. The banks made good the running-down of their assets in this way by borrowing from abroad. Although this movement was reversed in the third quarter, when conditions in the exchange market



became more normal, over the year as a whole the net foreign exchange assets of residents declined by about \$60 million.

The increase in France's monetary reserves was \$525 million greater than in 1960. \$265 million of this came from the improvement on current and long-term capital account, another \$120 million from the change between the two years in the foreign positions of the commercial banks and most of the rest from a turn-round of almost \$100 million in the foreign exchange balance of the rest of the French franc area.

The increase in reserves, which had slowed down considerably in the second half of the previous year, was resumed in 1962. During the first four months of 1962 there was a further rise of \$379 million to a total of \$3,318 million. Special transactions affecting the reserves in these months included debt prepayments of \$59 and 57 million to the U.S. Government and the I.B.R.D. respectively, receipt of the \$50 million counterpart to the francs placed at the disposal of the Federal Reserve Bank of New York and the transfer of the proceeds of a \$40 million loan raised in New York by the Southern European Pipeline Company.

Italy. The official monetary reserves of Italy went up during 1961 by nearly three times as much as in the previous year, the gain being \$340 against

125 million. In 1960 the reserve increase had been some \$300 million less than the surplus on current and capital account, the difference being more or less accounted for by a transfer of foreign exchange from the official reserves to the commercial banks in order to bring their foreign exchange position vis-à-vis non-residents into equilibrium. Last year nearly 60 per cent. of the \$575 million overall balance-of-payments surplus was put to official reserves; of the difference of \$235 million between the reserve gain and the overall surplus, \$175 million is accounted for by drawings of lire on the I.M.F. — equivalent to an increase in second-line reserves. Furthermore, there was an improvement of about \$100 million in other net official foreign assets which are not included in the monetary reserves proper. Finally, there was a small deterioration of \$40 million in the foreign positions of the banks.

Although the overall foreign position of the banks has remained more or less in equilibrium, during 1961 pressure on bank liquidity changed the nature of part of their foreign exchange assets. The balancing of the banks' foreign exchange position vis-à-vis the outside world in 1960 had come about through swaps concluded with the Italian Exchange Office, the total of which at the end of 1960 was over \$400 million. When the banks became short of lire in 1961 the authorities, in order to provide them with the resources they needed without unbalancing their foreign positions, converted the swaps into foreign currency deposits to the extent of \$300 million. It would seem that during the first quarter of 1962 some \$200 million of these deposits have been reconverted into swaps.

Switzerland. Together with the United Kingdom, Switzerland is the chief example during 1961 of a country where the movements in monetary reserves were no guide to the underlying external position. The current and long-term capital account deteriorated by over \$400 million to produce a deficit of \$645 million, yet the National Bank's reserves rose by \$434 million, compared with an increase of \$262 million in 1960. The deterioration on current and identified long-term capital account (excluding direct investment for which no figures are available) was quite overwhelmed by the inflow of money that occurred. In 1960 this inflow was already rather high, at about \$500 million; for 1961 it was of the order of \$1.1 milliard.

Three major entries of funds into the country can be distinguished during 1961. The first occurred during the second week of March, when, on the outbreak of the sterling exchange crisis, the National Bank's reserves went up by \$250 million. This was offset by short-term credits totalling over \$300 million granted to the United Kingdom within the scope of the Basle arrangements. The second inflow began in the last week of June and caused the official reserves to rise by nearly \$200 million in the succeeding three months. The factors at work on this occasion were renewed speculation against the pound and the Berlin crisis. Furthermore, most of the credits granted earlier in the year to the United Kingdom were repaid during these months. The third inflow occurred in the last week of the year, mostly in connection with window-dressing operations of the banks, and amounted to \$75 million.

Belgium. The surplus from all external transactions, excepting short-term operations of the government and the banks, rose from \$10 to 254 million between 1960 and 1961. However, the 1961 increase in monetary reserves, at \$233 million, was only \$34 million greater than that recorded in the previous year. This is explained largely by the improvement of \$356 million that occurred between the two years in the Treasury's short-term external position (from net borrowing of \$114 million to net repayment of \$242 million), partially offset by an increase in the banks' net foreign liabilities \$134 million greater than in 1960.

Changes in other monetary movements more or less offset one another. Net Belgian franc drawings on the I.M.F., of which there had been none in 1960, totalled \$72 million last year. But, on the other hand, payments made to Belgium in respect of former E.P.U. debts, at \$62 million, were \$21 million higher than the year before; and there was a turn-round from a net outflow of \$34 million to a net inflow of \$22 million in respect of the residual monetary item. This last comprises two elements: Congolese companies' deposits with Belgian banks, which fell by \$24 million in 1960, and the foreign position of the Luxemburg monetary institutions, which deteriorated by \$22 million in 1961 after a \$10 million build-up the previous year.

Sweden. The official monetary reserves of Sweden went up during 1961 by \$170 million to a total of \$641 million at the end of the year. The rise, which was more than three times that recorded in 1960, took place in the first part of the year and resulted partly from an improvement in the current external account. In addition, there occurred a considerable inflow of short-term capital together with a further reduction of \$40 million in the net foreign assets of the banking system, both caused by a domestic credit squeeze. In the latter half of 1961 the banks rebuilt their foreign positions by some \$50 million; this fact, together with drawings of Swedish kronor on the I.M.F. totalling \$35 million, explains why, despite a continuation of the favourable current external position, the Riksbank's reserves showed little further increase.

Austria. The monetary reserves rose by \$135 million in 1961, after having shown very little change the previous year. Most of this came from a rise of \$100 million in net capital receipts. The gross inflow of capital amounted to the record figure of nearly \$250 million, of which almost two-thirds was foreign borrowing. The public sector took up nearly \$40 million of foreign credits and the private sector just over \$120 million. There was also an increase during 1961 of \$31 million in the foreign liabilities of the commercial banks.

Denmark and Norway. In both these countries the monetary reserves were at about the same level at the end of 1961 as they had been a year earlier. In both countries, however, the net foreign position of the banks has deteriorated as a result of increased borrowing abroad. In Denmark this

deterioration amounted to \$25 million and in Norway to as much as \$56 million. In the latter country the banks' foreign liabilities increased by a further \$30 million during the first quarter of 1962, simultaneously with a drop of \$40 million in the official reserves.

International Monetary Fund.

The year 1961 was the most active in the existence of the I.M.F. During the course of it the Fund lent a net amount of \$1.7 milliard to member countries, of which \$1.4 milliard went to sterling-area countries and most of the rest to Latin America. For the first time since the Fund was created, the bulk of its net lending, in fact 83 per cent., was in currencies other than the U.S. dollar. Net drawings of dollars in 1961 were \$295 million, a little less than the \$328 million's worth of Deutsche Mark drawn; the other currencies principally used were \$225 million of French francs, \$175 million of lire and \$122 million of Dutch florins.

I.M.F.: Drawings and repayments, 1947-61.

Period	Drawings	Repayments	Net drawings
	in millions of U.S. dollars		
1947-49	777	20	757
1950-55	439	962	- 523
1956-57	1,669	177	1,492
1958-60	798	1,658	- 860
1961	2,479	770	1,709

Owing to the relative size of existing I.M.F. quotas, the calls made on the Fund's resources last year reduced its holdings of a number of currencies to very low levels. To some extent the Fund made this good by obtaining one-third of the \$1.5 milliard lent to the United Kingdom against gold from its own stock rather than by drawing down further its quota holdings of the currencies concerned. In addition, however, the question was raised as to whether substantial extra resources might not be needed if the Fund, while carrying out its usual operations, were also to be in a position to help in offsetting large-scale flows of funds between leading financial centres. At the annual meeting of the Fund's governors in Vienna in September 1961 it was decided to study the possibility of providing the Fund with such extra resources, and by the end of the year an agreement to this effect had been reached between the Fund and a group of its member countries.

Under this agreement, concluded in accordance with Article VII of the Fund Agreement, the ten countries listed in the following table have declared themselves ready to provide additional resources in their currencies up to a total of \$6 milliard, in the amounts shown. These funds are available only to the participating countries and only "when supplementary resources are needed to forestall or cope with an impairment of the international monetary system". By this is chiefly meant threats to leading currencies

I.M.F.: Supplementary resources.

Country	Amount	
	In millions of U.S. dollars	as a percentage of the participant's quota
Belgium	150	44
Canada	200	36
France	550	70
Germany	1,000	127
Italy	550	204
Japan	250	50
Netherlands	200	48
Sweden	100	67
United Kingdom	1,000	51
United States	2,000	48
Total	6,000	

arising out of speculative movements of funds. If a participant requests assistance under these arrangements, the Fund will only be able to extend it if the countries being asked to lend, after consulting amongst themselves, have unanimously or by a large majority decided in favour of doing so. Lenders under these arrangements who themselves encounter balance-of-payments difficulties at times when credits granted by them are outstanding will be entitled to ask the Fund for advance repayment. The Fund will give the overwhelming benefit of the doubt

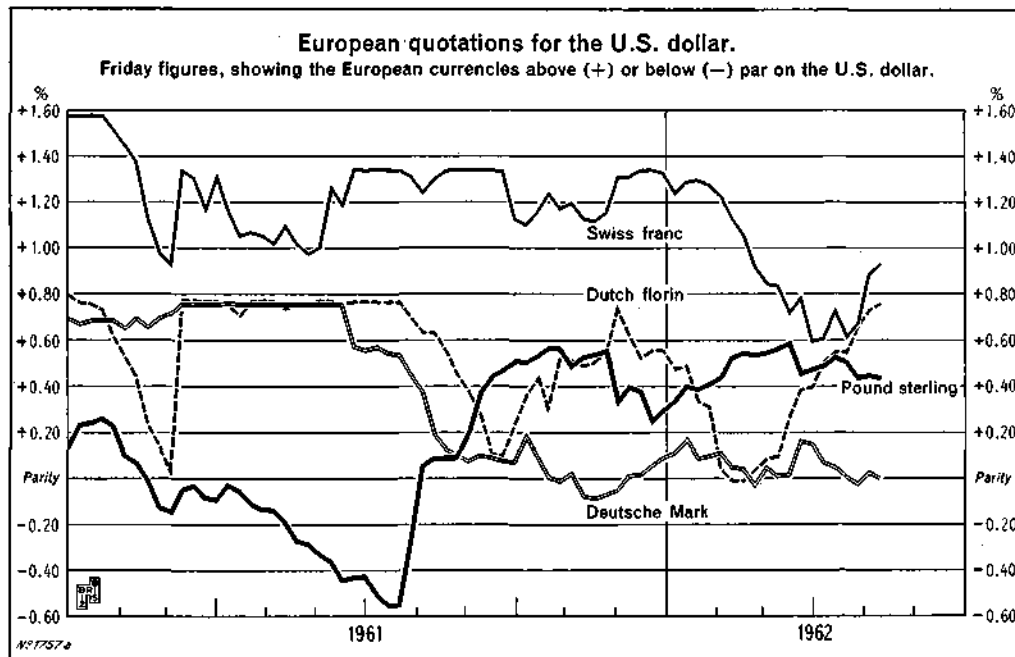
to any country making such a request. Advance repayments will be in other convertible currencies or in gold. Normally, however, such loans will be repayable in the creditor's currency. Fund members other than those listed in the above table are free to participate in these arrangements, provided that the Fund and the existing participants agree. The minimum commitment is \$100 million. These arrangements come into force for a period of four years as soon as seven countries with commitments equal to the equivalent of \$5.5 milliard formally notify the Fund of their adherence.

Foreign exchange.

In the exchange markets, the period under review opened with the immediate effects of the German and Dutch revaluations. These measures came hard on the heels of the somewhat brusque reappraisal of the dollar that had occurred in 1960, at a time when there was an undercurrent of uncertainty present in the markets. Not surprisingly, therefore, the first reaction was to see them as possible forerunners of further adjustments in exchange rates. More specifically, expectations were created that other countries might follow the German and Dutch example and even that a second revaluation of the Deutsche Mark might take place. Funds therefore moved rapidly and in substantial quantities to continental financial centres, and their currencies, which had shown some signs of weakening against the dollar, became very firm again. The main counterpart to this was an outflow from London, where, with a weak basic position and a high level of non-resident balances built up during the 1960 dollar crisis, the pound was particularly vulnerable.

Spot markets. At the beginning of March 1961 sterling was just below par on the U.S. dollar. Thanks to the massive use made of the official reserves, it actually strengthened a little in the days immediately after the revaluations. During the second quarter of the year, however, despite the very

substantial short-term assistance received from the Continent, spot sterling weakened fairly continuously against the dollar and by late July it was rather more than $\frac{1}{2}$ per cent. below par. Following the increase in Bank rate and the other measures then taken, sterling went above par on the dollar early in August and by late October it stood at $\$2.81\frac{3}{4}$ notwithstanding heavy purchases of dollars by the authorities. Right at the end of November, when there were rumours of a lira revaluation, and again in December, when funds were being repatriated to the Continent for the end of the year, the pound was for short periods rather less strong, though remaining above par. Except for these occasions, however, sterling has been consistently very firm on the dollar. Indeed, after three successive $\frac{1}{2}$ per cent. reductions of Bank rate between early March and late April 1962, quotations were still above $\$2.81$ at the beginning of May.



The recovery of the pound has been accompanied by some weakening vis-à-vis the dollar of the other three currencies shown in the graph. The lira and the French franc, which are not included, are no less strong today than they were a year ago; the former has been at or near its upper limit on the dollar throughout the period, while the French franc had a phase of relative weakness between August and October 1961.

It was in mid-June 1961 that the Deutsche Mark moved away from the upper support point vis-à-vis the dollar, as some of those who had been going short of dollars decided to cover their requirements. Soon after this came the reversal of the U.K. situation, the Berlin crisis and a falling-off of Germany's current external surplus. In mid-August the Deutsche Mark was nearly at par with the dollar, and this point was actually reached in mid-October. Towards the end of the year the Deutsche Mark strengthened

temporarily as large sales of dollars were made by the banks for window-dressing purposes. This movement was reversed early in 1962, and since then quotations have fluctuated around or slightly above the dollar parity.

The Dutch florin, which weakened momentarily on the news of the revaluation, soon returned to its upper limit on the dollar and stayed there until the sterling recovery began. After falling almost to its dollar parity in September 1961, it strengthened again as the banks repatriated money for fourth-quarter tax payments. Following another period of relative weakness between December 1961 and February 1962, the florin has recently been very firm once more. Again the reason was repatriation of funds by the banks, this time in connection with large issues on the Dutch capital market.

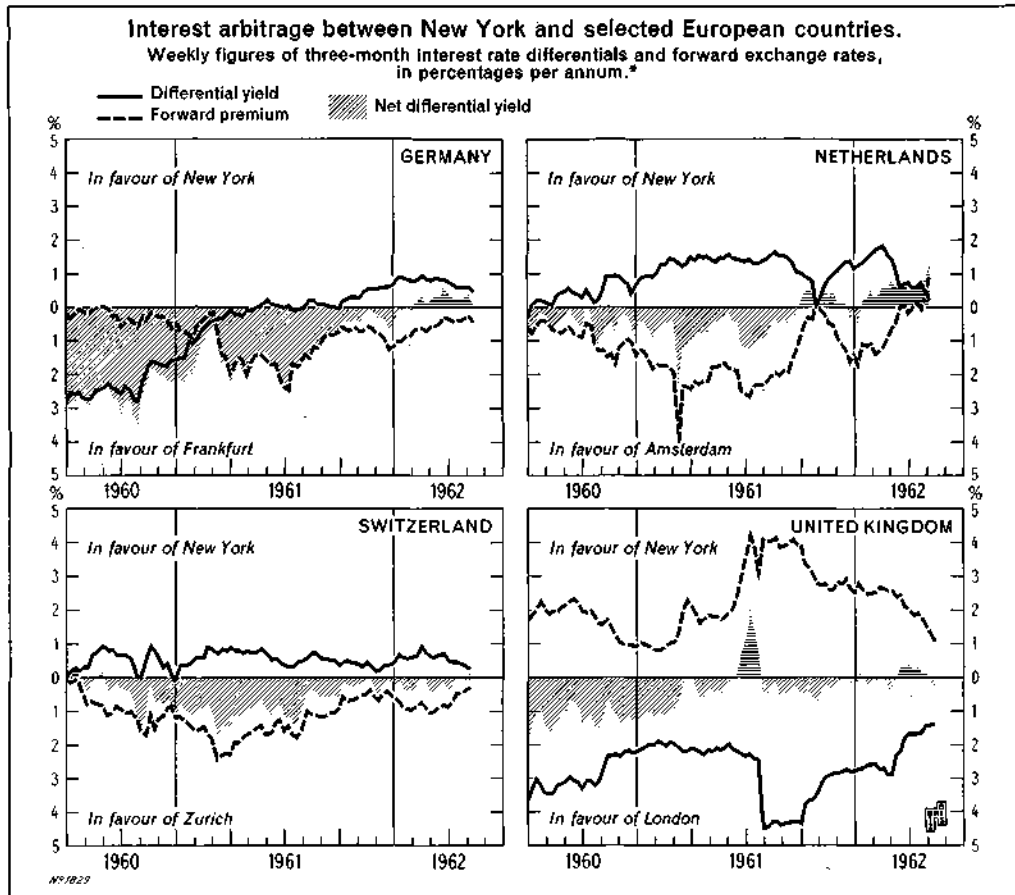
After weakening early in the year the Swiss franc fluctuated very little against the dollar during the rest of 1961, considering the very large movements of funds that occurred. During 1962, however, the franc has weakened appreciably, though it is still well above its dollar parity. This is the result of the deterioration that has been going on since early 1961 in the country's foreign trade position, coupled with the absence in recent months of any large inflow of funds from abroad.

During the first part of the period under review the Belgian franc was, except for a brief rise in the wake of the revaluations, weakening steadily against the dollar. The fall, which had started with the strikes towards the end of 1960, brought quotations down from the upper limit to 0.3 per cent. below par at the beginning of May 1961. There was then a rapid recovery, and by mid-year the franc was almost 0.5 per cent. above par on the dollar. It has since remained at or near that point. On the free market the movement of quotations, though much wider, has been similar. Between December 1960 and April 1961 the discount of the financial franc vis-à-vis the dollar increased from 1 to 3½ per cent.; by the end of June 1961 it had shrunk to ½ per cent., and since September it has practically ceased to exist.

Forward markets. This sequence of events in the spot markets for foreign exchange was accompanied by unusual developments in the forward rates and, consequently, in the net interest differentials between different financial centres. Given freedom of movement for funds seeking short-term investment, it is normal for any difference between short-term interest rates in two places to be more or less offset by the cost of obtaining forward cover for an investment in the centre with the higher rates. That is to say, it is unusual for a covered short-term investment abroad to produce a yield much in excess of, say, ½ per cent. above what could be obtained from a similar investment on the domestic money market.

Judged by this criterion, it is clear that conditions in the forward exchange markets were very unusual during part of the period under review; equally clearly, there has been a return to something like a normal state of affairs since the third quarter of 1961. This development is illustrated by the following graph showing the short-term interest rate differentials between

New York and four European centres, together with the course of forward dollar quotations in these centres. It should be emphasised that the existence of different possibilities for investing money at short term in any given market means that comparisons between any pair of markets based on a single type of investment in each place can do no more than illustrate the sort of situation that exists.



* The interest rates used for calculating the differential yields are those on three-month Treasury bills, except for Switzerland, where the rate paid for three-month bank deposits has been taken. The forward dollar rate in Germany is the market rate; it does not apply to exports of money by the German banks, for which special swap facilities are made available by the Bundesbank.

Vis-à-vis the other currencies shown in the graph, the forward dollar was already weak before the start of the period under review. Following the revaluations and the outflow of funds from London, it strengthened against the pound, so that the covered interest differential between London and New York became very small; at the same time, abnormal discounts developed or widened vis-à-vis continental currencies. A new source of uncertainty about the future course of exchange rates, coming soon after the 1960 dollar crisis, produced substantial forward sales of dollars both out of expected future receipts and, in some cases, with borrowed money. The danger arose of a further outflow of funds from New York such as had occurred in late 1960.

It was in these circumstances that the U.S. Treasury began to operate in the exchange markets to reduce the discount on the forward dollar, using the Federal Reserve Bank of New York as its agent. These operations have been mainly in Deutsche Mark and Swiss francs. It is known that forward sales of Deutsche Mark to an amount of DM 1 milliard were outstanding at the end of June 1961 and that by mid-December 1961 all these contracts had been liquidated. So far as operations in Swiss francs are concerned, forward sales were made amounting to the equivalent of \$150 million; these were partly covered by borrowing \$46 million's worth of Swiss francs from the Swiss National Bank in October 1961, which was fully repaid by the end of March 1962.

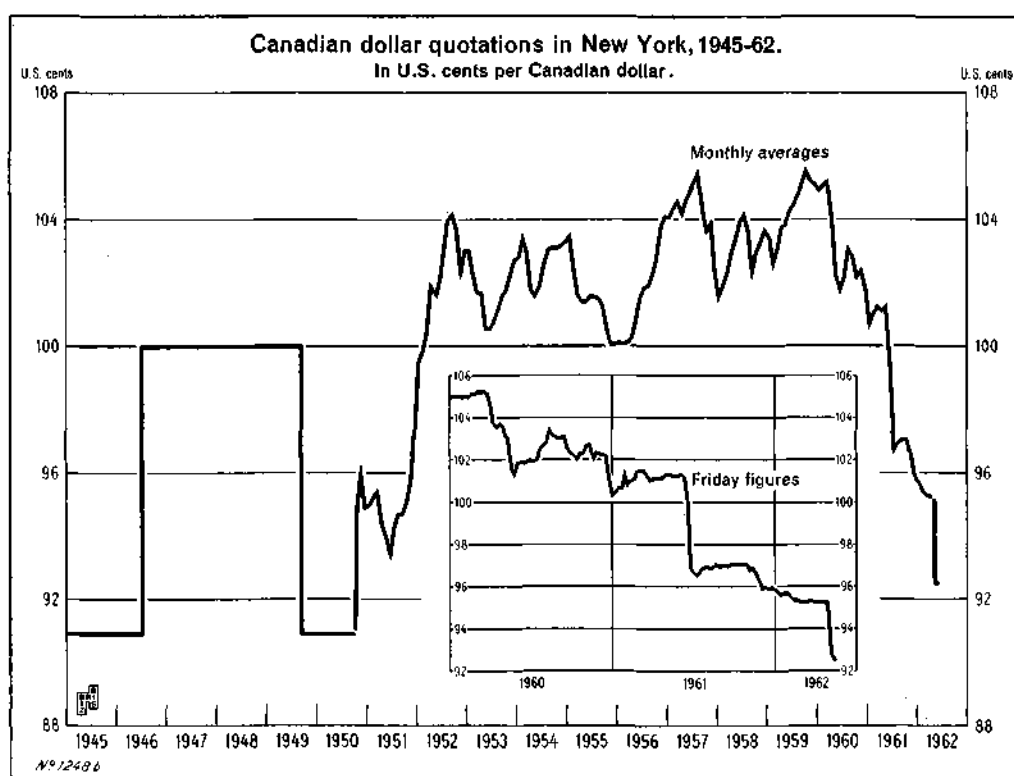
During the third week of June 1961, before the Berlin crisis developed, the dollar strengthened appreciably against the Deutsche Mark on the spot market while at the same time weakening on the forward market. This combination of events, coming three months after the outbreak of the March crisis, suggests that official U.S. intervention in the forward market for Deutsche Mark had persuaded some operators whose forward dollar sales were maturing to cover themselves in the spot market and that the U.S. authorities decided to reinforce this change of sentiment by tempering their support for the forward dollar.

The success of these forward operations was, of course, helped by a growing realisation that all the countries concerned were determined to prevent sudden disturbances from upsetting the international exchange rate structure, and the turn-round became decisive with the adoption of the U.K. stabilisation programme and the onset of the Berlin crisis. The latter event, by causing money to move once again into Switzerland, led to official U.S. intervention in the forward market for Swiss francs. In this case, too, the situation was successfully controlled, thanks partly to the deterioration that occurred in the Swiss balance of payments.

The Canadian dollar. During the past eighteen months the Canadian dollar has depreciated by about 10 per cent. Parallel with this the fluctuating exchange rate was gradually abandoned, a fixed rate being introduced in May 1962.

The change in exchange policy began at the end of 1960. During the first five months of 1961 the official monetary reserves went up by U.S. \$120 million, while the exchange rate was very steady at around 1 per cent. above par on the U.S. dollar. Quotations began to weaken at the beginning of June and by the 16th of that month the two currencies were at par with each other.

On 20th June 1961 came the announcement by the Finance Minister that the authorities were prepared to intervene in order to bring the Canadian dollar to a "significant discount" on its U.S. neighbour. Immediately a discount of 3 per cent. appeared. After this, movements of the exchange rate were small and those of the monetary reserves correspondingly large. In the three months following the adoption of an overtly managed exchange rate the reserves declined by \$61 million; most of this was the result of Canada's



contribution to the British drawing on the I.M.F. In October an inflow of funds caused no less than \$187 million to be added to reserves with virtually no change in the rate. From the end of that month onwards, however, there was an extremely gradual further depreciation of the Canadian dollar, so that by late April 1962 the discount on the U.S. currency was $4\frac{3}{4}$ per cent. Moreover, in the six months ending in April 1962 the reserves dropped by \$517 million to \$1,594 million, their lowest level since August 1951.

Looked at in terms of the balance of payments, what happened was that the large current-account deficit was no longer covered by the inflow of capital from other countries. On top of this there occurred some movement of funds in the expectation of a further depreciation of the currency, particularly after the April 1962 Canadian budget. The result was that what started out early in 1961 as, in effect, an operation to support other currencies had turned a year later into a support operation for the Canadian dollar. On 2nd May 1962 the Canadian dollar was given, with the approval of the I.M.F., a par value equal to $92\frac{1}{2}$ U.S. cents. Fluctuations on either side of the parity will be within the normal 1 per cent. margins allowed by the Fund. This decision closed a chapter in Canadian exchange rate history that had opened in late 1950 and which is illustrated in the preceding graph. In mid-May 1962 the Canadian dollar was about $\frac{1}{2}$ U.S. cent below the parity.

Other exchange developments. In western Europe there have been a number of modifications in what is left of the exchange control systems.

Most of these changes have been made by countries with substantial external surpluses with a view to further liberalisation of non-commercial transactions.

France has increased the foreign travel allowance for residents twice during the period under review. In June 1961 it was raised from NF 1,500 to NF 2,500 and again in February 1962 to NF 3,500. The amount of French bank-notes that residents may take with them out of the country has also been put up, in two stages, from NF 250 to NF 750. On 2nd April 1962 French residents were given permission to make portfolio investments abroad via the official exchange market. This meant the abolition of the *devises-titres* and the return to one exchange rate for all transactions. Non-residents may now buy or sell foreign securities on the French stock exchange, while French residents may negotiate French securities in other countries.

In Italy full convertibility of the lira for non-residents was reached at the beginning of 1962 with the virtual merging of current and capital non-resident accounts. The two types of account still exist in name, but now that money can be freely transferred from one to the other — previously, capital-account balances could not be paid into current accounts — there is no longer any real difference between them. Convertibility is still some way off for Italian residents. A small further step was, however, taken in this direction at the end of 1961, when permission was granted for the purchase of bonds of international institutions to which Italy belongs. Medium-term credit institutions and financial corporations have been allowed since February 1961 to invest in foreign securities, while Italian business concerns may do so in order to acquire participations in foreign companies belonging to the same industrial sector as themselves.

Spain has taken two important measures in favour of non-residents during the past year. Firstly, the peseta was made convertible on current account for non-residents in July 1961. This was followed, in March 1962, by a decree allowing foreigners who invest in Spanish shares to remit freely at official rates both their earnings and the proceeds of sale of their investments, including any capital gains realised.

In contrast to the steps taken in France, Italy and Spain, the U.K. authorities tightened exchange controls somewhat in July 1961. British companies with branches and subsidiaries overseas were requested to repatriate a higher percentage of their earnings than before, while a stricter control was introduced over the accounts of U.K. companies operating outside the sterling area in order to improve their rate of remittance. More important, the Treasury stiffened its attitude to requests from British firms for foreign exchange to make direct investments outside the sterling area, only giving permission in cases where a clear and prompt balance-of-payments advantage could be demonstrated.

In May 1962, while retaining the above rule so far as access to the official exchange market is concerned, the Treasury announced that in future the proceeds of sales by U.K. residents of non-sterling securities could be

purchased by firms requiring exchange for investments outside the sterling area which do not pass the official test. At the same time the opportunity was taken to amalgamate the two pools of foreign currency, arising respectively from the sale of American and other non-sterling-area securities by U.K. residents, which previously had been available only for portfolio investment outside the sterling area. At present the premium payable to obtain this type of foreign exchange is about 3 per cent.

Mention may also be made of three other European countries where exchange measures were put into effect or announced:

(1) On 4th August 1961 the Icelandic króna was again devalued, the par value declared to the I.M.F. being changed from I.Kr. 38 to I.Kr. 43 per U.S. dollar. The new gold content of the currency is 0.0206668 grammes. Announcing this measure, the Board of Management of the Central Bank of Iceland said that it had been made necessary by the large wage increases granted in June 1961.

(2) On 1st December 1961 it was announced that there is to be a currency reform in Finland at the beginning of 1963. At that date a new markka, equal to 100 current markkas, will be introduced. Prices will all be changed correspondingly.

(3) On 1st January 1962 the Bulgarian lev was revalued on the basis of one new unit for ten old ones. The new gold content of the currency is 0.759548 grammes and the dollar exchange rate is Leva 1.17 = U.S.\$1.

Outside Europe there have been a number of changes in exchange rates during the past year. In Latin America the most important of these have been the depreciations of the Argentine and Brazilian currencies.

In Argentina the single fluctuating rate of exchange introduced in January 1959 was stable from the latter part of that year onwards at about Pesos 83 to the dollar. Whereas this had been accompanied by a rise in monetary reserves during 1960, the last nine months of 1961 saw the gross reserves fall from \$700 to 450 million, while the cost-of-living index went up over 20 per cent. Following the departure of Dr. Frondizi from the Presidency in April 1962 the authorities ceased to support the currency and the exchange rate fell to about Pesos 100 to the dollar.

Brazil's exchange system was simplified in March 1961, the exchange auctions being abolished and the free market used for most transactions. A further step towards unification of rates was taken in July 1961, when the preferential rate that had applied to wheat and oil imports was done away with. Following the resignation of President Quadros in August 1961 the cruzeiro fell from 250 to 310 to the dollar, and in October 1961 separate exchange markets were created for trade operations and financial remittances, 50 per cent. six-month non-interest-bearing deposits at the Bank of Brazil being required for the latter. The effect of this was increased activity on the black market, where the cruzeiro fell to 460 to the dollar in December 1961.

The exchange markets were then reunified and the system of deposits against financial remittances was eliminated by May 1962. On 21st May 1962 the free rate was changed to Cruz. 359 = U.S. \$1; black-market quotations at that time were about 10 per cent. higher.

In Chile the previously existing single fluctuating exchange rate was replaced on 15th January 1962 by a dual exchange system. There is a fixed official rate of Esc. 1.053 per U.S. dollar, applicable to exports, permitted imports, government transactions and certain capital items. Other transactions take place at a fluctuating rate which in April 1962 stood at Esc. 1.49 per dollar.

On 19th July 1961 the par value of the Ecuadorian currency was changed from Sucres 15 to Sucres 18 = U.S.\$1. The new gold content of the sucre is 0.0493706 grammes. A month earlier Ecuador had received a \$10 million stand-by credit from the I.M.F., valid for one year. The devaluation came at the end of a period of uncertainty about exchange rate policy that had caused some loss of monetary reserves. It was accompanied by a simplification of the exchange rate system, there being a free market for certain financial and invisible transactions whilst all other business takes place at a rate very close to the new parity.

In Costa Rica the currency was devalued on 2nd September 1961, the par value being changed from Colones 5.615 to Colones 6.625 = U.S.\$1. The new gold content of the currency is 0.134139 grammes. Costa Rica received a stand-by credit of \$15 million from the Fund in conjunction with the devaluation. The new parity applies to all imports and to most exports; taxes are for the time being levied on coffee, banana and sugar export proceeds.

Elsewhere, there was a devaluation of the Israel pound on 9th February 1962. The par value declared to the I.M.F. was changed from I£1.8 to I£3 = U.S.\$1 and the new gold content of the currency fixed at 0.296224 grammes. At the same time the multiple rates hitherto in force were abolished.

On 7th May 1962 Egypt virtually abandoned its multiple exchange rate system and fixed a rate of E£1 = U.S.\$2.30 for nearly all payments transactions with foreign countries. This is not a new parity but corresponds to a discount for the Egyptian pound of 20 per cent. on the existing parity of E£1 = U.S.\$2.87. Suez Canal dues will continue to be paid on the basis of the official parity.

On 31st August 1961 it was announced that New Zealand had become a member of the International Monetary Fund, the International Bank for Reconstruction and Development and the International Finance Corporation. New Zealand's quota at the Fund is \$125 million. The declared par value of the currency, fixed on 30th October 1961, is NZ£1 = U.S.\$2.78 and the gold content is 0.359596 grammes.

Between mid-1960 and mid-1961 the system of convertible currencies that had been successfully established in December 1958 was put to a very severe test. The gold and exchange markets were strongly influenced by expectations of changes in currency relationships and there was a danger that these expectations might take charge of events.

One of the reasons for the large-scale movements of money which were part cause and part effect of these disturbances was differences in interest rates. Certainly they played an important part in the dollar crisis of 1960. Since then, except for the interruption caused by the sharp increase in Bank rate in London last summer, there has been a noticeable coming-together of money rates in different centres. To some extent this reflects a lessening of differences in economic conditions as between one country and another; more important, external considerations have come to play a larger part in the determination of interest rate policies.

Large-scale movements of funds also take place at certain times, particularly over the ends of years, in connection with window-dressing operations by continental European commercial banks, a part of whose liquidity is normally held in New York or London. It is doubtful whether, from the point of view of the efficiency of the national banking systems concerned, any important purpose is served by these temporary repatriations of funds. At the same time, from the international point of view they could certainly be a nuisance.

A third cause of sudden international capital movements is lack of confidence in currencies. Such doubts, in cases where no political element is involved, are usually about a country's basic position and can often be set definitely at rest only over a longish period. Time has to be bought, therefore, in which fundamental adjustments can take place. The problem here is to have patently adequate means of meeting emergencies, without allowing basic weaknesses to be ignored.

During the past year a great deal has been done by co-operation between different countries both to meet actual monetary disturbances and to guard against possible future ones. The various steps taken have already been mentioned elsewhere in this Report. More important than their details is the fact that they have occurred and exist. It has been made absolutely clear that any short-term disturbances will be met with prompt action and consequently there has been a growing realisation of the power that the monetary authorities, acting together, can exercise.

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 reconstitution of the Organisation on 30th September 1961 had no practical repercussions on the Agreement which continued as before within the new framework of the Organisation for Economic Co-operation and Development.

In the autumn of 1961 the Board of Management carried out the review prescribed by Article 32 of the Agreement; in the circumstances then obtaining it appeared inopportune to consider substantial alterations. Provision was therefore made for a further reconsideration of the Agreement in 1962 while in the meantime a number of technical changes only were introduced together with one appreciable modification relating to the granting of credits.

These amendments are described in the first part of this chapter; the second and third parts deal with the operations and management of the European Fund and Multilateral System of Settlements up to March 1962.

1. Changes in the Agreement.

The maximum period for which credits may be granted from the European Fund has been extended from two to three years; in special cases the borrower may be accorded a further period of up to two years solely for the purpose of repaying the credit.

The minimum level of the Fund's liquid assets, which previously was fixed by Council decision at \$100 million,* may now be varied by the Board of Management with reference to prevailing circumstances.

A minor amendment to the provisions governing the distribution of the net income of the Fund has the effect of slightly increasing the share due to the Residual Capital on termination of the Agreement. This change was made to take account of the fact that member countries receive interim payments of interest on their contributions twice yearly, whereas the income attributable to the Residual Capital is paid over only on termination.

The sole change affecting the Multilateral System of Settlements was the deletion of Article 15. This provision (which had not been utilised) ruled that "ad hoc" arrangements between Contracting Parties for the support of their currencies had to be notified if balances arising under such arrangements were to be brought into the settlements. Such balances may now be brought in

* 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.

without specific notification provided that they fulfil the conditions for the multilateral settlements.

In addition to these amendments, some minor modifications were made to clarify certain technical procedures and a few purely formal changes were necessitated by the reconstitution of the Organisation. All the amendments came into force on 1st January 1962, but that relating to the distribution of the Fund's net income and those consequential to the coming into force of the Convention on O.E.C.D. are deemed to have taken effect from 14th April 1960 and 30th September 1961 respectively.

2. Operations under the Agreement.

European Fund.

A. GRANTING AND UTILISATION OF CREDITS. A summary of the credits granted from the European Fund, showing interest rates and service charges, is contained in the following table. All amounts actually drawn are paid out and are repayable in gold.

E.M.A.: Credits granted from 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	
Credits repaid or cancelled				
Greece	15.0	16th February 1959 to 16th December 1959	3.50	0.25
Turkey	21.5	16th February 1959 to 15th February 1961	3.50	0.25
Spain	75.0	1st August 1959 to 16th February 1961	3.75	0.25
	25.0	15th February 1960 to 9th August 1961		
Iceland	7.0	20th February 1960 to 19th February 1962	4.00	0.25
	5.0	1st August 1960 to 1st April 1962		
Credits available	15.0	1st January 1961 to 31st December 1962	3.75	0.25
Turkey	20.0	15th February 1961 to 14th February 1963		
	15.0	1st July 1961 to 30th June 1963		
Iceland	5.0	1st April 1962 to 31st March 1964	3.75	0.25
Turkey	20.0	1st April 1962 to 31st March 1965	3.75	0.25
Credit granted and not available at end of March 1962				
Turkey	25.0	—	3.75	0.25

At the end of March 1961 credits totalling \$72 million, of which \$29 million had been drawn and was outstanding, were available to three countries.

The first tranche of the credit of \$100 million granted to Spain in August 1959 had been cancelled at the request of Spain in February 1961. The second tranche, amounting to \$25 million and due on 14th February 1962, was cancelled by Spain on 9th August 1961; no drawing had been made on it.

Iceland was granted a credit of \$12 million in February 1960. Of the first tranche of \$7 million, made available on 20th February 1960, \$5 million was drawn in March and \$2 million in June of the same year. This tranche was repaid by Iceland in three instalments: \$2 million on 27th December 1961, \$2.5 million on 24th January 1962 and the balance on 19th February 1962. No drawing was made on the second tranche of \$5 million which was released for two years on 1st August 1960; it was cancelled with effect from 1st April 1962 and on the same date a further credit of \$5 million was made available to Iceland, again for a period of two years. This was one of two new credits granted from the European Fund in the past year.

In December 1960 Turkey was granted a second credit of \$50 million in three tranches, each with a currency of two years. The first tranche (\$15 million available from 1st January 1961) together with \$7 million of the second tranche (\$20 million available from 15th February 1961) was drawn on 15th February 1961, on which date Turkey also repaid to the European Fund \$21.5 million, the amount outstanding under the first credit. The balance of the second tranche (\$13 million) was drawn on 27th June 1961. The third tranche of \$15 million, which was released from 1st July 1961 after the Organisation had considered the progress of the Turkish stabilisation programme, was drawn in full on 17th July 1961.

Turkey was granted a third credit of \$45 million from the European Fund in March 1962. This credit was made available in two tranches, each for a period of three years: \$20 million from 1st April 1962 and, provided that the Organisation considers that satisfactory progress is being made towards achieving the aims of the stabilisation programme, \$25 million from 1st August 1962.

On the various credits granted from the European Fund, between June 1959 (when the first drawing was made) and March 1962, there were fourteen drawings totalling \$104.5 million; of this amount, \$54.5 million had been repaid. The net amount drawn and outstanding after the operations for March 1962 was, therefore, \$50.0 million; a further \$25 million was available for drawing.

The table on the utilisation of credits granted shows the position after the operations for each month in which changes occurred.

B. CALLING-UP OF THE CAPITAL. In the past the Agent was required automatically to call up the capital of the European Fund as soon as the liquid assets fell below \$100 million. From January 1962 the call-up is subject to variation at the discretion of the Board of Management.

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
June	—	15.0	35.0	25.0	—	5.0	7.0	45.0	42.0	87.0
July	—	—	50.0	25.0	—	5.0	7.0	30.0	57.0	87.0
August	—	—	50.0	—	—	5.0	7.0	5.0	57.0	62.0
December . . .	—	—	50.0	—	—	7.0	5.0	7.0	55.0	62.0
1962										
January	—	—	50.0	—	—	9.5	2.5	9.5	52.5	62.0
February	—	—	50.0	—	—	5.0	—	5.0	50.0	55.0
March	—	20.0	50.0	—	—	5.0	—	25.0	50.0	75.0

The call-up mechanism was first brought into operation on 3rd August 1959 and has been used three times since then, most recently on 7th March 1960. In all \$38 million has been called up from member countries with non-deferred contributions. The uncalled capital of the Fund at the end of March 1962 amounted to \$421.5 million, consisting of \$123.5 million obligated by the U.S. Government and inherited from the European Payments Union, plus a further \$297.9 million representing member countries' contributions.

Multilateral System of Settlements.

In three and a quarter years payments to or by the European Fund in respect of the multilateral settlements have totalled \$33.6 million. The relative insignificance of this amount is largely explained by the fact that the Multilateral System was designed to encourage settlements through the exchange markets and to assist member countries to dispense with bilateral payments agreements.

The settlements take place monthly. No amounts drawn as interim finance have been brought into the settlements, since all drawings have been repaid before the end of the month. Only one country has made extensive

E.M.A.: Payments made under the Multilateral System of Settlements,
January 1959 to March 1962.

Accounting period	Payments made by the Fund to (+) or to the Fund by (-)									Total pay- ments by and to the Fund
	Austria	Denmark	Greece	Iceland	Italy	Nether- lands	Norway	Sweden	Turkey	
	in thousands of U.S. dollars									
1959 first financial year	+ 10,527 —	+ 10 67	— 10,707	— —	+ 243 —	+ 1,400 1,378	+ 44 876	— 243	+ 2,350 1,304	14,574
1960 second financial year	+ 8,676 —	+ 207 83	— 9,283	— 1	— —	— —	+ 343 1,045	— —	+ 2,202 1,016	11,428
1961										
January . . .	+ 1,588	—	— 1,220	—	—	—	+ 120	—	— 489	1,708
February . . .	+ 1,856	—	— 998	—	—	—	+ 48	—	— 704	1,702
March	+ 1,101	—	— 1,078	—	—	—	— 36	—	+ 13	1,113
April	+ 956	—	— 782	—	—	—	— 7	—	— 167	956
May	+ 240	—	— 280	—	—	—	+ 41	—	— 0	280
June	+ 340	—	+ 71	—	—	—	— 56	—	— 355	411
July	—	—	+ 63	—	—	—	+ 16	—	— 79	79
August	—	+ 23	+ 50	— 23	—	—	+ 51	—	— 101	125
September . .	—	—	+ 77	—	—	—	— 89	—	+ 12	89
October	—	—	— 4	—	—	—	— 33	—	+ 36	36
November . . .	—	—	— 265	—	—	—	— 6	—	+ 270	270
December . . .	—	—	— 297	—	—	—	— 26	—	+ 323	323
1962										
January	—	—	— 119	—	—	—	— 56	—	+ 175	175
February . . .	—	—	— 219	—	—	—	— 25	—	+ 244	244
March	—	—	— 133	—	—	—	+ 26	—	+ 107	133
Total payments by the Fund (+) . . or to the Fund (—) . .	+ 25,083 —	+ 240 150	+ 262 25,384	— 24	+ 243 —	+ 1,400 1,378	+ 688 2,254	— 243	+ 5,732 4,216	33,647
Net amount of settlements .	+ 25,083	+ 90	— 25,122	— 24	+ 243	+ 22	— 1,566	— 243	+ 1,517	—

Note: All but three 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) (ii).
The three 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; a balance of Icelandic kronur notified by Norway in February 1960 and a balance of Icelandic kronur notified by Denmark in August 1961.

use of the right to obtain interim finance from other members. The current rate of interest charged on drawings is 3 per cent. (until February 1960 it was 2½ per cent. and before July 1959 2 per cent.).

The balances reported for settlement, with the three exceptions noted below, have arisen entirely under bilateral payments agreements between member countries. In recent months the amounts declined in value as such agreements were progressively abandoned. Of the seven agreements originally notified only two remain in force; three were cancelled during the past year: those between Greece and Austria (in May 1961), Turkey and Austria (at the end of June 1961) and Turkey and Norway (at the end of October 1961).

On three occasions balances on accounts between central banks have been brought into the settlements. Such balances may be notified by their owner

either at the end of the month or — as was the case in these three instances — when a change occurs in the buying or selling rates for the currency in which the account is denominated. The balances in question, reported as a result of modifications in the Swedish exchange margins in November 1959 and the Icelandic devaluations of February 1960 and August 1961, were settled at the old selling rates of the two currencies for the U.S. dollar; in each case the amounts were small.

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

The Board of Management of the E.M.A. supervises the execution of the Agreement and also advises the Council of the O.E.C.D. on all related matters. In addition the Board follows closely the general economic and financial situation of member countries on the basis of reports made by the Secretariat, by the various committees of the Organisation and, on occasion, by special missions. In discharging these functions the Board meets about once a month. Dr. von Mangoldt, who had previously presided from June 1952 over the Managing Board of the European Payments Union, was appointed Chairman of the Board of Management of the E.M.A. when it was first established; Dr. von Mangoldt relinquished this office in January 1962 in order to take up other duties and was succeeded by M. Hay of the Swiss National Bank.

The Agent makes monthly reports on the operations and the investments of the European Fund and on the working of the System of Settlements, and also provides the Board with 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 in the previous pages are reflected in the following summary of the Statement of Account.

Credits and claims outstanding, which at the opening of business amounted to \$35 million representing loans to Norway and Turkey transferred from the E.P.U., stood at \$87.5 million at the end of 1960 as a result of drawings on credits granted. The total declined following a repayment by Spain in January 1961 but subsequently rose to a high point of \$92 million in July 1961, after Turkey drew the full amount of its second credit. More recently repayments by Iceland and the first amortisation payment by Norway and Turkey in respect of the loans mentioned above reduced the total to \$82.8 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 member countries' contributions, as reflected by the decline in uncalled capital. The high level of liquidity during the first half of 1961

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 out- standing		Capital Fund	Income and expendi- ture account
in millions of units of account							
Opening	113.0	123.5	328.4	35.0	600.0	600.0	—
1959 December	104.4	123.5	302.9	80.0	610.9	607.5	3.4
1960 December	106.4	123.5	297.9	97.5	615.3	607.5	7.8
1961 January	130.5	123.5	297.9	83.5	615.5	607.5	8.0
February	129.7	123.5	297.9	64.0	615.1	607.5	7.6
March	129.8	123.5	297.9	64.0	615.2	607.5	7.7
April	129.9	123.5	297.9	64.0	615.3	607.5	7.8
May	130.0	123.5	297.9	64.0	615.4	607.5	7.9
June	117.6	123.5	297.9	77.0	616.0	607.5	8.5
July	102.3	123.5	297.9	92.0	615.6	607.5	8.3
August	102.4	123.5	297.9	92.0	615.9	607.5	8.4
September	102.5	123.5	297.9	92.0	616.0	607.5	8.5
October	102.6	123.5	297.9	92.0	616.1	607.5	8.6
November	102.7	123.5	297.9	92.0	616.2	607.5	8.7
December	109.2	123.5	297.9	87.8	618.4	607.5	10.9
1962 January	111.3	123.5	297.9	85.3	618.0	607.5	10.5
February	113.9	123.5	297.9	82.8	618.1	607.5	10.6
March	114.0	123.5	297.9	82.8	618.3	607.5	10.8

was the corollary of the decrease in credits outstanding and might at any time have been reduced by drawings on credits available. The successive falls in June and July 1961 were due to drawings on Turkey's second credit.

The total of the Statement increased partly because of the capital contribution obligated by Spain on its accession to the Agreement in July 1959 and partly because of the accumulation of undistributed income.

Contributions called up from member countries bear interest paid out of the income of the European Fund at rates decided half-yearly. To date there have been five distributions, each at the rate of 2 per cent. per annum, covering the period from January 1959 to December 1961.

* * *

The European Monetary Agreement has now been in existence for more than three years; throughout this period, which, beginning with the introduction of convertibility, has since covered the crisis on the London gold market, the revaluations of the Deutsche Mark and Dutch florin and the Basle arrangements for sterling, the Board of Management has proved itself to be a valuable centre for mutual consultation and co-operation within the framework of the Agreement. The reconstitution of the Organisation, which took effect from 30th September 1961, brought no material change in the Agreement, which is, however, to be subject to a comprehensive review during the year 1962.

PART III

ACTIVITIES OF THE BANK.

1. Operations of the Banking Department.

The balance sheet of the Bank as at 31st March 1962, 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 total of the first section of the balance sheet as at 31st March 1962 amounted to 4,731,975,095 francs,* against 3,973,433,539 francs on 31st March 1961.

The table below 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 Economic Co-operation and Development 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

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

Financial years	Total at end of year	Difference
	in millions of francs	
1957-58	2,232	—
1958-59	3,528	+ 1,296
1959-60	3,430	— 98
1960-61	3,973	+ 543
1961-62	4,732	+ 759

as at 31st March 1961, the amounts in question are shown at the foot of the assets column under the heading "Memorandum accounts (b)". The figures are given in the table on the next page.

After having risen — almost without a break — from 3,973 million francs at the beginning of the financial year to 4,980 million on 30th September 1961, i.e. by more than 1 milliard francs, the total of the first part of the monthly statement of account gradually declined to 4,621 million on

* Except where otherwise indicated, all amounts in this Part are expressed in gold francs. 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 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.

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

Items	31st March 1961	31st March 1962
	in millions of francs	
Earmarked gold	1,288	1,306
Bank balances	39	53
Bills and other securities	1,031	1,067
Total of items not included in the balance sheet	2,338	2,426

31st December 1961. It then rose again slightly and at the end of the financial year it stood at 4,732 million.

COMPOSITION OF RESOURCES (liabilities).

A. Own funds.

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

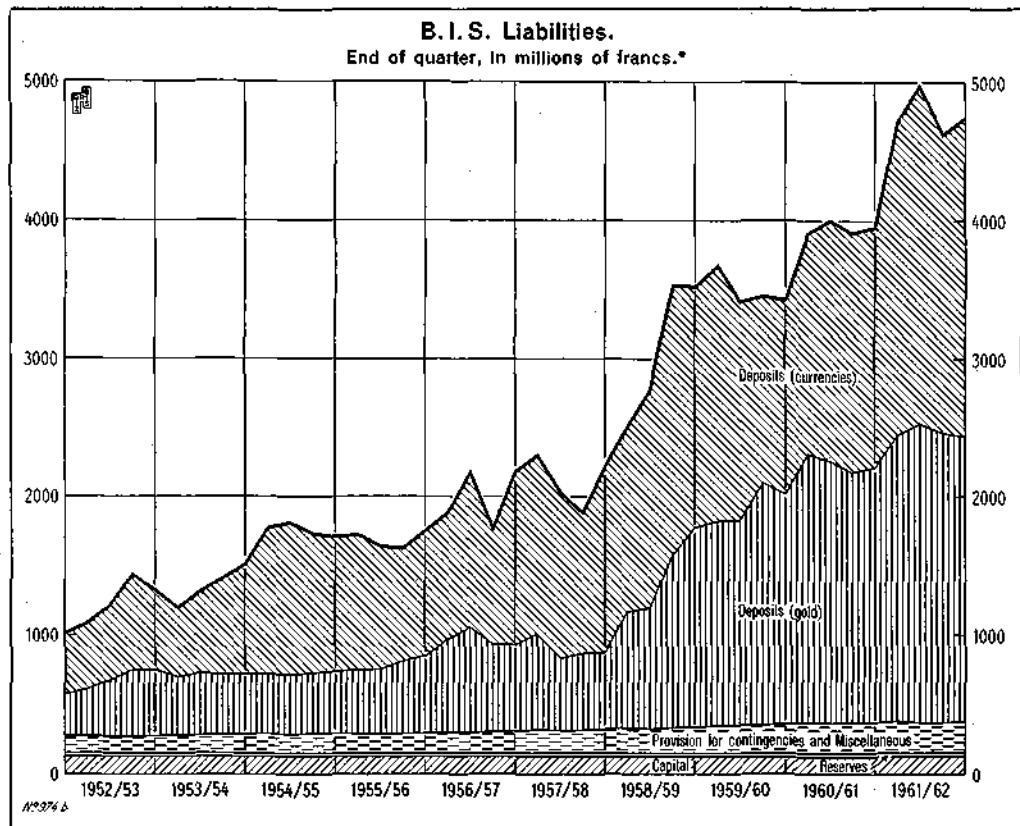
The reserves in the form of the Legal Reserve Fund and the General Reserve Fund rose from 23.4 million francs on 31st March 1961 to 24.1 million on 31st March 1962. As a result of the operations of the year (see below, Section 5, "Financial results") the balance of the Profit and Loss Account, which comprises the profit for the financial year ended 31st March 1962 and the balance brought forward from the preceding year, amounted to 20.2 million francs on 31st March 1962, against 22.8 million a year earlier. The amount of the item "Provision for contingencies" rose from 181.5 million francs on 31st March 1961 to 189 million on 31st March 1962. For the item "Miscellaneous" the figure was 17.2 million francs at the beginning of the year and 20.3 million at the end.

Thus, at the end of March 1962 the Bank's own funds amounted to 379 million francs, i.e. about 9 per cent. of the total of deposits (4,353 million francs) and about 8 per cent. of the total of the balance sheet on the same date (4,732 million francs).

The following table shows the composition of the Bank's resources at the end of each of the last five financial years.

B.I.S.: Composition of resources.

Financial years ended	Own funds	Deposits	Total	Ratio of own funds to deposits | total resources	
	in millions of francs			in percentages	
31st March 1958	323	1,909	2,232	17	14
31st March 1959	340	3,188	3,528	11	10
31st March 1960	361	3,069	3,430	12	11
31st March 1961	370	3,603	3,973	10	9
31st March 1962	379	4,353	4,732	9	8



B. Deposits.

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

The deposits of central banks showed an increase of some 20 per cent., while those of "Other depositors" rose by about 30 per cent.

B. I. S.: Deposits, by origin.

Origin	31st March 1961	31st March 1962	Difference
	in millions of francs		
Central banks	3,320	3,986	+ 666
Other depositors	283	367	+ 84
Total	3,603	4,353	+ 750

Two features of the past financial year were a substantial increase in sight deposits in gold — mostly due, as in the preceding year, to sales of gold by the Bank, the proceeds of which were left on account in its books — and a very marked decline in deposits in gold at not exceeding three months. This decline reflects, in part, a reduction in the Bank's operations on the

B.I.S.: Deposits, by term.

Term	Deposits in gold			Deposits in currencies		
	31st March 1961	31st March 1962	Difference	31st March 1961	31st March 1962	Difference
in millions of francs						
At sight	1,399	1,815	+ 416	43	43	—
At not exceeding 3 months	426	157	— 269	1,458	1,647	+ 189
Between 3 and 6 months	16	—	— 16	153	529	+ 376
Between 6 and 9 months	—	38	+ 38	72	—	— 72
Between 9 and 12 months	—	50	+ 50	—	—	—
Over one year	—	—	—	36	74	+ 38
Total	1,841	2,060	+ 219	1,762	2,293	+ 531

gold market. On the other hand, the Bank received fresh deposits in gold at between six and twelve months, which enabled it to invest accordingly.

The total of sight deposits in currencies, which are relatively small, remained unchanged. There was, on the other hand, a substantial increase in deposits at not exceeding three months and, above all, in deposits at between three and six months, which, taken together, went up by roughly 35 per cent. over the financial year. The decline in deposits at between six and nine months was partly offset by a rise in deposits at over one year. At the end of the financial year deposits in currencies represented 53 per cent. of the total.

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 1961		31st March 1962		Difference	
	in millions of francs					
Cash						
Gold	1,687		2,469		+ 582	
Currencies	95	1,982	56	2,525	- 39	+ 543
Investments						
Gold	101		114		+ 13	
Currencies	1,817	1,918	2,024	2,138	+ 207	+ 220
Total						
Gold	1,988		2,583		+ 595	
Currencies	1,912	3,900	2,080	4,663	+ 168	+ 763

Whereas investments in a weight of gold increased only slightly, the Bank's bullion holdings rose during the financial year by 582 million francs, or almost one-third of their total on 31st March 1961. Of this amount, 219 million was accounted for by the increase in deposits in a weight of gold; the remaining 363 million is chiefly the result of changes in the net balance of forward operations, which this year showed a negative figure of 233 million

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 francs					
1961						
March . . .	1,887 (min.)	101	1,841 (min.)	147	+ 143	290
June	1,893	113	2,059	— 53	+ 330	277 (min.)
July	2,054	85 (min.)	2,199 (max.)	— 60 (min.)	+ 339 (max.)	279
August . . .	2,377	86	2,183	280	+ 15	295 (max.)
November . .	2,553 (max.)	100	2,092	561 (max.)	— 275 (min.)	286
1962						
March . . .	2,469	114 (max.)	2,060	523	— 233	290
Difference: 31st March 1961 to 31st March 1962	+ 582	+ 13	+ 219	+ 376	— 376	—

francs (gold to be delivered), compared with a positive one on 31st March 1961 of 143 million francs (gold receivable).

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

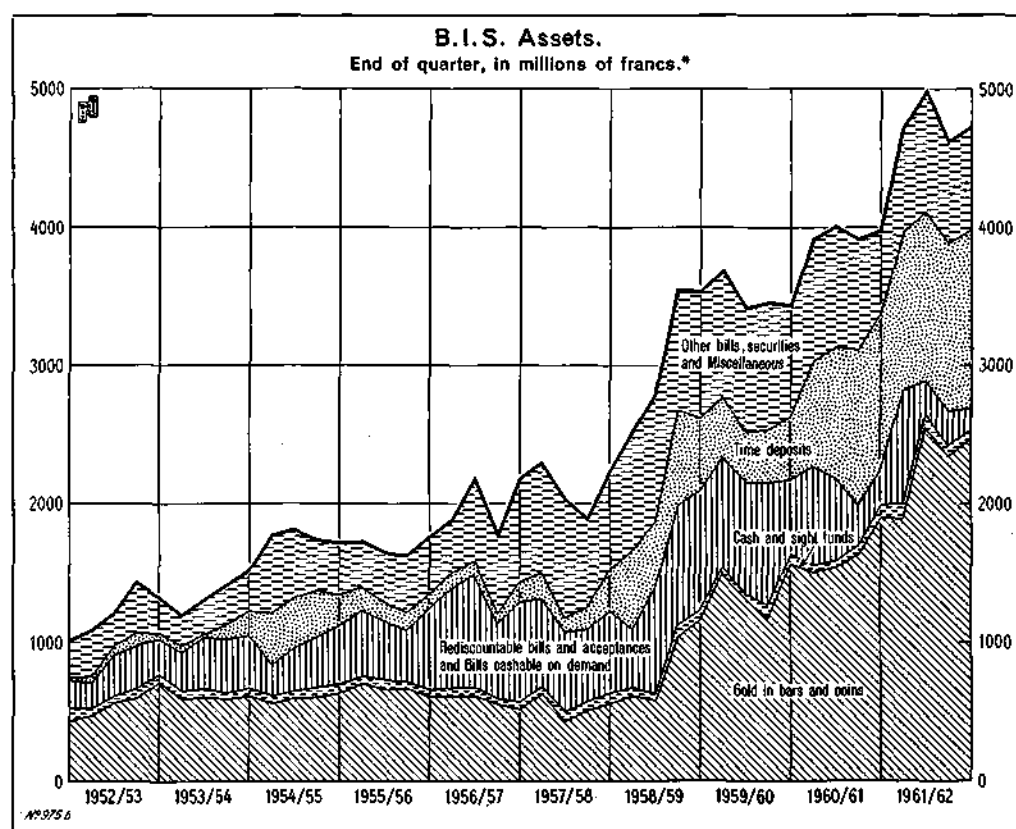
A. Sight funds, rediscountable investments and investments cashable on demand.

The total of the item "Gold in bars and coins" (which consisted entirely of gold in bars) amounted to 1,887 million francs in the balance sheet of 31st March 1961 and 2,469 million in that of 31st March 1962. It reached its highest point — 2,553 million — on 30th November 1961.

The figure for the item "Cash on hand and on sight account with banks" was 95 million francs on 31st March 1961. It remained at a relatively high level during the first three quarters of the financial year, reaching a peak of as much as 120 million on 30th April 1961 and exceeding 100 million at the end of June and the end of October. The high level of this item was due mainly to difficulty in finding remunerative investments and to the existence of deposits which it was thought might be withdrawn in a very short time. At the end of March 1962, however, cash balances were down to 56 million francs, after reaching their lowest point for the financial year (54 million) a month earlier.

The average balance shown under this heading during the financial year 1961-62 was thus substantially higher than that for the preceding financial year, amounting to roughly 84 million francs, compared with approximately 59 million in the financial year 1960-61.

On 31st March 1962 total gold and currency holdings represented 53.4 per cent. of the total of the first part of the Bank's balance sheet, compared with 49.9 per cent. a year earlier.



* First part of statement of account.

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

The total of the "Rediscountable portfolio" declined by about a half in the course of the financial year, after reaching a particularly high level at the end of the first quarter. It was subsequently reduced very considerably, especially in the latter months of the year, since its average yield was no longer entirely satisfactory and various other rediscounting facilities were available to the Bank. At the end of the financial year the portfolio contained no commercial bills or bankers' acceptances.

B.I.S.: Rediscountable portfolio.

End of month	Commercial bills and bankers' acceptances	Treasury bills	Total
In millions of francs			
1961 March	19	226	245
June	20	776 (max.)	796 (max.)
September	20 (max.)	210	230
December	16	176	192
1962 March	— (min.)	119 (min.)	119 (min.)

The relative importance of the item "Bills cashable on demand", which totalled 12 million francs on 31st March 1961, increased somewhat from September onwards; at the end of October it stood at 62 million francs, its highest level for the financial year, after which it gradually declined to a figure of 43 million on 31st March 1962.

At the beginning of the financial year the total of the Bank's sight funds and rediscountable investments, comprising the assets items so far analysed, was thus 2,238 million francs. It reached its highest level on 31st October, at 2,909 million, and on 31st March 1962 it stood at 2,687 million.

This figure represents 56.8 per cent. of the first part of the balance sheet, against 56.4 per cent. a year earlier. Although the percentage of sight deposits on the liabilities side rose during this period from 36.3 to 39.3, the degree of the Bank's liquidity is still high.

B. Time deposits and investments.

There were few fluctuations of any size during the year in the total of the item "Time deposits and advances". On 31st March 1961 it stood at 1,138 million francs; it reached its lowest point (1,102 million) a month later and amounted at the end of the year to 1,294 million, which was also the highest figure for the year. Investments in gold accounted for only a negligible proportion of the total, remaining unchanged at 3 million francs throughout the financial year.

Fairly wide fluctuations occurred, on the other hand, in the total of the item "Other bills and securities", which on 31st March 1961 stood at 523 million francs — a figure that was consistently exceeded in subsequent months. After rising to 811 million francs on 30th September 1961, the total then declined again and on 31st March 1962 it stood at 682 million. Investments in gold accounted for 98 million of the total at the beginning of the financial year and for 111 million on 31st March 1962.

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 1961	31st March 1962	Difference
	in millions of francs		
Not exceeding 3 months	1,353	1,552	+ 199
Between 3 and 6 months	118	163	+ 45
Between 6 and 9 months	120	115	— 5
Between 9 and 12 months	13	19	+ 6
Over 1 year	57	127	+ 70
Total	1,661	1,976	+ 315

It can thus be seen that the increase in the total was due mainly to a rise in investments at very short term. On 31st March 1962, in fact, investments at not exceeding three months accounted for 78 per cent. of the total. A number of investments were, however, made at over one year.

At the date of the balance sheet the Bank was committed under an option to a third party to purchase other bills and securities in gold for a value of approximately 89 million francs.

* * *

The structure of the Bank's deposits and investments showed greater stability and continuity over the past financial year than in previous years. This, together with the fact that the Bank, in line with the policy pursued in regard to gold by the central banks, refrained from purchasing gold when the market price was above certain levels, led to a contraction in the total volume of its operations. The decline in the year's profits compared with those for last year was for the most part attributable to this slowing-down in the Bank's gold transactions.

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 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 1961-62 ended for the Dawes Loan on 15th April 1962 and for the Young Loan on 1st June 1962. The interest in respect of the financial year 1961-62 amounted to the equivalent of about 14.8 million francs for the Dawes Loan and to the equivalent of about 39.9 million 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 1961-62 partly by means of purchases of bonds on the market and partly by means of drawings.

With regard to the exchange guarantee attached to the Young Loan under the terms of the London Agreement, the Bundesschuldenverwaltung (Federal Debt Administration) and the Trustee have not been able to agree on the application and interpretation of the Agreement in view of the revaluation of the Deutsche Mark of March 1961. The Trustee has consequently submitted the matter to the governments concerned, namely, the Belgian, British, Dutch, French, Swedish, Swiss and United States Governments. It has not yet been decided whether or not recourse will be had to the arbitral procedure established by the London Agreement for settling disputes regarding the interpretation or application of the Agreement.

The bondholders were notified of the position by two press communiqués issued by the Trustee shortly before the maturity dates of 1st June and 1st December 1961. The Trustee has also informed the Bundesschuldenverwaltung that, until the matter has been settled, it reserves the rights of the bondholders, irrespective of whether the coupons and bonds maturing on or after 1st June 1961 are presented for payment or not.

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 to 1960-61	1961-62	
			Conversion bonds		
American . . .	\$	44,012,000	4,268,000	1,646,000	38,098,000
Belgian . . .	£	583,100	44,000	14,800	524,300
British	£	8,265,700	618,400	217,200	7,430,100
Dutch	£	1,206,400	64,300	45,500	1,096,600
French	£	1,923,600	140,500	50,100	1,733,000
Swedish	S.Kr.	14,209,000	911,000	358,000	12,940,000
Swiss	£	1,124,200	82,100	28,100	1,014,000
Swiss	Sw.fcs.	8,248,000	524,000	191,000	7,533,000
			Funding bonds		
American . . .	\$	8,189,000	755,000	230,000	7,204,000
Belgian	£	157,700	15,500	4,400	137,800
British	£	2,230,700	213,000	61,600	1,956,100
Dutch	£	265,500	17,900	10,400	237,200
French	£	497,300	48,600	13,500	435,200
Swiss	£	114,800	10,600	2,900	101,300
Swiss	Sw.fcs.	414,000	35,000	12,000	367,000

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 to 1960-61	1961-62	
Conversion bonds					
American . . .	\$	55,301,000	1,763,000	645,000	52,893,000
Belgian	B.fcs.	202,572,000	6,565,000	2,390,000	193,617,000
British	£	17,691,100	566,000	202,600	16,920,500
Dutch	Fl.	45,034,000	1,246,000	719,000	43,069,000
French	NF	444,004,000	14,192,000	5,117,000	424,695,000
German	DM	14,451,000	457,000	166,000	13,828,000
Swedish	S.Kr.	92,754,000	2,989,000	1,082,000	88,683,000
Swiss	Sw.fcs.	58,324,000	1,899,000	670,000	55,755,000
Funding bonds					
American	\$	8,970,000	298,000	112,000	8,560,000
Belgian	B.fcs.	45,608,000	1,533,000	564,000	43,511,000
British	£	4,220,900	142,800	51,900	4,026,200
Dutch	Fl.	6,763,000	183,000	138,000	6,442,000
French	NF	97,820,000	3,211,000	1,154,000	93,455,000
German	DM	410,000	13,000	5,000	392,000
Swedish	S.Kr.	6,014,000	205,000	74,000	5,735,000
Swiss	Sw.fcs.	1,405,000	48,000	16,000	1,341,000

* Nominal value on 1st May 1962 established in accordance with the provisions of the London Agreement on German External Debts of 27th February 1953 but without taking account of the revaluation of the Deutsche Mark in 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. The amount of interest due in respect of the financial year 1961, which in the case of this loan corresponds to the calendar year, was the equivalent of about 1.6 million francs; this was duly paid to the Bank, which distributed it among the Paying Agents. Redemption in respect of the financial year 1961 was carried out by purchases of bonds on the market.

The position as regards the assented bonds of this loan is as shown in the following table.

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 and 1960	1961	
American . . .	\$	1,667,000	143,000	74,000	1,450,000
Anglo-Dutch . .	£	856,600	60,900	32,000	763,700
Swiss . . .	Sw.fcs.	7,102,000	423,000	217,000	6,462,000

With regard to the coupons of the Austrian Government International Loan 1930 which the Federal Republic of Germany has undertaken to pay to the extent of 75 per cent. of the nominal value, the sums due in respect of these continued to be furnished through the intermediary of the Bank in its capacity as Trustee. The payments made up to now amount to the equivalent of about 4.2 million francs. The last coupon will be payable on 1st July 1962.

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.

In conformity with an Act of Pledge which was concluded between the High Authority of the European Coal and Steel Community and the Bank on 28th November 1954, the Bank has continued to perform the functions of Depositary in respect of the loans of the High Authority which are secured in accordance with the provisions of the Act of Pledge.

The High Authority only raised one loan of this type during the financial year ended 31st March 1962. This was a public issue of bonds of the High Authority for an amount of 50 million Dutch florins, bearing interest at 4½ per cent. and wholly repayable in twenty years. This issue was made in August 1961 and it was the first secured loan of the High Authority in the Netherlands.

As a result of this operation, 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 817 million francs. Repayments by the High Authority up to 1st April 1962 amounted to the equivalent of about 92 million francs, which reduces the total amount outstanding to the equivalent of about 725 million francs. Particulars of these loans are given in the table on the next 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 the proceeds of a loan cannot be utilised temporarily for this purpose the funds are invested at short term.

During the financial year 1961-62 the Bank for International Settlements received and paid out the equivalent of about 36 million francs in respect of interest and the equivalent of about 37 million francs in respect of redemption.

The High Authority has also raised other loans which are not secured in accordance with the Act of Pledge, but the Bank is not concerned in these in any way.

Loans of the High Authority of the European Coal and Steel Community
secured in accordance with the Act of Pledge.

Series of Secured Notes of the High Authority	Dates of issue	Countries of issue	Lenders	Original amounts of loans	Amounts unredeemed on 1st April 1962	Rates of interest %	Year of final maturity
1st	1954	United States	U.S. Government	\$ 100,000,000	87,500,000	3%	1979
2nd	1955	Belgium	Caisse Générale d'Epargne et de Retraite, Brussels	B.fcs. 200,000,000	176,800,000	3½	1982
3rd	1955	Germany	Rheinische Girozentrale und Provinzialbank, Düsseldorf	DM 25,000,000	21,530,650	3%	1981
			Landesbank für Westfalen (Girozentrale), Münster	DM 25,000,000	21,530,650	3%	1981
4th	1955	Luxemburg	Caisse d'Epargne de l'Etat, Luxembourg	B.fcs. 20,000,000 Lux.fcs. 5,000,000	17,880,000 —	3½ —	1982 —
5th	1956	Saar	Landesbank und Girozentrale Saar, Saarbrücken	DM 2,977,450 ¹	2,572,517	4%	1977
6th	1956	Switzerland	Public issue	Sw.fcs. 50,000,000	50,000,000	4%	1974
7th ²	1957	United States	Public issue	\$ 25,000,000	25,000,000	5%	1975
10th	1957	Luxemburg	Etablissement d'Assurance contre la Vieillesse et l'Invalidité, Luxembourg	Lux.fcs. 100,000,000	100,000,000	5%	1982
11th	1958	United States	Public issue	\$ 35,000,000	35,000,000	5	1978
12th			Public issue	\$ 15,000,000	10,000,000	4½	1963
13th	1960	United States	Public issue	\$ 25,000,000	25,000,000	5%	1980
14th			Public issue	\$ 3,300,000	3,300,000	4%	1963
				\$ 3,300,000	3,300,000	4%	1964
				\$ 3,400,000	3,400,000	5	1965
15th	1961	Luxemburg	Etablissement d'Assurance contre la Vieillesse et l'Invalidité, Luxembourg	Lux.fcs. 100,000,000	100,000,000	5%	1986
16th	1961	Netherlands	Public issue	Fl. 50,000,000	50,000,000	4½	1981

¹ This loan, which was contracted in French francs, has been converted into Deutsche Mark. The original amount was 350,000,000 old French francs. ² The Secured Notes of the 8th and 9th Series have been entirely repaid.

4. The Bank as Agent for the Organisation for Economic Co-operation and Development (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 continued to act as Agent for the execution of the financial operations of the E.M.A., firstly under the Organisation for European Economic Co-operation and then, following the latter's reconstitution on

30th September 1961, under the Organisation for Economic Co-operation and Development. The expenses of the Bank in this capacity amounted to 515,736 francs in the twelve months to March 1962; this amount was duly reimbursed by the Organisation (as shown in the Profit and Loss Account for the financial year ended 31st March 1962).

5. Financial results.

The accounts for the thirty-second financial year ended 31st March 1962 showed a surplus of 20,185,172 francs. The comparable figure for the preceding financial year was 27,324,105 francs. The reduction in the volume of gold transactions handled accounted for the greater part of the decline in the year's earnings.

From the year's surplus the Board of Directors has decided to transfer 7,500,000 francs to the provision for contingencies; the net profit for the year thus amounts to 12,685,172 francs. After providing 5 per cent. for the Legal Reserve Fund as required by the Statutes, i.e. 634,259 francs, and with the addition of the balance of 7,554,308 francs brought forward from the previous year, there is a sum of 19,605,221 francs available.

The Board of Directors recommends that the present General Meeting should distribute, as last year, a dividend of 37.50 francs per share, involving a distribution of 7,500,000 francs. 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 4,500,000 francs, will represent an extraordinary distribution of 22.50 francs per share. The total distribution will thus amount this year to 60 francs, payable on 1st July 1962 in the amount of 85.75 Swiss francs per share. The balance carried forward will be 7,605,221 francs.

The amount of the undeclared cumulative dividend will, as a result of this distribution, be reduced from 291.97 to 269.47 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-second 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. Statutes of the Bank.

An Extraordinary General Meeting held at the registered office of the Bank on 9th October 1961 adopted the proposal of the Board of Directors

to amend the Statutes of the Bank by adding to Article 57 a second paragraph worded as follows:

"The assets of the Bank may be subject to measures of compulsory execution for enforcing monetary claims. On the other hand, all deposits entrusted to the Bank, all claims against the Bank and the shares issued by the Bank shall, without the prior agreement of the Bank, be immune from seizure or other measures of compulsory execution and sequestration, particularly of attachment within the meaning of Swiss law."

The first sentence of the new provision recalls that recourse to the ordinary methods of execution is open to creditors of the Bank. The second refers to seizure or other measures of compulsory execution and sequestration ordered by Swiss courts, its main object being to protect deposits and shares held by central banks. To this end the Chairman, acting in the name of the Board of Directors, stated at the Extraordinary General Meeting on 9th October 1961 that the Bank would not in any circumstances agree to a measure of compulsory execution or sequestration taken against a central bank.

The Swiss Government was duly informed of the decision taken by the Extraordinary General Meeting and took the opportunity to publish in the "Federal Gazette" ("Feuille fédérale") No. 15 of 12th April 1962 all the amendments made to the Statutes of the Bank since its foundation in 1930, namely those made by the Extraordinary General Meetings of 3rd May 1937, 12th June 1950 and 9th October 1961.

7. Changes in the Board of Directors and in the Management.

The mandate of Dr. M.W. Holtrop as Chairman of the Board and President of the Bank being due to expire on 30th June 1961, he was re-elected to these offices under Article 39 of the Statutes at the meeting of the Board held on 12th June 1961 for a period of three years ending on 30th June 1964.

Lord Cobbold, who, as Governor of the Bank of England, had been an ex officio Director of the Bank for International Settlements since 1949, and previous to that an Alternate of the Governor since 1934, resigned as Governor of the Bank of England at the end of June 1961, at the same time ceasing to be an ex officio Director of the Bank. The members of the Board, at its meeting held on 12th June 1961, paid him a warm tribute for the eminent services he had rendered to the Bank over so many years.

The Earl of Cromer, who succeeded Lord Cobbold as Governor of the Bank of England on 1st July 1961, became an ex officio Director of the Bank for International Settlements on the same date. He was welcomed by the Chairman at the first Board meeting which he attended on 10th July 1961.

The mandate of Sir Otto Niemeyer, Vice-Chairman of the Board since 1946, being due to expire on 8th December 1961, he was re-elected Vice-Chairman

by the Board at its meeting held on 13th November 1961 for a period of three years ending on 8th December 1964.

The mandates of Herr Blessing, President of the Deutsche Bundesbank, and Dr. Brinckmann as members of the Board were due to expire on 31st March and 31st May 1962 respectively. The Chairman of the Board announced at the meeting held on 12th March 1962 that the ex officio members of the Board had, under Article 28(2), paragraph 3, of the Statutes, re-elected Herr Blessing and Dr. Brinckmann for further periods of three years ending on 31st March and 31st May 1965 respectively.

The mandate of Dr. W. Schwegler, who had been elected to the Board under Article 28(2) of the Statutes, being due to expire on 31st March 1962, he was re-elected at the meeting of the Board held on 12th March 1962 for a further period of three years ending on 31st March 1965.

Professor Alberto Ferrari, Secretary General of the Bank since October 1951, resigned from his post as from 1st January 1962 to take up important positions in Rome as General Manager of two credit institutions. At the Board meeting held on 13th November 1961 the Chairman expressed the Board of Directors' gratitude for the outstanding work he had done at the Bank in his ten years' service.

Dr. Antonio d'Aroma has succeeded Professor Ferrari as Secretary General and was appointed to this office by the Board at its meeting on 13th November 1961. His appointment took effect from 2nd January 1962 and he was welcomed by the Chairman at his first attendance at a Board meeting on 8th January 1962.

Baron van Zeeland, who had joined the Bank at the time of its foundation in 1930 and had been First Manager and Head of the Banking Department since 1947, retired at the end of March 1962. At the meeting of the Board held on 12th March 1962 the Chairman, on behalf of the Board, expressed his grateful thanks for the exceptional services which Baron van Zeeland had for so long rendered to the Bank, particularly in the development of its banking operations.

Dr. H. H. Mandel, who had been a Manager in the Banking Department since 1956, was appointed by the Board at its meeting held on 12th February 1962 as the successor of Baron van Zeeland as Head of the Banking Department. His appointment dated from 1st April 1962. The Chairman welcomed Dr. Mandel on his first appearance in his new capacity at the Board meeting held on 9th April 1962.

At its meeting held on 12th February 1962 the Board also appointed Mr. D. H. Macdonald, formerly an Assistant Manager in the Banking Department, and M. Georges Janson as Managers of the Bank. These appointments took effect as from 1st April 1962.

CONCLUSION

One of the most significant features of the past year has been the progress towards greater economic co-operation among the western countries.

In the sphere of trade policy, mention should be made of the agreement reached last January between member countries of the European Economic Community on the principles for a common agricultural policy; of the intention of most of the members of the European Free Trade Association to apply for full or associate membership of the Common Market and of the opening of talks on this subject between the United Kingdom and the Six; of the reciprocal cuts in customs duties recently agreed upon between the Six, the United Kingdom and the United States within the framework of G.A.T.T.; of the desire expressed by the United States to negotiate with Europe considerable additional tariff reductions and of the proposals submitted to Congress by the U.S. Administration in order to make the necessary bargaining power available. Whatever may be the outcome of the negotiations at present in progress and those in prospect, all these initiatives testify to a common determination among the industrialised countries of the West to bring customs duties down as far as possible and to reduce discrimination to a minimum. An aim so unanimously supported should, in one form or another, lead to important results.

In the monetary sphere, the strengthening of solidarity has been evident from actions by both central banks and governments. The co-operation among central banks, in which the Federal Reserve System has been playing an increasingly effective rôle, has resulted in various short-term bilateral arrangements inspired by a common purpose, in a collective approach to the gold market and in greater attention to external considerations in the framing of domestic policy. Inter-governmental co-operation found expression last December in an agreement of considerable importance. In arranging to extend to each other supplementary credits through the International Monetary Fund in case of need, for specific purposes and under special conditions, the major industrialised countries recognised their responsibilities in the monetary sphere and showed their will to face up to them by joint action.

These monetary measures can, however, only deal with short-term problems; they provide the breathing-space needed for the implementation of policies aimed at tackling the more fundamental imbalances in international payments. In the formulation of such policies, also, there were greater efforts to co-operate, facilitated by discussions within the framework of the O.E.C.D.

Encouraging though all this is, results are ultimately determined by the effectiveness of national policies. And, despite praiseworthy efforts made by both deficit and surplus countries, there are aspects of the present situation that are hardly satisfactory.

The U.S. balance-of-payments deficit is still large, even though the economy is operating below the full-employment level. This deficit is financed partly by sales of gold and partly by increases in the dollar holdings of countries which are not converting them into gold; such losses of gold by the United States and accumulation of short-term dollar holdings by other countries cannot continue indefinitely. It must be kept in mind, too, that some of the actions by which the deficit has been limited are not entirely sound, for example the tying of foreign aid — even though similar practices are used by most European countries with less justification.

In most continental countries the combination of external surpluses and internal inflation is producing strains that are dangerous for the future. The raising of wages and prices may well become a habit, engender spiral movements that are difficult to bring under control and undermine long-term confidence in currencies. In the United Kingdom the balance of payments has improved, but the fundamental problem of reconciling external equilibrium with economic growth cannot be regarded as solved.

Further efforts are therefore required. As always, all the countries concerned must play their part. The countries of continental Europe must, of course, continue in their efforts. Some of them should intensify them, in particular step up their exports of public funds and create more favourable conditions for private capital exports. But the fact cannot be escaped that the decisive contribution can now come only from the deficit countries.

In the United Kingdom a programme has been adopted which gives promise of improving the competitiveness of British exports over the longer term. The difficulties still remaining concern the execution of the programme, and their importance should not be underestimated. As for the United States, it may be asked whether the measures initiated up to now, useful as they are, ought not to be supplemented in certain respects. Two aspects of the U.S. balance-of-payments problem deserve special attention in this connection.

The deficit on private capital account is at least as large as the overall deficit, and net exports of private capital to Europe are continuing at an annual rate of approximately \$1 milliard. Therefore, the question of what can be done about this has to be considered. The authorities have rightly rejected exchange control of any kind. But this does not mean that no action can be taken. The U.S. Administration has recommended changes in certain fiscal provisions which may give an incentive for not repatriating profits from foreign investment. However, there are other ways of reducing the export or stimulating the import of capital. These include measures to influence the level and structure of interest rates.

Another matter of particular importance is the level of U.S. production costs. The authorities are well aware of the decisive rôle that this plays in the balance of payments. It is encouraging to note that they have presented the problem of costs in clear and forthright terms and are receiving increasing support from public opinion, wage-earners and employers. It may be asked,

however, whether the admission of an annual rate of wage increase equal to the average rate of productivity growth is not over-optimistic. Has not experience shown, in all countries, that officially suggested limits are in fact often exceeded? The result could well be a rise in the overall price level for goods and services. Moreover, it should be emphasised that, for certain products important in international trade, U.S. prices remain significantly higher than European prices. For such products, stability is not an adequate objective. It would be desirable that labour and management allow for some part of the increase in productivity to be reflected in price reduction.

In previous Reports stress was laid on the fundamental problem raised for all western countries by the fact that wage increases often tend to outstrip productivity gains, and that certain industrial prices tend to rise easily but to resist decline. The result is a gradual deterioration in the purchasing power of currencies, from which most industrialised countries are suffering to a greater or lesser degree; the disequilibrium in international payments is in part a reflection of the variations in the strength of this trend from one area to another at any given time. There is sometimes the temptation not to worry overmuch about this decline in the value of money provided that it is proceeding everywhere at roughly the same pace. But this is not the path along which the basis for external equilibrium should be sought. The best way to ensure that the inevitable fluctuations in balances of payments remain within reasonable bounds is for each country to keep the internal purchasing power of its currency as stable as possible. This is also the best means of ensuring that an adequate proportion of the national income is saved and invested in conditions conducive to economic growth.

Respectfully submitted,

GUILLAUME GUINDEY

General Manager.

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

AS AT 31st MARCH 1962

BALANCE SHEET

ASSETS

IN GOLD FRANCS (UNITS OF 0.290 322 58...)

		%
Gold in bars and coins	2,468,829,574	52.2
Cash on hand and on sight account with banks	56,022,784	1.2
Rediscountable Treasury bills	118,913,237	2.5
Bills cashable on demand	43,152,519	0.9
Time deposits and advances		
Not exceeding 3 months	1,143,974,413	24.2
" " " " (gold)	3,405,463	0.1
Between 3 and 6 months	101,456,562	2.2
Between 6 and 9 months	8,504,744	0.2
Between 9 and 12 months	3,074,307	0.1
Over 1 year	33,073,296	0.7
	<u>1,293,488,785</u>	
Other bills and securities		
Gold		
Not exceeding 3 months	10,166,561	0.2
Between 6 and 9 months	71,738,645	1.5
Between 9 and 12 months	12,941,041	0.3
Over 1 year	15,879,792	0.3
Currencies		
Not exceeding 3 months	394,609,368	8.3
Between 3 and 6 months	61,495,288	1.3
Between 6 and 9 months	34,471,830	0.7
Between 9 and 12 months	3,167,405	0.1
Over 1 year	77,652,250	1.6
	<u>662,122,180</u>	
Miscellaneous assets	1,154,792	0.0
Buildings and equipment	1	0.0
Own funds employed in execution of the Hague Agreements of 1930 for investment in Germany (see below)	68,291,223	1.4
	<u>4,731,975,095</u>	<u>100</u>
Execution of Hague		
Funds invested in Germany (see Note 2)		
Claims on Reichsbank and Golddiskontbank; bills of Golddiskontbank and Railway Administration and bonds of Postal Administration (matured)	221,019,558	
German Treasury bills and bonds (matured)	76,181,040	
	<u>297,200,598</u>	
MEMORANDUM ACCOUNTS		
a. Forward gold operations:		
Net balance: gold payable (currencies to be received)	232,876,702	
b. Funds, bills and other securities administered or held by the Bank for account of third parties:		
Earmarked gold	1,305,850,480	
Bank balances	52,637,132	
Bills and other securities	1,067,259,112	

**TO THE BOARD OF DIRECTORS AND SHAREHOLDERS
OF THE BANK FOR INTERNATIONAL SETTLEMENTS, BASLE.**

In conformity with Article 52 of the Bank's Statutes, we have examined the books and accounts of the and explanations we have required. Subject to the value of the funds invested in Germany, we report that in drawn up so as to exhibit a true and correct view of the state of the Bank's affairs according to the best of above-described gold franc equivalents of the currencies concerned.

ZURICH, 2nd May 1962.

AS AT 31st MARCH 1962

GRAMMES FINE GOLD — ART. 5 OF THE STATUTES)

LIABILITIES

			%
Capital			
Authorised and Issued 200,000 shares, each of 2,500 gold francs	500,000,000		
of which 25% paid up	125,000,000	2.7	
Reserves			
Legal Reserve Fund	10,778,086		
General Reserve Fund	13,342,650		
	24,120,736	0.5	
Deposits (gold)			
Central banks			
Between 9 and 12 months	49,943,642	1.1	
Between 6 and 9 months	27,598,895	0.6	
Not exceeding 3 months	157,487,618	3.3	
Sight	1,762,745,980	37.3	
Other depositors			
Between 6 and 9 months	10,349,478	0.2	
Sight	52,158,298	1.1	
	2,060,293,911		
Deposits (currencies)			
Central banks			
Over 1 year	74,110,715	1.6	
Between 3 and 6 months	513,018,736	10.8	
Not exceeding 3 months	1,380,449,625	29.2	
Sight	20,801,386	0.4	
Other depositors			
Between 3 and 6 months	15,643,642	0.3	
Not exceeding 3 months	266,233,471	5.6	
Sight	22,785,536	0.5	
	2,293,043,111		
Miscellaneous	20,287,857	0.4	
Profit and Loss Account			
Balance brought forward from the financial year ended			
31st March 1961	7,554,308		
Profit for the financial year ended 31st March 1962	12,685,172		
	20,239,480	0.4	
Provision for contingencies	189,000,000	4.0	
	4,731,975,095	100	
Agreements of 1930			
Long-term deposits			
Annuity Trust Account deposits of Creditor Governments (see Note 3)	152,606,250		
German Government deposit	76,303,125		
	228,909,375		
Own funds employed in execution of the Agreements (see above)	68,291,223		
	297,200,598		
NOTE 1 — For Balance Sheet purposes the currency amounts of the assets and liabilities have been converted into gold francs on the basis of quoted or official rates of exchange or in accordance with special agreements applicable to the respective currencies.			
NOTE 2 — Under an Arrangement dated 9th January 1953 between the Government of the Federal Republic of Germany and the Bank, which forms a part of the Agreement on German External Debts of 27th February 1953, it has been agreed that the Bank will not demand prior to 1st April 1956 the reimbursement of the principal of its investments in Germany described above, including arrears of interest thereon at 31st December 1952.			
NOTE 3 — The Bank has received confirmation from Governments whose deposits amount to the equivalent of 149,920,380 gold francs 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 1962, 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 1962

		Gold francs
Net income from the use of the Bank's own funds and the deposits entrusted to it		24,924,428
Commission earned as Trustee, etc.		<u>721,534</u>
		25,545,962
Costs of administration:		
Board of Directors — fees and travelling expenses ...	237,729	
Executives and staff — salaries, pension contributions and travelling expenses	4,613,129	
Rent, insurance, heating, electricity	39,193	
Renewals and repairs of buildings and equipment ...	90,560	
Office supplies, books, publications, printing	383,425	
Telephone, telegraph and postage	158,427	
Experts' fees (auditors, interpreters, economists, etc.)	92,544	
Cantonal taxation	35,038	
Miscellaneous	<u>226,481</u>	
	5,876,526	
Less: Amounts recoverable for expenses as Agent of the Organisation for Economic Co-operation and Development (European Monetary Agreement) ...	<u>515,736</u>	<u>5,360,790</u>
		20,185,172
The Board of Directors has decided that it is necessary to transfer to the provision for contingencies		<u>7,500,000</u>
NET PROFIT for the financial year ended 31st March 1962		12,685,172
Add: Balance brought forward from the preceding year		<u>7,554,308</u>
Total profits available		<u><u>20,239,480</u></u>
which the Board of Directors recommends to the Annual General Meeting called for 4th June 1962 should be dealt with as follows:		
Transfer to the Legal Reserve Fund — 5% of 12,685,172		634,259
Dividend of 37.50 gold francs, plus an amount of 22.50 gold francs, which increases the distribution to 60.— gold francs per share and reduces the amount of the undeclared cumulative dividend from 291.97 gold francs to 269.47 gold francs per share		12,000,000
Balance to be carried forward		<u>7,605,221</u>
		<u><u>20,239,480</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	
The Earl of Cromer, London	
Henri Deroy, Paris	
Maurice Frère, Brussels	
Dr. Donato Menichella, Rome	
Dr. Walter Schwegler, Zurich	
Per Åsbrink, Stockholm	

Alternates

Dr. Paolo Baffi, Rome, or
Prof. Pietro Stoppani, Rome
Pierre Calvet, Paris, or
Julien Koszul, Paris
J. M. Stevens, London, or
J. St. J. Rootham, London
Cecil de Strycker, Brussels

MANAGEMENT

Guillaume Guindey	General Manager
F. G. Conolly	Manager
Dr. Milton Gilbert	Economic Adviser, Head of the Monetary and Economic Department
Dr. Antonio d'Aroma	Secretary General, Head of Department
Dr. H. H. Mandel	Head of the Banking Department
D. H. Macdonald	Manager
Georges Janson	Manager
Henri Guisan	Legal Adviser
<hr/>	
Georges Royot	Assistant Manager
Malcolm Parker	Administrative Assistant Manager
Dr. Antonio Rainoni	Assistant Manager of the Monetary and Economic Department
Jan Knap	Sub-Manager