

**BANK FOR
INTERNATIONAL SETTLEMENTS**

THIRTY-THIRD ANNUAL REPORT

1st APRIL 1962 — 31st MARCH 1963

BASLE

10th June 1963

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THIRTY-THIRD ANNUAL REPORT

submitted to the

ANNUAL GENERAL MEETING

of the

BANK FOR INTERNATIONAL SETTLEMENTS

held in

Basle on 10th June 1963.

Gentlemen,

I have the honour to submit herewith the Annual Report of the Bank for International Settlements for the thirty-third financial year, which began on 1st April 1962 and ended on 31st March 1963. 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 1963.

The accounts for the thirty-third financial year closed with a surplus of 21,210,271 gold francs, against 20,185,172 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 13,710,271 gold francs, compared with 12,685,172 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 5,500,000 gold francs, will represent an extraordinary distribution of 27.50 gold francs per share. The total distribution will thus amount this year to 65 gold francs, payable in Swiss francs in the amount of 92.90 Swiss francs per share.

Part I of this Report deals with economic developments and policies in Europe and the United States in 1962 and the early months of 1963. In Part II a survey is given of developments in the fields of credit, prices and

external payments and 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

CURRENT ECONOMIC TRENDS AND POLICIES

1962-63

As it has emerged in the spring months of 1963 after some disruption from an unusually severe winter, the economic situation in the North Atlantic industrial countries presents an ambiguous picture with a mixture of favourable and unfavourable aspects.

In the continental European countries production is generally expanding in line with the availability of resources and the economy has made a reasonable adjustment to substantial changes in the basic demand forces. Moreover, the expansion still has the support of a satisfactory balance-of-payments position in most countries. But prices have continued to rise fairly rapidly and wage increases have been exceeding productivity gains by a wide margin. Under these circumstances it is evident that expansion cannot be pushed more forcefully; indeed, if monetary stability is not soon regained, some dampening of inflationary attitudes by policy measures may become necessary.

Thus, a major question in the outlook is the extent to which the international economy as a whole will be stimulated by developments in the United Kingdom and the United States. In both countries there is a significant margin of idle resources that allows for such an impulse, but freedom of action is still under the handicap of an uncertain balance-of-payments position.

In the United Kingdom forceful steps have been taken to induce a renewal of expansion. Economic activity more or less drifted after mid-1960 as the authorities gave time for external equilibrium to be established, but by late 1962 they felt able to loosen the reins. How far and how fast this movement can go essentially depends on restraint by labour in respect of wages and aggressiveness by business in respect of exports.

In the United States recovery from the 1960 recession was rapid in its first year under the stimulus of increased defence and space expenditure. After the spring of 1962, however, the expansion faltered well before production capacity was fully utilised and, although economic indicators in the past few months point to a better prospect for 1963, it is evident that the problem of persistent unemployment will not yield to the usual cyclical upturn. In order to release the undoubted productive energies of the enterprise system by a permanent rise in the level of demand, the Administration has proposed a significant reduction in taxes. But the outlook remains beclouded, not only because of the uncertain repercussions of faster expansion on the balance of payments, but also because there is not a solid consensus of opinion for a forthright full-employment policy.

Another sort of uncertainty has arisen from the breakdown of the negotiations to enlarge the Common Market. This is not because there is only one road along which economic co-operation can be effectively pursued but because conflicting political, and even economic, views may stifle progress along any practical alternative. It is perhaps a hopeful sign that such conflicts have not interfered with co-operation in the international financial sphere.

Internal economic developments.

Continental Europe: production and demand. The present wave of expansion in the continental countries, which started in 1959, is now in its fifth year. Since the end of 1960 output has been rising at a distinctly slower rate than in 1959-60 and slower also than in the previous upsurge of the economy from 1953 to 1957. This slow-down in itself is not very significant, as it reflects primarily the attainment of minimum levels of unemployment and voluntary reductions of working time through shorter hours and longer holidays.

Continental Europe: Changes in demand factors.

Items	1959	1960	1961	1962
	in percentages of total increase in demand			
Private consumption	35.6	35.0	52.4	50.0
Public consumption	9.1	5.5	9.1	11.8
Residential construction	6.8	1.0	3.5	3.3
Plant and equipment	13.7	19.0	24.5	15.8
Increase in stock accumulation	- 0.8	12.5	- 11.2	- 2.6
Exports of goods and services	35.6	27.0	21.7	21.7
Total	100.0	100.0	100.0	100.0

More important is the fact that the slow-down of expansion coincided with, and was partly caused by, a major shift in the categories of demand supplying the impetus to growth of output. In the 1959-60 period first exports and then industrial investment were the dynamic elements of total demand. Exports received an unusual boost from large shipments of motor-cars and steel to the United States and the investment boom itself was stimulated by export demand as well as by the dynamics of the Common Market. These demand factors lost much of their upward thrust early in 1961. In this transitional period from early spring to late summer of 1961 production rose only to a minor extent. Since then consumption has been the dominant sustaining element in total demand: consumer buying of durable goods has been particularly active and public consumption has shown larger increases in almost all countries. While the growth of consumption demand was met partly by higher imports, it was strong enough to keep output on a steadily rising trend throughout 1962 and into the second quarter of 1963.

These changes are best illustrated by contrasting 1962 with 1960, as 1961 was a transitional year. The increase in real gross national output of the continental countries last year was a little more than 4.5 per cent., while in

1960 it had been 8 per cent., Switzerland being the only industrial country where the outcome in 1962 was more favourable. With so large a decline in the rate of expansion it was to be expected that most uses of final output would also show smaller increases, as was the case. It is striking, however, that in 1962 fixed investment and exports rose by only half the admittedly exceptional rate of 1960 and were close to the rate of increase for output as a whole. The rise of exports was sharply reduced for all countries; in fact, their continued increase was accounted for by intra-European trade, as total exports to outside areas have moved very little for the past two years. In the case of fixed investment, France, Norway and Sweden were the only exceptions to the generally smaller rates of increase. In many countries housing, as well as industrial construction, has been gaining much more slowly, but public investment has risen faster in most cases. Private consumption also rose more slowly in 1962 than in 1960, except in Denmark, France, Sweden and Switzerland, but the decline in the rate of growth was small. In the earlier year increased employment and hours of work contributed to the gain in incomes which supported consumption demand, whereas in 1962 higher rates of pay accounted for almost all of the increase in total wages. Public consumption was the one category of demand on the Continent that rose more in 1962 than in 1960.

The change in demand trends has had its largest impact on the development of industrial production. After 1960 the annual increase of industrial output declined more markedly than that of gross national output. The gain in 1960 had been 11 per cent., while in the following two years the annual rises were less than 6 per cent. The slowing-down was certainly partly the result of labour shortages to begin with, but later it increasingly reflected the effects of the shift in demand.

The changes in demand have required certain adjustments in the pattern of production. Good progress has been made in this direction in some cases, but in others the process is still under way and naturally has influenced the volume of output. In addition, the easier supply situation has enabled producers to hold lower inventories of semi-fabricated goods, which in turn has affected industrial output.

In the individual countries the development of industrial production has followed the general pattern, with differences in the degree and timing of the slow-down. The best performance was that of Italy, where production in 1962 was about 10 per cent. above 1961, the rate of growth being roughly two-thirds as large as in 1959-60. At the other end of the range were Austria and Sweden with increases of less than 3 per cent., only one-third as great as they had been in 1959-60. Other countries fell within these limits.

The shift in demand has been reflected in the trends of output in individual industrial sectors. By far the biggest gain has been in the chemical industries, where the growth rates have generally increased. Among the sectors producing traditional consumer goods, the food industry in particular expanded production and textile output was higher than in earlier years.

In the sectors more dependent on investment demand the situation has been less favourable. This was particularly the case in the basic metal industries, where production started to decline in the middle of 1961. The downswing, however, came to a halt in the course of 1962 and since then output has been slightly higher, mainly because steel production stopped falling and has remained fairly stable since the latter part of last year. Output has fallen also in coal-mining, partly through its link with the basic metal industries and partly because of the structural decline of the industry. Other branches of mining and quarrying, except iron-ore, have developed satisfactorily.

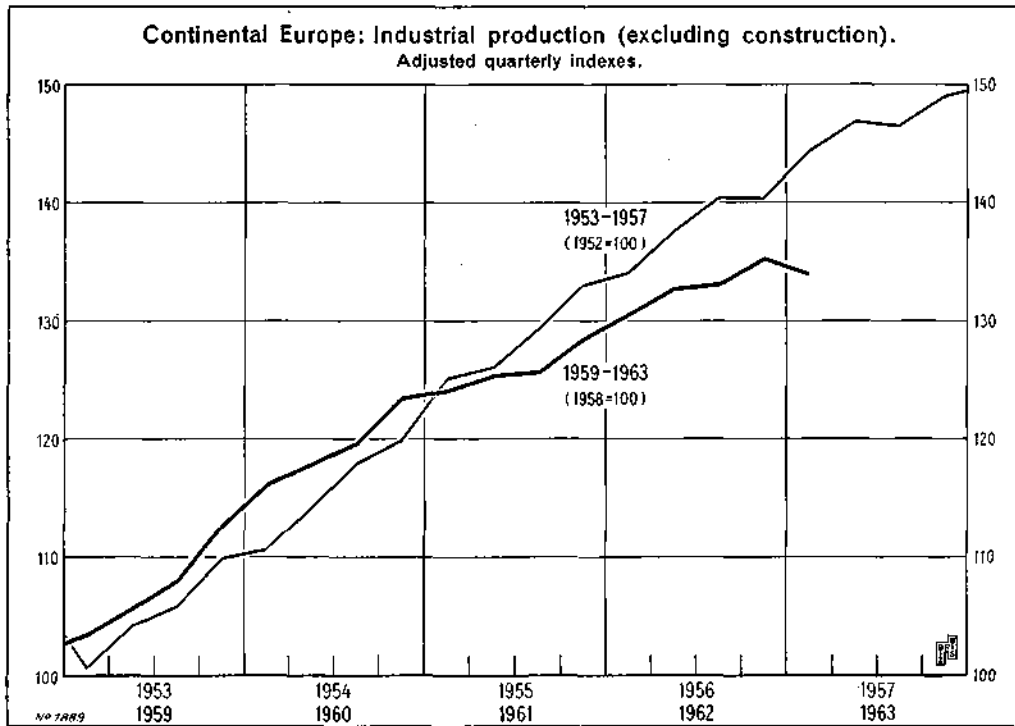
Industrial production.¹

Countries	1961				1962				1963
	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter
adjusted quarterly changes, in percentages									
Austria	- 0.5	+ 0.5	- 0.5	+ 2.2	+ 1.6	- 1.6	+ 2.1	0.0	- 0.5 ²
Belgium	- 0.6	+ 10.2	- 1.8	+ 1.8	+ 0.9	+ 1.0	+ 2.3	+ 0.1	- 1.9 ³
France	+ 1.0	+ 0.9	+ 1.7	+ 1.3	+ 2.1	+ 0.4	+ 1.4	+ 1.6	- 2.7
Germany	+ 3.5	- 0.8	- 0.6	+ 2.2	+ 1.2	+ 2.4	- 0.3	+ 2.2	- 2.5
Italy	+ 3.8	+ 2.4	+ 2.2	+ 6.0	+ 2.0	0.0	+ 0.1	+ 4.6	0.0
Netherlands	+ 1.5	- 1.5	- 3.0	+ 3.8	+ 3.7	- 1.4	- 0.7	+ 2.9	+ 0.7
Norway	0.0	+ 1.3	+ 3.2	+ 2.5	- 1.8	+ 1.8	+ 1.2	+ 0.6	0.0
Sweden	+ 2.1	- 2.1	+ 0.4	+ 2.8	- 0.3	- 0.7	+ 1.0	+ 1.0	+ 0.7

¹ Excluding construction. ² January. ³ Average of January and February.

In the metal products industries output continued to increase, but the expansion rates have declined to about half or less of their previous marks; in Austria and Sweden production was at times even lower than in the corresponding periods of 1961. The only exception was France, where a recovery of the motor-car industry in 1962 led to a general increase in the output of the metal products industries. Within this group of industries trends have varied considerably. On the one hand, shipbuilding continued to decline and production of machinery rose comparatively little or even fell off temporarily in certain lines. On the other hand, output of electrical goods, which is increasingly determined by consumer demand, expanded further. The biggest rise was in the production of motor-cars; however, production of commercial vehicles increased on the Continent only slightly, while output of passenger cars in 1962 and in the spring of 1963 has been running almost 20 per cent. higher than a year earlier.

The shift to a new pattern in the relative sources of demand marks an important milestone in the Continent's post-war economic history. In the 1953-57 period of rapid expansion both total fixed investment and exports rose faster than total demand each year. The present expansionary wave showed the same characteristics until the change came in 1961, when there appeared to be a degree of saturation of investment requirements in many industries and limitations to the expandability of export markets. If, as seems likely, the increase in demand needed for continued growth is not so



spontaneously forthcoming, its achievement will become more dependent on appropriate use of policy instruments.

In itself the slowing-down of the increase in fixed investment is not an adverse development, and was to be expected as previous shortages of capacity were made good. The level of investment remains very high, taking more than 22 per cent. of total gross production. This level seems fully adequate to realise the growth potential of the economy and to achieve the target for overall growth set by the Ministerial Council of the OECD in 1961. In any event, production is continuing to rise satisfactorily in 1963 and the outlook for the year as a whole is for an expansion on the same scale as in 1962.

Continental Europe: prices and wages. For most countries the rise in 1962 in the gross national product was between 3½ and 5 percentage points greater at current than at constant prices, while for Italy and Norway the difference was rather larger; only in Belgium was it less than 2 per cent. In most cases the 1962 price increase exceeded that of the previous year.

Since early in 1962 underlying price trends have been somewhat obscured by the temporary effects of unusually severe weather, first in the spring of 1962 and then in the following winter, on supplies of foodstuffs. Fruit and vegetables, which have a relatively heavy weight in consumer price indexes, were particularly affected. A typical rise in the food index of 6 or 7 per cent. means by itself one of about 2½ per cent. in the index of consumer prices.

Even making allowance for this, however, there has not been any general tendency for the rather faster rate of price increase which set in

Productivity and wage costs in industry.

Countries	Years	Output per man-hour	Hourly earnings	Wage costs per unit of output
		annual changes, in percentages		
Austria	1958	1.9	6.4	4.4
	1959	9.2	4.8	- 4.0
	1960	7.7	8.8	1.0
	1961	2.4	9.0	6.5
	1962	2.5	6.5	3.9
Belgium	1958	0.8	5.3	4.4
	1959	7.1	2.2	- 4.5
	1960	4.7	4.8	0.1
	1961	2.1	4.7	2.5
	1962	2.7	7.6	4.8
France	1958	4.8	11.9	6.8
	1959	2.9	6.3	3.3
	1960	7.0	6.7	- 0.5
	1961	4.3	7.6	3.1
	1962	4.4	8.6	4.1
Germany	1958	5.0	6.8	1.7
	1959	6.5	5.5	- 2.7
	1960	7.9	9.9	1.8
	1961	5.1	10.3	5.0
	1962	7.2	11.5	4.0
Italy	1958	2.2	4.8	2.5
	1959	5.7	2.4	- 3.2
	1960	11.4	4.9	- 5.6
	1961	6.5	7.1	0.5
	1962	11.9	14.7	2.7
Netherlands	1958	2.9	4.0	1.1
	1959	8.2	2.3	- 5.4
	1960	11.0	9.1	- 1.7
	1961	2.7	6.3	3.4
	1962	4.5	9.2	4.5
Sweden	1958	5.2	4.2	- 1.0
	1959	4.5	4.4	- 0.1
	1960	4.3	6.6	2.3
	1961	1.6	8.7	6.9
	1962	.	6.4	.
United Kingdom	1958	1.0	3.5	2.4
	1959	5.0	2.6	- 2.3
	1960	4.8	5.0	0.3
	1961	0.9	5.9	5.0
	1962	0.9	3.5	2.5
United States	1958	1.6	2.9	1.3
	1959	5.9	3.8	- 1.9
	1960	4.1	3.2	- 0.9
	1961	3.8	2.7	- 1.1
	1962	3.7	3.0	- 0.7

during the course of 1961 to halt or reverse itself. In one or two countries, notably Austria, the increase has indeed tapered off to some extent; and Belgium has again enjoyed fairly stable prices. But elsewhere prices have continued to rise at much the same pace as before. Wholesale prices of industrial goods have commonly been climbing by between 1 and 3 per cent. and consumer prices other than food by between 3 and 5 per cent. per annum.

As in previous years, the continuing upward movement of prices occurred against a background of persistently high demand, which was scarcely impaired by the shift in the sources of demand referred to earlier. Labour markets on the Continent have remained very tight, especially in Germany and Switzerland, and unemployment has been generally negligible in spite of a rather sharper than usual seasonal increase in the past winter. In Germany, and to a lesser extent in other countries, pressure on the labour market has also resulted from excess demand in the construction sector. The building boom has thus had a twofold inflationary influence — directly via the rise in building costs, and indirectly via the overall manpower situation. Nevertheless, productive resources in the area do not seem generally as strained as at the height of the investment boom two years ago.

In most countries there has again been a major element of cost push behind the price increases. For this wage costs are responsible, as the cost of imported materials has not on balance risen over the period. The importance of this cost push in the case of Germany, for example, is indicated by relative movements of producer prices over the past two years. Although investment demand has weakened during that time relative to consumer demand, the rate of increase of capital-goods prices has been maintained at $2\frac{1}{2}$ -3 per cent., while that of wholesale prices of consumer goods has come down from about 2 to $1\frac{1}{2}$ per cent. per annum.

The average level of industrial wages on the Continent has generally been more than 8 per cent. higher over the past twelve months than a year earlier. In a majority of countries, moreover, the figure has been getting larger from quarter to quarter. In Germany it has been becoming only marginally lower. In addition to negotiated adjustments in rates, the total wage bill has been variously pushed up by the shortening of standard working hours, higher cost-of-living allowances (further encouraged by the rise in food prices during the winter) and the levelling-up of pay differentials, including those between men and women. Employers' social security contributions have also continued to go up. With productivity generally improving less than half as fast as money wages, all this has led, on a rough estimate, to something in the neighbourhood of a 4 per cent. increase in industrial labour costs per unit of output — considerably more than the rise in wholesale prices.

Rapidly rising wages, however, have not led solely to price increases. The expansion of consumer incomes and expenditure on the Continent has been playing a major rôle in keeping the rate of growth of aggregate demand at a satisfactory level. At the same time, consumers' demands for goods and services have been met in part by higher imports rather than out of domestic production. This has meant that, with continental exports to other areas stagnating, inflationary pressures have been partly absorbed by the current balance of payments. Partly also, they have been met by a narrowing of profit margins. Only in the building sector, where demand pressures are intense and international competition is of small importance, have cost increases tended to be fully reflected in prices.

Despite a general deterioration during 1962, the continental area's foreign balance has remained in a favourable position. Up to the present time, in other words, high nominal demand and rising labour costs, which were partly a response to the external surplus, have been influences working towards rather than away from international monetary equilibrium. But it is clear that a dangerous point has been reached; excessive pay increases can no longer be generally absorbed by reduced profit margins, and continued large wage demands are likely to lead to greater industrial strife and loss of international competitiveness.

It may seem paradoxical, in view of this upward tendency of prices and wages in so many countries, that some experts have been emphasising the danger of deflation rather than that of inflation. What they are stressing, of course, is the danger of inadequate demand in major markets such as the United States and the United Kingdom, and the downward pressure this exerts on international commodity prices and the economies of raw-material-producing countries. Such a view is not inconsistent with the evident cost inflation that has been occurring in continental countries as a result of pressure by organised groups for higher incomes. This is not a paradox, but a profound conflict which presents a challenge to sustainable economic expansion.

Continental Europe: financial policy. Thus the dominant features of the economic situation over the past year to which policy has had to be accommodated have been the following: substantial easing of the private investment boom; continuing large wage and price increases in the face of a slower growth of output and somewhat less intense pressure on the labour market; and a movement of the balance of payments in most countries towards equilibrium. In these circumstances the orientation of financial policy has differed somewhat from country to country, depending upon how the various elements have combined in each national situation. In general it may be said that the focus in policy measures has been shifting towards domestic considerations, as compared with the external emphasis of policy earlier in the boom.

The policy differences among the countries must be seen also against a background of general monetary ease. Domestic liquidity has been expanding at the substantial rate of around 15 per cent. a year. As the inflow of liquidity from the balance of payments has been considerably lower, this has been supplied predominantly by a large expansion of bank credit to the private sector of the economy; credit outstanding to the public sector has changed very little in the past year. Demand for credit has been so active, in fact, that the tendency in earlier years for interest rates to show a slow decline stopped about the middle of 1962 and in some cases was slightly reversed. This sustained demand for credit, despite the slower expansion in output, can be attributed in large measure to the higher level of wages, which limited the self-financing capacity of business and increased the need for working capital. To some extent also the decline in share prices limited the possibility of financing through this medium.

Thus, although policy was basically one of ease, the changes over the past year *tended towards mild restraint* in France and Switzerland, and towards greater stimulus in Italy, Belgium and Sweden, while in the Netherlands and Germany the authorities assumed a rather neutral attitude.

France. The continued rapid expansion of the French national product over the past year was associated with an exceptional population increase due chiefly to repatriations from Algeria. This movement added some 700,000 persons to the population, of whom about 300,000 are in the labour force. While the absorption of so many new workers into the productive system is bound to take time, it is evident that their arrival has eased the manpower situation and widened the scope for raising output beyond what was previously foreseen. Moreover, the cut in military service made possible by the end of hostilities in Algeria will cause a further jump in the labour force during the current year.

The repatriations have also affected the economy in other ways, namely by increasing liquidity and consumption demand. Transfers of money to France from North Africa in 1962 were a large factor adding to the cash base of the credit system, additional to the balance-of-payments surplus.

As regards private consumption, expenditure by repatriates in France out of wages, savings and government grants has been partly offset by reduced exports of consumption goods to Algeria, but the net result has clearly been an increase in the calls made on productive resources. Of far greater importance, however, was the effect of the rise in wage rates by 9.5 per cent. over twelve months. Be that as it may, higher consumption by all domestic sources together was wholly responsible for the faster growth of national expenditure in 1962, since other components of demand showed smaller percentage increases than in the previous year. Even so, the rise in consumption was still lower than that in industrial investment. While higher demand was partially relieved by rising imports, there was demand pressure on prices and, even more, cost inflation through the substantial advance in wages.

The French authorities have been deeply concerned by the pace of wage and price increases. However, as this has been due essentially to the extraordinary rise in population and to the demands for higher incomes by organised labour, it has not been considered that drastic restraint on the growth of output would be an appropriate remedy — particularly in view of the need to absorb the additions to the labour force. Nevertheless, the authorities have acted to set limits to monetary expansion while trying to moderate price increases by direct means.

As early as February 1962 some steps were taken to offset part of the domestic liquidity arising from the external surplus and from bank lending to business. As both prices, especially consumer prices, and domestic liquidity continued to advance, further measures were adopted in the first half of 1963, designed to slow down the increase in liquid assets without, as far as

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

Countries	Years	Sources of demand					Resources		
		Consumption		Gross fixed domestic investment			Exports of goods and services	Imports of goods and services	Gross national product
		Private	Public	Total	of which in plant and equip- ment	dwelling- ings			
In percentages									
Austria	1960	6.3	0.6	13.9	.	.	11.2	17.6	9.0
	1961	6.5	2.7	8.1	.	.	5.4	4.3	5.2
	1962	5.8	1.4	- 2.1	.	.	9.0	5.9	2.3
Belgium	1960	3.8	0.9	6.2	5.2	9.0	11.5	12.8	4.2
	1961	3.2	3.0	12.1	.	.	7.0	6.2	3.9
	1962	2.2	5.9	4.0	.	.	7.7	5.4	3.8
Denmark ¹	1960	5.8	6.0	10.4	11.6	3.8	8.3	9.8	7.6
	1961	6.4	5.9	7.3	6.1	14.2	4.5	4.8	4.1
	1962	6.1	5.6	9.3	9.9	6.0	5.3	12.5	4.7
Finland ¹	1960	7.9	3.1	22.5	23.8	18.0	14.5	23.0	9.3
	1961	7.3	8.1	7.4	5.0	17.0	6.0	8.2	6.9
	1962	4.5	7.5	2.2	- 2.4	18.3	5.0	5.9	4.0
France	1960	5.5	2.8	6.7	7.5	3.6	16.9	16.3	7.6
	1961	5.9	3.4	10.3	11.6	5.1	6.1	7.5	4.6
	1962	6.8	2.3	7.2	8.2	2.7	2.5	10.5	5.8
Germany	1960	7.2	7.4	11.9	14.5	2.7	13.1	16.9	8.8
	1961	7.0	8.0	9.7	10.6	6.0	3.6	8.3	5.5
	1962	5.7	11.0	4.5	4.8	3.3	4.9	10.8	4.1
Italy	1960	6.7	8.7	15.5	21.4	0.0	19.0	36.9	7.3
	1961	7.8	5.1	12.6	13.7	9.0	17.2	15.4	8.8
	1962	6.6	5.3	8.9	7.3	14.5	11.6	15.2	6.1
Netherlands	1960	6.3	4.9	13.4	13.5	- 1.6	13.4	17.5	8.3
	1961	4.4	3.0	3.7	8.3	- 0.5	3.7	6.9	2.6
	1962	4.5	3.9	4.9	6.3	- 2.0	5.5	5.9	2.7
Norway ¹	1960	6.9	0.7	1.5	1.1	3.7	9.7	11.3	6.1
	1961	6.3	4.2	12.2	13.3	5.6	6.6	9.8	6.1
	1962	3.1	5.7	8.3	8.9	4.5	5.8	5.3	3.3
Sweden ¹	1960	2.0	1.2	3.4	5.4	- 2.5	12.1 ²	17.8 ³	3.8
	1961	5.5	5.2	6.1	5.5	8.0	3.9 ²	0.6 ³	6.0
	1962	3.1	5.9	4.5	3.7	6.9	6.9 ²	5.2 ³	3.4
Switzerland	1960	2.2	10.6	16.5	12.1	31.6	11.8	14.8	5.9
	1961	11.0	5.4	17.4	19.2	12.0	8.6	22.1	6.6
	1962	7.3	7.8	12.7	16.2	1.9	3.6	9.9	6.0
Total for above countries	1960	6.5	5.8	11.5	13.3	4.6	13.8	18.5	8.1
	1961	6.5	5.1	10.4	11.2	7.3	6.4	9.3	5.6
	1962	5.7	6.7	6.1	6.2	5.6	5.9	9.4	4.7
United Kingdom	1960	3.7	2.3	9.9	9.1	13.7	3.3	10.5	4.4
	1961	1.7	5.8	8.5	9.2	5.6	3.5	0.6	3.0
	1962	1.4	2.2	- 2.0	- 2.9	2.1	2.1	1.7	0.2
United States	1960	3.3	- 0.1	1.5 ⁴	5.2	- 7.4	13.7	- 2.9	2.7
	1961	2.0	5.1	- 0.4 ⁴	- 0.8	0.5	1.6	0.4	1.7
	1962	4.6	7.5	7.4 ⁴	6.8	9.0	4.0	9.4	5.4

¹ In the case of Denmark, Finland, Norway and Sweden the official figures for domestic investment include maintenance and repairs; these are excluded from the above figures. ² Exports of goods and net income on services. ³ Imports of goods only. ⁴ Private investment and new civil public construction.

possible, restricting the growth of output. First, the banks' liquidity ratio was raised and they were requested to limit total credit expansion to 12 per cent. in the next twelve months. However, it was made clear that, within the 12 per cent. increase, the brakes should not be applied to credits for exports and capital investment. Secondly, in May a long-term government loan was issued on the capital market for the first time since 1958. Thirdly, various means were used to encourage the flow of funds to business through the capital market rather than in the form of bank loans. Treasury bill rates have been further lowered; the tap issue of free Treasury bills to the banks has been abolished in favour of tri-monthly tenders; maximum interest rates on residents' bank deposits have been lowered; and some tax concessions have been made to stimulate public demand for capital-market assets. Fourthly, the banks have been prohibited from paying interest on foreigners' franc deposits to discourage hot-money inflows which would add to the external surplus and swell the domestic credit base.

At the same time, temporary direct controls or the threat of them, as well as some indirect-tax and tariff cuts, have been employed in recent months as weapons against high prices.

The desire of the French authorities to forestall a resurgence of inflationary psychology can be readily appreciated, but it remains to be seen how successful their efforts will be without some temporary let-up in the planned growth of national output. In any case, two aspects of the situation warrant further consideration. First, while a consistent wage policy in the public sector is an essential means of controlling general cost inflation, experience has indicated that it is not tenable in the long run unless there is also reasonable restraint in the private sector. Secondly, it must be recognised that the large surplus position of the balance of payments has itself created a bias towards inflation. This was not offset by the types of compensatory transactions that had been used to help the international payments situation, as it would have been by stronger measures genuinely to reduce the surplus through higher imports or through capital exports.

Switzerland. In contrast to most of the other continental countries, the pace of expansion in Switzerland was intensified in 1961 and remained strong throughout 1962. Also in contrast to the other countries, a continued large rise in capital investment outlays, particularly by industry, has remained the basic stimulus to expansion. The situation has been clearly one of excessive demand arising from the investment boom. The demand pressure has had three consequences or, as one might say, three offsets: (1) further importation of temporary foreign labour, which increased by 20 per cent. in 1962 and became about 25 per cent. of the total labour force; (2) consistent upward pressure on prices and wages, with increases which, for Switzerland, have been quite large; and (3) a sharply upward trend of imports in 1961, which, though it flattened out in 1962 and even receded somewhat after the middle of the year, led to a trade deficit of about \$800 million and a current-account deficit of almost half that amount.

At an early stage the authorities were evidently disturbed by the strength of the boom and took some steps to keep it in hand. An effort was made to discourage the inflow of funds from abroad and various means were used to mop up the excess liquidity arising from the overall external surplus. In addition, an agreement was reached with the banks to limit the expansion of bank credit in 1962. The restraint imposed by these measures was obviously of a mild order, for investment outlays rose by almost 20 per cent. in current prices, though considerably less in real terms. The economy was not squeezed for financial resources, as there was a rise in total bank credit of 11 per cent. and a large repatriation of Swiss capital from abroad, as well as the resources available from other financial institutions. Private domestic flotations on the capital market increased from Sw.fr. 1.1 milliard in 1960 to Sw.fr. 1.8 milliard in 1962.

More recently the authorities have taken further steps to contain the boom. The agreement with the banks to limit the rise of bank credit was renewed in 1963 with somewhat tighter conditions. Also, an attempt is being made by persuasion to get less urgent construction projects postponed. More important, under a decision taken on 1st March 1963, the admission of foreign labour will be restricted so as to keep down new investment for expansion purposes. It remains to be seen whether this measure will react primarily on new investment demand or whether it will to some extent aggravate the bidding for the available labour supply.

A major aim of Swiss policy has been to maintain interest rates at a low and stable level, primarily to avoid possible repercussions from a rise in the rate on housing and farm mortgages. There has been here a certain inconsistency with the aim of restraint, because to avoid any rise in interest rates the market demand for funds has had to be satisfied. This seems to explain why net new foreign issues allowed on the capital market were reduced by almost half in 1962 from their 1961 level and why some repayments of Federal Government debt have recently been made. In effect, the boom has been financed partly by repatriated Swiss capital and reduced foreign lending, and the price of capital has been held down partly at the expense of pressure on the prices of goods and labour. At present, the authorities anticipate that the boom will level off as it has in other countries; they have said that, if not, the laws of the market will make themselves felt and an increase in interest rates will be difficult to avoid.

Sweden. The impact of the changing pattern of demand appears to have been more marked in Sweden than in the other continental countries, so that definite recessionary tendencies were evident in the first half of 1962. Iron-ore and timber exports showed a decline and there was a levelling-out of pulp shipments, which in turn accentuated the downward drift of industrial investment. Although exports in the engineering sector held up rather well, demand as a whole weakened and some unemployment became evident.

To counteract these contractionary tendencies the authorities intervened promptly with various measures of an anti-cyclical character.

Monetary policy was eased substantially. In April and June 1962 the discount rate was lowered by a total of 1 per cent. In January 1963 a further reduction of $\frac{1}{2}$ per cent. brought it down to $3\frac{1}{2}$ per cent. — a level lower than at any time since 1955. In order to increase the liquidity of the banks no steps were taken to offset the foreign exchange inflow, while the budget surplus was used for repayment of public debt. In addition, to facilitate the extension of credit by the banks and other financial institutions, liquidity and investment requirements were relaxed. As a result, both bank lending and bank purchases of capital-market paper increased substantially in 1962, and this development has continued in 1963.

A variety of measures were also taken in the fiscal sphere. The budgets for 1962-63 and 1963-64 were designed to be less restrictive and steps were taken to speed up the expenditure of local authorities. A boost was given to house-building by significantly increasing government loans and granting permits on a larger scale. Public investment was raised in 1962 by 6 per cent. and is expected to go up a further 9 per cent. in 1963. In order to stimulate private investment, special investment reserves were released on a considerable scale for use between July 1962 and the end of April 1963.

As a result of this expansionist policy the weakening of the economy was offset in the second half of 1962. For the year as a whole the gross national product continued to increase and, although the rise was appreciably smaller than in 1961, the expansion of 3.5 per cent. in volume was satisfactory. The expansion has continued in the spring of 1963 and has even exceeded expectations. While business investment has been below the level of last year, particularly in mining and manufacturing, housing investment, consumption and government expenditure have been rising and appear to assure a favourable outturn for the rest of the year.

Italy. After the spurt in 1960 the Italian economy was subjected to a shift of demand forces similar to, though milder than, that experienced by other continental countries. In the past year special factors, such as the nationalisation of the electricity industry and the stricter taxation of dividends, have also been of some influence and have contributed to uneasiness on the capital market. Thus, besides the slow-down of expansion, the flow of new funds to the capital market was much reduced by the middle of 1962.

The rapid pace of wage increase also reflected special factors. A substantial move was made towards equal pay for women, as envisaged in the Treaty of Rome, and regional wage differentials were also significantly narrowed. Moreover, there were larger wage demands by organised labour, which were backed up by greater resort to strikes. Including automatic cost-of-living increases, wage earnings have risen by more than 15 per cent. in the course of a year, with an inevitable cost pressure on prices. Nevertheless, industry has been moderate with regard to price increases. The general sentiment seems to have been expressed by the President of the General Federation of Industry, when, in warning about the need for further pay rises to be matched by gains in productivity, he stated: "We believe

that the increase in wages was, to a large extent, inevitable and that it was justified by the improvement in the country's situation, the general increase in productivity and the need for ensuring an ever higher standard of living."

With production and private investment weakening while wage and price indexes were sharply rising, the Italian authorities were confronted with conflicting evidence about the basic situation. They decided that demand inflation was not the problem and that policy should favour continued development of the economy; there was in fact a marked shift to stimulative actions in both the fiscal and monetary spheres.

On the fiscal side, the impulse has been given by an acceleration of government investment programmes, particularly for roads and for industry in the south of the country. On the monetary side, there has been a series of measures designed to facilitate the growth of bank lending to business and to encourage the flow of funds onto the capital market.

The monetary measures fall into two groups. The first comprises actions to maintain bank liquidity — increasingly necessary over the past year in view of the waning contribution to liquidity from the balance of payments — and includes the relaxation of certain reserve requirements, the redemption of public debt and the lifting of the prohibition on net foreign borrowing by the banks. The second group of measures is more in the nature of structural reforms of the money and capital markets as a whole. Sharper lines have been drawn between the short, medium and long-term markets, and steps taken to ensure an interest rate pattern that offers adequate inducement to invest in the latter two. Further progress has also been made in liberalising foreign capital transactions by Italian residents. Finally, there has been a significant measure which really belongs in both groups, namely the replacement of the Treasury bill tap by a system of monthly tenders. This is aimed at preventing the involuntary siphoning-off of liquidity by the Treasury and hence at encouraging the flow of loanable funds to the economy both through the banks and via the capital market. At the same time it creates the possibility of genuine open-market operations and more effective control by the authorities over the market formation of interest rates.

In taking steps towards continued expansion, even at the risk that the external balance may move temporarily into deficit, the authorities have shown their desire to further the growth of the economy. In the early months of 1963, however, they allowed some tightening of the banks' liquidity to develop, in view of the continued pressure on the wage/price front. Realisation is growing also that an accepted incomes policy may be needed to assure the soundness of future growth.

Belgium. Over the past two years the Belgian economy has had a rather smooth and balanced development. Output has advanced steadily at an annual rate of 3½-4 per cent. and unemployment has declined to a very low level. At the same time the current external balance has been strengthened and price stability substantially maintained. This satisfactory outturn was made

possible by continued buoyancy of exports and by relative moderation in wage increases, which meant that private consumption demand did not rise unduly and industrial labour costs were held in check. While there was a sizable wage increase negotiated in the spring of 1962, which did give an impetus to consumption demand, subsequent movements have been reasonable and have not outpaced the potential of production.

The authorities have thus not been confronted with any acute, short-term problems of policy, either to counter recessionary tendencies or to curb price inflation. They have been able, therefore, to maintain a mildly expansionist policy, aimed at promoting the steady growth of the economy along the path it has been following since early 1961.

The objective has been a growth rate of 4 per cent. per annum for the period 1962-65, with emphasis on the need to modernise the structure of industry so as to reduce dependence on the export of base metals and other semi-manufactures. In order to encourage the capital investment implied by these aims, measures have been taken to continue easing credit and reducing its cost. Here the authorities have been assisted, first, by support for liquidity from the improved balance-of-payments position and, secondly, by the increase in the banks' resources available for employment at home since the Congo has been independent. In addition, the budget deficit has been kept at the rather low level recorded in 1961 in order to avoid excessive competition in the capital market with high investment demand from the private sector.

The measures taken in the monetary sphere have reinforced market trends towards lower interest rates and liberated the banks from the restrictions imposed upon their lending activities earlier in the post-war period. Between August 1961 and the end of 1962 the National Bank lowered its discount rate in six stages from 5 to $3\frac{1}{2}$ per cent., and government bond yields have undergone a corresponding decline from 6 to less than 5 per cent. The Treasury has been able to improve the debt structure by issuing long-term loans to replace some of the floating foreign exchange debt. In recent months, however, the flow of funds onto the capital market has diminished and the fall in market rates has come to a halt. This is partly a result of fiscal changes which have extended tax liability to interest on government bonds and introduced a new anticipatory tax, to be deducted at source, on income from all bearer securities.

As regards the banking reforms, the cover ratio, which obliged the banks up to the end of 1961 to place the counterpart of a substantial portion of their current liabilities in cash and government paper, partly at very low interest, has been successively modified and abolished, so that the banks are now largely free to determine the composition of their assets. In conjunction with this change the Fonds des Rentes (Government Securities Stabilisation Fund) began in 1962 to issue certificates by tender instead of on tap and hence has contributed to downward pressure on interest rates by reducing the total supply of bonds.

Netherlands. From an early stage in the present expansionary phase of the cycle, policy in the Netherlands gave deliberate attention to moving from surplus to equilibrium in the balance of payments. Large wage increases were permitted and monetary policy tolerated a certain rise in the internal price level. With the drastic and widespread shortening of the working week in 1961, however, domestic output was restricted at a time when monetary demand was still exerting a marked pressure, so that the threat to stability was increased. The central bank did not want to reduce bank liquidity, since this would have led the banks to repatriate funds from abroad and increased official reserves; instead it set limits to the permissible rise of bank credit and required the banks to make interest-free deposits with the central bank if the limits were exceeded.

This policy of restraint was continued in the early part of 1962 by prolonging the agreement with the banks regarding credit ceilings and reducing the permissible rate of credit expansion from 12 to 8 per cent. As the faster rise of imports than of exports brought the current external account into equilibrium during this period, the authorities in April 1962 felt free also to raise the discount rate from $3\frac{1}{2}$ to 4 per cent. as a further indication of their intention to keep the situation under control.

In the event, the Dutch economy has had a harmonious development over the past year. This was probably due to some extent to the precautionary measures taken. But it is probable also that the same forces which brought about external equilibrium eased the tension in the internal economy as well. In any case, the demand for credit did not exceed the ceilings in the second half of 1962, so that in January 1963 they were suspended and the discount rate was reduced again to $3\frac{1}{2}$ per cent. Policy thus far in 1963 can best be described as neutral.

In 1962 the real national product increased by $2\frac{1}{2}$ per cent. and industrial production by 4 per cent., and these gains have been continued into 1963. The rise in wages at a rate of about 8 per cent. has meant an increase in internal prices. However, this does not seem to have affected the competitive position of the economy, as export prices have been stable and exports have continued to expand at a satisfactory pace. In fact, there has been a tendency for the external surplus to rise in recent months.

Germany. In Germany the pressure on the economy during the past year was generally maintained, despite the decline in the growth of output. Although the number of foreign workers increased in 1962 by 160,000, a further shortening of working hours accentuated the scarcity of labour. The demand pressure still existing in certain sectors, particularly the building industry, together with negotiated wage increases far in excess of productivity gains, led to a continuing rise in prices. In addition, strong demand produced a sharp increase in imports, which has been more than double the rise in exports. As this was combined with a bigger deficit in invisibles, the current external account showed a deficit for the first time since 1950. With the

balance of payments no longer in surplus, the problem of rising prices and wages became the main concern of the authorities.

For several reasons it has not been appropriate to deal with the situation by a tightening of monetary policy. Firstly, this would have increased the inflow of funds from abroad, as it did in 1960. Secondly, wage-cost inflation is difficult to combat by monetary means. Thirdly, general restraint did not seem to fit a situation in which the strength of demand varied considerably from one sector to another. And, finally, the biggest increase in demand was coming from the public sector, which is largely out of reach of monetary policy.

While the Bundesbank adopted a generally passive attitude in this situation, it allowed the mild tightening that came from the development of market forces. Total bank credit expanded more than the year before, as self-financing by business was reduced and there was a smaller issue of new shares on the capital market. At the same time, bank liquidity also came under pressure because the inflow of liquidity from the balance of payments was reduced and because substantial funds were absorbed by government payments into the central bank. With the decline in bank liquidity, short-term interest rates in 1962 rose by more than half a percentage point. This development was in line with the intentions of the Bundesbank, which followed it by raising, in six stages, the selling rates for money-market paper by a total of $\frac{3}{4}$ per cent.

This move — together with reductions in the swap privileges — was also designed to make the employment of liquid bank reserves on the domestic market more attractive. The change in policy, made possible by the shift in the balance-of-payments position, was intended to prevent fluctuations in domestic liquidity from affecting foreign money and exchange markets. Temporarily supported by special measures, the policy was particularly effective at the end of 1962, when the end-of-year operations of German banks disturbed foreign markets less than the year before.

The government authorities have also been concerned about inflationary developments and have taken some steps against them. In the spring of 1962 the budget provisions for Federal construction outlays were reduced by 20 per cent. and a curb was put on many types of non-residential building. In March 1963 the special depreciation allowances for housing provided for in the income-tax law were withdrawn, except for owner-occupied houses. Also, in February 1963, for the first time, the Federal Government issued a report on the economic situation and the prospects for the year ahead, partly intended to indicate the limits for a non-inflationary increase in incomes.

However, the authorities have been working somewhat at cross purposes. Over the past year government consumption expenditure and investment outlays rose at a faster rate than all other components of national expenditure. In addition, the large expansion in outlays for new housing construction was mainly due to the support given through public funds. There is no doubt

that increased expenditure by the public sector helped to cushion the weakness of private investment; but to make excessive calls on available resources, particularly in the construction sector, is hardly contributing to sound growth of the economy.

Eastern Europe. In the countries with centrally-planned economies, as in western Europe, the growth rate of national income in 1962 was generally smaller than it had been the previous year. The only exception was Bulgaria, which in 1962 benefited from better results in the agricultural sector.

In most eastern European countries agriculture still accounts for rather a large share of total output, and the unfavourable weather conditions during the past two years have had a relatively marked influence on their overall economic achievements. Bad weather, however, is not the whole story. The decisions taken at comparatively frequent intervals in some of these countries, which involve changes in structure, organisation, directives and, last but not least, price schedules, are also among the causes of the unsatisfactory development in this field. There is, however, a basic tendency which may point to better achievements in the future. Further mechanisation, which is more and more turning farming into a kind of industrial enterprise, the study of experience abroad, in both East and West, the increasing training given to labour, and the steady — though slow — shift of emphasis towards more animal output are all helping to make variations in the volume of farm production narrower than was the case a few years ago. What is disappointing is that — for the time being, at least — increased input has not yielded a proportionate rise in output.

As regards gross industrial output, the picture is somewhat the same as that of national income. The annual rates of growth are still very high, but in 1962 they were on the whole no higher, if not lower, than in 1961 — and it is likely that they overstate the actual increase in added values. Output

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

Countries	Annual increase					
	National income		Industrial production *		Output per worker in industry	
	1961	1962	1961	1962	1961	1962
in percentages						
Bulgaria	2.8	6.0	16.7	11.1	9.3	7.6
Czechoslovakia	7.0	0.5	8.9	6.2	5.2	3.2
Eastern Germany	4.1	3.5	6.0	6.2	6.7	9.0
Hungary	6.0	5.0	11.0	9.0	7.0	5.5
Poland	7.2	2.5	10.3	8.7	6.6	4.1
Rumania	10.0	7.0	15.5	14.7	6.0	6.5
USSR	7.0	6.0	9.2	9.5	4.0	6.0
Yugoslavia	4.5	5.5	7.0	7.0	3.4	5.0

* Gross industrial output.

per worker continued to rise fast notwithstanding the tendency towards shorter working hours. In the case of eastern Germany, in fact, productivity rose even more than industrial output.

The countries where industrial production is expanding fastest are still Rumania, Bulgaria, the USSR and Hungary, while in Czechoslovakia and eastern Germany results were more modest. In these two countries industry is faced with difficult problems of reorganisation: in the former in order substantially to reduce the excessive diversification of its production, in the latter in order to relieve the increasing scarcity of labour.

As has now been the case for many years in western Europe, the most dynamic industrial branches in eastern Europe have been the chemical and the engineering industries, whose output is rising at a pace almost twice as fast as the average.

Investment outlays in the centrally-planned economies continue to absorb a large proportion of national resources. It seems, however, that a special effort was made in 1962 and is planned for 1963 to complete the growing number of unfinished projects already in hand, instead of embarking on new ones. In fact, the accumulation of uncompleted projects in some of these countries has become a serious cause of bottlenecks in both the consumer-goods and the capital-goods industries.

With output and productivity in the economy as a whole rising less than in past years, real income per head did not increase much in 1962, save in Rumania, where it went up by some 4 per cent.

In the foreign trade sector, the volume of exchanges continued to rise, partly as a consequence of the increasing integration of these economies under the auspices of the area's central organisation for economic co-operation, but also — on the export side — in conjunction with the extension of credit to a number of less-developed countries and — on the import side — because of the already-mentioned generally poor crops.

In the field of external transactions the process of adjusting domestic wholesale prices to levels more in keeping with those prevailing on world markets seems to be going on at the same time as re-alignments in exchange rates. In order to increase facilities for multilateral settlements among the countries of the group and to reduce the still prevailing bilateralism in their trade transactions, the decision has been taken to set up a special central institution with clearing and banking functions.

Yugoslavia had in 1961 experienced heavy inflationary pressures. Incomes expanded well in excess of productivity gains, prices rose and the balance of payments on current account deteriorated, showing a deficit of \$260 million.

Rigorous restrictive measures were introduced at the time, including restraints on investment outlays, a disinflationary budget operation and a kind of credit squeeze. These restraints were carried on into 1962 but were somewhat relaxed in the second part of the year.

Incomes having come more into line with output, which in turn was supported by a strong revival of export demand, the situation at the end of 1962 was again one of rapid growth under much more balanced conditions, both internal and external. Indeed, in the last quarter of 1962 output was 10 per cent. higher than a year before, the deficit in the current balance of payments had been sharply cut and monetary reserves were twice as high as they had been a year earlier.

United Kingdom: from restraint to stimulation. In the past half-year economic policy in the United Kingdom has undergone a major change from rather tight restraint to active stimulation. Definite steps in this direction were taken in the fourth quarter of 1962 and the new policy was confirmed by the strong impetus given to demand in the budget of April 1963. While there has been ample evidence in the spring months that the economy has entered on a phase of renewed expansion, developments over most of the past year were dominated by the previous phase of restraint. The question is how well the basis for sustainable expansion was laid during this earlier phase.

Thoroughgoing measures were taken in July 1961 to combat the sterling crisis and the restraint was continued by the passive budget of April 1962. This policy emphasis was the main determinant of internal developments up to the first quarter of 1963. It was intended to permit a slow increase in output over the year but at the same time to keep domestic demand from pressing on resources.

In the event, the level of output in 1962 showed only small gains over the previous year, while the underlying situation in the first quarter of 1963 has been rather obscured by the severe winter. From the standpoint of demand, the weak elements were in private investment: fixed business investment declined sharply, particularly in manufacturing; private housing construction eased off; and inventory accumulation was only one-third as large as in the previous year. The impact of these declines was a little more than offset by higher consumption expenditure, both private and public, an increase in public housing and public works construction and a rise in exports.

However, the trend of output was not even throughout the year. It rose in the first half under the stimulus of an increase in exports, an expansion in consumer expenditure and some reaction to the decline in the second half of 1961. But it tended to ease off progressively in the second half-year as exports stopped rising and the weakness of demand as a whole became felt. In consequence, the slight tendency for unemployment to increase that was evident in the first six months became much greater in the second.

In the face of these developments the authorities took steps to ease the policy of restraint. In June there was a partial release of the special deposits of the banking system at the Bank of England and an easing of the controls on consumer credit. From October to December there was a full release of special deposits and the purchase tax on motor-cars and other consumer durables was reduced from 45 to 25 per cent. In addition, plans were announced for raising public investment substantially in the coming fiscal year,

for increasing the tax allowances on investment and for making an additional release of "post-war credits". In January 1963 a net increase in social security benefits was announced.

While production and employment were adversely affected in January and February 1963 by the severe winter, the economy was showing some advance by the time of the budget in April. In any case, the budget underlined the changed policy emphasis. For the coming fiscal year total outlays were estimated to rise by £626 million and reductions in taxes estimated to cost £269 million were announced. The overall budget deficit was expected to increase by £620 million. Over two-thirds of the tax reduction was in personal income tax, with the object of increasing private consumption, while the rest was aimed at boosting investment, particularly in areas of high unemployment.

United Kingdom: The budget.

Items	Financial years ending 31st March		
	1962	1963	1964
	Actual		Estimates
in millions of £ sterling			
Expenditure			
Above the line	6,235	6,441	6,929
Below the line (net)	621	419	597
Total	6,856	6,860	7,526
Revenue	6,645	6,794	6,839
Overall deficit (—)	— 211	— 66	— 687

During the period of restrictive policy from July 1961 to late 1962 several basic aims were being sought: (1) a secure balance-of-payments position to make it possible to shift to expansion without an unmanageable increase in imports; (2) the foundation of an effective incomes policy to prevent constant deterioration of the competitive position of the economy; and (3) the institution of consultative planning for adequate growth.

As to the first objective, the current balance of payments has been relatively favourable since mid-1961. At first this was secured by a decline in imports, but in 1962 a current-account surplus was reached by an improvement in the balance on invisibles. While the position has not been one of undoubted strength, it has not been weak because imports have been at a fairly high level and may be expected to rise only moderately as the economy expands. Trade returns for more recent months have been encouraging and, looking to the year ahead, the authorities have expressed their readiness to use reserves or IMF facilities to finance a temporary bulge of imports should the need arise. Hence, the underlying position of sterling rests with the success of incomes policy and a consequent steady growth of exports.

The authorities have sought to make the public aware of the need for an incomes policy and to gain support for such a policy. In addition to the pay pause that was instituted between July 1961 and March 1962, incomes

policy has been a constant theme in official statements, and the National Economic Development Council has set to work on co-operative planning for an adequate and sustainable rate of growth.

Incomes policy has met with some success in that the pace of wage increases has declined steadily since 1960. None the less, the index of hourly wage rates rose by 4 per cent. over the year ending March 1963. While there was some carry-over of wage increases from the preceding pay pause, the rise was substantial for a period of growing unemployment. Thus, wage increases have continued to exceed productivity gains and to exert a cost pressure on prices, though to a declining extent. There has, therefore, been some improvement in the past year or two, but there is as yet no assurance that the existing system of wage determination will allow the necessary gains in competitiveness to be achieved.

When account is taken of these developments, the occasional pressure on sterling in the exchange markets is understandable. This was evident in the month before the presentation of the budget and the authorities arranged for deposits of \$250 million from foreign central banks to relieve the pressure. In these circumstances, it would seem that the budget has gone as far as is prudent in promoting expansion, not only from the standpoint of immediate balance-of-payments considerations but also from that of avoiding excessive demand on the labour market while incomes policy is being strengthened.

United States: slow recovery. The economy of the United States during the past year has continued to be afflicted by both a sizable margin of unemployment and a serious balance-of-payments deficit, without significant improvement on either front. These problems have been so thoroughly raked over in official and private analyses that nothing new can be said on either subject. But the divergence of viewpoints has been so wide that it has been difficult for a consensus on a clear and forceful line of policy to emerge. Policy itself is reflecting the compromises that are inevitable in such an atmosphere, though there are signs that the air may be clearing.

As to the domestic situation, the expansion phase of the business cycle has continued, but at a slower pace than in the first year of recovery from the recession of 1960. After the middle of 1962 industrial production remained on a plateau until an upturn occurred in the spring months of 1963, produced partly by inventory buying. The strongest sector of the economy has been motor-car production. The short-term outlook, apart from possible policy changes, would seem to depend primarily on the market tone set by sales trends in this industry. Surveys of investment intentions indicate that a rise in business investment is likely in the second half of the year. Throughout the past year there have been ample spare resources, so that the rate of expansion was entirely dominated by demand forces. These varied somewhat from quarter to quarter, mainly because of inventory movements, but such variations were not particularly meaningful in the face of the basic elements of demand which were inducing a moderate expansion.

United States: Gross national product and its components.

Items	1st quarter			Change	
	1961	1962	1963	1st quarter 1961 to 1st quarter 1962	1st quarter 1962 to 1st quarter 1963
seasonally adjusted, in billions of dollars at annual rates					
Personal consumption	330.5	350.2	369.0	+ 19.7	+ 18.8
<i>Durables</i>	40.8	46.3	50.2	+ 5.5	+ 3.9
<i>Non-durables</i>	153.5	159.9	166.7	+ 6.4	+ 6.8
<i>Services</i>	136.2	144.1	152.1	+ 7.9	+ 8.0
Government purchases of goods and services	104.8	115.2	123.8	+ 10.4	+ 8.6
<i>Federal</i>	55.4	61.9	65.9	+ 6.5	+ 4.0
<i>State and local</i>	49.4	53.3	57.9	+ 3.9	+ 4.6
Gross private domestic investment (fixed)	63.7	69.2	73.5	+ 5.5	+ 4.3
<i>Residential construction</i>	19.0	21.2	22.6	+ 2.2	+ 1.4
<i>Other construction</i>	20.3	20.5	21.0	+ 0.2	+ 0.5
<i>Producers' durable equipment</i>	24.4	27.6	30.0	+ 3.2	+ 2.4
Change in business inventories	- 3.6	6.7	2.5	+ 10.3	- 4.2
Net exports of goods and services	5.3	3.7	3.2	- 1.6	- 0.5
Gross national product	500.8	545.0	572.0	+ 44.2	+ 27.0

In absolute terms, the increase in output in the year ended in March 1963 was only about three-fifths as large as in the previous year. The preceding table shows the details of this weakening of demand forces. The increase in consumer expenditure was a little smaller, while the drag on the economy from lower net exports was a little less. The increases in private fixed investment and in government use of resources were both about 20 per cent. less in the past year. However, the major factor was the change in the rate of stock-building; whereas this element was adding \$10 milliard to the increase in demand in the first year of recovery, it was subtracting \$4 milliard in the second year. A change of this kind was to be expected after the initial stages of recovery. But the abruptness and magnitude of the change over the past year must be linked partly with the slow-down in the placement of Federal Government contracts. These must have risen steeply in 1961 after the Berlin crisis, thereby increasing the inventory needs of the contracting firms.

Although disappointing in strength, the past year's expansion has not shown distortions of the kind that marked previous cyclical recoveries. First, prices have been maintained on an even keel. Secondly, business investment was geared to current requirements and did not leap ahead with excessive additions to capacity that would imply retrenchment in the future. And, thirdly, the expansion was not based on excessive accumulation of inventories. The considerable volume of automobile demand, supported by a rather large extension of instalment credit, was the one element that seemed perhaps somewhat above the longer-term trend of demand. Some types of residential and commercial construction also may be rather high relative to longer-term needs. On the other hand, inventory accumulation in the first quarter of 1963 was below the normal growth needs of the economy and it is likely

that excess capacity was holding fixed investment below continuing expansion needs. With the possibility of such offsetting changes, therefore, the pattern of expansion was a sustainable one.

Vis-à-vis other objectives the growth of the economy was less satisfactory. For one thing, the rise in demand was somewhat short of the amount needed fully to absorb the increase in the labour force, so that unemployment stood at a higher percentage in the first quarter of 1963 than a year earlier. However, the shortfall of demand was not large from this standpoint.

Much less satisfactory was the fact that no progress was made in lifting total output to the neighbourhood of a full-employment level. From this standpoint the shortfall of demand was substantial. Precisely what further addition to output would have been needed to provide adequate employment of manpower and productive facilities is difficult to say; from the experience of the past two years it would seem likely to be nearer 10 per cent. than 5 per cent., given the fact that a tightening of the labour market would attract substantial numbers of the population to the labour force.

A significant influence in the slower expansion was the declining fiscal stimulus reflected in the balanced budget put forward in January 1962, though the decline from the high rate of inventory accumulation, mentioned above, was also an important factor. The Federal deficit (on income and product account) declined after the first quarter of 1962 until the movement was reversed in the fourth quarter by the more liberal depreciation allowances permitted to private industry. Besides, the surplus fiscal position of the Federal Government with respect to the domestic economy has been a continuing dampening factor; about \$4 milliard was spent abroad on defence and untied aid, only a small part of which was directly offset by foreign defence spending in the United States. Possible indirect offsets cannot be traced, but what matters in this context is that the overall balance of payments was in deficit.

On the other hand, an easy monetary policy was maintained to aid domestic recovery, with some changes introduced for balance-of-payments reasons.

United States: Federal budget.

Items	Fiscal years ending 30th June			
	1961	1962	1963*	1964*
	in milliards of dollars			
Consolidated cash basis				
Receipts	97.2	101.9	108.4	112.2
Expenditures	99.5	107.7	116.8	122.5
Deficit (—)	— 2.3	— 5.8	— 8.4	— 10.3
National accounts basis				
Receipts	95.5	104.0	108.8	111.4
Expenditures	97.7	105.7	113.2	119.0
Deficit (—)	— 2.2	— 1.7	— 4.4	— 7.6

* Estimates.

It is not clear whether the reduced stimulus from the budget was intended as a means of giving a higher priority to balance-of-payments considerations, or whether it was decided to rely on autonomous forces to move the economy towards a full-employment level. If it was the latter, it proved to be an unrealistic calculation. For the wider public, however, a consensus of opinion on effective full-employment policy has been hampered by belief in spontaneous private demand and by misunderstanding of fiscal policy.

As to private demand, most analyses attribute the unsatisfactory recovery to the failure of business investment to rise more sharply. Sometimes this view is supported by comparisons with the recovery patterns from earlier recessions. But as the two previous recovery movements were marked by very distorted demand patterns, they do not offer a clear guide to policy. The 1956-57 investment boom ended with a large over-extension of productive facilities which led to a sharp contraction of fixed investment in the ensuing recession; the recovery of 1959, with the distortions of the steel strike, was another model of unsustainable expansion.

Also prevalent has been the idea that higher investment is needed to promote a higher rate of growth. However, actual output provides no indication of growth when the potential of the economy is not being fully utilised. If there were reasonably full use of labour and productive facilities today, the rate of growth from 1956 to 1962 would have been somewhere between 4 and 4½ per cent. Thus, the idea that business investment has lagged behind economic requirements has little practical import. Business management in thousands of industrial firms is the only competent judge of the volume of investment consistent with the marginal productivity of capital; to go beyond that point would only add unnecessarily to costs and impair the competitiveness of the economy.

The persistent slack in the economy must, therefore, be attributed essentially to an insufficient rise of real consumption and government demand — even though business investment itself would also be higher at a full-employment level of output. Since this situation results from the interrelation of a number of economic variables, it is easy to lay the blame on any particular one — provided it is assumed that the other variables would remain constant if a change were made in the culprit. From a policy standpoint, however, the significant thing is that full employment has not been an operational objective in the sense of a complex of policy measures which, by reasonable economic arithmetic, could be expected to reach that result. The reason for this has been reluctance to call upon fiscal measures on a scale to match the huge size of the economy.

Some moves have been made in the past year to loosen the fiscal strait jacket. One means has been by acceleration of public works, mainly through Federal assistance to State and local governments — a useful technique for raising employment and business output because it allows a strong impact in areas of high unemployment. The programme, however, has been conceived

on a small scale. The main fiscal impetus is intended to be by tax reduction. With the budget for 1963-64 the President proposed that the rates of personal and corporate taxes be reduced by \$9 milliard over a three-year period — two-thirds of which is to become effective in the fiscal year 1964. The tax stimulus was to be somewhat offset by a slower rise in government expenditure. While the budget programme is aimed at accelerating the pace of recovery, it is not designed to lift total demand to a full-employment level over any specified time period — without major autonomous changes in demand forces.

To what extent this could be done, however, depends on the strength of simultaneous action to reduce the balance-of-payments deficit, which may be considered in the context of the broad international payments situation.

The international payments situation.

The international payments situation has improved in two respects over the past year: first, the external balance of several countries moved towards equilibrium and, secondly, steps were taken to give new flexibility to international financing arrangements.

In continental western Europe, as similar tendencies operated in most countries, the approach to equilibrium was on a major scale. With exports to outside areas stable and rising consumption demand attracting higher imports, the trade deficit increased by \$1.6 milliard and the worsening in the current balance as a whole amounted to \$2 milliard. More than half of this sum was due to Germany, but there were important changes also for Italy, Switzerland, Spain and France. The only countries to improve their current-account position were Austria, Belgium and Portugal.

About half of the current-account deterioration was reflected in slower accumulation of gold and foreign exchange reserves, France being the only country still showing reserve gains on a large scale. The other half has its counterpart in the fact that the heavy IMF drawings on the main continental currencies in 1961 were not continued in 1962. In all, therefore, the pressure which the continental external surplus had been exerting on the international payments situation has been very substantially reduced, to a large extent because official policy had been oriented to this end.

In Japan corrective measures taken in September 1961 reversed the upward trend of imports, with the result that the current-account deficit of \$1.1 milliard in 1961 was eliminated in 1962. This allowed a reduction in foreign borrowing and an increase in reserves. In Canada also, the external position improved after the measures taken in June 1962; the flight of short-term funds was reversed and the deficit on current account was reduced.

There has been a gain in the current-account position of the United Kingdom, which seems to have continued in the first quarter of 1963. Given

also the rapid repayment of the drawing on the IMF, the strengthening of the UK reserve position has been substantial. At the same time, it is evident that a faster rise in exports than in imports will be necessary over the longer term to support adequate growth of the economy.

Despite these equilibrating movements, the payments situation has remained unsatisfactory because of the continued difficulties of the dollar. The external deficit of the United States has shown no overall improvement in the past year. With recovery of the domestic economy, there have been steadily rising imports and a decline in the trade surplus. In 1962 this was just about offset by increased foreign investment income, larger foreign military purchases in the United States and a smaller net outflow of capital. In the capital account the gain came from a much reduced outflow of short-term funds and an increase in US Government foreign liabilities; on the other hand, exports of long-term capital went up, because of the large rise in new issues floated in New York, and net foreign investment in the United States declined. In appraising the situation, it should be noted that exports were adversely affected by the restraining measures taken in Japan, the United Kingdom and Canada; however, the increase to the rest of the world was not large. Higher labour costs in Europe have been largely absorbed by lower profit margins, so that American products have not gained much in competitiveness; moreover, the rise in Europe's imports has been concentrated in consumption goods rather than in the sphere of capital goods, which would have attracted more imports from the United States.

The size of the deficit in the balance of payments, and its persistence, imposes limitations on the speed with which expansion of the economy can safely be promoted. As the direct effect of expansion is likely to be higher imports and a worsening of the external deficit, policy measures to reduce the deficit must keep a step ahead of measures taken to stimulate output if the deficit is actually to decline.

The US authorities have tried, in a variety of ways and with a moderate degree of success, to reconcile the opposing policy requirements of the external deficit and unused domestic resources. It is evident, however, that the situation calls for more vigorous measures. For some time it has seemed unlikely that the deficit will be resolved mainly by a widening of the trade surplus; in fact, the export trend will be quite favourable if it keeps pace with the rise in imports as the economy expands. Hence, contributions to equilibrium are needed from a reduction in net capital exports and in government dollar expenditures abroad. The authorities have indicated that a tighter monetary policy will be feasible as the economy expands with the aim of reducing capital exports and attracting capital imports. Such a policy would have to be directed mainly to longer-term investment funds, as short-term interest differentials have largely been eliminated and as substantial attraction of liquid funds from London would not be desirable. Steps are being taken also to curtail government outlays abroad. It is to be hoped that such measures will be used with increasing effect.

The international financial system.

Prompted by the difficulties of the two key currencies, the dollar and sterling, there has been much criticism in recent years of the international financial system and a variety of proposals for dealing with what is called an actual or threatened shortage of international liquidity. These ideas are often difficult to come to grips with because of vagueness about the practical problems they are intended to solve. As international financial co-operation has been active in extending the scope and flexibility of resources available for liquidity needs, it is surprising to find in much of this criticism the implication that obstinate financial conservatism is the essential barrier to the solution of what are in fact profound difficulties.

To start with, one must be clear about the function of official liquid resources in the international payments system. These are not a circulating medium used to effect payment in day-to-day transactions, as the domestic money supply is used to settle internal transactions; the vast bulk of transactions is settled by offsetting sales and purchases on the foreign exchange markets, with the actual circulating medium coming from the domestic money supply. The use of foreign exchange resources is limited, therefore, to covering the differences that arise from time to time between the flows of receipts and payments. This means that there is no simple functional relation between the need for some aggregate of official liquid resources and the volume of world trade; in fact, it is the increased movement of short-term funds since convertibility that has required greater use of external liquidity rather than increased trade. Similarly, it may be readily seen by comparing the experience of various countries that there is no simple functional relation between the need for liquidity and any other statistical magnitude, such as the domestic money supply or total external transactions. This is because the need for liquidity is related to instability and the causes of instability are so varied and affect countries so differently that they cannot be expressed in a universal equation. The actual reserves that various countries hold have been determined more by tradition and chance than by any precise idea of need — though, at any given level, the authorities may adapt policy to influence changes in reserves.

Furthermore, it must be seen that a global aggregate of external liquidity, measured by official reserves, for example, has little meaning. The liquidity available to a particular country to meet temporary imbalances is not limited to its reserves but includes the international credit to which it can have access. But also, while reserves of foreign exchange are liquidity to the country which holds them, they mean reduced liquidity to the country whose currency is being held abroad. Hence, the adequacy of liquidity cannot be evaluated in global terms; one must ask whether individual countries have reasonable means to meet the imbalances with which they may be confronted.

What must be emphasised, in addition, is that the size of balance-of-payments deficits does not provide a clear guide to the volume of liquid resources that should be made available to meet them. This is because deficits

do not just come by accident; they are vastly affected by the policies that the deficit country follows — as they are also by the policies of the surplus countries. It is often said that liquid resources, either from owned reserves or from international sources, are meant to buy time for measures to be taken to correct the external deficit. In case after case the striking thing has been how little liquidity has had to be used once firm corrective measures have been taken. Rather than shortage of liquidity having limited the time available for remedial action, there is more truth in the proposition that remedial action has tended to be limited to the extent allowed by available liquidity. Thus, besides being adequate, external liquidity must also be able to run out, for it is this ultimate sanction that assures an eventual end to imbalance.

It is for this reason that access to international liquidity, arranged by international agreement on preferential terms, cannot be automatic except to a limited extent. This is the reason, too, why commitments to extend the scope of various techniques for providing liquidity cannot be made according to any grand design of seemingly reciprocal relationships. As in all banking, the extension of international credit for liquidity purposes must be appraised in accordance with the current circumstances of the individual case.

In the light of these considerations, the authorities responsible for the functioning of the international financial system have not been sympathetic to any mechanistic scheme for increasing liquidity but have preferred to make new arrangements as real needs have emerged. One may say that the aim has been to provide ample opportunity for steps to be taken to correct temporary imbalances and to supply the means for offsetting movements of funds which could become cumulative if left unchecked. The principal means has been enlarging the resources of the IMF. In 1959 there was a general increase of 50 per cent. in the national quotas. During the past year the main financial countries have approved the plan which enables the IMF to borrow from commitments of over \$6 milliard to ensure that adequate means will be available for a major drawing by members of the group. In addition, to help in countering shorter-term pressure on the exchange markets, the monetary authorities of the main financial countries have utilised new techniques of co-operation since early in 1961 to supply foreign exchange resources where they have been needed. This has been done by currency swaps between central banks and with the BIS, by the deposits of one central bank with another and by the issue of special certificates and bonds denominated in the currency of the creditor country. The United States, Canada and the United Kingdom have acquired foreign exchange on a substantial scale by one or other of these means on different occasions. The US network of swaps with foreign central banks amounts to more than \$1.5 milliard; drawings on them have been limited as they are designed only to meet temporary exchange pressures. Borrowing in foreign currencies by the US Treasury, intended to limit the weakness of the liquidity position, has amounted to almost \$600 million. When the European Monetary Agreement was renewed early this year possible wider use of such techniques was envisaged, should the need arise. By providing resources which, so to speak, stand between gold

and foreign exchange reserves and the rather longer-term facilities of the IMF, this financial co-operation has given a new element to the international financial system. Such techniques are capable of considerable expansion as their usefulness is tested in practical application. Indeed, if easier access to liquidity is needed in the future, it is quite feasible for drawings on the IMF to become an instrument in more routine balance-of-payments management.

Given the readiness of the authorities to meet concrete problems, the argument about shortages of liquidity has little point. Of course, in assessing the need for liquidity it is essential to maintain the distinction between temporary and continuing balance-of-payments deficits. International facilities, to supplement reserves, are appropriate only in connection with the former, whereas the latter must be subject to the availability of long-term financing. Any suggested arrangements which mean, in reality, that liquid resources are to be used as long-term capital imports cannot be expected to find favour with the creditor countries — whichever they may be at the time.

Some proposals for new forms of international liquidity have been aimed at relieving the pressure on the US gold stock. It is inevitable that the continued rise in official reserves of dollars should make the holders sensitive to the possibility of exchange risk and lead to gold exports. While this is a real problem, it is one that has arisen not from shortage of liquidity but from the huge volume of liquidity which the US external deficit created almost automatically owing to the simple fact that the dollar was accepted as reserves by foreign monetary authorities. The fact that a substantial part of the US gold stock is legally designated as cover against the internal money supply, where it serves no function, naturally increases the doubts about the adequacy of the gold stock to fulfil its essential function in settling international balances.

Designing schemes to make the access to liquidity easier will not solve this problem. The only real solution is to eliminate the external deficit. If, out of consideration for broader objectives, the government believes it necessary that this be done only gradually, then it is essential also to protect the international position of the currency by funding some part of the short-term liabilities. In effect, the issue of special securities denominated in foreign currencies has to some extent served this function. It is a useful technique, but it cannot be said too often that there is a vast difference between "buying time" and "marking time".

The basic problem in international payments has not been liquidity, therefore, but balance-of-payments disequilibrium — persistent in the case of the dollar even with substantial under-utilisation of domestic resources, and periodic in the case of sterling when expansion is allowed to gather some momentum. As this situation has endured for some years, in the face of reasonably good creditor policy by the surplus countries, one must ask whether such modern industrial economies have the flexibility to regain external equilibrium, or whether the corrective measures in these instances have been too limited.

The question about flexibility can be put in the following way: when a country is buying time (by use of reserves or by slow growth) to correct a balance-of-payments weakness, what is supposed to adjust? The question is relevant to the three types of transactions in the balance of payments: current trade and services, private capital movements and government transactions.

As far as the current balance is concerned, there should be an improvement in the country's competitive position brought about by a downward adjustment of costs and prices. When deflationary measures cannot be used to induce this adjustment, because demand is not excessive and unemployment would become too high, it must be done by incomes policy. At present, the idea of continuously rising money incomes is so firmly embedded in public opinion that, in both the United States and the United Kingdom, the maximum objective set by the authorities has been wage increases equal to the gain in productivity and stability of prices. This means that the country's competitive position will not improve unless foreign countries are obliging enough to inflate costs and prices. Under such circumstances flexibility is indeed limited and the external disequilibrium can drag on for an extended time. Hence, despite the difficulties, incomes policy should try to set a more exacting standard. While success in such a policy hinges on the attitude of organised labour, active support from business management is needed to distribute the fruits of increasing productivity through lower prices as well as to make exports more competitive.

In so far as private net capital exports contribute to the disequilibrium, the traditional policy instrument is tighter monetary policy to make the internal market more attractive to both domestic and foreign investment funds. European experience has been that this policy is effective; for the United States it has thus far been tried to only a minor degree. To contend that, under US conditions, capital exports and imports would not respond to a moderately tighter monetary policy, or that the internal repercussions would be too great to be offset by other means, is to leave little alternative other than direct controls of some sort. Of course, the policy of the surplus countries must be complementary, as nothing can be gained by a competitive raising of interest rates.

Finally, when high government expenditures abroad are an element in the problem, as in the United States, the market economy may not be able to make a full adjustment without some help from policy directed to the foreign expenditure itself. In such a case the expenditure abroad must either be cut to fit the possibilities of receipts from abroad or it must be financed to the extent necessary by longer-term borrowing abroad.

One must conclude that policy has not been blameless — not only in its achievements but in its objectives. At the same time, if the dominant groups in the economy are not amenable to reasonable discipline, it is evident that the economy is at least partially deprived of the flexibility required to secure external stability. In either case it is not facing reality to look for the cause of the trouble in the international financial system as such, or to imagine that it can be solved by easy access to international liquidity.

PART II

ECONOMIC AND MONETARY DEVELOPMENTS.

I. FINANCIAL FLOWS AND POLICIES.

In contrast to the less certain advance in economic activity over the past year or so, credit expansion and liquid asset formation in the western industrial countries have gone on largely unabated.

In continental western Europe the strength of external reserve positions has generally enabled the monetary authorities to keep to liberal credit policies as a means of sustaining private industry's flagging propensity to invest. In various countries the authorities have made an effort not only to keep interest rates down but also to modify institutional arrangements so as to encourage the flow of funds into longer-term channels. In France and Switzerland certain restraining measures were taken; these were, however, designed not to raise interest rates but to curb an unusually high rate of increase in bank credit. Similar measures in Austria were aimed more specifically at reducing excess bank liquidity. In Belgium and Sweden the improvement in the public finances since 1961 was a factor enabling the monetary authorities last year to reduce interest rates appreciably from their previously high levels. Only in Denmark, Norway and Finland, where external current-account deficits became larger in 1962, was monetary policy essentially restrictive.

In the United States, pending a prospective reduction in taxation, reliance has continued to be placed mainly upon monetary policy as a stimulus to economic activity. Although by means of selective monetary techniques the authorities have done what they could to reconcile domestic and external objectives of policy, the fact remains that the formation of domestic liquid assets has accelerated during the past two years, while the external liquidity position has continued to deteriorate.

In the United Kingdom budget restraint and the improved position of the balance of payments in 1962-63 facilitated the removal of credit restrictions and a marked reduction in interest rates. Much as in the United States, however, private investment outlays did not suffice to absorb existing saving potential, thus leading the authorities in April 1963 to introduce an expansionary budget.

In Canada and Japan, too, the easing of external pressure in recent months has been accompanied by relaxation of policy in the field of credit.

These developments are examined in this chapter first in the light of inter-country comparisons of credit flows and then in terms of the policy strategy and techniques applied in individual countries.

The changing pattern of financial flows.

Overall saving and investment. Looking back over the last decade, one may observe in continental western Europe a distinct change in saving/investment relationships after 1960. From 1953 up to 1960 gross domestic capital formation had been a particularly dynamic element of growth, rising constantly — except in 1958 — in relation to gross national product. An even steadier advance was recorded by gross national saving (which is also statistically equivalent to the sum of gross domestic fixed capital formation, investment in stocks and net exports of goods and services). The pronounced rise in domestic fixed capital outlays did not, in other words, interfere with the realisation of an increasing external surplus.

The new situation after 1960 found expression primarily in a levelling-off — and, in important instances, a decline — in gross national saving relative to gross national product. The causes of this change and their interrelationship are complex, residing partly in the weakening of export markets and, more recently, in a progressive narrowing of investment opportunities. However, another factor, common to virtually all continental European countries, has been the accelerated rise in wage and salary incomes. Whereas from 1953 to 1960 the rate of increase in such incomes, though high, had not made inroads upon profits, the gains from 1961 onwards began substantially to outstrip productivity and were not fully passed on in higher prices. Taken together, these factors have led to a shrinkage of profit margins, to a consequent decline in business saving as a share of gross national product, and hence also in a number of cases to a fall in the rate of gross national saving itself.

Among western European countries the relative decline in business saving (i.e. depreciation allowances plus undistributed profits) from 1960 to 1962 was most pronounced in Germany, the Netherlands and the United Kingdom. In the former two countries the fall was accentuated by the currency revaluations of March 1961, while in the United Kingdom the weakness of final demand was the most important factor. In France from 1961 onwards, and apparently also in Italy and Switzerland from 1962, the development was the same, but in these countries the fall was limited by the fact that final demand was very buoyant and prices rose. Wage rises also outran productivity gains in the Scandinavian countries, but here again price increases appear to have softened the impact on business profits. In Belgium, on the other hand, wage demands were kept within more reasonable bounds and did not adversely influence business profits during this period.

Since a large proportion of gross business earnings takes the form of undistributed profits, while only a small part of disposable personal incomes is saved, the increase in wages and salaries at the expense of profits tended

Gross national saving and investment.

Countries	Years	Gross national saving			Total saving and investment	Gross national investment			
		Households	Enterprises	Public authorities		Gross domestic fixed capital formation		Increase in stocks	Net external investment
						Housing	Plant and equipment		
as percentages of gross national product at market prices									
Belgium	1960	9.9	10.3	- 0.9	19.3	5.0	12.5	0.6	1.2
	1961	9.1	11.5	- 0.8	19.8	18.8		0.3	0.7
	1962	9.9	10.6	- 0.2	20.3	19.2		0.6	0.5
Denmark	1960	15.5		6.3	21.8	3.0	16.5	3.4	- 1.1
	1961	16.0		4.1	20.1	3.3	17.0	1.5	- 1.7
	1962	.		.	19.6	3.3	17.5	2.3	- 2.5
Finland	1960	7.9	9.7	11.4	29.0	5.7	23.4	0.8	- 0.9
	1961	9.9	9.8	9.5	29.2	6.4	22.9	1.2	- 1.3
	1962	9.6	9.7	9.0	28.3	7.0	23.2	1	- 1.9
France	1960	8.9	8.8	5.1 ²	22.8	4.7	14.0	2.4	1.7 ²
	1961	8.2	8.5	5.2 ²	21.9	4.7	14.8	0.9	1.5 ²
	1962	8.8	8.3	4.6 ²	21.7	4.7	14.9	1.5	0.6 ²
Germany	1960	5.1	16.1	6.9	28.1	5.4	18.6	2.8	1.3
	1961	5.3	14.8	7.1	27.2	5.6	19.4	1.9	0.3
	1962	5.1	14.2	7.2	26.5	5.8	19.6	1.6	- 0.5
Italy	1960	22.4		3.6	26.0	5.8	17.5	1.6	1.1
	1961	22.8		4.3	27.1	5.9	19.3	1.4	1.5
	1962	22.4		4.2	26.6	6.5	18.3	1.1	0.9
Netherlands	1960	9.5	14.0	6.1	29.6	4.3	19.2	3.3	2.9
	1961	8.7	12.7	7.0	28.4	4.2	20.1	2.9	1.2
	1962	8.8	12.8	5.5	27.1	4.0	20.6	1.5	1.1
Norway	1960	19.1		7.5	26.6	3.9	23.9	1.6	- 2.8
	1961	18.6		8.4	27.0	4.0	25.6	1.7	- 4.3
	1962	18.2		7.8	26.0	4.1	26.2	-	- 4.3
Sweden	1960	.	.	.	23.5	5.1	17.1	2.3	- 0.9
	1961	.	.	.	24.1	5.2	17.1	1.6	0.1
	1962	.	.	.	23.2	5.4	17.0	1.0	- 0.1
United Kingdom	1960	5.8	10.8	1.7	17.3 ³	3.0	13.2	2.3	- 1.2
	1961	7.1	8.9	1.8	17.8 ³	3.0	13.9	1.1	- 0.2
	1962	6.2	8.1	3.1	17.0 ³	3.1	13.3	0.3	0.2
United States	1960	4.2	10.3	3.7 ⁴	17.5 ³	4.3 ⁴	12.1 ⁴	0.8	0.3
	1961	4.9	10.3	2.2 ⁴	16.8 ³	4.2 ⁴	11.8 ⁴	0.4	0.5
	1962	4.7	10.5	2.5 ⁴	17.1 ³	4.4 ⁴	11.8 ⁴	0.6	0.3
Canada	1960	4.2	14.5	2.4	20.6 ³	4.0	18.8	1.0	- 3.2
	1961	4.0	14.1	1.7	19.0 ³	3.9	17.9	- 0.4	- 2.4
	1962	5.8	13.8	2.5	21.0 ³	3.9	17.7	1.4	- 2.0
Japan	1960	30.3		9.2	39.4	2.3	29.7	5.0	0.4
	1961	32.0		10.2	41.5	2.5	32.3	8.7	- 2.0
	1962 ⁵	.		.	36.4	2.9	31.8	1.7	-

¹ Change in stocks included with fixed investment. ² Excluding current transfers. ³ Including a residual error. ⁴ Including, as an element of both saving and investment, new civil public construction. ⁵ Based on estimates for first three quarters.

in most continental European countries to reduce gross national saving in relation to gross national product. For instance, in the countries where the relative decline in business profits was greatest — i.e. Germany and the Netherlands — the saving of households in relation to gross national product showed comparatively little change. On the other hand, in the United States, the United Kingdom and Canada, where the weakness of consumer demand

was a factor tending to limit business profits, household saving increased significantly relative to gross national product in the years 1961-62.

In some cases the effect of the profit squeeze on gross national saving was offset, more or less, by a rise in public sector saving. This was particularly true of Sweden and Italy in 1961, and of Belgium and the United Kingdom in 1962 — in all of which countries the central government's current-account budgets recorded a substantial improvement. In contrast, in Finland in 1961-62, and in the Netherlands last year, a reduction in the central government's current budget surplus reinforced other tendencies making for a lower proportion of saving.

Viewed against this background, it is noteworthy that the monetary authorities did not seek to counter cost inflation by means of tighter credit policies. Indeed, as enterprises' propensity to invest began to weaken, policy aimed increasingly at sustaining investment by the maintenance of easy conditions in the long-term credit markets. And in practice investment in plant and equipment remained high, or even increased, in relation to gross national product in most continental European countries in the years 1961-62, though it slowed down late in 1962 and early in 1963. Moreover, from 1960 onwards investment in housing recorded an appreciable rise in relative terms in Germany, Italy, Switzerland and the Scandinavian countries.

The autonomous forces contributing to lower saving, together with the policy-induced stimulus to higher domestic investment, converged in the balance of payments. Just as it was the comfortable external position that had made this combination of developments feasible, so it was in the external accounts that the adjustment between gross national saving and domestic investment was concentrated. The mechanism of adjustment operated partly by way of the stimulus given to imports by the swift rise in personal incomes and consumption, as well as by the continued, though weakening, advance in fixed domestic investment. But the lack of buoyancy in overseas markets, particularly for capital goods, was also a significant factor. Changes in relative price levels, however, seem up to now to have played only a limited part in the process of adjustment.

In recent years in the United States, and last year in the United Kingdom, the ratio of gross national saving to gross national product was below that which might be expected at a full-capacity level of output. Although easy credit policies have been pursued in both countries (in the United States since 1960), the resulting volume of investment has been insufficient to produce a full utilisation of resources and manpower. In both countries, as will be seen later, the new policy approach is one which combines a reduction in public saving (via tax cuts and increases in government current expenditure) with encouragement to investment (via investment tax credits and liberalised depreciation allowances) as a means of achieving a saving/investment equilibrium nearer to full employment. In the United Kingdom public investment outlays are also being stepped up considerably.

Yet another pattern of development has been observable in Japan and Canada, both of which bettered their external positions in the course of

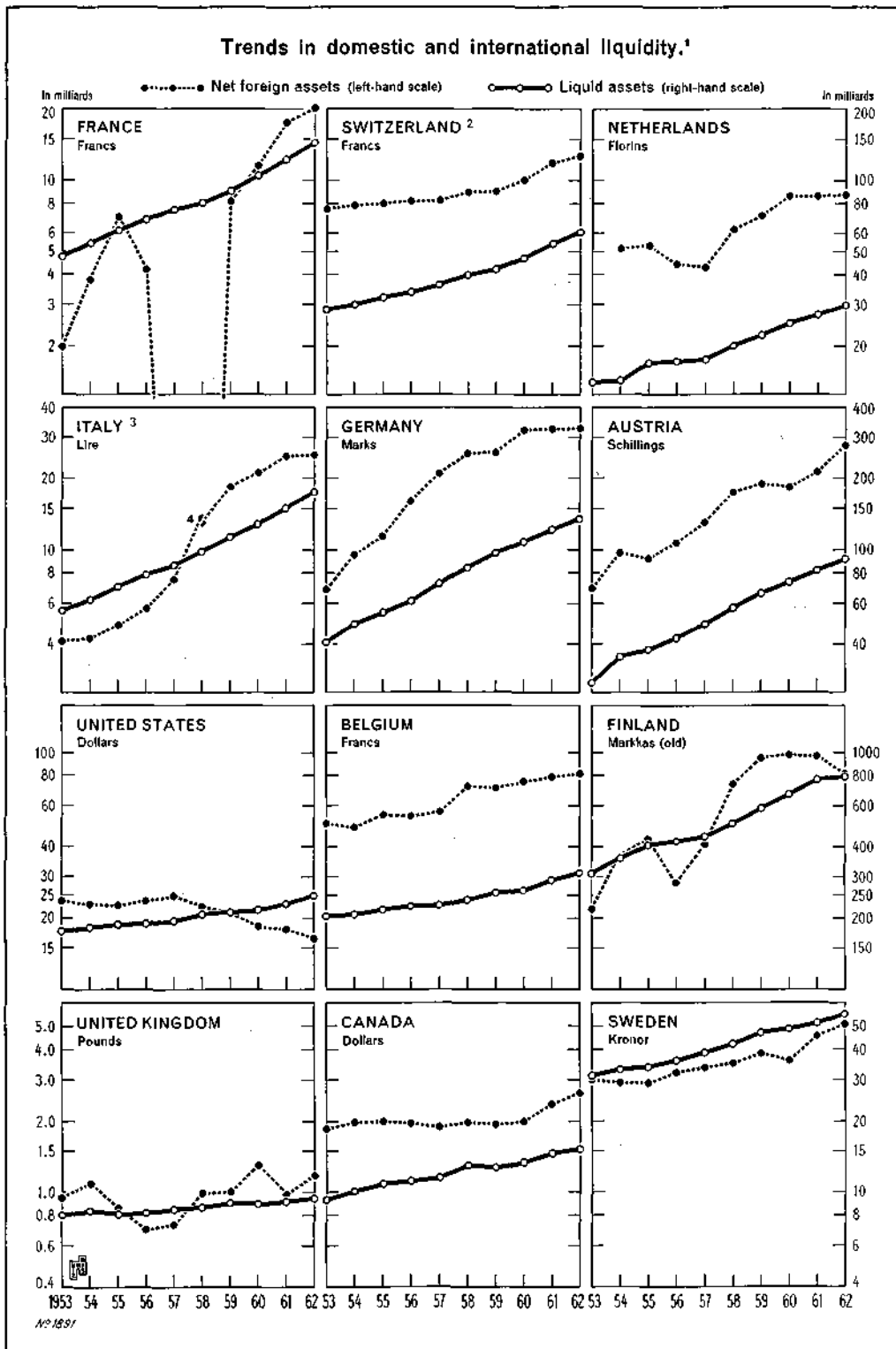
1962. In Canada, in addition to the increase in personal saving, the public sector's saving rose, mostly as a result of the government's emergency measures taken in June 1962, which included a cut-back in its own expenditure and the imposition of temporary surcharges on imports. Equally significant, however, was the effect of tighter money and higher interest rates in stimulating a large capital inflow. In Japan the correction came about largely through the restrictive effects of the monetary measures adopted in mid-1961, which helped in particular to retard the unusually high rate of inventory accumulation.

In broad terms, therefore, the saving/investment picture that emerges is as follows: in most continental European countries the external component of investment has been largely absorbed as slower-growing savings have been more fully utilised at home. While this development has helped to strengthen the external position of the United Kingdom and the United States vis-à-vis the Continent, there has been an offset, particularly for the United States, in the shift to external surpluses in the case of Japan and Canada.

External and domestic liquidity formation. The deterioration in the current external position of various continental countries has been accompanied by a slowing-down or reversal of the long-sustained influx of gold and foreign exchange. Since 1960 the net foreign assets of the banking system (including the central bank) have remained relatively unchanged in Germany and the Netherlands, while in Finland they have declined (as they have also done in Denmark since 1959 and in Norway since 1960). In Italy, Belgium and Sweden the growth of net foreign assets did not level off until 1962. In both France and Switzerland external reserves rose appreciably less in 1962 than in 1961. But whereas in France this was ascribable mostly to a large advance repayment of debt to the United States, and only in part to a decline in the substantial current-account surplus, the change in Switzerland was a combination of a larger current-account deficit, a smaller net outflow of long-term capital and a smaller net inflow of short-term capital. Only in Austria was there a rise in reserves deriving from a significant improvement on current account.

On the other hand, the formation of domestic liquid assets (i.e. money and quasi-money) has continued to expand at much the same rate over the past two years. But instead of being based so largely as in the past on the acquisition of net foreign assets, this growth has come to depend more on the expansion of domestic credit. In the generality of its scope this change marks a new phase in the recent financial history of continental Europe.

The connection between domestic and external liquidity lies primarily in the fact that changes in the central bank's holdings of gold and foreign exchange reserves are accompanied, in the absence of offsetting measures, by equivalent changes in the banking system's credit base. Such changes are normally associated, therefore, with variations of much greater size in bank lending and domestic liquid assets. But while there is thus a link between domestic and external liquidity, the relationship that actually emerges is neither



¹ Taken from the IMF's *International Financial Statistics*. Net foreign assets of the banking system include gold, foreign exchange and net IMF position. For the United States and the United Kingdom short-term foreign liabilities are not included. Liquid assets consist of money and quasi-money. ² Includes net foreign assets of the National Bank only. ³ In hundreds of milliards of lire. ⁴ 1953-58 monetary authorities only; 1958-62 banking system as a whole.

a fixed nor a necessary one, because the monetary authorities continually intervene to offset, or augment, the influence of reserve movements on the credit base. The extent to which this is done depends upon the complex of domestic and external objectives of policy, including the maintenance of a desired level of external reserves.

In the light of the foregoing, it is interesting to observe in the graph the relative behaviour of the two magnitudes over the past decade in a number of countries. Viewing the period 1953-62 as a whole, external liquidity increased at roughly the same average rate as domestic liquidity in Switzerland, the Netherlands, Austria, Belgium, Sweden, the United Kingdom and, to a lesser extent, Germany and Finland. In France and Italy, where net foreign assets had to be built up from relatively low levels, reserves increased much more. In Canada the exchange reserves showed little variation under the floating rate system up to 1960, but an exchange crisis developed in the first half of 1962 following a weakening of the rate in 1961. With the fixing of an exchange parity at a lower level in May 1962 and the adoption of a government stabilisation programme in June, net foreign assets thereafter rose sharply.

Looking at the shorter-term movements, it is seen that changes in the rate of growth of domestic liquid assets have tended to be related to fluctuations in external reserves, though with a time-lag. For instance, the unusually large increases in the reserves of many western European countries in 1958-60 were accompanied by an acceleration in the growth of domestic liquid assets in 1959-60 as domestic credit activity picked up. With the help of easy credit policies, this accelerated growth carried over into 1960-62, thereby contributing to the slowing-down or halting of reserve gains by some countries during this period.

As regards the two key-currency countries — the United States and the United Kingdom — it is only in the latter that there has been a fairly close correspondence between the trends of external and domestic liquidity over the last decade. In both cases, of course, account must be taken of changes in liquid liabilities to foreign countries, which are not included in the graph. In the United Kingdom, however, these liabilities changed only slightly between 1953 and 1962, so that the country's gold and foreign exchange (plus net IMF position) rose from 27 to 34 per cent. of total overseas sterling holdings — an improvement commensurate with the rise in domestic liquid assets.

In the United States, on the other hand, where at the outset gold reserves were very high and foreign dollar liabilities still relatively low, the gold drain since 1957 has been accompanied by a continuous rise in domestic liquid assets, which accelerated in 1961-62. This has reflected the largely domestic orientation of monetary policy. In the first place, the banking system's credit base has since 1957 been kept approximately constant by the Federal Reserve authorities through net purchases of government securities (\$6.7 milliard), which were sufficient to offset the contractive effects of the net gold outflow (\$6.8 milliard). Secondly, through reductions in reserve require-

ments, the stable credit base has been made to support a growing volume of domestic liquid assets (i.e. money supply plus time deposits), which rose by \$53 milliard in the five years up to the end of 1962 to reach \$247 milliard. As regards the external liquidity position, total gold reserves (plus net IMF position) declined progressively from 230 per cent. of short-term dollar liabilities to foreign countries in 1953 to 82 per cent. ten years later.

Broadly speaking, the past decade has seen a radical and, by and large, desirable redistribution of international currency reserves. Moreover, for western Europe, which experienced rapid economic expansion during this period, the gains in reserves helped more or less automatically to feed the growth of domestic liquid assets that occurred. But since an influx of reserves on this scale is not to be counted on in the future, continued economic growth will become relatively more dependent, as it has been in the past year or two, on domestic credit expansion. Accordingly, this would mean that domestic liquid assets would tend to grow over time relative to holdings of net foreign assets. It is, therefore, important in their own interests that countries do their utmost, by way of institutional innovations and adaptations, to encourage loanable funds to move through longer-term channels. In 1962 there was a notable strengthening of domestic financial markets along these lines in Italy, France and Belgium.

Bank credit to the private sector. In western Europe the principal feature of the expansion in bank credit under way since about 1959 has been the greater emphasis, compared with the 1952-57 upswing, upon credit to the private sector. As may be seen in the graph on page 44, the change in trend between the two periods was most marked in the United Kingdom, Italy, Norway and Denmark. But the rate of increase has been impressive, by any standard, in the other western European countries as well.

Equally striking is the rate at which private bank credit expansion has gone on since 1960, the year in which peak rates of real economic growth were achieved. In such countries as Belgium, France, Italy and Germany, where growth has been relatively well maintained, credit expansion has been particularly buoyant. In both Sweden and the United Kingdom, where monetary policies of tight restraint had been applied in 1961, bank credit accelerated in 1962. But whereas in Sweden the authorities shifted quickly early in the year to a policy of positive stimulus, in the United Kingdom the move away from restraint was cautious and took place more gradually over the year. In Switzerland and the Netherlands the slowing-down of bank credit in 1962 was due, in part, not only to ceilings put on the rate of expansion but also to the more plentiful availability of capital-market funds resulting from a curtailment of foreign flotations on the domestic market. A restrictive credit policy made for a smaller rise in credit in 1962 in Finland and Norway, but not in Denmark.

For a variety of institutional reasons and because of differences of statistical coverage, the rates of growth of bank credit shown in the graph

Bank lending to the private and public sectors.

Countries	Claims on private sector				Claims on government			
	Percentage change			Outstanding at end of 1962*	Percentage change			Outstanding at end of 1962*
	1960	1961	1962		1960	1961	1962	
Austria	+ 13.9	+ 13.5	+ 9.1	64.2	+ 28.3	- 8.7	+ 7.7	14.8
Belgium	+ 13.8	+ 20.0	+ 16.5	69.3	+ 4.1	+ 12.2	+ 4.0	77.5
Denmark	+ 11.9	+ 11.0	+ 13.1	22.6	- 7.6	- 8.3	- 13.5	1.2
Finland	+ 20.3	+ 17.8	+ 10.2	7.7	- 2.3	+ 7.3	+ 8.8	0.6
France	+ 15.3	+ 18.1	+ 19.0	87.2	+ 15.1	- 18.4	+ 2.6	10.6
Germany	+ 14.5	+ 17.2	+ 14.8	174.9	+ 8.0	+ 7.4	+ 6.7	41.6
Italy	+ 22.6	+ 19.6	+ 25.8	11.7	+ 6.7	+ 3.8	+ 3.0	2.4
Netherlands	+ 19.9	+ 17.1	+ 10.9	4.8	+ 3.0	- 3.8	- 5.7	2.2
Norway	+ 10.9	+ 11.0	+ 8.3	14.3	+ 1.1	- 0.6	- 1.1	1.8
Sweden	+ 7.4	+ 3.7	+ 13.9	18.0	- 16.0	+ 0.7	+ 25.8	5.3
Switzerland	+ 12.8	+ 13.8	+ 10.8	44.8	+ 4.0	+ 15.4	+ 5.6	1.9
United Kingdom	+ 12.8	+ 4.1	+ 9.4	4.5	- 22.5	- 3.6	+ 3.2	2.4
Canada	+ 4.7	+ 5.4	+ 10.6	9.1	+ 8.6	+ 18.9	- 8.0	4.3
Japan	+ 21.9	+ 22.0	+ 16.3	12.7	+ 20.9	+ 18.0	+ 6.9	0.5
United States	+ 5.9	+ 6.1	+ 10.1	141.1	+ 3.2	+ 10.7	+ 5.4	93.6

* In milliards of national currency units (Finland: new markkas); for Italy and Japan in thousands of milliards.
Source: IMF, *International Financial Statistics*.

and the table can be compared only on a rough basis. As between the countries of western Europe, however, it will be seen that differences in the rate of growth of bank lending to the private sector became less pronounced last year. The same observation may be made with respect to the differences between western Europe, the United States, Canada and Japan. In a general way this greater uniformity reflects to some extent a convergence towards similar conditions of domestic economic activity. But it is perhaps even more an outcome of improved international equilibrium (except in the position of the United States), which caused interest rates and credit policies in certain countries — the United Kingdom, Canada, Japan, Belgium, Sweden and the Netherlands — to be brought closer into line with those prevailing in the other countries.

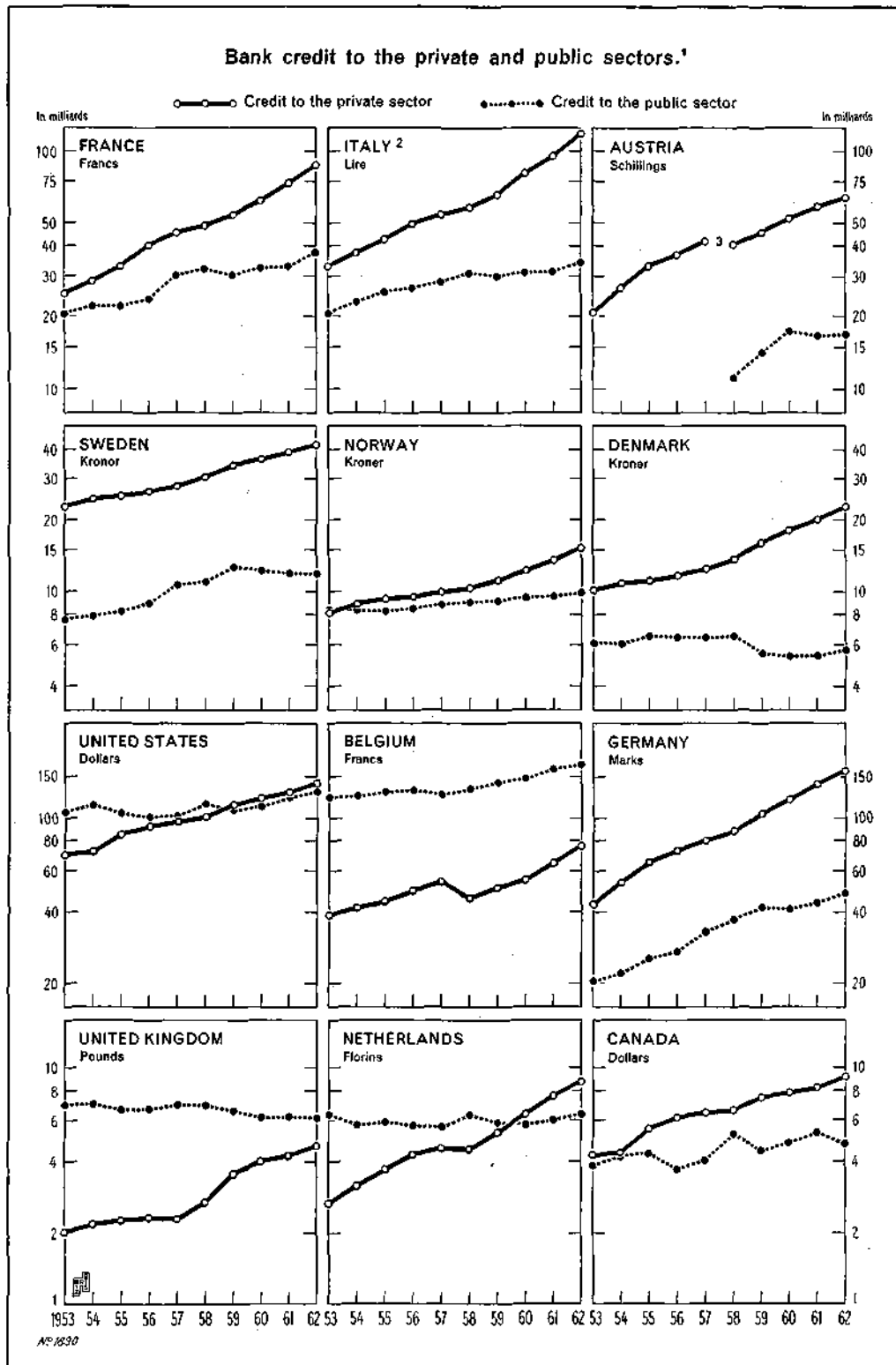
The strength of demand for bank credit over the past year or so has been mainly due to large shifts in the sources and uses of funds by business. Although in the continental countries the rate of increase in fixed capital investment was beginning to slow down, the need for funds for such investment was in 1962 again above that in the preceding year. Inventory accumulation, on the other hand, was appreciably lower, except in Belgium, Denmark and France. Taken together, however, the use of funds for these purposes increased substantially more than did the availability of internal funds, which was adversely influenced by the shrinkage of profit margins. The unfavourable conditions for equity financing in 1962 were a further factor tending to increase enterprise demand for bank credit, as was probably also an expansion in trade credit granted. Finally, the continued growth of trade turnover increased the need for cash balances.

In certain respects these generalisations are less applicable to the United Kingdom and the United States. In the United Kingdom the decline in investment by private non-financial companies (consisting of a falling-off in fixed investment and a sharp curtailment of inventory accumulation) more than offset the reduction in internal sources of funds. Thus in 1962 the renewed growth in bank advances to companies, facilitated by the improving availability and reduced cost of credit, was related largely to working-capital needs. In the United States the recovery of business profits, together with the continued growth of depreciation allowances, approximately equalled the rise in gross business investment. The acceleration in business borrowing from the banks found a counterpart in a building-up of liquid assets and in the financing of a net expansion of trade credit.

Another notable feature of bank credit in 1962, involving in some cases lending to the public as well as to the private sector, was a shift towards longer-term lending. In the United States, for instance, the commercial banks increased their mortgage loans by \$3.9 milliard and their holdings of State and local government and private securities by \$5.2 milliard, the combined rise being about twice as great as in 1961. In Germany the net growth of the credit institutions' medium and long-term loans rose from DM 16.8 milliard in 1961 to DM 19.7 milliard in 1962, while that of short-term credit dropped from DM 6.3 to 3.7 milliard. In the Netherlands the banks' medium-term credits to the private economy in 1962 rose twice as much as in 1961, while short-term credit expansion was more than halved. In Italy the banks' holdings of non-government securities, mostly issues of the specialised credit institutions but also those of private industry, rose by over Lit. 400 milliard in 1962, as against Lit. 190 milliard in 1961. In France rediscountable medium-term credits to the economy rose in 1962 by 15.0 per cent., compared with an increase in 1961 of 9.4 per cent. In Sweden the commercial banks increased their holdings of bonds (mostly those of mortgage institutions and the central government) by S.kr. 1.24 milliard, after having reduced them by S.kr. 340 million in 1961.

The expansion of bank credit to the private sector, together with the shift towards longer-term lending, was facilitated by three factors: first, the central government's need for recourse to bank credit was almost everywhere very limited; secondly, the monetary authorities in most countries pursued liquidity policies which enabled the banks to keep credit in plentiful supply; and thirdly, an increase in the liquidity preference of investors in financial assets led to a rise in the proportion of total loanable funds being channelled through deposit institutions.

Bank credit to the public sector. Lending by the banking system to public authorities has been less important in most countries during the 1958-63 upswing than in that of 1952-57. In France the Treasury's financing needs have been kept well in check since the stabilisation programme of 1958 and have been satisfied almost entirely from non-bank sources, mostly small savings and Treasury bill purchases by the public. In Italy the Treasury's cash needs,



¹ Taken from the IMF's *International Financial Statistics*. ² In hundreds of milliards of lire. ³ Series over-estimated up to 1957 by inclusion of certain claims against public authorities and banks.

which have been quite small in recent years, have been more than covered by limited capital issues and by sales of Treasury bills — partly to the public but partly also to the banks to meet their compulsory reserve requirements. In Germany, where both the Federal Government and the Länder have for some years had strong financial positions, the growth of bank claims against the public sector has reflected mainly direct loans to local authorities and, in 1962, also the purchase of bonds issued by the Federal Railways and the Postal Administration. The Federal Government shifted from a cash surplus of DM 324 million in 1961 to a deficit of DM 1,543 million in 1962, but the deficit was financed in part by sales of long-term securities outside the banks. In Switzerland the Confederation again realised a cash surplus in 1962; the banks' claims against the public sector are of negligible importance. In Belgium, although the central government's budget deficit declined substantially from about the middle of 1961, the banking system's claims against the public sector continued to increase; this was a result partly of a shift in Treasury borrowing from foreign to domestic sources and partly of the banks' high degree of liquidity, which enabled them to purchase government securities in excess of existing cover requirements.

In Sweden the banking system's holdings of claims against public authorities have declined since 1959. At first, at a time when the budget was heavily in deficit and the government was undertaking as a means of credit restraint to finance this deficit outside the banking system, the commercial banks reduced their government security holdings so as to be able to lend more to the private sector. However, a substantial budget surplus having emerged from about the middle of 1961, the government in 1962 repaid debt held by the Riksbank and the market, while at the same time, owing to the authorities' shift to an easy credit policy, the commercial banks were able to acquire large amounts of government securities from other holders. In Denmark, where a policy of credit restraint has been in force since 1959, the government has used its cash budget surpluses in recent years (except in the fiscal year 1961-62, when a deficit was incurred) mostly in order to improve its net position vis-à-vis the central bank. In addition, the banks have gradually reduced their claims against the government, thereby being able to lend correspondingly more to the private sector. In the Netherlands, in a reversal of the situation of recent years, both the central government and the local authorities raised moderate amounts of funds from the banks in 1962. Previously the local authorities had been carrying out via the capital market a large-scale consolidation of short-term debt, while the central government had been borrowing long-term funds from the market in excess of need in order to sterilise liquidity.

In the United Kingdom the London clearing banks' claims against public authorities declined very substantially from about the end of 1958 to the middle of 1961, during which time their "investments" (consisting almost entirely of government securities) dropped from 29.2 to 13.9 per cent. of their gross deposit liabilities. Over the latter part of this period the monetary authorities, partly in order to limit deposit formation at the banks and thus

restrain credit, undertook extensive funding operations and allowed long-term interest rates to rise sharply. They also called upon the banks to place funds with the Bank of England in the form of special deposits, which by the end of 1961 amounted to almost £235 million. Under these conditions the rise in bank lending to the private sector between 1960 and 1961 took place in large measure at the expense of government security holdings. With the gradual reversal of credit-restraint policy in 1962 the banks were able on a limited scale to reconstitute their investments, which in October 1962 had risen to 17.1 per cent. of gross deposits. By April 1963, however, the ratio had declined again to 15.4 per cent.

In the United States the banking system's claims against public authorities rose in the five years up to the end of 1962 by \$27.5 milliard: the commercial banks increased their claims against State and local authorities by \$11.2 milliard and their Federal Government security holdings by \$8.2 milliard, while the Federal Reserve authorities augmented their government security portfolio by \$6.7 milliard. In 1962 the Federal Reserve authorities' acquisitions of Federal Government securities, again partly in compensation of the gold outflow, came to almost \$2.0 milliard. The commercial banks, on the other hand, reduced their holdings of such securities by \$0.7 milliard. Thus the Federal Government's cash deficit, which amounted in 1962 to about \$5.7 milliard, may be said to have been financed largely outside the banking system. This occurred, however, not because of the application of a restrictive monetary policy but because it was possible last year to place appreciable amounts of short-term securities with non-bank financial institutions, State and local authorities and foreign holders.

Trends in liquidity. The buoyancy of private credit, as already stated, has been made possible by strong budgets, easy credit policies and — in 1962 — the public's increased liquidity preference. The incidence and importance of the latter two factors are reflected in the table below, which shows liquid assets in relation to gross national product in 1953, the year of

Liquidity and long-term interest rates.

Countries	Money and quasi-money as a percentage of gross national product			Average yield on long-term government bonds (in percentages)		
	1953	1957	1962	1953	1957	1962
Belgium	45.5	40.5	45.4	4.40	4.69	4.26
France	30.2	34.1	37.3	5.41	5.92	5.02
Germany	25.5	31.2	37.6	.	7.50	5.90
Italy	45.8	53.9	68.3	6.06	6.81	5.25
Netherlands	56.4	49.7	60.9	3.43	4.58	4.21
Switzerland	116.8	112.9	123.1	2.58	3.64	3.13
Denmark	50.7	47.0	47.9	5.08	5.77	6.32
Norway	63.7	56.9	54.9	2.72	4.58	4.66
Sweden	74.8	70.7	72.6	3.27	4.33	4.40
United Kingdom	47.3	37.9	32.6	4.08	4.98	6.00
United States	47.1	43.4	42.8	2.92	3.47	3.95

lowest interest rates in continental Europe during the preceding expansion, in 1957, the peak year of the earlier upswing, and in 1962, representing an advanced stage of the recent upswing. In the first period, 1953-57, liquidity in this relative sense declined in almost all countries — excepting only Germany, France and Italy, where it had probably been comparatively low —

Money supply, quasi-money and gross national product.¹

Countries	Years	Money supply			Quasi-money ²	Money and quasi-money	Gross national product (at market prices)	Money supply	Quasi-money
		Currency	Demand deposits	Total					
		In milliards of national currency units								as percentages of GNP
Austria	1960	18.0	14.5	32.5	37.8	70.3	161.3	20.2	23.4
	1961	19.9	15.3	35.2	42.4	77.6	176.1	20.0	24.1
	1962	21.6	17.0	38.6	49.0	87.6	186.6	20.7	26.3
Belgium	1960	122.9	93.9	216.8	41.3	258.1	608.0	35.7	6.8
	1961	128.7	100.2	228.9	48.2	277.1	630.4	36.3	7.6
	1962	136.2	109.4	245.6	56.5	302.1	666.0	36.9	8.5
Denmark	1960	2.7	7.4	10.1	10.6	20.7	41.2	24.3	25.6
	1961	2.9	8.0	10.9	11.4	22.3	45.3	24.0	25.0
	1962	3.1	8.8	11.9	12.4	24.3	50.8	23.5	24.4
Finland ³	1960	0.6	0.8	1.4	4.7	6.1	14.3	9.9	32.8
	1961	0.7	0.8	1.5	5.6	7.1	15.8	9.7	35.1
	1962	0.7	0.9	1.6	6.2	7.8	17.0	9.6	36.5
France	1960	37.1	50.1	87.2	7.8	95.0	296.3	29.4	2.6
	1961	42.2	59.4	101.6	10.9	112.5	319.7	31.8	3.4
	1962	47.6	71.1	118.7	13.0	131.7	353.6	33.6	3.7
Germany	1960	20.1	24.7	44.8	57.1	101.9	282.4	15.9	20.2
	1961	22.0	27.0	49.0	64.8	113.8	310.4	15.8	20.9
	1962	23.7	30.4	54.1	72.6	126.7	336.8	16.1	21.5
Italy	1960	2,156	4,647	6,803	5,086	11,888	19,078	35.7	26.7
	1961	2,434	5,377	7,811	5,896	13,708	21,083	37.0	28.0
	1962	2,790	6,426	9,216	6,943	16,159	23,655	39.0	29.4
Netherlands	1960	4.8	6.1	10.9	13.0	23.9	42.5	25.7	30.6
	1961	5.2	6.6	11.8	14.6	26.4	44.5	26.6	33.0
	1962	5.6	6.9	12.5	16.3	28.8	47.2	26.5	34.4
Norway	1960	3.5	3.7	7.2	11.0	18.3	32.1	22.4	34.6
	1961	3.6	3.9	7.5	11.9	19.4	34.7	21.6	34.3
	1962	4.0	4.2	8.2	12.6	20.8	37.4	22.0	33.6
Sweden	1960	6.1	4.9	11.0	36.1	47.1	62.8	17.6	57.5
	1961	6.5	5.3	11.8	37.4	49.2	68.3	17.3	54.8
	1962	6.8	6.0	12.8	40.7	53.5	73.7	17.4	55.2
Switzerland	1960	6.7	11.1	17.8	26.5	44.3	36.8	48.4	72.1
	1961	7.3	12.8	20.1	30.0	50.1	40.8	49.4	73.5
	1962	8.0	14.6	22.6	33.6	56.2	45.7	49.5	73.6
United Kingdom	1960	2.0	6.9	8.9	.	.	25.4	35.0	.
	1961	2.1	6.9	9.0	.	.	27.0	33.6	.
	1962	2.1	7.0	9.1	.	.	28.1	32.6	.
Canada	1960	1.8	4.0	5.8	7.2	13.0	35.9	16.2	19.9
	1961	1.9	4.5	6.4	7.6	14.0	37.4	17.1	20.2
	1962	2.0	4.7	6.7	8.0	14.7	40.4	16.6	19.7
United States	1960	29.0	111.9	140.9	69.1	210.0	503.4	28.0	13.7
	1961	29.1	114.0	143.1	78.5	221.6	518.7	27.6	15.1
	1962	30.1	115.9	146.0	91.0	237.0	553.6	26.4	16.4

¹ The figures for the money supply and quasi-money are annual averages. ² Includes only the quasi-monetary liabilities of the deposit money banks as defined in the IMF's "Monetary Survey" data. In the United Kingdom time deposits, which are at seven days' notice only, are included under demand deposits. ³ New markkas.

and interest rates moved to high levels everywhere. But in the second period, 1958-62, liquidity was permitted to increase sharply in the continental countries other than Scandinavia, with the result that long-term interest rates in 1962 remained well below the peaks reached in 1957 and, except in the Netherlands and Switzerland, were even below the 1953 levels.

In the Scandinavian countries, on the other hand, long-term interest yields in 1962 were somewhat above the level of 1957, while in the United Kingdom they were substantially higher. All of these countries have had weak external liquidity positions, but the United Kingdom and Sweden made sufficient progress in the years 1961-62 to enable an appreciable lowering of long-term yields to take place. Though without external justification, these yields also drifted down in the United States in 1962, reflecting extensive purchases of longer-term securities by the Federal Reserve authorities and also reduced corporate recourse to the capital market.

Since 1960, in the advanced stage of economic expansion, liquid assets have risen in relation to gross national product in most western European countries. In France, Italy and Belgium, where the increase has been especially large, the authorities took steps in 1962-63 to encourage the flow of funds through longer-term channels. Liquid assets as defined have increased least, or have declined, in the Scandinavian countries and the United Kingdom, where credit restraint has been applied for much or all of the period.

In the United States liquid assets as a percentage of gross national product rose in both 1961 and 1962. Last year an important factor, in addition to the general ease of credit policy, was the relaxation of Regulation Q as from the beginning of the year. A resultant increase in time-deposit rates contributed to a large growth in such deposits, which at commercial banks rose by \$15.6 milliard (19 per cent.), i.e. about double the rise in 1961. A second factor underlying this development was the substantial increase in negotiable time certificates of deposit, which the banks had introduced in 1960 primarily as a means of attracting time funds from corporations, which had hitherto rarely placed such money with the banks. Only part of the total rise in time deposits in 1962 was ascribable to a shift away from demand deposits.

Capital-market developments. In continental western Europe total net new issue activity increased in 1962, though in most cases less than bank credit. This reflected, among other things, the increase in the public's liquidity preference associated with the less certain trend of economic activity and the sharp decline in equity values last year. Looking at private-sector issues alone, however, the rise in net new issues in 1962 was impressive; it was attributable primarily to the reduced ability of companies to supply their still growing needs for long-term funds from internal sources.

Apart from the pervasive influence of credit ease, the most important factor facilitating the growth of private issues was the restraint by central governments in tapping the capital market. In France the Treasury refrained

Capital market: Net 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	6.02	21.91	8.48	7.90	16.38	- 1.53	36.76
	1961	5.02 ²	7.17	12.19	12.22	4.83	17.05	- 0.01	29.23
	1962	17.90 ²	.	.	.	6.72	.	.	.
France ³	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
	1962	—	0.18	0.18	6.73	3.99	9.72	—	9.90
Germany	1960	0.62 ⁴	0.56	1.18	3.16	1.90	5.06	0.05	6.29
	1961	— ⁴	0.87	0.87	5.93	2.19	8.12	0.01	9.00
	1962	0.66 ⁴	1.80	2.46	7.06	1.51	8.57	0.10	11.13
Italy	1960	136	50 ⁵	186	631	559	1,190	—	1,376
	1961	5	156 ⁵	163	579	532	1,111	27	1,301
	1962	9	77 ⁵	86	769	691	1,460	30	1,576
Netherlands . . .	1960	0.59 ⁶	0.68	1.27	0.14	0.17	0.31	- 0.04	1.54
	1961	0.27 ⁶	0.18	0.45	0.06	0.13	0.18	0.43	1.06
	1962	- 0.09 ⁶	0.20	0.11	0.31	0.46	0.77	0.14	1.02
Sweden	1960	0.65	0.08	0.73	1.01	0.46	1.47	—	2.20
	1961	- 0.12	0.05	- 0.07	1.51	0.85	2.36	—	2.29
	1962	- 0.52	0.23	- 0.29	3.04	0.80	3.84	.	3.55
Switzerland . . .	1960	- 0.30	0.13 ⁷	- 0.17	0.92 ⁷	0.91 ⁷	1.83	0.56	2.22
	1961	- 0.21	0.05 ⁷	- 0.16	1.18 ⁷	1.23 ⁷	2.41	0.86	3.11
	1962	- 0.26	0.18 ⁷	- 0.08	1.11 ⁷	1.81 ⁷	2.92	0.44	3.28
United Kingdom .	1960	0.09 ⁸	0.05	0.14	0.09	0.34	0.43	0.01	0.58
	1961	- 0.21 ⁸	0.04	- 0.17	0.14	0.44	0.58	0.01	0.42
	1962	0.57 ⁸	0.14	0.71	0.17	0.26	0.43	—	1.14
United States . .	1960	0.9 ⁹	3.7	4.6	5.0	1.8	6.8	0.7	12.1
	1961	- 3.3 ⁹	4.7	1.4	5.1	2.7	7.8	0.8	10.0
	1962	1.5 ⁹	5.0	6.5	5.0	0.5	5.5	1.0	13.0
Canada	1960	0.67 ¹⁰	0.76	1.43	0.32	0.17	0.49	—	1.92
	1961	1.11 ¹⁰	1.14	2.25	0.35	0.22	0.57	—	2.82
	1962	0.76 ¹⁰	0.88	1.66	0.31	0.25	0.56	—	2.22

¹ Includes issues of semi-public credit institutions and nationalised industries. ² Change in medium and long-term direct debt. The 1962 figure excludes the December conversion into non-negotiable bonds of part of the banks' compulsory holdings of certain Treasury certificates issued in 1957. ³ Gross issues. ⁴ Change in market holdings of bonded loans and premium Treasury bonds. Excludes Development Aid Loan in 1961, the special subscriptions to which brought in DM 1.18 milliard. ⁵ Includes indirect Treasury borrowing. ⁶ Excludes payments into pre-subscription accounts. ⁷ Includes privately-placed issues. ⁸ Change in marketable debt (excluding Treasury bills) in public hands. ⁹ Change in public holdings of marketable debt having a maturity of one year or more. ¹⁰ Held outside government accounts.

altogether from withdrawing funds from the long-term market, while in Italy the Treasury's total direct and indirect issues were even smaller than in 1961. In the Netherlands, despite a deterioration in the budget, the central government ceased in 1962 to make large net borrowings on the capital market as in recent years, and in Sweden the budget surplus permitted some repayment of market-held debt as a conscious element of policy. In Switzerland, too, the Confederation's amortisation of long-term debt entailed some restoration of funds to the capital market. Fiscal and debt-management policies also

facilitated private issues in Denmark, Norway and Austria. On the other hand, in Germany, where the cash budget shifted into deficit last year, the central government had greater recourse to long-term borrowing. If account is also taken of the sizable increase in net issues by other authorities, the public sector was responsible for well over half the rise in capital-market activity in 1962. In Belgium the Treasury's new issues increased appreciably in 1962, but this occurred under conditions of a strengthening bond market and represented a shift away from short-term borrowing via the banking system.

In both Switzerland and the Netherlands, where the flotation of new foreign issues on the domestic market is subject to official regulation, the reduction in foreign issues last year was another important factor increasing the supply of capital to domestic industry.

Hence in the continental countries, and particularly in the two just mentioned, private issue activity was quite vigorous in 1962 and paralleled the development of bank credit. The net issue of private shares was lower only in Germany and Sweden and was substantially higher in France, Italy, the Netherlands and Switzerland. In all countries except Switzerland bond issues were up by a large margin.

In contrast, new private capital issues in the United Kingdom and the United States dropped off substantially in 1962, with the fall concentrated in share issues. In both instances the availability of internal funds relative to investment requirements was a factor, in addition to the plunge in share prices, limiting recourse to new equity funds. On the other hand, the total flow of funds to the capital market increased markedly, particularly in the United Kingdom. In a strengthening market for fixed-interest securities, especially after the middle of the year, the UK monetary authorities were able in 1962 to place no less than £574 million's worth of government stock with the public (including the banks). Local authorities, which had hitherto depended heavily on borrowing short-term funds at high rates, also found it possible to raise a substantial volume of funds through sales of marketable issues.

In the United States open-market and debt-management policy had contributed in 1961 to a net reduction of \$3.3 milliard in the public's holdings of marketable longer-term securities, thus considerably facilitating large new corporate issues during that period. In 1962, however, when corporate needs for capital had fallen off somewhat and long-term yields were tending to recede, the outstanding volume of longer-term government securities increased by \$1.5 milliard. This came about primarily in conjunction with the extensive advance funding operations undertaken in order to lengthen the average maturity of the public debt. The net issues of the State and local authorities were again at a record high in 1962, and — for the balance of payments an increasingly disturbing factor — foreign issues on the US market reached \$1 milliard.

Financial objectives and policies.

By circumstance or design, a somewhat restrictive budgetary position was combined with monetary policies of relative ease in many continental countries during the 1960-62 expansion, and last year also in the United Kingdom. In the United States policy had the same broad features from 1960 onwards, since with the existing tax rates the budget (on income and product account) was either in surplus or only in small deficit even though output was well below a full-employment level. When investment demand is active, this mixture of policy contributes to rapid and stable growth because the emerging budget surplus adds to the aggregate of national saving. The further condition necessary is that costs and prices be competitive internationally to maintain equilibrium in the balance of payments. On both these counts conditions on the Continent have in recent years been more favourable to growth than in the United Kingdom and considerably more so than in the United States.

But when market forces are insufficient there is no adequate substitute for a deliberate adaptation of policy to the existing market situation. This can be done in several ways. First, policy may be adapted to utilise the high savings potential of the economy by undertaking public investment, by giving fiscal incentives to private investment or by seeking an external surplus compensated by capital exports. In these respects, too, the policy prerequisites for stable growth have been less favourable in the United States than in western Europe. Secondly, policy may be designed to reduce aggregate saving either by tax reductions or by increases in public consumption. Policy adjustments are being shaped along these lines both in the United States and in the United Kingdom, though in the latter country higher investment in the public sector is also being used.

Whatever the chosen avenues to full employment and growth, it is essential, under conditions of currency convertibility, that monetary policy be consistent with the country's external liquidity needs. The basic reason for this is that interest rates are more instrumental in influencing the direction and channels in which funds move — between countries as well as within them — than in influencing the volume of capital outlays. Where the need for an external orientation of monetary policy involves the authorities in a fundamental conflict of objectives, a more flexible use of other instruments of policy for domestic purposes is indicated. In such circumstances one of the virtues of monetary policy — i.e. the ease with which it can be adapted to a given situation — can become a handicap if monetary policy is relied upon as a substitute for instruments more appropriate to the domestic tasks in hand.

United States. In the past twelve months fiscal policy has begun to move in new and promising directions. In July 1962 the Treasury's rules governing depreciation allowances were liberalised, in September a small spending bill for public works was passed, in October the 7 per cent. tax credit with respect to new industrial outlays on machinery and equipment was adopted, and in January 1963 the President proposed a major reduction in tax rates for individuals and corporations.

Up to now, however, the reality for the monetary authorities has been the persisting conflict between domestic and external objectives. In reflection of the underemployed state of the economy and the lag between tax liabilities and tax payments, the Treasury again realised a cash deficit, which at \$5.7 milliard in the calendar year 1962 was somewhat below that of \$6.8 milliard in 1961. Concurrently, bank liquidity continued to be drained away in conjunction with the outflow of gold, which in 1962 came to almost \$900 million. Against this market background, the monetary authorities undertook to keep domestic credit easy and cheap, while at the same time lending support to short-term interest rates in order to discourage capital outflows.

These dual objectives are reflected in the choice of measures applied. In acting to sustain bank reserves the Federal Reserve authorities increased their holdings of government securities by almost \$2.0 milliard, consisting mostly of maturities exceeding one year. Further, in order to minimise the downward pressure on short-term rates while also encouraging longer-term bank lending, the Federal Reserve's additions to bank liquidity were made partly by way of a reduction in the reserve requirement for time and savings deposits, which was lowered in October–November 1962 from 5 to 4 per cent. Again, the relaxation as from 1st January 1962 of Regulation Q, permitting the payment of up to 3½ per cent. on savings deposits and on time deposits at six months or more, and up to 4 per cent. on deposits placed for a year or longer, also had a two-sided effect. From the external point of view, the resultant higher rates gave added incentive to the holding of time deposits by foreigners, while domestically they economised bank reserves (by attracting funds to deposits carrying very low reserve requirements) and stimulated longer-term bank lending. Finally, on the basis of a Congressional amendment to the Federal Reserve Act, the payment of interest rates on foreign officially-held time deposits was, as from October, exempted for a period of three years from the ceilings imposed under Regulation Q.

With the same aims in view, the Treasury continued in 1962 to finance its cash needs mostly by issues of Treasury bills. However, because of the increased demand for such paper on the part of non-bank financial institutions, State and local governments and foreign purchasers, the holdings of the non-bank public rose by \$5.3 milliard (or almost the same as the cash deficit) while those of the commercial banks declined slightly. At the same time the Treasury succeeded, largely through advance refunding operations, in increasing the average maturity of the public debt, one aspect of this being that debt maturing within one year rose in 1962 by only \$1.7 milliard.

Though such techniques were designed to take some account of external considerations, monetary policy was basically one of considerable ease. The net funds raised by the non-financial sectors came to a record \$58 milliard, i.e. 20 per cent. above the 1961 figure and 10 per cent. above the previous high in 1959. Commercial-bank loans and investments accounted for almost one-third of this total, rising in 1962 by over 9 per cent. Most of the banks' credit expansion was based on a growth in time deposits, which increased by

\$15.6 milliard (19 per cent.), while demand deposits went up by only \$1.5 milliard.

During most of 1962 the monetary authorities supplied sufficient additional funds to keep the banks' free reserves (i.e. excess reserves less borrowing from the central bank) in the neighbourhood of \$400 million. However, after a decision of the Open Market Committee on 18th December these were permitted to decline to about \$300 million. Throughout the period the discount rate was maintained at 3 per cent., the recession low to which it had been reduced in August 1960. The average yield on three-month Treasury bills, which had stood at 2.60 per cent. in December 1961, reached 2.87 per cent. in December 1962. The yield on long-term government bonds, on the other hand, drifted downwards, particularly in the second half of 1962, amounting to 3.87 per cent. in December, as against 4.06 per cent. a year earlier. In the first quarter of 1963 both short and long-term yields rose somewhat as economic activity picked up.

Changes in official discount rates since 1960.

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.)		Spain	
23rd April 1959	4½	11th November 1960	4	3rd August 1959	6¼
17th March 1960	5	20th January 1961	3½	1st April 1960	5¾
Belgium		5th May 1961	3	9th June 1961	5
24th December 1959	4	Greece		Sweden	
4th August 1960	5	1st October 1959	9	3rd May 1958	4½
24th August 1961	4½	1st April 1960	7	15th January 1960	5
28th December 1961	4½	1st November 1960	6	6th April 1962	4½
18th January 1962	4½	17th January 1963	5½	8th June 1962	4
22nd March 1962	4	Iceland		18th January 1963	3½
9th August 1962	3¾	2nd April 1952	7	Turkey	
6th December 1962	3½	22nd February 1960	11	6th June 1956	6
Canada		29th December 1960	9	29th November 1960	9
24th June 1962 ¹	6	Ireland		1st July 1961	7½
8th September 1962	5½	28th November 1958	4½	United Kingdom	
12th October 1962	5	29th January 1960	4½	20th November 1958	4
13th November 1962	4	30th June 1960	5½	21st January 1960	5
6th May 1963	3½	3rd November 1960	5½ ^{2,3}	23rd June 1960	6
Denmark		Japan		27th October 1960	5½
19th September 1959	5	2nd December 1959	7.30	8th December 1960	5
26th January 1960	5½	24th August 1960	6.935	26th July 1961	7
23rd May 1961	6½	26th January 1961	6.57	5th October 1961	6½
Finland ²		29th September 1961	7.30	2nd November 1961	6
1st April 1959	6¼	27th October 1962	6.93	8th March 1962	5½
30th March 1962	8	27th November 1962	6.57	22nd March 1962	5
28th April 1962	7	20th March 1963	6.205	26th April 1962	4½
France		20th April 1963	5.84	3rd January 1963	4
23rd April 1959	4	Netherlands		United States	
6th October 1960	3½	16th November 1959	3½	11th September 1959	4
Germany		25th April 1962	4	10th June 1960	3½
23rd October 1959	4	8th January 1963	3½	12th August 1960	3
3rd June 1960	5				

¹ Prior to this date Bank rate was fixed each Thursday at ¼ per cent. above the latest average tender rate for Treasury bills. ² Basic rediscount rate. ³ As from November 1960 the rediscount rate for Exchequer bills, fixed monthly.

United Kingdom. The more restrictive fiscal policy adopted as part of the July 1961 emergency programme was consolidated and carried forward by the budget of April 1962. Against this background, and whenever warranted

by external conditions, the monetary authorities' actions up to the spring of 1962 were aimed primarily at bringing short-term interest rates down to more normal levels and more into line with those in other centres. By late April 1962 Bank rate had been reduced, in five steps, to $4\frac{1}{2}$ per cent. from the level of 7 per cent. to which it had been raised in the previous July. During the first five months of 1962 the net deposits of the London clearing banks (after some adjustment for seasonal variations) increased markedly, while the rise in their advances was rather small. Since, in addition, output was rising moderately while the basic external accounts were not so strong as was desirable, no steps were taken to ease bank liquidity or to relax qualitative restrictions on bank lending. Indeed, with the gilt-edged market tending to become firmer, the authorities placed appreciable quantities of government stock with the public (including overseas holders) during this period. Standing at 6.15 per cent. at the end of May 1962, the yield on $2\frac{1}{2}$ per cent. Consols, though well down from the 6.57 per cent. prevailing at the end of December 1961, was still relatively high.

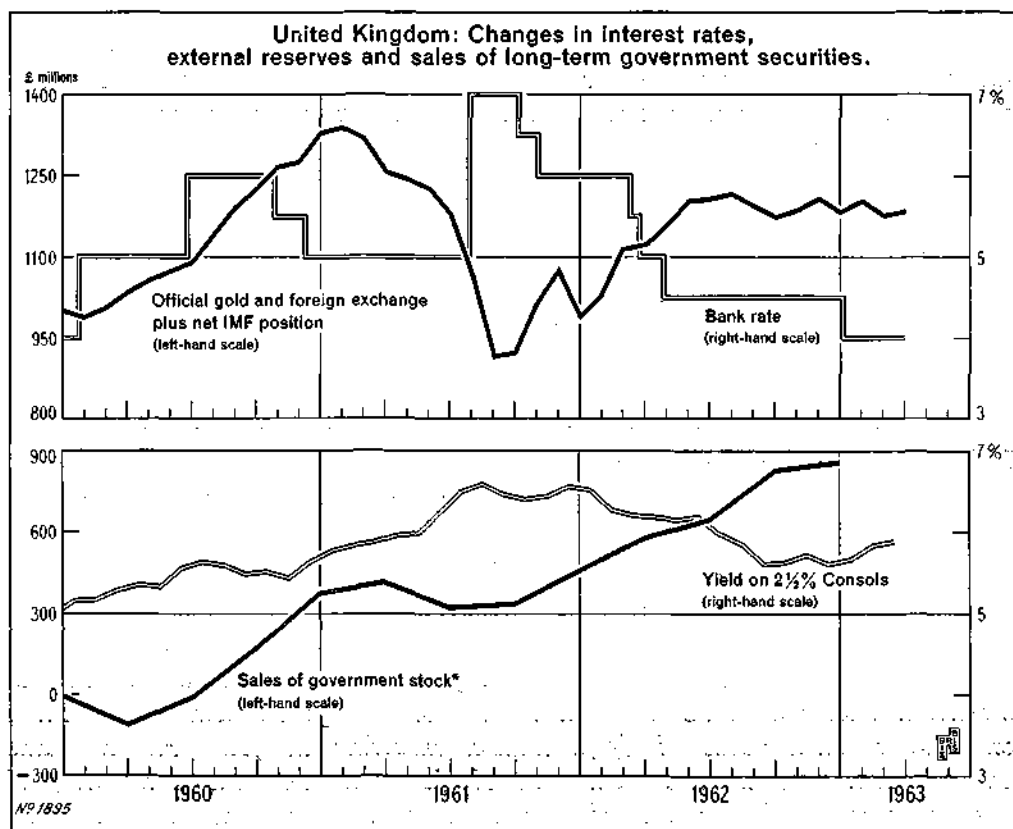
Early in June, however, with consumption expenditure rising only modestly and equity prices sharply down, several mild measures were taken in order to give greater scope to domestic credit activity. The special deposits of the London clearing banks were reduced from 3 to 2 per cent. of deposit liabilities, and those of the Scottish banks from $1\frac{1}{2}$ to 1 per cent., thus releasing £76 million of liquid funds. At the same time the authorities indicated to the banks that a somewhat more liberal attitude with respect to loans helping to finance consumption would be acceptable to them. In this connection, the initial hire-purchase down-payment on all goods except motor-cars was reduced from 20 to 10 per cent.

During the summer months, following the slump in equity prices, the gilt-edged market became the centre of intense activity. With fixed-interest securities in strong demand, yields moved sharply downward. The adjustment was speeded along by the fact that the authorities gave indications that they would not oppose a decline in long-term interest rates to more normal levels. From early June to early October the yield on $2\frac{1}{2}$ per cent. Consols dropped from 6.20 to 5.59 per cent. During the third quarter alone, official sales of government stock to the public came to no less than £207 million, helping both to moderate the decline in yields and to lengthen the public debt.

At this point the authorities took steps to remove most of the remaining elements of credit restriction. On 27th September the release of another one-third of the banks' special deposits was announced, and on 3rd October the request made to the banks and other financial institutions in July 1961 to exercise particular restraint in granting credit in certain fields was withdrawn. Subsequently, on 29th November, the last of the special deposits with the Bank of England were scheduled for release in December. Following each release of such deposits there occurred some speeding-up of bank advances, which rose appreciably (as seasonally corrected) in the second half of the year. Developments in the gilt-edged market, however, helped to keep the growth of deposits to modest proportions during this period.

The Exchequer's overall deficit in the year ending in mid-December 1962 amounted to only £76 million, as against £338 million in 1961. This deficit was greatly exceeded by the availability of longer-term funds. For not only did the authorities succeed in placing as much as £574 million of government stock with the public but there was also a sizable inflow of National Savings (£113 million) and the usual accrual of extra-budgetary funds (£129 million). Part of the ample funds available was used to finance net external transactions (these being outside the budget proper), which last year included substantial repayments to the IMF. The remaining counterpart was to be found in the release of special deposits (about £230 million) and a big reduction in the public's holdings of Treasury bills (£334 million), mainly those of non-banks.

Commencing in the autumn of 1962, concurrently with the removal of remaining credit restrictions, a number of expansionary fiscal measures were



* Cumulative sales of longer-term government securities outside the banking system.

introduced. These changes, as later reflected in and further augmented by the budget of April 1963, clearly placed the burden of positive economic stimulus on fiscal policy. They were compounded of an increase in government expenditure, both capital and current (including higher social security benefits), more liberal investment allowances and reduced personal direct and indirect taxation.

The United Kingdom stands as an important example of a country in which in recent years the authorities have shown no reluctance to employ the interest rate weapon as needed. In the first half of 1960, for instance, following the expansionary budget of 1959, Bank rate was raised in two steps from 4 to 6 per cent. and long-term rates were increased substantially. This was accompanied by a sharp rise in external reserves and a marked strengthening of the gilt-edged market (to which foreign funds were also attracted), making it possible in due course for Bank rate to be adjusted downwards again. The same sequence of events manifested itself from 1961 onwards, when in July, in the midst of an exchange crisis precipitated by the March revaluations on the Continent, Bank rate was raised to 7 per cent.

Necessary though they were, such large swings in interest rates have undesirable features of their own, because they involve sharply contrasting periods of financial restraint and ease and also tend in the long run to weaken the market for government bonds. Consequently, for reasons not quite the same as in the United States, the UK authorities are also faced with the need for a more effective use of alternative instruments of policy so as to avoid a recurrent overburdening of the monetary mechanism. The principal need is for an adequate incomes policy, aimed at a basic strengthening of the country's competitive position overseas. Fiscal policy has recently been employed in a more positive and relatively more flexible manner. In this connection the 1963-64 budget should provide a vigorous stimulus to the domestic economy, and it seems unlikely in itself to produce internal strains, although its external effects — and indeed external prospects in general — remain difficult to predict. Despite these developments in alternative policy instruments, the authorities need not feel inhibited, if the situation calls for it, about moving back at some stage towards a degree of monetary restraint appropriate to the circumstances.

Already following the Cuban crisis in October 1962 the yield on $2\frac{1}{2}$ per cent. Consols had moved upwards, and by the end of February it reached 5.92 per cent. Given the absence of monetary restraint and the still depressed state of capital outlays, a yield of this magnitude would appear to be on the high side. Official recognition of this fact seems implicit in recent debt-management operations. In April 1963 the Treasury announced that no conversion offer would be made in respect of two government loans with a combined nominal value of £994 million maturing in June. At the same time it decided to issue a cash loan of £400 million with a maturity of only fifteen years. Earlier, on 3rd January 1963, Bank rate had been reduced to 4 per cent., on both domestic and external grounds. At that time the Bank of England also announced that in future its advances to the discount market might on occasion be made at a rate of interest above Bank rate, instead of at Bank rate as hitherto. In this way the authorities have already proved able to exert a certain independent influence on money-market rates, and hence on movements of foreign funds, without having to adjust Bank rate and thus the domestic rates tied to it.

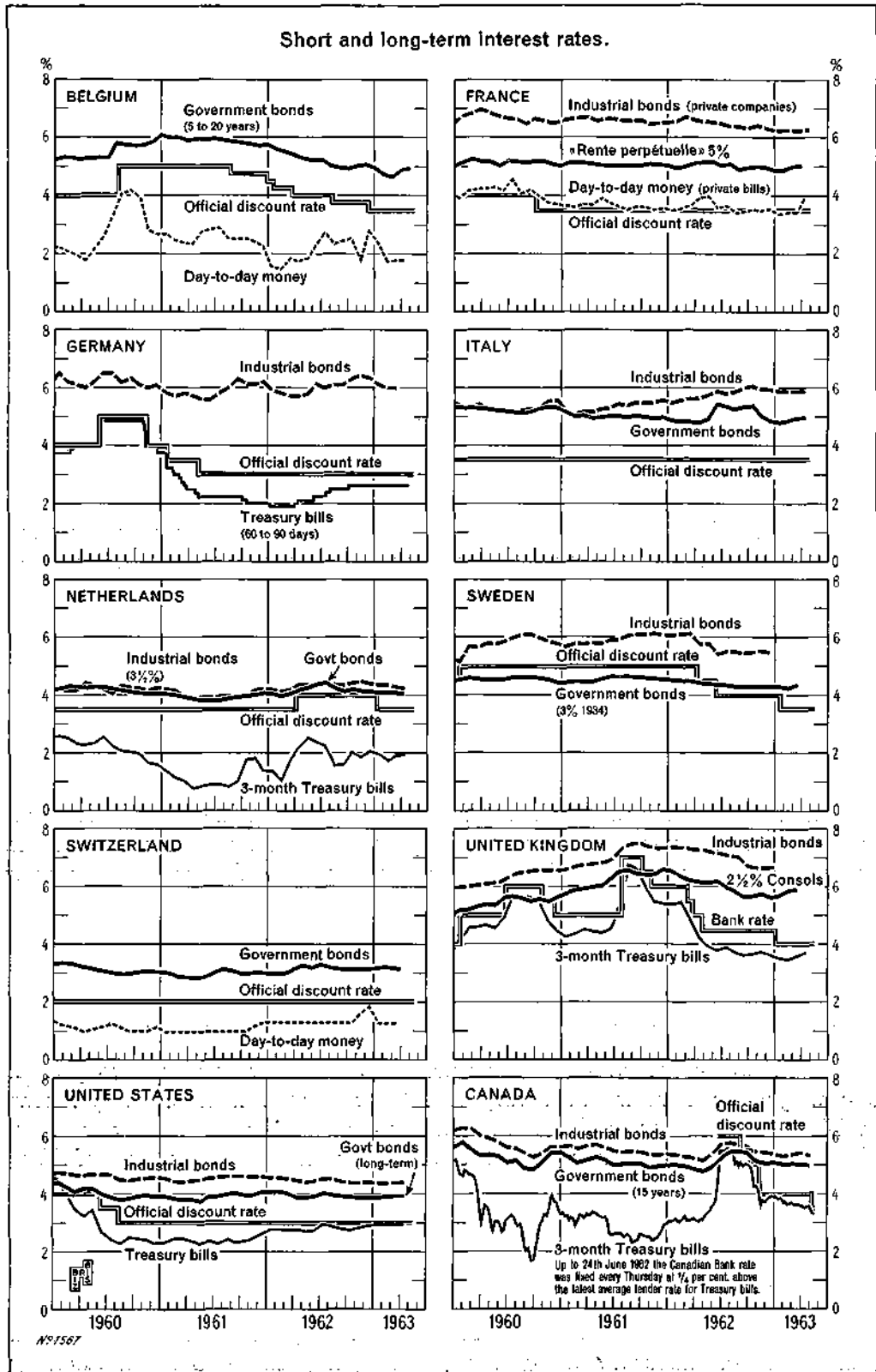
Germany. Confronted in 1962-63 with both weakening and strengthening elements of demand, with the latter tending to predominate, the monetary authorities left developments largely to market forces. Since the principal sources of inflationary pressure were judged to be government expenditure and the housing and construction sector, where activity could be more effectively dampened by fiscal measures, little good could have come of a more restrictive credit policy. Conversely, though in the latter months of 1962 economic activity levelled off and the propensity to invest had weakened perceptibly, the authorities saw no grounds for augmenting the credit institutions' liquid resources, which at the beginning of the year had stood at quite a high level.

In 1962, for the second consecutive year, the increase in the banks' liquidity associated with their sales of foreign exchange to the Bundesbank dropped off markedly. Furthermore, the gain from this source was much more than offset by the government's withdrawal of funds from the domestic economy, the increase in the currency circulation and the growth of obligatory reserve requirements as bank lending expanded. In these circumstances the Bundesbank adopted a passive attitude, keeping both the discount rate and reserve requirements unchanged. In the face of rising credit demand, however, this was sufficient to cause the banks to draw significantly upon their large stock of liquidity.

With short-term market rates tending to move upwards, the Bundesbank progressively raised the selling rate on 30 to 60-day money-market paper from the low of $1\frac{3}{4}$ per cent. prevailing in the first quarter of 1962 to $2\frac{1}{2}$ per cent. by early October. These increases gave the banks a certain incentive to meet their need for funds partly by repatriating some of their foreign money-market assets. This incentive was strengthened by the fact that the Bundesbank made its currency swap facilities relatively more costly in 1962. For the year as a whole, however, the banks satisfied the bulk of their liquidity needs by net sales of domestic money-market paper to the Bundesbank (over DM 1.1 milliard) and by an increase in central-bank borrowing (about DM 525 million). At the end of January 1963 the credit institutions' total liquid-asset holdings, as estimated by the Bundesbank, came to DM 9.25 milliard, i.e. about DM 2.0 milliard below the level a year earlier.

The long-term yield on industrial bonds, after having dropped as low as 5.7 per cent. in the spring of 1962, rose to a high of 6.4 per cent. in November, though it fell back again towards 6 per cent. early in 1963. The rising tendency last year reflected mostly the heavy volume of bond flotations, particularly by public authorities, but to some extent also the gradual tightening of bank liquidity. At the longer end of the financial market, therefore, a certain conflict of objectives has emerged for the monetary authorities. Even apart from international considerations, the slowing-down of investment in plant and equipment is a factor which may increasingly call for lower long-term interest rates. However, as long as strains persist in the building sector, monetary action in this direction is likely to be impeded. In

Short and long-term interest rates.



the interest of a more balanced stimulus to the economy as a whole, some restraint on fiscal privileges for building (which include capital and interest subsidies) has therefore seemed desirable as a means of providing scope for more flexible monetary action. As has been described on page 19, some steps have already been taken in this direction.

Italy. Since bank liquidity was no longer being fed in 1962-63 to the same extent as previously by a large external surplus, the maintenance of easy credit-market conditions as a policy objective necessitated official intervention on a broader scale. In part the banks were supplied with additional liquid funds by the usual techniques. Thus, on 13th January 1962 their obligatory reserve requirements were reduced from 25 to 22½ per cent., and during the year they also increased their borrowings from the Bank of Italy by way of discounts and advances by some Lit. 170 milliard.

In addition, however, the authorities initiated in the autumn of 1962 a series of measures which, while serving in part to increase bank liquidity, aimed more fundamentally at creating a flexible money market, fostering capital-market activity and integrating these markets more closely with those abroad. The measures were designed to bring about a shift in loanable funds from the government to the economy, to effect a similar change-over from short to longer-term lending and to exert downward pressure on the interest rate structure as a whole.

One line of action took the form of changes in Treasury debt-management operations and techniques. The Treasury substantially reduced its net direct and indirect borrowing from the capital market in 1962, while at the beginning of 1963 it did not renew a maturing issue of nine-year Treasury bonds totalling Lit. 192 milliard. In addition, on 12th October 1962 the Treasury abolished its system of tap sales of Treasury bills in favour of monthly tenders adjusted in size to its actual financial needs. These moves were facilitated by the strength of the Treasury's cash position, which improved further in 1962, but they also led in the early months of 1963 to a substantial drawing-down by the Treasury of deposits that had been sterilised with the central bank in recent years.

The issue of Treasury bills by monthly tender formed the core of the new money-market arrangements. Although to satisfy their compulsory reserve requirements the banks may purchase bills to the extent needed at a fixed rate of 3½ per cent., bills desired in excess of this amount must be bid for at a monthly auction. The bills thus sold for normal investment purposes are allotted among bidders at a price corresponding to the marginal successful bid. Tenders may be made only by the credit institutions and the Bank of Italy, the latter thus being in a position to build up a portfolio of bills and subsequently to engage in open-market operations.

Another important measure taken in November 1962 was necessitated by the situation prevailing as regards interbank deposits. Hitherto the smaller banks had tended to place excessive funds with the larger banks at rates

nearly as high as the yield on government bonds. Under the new arrangements the rates paid by banks on such deposits are not permitted to exceed the current yield on Treasury bills sold at a variable price at the monthly tender. Hence there exists an incentive for banks to increase their productive loans and investments in risk-bearing assets. Moreover, the fact that the tender rate on Treasury bills is a discount (the interest being paid in advance), establishes a preference for them over interbank deposits and should thus contribute marginally to a lowering of their yield in relation to longer-term assets. The Bank of Italy was also empowered to compel the banks, if necessary, to invest with it all or part of deposits received from other banks in special time accounts of up to six months' duration, bearing interest well below the discount rate on Treasury bills.

Subsequently, on 28th January 1963, the maximum rate of interest payable on medium-term deposits, i.e. those at between eighteen and sixty months' notice, was set at 5 per cent. In this connection the banks are forbidden to accept deposits at more than eighteen months, while a similar prohibition exists for the medium and long-term credit institutions as regards deposits at less than eighteen months.

Finally, as a step towards the integration of domestic with external financial markets, the Bank of Italy abolished in November 1962 the obligation introduced at the end of 1960 for each Italian bank to balance its position vis-à-vis foreign countries. This move was followed by a sizable increase in the banks' short-term borrowing abroad. Later, residents were given permission, with effect from 12th April, to buy foreign shares and debentures quoted on foreign stock exchanges.

Although the application of the new monetary instruments has in some respects proceeded cautiously, their favourable effects upon interest rates were partly observable in late 1962 and early 1963. The yield on industrial bonds, which had been rising gradually since the early months of 1961, started declining in the autumn, and an even more pronounced drop occurred in government bond yields. In the short-term sector the yield on Treasury bills bought at a premium has been in the neighbourhood of 3.4 per cent.

France. In conjunction with an acceleration of bank credit, combined with the effects of a still large current external surplus and an increased inflow of funds from North Africa, monetary and quasi-monetary assets rose in 1962 by 18.1 per cent. Up to last year the swift growth in liquid assets, which have almost doubled since 1958, was accompanied by a continuous decline in their income velocity. Hence the authorities interpreted this growth as reflecting largely a warranted increase in liquidity preference following in the wake of the country's successful monetary stabilisation efforts.

In the course of 1962-63, however, with inflationary symptoms becoming more widespread, monetary policy has been focused increasingly on the objective of slowing down liquidity formation to a rate more in keeping with the expansion of real output. As a collateral objective, reflected in the nature

of the measures applied during this period, the authorities have sought to increase the availability of medium and long-term funds for industry and to bring further downward pressure to bear on interest rates.

In 1962 the first move along these lines occurred on 28th February, when the banks' minimum liquidity ratio ("coefficient de trésorerie") was raised from 30 to 32 per cent. of deposit liabilities. Shortly afterwards, on 12th March, that part of the overall ratio applicable to holdings of Treasury bills was brought down from $17\frac{1}{2}$ to 15 per cent. and the rate paid on two-year bills was reduced from $3\frac{3}{8}$ to $3\frac{1}{4}$ per cent. Together, these measures provided increased scope and incentive for medium-term loans financing equipment expenditure and exports. Such medium-term paper, representing credits granted with the original approval of the Bank of France and re-discountable with it, comprises the largest part of the banks' compulsory liquid-asset holdings other than Treasury bills. Indeed, looking back over the five years up to the end of 1962, one may observe a distinct structural improvement in the distribution of rediscountable medium-term paper by types of holder. During that period the total of such credits rose moderately from Fr.fr. 18.25 to 24.89 milliard. Within this total, however, the holdings of the Bank of France declined from Fr.fr. 15.03 to 13.07 milliard, while those of the banks and other financial institutions rose from Fr.fr. 3.22 to 11.82 milliard.

In the spring of 1962 certain other interest rates were also reduced with a view to encouraging funds into longer-term productive uses. In April the rates on one to five-year Treasury bonds for public subscription were lowered by $\frac{1}{5}$ – $\frac{1}{3}$ per cent., bringing them to a range of $2\frac{3}{4}$ – $4\frac{3}{4}$ per cent. Subsequently, early in May, the maximum rate of interest payable by the commercial banks on time deposits and bank bonds at up to one year was brought down by $\frac{3}{8}$ per cent. and on those at longer periods by $\frac{1}{4}$ per cent.

Early in 1963 further measures were taken to retard the expansion of bank credit and liquid assets. On 31st March the banks' minimum liquidity ratio was once again raised, this time to the maximum authorised level of 35 per cent., and the interest rate on Treasury bills sold to the banks was reduced by a further $\frac{1}{8}$ per cent. In addition, the banks were requested to limit their rate of overall credit expansion during the coming year to 12 per cent., i.e. about two-thirds the rate of increase in recent years. The authorities indicated, however, that the global restriction should not interfere with a liberal attitude towards medium-term export and equipment loans, which should continue to expand in conformity with the objectives of the Fourth Plan.

In April 1963 yet another set of measures, reinforcing those adopted in March, was put into force. The interest rates on one to five-year Treasury bonds for public subscription were further reduced by $\frac{1}{4}$ per cent. Concurrently, the National Credit Council decided to lower the interest rates payable by banks on residents' accounts by $\frac{1}{4}$ per cent. and to prohibit altogether interest payments on non-resident accounts in French francs (except those of

central banks and international institutions). In addition, the potential maximum for the banks' liquidity ratio was raised by the National Credit Council from 35 to 38 per cent. Moreover, in a move similar to that made in Italy, a system of fixed Treasury bill tenders was adopted, the allocations being made three times a month at variable interest rates. Subsequently, as from the end of May 1963, the banks' liquidity ratio was increased from 35 to 36 per cent.

Together, the policy initiatives of 1962-63 involved a concerted effort to reduce short and medium-term interest rates as a means of orienting savings more towards longer-term investment. The government, for its part, refrained for the fourth consecutive year from placing a loan on the capital market, thus giving full play to private issues and those of nationalised industries. As an indication of its growing concern over the highly liquid state of the economy, however, the government announced its intention in May 1963 to issue a fifteen-year $4\frac{1}{4}$ per cent. loan for Fr.fr. 1 milliard. While the loan does not enjoy the protection of an index clause, it is exempt from the progressive personal income tax and carries a reimbursement premium of $2\frac{1}{2}$ per cent. after five years and 5 per cent. after ten years. A loan of this size, which is small by previous standards, implies no major departure from the government's intention to leave the capital market as far as possible to other borrowers. Since the spring of 1962 the market for fixed-yield securities has strengthened somewhat, though the effective yield on new issues of industrial bonds has remained at about 5.7 per cent.

Belgium. A conspicuous feature of financial developments since the middle of 1961 has been the progressive lowering of interest rates. From the then prevailing level of 5 per cent. the central bank's discount rate was brought down in six steps to $3\frac{1}{2}$ per cent. by December 1962. Even more noteworthy, the yield on five to twenty-year government bonds dropped from a level of nearly 6 per cent. in mid-1961 to below 5 per cent. in early 1963.

In large measure these changes were an outcome of the central government's improved budget position, the slow growth of consumption and the surplus on external account. But they were also ascribable in part to further structural reforms carried out, as in Italy and France, for the purpose of creating more flexible financial markets and encouraging the flow of funds into longer-term channels.

First of all, the system of bank "coefficients", whereby the big banks, for instance, had to maintain a cover of cash and public securities equivalent to 65 per cent. of their liabilities, was relaxed on 1st January 1962. Under the new regulations a bank was permitted to utilise freely the counterpart of its new liabilities in so far as these exceeded average liabilities during a 1961 base period. In addition, the banks were authorised, except with respect to certain special holdings of Treasury certificates issued in 1957, to decide for themselves on the composition of their remaining obligatory holdings of public securities. In conjunction with these changes, the Fonds des Rentes discontinued its

issue of certificates on tap at a fixed rate, substituting instead a weekly tender adjusted more closely to Treasury requirements. The Fonds gradually reduced the outstanding volume of such certificates, and their rates fell markedly. Concurrently, the banks shifted more into longer-term government securities and thus contributed to the decline in their yields.

In December 1962 final steps were taken towards restoring a normal state of affairs with respect to the banks' holdings of public debt. In the first place, B.fr. 10 milliard of the above-mentioned 1957 Treasury certificates, issued at a rate of $1\frac{15}{16}$ per cent., were converted into non-negotiable bonds bearing interest at $3\frac{1}{2}$ per cent. as from 1st January 1962. The remainder of such certificates (over B.fr. 9.8 milliard) were scheduled for conversion, also at $3\frac{1}{2}$ per cent., in two instalments in five and ten years' time. Secondly, as from 1st January 1963, the regulations still requiring the banks to hold certain minimum amounts of government securities in relation to their liabilities were abolished altogether.

In further support of the policy to reduce the cost of capital, the monetary authorities induced the savings institutions to lower their deposit rates in 1962 by $\frac{1}{4}$ per cent. from the long-established rate of 3 per cent. Also pertinent was the fact that the monetary authorities refrained during the year from using their new weapon of liquidity control, a variable "monetary reserve ratio", which now stands at zero but can potentially be raised as high as 20 per cent.

In the spring of 1963 the financial markets tightened and interest rates hardened. In particular, the market for long-term bonds weakened, partly as a reaction to the unusually high levels to which quotations had moved, but also for technical reasons connected with the fiscal reform of October 1962. In these circumstances, with its own liquidity position coming under pressure, the Treasury was impelled to borrow relatively more at short term from both domestic and overseas sources.

Netherlands. In recent years policies in respect of both debt management and capital movements have played an important part in the control of bank liquidity and in keeping fluctuations in long-term interest rates within a comparatively narrow range. Since 1959 central-bank interventions in the money market have been aimed partly at keeping short-term rates at an appropriately low level, thereby encouraging the banks to retain a certain volume of foreign liquid assets as an alternative to greater lending at home. During much of this period, moreover, the central government and the local authorities carried out extensive funding operations in the capital market. These operations were considerably curtailed in 1961, and in their stead, as a new element of domestic liquidity control, the authorities opened the Dutch capital market to foreign issues on a regulated basis. Moreover, partly as a substitute for higher short-term interest rates, the authorities brought into effect in July 1961 a credit agreement with the banks whereby the expansion of the latter's lending was not to exceed 1 per cent. per month.

Whereas up to 1961 credit policy had aimed primarily at absorbing excess liquidity, the objective in the first half of 1962, by which time the current external accounts had moved into slight deficit, shifted towards mild but positive restraint. On 1st January the credit agreement with the banks was extended and the permissible rate of credit expansion reduced from 1 to $\frac{1}{2}$ per cent. per month. In the months that followed the banks began to go appreciably beyond this limit, thereby incurring the obligation, under the terms of the agreement, to place specified amounts on non-interest-bearing deposit with the central bank. Thus the Nederlandsche Bank found it necessary on 25th April to reinforce its policy of restraint by raising the discount rate from $3\frac{1}{2}$ to 4 per cent. During the first half of the year, moreover, the authorities temporarily restricted foreign new issues in order to relieve pressure on the capital market. In spite of this, and partly because of the higher discount rate, the yield on long-term government securities moved upwards from around 4 to almost $4\frac{1}{2}$ per cent. during this period.

In the second half of the year domestic demand pressures eased somewhat, while the growth of bank credit fell below the prescribed ceilings and the current external position shifted back into a comfortable surplus. With the domestic demand for long-term funds also moderate, the authorities once again permitted a substantial volume of foreign issues to be floated on the Dutch capital market. Towards the end of the year they also raised the permissible rate of bank credit expansion from $\frac{1}{2}$ to 1 per cent., and in January 1963 this ceiling was suspended altogether. At the same time, the Nederlandsche Bank lowered its discount rate from 4 to $3\frac{1}{2}$ per cent. The yield on long-term government bonds, after dropping during the summer of 1962, fluctuated narrowly around 4.2 per cent. up to the spring of 1963.

Since in 1962 as a whole there was no significant net influx of gold and exchange from abroad, the liquidity needed by the banks to support their credit expansion had to be obtained from domestic sources. Most of the assistance was provided by the Nederlandsche Bank. First, the banks' cash reserve requirement, which was kept at 8 per cent. during most of the first six months, was progressively reduced (and only partly for seasonal reasons) to 4 per cent. by December. Secondly, the central bank acquired from the banks an appreciable amount of Treasury paper under repurchase agreements. In addition, the Treasury itself helped to feed liquidity by drawing upon its current account with the Nederlandsche Bank.

Switzerland. Although inflationary pressures mounted in 1962, the authorities kept essentially to their long-standing policy of low interest rates. This policy, by helping to divert funds from the Swiss economy, has been useful from the point of view both of domestic liquidity control and of the international payments system. From the domestic angle, moreover, the policy has had another rationale peculiar to Switzerland. Because of the unusually large volume of mortgage debt outstanding, the interest rates on which are adjustable when market rates show substantial changes, a rise in longer-term

rates would lead to an increase in rents and farm costs and thus also in wages and prices.

As a means of reinforcing their interest rate policy, the authorities have relied in part on gentleman's agreements with the banks. During the past year the agreement of August 1960 regarding the treatment of foreign funds (i.e. deposits may be accepted at not less than three months' notice, without interest, and subject to a commission of 1 per cent. per annum if at less than six months' notice) remained in force and was prolonged until August 1963. In addition, a new type of credit agreement was brought into effect as from April 1962, under which banks with a balance-sheet total of Sw.fr. 10 million or more were to restrict the rise in ordinary loans in 1962 as a whole to 87 per cent., and that in mortgage loans to 113 per cent., of the increase in either 1961 or 1960. In December 1962 the agreement was extended for a further year, and the permissible rates of increase were reduced to 82 and 108 per cent. respectively. While this convention has undoubtedly influenced the activity of the banks, it must also be noted that the rate of credit expansion in the base period was unusually high.

In acting to keep long-term interest rates low and relatively stable, the authorities also exercise control over foreign issues on the Swiss capital market, as well as on bank loans to foreigners in excess of Sw.fr. 10 million and one year's duration. Hence, in view of the strong domestic demand for longer-term funds last year, the authorities were less liberal in granting approval for foreign issues and loans. This policy technique, also employed in the Netherlands, is designed to accommodate the flow of national saving to fluctuations in domestic demand for investment funds, but it also necessarily implies a less regular outflow of capital to other countries.

Although national saving in 1962 fell short of requirements, liquidity formation at the banks tended to be excessive. For a marked deterioration in the external current account, which contributed to a reduction in bank liquidity, was more than offset by a large inflow of funds from abroad associated with the break in equity prices on foreign stock exchanges, the Canadian exchange crisis and the Cuban episode. Since the authorities did not regard these transfers as of a lasting nature, they undertook certain offsetting measures. The Confederation, which again realised a big cash surplus in 1962, invested a large part of the proceeds abroad. In its turn the National Bank, by means of various exchange operations with the Federal Reserve Bank of New York and the BIS, was able to absorb close on Sw.fr. 600 million from the domestic banks, which directly or indirectly invested the exchange counterpart abroad. These measures, however, only partially offset the inflow of capital. This fact, together with the curtailment of foreign issues in Switzerland and a sizable repayment of domestic debt by the Confederation, helped to keep the upward pressure on interest rates to minimal proportions in 1962.

Austria. From the point of view of monetary policy, economic developments last year were of a rather conflicting nature. Internally, a slower rise

and divergent trends in output were combined with tendencies towards cost inflation, while externally a substantially larger current surplus contributed to a marked expansion of the official gold and exchange reserves. Against this background the monetary authorities directed their attention primarily to absorbing excess liquidity, without going so far as to impair credit availability. In addition, although about the middle of 1962 the government approved some releases from ERP counterpart funds held with the National Bank, these releases were regulated, on the latter's recommendation, so as to minimise their liquidity effect.

On 1st February 1962 the banks' minimum reserve requirements were raised by $\frac{1}{2}$ per cent., bringing the ratio for the larger institutions to $9\frac{1}{2}$ per cent. for sight and time deposits and $7\frac{1}{2}$ per cent. for savings deposits. At the same time the penalty rate charged on shortfalls in minimum reserves was raised from 2 to 3 per cent. above the discount rate. Applying also a kind of open-market technique, the National Bank converted Sch. 560 million of its claims on the Treasury into one-year $3\frac{1}{2}$ per cent. Treasury bills and placed these with the banks. In addition, the credit institutions were allowed to employ only 50 per cent. of accruing deposits for lending purposes instead of up to 75 per cent. as hitherto.

As from 1st August 1962, consequent upon further large inflows of exchange and continued price and wage increases, the minimum reserve requirements were again raised — to 10 per cent. for sight and time deposits and 8 per cent. for savings deposits. Moreover, another Sch. 220 million of one-year Treasury bills was placed with the credit institutions. It was also stipulated that only 40 per cent. of deposit liabilities in excess of those outstanding on 31st July could be used for additional loans. Finally, for purposes of calculating credit ceilings under existing credit control agreements, the percentages applicable to liabilities as a basis for credit-granting were in general lowered by 4 per cent. Later, in October 1962, the credit institutions were induced by the National Bank to take up a twelve-year 6 per cent. Federal loan for Sch. 400 million, thus making it unnecessary for the government to place another loan abroad.

The money supply and time and savings deposits rose by about 13.3 per cent. in 1962, as against 10.5 per cent. in 1961, and the credit institutions enjoyed a comfortable liquidity margin at the end of the year. Commercial credits increased by little more than 9 per cent., compared with a rise of 16.7 per cent. in 1961, but this was much more a reflection of the tapering-off of output than of credit restraint. Net capital issues amounted in 1962 to Sch. 4.8 milliard, i.e. 60 per cent. more than in 1961.

Spain. Three years of transition and progress following the July 1959 stabilisation measures have recently brought certain problems to the fore. In the course of 1962 the external reserves ceased to rise after September, industrial production increased relatively little and the cost-of-living index advanced by about 10 per cent. One potential source of difficulty lies in the

swift rise in imports, which more than doubled in the years 1960-62, while exports remained relatively stable. This was presumably one of the principal factors underlying the doubling also of bank loans to the private economy over the same period and it points to the need for readiness, should the situation demand it, to move towards credit restraint.

The institutional arrangements with regard to credit control have been substantially modified over the past year or so. In the spring of 1962 a Banking Reform Law was introduced, under which the Bank of Spain and other public credit institutions were fully nationalised and a special institution was created for the purpose of exercising control over medium and long-term credits. In December 1962 the Ministry of Finance announced its willingness to authorise the establishment, under certain stipulated conditions, of new industrial banks to handle medium and long-term lending only. At the same time it was laid down that existing commercial banks should not only limit their interest in such banks to not more than 50 per cent. but also restrict their industrial securities portfolio to an amount not exceeding their capital and reserves.

Of greater immediate significance, the banks were made subject early in 1963 to a minimum liquidity ratio, as provided for by the Banking Reform Law. The ratio, which is to be determined by the Bank of Spain and may be varied within a range of 10-20 per cent., was fixed initially at 12 per cent. as from 1st April. It was raised to 13 per cent. with effect from 31st May.

Sweden. Against the background of a further growth in external reserves and a large budget surplus, the authorities were able, when demand forces weakened in the early part of 1962, to shift decisively from monetary restraint to stimulus. This was accomplished in such a way as to facilitate an impressive increase in both bank credit and longer-term lending. The total volume of new funds raised on the financial markets by borrowers other than the central government leapt from S.kr. 4.7 milliard in 1961 to S.kr. 7.6 milliard in 1962, with the commercial banks lending about one-half of the increase.

The central government, which through its budget surplus withdrew about S.kr. 600 million from the economy, restored only S.kr. 235 million by means of debt repayment, the difference going to reduce its debt vis-à-vis the Riksbank. Bank liquidity was fed in 1962 rather by the growth in official gold and foreign exchange reserves, which increased by S.kr. 570 million (mostly in the first half of the year). In addition, in connection with the release of investment funds to industry, investment accounts with the Riksbank were drawn down to the extent of about S.kr. 335 million. In these circumstances, and with the support of a high rate of deposit formation, the commercial banks were able to increase their total lending in 1962 by S.kr. 3.3 milliard, as against only S.kr. 600 million in 1961. Within this total they not only substantially added to their holdings of mortgage institutions' bonds but also acquired no less than S.kr. 1.06 milliard's worth of government securities.

Lending other than by commercial banks to borrowers other than the central government came in 1962 to S.kr. 5.2 milliard, compared with S.kr. 4.1 milliard in the preceding year. Concurrently with the increase in the commercial banks' holdings of government securities, claims against the government (mostly securities) held by other banks, private insurance companies and the public were reduced by S.kr. 1.3 milliard in favour of other types of lending. Another factor was the rapid growth in the resources of the National Pensions Fund, which contributed to an increase in public insurance institutions' lending in 1962 by S.kr. 1.6 milliard, i.e. more than double that in 1961. In January 1963 the Riksbank suspended the investment directives for insurance companies by which the latter had been required to invest at least 50 per cent. of new funds in government securities and mortgages.

In order to stimulate the use of funds, building permits were granted much more freely in 1962 and controls over capital issues were greatly relaxed. The Riksbank also brought down its discount rate, first in two steps in April and June from 5 to 4 per cent., then to 3½ per cent. in January 1963. Long-term yields also moved downwards, particularly those for industrial bonds.

Norway. The external current account (excluding net purchases of ships) deteriorated further in 1962, owing both to weakness in export markets and to rising imports associated with buoyant domestic demand. Under the existing credit control agreements, therefore, policy continued to aim at keeping lending within certain specified limits. But in the first half of 1962, as during 1961, the banks circumvented these limits by borrowing short-term foreign funds as a basis for increased domestic lending. By the middle of 1962 the commercial banks' foreign exchange position showed net liabilities of almost N.kr. 500 million, as against net assets of N.kr. 250 million about two years earlier. In these circumstances Norges Bank in June 1962 requested the banks to apply for its permission before taking up loans and credits abroad or accepting deposits from foreign banks. This effectively brought about a decline in such borrowing in the following months.

Lending by all financial institutions went up by N.kr. 2.4 milliard in 1962, compared with N.kr. 2.6 milliard in 1961. A smaller growth in lending by commercial banks and private insurance companies more than offset an increase in that of savings banks. Moreover, since Norges Bank's net purchases of foreign exchange from the economy dropped off last year, the authorities had to provide the banks with additional liquid funds as a basis for their lending activity. This occurred mostly by way of the central government's net transactions with the economy. The government's budget surplus (excluding loan transactions) rose somewhat in 1962, but its net borrowing from the market (mainly at long term) was reduced by a larger amount. Since at the same time it channelled back to the economy via loans to the state banks about the same volume of funds as in 1961, its net contribution to bank liquidity proved to be greater than in the preceding year.

The credit control agreement for 1963, concluded in December 1962, was again governed by the need for a restrictive credit policy. Accordingly, the commercial and savings banks are not to increase their outstanding domestic lending in 1963 by more than 6-7 per cent., and preference is to be given to loans for construction, regional development and exports. The commercial banks' foreign currency loans, moreover, are not to exceed their level at the end of 1962 by more than N.kr. 175 million.

Denmark. Domestic inflationary pressures contributed in 1962 to a further enlargement of the external current-account deficit. As in 1961, therefore, the emphasis of monetary policy continued to be one of relative restraint. The discount rate was kept at the high level of 6½ per cent. to which it had been raised in May 1961, and in the spring of 1962 the rate at which the Nationalbank grants advances on quoted bonds was reduced from 70 to 50 per cent. of the purchase price.

The potential solution to Denmark's economic problems, however, lay much more in other spheres. For one thing, the central government's overall budget had recorded a deficit of D.kr. 460 million in the fiscal year ended March 1962, after having yielded surpluses during the preceding two years. In recognition of this, a 9 per cent. general purchase tax, to be levied at the wholesale level on products other than foodstuffs, was introduced with effect from 1st August 1962. Largely as a result of this change, the overall budget shifted back to a surplus of D.kr. 425 million in the year ended March 1963.

With the improvement in its budget position, the government reduced its net indebtedness to the Nationalbank by D.kr. 170 million in 1962, thereby absorbing an equivalent amount of bank liquidity. The latter was also cut by D.kr. 175 million in conjunction with a decline in official gold and exchange reserves, though this figure would have been much greater had the banks not again in 1962, as in 1961, substantially increased their short-term foreign indebtedness. The Nationalbank offset the contractive effects of these changes by purchasing on the open market some D.kr. 370 million's worth of securities in 1962. This action notwithstanding, the banks found it necessary, in financing their accelerated lending activity in 1962, to increase their borrowing from the Nationalbank by over D.kr. 400 million, against D.kr. 105 million in 1961. In the capital market net issues of bonds and shares rose from D.kr. 2.4 milliard in 1961 to D.kr. 2.9 milliard in 1962. The yield on long-term government securities (2007), which had stood at 7.24 per cent. at the end of December 1961, had declined to 6.91 per cent. by June 1962, but then increased again to 7.08 per cent. by the end of the year.

In February 1963, the external currency reserves having fallen steadily throughout the preceding year, the government launched a more general anti-inflationary programme. It provided for strict restraint of wage increases in 1963-64, a ceiling on company dividend payments, regulation of price increases and a relaxation of exchange restrictions so as to facilitate company

borrowing abroad and to permit foreign purchases of Danish internal bonds. In addition, the government decided to compensate the monetary effects of a forthcoming D.kr. 700 million tax reduction by means of a compulsory savings scheme.

Finland. Rising imports, together with a weakness in export markets, contributed to a worsening of the external current deficit in 1962. Moreover, in Finland, alone among the northern countries, the central government's overall budget position deteriorated last year. Most of the budget deficit was financed by longer-term borrowing outside the commercial banks and hence, together with the external deficit, caused the banks' liquidity position to be brought under pressure, which they partially eased by drawing down their short-term foreign assets and adding to their liabilities. They also considerably increased their borrowing from the central bank, which took action in 1962 to raise the cost and limit the availability of such credit. At the end of March the Bank of Finland put up its basic rediscount rate from $6\frac{3}{4}$ to 8 per cent., but political opposition necessitated a lowering of the rate back to 7 per cent. one month later. Subsequently, with effect from 1st September 1962, the Bank of Finland imposed a ceiling on credit institutions' rediscounts with the central bank. Established at 240 per cent. of each institution's own funds, the effective ceiling was generally in excess of outstanding rediscounts, but it appears nevertheless to have caused the banks to pursue more cautious lending policies. In the second half of the year, when output itself had tapered off, bank lending slowed down and the growth of deposits temporarily ceased. For this reason the Bank of Finland decided in November to refund to the banks the special deposits which they had placed with it (mostly during the preceding year) under the terms of the cash reserve agreement of May 1961.

Canada. Apart from the fixing of a lower exchange parity and the mobilisation of external credit resources, an essential part of the stabilisation programme introduced in June 1962 consisted of domestic fiscal and monetary measures. In the fiscal sphere the most significant steps included the temporary imposition of graduated surcharges ranging from 5 to 15 per cent. on about one-half of Canada's imports, together with planned reductions in government expenditure amounting to \$250 million in a full year.

For its part the Bank of Canada aimed at establishing a level of domestic interest rates that would induce a capital inflow sufficient both to cover the external current deficit and to help rebuild exchange reserves. Bank rate, which had hitherto been set weekly at $\frac{1}{4}$ per cent. above the Treasury bill tender rate and had stood at just over $3\frac{3}{4}$ per cent. at the end of May, was raised to a fixed level of 6 per cent. on 24th June. In consequence of this and other measures, yields on the whole maturity range of government securities, which had already been rising in May, moved sharply upwards to reach a level of about $5\frac{1}{2}$ per cent. in July, whereupon the non-bank demand for government securities became very strong. In order to prevent interest rates from coming down too much and too quickly, the monetary authorities

allowed the banks to come under liquidity pressure, thereby compelling them to sell heavily to the market from their own holdings of government securities.

In September, when it was clear that the government's programme was producing the desired external effects, monetary policy began to be eased. Bank rate was lowered by $\frac{1}{2}$ per cent. in both that and the following month, then once again in November by a full one per cent. to a level of 4 per cent. Bank liquidity began to be replenished, and with it the banks' holdings of government securities. On the other hand, the chartered banks' loans and non-government investments, after having risen sharply in the first seven months of 1962 from \$8.7 to 9.8 milliard, declined gradually to about \$9.5 milliard by the end of the year. The banking system's total monetary and quasi-monetary liabilities rose during 1962 by just over $3\frac{1}{2}$ per cent., compared with a rise of almost 9 per cent. in 1961.

During the early months of 1963 the yield on long-term government securities remained at around 5.0 per cent. By April the authorities had succeeded in removing the remaining surcharges on imports, after having relaxed them gradually during the preceding months. Early in May Bank rate was lowered to $3\frac{1}{2}$ per cent.

Japan. By the beginning of 1962 the programme of monetary restraint adopted during the previous autumn had successfully stemmed the heavy drain on the external reserves, which thereafter rose steadily throughout the year. Domestically, the primary effect of restraint was to cause business firms to work off excessive inventories, which in turn induced a temporary levelling of industrial production. Reflecting largely lower inventory accumulation, the corporate sector's net need for external funds came to Yen 1,670 milliard in 1962, as against Yen 2,440 milliard in 1961. Owing to the disturbed state of the securities markets, corporations borrowed relatively more from the banks, whose lending activity was supported by a higher rate of deposit formation than in 1961. Significantly, however, the expansion of bank lending did not hinge upon a further large growth in credit from the Bank of Japan, whose loans and rediscounts showed essentially no change after their rise of Yen 784 milliard in 1961.

In the autumn of 1962 the monetary authorities began to relax credit restrictions. The Bank of Japan's discount rate was lowered in two steps from 7.30 to 6.57 per cent., cash reserve requirements were reduced and the progressive penalty rates for rediscounting were eased. In January 1963 certain ceilings, which in the autumn of 1961 had been placed on loans granted by the big banks and on bank guarantees for foreign credits, were cancelled. At the same time, however, the ratio of cash reserves to be held by the big banks against any increase in short-term foreign deposits above the end-1962 level was raised from 20 to 35 per cent. In addition, at the request of the monetary authorities, the commercial banks lowered their creditor interest rates for foreign currency deposits by $1\frac{1}{8}$ per cent., bringing the rate on three-month deposits, for instance, to $4\frac{1}{8}$ per cent. In March and April the Bank of Japan further reduced its discount rate in two stages to 5.84 per cent.

II. DOMESTIC AND INTERNATIONAL PRICES.

Since early 1962 prices have continued to go up rather sharply in western Europe and quite moderately in North America. A considerable part of the European price rise was due to temporary shortages of certain foodstuffs caused by the weather. Prices of manufactures and services also increased, but in the case of manufactures generally not as much as labour costs. Wholesale prices, as in the past, rose less than retail. In the United States wholesale prices have been stable since 1958.

The rise in labour costs was larger in the continental countries than in the United Kingdom. The trend of money wages continued to be steeply upward on the Continent, while in the United Kingdom it levelled out somewhat. At the same time, productivity gains on the Continent, though generally larger than in 1961, continued to lag well behind wage increases.

The faster rise in continental labour costs than in industrial prices was not compensated by a fall in raw-material prices, and profit margins narrowed accordingly. Raw-material quotations did decline in the earlier part of the period — though not enough to offset very much of the increase in labour costs — but generally ceased to do so in the fourth quarter of 1962. In subsequent months some commodity prices have shown an appreciable strengthening.

Domestic prices and wages.

Consumer prices. Since the early months of 1962 the rise in consumer prices has continued in virtually all industrial countries and has again been much more pronounced in western Europe than in North America. In Canada, and even more in the United States, the increase over the period, though larger than in the previous year, was still below 2 per cent. In western Europe, on the other hand, the overall rise in consumer prices may be estimated at nearly 4 per cent., while for foodstuffs alone it was more than 5 per cent. The upward movement of prices in Europe has gained momentum during the past two years and shows as yet few signs of any marked tapering-off. In the early months of 1963 it tended rather to quicken in certain countries, notably Italy and the Netherlands.

Differing price movements as between individual countries must be assessed with caution, since the indexes of consumer prices are not always comparable. It would seem, however, that over the past year the largest increases — 6 per cent. or more — occurred in Denmark, Italy and Spain. In Finland, France, Germany, the Netherlands and Norway the rise was in the $4\frac{1}{2}$ - $5\frac{1}{2}$ per cent. range, and in Austria, Sweden, Switzerland and the United Kingdom it was around $3\frac{1}{2}$ per cent. In most countries these

increases were larger than over the previous twelve months; only in Austria and in the United Kingdom has there been a marked flattening-out of the trend. The European country with the smallest price rise has been Belgium.

A substantial proportion — about one-half on average — of the advance in overall price indexes reflects dearer foodstuffs. During this period the index of food prices went up by less than 5 per cent. in only three European countries — Belgium, Finland and Switzerland. Elsewhere the increase ranged from over 5 to nearly 16 per cent.

The principal cause of this development has been the effect of weather on food supplies. Mediocre harvests in a number of European countries had already strengthened prices in the second half of 1961. During the early part of 1962 bad spring weather meant a shortage of horticultural produce and the situation was further aggravated by drought in parts of France and Italy during the summer. After some improvement in the autumn, the exceptionally severe winter of 1962-63 led to a further extraordinary increase in fruit and vegetable prices.

Apart from the weather and its effects on the short-term supply situation, there has been continued pressure on food prices resulting from measures to raise agricultural incomes — notably wage increases in Italy and higher guaranteed prices in France.

Consumer prices.

Countries	Total index, March 1961 to March 1962	Total index and components, March 1962 to March 1963				
		Total	Food	Rent	Light and fuel	Clothing
percentage changes						
Austria	5.0	3.4	5.5	2.3	0.3	1.0
Belgium	1.0	2.7	3.2	.	3.2	0.7
Denmark	4.5	6.8	7.0	5.9	2.3	3.7
Finland	2.7	5.3	4.4	6.7	5.1	2.7
France	5.0	5.1	7.0	7.5	- 0.1	2.4
Germany	3.8	4.4	6.3	6.4	2.4	2.4
Italy	3.9	7.8	9.5	9.2	2.7	6.7
Netherlands	4.1	5.6	6.9	7.9	2.1	7.0
Norway	5.2	5.0	6.6	2.7	2.8	2.9
Spain	2.9	11.3	15.9	6.0	.	8.8
Sweden	3.7	3.6	7.4	- 2.9	5.8	1.5
Switzerland	4.3	3.6	4.9	2.5	1.8	2.3
United Kingdom	4.8	3.2	5.6	5.6	6.3	3.4
Canada	0.9	1.5	2.5	0.3	1.0	2.2
United States	1.1	1.1	1.4	1.0	0.6	0.9

As regards retail prices other than food, the faster increase in prices in western Europe than in North America during this period is closely linked with the more rapid rise in European wage incomes. This has added both to consumer demand and, more important, to cost pressure on the price level.

As usual, prices of goods generally went up less than those of services. In North America the figures show a negligible rise (not more than 1 per cent.) for goods and one of $1\frac{1}{2}$ -2 per cent. for services; in Europe, 2 or 3 per cent. for goods and 4 or 5 per cent. for services. Component indexes, moreover, tend if anything to understate the difference, since services such as distribution enter into the retail prices of goods. The table below indicates the extent to which the price rise for services has exceeded the movement of the aggregate index over the past seven years in both western Europe and North America.

Rise in prices of services, 1955-62.

Countries	Services, excluding rent	Rent	Total consumer prices
	in percentages		
France	60	118	45
Netherlands	22	52	22
United Kingdom	36	49	20
Italy	37	104	19
Belgium	29	.	10
United States	21	11	13
Canada	27	7	13

The table also shows that the trend of rents has been much more sharply upward in western Europe than in North America — where, indeed, rents have advanced less than the overall index. In France and Italy the rent index has more than doubled since 1955, while in the Netherlands and the United Kingdom it has gone up by one-half. Part of the increase in European rents, especially in the last two years, reflects higher building costs. But a much larger part is due to relaxation of rent controls — either simply abolishing them for the great majority of dwellings (as in the United Kingdom in 1958) or, more commonly, allowing upward adjustments of the controlled rents to bring them closer to a free-market level.

In the past eighteen months the largest of such adjustments has taken place in Italy, where a rise in the total rent index of 12 per cent. in 1962 was followed by a further increase in controlled rents of 20 per cent. as from 1st January 1963. In the Netherlands, after the customary two-year interval, controlled rents went up by 10-12 per cent. in September 1962, accompanied by a compensatory increase in wage rates. In Switzerland permission was given in March 1963 for a further 7 per cent. rise in the rents of controlled flats — about one-third of the total. Controlled rents were also raised somewhat in France and Germany. In Sweden, on the other hand, the rent index, which includes imputed rent on owner-occupied houses, has actually declined by some 3 per cent. in the last few months because of a cut in mortgage rates.

It may be noted that even large adjustments in rents have a relatively minor effect on overall consumer-price indexes because of the low weight of rents in the total. Among European countries rent has a weight appreciably

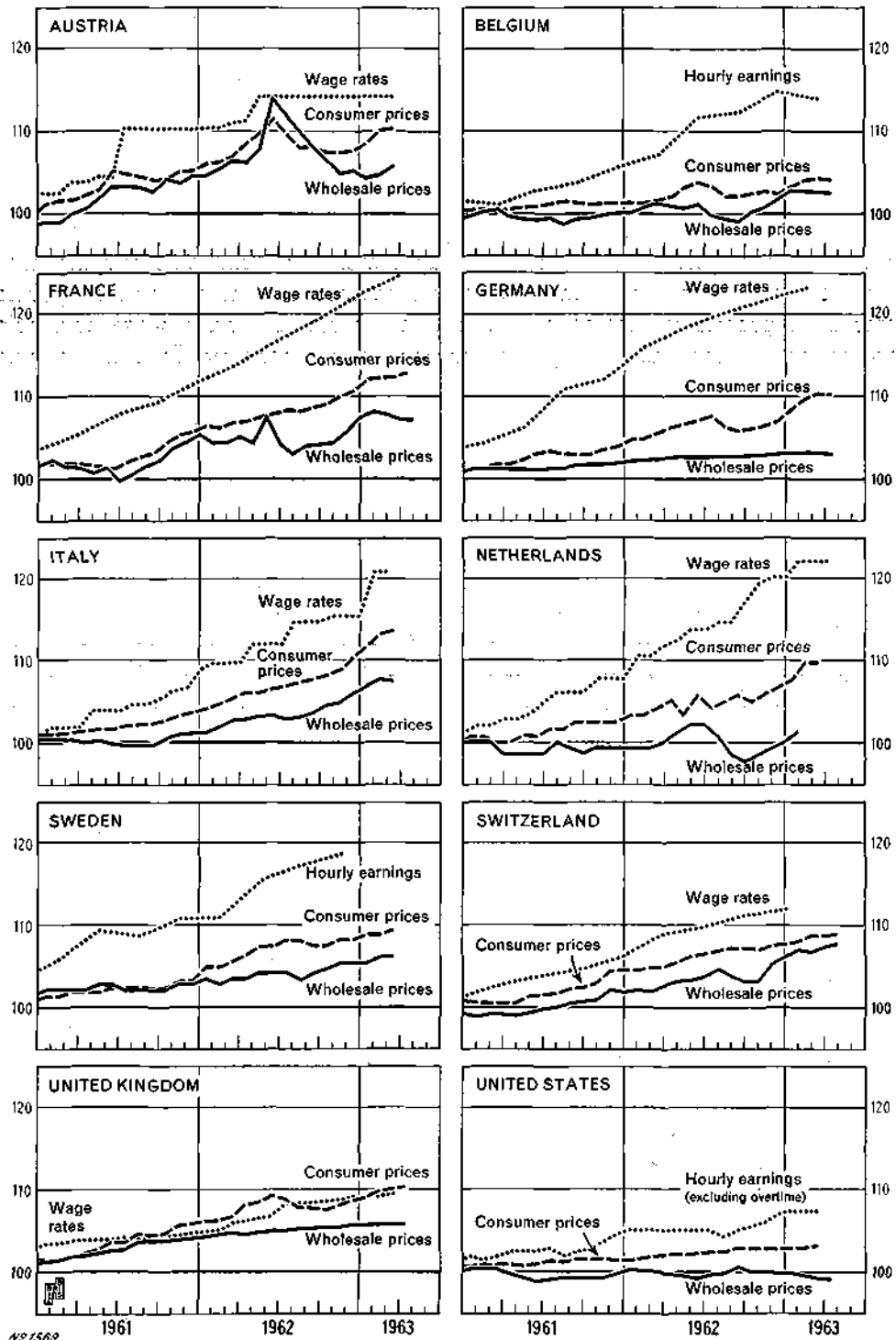
above 10 per cent. only in Switzerland (20 per cent.), while in a few countries the figure is below 5 per cent.

Government measures. The sharp rise in consumer prices led to action by the authorities in several European countries. In a number of cases steps taken to check the trend included some form of direct intervention in the sphere of prices and wages, as well as import liberalisation specifically related to the price problem.

In Austria a comprehensive programme of such measures was announced in July 1962 and put into effect during the following months. Import quotas for fruit and vegetables were raised; supplementary tariff cuts varying from 10 to 25 per cent. were introduced on various key manufactures; public-sector steel producers rescinded earlier price increases; and a wage and price stop lasting six months was agreed for the entire economy. In Finland price controls were resorted to on a moderate scale during the summer of 1962, and towards the end of the year a price stop was imposed on a large number of goods in order to prevent the technical reconstitution of the currency on 1st January 1963 being used as a pretext for "rounding up" prices. Direct regulation of both prices and wages formed an important part of the emergency programme put forward by the Danish authorities in February. Enterprises are not to be allowed to increase prices or gross profits except in response to a proven rise in raw-material prices or transport or operating costs. The Italian authorities in February increased import quotas for beef, veal, pork and butter, de-restricted imports of lard and suspended customs duties on fruit and vegetables, including olive oil. And in March they announced an average 10 per cent. cut (between 2¹/₂ and 20 per cent.) in duties on 70 different imported raw materials. In France the import of certain foodstuffs, as well as of a number of products needed in agriculture, was similarly facilitated in March by raising quotas and cutting tariffs. In addition, controls were imposed on retail prices and profit margins over a wide range of agricultural and industrial products; in a few cases, notably pharmaceuticals, pressure from the authorities led to price reductions. In May tariff cuts due under the EEC programme on 1st July were introduced ahead of schedule.

At the same time, however, public authorities quite frequently found themselves taking steps which contributed to the upward movement of the indexes. Often this was due to the pressure of costs in the public services sector. Thus, rail fares and/or postal charges were raised in Belgium, Denmark, Finland, France, Germany, Italy, the Netherlands, Switzerland and the United Kingdom. And electricity prices have gone up in France and in parts of the United Kingdom. But, in addition to more or less commercial considerations, public authorities were influenced by fiscal needs and the desire to absorb excessive consumer purchasing power. Price increases due to such factors cannot in themselves be regarded as inflationary, though they may, of course, affect index-tied wages as well as wage negotiations. Thus, the introduction of a 9 per cent. general purchase tax in August 1962 pushed up price indexes in

Wholesale and consumer prices and industrial wages.
Indexes: 1960 = 100.



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Denmark; tobacco taxes were raised in Italy, France and Belgium-Luxemburg; in Sweden prices of spirits (a state monopoly) were increased by 15 per cent. early in 1963; and in Austria a number of indirect taxes, including the motor-vehicle tax, were raised on 1st May 1963.

Wholesale prices. Aggregate wholesale-price indexes in western Europe have been going up only about half as fast as retail prices in absolute terms, i.e. by about $2\frac{1}{2}$ per cent. a year on average. But, except in the Benelux countries, they have shown a similar tendency to rise more rapidly since mid-1961 than before. In Canada wholesale prices have been advancing at about the same pace as retail, but the US wholesale-price index has not moved since 1958.

As one would expect, the effects of the unfavourable weather on European agricultural prices were visible at wholesale level as well. It is noticeable nevertheless that in a number of countries, including important agricultural producers such as France and the Netherlands, indexes of retail food prices went up a good deal more than those of wholesale. While this may be partly due to such factors as dislocations in distribution and a rise in high-cost imports, it also reflects the fact that the items whose prices have gone up most do not have the same weight in the wholesale indexes.

In industry, on the other hand, raw-material prices were declining until the fourth quarter of 1962, though some quotations have strengthened appreciably since then. As regards finished goods, the effect on prices of falling or stable raw-material costs was outweighed by the rise in labour costs. In fact, total costs per unit of output went up more than prices, so that profit margins declined.

Wholesale prices.

Countries	Total index, March 1961 to March 1962	Total index and components, March 1962 to March 1963			
		Total	Agricultural products	Raw materials	Manufactured goods
percentage changes					
Austria	6.3	- 0.4	- 1.1	0.5	.
Belgium	0.8	1.3	3.9	0.6	1.6
Denmark	2.9	3.8	8.5	2.1	0.9
Finland	0.9	2.3	3.8	1.0 ²	3.8 ²
France	3.6	2.2	2.8	1.0	3.0
Germany . . . . .	.	.	1.9	0.1	1.5
Italy	2.3	4.7	7.2		4.1
Netherlands	1.5	2.2 ¹	6.8 ¹	0 ¹	1.4 ¹
Norway	2.7	1.8	4.1	- 1.6	0
Spain	3.3	10.7	21.5	7.4 ¹	1.4 ¹
Sweden	1.3	2.6	8.9	0	7.0
Switzerland	3.5	4.5	4.1	1.0	.
United Kingdom . . . . .	.	.	1.1	0.1	0.9
Canada	2.5	2.3	1.5	2.4	2.3
United States	- 0.3	- 0.8	- 3.0	- 3.2	- 0.7

¹ January to January. ² February to February.

The pattern of price changes for manufactured products cannot be said to have conformed to shifts in the European demand climate over the past two years or so, which have been more favourable to a rise in prices of consumer goods than of investment goods. Available data suggest that in some instances, such as Italy and the Scandinavian countries, consumer goods did indeed go up more in price than capital goods, but this may be partly because these countries import a good deal of their capital equipment from other countries which had generally smaller price increases last year. In any case, in Germany, Europe's most important producer of capital goods, prices of such goods have continued to advance at a faster pace ($2\frac{1}{2}$ -3 per cent. per annum) than those of consumer goods (about $1\frac{1}{2}$ per cent. over the past twelve months, compared with 2 per cent. a year earlier). On the other hand, producers may have been readier to increase prices of items for the home market than of those for export; in Germany this seems to have been true for such categories as machine tools and precision instruments.

The relative weakening of European investment demand has, however, shown up in various ways in individual industries, particularly in steel. Since most European steel prices are subject to regulation in domestic markets, the current situation of over-capacity is reflected all the more strongly in export prices. Export quotations for key steel products from the European Coal and Steel Community, for instance, have fallen by 30 per cent. or more from their 1960 peaks and during the first quarter of 1963 stood at approximately \$71 per metric ton for steel bars, compared with a top price of \$100 in the first half of 1960, and \$112 per metric ton for cold-rolled sheet, compared with a 1960 high of \$185. Prices of steel scrap, a sensitive indicator, have also declined quite sharply since 1961 (though recovering somewhat since the end of 1962).

There have been charges of dumping brought by US producers against Belgian, French and German competitors and by ECSC steelmakers against UK producers. While the situation in the United States has been under official investigation, in Europe a move was made in May 1963 towards solving the problem by means of talks between ECSC, Austrian, United Kingdom and Japanese producers.

In the United States prices of steel scrap, which strengthened during the first part of the cyclical recovery in 1961, have since fallen back by more than one-quarter to around their 1960-recession low of \$27 per ton. Steelmakers have nevertheless undertaken extensive cost-reducing investments. As in Europe, demand from automobile manufacturers has improved the situation at the lighter end of the industry since mid-1962. In April 1963, a year after across-the-board price increases had been rescinded in response to official pressure, prices were raised for selected categories of steel in rather vigorous demand.

Building costs. Building costs in western Europe — and above all in Germany, Denmark and Switzerland — have generally risen much faster than

those of manufacturing industry. This is to a considerable extent due to the preponderant share of labour in total costs, especially in the construction of dwellings. But inflationary pressures have also been evident from the demand side; the boom in the building industry has outlasted that in manufacturing investment, and profit margins as well as prices have shown an upward tendency.

Building, in fact, has many features in common with the services sector: demand is rising relatively fast, while supply is rather inelastic, technical progress is slow and there is a lack of international competition.

Building costs.

Countries	1959	1960	1961	1962	1959-62
	percentage changes during period				
Austria	4.2	6.5	6.3	1.1	19.1
Denmark	3.8	2.7	8.0	7.4	23.6
Finland	2.6	5.0	3.2	4.7	16.4
France	1.4	0	3.5	6.1	11.4
Germany	6.8	7.2	9.0	7.9	34.7
Italy*	0	3.0	3.0	8.0	14.6
Netherlands*	- 1.4	1.5	2.4	1.4	4.0
Norway	2.7	4.4	6.7	3.9	18.9
Sweden	6.4	2.6	4.2	4.1	18.5
Switzerland	1.2	4.0	7.4	7.1	21.0
United Kingdom	- 0.9	0.9	5.3	2.5	7.9
United States	3.3	1.5	1.6	2.4	9.2

* Annual average changes, compiled from GNP figures by means of deflator for dwellings.

Wages, productivity and wage costs. The upward trend of money wages over the past twelve months has remained moderate in North America, flattened out somewhat in the United Kingdom and remained steep, in many cases accelerating, on the Continent.

While the manpower situation in Europe was somewhat obscured by the harsh winter, labour shortages do appear to have eased slightly in a number of continental countries, and in the United Kingdom unemployment showed a perceptible increase. Only in Switzerland does the labour market seem to have remained as tight as ever, with the proportion of foreign workers rising further to about one-quarter of the labour force. But shifts in the overall manpower situation do not seem to have been sufficient to affect the size either of negotiated wage increases or of wage drift.

Last year's increase in wage earnings was especially high in Italy (17 per cent.), where wages had not previously tended to rise faster than productivity. In most other continental countries the figure was between 7 and 10 per cent. It is scarcely necessary to add that these increases exceeded productivity gains by a wide margin (see table on page 8).

In general there has been a growing tendency for wage improvements to take the form of a shorter standard working week. In some instances, they

Wage rates and earnings in industry.

Countries	Wages	Nominal				Real	
		1960	1961	1962	1959—62	1962	1959—62
		percentage changes during period					
Austria	Rates	6.8	7.6	3.5	19.0	1.2	9.6
	Earnings	9.0	7.9	7.6	25.3	5.2	15.4
Belgium	Earnings	2.8	4.0	8.7	16.1	7.4	13.8
Denmark	Earnings	6.5	14.6	8.3	32.1	1.3	18.4
Finland	Earnings	7.1	6.7	6.3	21.4	0.3	10.4
France	Rates	7.1	8.0	9.5	26.6	4.7	12.3
Germany	Rates	9.2	8.4	9.5	27.3	5.8	19.5
	Earnings	11.2	9.4	9.8	33.6	7.0	25.4
Italy	Rates	2.2	7.6	6.0	16.6	- 0.5	5.0
	Earnings	5.1	10.6	16.8	35.8	9.7	22.2
Netherlands	Rates	8.1	6.2	11.6	28.1	7.3	20.2
Norway	Earnings	3.0	10.5	6.3	21.0	1.7	10.6
Sweden	Earnings	8.5	7.0	7.4	24.7	2.4	11.6
Switzerland	Rates	4.1	4.7	5.4	14.9	2.1	5.6
	Earnings	6.3	5.2	8.6	21.4	4.2	11.8
United Kingdom	Rates	9.0	2.9	4.0	15.5	1.4	5.9
	Earnings	6.5	6.1	4.2	19.9	1.3	9.9
Canada	Earnings	2.2	3.3	3.2	9.0	1.4	5.3
United States	Earnings	2.2	3.9	2.1	8.5	0.9	4.8

have consisted of longer holidays with pay, such as the fourth week granted by many French industries. And in others they have been effected by regrading workers, as occurred in Switzerland in the case of manual workers employed by the Federal Government. Moreover, within the EEC area, and especially in Italy, average wage levels have been pushed up by moves towards equal pay for women, as laid down in the Rome Treaty.

During the past three years Canadian and US wage earnings have risen by some 3 per cent. annually, whereas in Europe the average figure is over 8 per cent. On the Continent it has been significantly below 8 per cent. only in Belgium (5 per cent.) and slightly below, but accelerating over the period, in Switzerland. It has been particularly high — 9 per cent. or more — in Denmark, Germany, Italy and (allowing for some wage drift to supplement increases in rates) France and the Netherlands. In the United Kingdom the rise has on average been above 6 per cent. but, more significantly, has become smaller from year to year. The growth of industrial productivity has, of course, also been more rapid in the principal continental countries than in the United States and, even more, the United Kingdom — but not by as much as money wages. In the United States, in fact, wages have not been going up quite as fast as productivity, and industrial labour costs have clearly become more competitive vis-à-vis Europe. At the same time British industry's competitive position vis-à-vis the Continent seems at least to have stopped deteriorating.

If account is taken of increases in consumer prices, one finds that during the year 1962 wage earnings in real terms rose fastest in Italy —

about 10 per cent. — followed by Belgium, Germany and the Netherlands — about 7 per cent. — while in Austria, France and Switzerland the gain was of the order of 4-5 per cent. In all these countries, the advance in real earnings was greater than in 1961. In the Scandinavian countries and the United Kingdom, on the other hand, as well as in North America, the increase during 1962 was $2\frac{1}{2}$ per cent. or less, which was smaller than in 1961.

The increases in real wages would, of course, have been considerably larger but for the rise in prices of food and services; even so, in a majority of countries they exceeded gains in industrial productivity (output per man-hour) despite the fact that such gains also appear to have been bigger last year than in 1961. The share of industrial profits in the national income therefore generally underwent a decline in 1962. Profit margins narrowed and part of the rise in real national expenditures was met by a deterioration in the foreign trade balance.

On the slightly longer view, the average annual increase in real wages over the last three years has been below 2 per cent. in North America, between 3 and 5 per cent. in a majority of European countries (Austria, Belgium, Finland, France, Norway, Sweden, Switzerland, the United Kingdom), between 6 and 7 per cent. in Denmark, Italy and the Netherlands, and 8 per cent. in Germany. In most cases these figures are about in line with the trend of output per man-hour, although in the United Kingdom and Germany they are rather higher and in Italy, as well as in the United States, rather lower.

Wage settlements and incomes policy. With European industry's output and total sales value not rising as fast as in previous years, many of the wage gains obtained in the past twelve months have been associated with, or at least preceded by, signs of strain in industrial relations. In Italy the number of hours lost through strikes more than doubled in 1962 to 180 million. An intransigent attitude was adopted in wage bargaining by both sides of industry in Denmark, Finland and Norway. In France there was a severe conflict in the spring of 1963 over miners' and (secondarily) public utility workers' wages. And in Germany the wage issue in the metal industry produced the most serious threat to industrial peace since the war.

The respective authorities, apart from wishing to preserve social harmony in itself, have been concerned about possible repercussions on the economy's cost level at a time when in many sectors demand has ceased to be excessive and price competition has been intensifying. It is now widely felt that measures to regulate the level of demand in the economy should be supplemented by an incomes policy, i.e. by some form of influence on the formation of money incomes and hence of costs and prices.

Official interventions of one kind or another in particular wage issues are, of course, nothing new, and the past year has seen a good many of them. In Denmark the authorities, faced with a critical external situation and irreconcilable differences over wage increases between the two sides of

industry, presented a series of measures to Parliament in February 1963, under which additions to the wage bill are to be legally limited to $1-1\frac{1}{4}$ per cent. in 1963 and $2-2\frac{1}{2}$ per cent. in 1964. Ministerial mediation helped to settle the German metalworkers' claim, as well as the major wage conflict in Norway. The French authorities became involved in the miners' pay issue, particularly as some degree of wage restraint in the public sector had been employed in the past to prevent general cost inflation. The authorities now obtained an independent assessment of the extent to which public-sector wages had fallen behind in recent years and agreed to pay increases accordingly.

On the other hand, the new element of policy that has made its appearance in a majority of western European countries, as well as in the United States, is the attempt to influence the size of pay increases throughout the economy by announcing annual "guide-lines", indicating the average size of such increases believed to be compatible with reasonable price stability. In most cases the guide-line has been set by a government body, but in a few countries attempts have been or are being made to create an institutional framework for permanent co-operation on the incomes question between the government and both sides of industry.

One of the few countries with extensive practical experience of the difficulties involved in such a task is the Netherlands, and the magnitude of the problem is indicated by the repeated changes that have been made in the institutional structure and modus operandi of Dutch wages policy. An important such change was in fact agreed in 1962. Henceforth a greater degree of responsibility for wage increases in individual industries is to devolve upon employers' and workers' organisations, and individual agreements are to be approved by the so-called Council of Labour, on which both sides of industry are represented, instead of as hitherto by the Government Board of Mediators. The authorities, however — in the person of the Minister of Social Affairs, acting on the opinion of the Board of Mediators — retain the right in the last resort to nullify wage agreements considered detrimental to the economy. In addition, of course, the government plays a major part in determining the overall annual guide-lines for the agreements negotiated in individual sectors.

In Austria the Joint Price-Wage Commission, again representing both sides of industry, has also been operative for some time, principally in investigating the appropriateness of individual wage claims. The Commission played an important rôle in bringing about the wage and price stop maintained during the second half of 1962, which contributed to the tapering-off of inflationary wage and price trends.

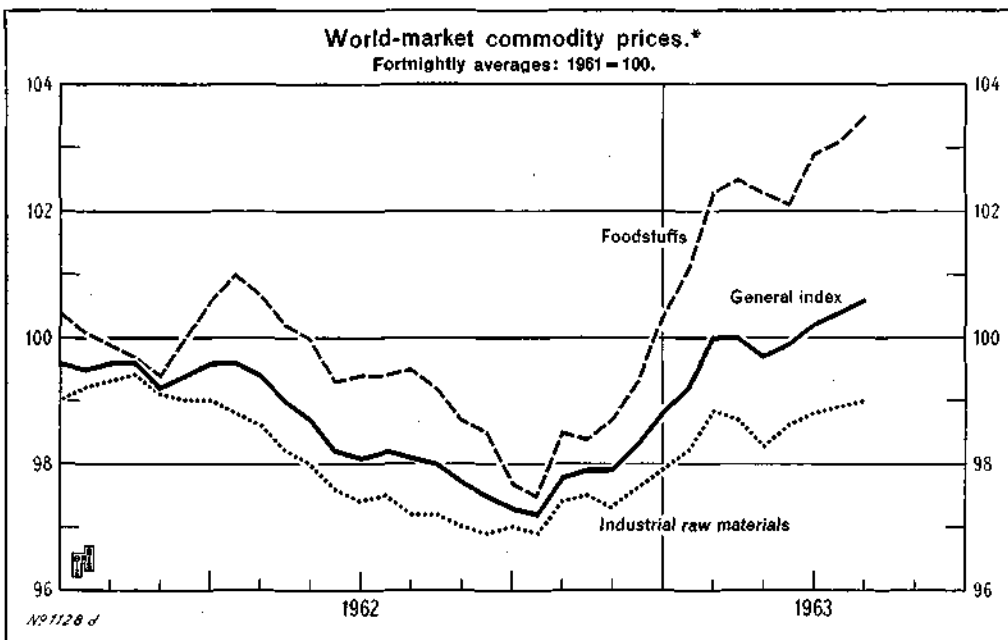
As regards the United Kingdom, it is too early to say whether the National Economic Development Council will be able to provide the framework for a system of wage determination with less bias towards cost inflation. So far the Council does seem to have taken over from the government the function of setting the guide-line for wage increases. And meanwhile the National Incomes Commission has begun to investigate pay rises which are

prima facie inflationary, with a view to mobilising public opinion against them and forestalling their recurrence.

Prices and production of raw materials.

A notable feature of developments on the raw-material markets has been the upsurge in the prices of a few commodities since the fourth quarter of 1962. The first signs of a halt to the downward drift were visible in the third quarter, but the actual turning-point was not reached until mid-October. Since then sterling prices have been rising sharply, and in mid-May 1963 they were 15 per cent. above last October's low. According to Reuter's Index they are now as high as they were in May 1957. The gain recorded by Reuter's Index in the last few months is the largest since the sharp upswing in raw-material prices at the time of the Korean crisis. The present price level is, however, still considerably lower than it was in the period 1952-56. According to Moody's Index dollar prices started to recover towards the end of 1962, relapsed at the beginning of 1963 and picked up again in April, when they stood 5 per cent. above their autumn low and were back at the level recorded in March 1960.

Prices on the world market, as indicated by the comprehensive Schulze's Index, are less subject to fluctuation. During the first nine months of 1962 quotations for all commodities, foodstuffs as well as industrial raw materials, declined. Among foodstuffs, there was a slight decrease in cereal, beverage, meat and fat prices and a sharp drop in prices of oilseeds. Among industrial raw materials, textiles and coal showed only small reductions, but rubber, non-ferrous metals, iron and steel and, especially, hides and skins fell quite appreciably.



* Schulze's Index.

For the period October 1962 to mid-May 1963 Schulze's Index indicates a general price increase of 4 per cent. The advance was mainly attributable to a rise of 8 per cent. over the seven months in prices of foodstuffs. This, in turn, was largely the result of a 33 per cent. increase in prices of colonial products, which include sugar.

In general, however, there has been no change in the underlying commodity supply situation, while on the demand side economic growth slackened in 1962 both in the United States and in western Europe. Nor have the price rises been occasioned solely by political events. The upward trend had begun before the Cuban episode, after which daily quotations on the British and US markets rose comparatively slowly.

Changes in selected raw-material prices since September 1962.

Indexes and commodities	End of December 1962	End of April 1963
	end of September 1962 = 100	
Moody's	102	103
Financial Times	105	109
Reuter's	106	113
Sugar	151	254
Sisal	123	146
Cocoa	102	140
Silk	113	129
Steel scrap	106	122
Wool	104	112
Lead	105	111
Soya beans	104	110
Copra	116	109
Maize	103	106
Cotton	100	103
Rubber	108	100
Copper	100	100
Wheat	98	98

The basic trends are revealed by an examination of the components of the leading raw-material price indexes. Moody's Index for US markets, Reuter's for UK markets and the Financial Times Index together cover twenty-eight different commodities. The combination of products and the weighting differ in each case. Moody's Index comprises fifteen items, Reuter's Index twenty-one and the Financial Times Index twelve. Only eight commodities are represented in all three indexes, and of all those considered only five showed increases of over 20 per cent. Only one of the five products responsible for the index gains — cocoa — is among the eight items common

to all three indexes. The fact that large price rises were concentrated on these few commodities explains why certain indexes have gone up substantially more than others.

Over the period October 1962 to May 1963 one commodity showed a particularly sharp increase — of 250 per cent. — namely sugar, which has a heavy index weighting. Appreciable increases were recorded by sisal (46 per cent.) and by cocoa and silk (40 and 30 per cent. respectively). The price for steel scrap rose by 22 per cent. The 10 per cent. rises registered for wool, lead, soya beans and copra are not unusual for commodities.

Sugar. The most dramatic development, of course, was that of sugar prices. Until recently sugar supplies were markedly in excess of consumption. Cuba was the main exporter. But when Cuba was excluded from the US market the traditional trade flows were dislocated and its output fell appreciably, as the Cuban authorities sought to diversify the island's single-crop economy. Cuba's output, which dropped from almost 7 million tons

Prices of major commodities.

Commodities	Markets	Changes during				1962 difference of high over low
		1960	1961	1962	1963 January to April	
In percentages						
Materials of industrial origin						
Crude oil	Bradford, Pa.	+ 9.1	- 3.6	0.0	0.0	0.0
Crude oil	Venezuela	0.0	0.0	0.0	0.0	0.0
Coal	United States	- 0.8	- 0.9	- 2.0	.	2.1
Copper	London	- 9.6	- 0.5	+ 1.8	0.0	3.8
Tin	London	+ 0.8	+ 19.3	- 9.5	+ 2.5	14.7
Lead	New York	- 9.1	- 9.9	- 2.4	+ 5.0	7.9
Zinc	St. Louis	- 4.0	0.0	- 4.2	0.0	4.3
Steel bars	Antwerp	- 4.8	- 9.9	- 12.1	- 0.1	13.9
Steel, section	Pittsburgh	0.0	- 4.2	0.0	0.0	0.0
Steel scrap	Pittsburgh	- 35.0	+ 32.5	- 28.6	+ 15.0	66.0
Aluminium ingots	United States	0.0	- 7.7	- 6.3	0.0	6.7
Mercury	New York	- 2.4	- 9.1	- 1.8	- 0.9	3.2
Rubber, synthetic	New York	0.0	0.0	0.0	0.0	0.0
Rayon yarn	New York	0.0	0.0	0.0	0.0	0.0
Rayon staple	New York	- 15.2	- 3.6	0.0	- 3.7	0.0
Materials of agricultural origin						
Wool	Melbourne	- 19.7	+ 19.8	+ 5.8	+ 7.7	12.2
Cotton	New York	- 2.3	+ 8.3	- 0.2	+ 3.1	4.0
Cotton	Alexandria	- 8.1	- 5.6	+ 7.5	+ 1.4	20.3
Jute	London	+ 86.2	- 28.4	- 7.9	- 10.3	29.0
Sisal	London	+ 6.1	- 15.9	+ 43.0	+ 18.6	43.0
Hides	Chicago	- 15.0	+ 17.6	- 6.3	- 20.0	27.8
Rubber, natural	Singapore	- 26.6	- 9.5	+ 3.8	- 5.6	15.9
Wood-pulp	Sweden	+ 5.2	- 3.7	- 3.7	.	5.5
Foodstuffs						
Wheat	Winnipeg	+ 0.6	+ 13.3	+ 3.7	+ 0.5	10.7
Maize	New York	- 4.7	+ 4.5	+ 2.4	+ 4.1	8.2
Sugar	New York	+ 2.3	- 18.5	+ 74.1	+ 73.4	122.2
Cocoa	New York	- 19.0	+ 2.4	- 16.6	+ 17.0	24.5
Coffee	New York	+ 1.7	- 5.8	- 1.3	- 1.6	4.5
Copra	London	- 27.4	- 8.7	+ 15.6	- 2.3	21.5
Soya beans	Chicago	+ 2.9	+ 10.6	+ 1.0	+ 4.2	9.6
Cotton oil	New York	+ 10.0	+ 18.9	- 17.1	+ 3.9	23.5
Lard	New York	+ 30.2	- 12.6	- 12.9	+ 10.3	32.8

(a record figure) in 1960 to 4.8 million last year, is not expected to exceed 4 million tons in 1963. Moreover, as the greater part of this considerably reduced crop has already been bartered or sold to eastern-bloc countries, free supplies on the world market will be negligible. In addition, the severe winter has had a detrimental effect on sugar-beet crops in Europe and North America.

At the end of January 1962 the world-market sugar price in New York had fallen to 2.05 cents per lb., its lowest post-war level. In the next two months it moved up to about 2.80 cents and remained there until July. It then began to rise once more and by the end of the year had reached 4.80 cents. By 1st May 1963 it stood at 8.78 cents and three weeks later it had rocketed to 12.95 cents, i.e. to six times the level of sixteen months earlier. Except for a short period in 1920, the price of sugar has not been so high for a century.

Cocoa. In December 1961 cocoa prices had reached a short-lived peak of 217s. 6d. per cwt., only to fall back to 150s. by mid-February 1962; thereafter they remained more or less stable for several months. Towards the end of the year they began to recover and by May 1963 quotations had moved up to 230s. — the highest level for three years. The basic reason for this 50 per cent. rise was the expectation that plant disease would reduce the size of the next harvest, especially in West Africa. Furthermore, the sales organisations of Ghana and Nigeria — the two most important producers — have temporarily withdrawn from the market, and there has also been less Brazilian cocoa on offer recently.

Sisal prices are also rising steeply, although the latest harvest was only slightly smaller than the previous one. The increase has been due to sudden strong demand since September 1962, connected with the unexpectedly large cereal harvest in 1962-63. In November 1961 quotations for sisal had fallen to £80 per long ton, but by the end of March 1962 they had recovered to £98. A year later the price had reached the record level of £148. The market situation may be eased, however, if and when the US Administration releases supplies from US surplus stocks.

Tin remains the only raw material whose output has been systematically restricted over a period of years. In recent months, as on other occasions in past years, this product has again been in the limelight. At present, current output is barely sufficient to meet demand. Shortages could, however, easily be covered from the US stockpile, which the authorities are in fact trying to reduce.

The US Administration has recently published its programme for sales of tin from the stockpile for the year beginning 1st April 1963. This provides a solution acceptable both to the industry and to the International Tin Council, which believes that with US co-operation it will be able to keep the London price in the range of £850 to £910 a ton. Substantial purchases of tin made recently by the Soviet bloc have raised the price of tin from under £860 per ton to £908, i.e. very close to the limit of £910 at which sales may be made from the buffer stock.

Copper is an "old" metal which suffers from the competition of modern substitutes, and supplies of it are abundant. A notable feature of the market last year was the fact that, despite the low level of demand, it proved possible to peg the price at around £234 per ton. This was done by means of concerted support operations on the London Metal Exchange. In addition, the more important producers agreed to cut production by up to 15 per cent. in order to bring it into line with demand.

Freight rates. There has been a distinct upturn in tramp-shipping freights during the past half-year. Freight rates, which have been depressed for many years now, reached a low point in the third quarter of 1962, when they had

fallen about 30 per cent. from the level of a year earlier. Thereafter a recovery set in, and this 30 per cent. had been regained by May 1963 (leaving rates just slightly higher than in 1958). One reason for the recent rise is increased demand for cargo space for grain and coal shipments. The improvement in freight rates has also led since the first quarter of 1963 to a slight decline in the dry-cargo tonnage laid up, from 3.2 to 2.6 million tons in mid-May. However, this figure must be compared with one of under 700,000 prevailing at the start of 1962.

World output of raw materials. Among agricultural products, the output of jute, coffee and cocoa fell last year, while there were increases in wheat, rice, fats and cotton. Production of other agricultural commodities remained more or less unchanged. There was quite considerable expansion in the production of certain industrial raw materials, in particular man-made fibres and synthetic rubber, both of which showed rises of 11 per cent. After levelling off in 1961, aluminium production resumed its upward trend (+ 9 per cent.). Special mention should also be made of the growth of fuel output. Whereas coal output increased only slightly, output of crude oil, natural gas and hydro-electric power registered impressive advances.

Estimates of world production of basic commodities.

Commodities	Units (metric)	1937 ¹	1961	1962 preliminary	Percentage change		
					1961 over 1960	1962 over 1961	1962 over 1937
Aluminium ²	1000 tons	493	4,577	4,974	+ 1	+ 9	+ 909
Natural gas	million m ³	78	509	540	+ 9	+ 6	+ 592
Rubber, natural	1000 tons	986	2,124	2,139	+ 6	+ 7	+ 409
Rubber, synthetic	1000 tons	63	2,870	3,200	+ 6	+ 11	+ 371
Man-made fibres	1000 tons	834	3,528	3,930	+ 5	+ 10	+ 346
Hydro-electricity	million kWh	177	720	790	+ 6	+ 7	+ 340
Cement	million tons	83	340	365	+ 7	+ 7	+ 333
Crude oil	million tons	280	1,119	1,211	+ 6	+ 8	+ 333
Nickel ³	1000 tons	119	355	360	+ 5	+ 1	+ 203
Brown coal	million tons	252	663	690	+ 3	+ 4	+ 174
Steel	million tons	136	362	370	+ 5	+ 2	+ 172
Soya beans	million tons	12	31	31	+ 13	- 1	+ 148
Manganese ore	million tons	6	14	14	- 1	+ 4	+ 133
Copper ⁴	1000 tons	2,534	5,133	5,303	+ 3	+ 3	+ 109
Zinc ²	1000 tons	1,636	3,277	3,383	+ 5	+ 3	+ 107
Sugar	million tons	25	52	52	- 6	+ 1	+ 107
Mercury	tons	4,590	9,032	9,000	- 4	0	+ 96
Maize	million tons	115	213	214	0	0	+ 86
Tungsten	1000 tons	39	67	70	+ 7	+ 4	+ 80
Fats and oils ⁵	million tons	19	32	33	+ 4	+ 3	+ 76
Coffee, green	1000 tons	2,420	4,326	3,955	+ 9	- 9	+ 63
Rice, rough	million tons	152	242	248	+ 1	+ 2	+ 63
Cotton	1000 tons	6,661	10,352	10,850	+ 1	+ 5	+ 63
Hard coal	million tons	1,291	1,987	2,050	0	+ 3	+ 59
Lead ⁴	1000 tons	1,692	2,650	2,680	+ 2	+ 1	+ 58
Wheat	million tons	167	237	261	- 3	+ 10	+ 56
Cocoa	1000 tons	732	1,165	1,124	+ 13	- 4	+ 54
Wool	1000 tons	1,718	2,571	2,558	+ 1	- 1	+ 49
Jute	1000 tons	1,965	3,650	2,910	+ 36	- 20	+ 48
Hard fibres	1000 tons	640	882	891	- 3	+ 1	+ 39
Tin ²	1000 tons	205	201	203	- 3	+ 1	- 1

¹ 1934-38 averages for agricultural products. ² Smelter production. ³ Metal content of mine production. ⁴ Refinery production. ⁵ Oil equivalent.

Crude-oil production rose in 1962 by 8 per cent., or by 90 million tons; 20 million tons of this increment was accounted for by the USSR. World output of steel also showed a small increase last year, all of which was due to the expansion of production in the USSR and eastern Europe.

Aggregate world production of major basic commodities thus rose in 1962 both in value ($5\frac{1}{2}$ per cent.) and volume ($4\frac{1}{2}$ per cent.).

In terms of value, production of the commodities included in the table has been going up at an average annual rate of about $4\frac{1}{2}$ per cent. since 1958. For materials of industrial origin alone the figure is more than 6 per cent., but was considerably higher in 1959-60 than it has been since. The value of the output of agricultural products, on the other hand, increased less; in 1961 and 1962 the annual rise has been equal to about 4 per cent., while in the two preceding years there had actually been a fall, as prices declined. Since 1958 the value of the output of agricultural materials for industrial use has gone up more than that of foodstuffs.

The volume of world agricultural production has been growing fairly steadily since 1958 at an annual rate of approximately 2 per cent. Since before the second world war it has expanded by more than two-thirds.

The volume of output of commodities of industrial origin has been rising much more rapidly; in 1962 it expanded by 6 per cent. and its average growth rate since 1958 has been more than 7 per cent. Since 1937 it has trebled.

The implicit price index of all commodities, both agricultural and industrial, has practically doubled since before the war. Since 1958, however, the two groups have behaved differently. Prices of industrial materials have remained almost stable, while those of agricultural products, despite a recovery during the last two years, are still below their 1958 level.

III. WORLD TRADE AND PAYMENTS.

The rate of expansion of world trade, which between 1960 and 1961 had declined from nearly 12 to 4.6 per cent., amounted in 1962 to 5.5 per cent. The percentage rise in the individual quarters over the corresponding periods of 1961, however, shows a downward trend from nearly 6 per cent. in the first quarter to 4 per cent. in the final quarter.

International trade, by areas.

Areas	Trade turnover				Annual rates of growth		
	1959	1960	1961	1962	1960	1961	1962
	in milliards of US dollars				in percentages		
Developed areas							
Western Europe							
EEC	49.6	59.3	64.4	70.0	19.7	8.7	8.5
EFTA	37.1	41.7	43.1	45.1	12.4	3.4	4.6
Other countries	7.0	8.0	8.9	9.8	13.9	10.9	10.7
Total for western Europe . .	93.7	109.0	116.4	124.9	16.4	6.8	7.2
United States	34.7	37.0	37.1	39.6	6.8	0.2	6.8
Australia, Canada, Japan, New Zealand and South Africa . .	27.3	29.9	31.7	32.6	9.2	6.2	3.0
Total for developed areas . .	155.7	175.9	185.2	197.1	13.0	5.3	6.4
Developing areas							
Latin America	18.1	19.0	19.7	20.4	4.8	3.7	3.5
Other areas	33.9	37.2	37.8	38.5	9.8	1.5	2.0
Total for developing areas . .	52.0	56.2	57.5	58.9	8.0	2.2	2.5
World total	207.7	232.1	242.7	256.0	11.7	4.6	5.5

The US trade turnover, which had remained almost stationary in 1961 — a fall in imports more or less offsetting the rise in exports — grew by nearly 7 per cent. last year. Most of this advance was due to imports, which, stimulated by the expansion of the domestic economy, increased by 11.5 per cent., while exports rose by only 3 per cent. In western Europe imports also rose more rapidly than exports in 1962, viz. by 9 per cent. as against 5.5 per cent. The reverse was the case in other industrial countries and in the primary-producing countries, where exports expanded faster than imports.

In the group of countries comprising Australia, Canada, Japan, New Zealand and South Africa, imports had risen by 6.5 per cent. in 1961, thanks entirely to Japan. The boom conditions prevailing in the latter country had pushed up its import total by 30 per cent. In 1962, as the expansion slowed down, Japan's imports fell by 3 per cent. and those of the group as

a whole showed hardly any increase. Exports, on the other hand, continued to rise, expanding by 5.5 per cent. But, whereas in 1961 Australia had taken the lead, in 1962 the overall rise was due almost solely to an increase of 16 per cent. in sales by Japan.

With regard to developing areas, total exports in 1962 rose by 4 per cent., exports from Latin America rising somewhat more than those from other areas. Total imports remained almost stationary.

As the downward trend in the prices of primary products persisted during the greater part of 1962, the volume of exports from developing countries grew more than their value. Unit prices of exports from industrial countries, on the other hand, remained unchanged. Despite the worsening of their terms of trade, the developing countries as a group improved their balance of trade. The counterpart of this improvement is to be found notably in the larger import surplus of Europe.

In 1962 the trade turnover of continental OECD countries increased by 7.5 per cent. As in previous years, the rise in intra-European trade was greater than that in trade with the rest of the world — 10.5 per cent. as against 3 per cent.

European OECD countries: Pattern of trade.

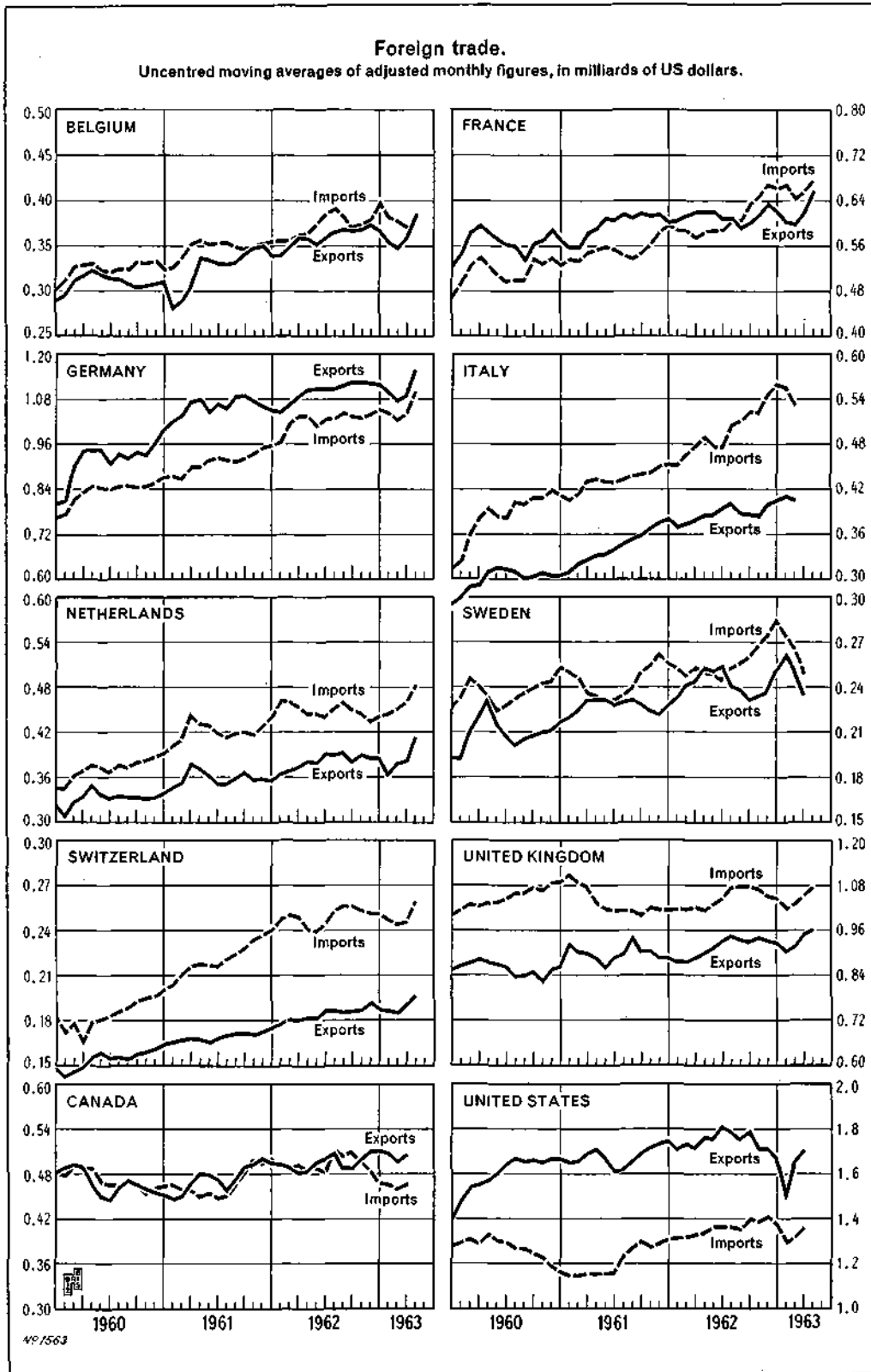
Areas	Imports (c.i.f.)		Exports (f.o.b.)		Balance of trade		Imports	Exports
	1961	1962	1961	1962	1961	1962	Change 1961-62	
	In milliards of US dollars						In percentages	
Europe (OECD)	30.9*	34.1*	30.9	34.1	0	0	+ 10.5	+ 10.5
United States	7.0	7.5	3.9	4.4	- 3.1	- 3.1	+ 7.0	+ 11.5
Other areas	20.9	22.5	18.9	18.1	- 2.0	- 4.4	+ 8.0	- 4.5
Total	58.8	64.1	53.7	56.6	- 5.1	- 7.5	+ 9.0	+ 5.5

* f.o.b.

Vis-à-vis the United States Europe increased its exports in relative terms more than its imports in 1962. For the January-September period US imports from Europe went up by nearly \$400 million; one-third of this amount was accounted for by engineering goods, which, after falling off appreciably in 1961, rose again last year.

Within Europe the EEC continued to show a high rate of trade expansion in 1962, although this is now levelling off, mainly owing to the slower growth of Germany's trade. In the EFTA countries, on the other hand, trade rose more rapidly, reflecting a recovery in UK imports, which had fallen somewhat in the previous year. The expansion in "other countries" of western Europe was chiefly the result of a steep rise in imports by Spain.

Western European imports rose steadily throughout 1962. To a certain extent they were influenced by the weather, as a cold wet spring in almost all countries made additional imports of food and feeding stuffs necessary.



Exports rose in the first two quarters of 1962, remained stable in the third and resumed their expansion in the fourth quarter. In the first few months of 1963 there was a downturn in both imports and exports in most countries, partly in connection with the US shipping strike in January and with transport difficulties due to the prolonged cold spell. Although the release of supplies boosted the March figures, the value of trade in the first quarter of 1963 appears to have been below that of the previous quarter but greater than a year earlier.

Balances of payments.

United States. In 1962 the US balance of payments, as calculated by the Department of Commerce, showed a deficit of \$2.2 milliard — slightly less than in 1961. In the course of the year the deficit fluctuated very considerably — from an annual rate of \$0.9 milliard in the second quarter to one of \$3.2 milliard in the final quarter. Moreover, had it not been for substantial US Government receipts towards the end of the year from borrowing

United States: Balance of payments.

Items	All areas		Western Europe	
	1961	1962	1961	1962
in milliards of dollars				
Commercial transactions				
Exports	+ 17.7	+ 18.3	+ 6.8 ¹	+ 7.1 ¹
Imports	- 14.5	- 16.2	- 4.1	- 4.5
Balance of trade	+ 3.2	+ 2.1	+ 2.7	+ 2.6
Balance of services ²	+ 1.8	+ 2.2	- 0.5	- 0.5
Balance of trade and services	+ 5.0	+ 4.3	+ 2.2	+ 2.1
Government transactions				
Government-financed exports	+ 2.2	+ 2.3		
Non-military services ³	- 0.4	- 0.3	- 0.1	- 0.2
Military expenditure, less receipts	- 2.5	- 2.4	- 1.2	- 1.1
Economic grants	- 1.9	- 1.9	- 0.3	- 0.2
Net government capital	- 0.8	- 0.3	+ 0.7	+ 1.4
Total government transactions	- 3.4	- 2.6	- 0.9	- 0.1
Private capital movements (net outflow →)	- 3.4	- 3.0	- 0.6	- 1.2
Errors and omissions	- 0.6	- 1.0	- 2.5 ⁴	- 1.4 ⁴
Overall balance	- 2.4	- 2.2	- 1.8 ⁴	- 0.5 ⁴
Corresponding to				
Increase (→) in liquid liabilities	- 1.6	- 1.3	- 1.2	+ 0.7
Decrease (→) in gold and convertible currencies	- 0.7	- 0.9	- 0.6	- 1.1
Total	- 2.4	- 2.2	- 1.8	- 0.4

¹ Including government-financed exports. ² Including private remittances. ³ Including investment income on government account and pensions. ⁴ Including transfers of dollars between Europe and areas other than the United States, so that the figures do not represent exclusively the balance of payments between the United States and Europe.

abroad and from advance deposits for armament purchases in the United States, the fourth quarter's deficit would have been substantially larger. Preliminary figures show that the annual rate of deficit was nearly \$3.3 milliard in the first quarter of 1963. This was partly due to large-scale foreign borrowing on the US capital market and to increased US investment abroad.

The balance of trade deteriorated by \$1.1 milliard in 1962. On the import side the upward movement which had started in the third quarter of 1961 continued, though at a slower pace, until the third quarter of 1962. In the final quarter of the year imports fell off slightly. Thus over two-thirds of the import rise from 1961 to 1962 took place in the first half of the year, in conjunction with the large volume of inventory accumulation at that time.

Total imports increased by \$1.7 milliard in 1962. Unit values of imports declined during the year by 3 per cent., the fall being most marked in the case of semi-manufactured goods. More than half of the increase represented larger purchases of industrial supplies and materials and about a third extra imports of non-edible consumer goods.

Commercial exports in 1962 were \$0.6 milliard higher than in the previous year. This increase was concentrated in the second quarter of the year, when grain exports were particularly high — both to Canada, where drought conditions had led to a shortage of feeding stuffs, and to western Europe, where sales were given a temporary fillip by the imminent increase in agricultural levies in the Common Market countries, which took effect on 30th July 1962. In addition, it would seem that second-quarter US exports to Canada were boosted by purchases made in anticipation of the devaluation of the Canadian dollar.

United States: Balance of trade.

Items	1961	1962	1962				1963 1st quarter*
			1st quarter	2nd quarter	3rd quarter	4th quarter	
adjusted at annual rates, in milliards of dollars							
Exports							
Commercial	17.7	18.3	18.0	19.3	18.3	17.5	20.4
Government-financed.	2.2	2.3	2.3	2.1	2.4	2.4	
Total	19.9	20.6	20.3	21.4	20.7	19.9	20.4
Imports	14.5	16.2	15.7	16.2	16.7	16.2	16.3
Balance of trade	+5.4	+4.4	+4.6	+5.2	+4.0	+3.7	+4.1

* Provisional.

The absence of these factors brought exports back from an annual rate of \$19.3 milliard to one of \$18.3 milliard in the third quarter and \$17.5 milliard in the final quarter. Leaving special factors out of account, it can be said that commercial exports from the United States varied little from quarter to quarter during 1962. Most of the increase in US exports in 1962 went to primary-producing countries, for, if exports to Canada and Japan, which fell off by \$150 million, are excluded, US exports to the rest of the world

rose by \$800 million in 1962, of which only \$100 million was accounted for by Europe. As in 1962 European imports from other areas rose by \$1.7 milliard, it would appear that part of the greater export receipts of the primary producers earned in their trade with Europe went to increase their purchases from the United States.

About one-third of the fall in the trade surplus in 1962 was offset by higher net receipts from services. Though net expenditure on foreign travel rose by \$200 million, there was a much bigger gain in receipts from other invisible items, the most important being a net rise of \$360 million in private investment income.

United States: Income from Investment.

Items	1953-55	1956-58	1959	1960	1961	1962
	average					
in millions of dollars						
Private						
Receipts						
Direct investment	1,695	2,210	2,230	2,355	2,670	2,910
Other investment	235	360	465	520	630	800
Total private receipts	1,930	2,570	2,695	2,875	3,300	3,710
Payments	- 375	- 470	- 550	- 605	- 605	- 650
Net private receipts	1,555	2,100	2,145	2,270	2,695	3,060
Government						
Receipts	265	235	350	350	380	470
Payments	- 80	- 165	- 290	- 330	- 280	- 335
Net government receipts	185	70	70	20	100	135
Net investment income	1,740	2,170	2,215	2,290	2,795	3,195

During the last decade income from capital has increased almost continuously, and in 1962 it was twice as large as in the years 1953-55; most of the rise has occurred in the last two years. Foreign investment income earned in the United States has also gone up since the early fifties but has been fairly stable for the last three years.

On capital account there was an outflow of \$3.3 milliard in 1962, nearly \$1 milliard less than the year before. More than half of this drop was in respect of the public sector, which showed an overall deficit of only \$0.3 milliard. Thanks to further substantial prepayments, the US Government received, for the second year in succession, \$1.3 milliard in the form of debt payments from foreign governments. Whereas in 1961 it had been Germany, with \$587 million, that had provided the bulk of the advance repayments, last year it was France, with \$469 million, and Italy, with \$179 million. In addition there was an inflow of \$800 million representing an increase in US Government non-liquid liabilities to foreign governments and official institutions. This came about in a number of ways. For one thing, the US Government sold \$250 million of non-liquid securities denominated in foreign currencies — \$200 million to Italy and \$50 million to Switzerland.

Secondly, Germany made substantial deposits in respect of future armament purchases in the United States. Thirdly, the US subscriptions to the International Development Association and the Inter-American Development Bank were converted from liquid into non-liquid form until required for spending. Long-term lending by the US Government, at \$2.1 milliard, was a little higher in 1962 than the year before.

United States: Balance on capital account.

Item	All areas		Western Europe	
	1961	1962	1961	1962
In milliards of dollars				
Government capital (net outflow —)				
United States				
Long-term lending	— 1.9	— 2.1	— 0.3	— 0.3
Foreign currency holdings and short-term claims	— 0.3	— 0.3	+ 0	+ 0
Repayment of loans	+ 1.3 ¹	+ 1.3 ²	+ 0.9 ³	+ 0.9 ²
Total	— 0.9	— 1.1	+ 0.7	+ 0.7
Foreign ⁴	+ 0.1	+ 0.6	+ 0	+ 0.7
Total net government capital	— 0.8	— 0.3	+ 0.7	+ 1.4
Private capital (net outflow —)				
United States				
Direct investment	— 1.5	— 1.4	— 0.7	— 0.8
New issues of foreign securities, less redemptions	— 0.4	— 0.9	— 0	— 0.2
Other long-term capital	— 0.6	— 0.3	— 0.4	— 0.1
Short-term capital	— 1.5	— 0.5	— 0	— 0.1
Total	— 4.0	— 3.1	— 1.1	— 1.2
Foreign	+ 0.6	+ 0.1	+ 0.5	+ 0.1
Total net private capital	— 3.4	— 3.0	— 0.6	— 1.1
Total net capital	— 4.2	— 3.3	+ 0.1	+ 0.3

¹ Including advance repayments amounting to \$686 million (\$587 million from Germany, \$40 million from Italy, \$39 million from the Netherlands and \$20 million from the Philippines). ² Including advance repayments amounting to \$664 million (\$489 million from France, \$179 million from Italy and \$16 million from Sweden). ³ As note 1, minus the Philippines. ⁴ Includes foreign funds committed for military purchases, US funds transferred to foreign countries under assistance programmes for subsequent purchases of US goods or services and funds held in the United States by international organisations in non-interest-bearing non-marketable US Government securities and other non-marketable US Government obligations with original maturities exceeding one year.

The net outflow of capital from the United States on private account in 1962 was \$3 milliard; this compares with a figure of \$3.4 milliard the year before. As, however, there was a rise between the two years of exactly \$0.4 milliard in the net deficit arising out of unrecorded transactions, it may be that the overall results on private capital account for the two years were very little different from one another. Within the totals, however, there were considerable differences between the two years. The biggest of these was the fall in the outflow of short-term US capital to nearly \$1 milliard below the exceptional level of 1960-61. The change came about almost entirely vis-à-vis two countries, Canada and Japan, which had been large borrowers in 1961.

In the long-term private capital account the outstanding feature was the rise from \$510 to 1,050 million in new foreign issues in New York. Canada was the chief borrower in 1962, taking over \$440 million, \$280 million of it in the last quarter. (In January 1963 the province of Quebec borrowed \$300 million on the US market.) It seems likely that the establishment of a fixed and lower rate of exchange may have influenced the volume of recent Canadian borrowings in New York. European borrowing went up in 1962 from \$60 to 190 million. In addition, there was substantial borrowing by Japan and by international institutions, the IBRD taking \$84 million and the Inter-American Development Bank \$75 million.

Purchases by US residents of foreign securities other than new issues, at \$90 million, were \$280 million lower than in 1961; long-term investment other than direct investment, i.e. mainly security purchases in the United States by foreigners, fell from \$390 to 130 million in 1962. These two broadly offsetting movements may both be traced to the stock exchange disturbances of mid-1962. Finally, there was, as in 1961, a small decline in net US direct investment abroad.

US direct investment has risen considerably in the post-war period. In 1953-55 it averaged \$740 million a year, then jumped to nearly \$1.9 milliard in 1956-58. Since 1959 it has been about \$1.5 milliard a year. Since the mid-fifties direct investment has shifted from Canada and Latin America to western Europe, the share of the latter having increased from 10 per cent. of the total in 1953-55 to more than half in 1962. There has also been a shift in favour of manufacturing industries, which in 1961 received 30 per cent. of all direct investment, against 10 per cent. in 1953-55. This change has taken place mainly at the expense of the mining industries. In the last decade investment in the petroleum industry has accounted for over 50 per cent. of total private direct investment abroad.

Taking into account both the fresh flow of capital and overseas earnings of US companies retained abroad, which are equal in amount to about two-thirds of the outflow, the value of US investment abroad nearly trebled between 1950 and 1961.

United States: Pattern of direct investment.

Items	1950	1955	1960	1961
	at end of year, in milliards of dollars			
US direct investment abroad	11.8	19.3	32.8	34.7
<i>of which in Europe</i>	1.7	3.0	6.6	7.7
Foreign direct investment in the United States	3.1	4.3	6.9	7.4
<i>of which from Europe</i>	2.1	2.7	4.7	5.1

The United States is a net creditor on long-term account and a net debtor at short term. In 1950 US long-term investment abroad (both private and government) amounted to \$31 milliard, which compared with \$10 milliard of foreign long-term investment in the United States. By 1961 these figures had risen to \$67 and 25 milliard respectively. US short-term assets abroad

rose from \$2 milliard in 1950 to \$10 milliard in 1961, while over the same period US short-term liabilities increased from \$10 to 25 milliard. In other words, against \$42 milliard of net long-term US assets there stood at the end of 1961 \$15 milliard of net short-term US liabilities.

Canada. The exchange crisis that occurred in the first half of 1962, together with its aftermath, has tended to overshadow other developments in Canada. As, roughly speaking, these events took place within the year, the annual balance-of-payments figures show a pattern not much different from that of previous years.

The uncertainty surrounding the Canadian dollar that produced the crisis had its beginnings in mid-1961, when the government announced that it would intervene in the exchange market to bring the Canadian dollar to a discount against the US dollar. The result of this was that the net inflow of long-term capital, on which Canada had depended for many years to balance its current account, was first of all reduced and subsequently dried up altogether in the first half of 1962, and matters were made worse by an outflow of short-term funds in the second quarter of 1962. Early in May 1962 the authorities decided to give the dollar a fixed parity, but reserve losses continued at an accelerated pace until stringent measures were taken at the end of June.

The measures of monetary policy taken to overcome the exchange crisis have been described on page 70. In addition, temporary surcharges were imposed on a wide range of imports, and credits to a total of \$1,050 million were obtained from abroad. \$300 million was drawn from the IMF (entirely in European currencies), the Export-Import Bank opened a \$400 million credit

Canada: Balance of payments.

Items	1961	1962	1961		1962	
			1st half	2nd half	1st half	2nd half
in millions of US dollars						
Exports ¹	5,970	6,100	2,820	3,150	2,920	3,180
Imports	5,640	5,800	2,760	2,880	2,890	2,910
Balance of trade	+ 330	+ 300	+ 60	+ 270	+ 30	+ 270
Net invisible items	-1,300	-1,095	- 710	- 590	- 685	- 410
Balance on current account . .	- 970	- 795	- 650	- 320	- 655	- 140
Long-term capital (inflow +) . . .	+ 780	+ 670	+ 460	+ 320	+ 10	+ 660
Balance on current and long-term capital account . .	- 190	- 125	- 190	0	- 645	+ 520
Short-term capital (inflow +) ² . . .	+ 415	+ 315	+ 345	+ 70	- 255	+ 570
Special international financial transactions	-	+ 310	-	-	+ 660	- 350
Change in official holdings of gold and foreign exchange (increase +)	+ 225	+ 500	+ 155	+ 70	- 240	+ 740

¹ Including gold production available for export. ² Including errors and omissions.

line, and reciprocal currency arrangements were made between the Bank of Canada on the one hand and the US Federal Reserve System and the Bank of England on the other for amounts of \$250 million and \$100 million respectively. This combination of measures produced a complete turn-round in both parts of the capital account. The long-term inflow during the second half of the year was no less than \$660 million, while the outflow of \$255 million that had occurred at short term in the first half gave way to net receipts of \$570 million.

As the capital inflow far exceeded the current-account deficit in the second half of 1962, the reserves increased by more than they had fallen in the first half, attaining \$2,539 million at the end of the year, against \$2,056 million at the beginning. Canada was thus able progressively to cancel the short-term credits obtained in June, so that at the beginning of January 1963 there remained outstanding only the \$300 million drawing on the IMF, while the \$250 million arrangement with the Federal Reserve System had been put on a stand-by basis.

At the beginning of April 1963 the import surcharges imposed in June, which had been gradually reduced, were finally abolished.

European OECD countries. The overall balance of payments of the European OECD countries was closer to equilibrium in 1962 than it had been the year before. The current account, which had shown a surplus of \$1.3 milliard in 1961, was practically balanced last year. This is a fairly true reflection of the position in most of the individual countries. Only in France was there a current surplus of any size, and only in Denmark and Turkey were the deficits large enough to call for official action. On long and short-term capital account there was a net inflow of \$1.8 milliard (nearly twice as much as a year earlier). The combined net reserves went up by \$1.6 milliard, against \$2.4 milliard in 1961.

The disappearance of the current surplus was almost entirely due to an increase in the combined trade deficit from \$2.4 to 3.9 milliard, imports having gone up last year more rapidly than exports.

The net balance of the EEC countries deteriorated by nearly \$1.5 milliard, as their trade surplus fell by \$940 million while their surplus on invisibles dropped by \$550 million. This was brought about mainly by a sharp rise in imports in Germany and Italy and an increase in Germany's expenditure on invisible items. The current deficit of the EFTA countries, on the other hand, was reduced by \$300 million as a result of an improvement in the current balances of the United Kingdom and Portugal and a rise in net receipts from invisibles in Austria. The import surplus of the remaining European countries increased by \$525 million, chiefly owing to a sharp expansion of imports in Spain. As their net receipts from invisibles went up by \$235 million, their current-account position worsened on balance by \$290 million.

European OECD countries: Balances of payments.

Countries	Years	Balance of trade (f.o.b.)	Net invisible items ¹	Balance on current account	Net capital movements (inflow+) ²		Overall balance ³
					Long-term	Short-term	
in millions of US dollars							
Belgium-Luxemburg . . .	1961	- 125 ⁴	+ 165	+ 40	+ 265		+ 305
	1962	- 140 ⁴	+ 210	+ 70	- 130		- 60
France	1961	+ 415	+ 535	+ 950	- 70	+ 215	+ 1,095
	1962	+ 475	+ 345	+ 820	- 320	+ 185	+ 685
Germany	1961	+ 2,388	- 1,645	+ 740	- 1,065	+ 475 ⁵	+ 150 ⁶
	1962	+ 1,720	- 2,070	- 350	+ 30	+ 100	- 220
Italy	1961	- 1,085 ⁷	+ 1,445	+ 360	+ 220	- 65	+ 515
	1962	- 1,425 ⁷	+ 1,555	+ 130	- 200	+ 50	- 20
Netherlands	1961	- 350	+ 595	+ 245	- 260	+ 165	+ 150
	1962	- 330	+ 505	+ 175	- 165	- 5	- 15
Total for EEC	1961	+ 1,240	+ 1,095	+ 2,335	- 120		+ 2,215
	1962	+ 300	+ 545	+ 845	- 475		+ 370
Austria	1961	- 260	+ 230	- 30	+ 165		+ 135
	1962	- 280	+ 365	+ 85	+ 150		+ 235
Denmark	1961	- 240	+ 130	- 110	+ 115		+ 5
	1962	- 385	+ 130	- 255	+ 230		- 25
Norway	1961	- 695 ⁷	+ 485	- 210	+ 205		- 5
	1962	- 695 ⁷	+ 480	- 215	+ 210		- 5
Portugal	1961	- 270	+ 10	- 260	+ 35	+ 135	- 90
	1962 ⁸	- 160	+ 20	- 140	+ 150	+ 190	+ 100
Sweden	1961	- 185 ⁷	+ 200	+ 15	+ 20	+ 160	+ 195
	1962	- 190 ⁷	+ 170	- 20	+ 35	+ 75	+ 90
Switzerland	1961	- 660 ⁷	+ 450	- 210	+ 645		+ 435
	1962	- 795 ⁷	+ 445	- 350	+ 465		+ 115
United Kingdom	1961	- 415	+ 215	- 200	+ 125	- 885 ⁹	- 960
	1962	- 200	+ 390	+ 190	- 260	+ 620 ⁹	+ 550
Total for EFTA	1961	- 2,725	+ 1,720	- 1,005	+ 720		- 285
	1962	- 2,705	+ 2,000	- 705	+ 1,765		+ 1,060
Greece	1961	- 350 ⁷	+ 285	- 65	+ 95	- 5	+ 25
	1962	- 420 ⁷	+ 335	- 85	+ 95	+ 10	+ 20
Iceland	1961	0	+ 5	+ 5	+ 5		+ 10
	1962	- 5	+ 5	0	+ 10		+ 10
Ireland	1961	- 230 ⁷	+ 235	+ 5	+ 35	- 20	+ 20
	1962	- 260 ⁷	+ 245	- 35	+ 60	± 0	+ 25
Spain	1961	- 190	+ 420 ¹⁰	+ 230	+ 120	+ 25	+ 375
	1962	- 535	+ 590 ¹⁰	+ 55	+ 125	- 20	+ 160
Turkey	1961	- 165 ⁷	- 5	- 170	- 50	+ 275	+ 55
	1962	- 220 ⁷	0	- 220	- 60	+ 260	- 20
Grand total	1961	- 2,420	+ 3,755	+ 1,335	+ 1,080		+ 2,415
	1962	- 3,865	+ 3,720	- 145	+ 1,770		+ 1,625

¹ Including unilateral transfers. ² Calculated as the difference between the current account on the one hand and the net reserve position and the net position vis-à-vis the IMF on the other. (See Chapter IV of Part II.) Long-term capital movements are shown separately where possible. Global figures or figures for short-term capital movements include errors and omissions. ³ Equal to changes in the net reserves and the net IMF position. ⁴ Processing, merchanting trade and monetary gold are included under invisibles. ⁵ Since it is calculated as a difference, this figure exaggerates the capital inflow by the amount of the revaluation loss of DM 1.4 milliard, which does not show up in the reserves as expressed in dollars. ⁶ Difference between the end-1960 figure valued at DM 4.20 to the dollar and the end-1961 figure valued at DM 4.0. ⁷ Imports c.i.f. ⁸ First half-year at annual rate. ⁹ Including changes in territorial sterling balances. ¹⁰ Including transfer payments.

European OECD countries: Debt prepayments.

Prepayments by	1961	Prepayments by	1962
	US \$ million		US \$ million
France to Germany	141	France to Canada	63
United Kingdom	76	United States	469
other European countries	103 ¹	IBRD	60
Germany to France	5		
United Kingdom	189 ²		
United States	587		
Italy to United States	40	Italy to United States	179
Netherlands to Switzerland	11	Netherlands to Canada	32
United States	39	Sweden to United States	16
Total intra-European	525	Total intra-European	—
extra-European	666	extra-European	619
Grand total	1,191	Grand total	819

¹ Including \$17 million to Austria, Denmark and Norway, \$34 million to Belgium, \$12 million to Italy, \$27 million to the Netherlands and \$13 million to Switzerland. ² Of which \$63 million paid out of funds previously deposited.

Large-scale debt prepayments have taken place in the last two years, so that it seems appropriate to consider the capital account under three heads, viz. special transactions, ordinary long-term capital and short-term capital.

Prepayments to non-European countries and institutions amounted to \$665 million in 1961 and \$820 million in 1962. If these are deducted, the net inflow from ordinary transactions is seen to have been \$1,700 million in 1961 and \$2,600 million in 1962. It is not possible to break these totals down exactly into their long and short-term components, but it would appear that in 1961 the long-term capital account showed an outflow of over \$100 million, while in 1962 there was an inflow of approximately \$300 million. The total net inflow at short term (including errors and omissions) was about \$1.9 and 2.3 milliard in 1961 and 1962 respectively.

United Kingdom. Balance-of-payments developments in the United Kingdom during 1962 were fairly satisfactory. The best features were the continued increase in exports to Europe, the recovery in invisible earnings and the fact that, in a year devoid of special capital receipts, the net capital outflow was relatively modest. It thus proved possible to repay the \$1.5 milliard drawn in 1961 from the IMF within one year.

Thanks to a reduction of the trade deficit and to larger invisible receipts, the \$200 million deficit recorded on current account in 1961 gave way to a surplus of roughly the same size in 1962. The improvement took place in the first half of the year, for which period external trade was nearly in balance whilst net invisible receipts totalled over \$300 million — the best half-year figure since 1958. In the latter part of the year the trade gap reappeared and invisible receipts declined, mainly for seasonal reasons, so that there was a current deficit of \$90 million.

Exports, which had been relatively stable throughout 1961 and the first quarter of 1962, went up by 5 per cent. during the second quarter and remained at the higher level for the rest of the year. A further 2 per cent. rise took place in the first quarter of 1963. Imports (c.i.f.) increased during the first nine months of 1962, more particularly in the third quarter, and then fell off somewhat. The fourth-quarter level was 4.5 per cent. above that a year earlier, and in the first quarter of 1963 they rose again slightly.

The total increase in exports in 1962 was worth \$310 million. Sales to western Europe were up by \$470 million, those to EEC countries showing a gain of 17 per cent. and those to EFTA countries one of 7 per cent. After two poor years, exports to the United States recovered by \$130 million, or 17 per cent., nearly half of the rise being accounted for by motor-car sales; deliveries to Canada, on the other hand, were down by 15 per cent., or \$95 million in absolute values — a decline that was due mainly to a falling-off in sales of ships and aircraft. In trade with the sterling area, sales to Australia, where policy was easing up, were higher, while elsewhere — particularly because of balance-of-payments difficulties in India and New Zealand — they were lower than in 1961. Exports to Latin America also showed a decline. Exports of engineering products were \$120 million up in 1962; within this category, sales of machinery were just about this much higher, an increase of \$190 million in motor-car sales being offset by a drop in ship and aircraft deliveries.

Imports were very little higher than in 1961, the c.i.f. total coming to \$12,580 million — an increase of \$270 million. Imports of food, partly owing to unfavourable weather conditions, showed an increase of \$300 million. Imports of capital and non-edible consumer goods rose by \$130 million. Purchases of industrial materials were down by \$250 million, the incidence of this change being entirely in the basic materials sector. Imports of crude petroleum, on the other hand, rose.

Over the post-war period as a whole the trend of imports has been much more erratic than that of exports. This has reflected partly sharp fluctuations in home demand and partly special situations such as Korea and Suez. Some of the shifts, notably the rise in imports of finished goods, have been in response to the removal of controls. It may be that the economy is now less exposed than it has been for some time to sudden fluctuations in the level of imports and that the future development of the trade balance will therefore be smoother.

The trade account normally shows a large import surplus, which is covered by net receipts from invisible items. The dwindling of these receipts from \$830 million in 1958 to \$215 million in 1961, owing to increased government commitments and a deterioration in the shipping account, was therefore an alarming phenomenon. By the same token the recovery to a surplus of \$390 million in 1962 may be regarded as a most heartening feature. The main improvement was in regard to interest, profits and dividends, which increased by \$180 million, chiefly as a result of larger earnings

United Kingdom: Balance of payments.

Items	1960	1961	1962	1962	
				1st half	2nd half
in millions of US dollars					
Merchandise trade (f.o.b.)					
Imports	11,495	11,235	11,365	5,680	5,685
Exports and re-exports	10,385	10,820	11,165	5,645	5,520
Balance of trade	- 1,110	- 415	- 200	- 35	- 165
Invisible items (net)					
Government transactions	- 805	- 950	- 1,040	- 540	- 500
Investment income	+ 640	+ 680	+ 860	+ 510	+ 350
Other services	+ 410	+ 485	+ 570	+ 345	+ 225
Total invisible items	+ 245	+ 215	+ 390	+ 315	+ 75
Balance on current account	- 865	- 200	+ 190	+ 280	- 90
Long-term capital account (net outflow —)					
Official	- 285	- 115	- 295	- 75	- 220
Private	- 235	+ 240	+ 35	+ 35	+ 0
Total long-term capital movements	- 520	+ 125	- 260	- 40	- 220
Balance on current and long-term capital account	- 1,385	- 80	- 70	+ 240	- 310
Errors and omissions	+ 850	+ 135	+ 360	+ 180	+ 180
Total balance (= changes in monetary items)	- 535	+ 55	+ 290	+ 420	- 130
of which changes in net reserves and IMF position	+ 920	- 960	+ 550	+ 620	- 70

from oil transactions. Lower interest rates in London also played a part in the improvement.

On long-term capital account there was an apparent deterioration of \$380 million in 1962. If, however, special transactions which took place in 1961 (the Ford deal for \$370 million and advance debt repayments of \$200 million to the United Kingdom) are left out of account, the results in both the official and the private sectors of the capital account are found to have been more favourable than in 1961. The private account in particular shows an improvement of \$160 million, which reflects the fact that UK investment abroad fell off by \$180 million, mainly on account of reduced investment in the petroleum industry. Portfolio investment in the United Kingdom had risen substantially in 1961 and in the first quarter of 1962, after which it continued at a lower level. Altogether there was in 1962 a small net inflow on private long-term capital account — a most unusual feature and one that is not likely to recur.

In both 1961 and 1962 there was a small deficit, of almost equal size, on the current and long-term capital account. But whereas in 1961 there had been a current deficit — more than offset, however, by special transactions — in 1962 there was a surplus on current account not much smaller than the capital outflow, which was a much sounder situation. Furthermore, the

deficit on the current and long-term capital account was considerably less in both 1961 and 1962 than net receipts from unclassified transactions. As it seems likely that these large unidentified receipts are partly attributable to an underestimation of current receipts, it may be assumed that the current and long-term capital account was actually in surplus in those years.

Regarding future prospects, the Chancellor of the Exchequer reiterated in his budget speech in early April that a vigorous rise in exports would be necessary to sustain the target of a 4 per cent. growth rate. As, however, imports will very likely also rise when the expansion gets under way, the trade deficit may become larger than in 1962.

France. For the fourth consecutive year since the stabilisation programmes of 1957-58 became effective the French balance of payments was in substantial surplus in 1962. In these four years the country's net external assets increased by \$4.7 milliard, the official monetary reserves going up by \$2.6 milliard, the net IMF position by \$0.7 milliard and prepayments of debt amounting to \$1.4 milliard. Essentially this was made possible by steady and, for the most part, substantial net receipts in the three main sections of the balance of payments — \$1.4 milliard on trade account, \$1.7 milliard on invisible account and \$1.0 milliard on ordinary long-term capital account. The reason for the consistency of French overall surpluses lies partly in domestic and partly in external factors. On the external side there have been the development of the Common Market and the German and Dutch revaluations of March 1961. The two main reasons, however, are to be found in the fact that for the period as a whole, though not throughout it, French incomes have kept in line with productivity and that certain other factors of an autonomous nature have been at work. The latter are threefold.

(1) On the import side of the trade account the largest single item is purchases of petroleum and its products. In 1958 such purchases amounted to Fr.fr. 2.9 milliard and in 1962 to Fr.fr. 3.9 milliard. Whereas in the former year, however, all but 3 per cent. of supplies came from outside the franc area, by 1962 the franc area's petroleum deliveries to France were worth Fr.fr. 1.5 milliard. Had this had to be obtained elsewhere, the cost in foreign exchange would have been \$300 million. In addition to this the increased use of natural gas located in France has also helped to cut down the country's foreign exchange bill for fuel.

(2) On the export side the success of the Caravelle aeroplane has boosted aircraft sales to countries outside the franc area from Fr.fr. 208 million in 1958 to Fr.fr. 686 million in 1962. In dollar terms the increase was about \$100 million.

The combined value of these two factors was roughly equal to France's trade surplus on a f.o.b. basis vis-à-vis countries outside the franc area in 1961 and 1962.

French franc area: Balance of payments.

Items	1959	1960	1961	1962
	in millions of US dollars			
France				
Merchandise trade (f.o.b.)				
Exports	3,810	4,500	5,190	5,840
Imports	3,375	4,410	4,775	5,365
Balance of trade	+ 435	+ 90	+ 415	+ 475
Invisible items (net)				
Travel	+ 185	+ 235	+ 215	+ 200
Labour	- 130	- 100	- 125	- 150
Others ¹	+ 250	+ 410	+ 445	+ 295
Total invisible items	+ 305	+ 545	+ 535	+ 345
Balance on current account	+ 740	+ 635	+ 950	+ 820
Long-term capital account (net outflow -)				
Official				
Prepayments ²	- 85	- 185	- 320	- 590
Other	- 190	- 170	- 120	- 130
Private	+ 570	+ 305	+ 370	+ 400
Balance on long-term capital account	+ 295	- 50	- 70	- 320
Balance on current and long-term capital account	+ 1,035	+ 585	+ 880	+ 500
Short-term capital account (net outflow -)		- 60	- 85	- 120
Rest of French franc area (surplus +)	+ 60	- 20	+ 120	+ 145
Errors and omissions	- 55	+ 25	+ 35	+ 70
Total balance (= changes in monetary items) of which changes in net reserves and IMF position	+ 1,040 + 1,285	+ 530 + 535	+ 950 + 1,095	+ 595 + 685

¹ Including donations. ² In 1959 \$24 million to the Export-Import Bank and \$81 million EPU debt; in 1960 \$24 million to the Export-Import Bank, \$24 million to the United Kingdom and \$137 million EPU debt; in 1961 remainder of EPU debt; in 1962 \$489 million to the United States, \$63 million to Canada and \$60 million to the IBRD.

(3) On invisible account changes in the transport item have played a considerable part in raising the net surplus in recent years. France, which has a relatively small, though growing, merchant fleet, has benefited from the decline in freight rates in recent years and also from the shorter routing of its oil imports. Thus net expenditure on sea transport dropped from \$190 million in 1958 to some \$75 million in 1962. At the same time net receipts from land and air transport increased from \$30 million to about \$100 million, producing, for the first time, a small surplus on transport account in 1962.

As shown in the balance of payments on an annual and f.o.b. basis, France's export surplus for 1962 was \$60 million higher than in the previous year. By the end of the year, however, the position had deteriorated considerably. This weakening is more easily seen from the customs statistics, which showed an export surplus in the first half of 1962 but moved into deficit thereafter.

France: Foreign trade.

Periods	Trade with countries outside the franc area			Trade with the franc area			Total balance of trade
	Exports (f.o.b.)	Imports (c.i.f.)	Balance	Exports (f.o.b.)	Imports (c.i.f.)	Balance	
in millions of US dollars							
1961 1st quarter	1,280	1,275	+ 5	500	390	+ 110	+ 115
2nd quarter	1,350	1,350	— 0	470	410	+ 70	+ 70
3rd quarter	1,280	1,175	+ 105	410	310	+ 100	+ 205
4th quarter	1,430	1,505	— 75	500	420	+ 80	+ 5
1962 1st quarter	1,465	1,420	+ 45	430	375	+ 55	+ 100
2nd quarter	1,490	1,435	+ 55	335	440	— 105	— 50
3rd quarter	1,350	1,375	— 25	300	340	— 40	— 65
4th quarter	1,585	1,615	— 30	415	370	+ 45	+ 15
1963 1st quarter	1,495	1,655	— 160	395	395	+ 0	— 160

In the first quarter of 1963 imports from countries outside the franc area were 16 per cent. higher than in the corresponding period of 1962, while exports were only 2 per cent. higher.

Of the import expansion in 1962 80 per cent. was attributable to larger purchases of manufactured goods and the remainder to food imports, while imports of raw materials fell off somewhat. Among manufactured goods, durable consumer goods have been rising rapidly since 1960 following liberalisation measures and the lowering of customs barriers. Thus imports of motor-cars went up from 25,600 units in 1960 to 110,200 in 1962 and imports of refrigerators from 24,000 to 271,000. On the export side, over half the \$550 million increase represented larger sales of machinery (\$160 million), passenger cars (\$90 million) and agricultural products (\$70 million).

Vis-à-vis the rest of the franc area, France normally has an export surplus; in 1961 it came to \$400 million. In 1962, however, there was no surplus, as exports fell by \$400 million — four-fifths of the decline being on account of smaller sales to Algeria.

During the last four years a gradual change in the pattern of trade has taken place in favour of countries outside the franc area, notwithstanding the above-mentioned shift in petroleum supplies. Thus the share of imports from the franc area in the total fell from 24 per cent. in 1959 to 21 per cent. in 1962, and exports to the franc area, which accounted for nearly a third in 1959, dropped to a fifth.

Just as the trade account of the balance of payments weakened towards the end of 1962, so also was the invisible account less favourable in the second half of the year. Net invisible receipts fell from \$260 million in the first half to \$85 million in the second, most of the contraction being due to a switch of nearly \$100 million in unilateral transfers (from a net inflow to a net outflow) and to a decline of \$75 million in net receipts from travel.

The pattern of the private long-term capital account was much the same in 1962 as in the previous year. Foreign investment in France rose above the high 1961 level, and French investment abroad was also somewhat

France: Private long-term capital movements.

Items	1959	1960	1961	1962
	in millions of US dollars			
Foreign investment in France (net inflow +)				
Direct investment	440	120	175	250
Portfolio investment		45	120	120
Loans at more than one year		155	130	100
Total	+ 440	+ 320	+ 425	+ 470
French investment abroad (net outflow -)				
.	+ 130	- 15	- 55	- 70
Total private capital inflow	+ 570	+ 305	+ 370	+ 400

larger. A notable feature of the capital account in recent years has been that, except for a period just after the introduction of the stabilisation programme, net receipts have apparently owed very little to repatriation of residents' funds. No doubt the substantial net inflow of foreign funds since 1958 is ascribable in part to a bunching of investments, some of which might, in other circumstances, have been made earlier.

Together with the surpluses on current account, the large capital inflows have enabled France in the last four years to make advance repayments of government debt. In 1961 these included repayment of the whole EPU debt of \$320 million and in 1962 advance repayments to the United States, Canada and the IBRD to a total of \$590 million. In April 1963 a further prepayment of \$60 million was made to the IBRD.

Germany. In 1962, for the first time since 1950, the German balance on current account showed a deficit. In relation to the previous year the export surplus narrowed and net expenditure on invisible items rose sharply. This obviated the need for compensatory government transactions, so that the large outflow of long-term capital ceased. The balance on current and long-term capital account was thus practically the same in both years.

In 1962 imports increased by 11.5 per cent. There was a rise of 17 per cent. in purchases of food, most of which took place in the first half of the year, partly in anticipation of the coming into force at the end of July of the agricultural regulations of the EEC, and a rise of 20 per cent. in imports of manufactured goods. In 1960 and 1961 the latter had risen by 25 and 13 per cent. respectively. Their further expansion in 1962 can be regarded as reflecting the growth of incomes — the rise in imports of consumer goods was particularly steep — and also the greater competitiveness of foreign goods. Thus, during 1962 German producer prices for capital goods rose by 3.6 per cent. and those for consumer goods by 2.2 per cent., whereas the import prices for such products increased by only 0.8 and 0.1 per cent. respectively. Imports of industrial raw materials and semi-finished goods grew in line with industrial production.

Germany: Balance of payments.

Items	1960	1961	1962
	in millions of US dollars		
Merchandise trade (f.o.b.)			
Exports	11,390	12,560	13,250
Imports	9,420	10,175	11,530
Balance of trade	+ 1,970	+ 2,385	+ 1,720
Invisible items (net)			
Travel	- 190	- 365	- 610
Interest and dividends	- 195	- 315	- 340
Workers' remittances and pensions	- 180	- 295	- 370
Receipts from foreign troops	+ 945	+ 945	+ 1,075
Others	- 585	- 755	- 885
Total net invisible items	- 205	- 795	- 1,130
Unilateral transfers	- 685	- 860	- 940
Balance on current account	+ 1,080	+ 740	- 350
Long-term capital account ¹ (net outflow →)	- 60	- 1,065	+ 30
Short-term capital account ² (net outflow →)	- 30	+ 160	+ 20
Errors and omissions	+ 420	+ 55	+ 80
Total balance (= changes in monetary items)	+ 1,410	- 110	- 220
of which changes in net reserves and IMF position	2,240	+ 150	- 220

¹ Including special transactions, i.e. in 1960 a credit of \$24 million to the IBRD and in 1961 advance repayments to the amount of \$781 million (for details see table on page 100) and a credit of \$220 million to the IBRD. ² Excluding net lending to or borrowing from the IMF and changes in net foreign position of commercial banks.

Exports continued to increase in 1962, but their rate of expansion slackened, amounting to only 4 per cent., against 6 per cent. a year earlier and 16 per cent. in 1960. Most of the rise last year was accounted for by exports to the EEC. Foreign orders received by the German manufacturing industries, which had fallen off immediately after the revaluation of the Deutsche Mark in March 1961, remained more or less unchanged until the third quarter of 1962 but increased noticeably in the fourth quarter and in the early months of 1963.

At \$1.1 milliard, the 1962 deficit on invisible account was substantially larger than in the previous year and five times as great as in 1960. Nearly half of this change was due to rising expenditure on travel abroad and one-fifth to larger remittances by foreign workers.

Taken quarter by quarter, the balance on current account after the revaluation showed a gradually dwindling surplus until the end of 1961, followed by increasing deficits throughout 1962 (with a bulge in the third quarter, when the figure was, as usual, inflated by travel expenditure) and a small improvement in the first quarter of 1963. These developments are entirely accounted for by changes in commercial items, as receipts from services rendered to foreign military agencies roughly cover unilateral transfer payments.

Germany: Balance on current account, by quarters, since the revaluation.

Quarters	Exports f.o.b.	Imports c.i.f. ¹	Balance of trade	Net commercial invisible items	Balance on commercial account	Services rendered to foreign military agencies	Uni- lateral transfers	Balance on current account
1961 2nd	3,205	2,780	+ 425	- 245	+ 180	+ 250	- 215	+ 215
3rd	3,145	2,715	+ 430	- 365	+ 65	+ 215	- 240	+ 40
4th	3,330	3,015	+ 315	- 280	+ 35	+ 240	- 255	+ 20
1962 1st	3,160	3,005 ²	+ 155	- 215	- 60	+ 250	- 235	- 45
2nd	3,300	3,065	+ 235	- 300	- 65	+ 265	- 255	- 55
3rd	3,250	3,010	+ 240	- 445	- 205	+ 255	- 180	- 130
4th	3,530	3,290	+ 240	- 395	- 155	+ 305	- 270	- 120
1963 1st	3,185	3,040	+ 145	- 250 ³	- 105	+ 250 ²	- 230	- 85

¹ Quarterly figures are not available on a f.o.b. basis. ² Following a change in customs legislation, goods held as stocks in bond under the importer's control until the end of 1961 were released as from 1st January 1962 and recorded as goods imported and put into free circulation. This inflated the import figure for the first quarter by about \$100 million. ³ Estimate based on January-February figures.

On long-term capital account, as mentioned earlier, nearly all of the swing from a deficit of over \$1 milliard to a position of equilibrium was due to the absence of special transactions. The remaining capital movements on official and private account practically cancelled each other out. The net outflow of official capital, at \$245 million, was somewhat smaller than in 1961. In the private sector, on the other hand, the net capital inflow was slightly larger than in the previous year, amounting to \$275 million.

Foreign private investment in Germany came to \$640 million in 1962, of which \$400 million represented purchases of German securities — about the same amount as in 1961. Owing to the depressed state of the stock exchange and to the relatively high interest rate on German bonds, a shift from shares to fixed-interest securities occurred in 1962 and continued in the first quarter of 1963. (In January-March 1963 net foreign purchases of German fixed-interest securities amounted to \$125 million, against \$36.5 million in the corresponding period of 1962, while net purchases of shares fell to \$50 million, against \$95 million.) The second factor affecting the inflow of long-term capital was the resumption of borrowing abroad by German enterprises, which amounted to \$140 million last year, against only about \$35 million in 1961.

German private long-term investment abroad rose from \$250 million in 1961 to \$370 million last year, most of the increase taking the form of purchases of securities. Of these, two individual transactions stand out, namely the purchase by a German banking syndicate of Ford Motor Company shares for \$30 million and the taking-up of a \$25 million bonded loan issued by the City of Osaka.

With regard to short-term capital transactions, excluding the banks' foreign exchange position and transactions with the IMF, there was a net inflow of private capital of \$100 million, due to direct borrowing abroad by German enterprises, and a net outflow of \$80 million on official account, representing mainly advance payments for armaments. The latter represent the difference between total advance payments for defence equipment and actual imports. Large-scale advance payments were made in the closing months of

the year — in December alone they amounted to \$125 million — but as actual imports in preceding months had been at a very high level, they are not readily apparent in the net annual figure.

Italy. As the result of a rise of \$340 million in the import surplus and a switch from surplus to deficit in the capital account, the overall surplus in Italy's balance of payments, which had amounted to \$575 million in 1961, fell to \$50 million in 1962.

Italy: Balance of payments.

Items	1960	1961	1962
	in millions of US dollars		
Merchandise trade			
Imports (c.i.f.)	4,450	4,935	5,885
Exports (f.o.b.)	3,435	3,850	4,460
Balance of trade	- 1,015	- 1,085	- 1,425
Invisible items (net)			
Transport	+ 250	+ 280	+ 300
Travel	+ 550	+ 650	+ 725
Emigrants' remittances	+ 345	+ 420	+ 510
Interest and dividends	- 30	- 50	- 95
Others*	+ 175	+ 145	+ 115
Total net invisible items	+ 1,290	+ 1,445	+ 1,555
Balance on current account	+ 275	+ 360	+ 130
Capital movements (net inflow +)			
Official	+ 30	+ 50	+ 20
Private			
Investment by foreigners in Italy	+ 460	+ 500	+ 750
Italians abroad	- 100	- 85	- 170
Repatriation of Italian bank-notes	- 185	- 330	- 765
Loans and other private capital movements	- 50	+ 80	- 15
Non-classified movements	+ 10	+ 0	+ 100
Total capital movements	+ 165	+ 215	- 60
Total balance (= changes in monetary items).	+ 440	+ 575	+ 50
of which changes in net reserves and IMF position	+ 125	+ 515	- 20

* Including government transfers.

The deterioration in the trade balance took place in the second half of the year, when imports rose by 24 per cent. above their level in the corresponding period of 1961, while exports went up by only 11 per cent. The rise in imports reflected the growth in consumer demand and the continued expansion of investment. Thus, imports of capital goods and consumer goods showed the largest relative rises, imports of engineering goods, in particular, expanding by 37 per cent. In part, too, the marked increase in imports in the second half of the year reflected the 10 per cent. cut in tariffs which was introduced in August 1962 in order to combat the price rise.

Although net invisible receipts went up by \$110 million in 1962, owing to an increase in emigrants' remittances and tourist receipts, the current-account surplus declined from \$360 to 130 million.

The turn-round on capital account from a net inflow of \$215 million to a net outflow of \$80 million appears to have been mainly ascribable to the rise in Italian investment abroad. The item "Repatriation of bank-notes", which amounted to no less than \$765 million in 1962, has to be set against the item "Investments by foreigners", which means that, apart from the increase in Italian foreign investment abroad, there was a net decline in foreign investment (portfolio and direct) in Italy. There was also a net outflow of private loan capital (as against a net inflow in 1961), as Italian loans to foreign borrowers increased while Italian borrowing abroad fell off.

Netherlands. Owing mainly to a decline in net investment income, the current external surplus in 1962, at \$175 million, was \$70 million less than in the previous year. Almost exactly offsetting this was a net capital outflow, excluding the banks' capital transactions, of \$180 million. If the latter transactions are included, there was a small overall deficit of \$50 million.

The balance on current account improved during the year from a deficit of \$35 million in the first six months to a surplus of \$210 million in the last six months. Half of this change is a reflection of movements in the trade account, the deficit on which declined between the first and last quarters of the year from \$145 to 20 million. By the fourth quarter of 1962 exports were running 8.5 per cent. above their level twelve months earlier, while imports remained more or less stable throughout the year at about the level reached in the last three months of 1961. For the year as a whole exports showed a rise of 5.5 per cent. and imports one of 4.5 per cent.

The capital outflow, at \$225 million, was much smaller than in 1961. This was mostly due to a decline from approximately \$130 million to \$45 million in the banks' net capital exports (which do not include their foreign exchange operations). Excluding the banks' net exports, the net outflow of private capital totalled \$110 million, about the same as in 1961. Purchases of foreign securities by Dutch residents fell from \$210 million in 1961 to \$100 million last year, chiefly as a result of the reduction of \$80 million in foreign issues on the Dutch market. Net long-term investment other than portfolio investment increased by \$35 million and the net outflow of short-term capital — mainly movements in current-account balances and investments of non-banks — rose by \$30 million. The total net outflow of Dutch capital was thus \$45 million less than in the previous year. Private foreign long-term investment in the Netherlands declined from \$320 to 280 million; but this change conceals divergent movements. Foreign purchases of Dutch securities increased by \$25 million, most of which represented subscriptions to a share issue by the Philips enterprise, while direct investment rose by \$45 million. This inflow of funds, however, was more than offset by the reimbursement by KLM of about \$110 million of credits obtained previously.

The capital outgoings of the public sector contracted by about \$20 million, prepayments of debt having declined from \$50 to 30 million.

Belgium. Belgium's foreign trade continued to expand in 1962, but, as export receipts increased at a slower pace than import payments, the trade deficit, at \$140 million, was somewhat larger than in the previous year. If processing and merchanting plus non-monetary gold were taken into account, the trade balance would show a deficit of only \$10 million in 1962. Over the last four years nearly all of the expansion in exports has been in goods with a high labour content.

In the first half of 1961, when exports were impaired by strikes, the current account of the balance of payments showed a small deficit. This gave way to a surplus of \$80 million as trade recovered in the second half of the year, but the surplus diminished in the next six months and fell to only \$10 million in the second half of 1962. For 1962 as a whole the current surplus amounted to \$70 million, against \$40 million in 1961. As the net capital outflow, both official and private, was somewhat smaller than in 1961, the overall balance moved from equilibrium to a surplus of \$80 million. The official reserves, however, as shown in the table on page 99, declined by \$60 million in 1962, the discrepancy being accounted for by an increase in the foreign assets of the banks.

Switzerland. The boom conditions that prevailed in 1962 are reflected in the large current deficit of the balance of payments. Normally Switzerland has a deficit of \$300-400 million in its trade account, which is more than offset by invisible receipts. Last year the import surplus amounted to nearly \$800 million and the net surplus on invisibles is estimated at \$450 million, leaving a current deficit of some \$350 million, against one of \$210 million in the previous year. The outflow of private capital is estimated at \$285 million in 1962, of which \$100 million represented net foreign issues on the Swiss market. (In 1961 the latter had totalled \$200 million.) As reserves were augmented by \$115 million, the net inflow of capital — repatriations, hot money and unidentified items — must have amounted to some \$750 million.

The inflow of foreign capital continued, though at a slower pace, during the first quarter of 1963 and also in April. In the first three months of the year there was an import surplus of \$195 million. Assuming that invisible items produced a net surplus of about \$90 million, there must have been a current deficit of some \$100 million, which, in the absence of capital movements, should have been reflected in a corresponding fall in the reserves. However, leaving aside settlements in respect of swap operations, the reserves declined by only \$35 million, so that the net capital inflow must have amounted to \$65-70 million.

Commercial policy.

The European Economic Community moved to its second four-year stage on 1st January 1962. On 1st July internal customs tariffs on industrial products were lowered by 10 per cent., bringing the total reduction to 50 per cent. of the initial level. At the end of the month, the common agricultural

policy was brought into effect and joint marketing rules for cereals, pig-meat, eggs and poultry came into force.

With regard to the group's relations with third countries, the agreement of association with Greece was ratified and the latter joined the Community on 1st November 1962. In May 1963 the EEC Council decided to grant financial help to Turkey though it is not yet an associate member. A convention of association between the Community and eighteen African states was initialled in December 1962 but has not yet been signed.

Negotiations between the EEC and the United Kingdom on the latter's application to become a full member of the Common Market continued during 1962 but were interrupted at the end of January 1963. Meanwhile the EEC is to proceed with the dismantling of its internal customs tariff, a further 10 per cent. reduction being scheduled for 1st July 1963. The second step towards the establishment of the common external tariff will take place at the same time. By the end of 1965 the level of internal duties will have been brought down by 80 per cent., and the Commission intends to propose that all duties be abolished by the end of 1966.

By 30th April 1963 duties between all seven countries of the European Free Trade Association and Finland had been brought down to 50 per cent. of their original level. In the middle of May an EFTA ministerial conference drew up a timetable for further reductions of tariffs between member countries. Tariffs on industrial products will be cut by 10 per cent. at the end of each year from 1963 to 1965 and the remaining 20 per cent. will be abolished at the end of 1966. The particular problems of countries for which exports of agricultural and fishery products are of importance will be dealt with in bilateral agreements.

Within the General Agreement on Tariffs and Trade the tariff negotiations initiated in September 1960 were completed in July 1962. The total number of concessions agreed upon, both in renegotiations with the EEC and in the Dillon round, amounts to about 4,400.

In the course of 1962 and early 1963 Japan liberalised a large number of imports. In February 1963 it announced that, in view of the improvement in its balance of payments, it would no longer invoke Article XII of the General Agreement, which allows import restrictions to be maintained. On the other hand, the application of the most-favoured-nation clause, which many countries withheld from Japan under the terms of Article XXXV, is being gradually extended. Belgium, Cuba, Ghana, Tunisia and New Zealand recently ceased to invoke Article XXXV, as also did the United Kingdom and France in trade treaties concluded with Japan in November 1962 and May 1963 respectively.

The long-term arrangement regarding trade in cotton textiles came into force on 1st October 1962 and the declaration concerning the prohibition of export subsidies, which applies to goods other than primary products, entered into effect in the middle of November.

The path towards a further lowering of tariffs has been prepared by the ministerial conference held in May 1963, at which a compromise solution was found between the possibilities opened up by the US Trade Expansion Act and the aim of the EEC to bring down the high rates on certain items. Negotiations will begin in May 1964. They will cover raw materials, agricultural produce and industrial products and will be concerned with both tariffs and non-tariff obstacles to trade. With regard to industrial tariffs, the linear method will generally be applied, but exceptions to this procedure might be made in a limited number of cases.

IV. GOLD, RESERVES AND FOREIGN EXCHANGE.

Monetary reserve movements during the fifteen months ending in March 1963 may be said to have been characterised by three main features. First, the US external position continued to deteriorate. Its gold stock declined by a further \$1 milliard and its liquid liabilities to foreigners went up by an amount which may be estimated at \$2 milliard. A feature of the period was that an increasing part of these liabilities came to be expressed in foreign currencies. Secondly, the United Kingdom's reserve position improved in 1962. \$1 milliard was repaid to the International Monetary Fund concurrently with a fall of only \$0.5 milliard in official gold and convertible currency balances and with some decline in territorial sterling balances. Thirdly, continental European countries' reserve gains slowed down considerably. With only France still in really substantial surplus, their net official reserves rose by \$1.4 milliard during these fifteen months, of which \$0.2 milliard was attributable to a reduction in their net lending through the IMF. It has to be remembered, however, that a part of the US Treasury's foreign borrowing during this period has had the effect of making certain continental countries' reserves look smaller than they otherwise would have done, by an amount which may be put at roughly \$0.3 milliard.

On the gold market the strength of private demand at various times during 1962 meant that, out of total fresh gold supplies amounting to \$1.5 milliard, only \$0.3 milliard was available for adding to official reserves. Despite this, the range of price fluctuation was no wider than from \$35.05 to \$35.20, informal co-operation between the principal monetary authorities concerned ensuring that the market remained orderly at all times. Conditions changed somewhat in the first quarter of 1963, when it appears that official stocks rose by half as much as during the whole of 1962.

On the exchange markets, too, potentially disruptive influences have been met by co-ordinated official action. So far as changes in exchange rates are concerned, there were substantial currency depreciations in a number of important Latin American countries. Exchange rate adjustments also occurred in Poland and Rumania.

Gold production and the market situation.

In this field there were two outstanding features of the period under review. First, total private demand for gold in 1962 was heavier than in any previous year. Although fresh supplies were somewhat higher than in 1961, the amount which remained for monetary purposes was much lower. It may be estimated that \$330 million of gold — little more than 20 per cent. of estimated fresh supplies — was added to official reserves during the year.

However, this situation changed in the first months of 1963, when it is estimated that official gold stocks went up by \$165 million. Secondly, the monetary authorities of the United States and the principal western European countries developed informal co-operative arrangements designed to maintain orderly conditions in the market. Despite abnormally large private off-take of gold at certain times during the period, the highest London "fixing" price recorded was just under \$35.20 on 25th October 1962. The lowest, on 10th January 1963, was \$35.05.

World gold production.

Countries	1929	1940	1946	1953	1960	1961	1962
	weight, in thousands of fine ounces						
South Africa	10,412	14,046	11,927	11,941	21,383	22,946	25,506
Canada	1,928	5,333	2,849	4,056	4,629	4,474	4,158
United States	2,045	4,799	1,626	1,989	1,386	1,246	1,283
Australia	427	1,644	824	1,075	1,087	1,076	1,069
Ghana	208	886	586	731	879	834	888
Southern Rhodesia . . .	561	826	545	501	563	570	555
Philippines	163	1,121	1	481	411	423	424
Japan	335	867	40	258	337	379	421
Colombia	137	632	437	437	434	401	400
Mexico	655	883	421	483	299	269	234
Total listed	16,871	31,037	19,255	21,952	31,408	32,618	34,938
Other countries¹	1,729	5,963	2,445	2,148	2,192	2,082	2,162
Estimated world total¹ .	18,600	37,000	21,700	24,100	33,600	34,700	37,100
Value of estimated world total at \$35 per fine ounce . .	in millions of US dollars						
	650 ²	1,295	760	845	1,175	1,215	1,300

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

The total amount of gold produced during 1962 in the world outside the USSR may be estimated at 37.1 million ounces, the value of which at the official dollar parity is \$1,300 million. Output was 2.4 million ounces higher than in the previous year — the largest rise in any single year since 1954, when the present upward trend of gold production began. Output in 1962 slightly exceeded, after an interval of twenty-two years, the record level reached in 1940; in the meantime, however, South Africa's contribution to production outside the USSR has gone up from 38 to 69 per cent.

As in all recent years, the extra gold mined in 1962 came from South Africa; the mining industry of that country raised its output by 2½ million ounces, or 11 per cent., to a total of 25½ million ounces. Except for a decline in Canada of approximately 300,000 ounces, the output of the other main producing countries showed little change during 1962.

1962 was a very successful year for the South African gold-mining industry. The 11 per cent. increase in output was achieved with a rise of 3.6 per cent., to 75.8 million tons, in the quantity of ore milled, while the average native labour force employed actually declined somewhat, from

399,000 to 393,000. The amount of gold yielded by each ton of ore milled went up by 7 per cent., from \$10.75 to \$11.50; on the other hand, average working costs (excluding those mines where gold is extracted as a by-product of uranium) were only 2.8 per cent. higher. The result was that, although the average price received for a fine ounce of gold was roughly 12.5 US cents lower than in 1961, average working profits rose by some 9 per cent., to \$4.85 per ton of ore milled. Dividend distributions went up roughly in line with average profits, from \$139.4 to 151.7 million.

In addition to newly-mined gold, market supplies were augmented during 1962 by USSR sales, the value of which may be roughly estimated at \$220 million. Total fresh supplies, therefore, may be put at around \$1,500 million. With western official gold reserves estimated to have increased by only some \$330 million, non-monetary demand for gold in 1962 would appear to have been as high as \$1,200 million.

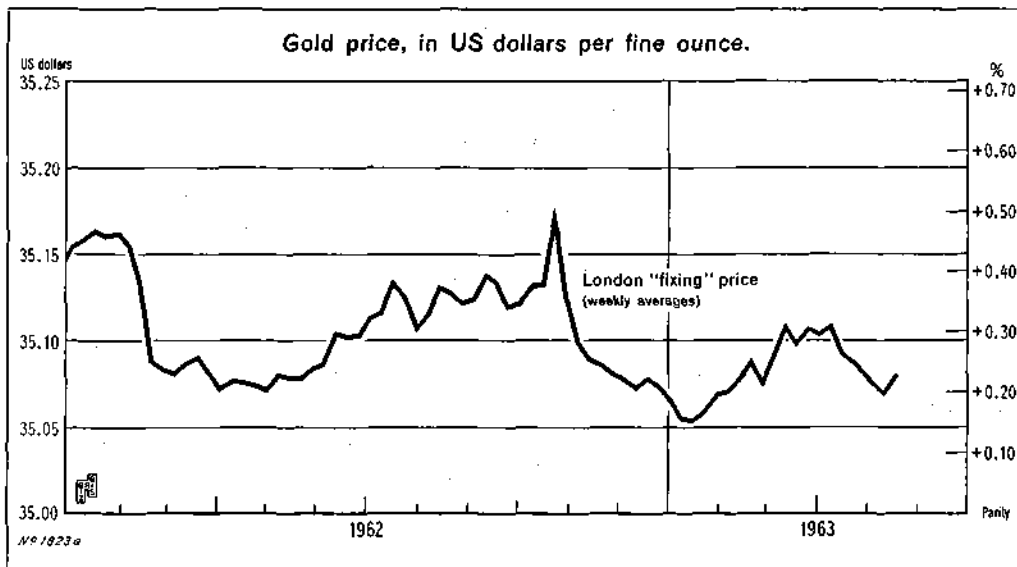
Estimated sources and uses of gold.

Items	1958	1959	1960	1961	1962
	in millions of US dollars				
Gold production ¹	1,050	1,125	1,175	1,215	1,300
Sales by the USSR	220	250	200	260	220
Total	1,270	1,375	1,375	1,475	1,520
Increase in official gold stocks ²	680	695	335	630	330
Other uses ³	590	680	1,040	845	1,190

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

Detailed comment on the non-monetary uses of gold is a difficult matter. Such figures as exist, however, concerning industrial consumption of gold — a good deal of which is, in the last resort, personal consumption — not surprisingly suggest that it has been going up steadily in recent years and that it now amounts to at least \$400 million per annum. Except in the case of restrictions on the use of gold being suddenly removed or of rapid changes in taste, it would seem that very big increases from one year to another in private demand, such as occurred in 1960 and again in 1962, reflect hoarding because of political or economic uncertainties.

As already mentioned, the price of gold on the London market moved within relatively narrow limits, the total range of fluctuation being a little under 1/2 per cent. The direction of price changes indicates the main ebbs and flows of demand on the market, although the movement of quotations was moderated from time to time by central-bank action. A new phase opened on the gold market following the sharp October 1960 flare-up and there has subsequently been regular consultation between the monetary authorities of Belgium, France, Germany, Italy, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States, backed up, when it has seemed desirable, by joint action to maintain orderly conditions. Several other monetary authorities have co-operated in aspects of this effort. The



purpose of such action has been to avoid movements in the market price of gold that might of themselves aggravate speculative gold hoarding. The agent for the joint operations of the central banks is the Bank of England.

The table on page 116 shows that the annual fresh supply of gold has exceeded private demand by a substantial margin. Joint central-bank policy correctly anticipated that any excess of demand appearing on the market would be temporary and thus that central-bank gold put onto the market would be recouped in due course.

Turning to the course of events in the market, the period under review can be divided into three main parts. During the first one, which lasted from early March until well into May 1962, prices were rather stable though with a gradual downward trend, quotations falling from \$35.08¹/₂ to \$35.07. The relatively easy conditions that prevailed were partly the result of gold sales by the USSR, while in May offerings from the Canadian gold reserves added to supplies. On the other hand, supplies from South Africa were below current production, as that country added over \$100 million to its own gold reserve during the first five months of 1962.

In late May 1962 demand rose strongly following the sudden break on Wall Street and other stock exchanges. This coincided with a cessation of Russian offerings, though Canadian sales increased considerably to meet the outflow of funds from that country. By mid-June the price of gold had risen 3¹/₂ cents to \$35.10¹/₂ and, after moving narrowly around that figure for some weeks, went up further to \$35.14 in mid-July. Following Mr. Kennedy's affirmation on 23rd July of the US intention to keep the gold price unchanged, quotations eased somewhat; but demand continued to exceed supply during the following months and conditions remained uneasy. Then came the tension over Cuba, which produced a record turn-over in the market in late October. Although supplies were increased by renewed Russian sales, there was substantial official intervention to keep

market quotations in line and the peak "fixing" price, recorded on 25th October, was just under \$35.20.

The Cuban affair subsided as dramatically as it had blown up, and with it the period of uneasiness on the gold market, which had begun in May 1962, came to an end. The change in conditions was accentuated by the continuation of Russian sales until early in 1963. By late November the market price was down to about \$35.08 and a low point of \$35.05 was reached in mid-January 1963. At this time the downward pressures on the market already referred to were reinforced by some private sales as forward contracts entered into during July and October 1962 matured. Some effect was also produced by measures taken in India; in November 1962 an embargo was placed on forward gold dealings in that country and this was followed in January 1963 by the virtual disappearance of the free market in Bombay. Finally, in December 1962 and January 1963 South Africa sold some gold out of its official reserves, in addition to current output.

In March 1963 prices, which had already risen somewhat above their January low point, went up further to a little over \$35.11 in mid-month. A new peak, just below \$35.12, was reached on 11th April, after which quotations eased by mid-May 1963 to around \$35.08.

The experience of 1962 has shown that determined central-bank action is effective in preventing temporary political or economic disturbances from upsetting the gold market. The central banks acting in consort both sold and bought gold, but over the period as a whole purchases exceeded sales by a comfortable margin. The efficacy of this joint action lies to a large extent in the fact that there is no cut-and-dried scheme of rigid arrangements and objectives, but rather a continuous adaptation of tactics, evolved in the course of informal discussions, to changing conditions in the market. The knowledge that the authorities have at their disposal such a flexible and powerful force is itself a stabilising factor.

Gold and exchange holdings.

World gold reserves, as shown in the table, stood at \$41,440 million by the end of 1962, having gone up during the course of the year by \$328 million. Once again the main feature of the year was a further redistribution of gold from the United States to Europe; in addition, however, there were substantial declines in the gold reserves of Canada and a number of Latin American countries, partially offset by increases in the rest of the world.

The US gold stock declined by \$890 million during 1962 to a figure of \$16,057 million at the end of the year. Net sales to foreign countries accounted for \$833 million of the loss, the other \$57 million being the excess of US private demand over domestic production. US gold sales to European countries totalled \$1,105 million and a further \$93 million was sold to Asiatic countries; as against this, the United States bought \$190 million from Canada and \$175 million from Latin American countries.

Western Europe added \$1,182 million during 1962 to its official gold holdings, bringing them up to \$18,767 million at the end of the year. By far the biggest gainers were France and the United Kingdom, with increases of \$466 and 314 million respectively. Whereas France's gold reserve went up exactly in line with the country's total official monetary reserves — the gold proportion was 72 per cent. at the end of both years — the UK gold reserve went up simultaneously with a fall of some \$500 million in the

World gold and short-term dollar holdings.¹

Areas and countries	End 1961			End 1962			Change in 1961	Change in 1962
	Gold	Dollars	Total	Gold	Dollars	Total		
in millions of US dollars								
Western Europe								
Austria	303	255	558	454	329	783	+ 22	+ 225
Belgium	1,248	326	1,574	1,365	174	1,539	+ 262	- 35
Denmark	31	52	83	31	67	98	- 2	+ 15
Finland	47	91	138	61	73	134	+ 51	- 4
France	2,121	989	3,110	2,587	1,154	3,741	+ 950	+ 631
Germany	3,664	2,842	6,506	3,679	2,730	6,409	+ 59	- 97
Greece	87	67	154	77	119	196	+ 15	+ 42
Italy	2,225	1,234	3,459	2,243	1,384	3,627	+ 379	+ 168
Netherlands	1,581	216	1,797	1,581	248	1,829	+ 18	+ 32
Norway	30	105	135	30	125	155	+ 23	+ 20
Portugal	443	99	542	471	161	632	- 94	+ 90
Spain	316	153	469	446	177	623	+ 142	+ 154
Sweden	180	406	586	181	490	671	+ 189	+ 85
Switzerland	2,560	875	3,435	2,667	908	3,575	+ 572	+ 140
Turkey	139	26	165	140	25	165	+ 13	0
United Kingdom	2,268	2,227	4,495	2,582	1,617	4,199	+ 32	+ 296
Other ²	342	334	676	172	361	533	+ 147	- 143
Total western Europe . . .	17,585	10,297	27,882	18,767	10,142	28,909	+2,774	+ 1,027
Canada	946	2,758	3,704	708	3,349	4,057	+ 390	+ 353
Latin American republics of which Argentina	1,420	2,124	3,544	1,181	2,214	3,395	+ 26	- 149
Asia	1,355	2,974	4,329	1,507	3,426	4,933	- 25	+ 604
of which Japan	304	1,672	1,976	304	2,177	2,481	- 190	+ 505
Other countries ³	789	624	1,413	1,016	721	1,737	+ 182	+ 324
of which South Africa	298	32	330	499	39	538	+ 123	+ 208
All countries except the United States³	22,095	18,777	40,872	23,179	19,852	43,031	+3,337	+2,159
International and regional institutions	2,070	3,752	5,822	2,204	5,147	7,351	- 629	+1,529
Total³	24,165	22,529	46,694	25,383	24,999	50,382	+2,708	+3,688
United States	16,947	-	-	16,057	-	-	- 857	- 890
Grand total³	41,112	-	-	41,440	-	-	-	-

¹ Official and private short-term dollar holdings consist principally of deposits (demand and time) and US Government securities maturing in not more than one year from their date of issue; the latter, however, exclude non-negotiable, non-interest-bearing special US notes held by the Inter-American Development Bank and the International Development Association. 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 USSR, other eastern European countries and mainland China.

overall monetary reserves. This was the converse of what had happened in 1961, when the March crisis depleted the gold reserve and the IMF drawing in July augmented the currency reserve, so that for the year as a whole the total reserves rose by about \$100 million, whilst the gold reserve fell by \$532 million.

Smaller but still substantial additions to European gold reserves were made by Austria (151), Spain (130), Belgium (117) and Switzerland (107). In each of the first three of these countries the proportion of gold in the monetary reserves was raised during 1962. In Austria and Spain this proportion went up from rather under to rather over 40 per cent., in Belgium (where the total monetary reserves declined during the year) from 76 to 85 per cent. The increase in Switzerland's gold reserve during 1962 was more apparent than real, since a comparison of January 1962 with January 1963 shows a fall of \$50 million. There was in fact an increase (almost entirely in gold) of \$260 million in the external assets of the Swiss National Bank during December 1962; this arose out of end-of-year operations by the Swiss banking system, which led the Swiss National Bank to take gold temporarily from the BIS on a swap basis, partly against dollars and partly against Swiss francs. This operation is also reflected in the fact that "other" western European gold holdings, which include those of the BIS, were \$170 million lower at the end of 1962 than they had been a year earlier.

Outside Europe and the United States there were a number of changes in gold stocks during 1962. Canada's gold reserve was depleted during the second quarter of the year by just on \$300 million; a part of this was subsequently recouped, the decline for the year being \$238 million. Latin American gold reserves went down by \$239 million to a level of \$1,181 million at the end of the year; the biggest loser was Argentina (129), but there were also substantial declines in Brazil (59) and Colombia (31). In the rest of the world, on the other hand, there were some noticeable additions made to official gold holdings. Chief among them was the further rise of \$200 million in the South African reserve, which by the end of the year was almost three times what it had been two years earlier. Australia added \$28 million — roughly 75 per cent. of its annual gold production — to its gold reserve and there were purchases from the US gold stock by Lebanon (32), Burma (21) and Saudi Arabia (13). Gold reserves of international institutions rose by \$134 million, mostly because the IMF's holdings went up by \$118 million.

During the first quarter of 1963 the US gold stock showed a further decline of \$111 million. Continental European countries' gold holdings went up by about the same amount. The principal gains were \$122 million in France, \$70 million in Germany, \$68 million in Spain and \$43 million in Italy. Switzerland's gold reserve fell by \$206 million, for reasons already explained.

Foreign countries and international or regional institutions added \$2.5 milliard during 1962 to their short-term balances in dollars, bringing them up to a record level of \$25 milliard. Except for 1959, when the \$1 milliard increase of the US currency subscription to the IMF brought the total

rise to \$3.2 milliard, this was the largest increase recorded in any one year. Given that the US deficit was a little less than it had been in 1961 and that the reduction in the gold stock was roughly the same size in both years, it is at first sight surprising that foreign short-term dollar balances as reported by US banks should have gone up by twice as much as in the previous year. This was, however, partly offset by a decline of about \$1.2 milliard in other foreign liquid dollar assets, holdings of US Government bonds and notes with original maturities of more than one year being drawn down by \$0.7 milliard and those of other types of US Government liquid obligations by a further \$0.5 milliard.

All but \$55 million of the 1962 increase in short-term dollar balances was in official holdings. Balances owned by international or regional institutions went up from \$3.7 to 5.1 milliard; nearly half of this came from net dollar repayments to the IMF, whilst in addition other institutions shifted an amount of \$0.5 milliard from bonds and notes to short-term balances. The remaining \$1 milliard increase was in the official balances of foreign countries, which reached a total of \$12 milliard at the end of 1962. Privately-owned short-term dollars, though fluctuating between a high point of \$8.7 and a minimum of \$7.9 milliard, finished the year (as they had begun it) at the latter figure. The growth of markets in US dollars located outside the United States has meant that the country-by-country division of short-term dollar balances — particularly, but not only, inside Europe — can be quite misleading as to ownership. Nevertheless, the biggest changes in individual countries' holdings during 1962 appeared in places where they were to be expected. It is noticeable that Europe's total dollar balances were somewhat lower at the end of 1962 than they had been a year earlier; essentially this resulted from the fact that a further modest rise in continental holdings was more than offset by the reduction in British dollar balances brought about by restoring the normal gold proportion in the Exchange Equalisation Account's assets, partly through repayments to the IMF and partly through gold purchases.

Looking at the combined movements of gold and short-term dollars held by countries outside the United States and by international or regional institutions, the overall 1962 increase came to \$3.7 milliard — precisely \$1 milliard more than in 1961. This has already been explained in terms of a shift in the composition of foreign dollar assets, though it should be added that a part was offset by the smaller additions made last year to official gold stocks outside the United States. Furthermore, there was a shift within the total from countries to the IMF as between 1961 and 1962. In the former year the Fund had reduced its gold holdings by \$362 million, selling \$500 million of gold in exchange for currencies it was short of. It also lent on balance some \$300 million in US currency. In 1962 the Fund added \$118 million to its gold stocks and received net repayments in dollars totalling \$640 million. The counterpart of this shift is to be found in the lower rise of gold and dollars owned by countries other than the United States, the increase in European holdings being cut from \$2.8 to 1 milliard.

In the rest of the world gold and short-term dollar balances went up during 1962 by \$1.1 milliard, just twice as much as in 1961. The outstanding feature was the reversal of the Japanese balance of payments back to a surplus almost as substantial as that of 1960. In Canada, although gold and dollar holdings rose nearly as much in 1962 as during the previous year, it should be remembered that \$300 million was drawn from the IMF — though none of it actually in dollars. At the end of 1962 Canada's official monetary reserves in fact stood \$484 million above the end-of-1961 level, after very wide fluctuations during the year. In the first five months of 1962 they declined by \$563 million; and there must have been substantial further losses in the first three weeks of June, since the rise of \$316 million for that month was after taking credit for external assistance totalling \$650 million received in the last few days of it. The end-of-year figure of \$2.5 milliard, therefore, apart from being the highest ever recorded for Canada (during the period when the exchange rate was not fixed the reserves fluctuated rather narrowly just below \$2 milliard), was perhaps as much as \$1.5 milliard above the low point recorded during June.

The US international liquidity position.

As the external deficit was hardly smaller than in 1961, the United States continued and elaborated during 1962 the defensive policies inaugurated the previous year with the object of enabling it to live with the deficit while it lasts. The adoption of these policies has meant that the United States must have access to resources in foreign currencies. As a deficit country it has only occasional opportunities (other than by gold sales) of acquiring such resources outright and it has therefore been led to borrow foreign currencies, sometimes at short term and sometimes for longer periods.

The main way in which the United States has arranged to borrow abroad at short term has been by means of a network of reciprocal currency arrangements — usable in the form of swaps — between the Federal Reserve System and the monetary authorities of the countries listed in the next table, plus the BIS. Although nearly all these swap facilities were arranged on US initiative, they are, of course, mutual credit facilities. Moreover, the Canadian one was entered into on the initiative of the Canadians in June 1962 and at once drawn in full by them, while the Belgian one has on several occasions been used by the National Bank of Belgium. At the end of 1962 the network of swap facilities amounted to \$900 million, which the United States had drawn on to the extent of \$265 million and used to the extent of \$220 million.

The US Treasury, too, has from time to time borrowed at short term from foreign countries, either against the issue of non-marketable securities or by means of swaps. The Treasury has also, since the autumn of 1962, borrowed for periods of over one year by issuing securities. Both its short-term and longer-term borrowings are listed together on the right-hand side of the table. Out of the total of \$712 million outstanding at the end of

United States: Special borrowing arrangements
with foreign countries.

Partners	Federal Reserve System swap facilities*		US Treasury special foreign borrowing	
	End of 1962	March 1963	End of 1962	March 1963
amounts outstanding, in millions of US dollars				
Austria	50	50		
Belgium	50	50		
Canada	250	250		125
England	50	50		
France	50	100		
Germany	50	150		200
Italy	150	150	200	258
Netherlands	50	50		
Sweden	—	50		
Switzerland	100	100	99	129
Bank for International Settlements	100	100		
Total	900	1,100	299	712

* The figures refer to the facilities available, not to the use made of them.

March 1963, \$529 million was expressed in foreign currencies, while special US dollar issues amounted to \$183 million, of which \$125 million was held by Canada and \$58 million by Italy. At the same date only \$48 million had been borrowed for a period of less than one year. However, not all of the remaining \$664 million was in non-liquid form, since \$350 million of the non-marketable securities issued for periods of more than one year may be converted at two days' notice, at the option of the holder, into non-marketable three-month certificates of indebtedness.

The operational forms which US policies in this field have taken are, broadly speaking, three. First, the United States intervenes in the exchange markets, spot and forward, in order to forestall or damp down movements that lead to accumulations of dollars in the hands of foreign monetary authorities, for whom the dollars are convertible into gold at the US Treasury on request. Secondly, when such movements occur and it seems likely that they may be reasonably quickly reversed, the US authorities take steps to ensure that the additional dollars in question are not converted into gold by relieving the holders of the exchange risk. Thirdly, in certain cases — either where unbalanced situations continued for longer than was at first expected or, more generally, where a country has dollar reserves in excess of what it is likely to require in the short run — the US Government has issued non-marketable securities, expressed sometimes in dollars and sometimes in foreign currencies, with a life of between one year and five years.

Taking the year 1962 as a whole, the direct effects of the Federal Reserve System's swap operations and of the US Treasury's foreign currency borrowings were as follows. An amount of \$220 million was drawn by the Federal Reserve System on its swap facilities and used to buy dollars from

foreign holders, thus substituting for dollars held outright by them an equivalent amount of dollars sold forward to the United States and therefore not likely to give rise to demands on its gold stock. In addition, some \$45 million was drawn on swap facilities and not used, thus increasing by that amount both foreign-owned dollars and US official holdings of convertible currencies. So far as the Treasury's fresh borrowings of \$250 million in foreign currencies are concerned, these were all used to substitute non-liquid liabilities expressed in foreign currencies for liquid liabilities in dollars. This meant a corresponding reduction in the US balance-of-payments deficit for 1962.

Drawings, by both the United States and Canada, on swap facilities added \$410 million to US official currency holdings during the first half of 1962. On the one hand, the Federal Reserve System drew \$160 million — \$50 million each on Belgium, the United Kingdom and France, and \$10 million from the Netherlands. None of these drawings was used before mid-year, the Belgian, British and French ones being made simply in order to test procedures. On the other hand, Canada drew in full on its \$250 million swap facility with the United States in June 1962.

The US Treasury, for its part, received \$74 million in gold and \$65 million in francs from the Swiss National Bank in the first half of the year against dollars required by the latter to meet the weakening of the market position of the franc between February and May 1962. The Swiss francs were mostly used to pay off maturing forward contracts previously entered into by the US Treasury, which also liquidated during this period \$46 million of Swiss franc certificates of indebtedness issued in the autumn of 1961 to the Swiss National Bank. Also during the first half of 1962 the US Treasury borrowed \$75 million of lire at short term from Italy, for use in spot or

United States: Changes in external liquidity.

Items	1962			
	1st quarter	2nd quarter	3rd quarter	4th quarter
	in millions of US dollars			
Gold sales (—) to foreigners and international institutions	— 291	— 102	— 434	— 6
Increase (+) in official holdings of convertible currencies	+ 114	+ 324	— 104	— 351
Increase (—) in short-term liabilities to foreigners	— 681	— 858	— 452	— 475
<i>of which to</i>				
<i>International and regional institutions</i>	— 607	— 151	— 397	— 204
<i>Other official holders</i>	+ 472	— 737	— 413	— 374
<i>Foreign banks</i>	— 447	+ 249	+ 213	+ 140
<i>Other private holders</i>	— 99	— 219	+ 145	— 37
Change in foreign holdings of US Government bonds and notes (increase —)	+ 283	+ 214	+ 192	+ 39
Change in other US Government liquid liabilities to foreigners (increase —)	+ 115	+ 115	+ 115	+ 115
Total change in liquidity position	— 460	— 307	— 683	— 678
Increase (+) in short-term claims on foreigners reported by banks in the United States	+ 166	— 92	— 69	+ 290

forward operations designed to minimise the accumulation by Italy of dollar reserves. Altogether, US official holdings of foreign currencies rose by \$438 million in these six months.

During the latter half of the year, these balances were reduced by \$455 million. Two main causes of this movement may be discerned. One was that Federal Reserve System holdings of currencies obtained through the utilisation of swap facilities declined by \$365 million, the British and French swaps being placed on a stand-by basis in August and the Canadian one being liquidated in stages by the end of the year. In addition, most of the \$75 million of lire that the Treasury borrowed in January and March 1962 was used after mid-year, to absorb a seasonal inflow of dollars to Italy.

There were also, during the latter part of 1962, Federal Reserve and Treasury operations in foreign currencies which had not been liquidated by the end of the year and which do not show up in the quarterly figures of US currency holdings, since the currencies in question were drawn or borrowed for immediate use. First, in July and August 1962 \$110 million out of a total of \$200 million Swiss franc swap facilities arranged with the Swiss National Bank and the BIS was drawn on and used by the United States to help absorb the inflow of funds to Switzerland that occurred between May and July 1962. At the end of the year the use still being made of these facilities amounted to \$105 million. Secondly, the Federal Reserve System drew in full on a \$50 million facility with Austria in October 1962 and used the proceeds to buy dollars from the Austrian National Bank. Thirdly, it employed \$50 million of its swap facility with Italy to absorb an end-of-year flow of dollars to that country in December 1962. Fourthly, the US Treasury borrowed \$225 million of fresh money in this period, \$125 million in lire and \$100 million in Swiss francs, using the proceeds to buy dollars held by Italy and Switzerland.

Another feature of the US external liquidity position in 1962 was the shift of foreign dollar balances from official to private hands during the first quarter and then back again during the following nine months. This reflected notably the export and subsequent repatriation of funds by the German banking system. It is of interest that non-bank private holders added to their short-term dollar balances during the year and that only in the third quarter were private dollar balances, bank and non-bank taken together, reduced. About half this reduction came from the German banking system in September 1962, for internal reasons. There was no repetition in 1962 of the late-1960 or spring 1961 flights from the dollar — and for this a part of the credit must go to the exchange operations of the US authorities.

The US balance-of-payments deficit for the first quarter of 1963 has been provisionally estimated at about \$800 million. As the gold stock and convertible currency assets declined by only \$78 million, over \$700 million of the quarter's deficit must have been financed by additions to liquid foreign liabilities. Of this amount, \$131 million can be accounted for by the increase in the US banking system's short-term liabilities to foreigners. Privately-held

short-term dollars went up by \$488 million, whilst those of foreign official holders and of international institutions were reduced by \$192 and 165 million respectively. Details are not available of the remaining increase of between \$550 and 600 million in liquid liabilities, but it would appear that a good part may be accounted for by the fact that the US Treasury issued \$325 million of non-marketable securities which represent liquid liabilities to foreign countries, \$200 million to Germany and \$125 million to Canada. Total new foreign borrowing by the Treasury amounted to \$413 million for the quarter. The Federal Reserve System's swaps with Austria and Italy were liquidated, so that outstanding drawings on swap facilities may be estimated to have been reduced by the end of the quarter to about \$150 million, not all of which had actually been used. Since the end of the first quarter there has been a further extension of these arrangements. The most important event was the raising, announced on 30th May 1963, of the reciprocal currency arrangement between the Federal Reserve System and the Bank of England from \$50 to 500 million.

European monetary reserves.

The rise in western Europe's official monetary reserves during 1962, at \$1.8 milliard, was \$0.7 milliard below what it had been the year before. At the same time its distribution between countries on the whole reflected a better balanced situation. To see these two points clearly, it is necessary to go beyond the movements that occurred in central-bank or other official holdings of gold and foreign exchange and to look as well at these countries' net IMF positions and at a new kind of reserve asset which certain of them have begun to acquire since the autumn of 1961.

Taking the continental countries first, they had added \$2.4 milliard to their net official gold and exchange reserves during 1961, as well as lending

Western Europe: Monetary reserve movements.

Years	Countries or areas	Official gold and foreign exchange reserves	Net IMF position	Other	Total
		in millions of US dollars			
1961	Continental Europe	+ 2,375	+ 1,000	+ 45	+ 3,420
	United Kingdom	+ 90	- 1,050	-	- 960
	Total	+ 2,465	- 50	+ 45	+ 2,460
1962	Continental Europe	+ 1,220	- 210	+ 250	+ 1,260
	United Kingdom	- 510	+ 1,060	-	+ 550
	Total	+ 710	+ 850	+ 250	+ 1,810
Change, 1962 over 1961	Continental Europe	- 1,155	- 1,210	+ 205	- 2,160
	United Kingdom	- 600	+ 2,110	-	+ 1,510
	Total	- 1,755	+ 900	+ 205	- 650

\$1 milliard through the IMF; in 1962 their net reserves went up by \$1.2 milliard, they bought \$250 million of US Government securities denominated in foreign currencies and they reduced their IMF lending by roughly the same amount. For them, therefore, the difference between the two years in the movement of official reserves was a matter of \$2.2 milliard — more or less the amount by which their current external accounts deteriorated in 1962.

For the United Kingdom the change between 1961 and 1962 was one of \$1.5 milliard in the opposite direction. During the first of these two years the first-line reserves had been protected by large-scale international assistance — to begin with through the Basle arrangements and later by drawing on the IMF. In 1962 the Fund drawing was paid off, leaving the first-line reserves \$0.5 milliard lower than they had been at the beginning of the year.

Looking at the European countries that added to their monetary reserves in 1962, France easily heads the list. The overall surplus of the balance of payments excluding special transactions, at \$1,185 million, was hardly less substantial than the year before. But, whereas in 1961 roughly three-quarters of it had been reflected in an increase in official reserves, first-line and second-line, in 1962 half was applied to paying off debt in advance.

France: Utilisation of external surplus.

Items	1961	1962
	in millions of US dollars	
Surplus	+ 1,270	+ 1,185
Corresponding to		
1. Debt prepayments	- 320	- 590
2. Monetary movements (increase in assets -)	- 950	- 595
<i>of which</i>		
Increase (-) in gold and convertible currency holdings	- 870	- 670
Increase (-) in net IMF position	- 225	- 10
Change in other net official assets (increase -)	+ 25	- 5
Deterioration (+) in net position of the banking system	+ 120	+ 90

The official holdings of gold and convertible currencies rose by \$670 million, which was \$200 million less than the increase recorded for 1961. Given that the ordinary overall surplus fell by \$85 million and that debt prepayments were up by \$270 million, it follows that the effect on the first-line monetary reserves of movements in other monetary items was more favourable than in 1961 by about \$155 million.

On the one hand, other countries' borrowings of francs through the IMF were much smaller. In 1961 France's net IMF position had in fact improved by \$225 million, whereas in 1962 borrowings and repayments of francs through the Fund were of about equal size.

Partly offsetting this was the somewhat smaller deterioration than in 1961 of the banking system's net external position. The reasons for this deterioration were the same as in 1961. First, non-residents continued to build up their working balances in French francs, by \$55 million. Secondly,

European countries: Reserve positions.

Countries	End of year	Net reserves	Net IMF position	Net reserves plus or minus net IMF position	Gross IMF position	Net reserves plus gross IMF position
		in millions of US dollars				
Austria	1960	688	19	707	94	782
	1961	823	19	842	84	917
	1962	1,051	26	1,077	101	1,152
Belgium-Luxemburg . . .	1960	1,404	85	1,489	434	1,838
	1961	1,837	157	1,794	507	2,144
	1962	1,802	133	1,735	483	2,065
Denmark	1960	230	33	263	163	393
	1961	236	33	269	163	399
	1962	211	33	244	163	374
Finland	1960	274	14	288	71	245
	1961	305	14	319	71	376
	1962	267	14	281	71	336
France	1960	2,070	202	2,272	989	3,059
	1961	2,939	427	3,366	1,214	4,153
	1962	3,610	439	4,049	1,226	4,836
Germany	1960	6,635	309	6,944	1,096	7,731
	1961	6,457	637	7,094	1,425	7,862
	1962	6,356	517	6,875	1,305	7,663
Greece	1960	224	15	239	75	299
	1961	251	15	266	75	326
	1962	270	15	285	75	345
Italy	1960	3,080	68	3,148	338	3,418
	1961	3,419	243	3,662	513	3,932
	1962	3,441	203	3,644	473	3,914
Netherlands	1960	1,646	121	1,767	533	2,179
	1961	1,676	243	1,919	655	2,331
	1962	1,702	203	1,905	615	2,317
Norway	1960	272	25	297	125	397
	1961	269	25	294	125	394
	1962	265	25	290	125	390
Portugal	1960	794	—	794	—	794
	1961	691	15	706	—	691
	1962	792	15	807	75	867
Spain	1960	541	— 28	513	123	664
	1961	863	23	886	173	1,036
	1962	1,007	38	1,045	188	1,195
Sweden	1960	471	38	509	188	659
	1961	641	63	704	213	854
	1962	748	48	796	198	946
Switzerland	1960	2,320	—	2,320	—	2,320
	1961	2,754	—	2,754	—	2,754
	1962	2,868	—	2,868	—	2,868
Turkey	1960	31	— 11	20	75	106
	1961	96	— 21	75	65	161
	1962	84	— 27	57	59	143
United Kingdom	1960	3,231	488	3,719	2,436	5,669
	1961	3,318	— 559	2,759	1,392	4,710
	1962	2,806	502	3,308	2,452	5,258

Note: 1. Net reserves consist of central-bank and/or other official holdings of gold and foreign exchange, excluding IMF positions and claims or debts arising out of the liquidation of the EPU. The figures are also net of any other foreign exchange liabilities shown in the central-bank returns or other official sources, except for the UK sterling liabilities. For France, Italy, Spain, Switzerland and the United Kingdom the net reserves consist of gold and convertible currencies only. For Germany they exclude non-freely-usable balances which (ignoring claims arising out of the liquidation of the EPU) amounted at the end of 1960, 1961 and 1962 to \$421, 353 and 351 million respectively. 2. Net IMF position is gold subscription minus the member's net drawings or plus the Fund's net sales of its currency. 3. Gross IMF position is twice the member's quota minus the Fund's actual holdings of its currency.

residents again reduced their holdings of foreign exchange. As the banks required to make up for this loss of exchange resources, they borrowed abroad and their foreign exchange liabilities thus showed a rise of \$230 million, compared with one of \$195 million in their foreign exchange assets.

Partly as a result of some decline in the large current surplus, but mostly because of the debt prepayments, France's monetary reserves at the end of 1962 were only \$125 million higher than they had been in mid-year. In the first five months of 1963, however, and after a further debt prepayment of \$60 million, the reserves went up by nearly \$600 million to \$4.2 milliard at the end of May.

The next largest increases in European net reserves occurred in Austria and Spain, where rises of \$228 million and \$144 million were recorded. Austria's balance-of-payments surplus was \$95 million greater than in 1961, while that of Spain was smaller by about \$175 million, changes on current external account being the cause in both cases.

In Portugal, Sweden and Switzerland there were increases in net reserves of about \$100 million each. The Portuguese situation had been adversely affected in 1961 by the Angola crisis and the monetary reserves dropped from \$800 to 660 million in the first three quarters of that year. The balance of payments then began to improve, and by March 1963 the Portuguese reserves stood at \$776 million.

Sweden, like Spain, added less to its reserves than in 1961. There was some deterioration on current account, though the position remained about in equilibrium. Capital inflow, however, was \$100 million less than the previous year. This was a more normal state of affairs, since a good part of the \$170 million increase in reserves in 1961 resulted from foreign borrowing induced by the domestic credit squeeze then in force.

Switzerland's balance-of-payments situation continued in 1962 to be the battlefield of two conflicting forces. On the one hand, domestic economic conditions have put the current external account into substantial deficit. On the other hand, external events once again brought money into the country on a scale sufficient to have produced a large increase in monetary reserves and domestic liquidity, had the authorities not taken compensatory action. As it was, the current-account situation was not reflected at all in the movement of reserves for the year as a whole. What was achieved, however, was that the total of all external transactions was prevented from adding to domestic liquidity at a time of deficit in the current balance of payments.

The year 1962 began with a fall of \$70 million in reserves during January, as the end-of-year operations of the banking system were reversed. There followed a period, marked by the absence of speculative capital movements, in which the current-account deficit affected the reserves. By the end of May 1962 they had fallen by a further \$110 million to a level of \$2,574 million. Then the inflow of funds set off by the US stock exchange decline

caused the National Bank to buy \$265 million of dollars, and by mid-July 1962 the reserves stood at \$2,775 million. During the following six weeks, thanks in large part to official operations, over \$200 million of this inflow was offset.

Between the end of August and the end of November 1962 the Swiss monetary reserves showed very little change on a month-to-month basis. But there were two operations during this period without which they would certainly have increased. The first was when the US Treasury provided forward cover for \$30 million of dollar investments by the Swiss banks in October, so enabling the National Bank to put back into the market over half of the \$55 million bought in the course of three days at the height of the Cuban crisis. The second was when during October and November the US Treasury sold \$48 million of five and eight-month certificates of indebtedness expressed in Swiss francs to the Swiss National Bank and used the proceeds to buy gold from the National Bank. The reduction in Swiss monetary reserves brought about by these latter operations was more apparent than real: what took place was a change in the form in which a part of them was held.

Then came the usual end-of-year operations by the banks and their consequences. This led to a rise of \$260 million in the reserves during December, followed by a decline of \$220 million in January 1963. The National Bank avoided having to increase its exchange reserves over the end of the year by means of a swap with the BIS against gold. At the end of March 1963 the Swiss monetary reserves stood at \$2,634 million, just above the level of twelve months previously.

Three of the most important western European countries, which until 1961 had accounted for a good part of Europe's balance-of-payments surplus, showed very little change in their monetary reserves last year. They are Germany, Italy and the Netherlands. Both Italy and the Netherlands were in underlying equilibrium. Germany's reserves, however, would have shown a considerable fall but for repayments on past loans made through the IMF and sales of foreign assets by the banking system.

1962 was the second successive year in which Germany's official holdings of gold and convertible currencies declined. More notable than this was the fact that the 1962 decline, which was very slight and amounted to only 1½ per cent. of the reserves held at the beginning of the year, reflected a real deficit position, whereas in 1961 only large-scale prepayment of debt had prevented a big rise in monetary reserves. Another difference between the two years is that during 1961 changes in the net IMF position and in the foreign position of the banking system (excluding end-of-year operations) had more than offset the decline in the Bundesbank's holdings of gold and freely-usable exchange, while in 1962 the opposite was the case.

So far as the foreign operations of the banking system are concerned, the difference between 1961 and 1962 is not apparent from the annual

figures. This is chiefly because of the very large end-of-year operations that took place in December 1961. If the fourteen-month period from the end of 1960 to the end of February 1962 is taken, however, the banks' foreign assets are seen to have risen during this time — thanks principally to the lowering of domestic interest rates and to the dollar swap facilities for money exports — from \$564 to 1,830 million. Only a part of this was offset by the increase from \$1,165 to 1,335 million in their foreign liabilities, so that their net foreign position turned round from a negative figure of \$600 million at the beginning to a positive one of just on \$500 million at the end of the period. There followed a tightening of the banks' domestic liquidity position, which coincided with a decision of the monetary authorities — taken partly in the light of the very large scale of the end-of-year operations in December 1961 — to try and encourage the banks to hold more of their liquid assets at home. The result was that between end-February and end-November 1962 their foreign assets declined from \$1,830 to 1,268 million. Together with a rise of \$170 million in liabilities, this brought their net foreign position back to a negative figure of \$235 million.

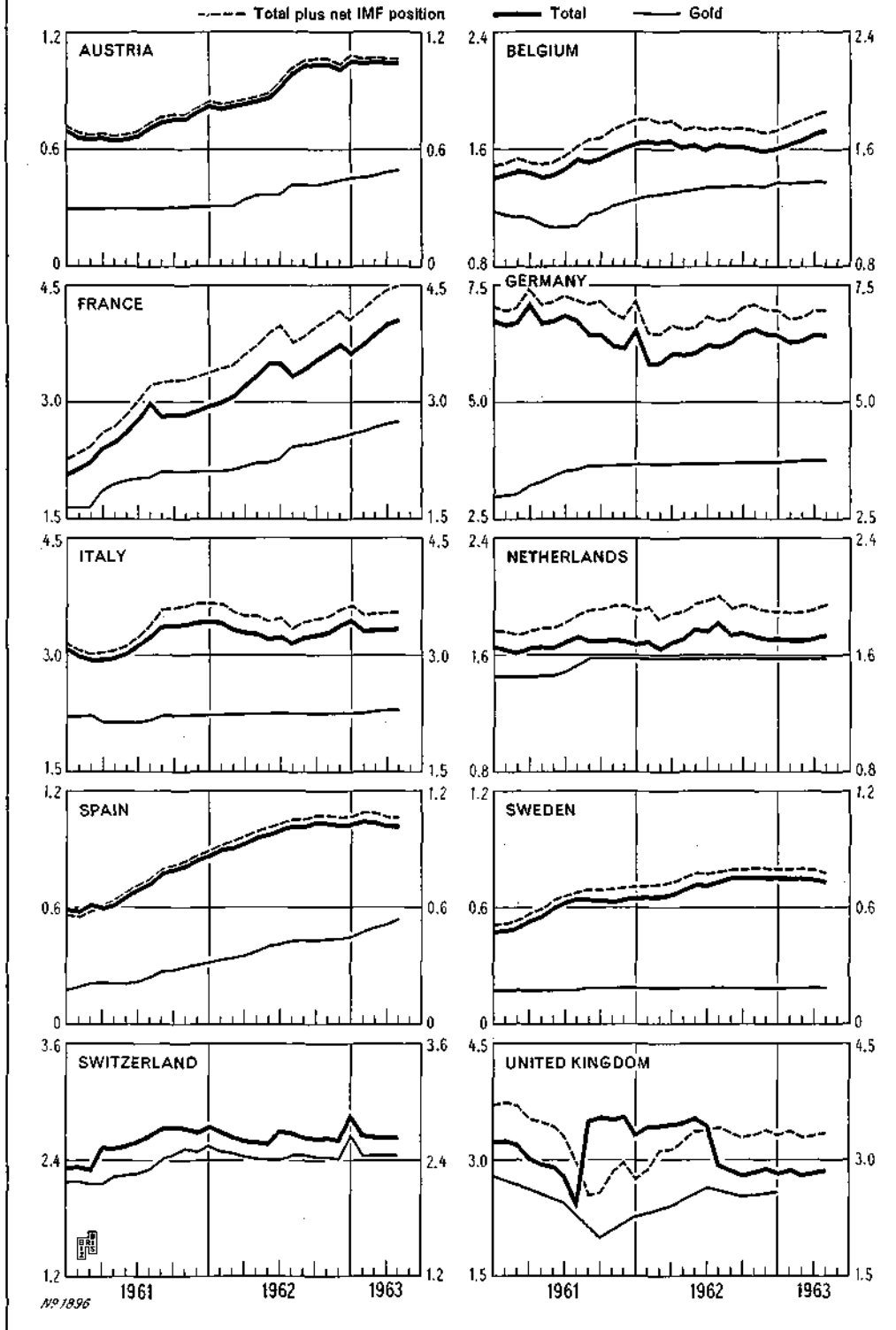
One can say, therefore, that between end-December 1960 and end-February 1962 the banks exported a net amount of roughly \$1,100 million, while net DM drawings on the IMF totalled the equivalent of \$284 million. Together these two items made calls on the central official reserves of nearly \$1,400 million. In the following nine months the reserves benefited from a reduction of \$730 million in the net foreign position of the banks, as well as from net repayments of Deutsche Mark drawn on the Fund to the tune of \$75 million.

Between end-November 1962 and end-March 1963 the situation reversed itself again. The banks improved their net foreign position by \$90 million, and a net amount of \$5 million was drawn in Deutsche Mark on the IMF. The Bundesbank's net holdings of gold and freely-usable currencies, however, fell by only \$42 million.

At the end of 1962 Italy's official holdings of gold and convertible currencies stood at \$3,441 million, only \$22 million above the end-of-1961 figure. This movement corresponded fairly closely to the surplus of \$50 million recorded in the balance of payments for 1962. In the course of the year, however, the reserves fluctuated considerably, falling in the first seven months and then rising by about the same amount in the last five. Moreover, there also occurred during the year other, even larger, monetary movements; for the year as a whole, however, these very nearly offset one another. The next table shows the various developments.

The decline of \$265 million between January and July 1962 in the official reserves resulted entirely from certain operations of the Italian Exchange Office. Of these, the most important were a debt prepayment of \$180 million to the United States and purchases of \$75 million of US Government paper denominated in lire.

Official gold and foreign exchange holdings and net IMF positions.
End-of-month figures, in milliards of US dollars.



Italy: Monetary movements.

Items	1961	1962	1962	
			January to July	August to December
in millions of US dollars				
Official gold and exchange reserves	+ 340	+ 20	- 265	+ 285
Other monetary movements	+ 235	+ 30	+ 280	- 250
<i>of which</i>				
<i>Italian Exchange Office</i>	+ 75	+ 495	+ 305	+ 190
<i>Bank of Italy</i>	+ 200	- 35	- 50	+ 15
<i>Commercial banks</i>	- 40	- 430	+ 25	- 455
Total (=balance-of-payments surplus)	+ 575	+ 50	+ 15	+ 35

The rise in reserves during the last five months of the year of course was partly the result of the seasonal improvement in the balance of payments. Its main cause, however, was the very large increase that occurred in the net foreign liabilities of the banking system. All of this came about after 1st November 1962, when the banks were dispensed from the obligation imposed on them in 1960 to maintain a balanced position in foreign currencies vis-à-vis non-residents. The authorities felt able to relax this restriction at that particular moment because the balance-of-payments surplus had disappeared and renewed foreign borrowing by the banks would therefore not be additional to an already existing inflow of exchange from other transactions. The banks in fact proceeded to borrow on such a scale that, had it not been for further foreign investments by the Exchange Office — \$125 million of which represented fresh US Treasury borrowing in lire and the remainder Italian purchases of parts of the country's outstanding external debt — the official reserves would by the end of the year have considerably more than regained their end-of-1961 level.

Taking the year as a whole, the foreign investments of the Exchange Office were somewhat in excess of the increase in borrowing by the banking system and the moderate reduction in the Bank of Italy's external assets. The latter change corresponded approximately to the net repayments of lire to the IMF.

During the first quarter of 1963, when the US Treasury issued to Italy a five-year \$58 million non-marketable dollar note and the Federal Reserve System liquidated a \$50 million swap executed in December 1962, the monetary reserves declined by \$115 million.

The monetary reserves of the Nederlandsche Bank showed a small rise of \$26 million during 1962, to a total of \$1,702 million at the end of the year. As the balance of payments on current and capital account showed a deficit of \$50 million, it follows that non-reserve monetary movements produced a net inflow of \$76 million. This was due to two main factors. First, there were net repayments of florin drawings on the IMF totalling \$40 million and, secondly, the net foreign assets of the commercial banks declined by \$30 million.

The movements that occurred during the year in the official reserves were the opposite, on a smaller scale, of those that took place in Italy. That is to say, reserves rose by \$130 million in the first seven months, to fall again during the rest of the year by \$104 million. As an overall balance of payments near to equilibrium and net repayments of florins to the IMF were features of both halves of the year, these fluctuations roughly reflected opposite changes in the banks' foreign position. The two main phases were in March–July and from the beginning of August to mid-September. During the first of these the banks sold \$110 million of US dollars to the central bank, whilst during the second the central bank put back into the market some \$70 million.

Despite a balance-of-payments surplus, excluding monetary movements, of \$76 million, the gold and exchange reserves of the National Bank of Belgium went down during 1962 by \$35 million. As, in addition, Belgium's net IMF position declined by \$26 million, the overall deterioration in the official reserve position came to \$61 million. This was more than offset by rises of \$88 and 26 million respectively in the net foreign assets of the Belgian banks and the Luxemburg monetary institutions. There was also an increase of \$28 million in the National Bank of Belgium's portfolio of Belgian franc export acceptances.

The increase in the Belgian banks' foreign assets was the net result of a decline of \$172 million in their foreign exchange claims on the Belgian Treasury — which during most of 1962 was reducing its short-term foreign exchange debt — and of a rise of \$260 million in their other foreign exchange assets.

Towards the end of 1962, when the domestic capital market became temporarily less receptive to new government loan issues, the Treasury's short-term foreign exchange debt began to rise once more, increasing from about \$200 million at the end of November to more than \$300 million at the end of March 1963. The foreign exchange was sold to the central bank, whose reserves rose during these four months by \$91 million.

Denmark's balance of payments underwent a considerable deterioration in 1962. The root causes of this were the sharp increases in wages and salaries granted in 1961 and the compensatory rise granted in agricultural subsidies, which turned the Treasury cash position from surplus to deficit. The pressures engendered by these developments pushed the current external deficit up from \$110 to 255 million. Despite an increase in capital receipts from \$90 to 185 million, considerable drafts had to be made on the country's exchange reserves. Those of the Nationalbank fell by \$25 million to \$211 million at the end of the year, while the net foreign liabilities of the commercial banks rose by \$56 million. The combined foreign exchange position of the Nationalbank and the banks was thus drawn down by 40 per cent. during the year to the low level of \$126 million.

In mid-1962 a stabilisation programme was introduced, the main object of which was to put the Treasury back into surplus. For this purpose a sales tax of 9 per cent. was imposed on practically all goods at the wholesale level, all new public building starts were postponed and all public works in progress were slowed down. By November 1962 the fall in the combined exchange reserves had been halted and at the end of the first quarter of 1963 they stood \$45 million above the December 1962 level.

For much of 1962 monetary movements continued to be a prominent feature of the United Kingdom's balance of payments. The most important event in this field was the total repayment of the outstanding debt to the IMF.

During the first half of the year interest rates in London were attractive to foreign lenders, both in themselves and because they were expected to fall. There was therefore an inflow of funds, which shows up in the next table in the item "Miscellaneous capital", as well as accounting for part of the substantial positive balancing item. In addition, the rest of the sterling area's balance of payments was in surplus, as the rise in its London balances indicates. All these factors, combined with a surplus in the basic balance of payments and with some drawings of sterling from the IMF by other countries, allowed the debt to the Fund to be brought down from \$1 milliard to \$500 million, while leaving some room for increasing the first-line reserves.

By mid-year the underlying balance-of-payments situation was considered strong enough to justify paying off the remaining \$500 million owed to the

United Kingdom: Monetary movements.

Items	1961	1962		
		Total	1st half	2nd half
in millions of US dollars				
Gold and convertible currencies (increase —)	— 87	+ 512	— 115	+ 627
IMF sterling balances (increase +)	+ 1,047	— 1,061	— 505	— 556
Other sterling balances (increase +)	— 848	— 53	— 63	+ 10
<i>of which sterling-area balances</i>	+ 428	+ 123	+ 146	— 23
Miscellaneous capital (outflow —)	— 171	+ 314	+ 263	+ 51
Total (increase in net assets —)	— 57	— 288	— 420	+ 132
Balancing item (inflow +)	+ 134	+ 358	+ 182	+ 176

Fund. This was therefore done in July, and the gold and convertible currency holdings of the Exchange Equalisation Account fell from \$3.4 to 2.9 milliard. At the same time, however, the stand-by credit arranged with the Fund in August 1961 was renewed for a further year for an amount of \$1 milliard.

The first months of 1963 brought renewed pressure on the reserves. There were a number of reasons for this, the relative importance of which cannot be precisely gauged. The Brussels negotiations for the entry of the United Kingdom into the European Economic Community were suspended in January 1963 and there followed considerable public debate on the possible

future course of external economic policy, during which questions of exchange rate policy were well ventilated. Quite separately from but coinciding in time with these events, the exchange guarantee previously applied to official sterling holdings of EMA member countries was, by mutual agreement between the monetary authorities concerned, scaled down as from 1st March 1963. The pound came under pressure in the markets on two occasions during the first quarter of the year. The breakdown in Brussels led to a brief raid on sterling at the end of January, while in March there was more sustained selling of sterling. With the aid of deposits totalling \$250 million from a number of continental European central banks, the reserves were prevented from falling. In April the situation improved and the reserves rose by \$34 million to \$2,848 million.

International Monetary Fund.

1961 had seen the greatest calls made on the Fund's resources in any year since it began operations. In 1962 the pendulum swung right back the other way, so that, in place of net drawings of \$1.7 milliard, member countries' repayments exceeded new drawings by \$0.9 milliard. The table shows the geographical split-up of the Fund's operations in 1961 and 1962.

IMF: Net drawings (+)
and repayments (-).

Areas	1961	1962
	in millions of US dollars	
Sterling area	1,410	- 1,202
Latin America	259	- 68
Canada	-	300
Others	40	64
Total	1,709	- 906

The turn-round in operations with sterling-area countries roughly corresponded to the difference between the two years in the whole of the Fund's operations. Apart from those with the United Kingdom — which drew a net sum of \$1 milliard in 1961 and repaid the same amount in 1962 — the main sterling-area transactions were net drawings of \$175 and 123 million by Australia

and India in 1961, followed in 1962 by the total repayment of the Australian drawing. There had been widespread Latin American net drawings in 1961, by Colombia (65), Chile (59), Mexico (45), Brazil (40) and Argentina (30). In 1962 no Latin American country made individual net drawings of any size, while Mexico repaid its drawing. The turn-round in Latin American transactions was just about offset by the large Canadian drawing in June 1962. This by itself was more than 50 per cent. of the total gross drawings of \$584 million for the year. The next largest borrower in 1962 was Egypt, which drew \$57 million.

Only \$110 million, or rather less than 20 per cent. of gross drawings in 1962, was taken in US dollars. As dollar repayments amounted to some \$750 million, the Fund's holding of US dollars was restored to 75 per cent. of the US quota for the first time since operations began in 1947. In fact, the drawings outstanding on the Fund at the present time have their counterpart mainly in the creditor positions of continental European countries. This

reflects the wider range of currencies now available for use in the Fund's operations, as well as the close attention the Fund pays, in arranging the currency composition of drawings and repurchases, to the relative strength of the leading currencies. The Fund's policies in this respect were set out in a statement adopted by the Executive Directors on 20th July 1962.

Two further developments at the Fund should be mentioned. On 24th October 1962 the arrangements under which the Fund is entitled to borrow supplementary resources in the currencies of ten member countries, amounting to the equivalent of \$6 milliard in all, came into force. Switzerland, although not a member of the IMF, has been invited by the Fund to associate itself with these arrangements. In March 1963 a bill was submitted to the Swiss Parliament proposing that Switzerland participate in any currency support operations of the Fund up to a maximum amount equivalent to \$200 million. Secondly, on 27th February 1963 the Fund decided to create a new compensatory financing facility, normally amounting to 25 per cent. of the quota, for the benefit of developing countries, and in particular those of its members which depend heavily on exports of primary products. This facility will be available to meet difficulties caused by temporary declines in their export earnings; as it will not reduce the ordinary facilities available to them at the Fund, it means that in such cases the IMF may be prepared to raise its holdings of a member's currency above the normal maximum of twice the quota.

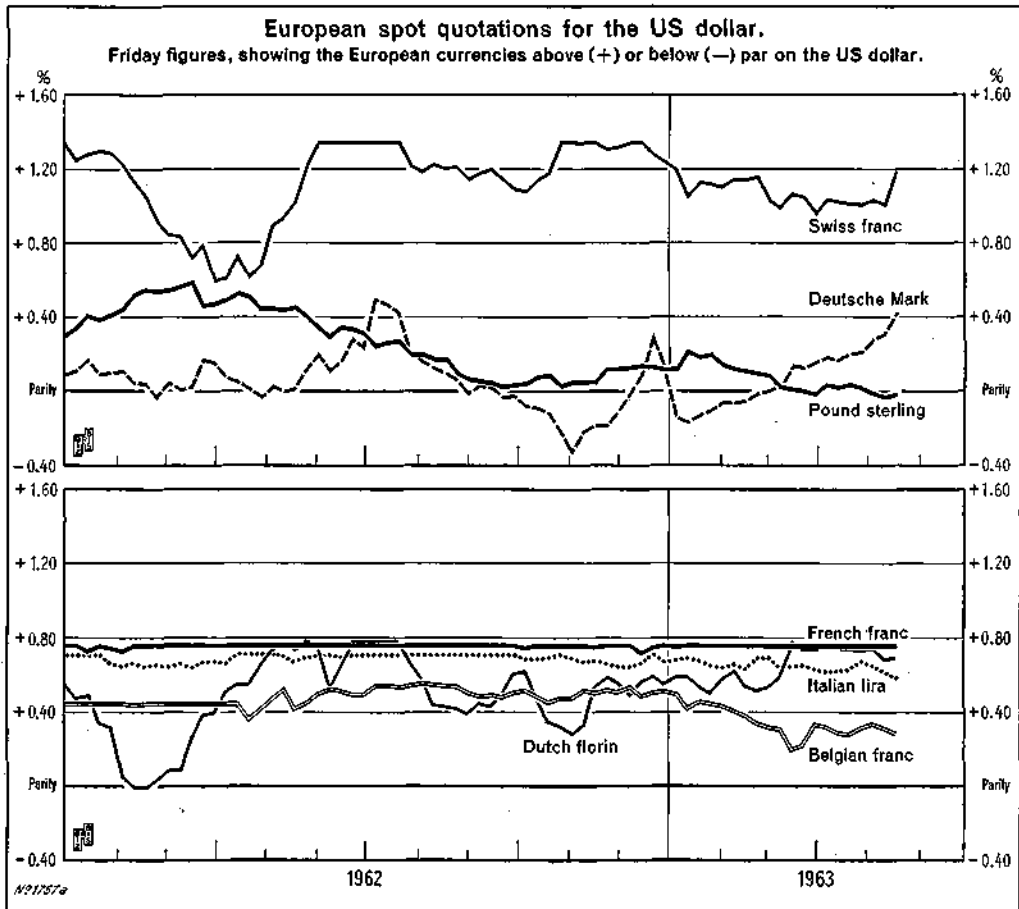
Foreign exchange.

During the twelve months ending in March 1963 the exchange markets, although visited on more than one occasion by potentially disruptive influences, suffered no disturbances comparable to those that had marked the spring of 1961. As mentioned in last year's Report, the Canadian dollar was given a fixed exchange parity early in May 1962. Most of the leading European currencies continued to be quoted above their US dollar parities on the spot markets, the French franc and the Italian lira once again staying at or very near to their upper limits practically the whole time. The Deutsche Mark did not regain the position it had held until the summer of 1961, while the pound came under pressure again in March 1963. In the forward exchange markets conditions have by and large reflected both the coming-together of interest rates in different centres and the absence of acute monetary uncertainties.

There were three examples during the period under review of funds moving rapidly between financial centres and producing uneasy market conditions. The first and most important of these was the outflow of money — mostly non-resident money — from North America between late May and late July 1962. The second in size was the withdrawal of funds from London in March 1963. The third, smaller in scale, was a by-product of the Cuban crisis. As it took the form of a general movement out of currencies into gold, rather than shifts from one currency to another, the effects on the exchange markets were relatively slight. On all three occasions international action contributed to the maintenance of orderly markets. The US monetary authorities, in addition

to carrying out exchange operations directly with their opposite numbers in certain European countries and Canada, continued and developed the policy (revived in 1961) of intervening directly in the exchange markets to support the dollar. Beginning in the spring of 1962, the Federal Reserve System (which had during the previous year acted solely as agent of the US Treasury in this field) joined with European central banks for its own account in performing this typically central-banking function.

Spot markets. For much of the period under review sterling was strong vis-à-vis the US dollar. In mid-March 1962 the pound stood at \$2.81³/₄ and, thanks to the favourable balance-of-payments factors mentioned earlier, two months later it was still comfortably above \$2.81. The sharp drop on Wall Street, by reactivating doubts about the price of gold, caused the dollar to weaken against continental currencies. In London, however, since the pound was also affected by these doubts, the dollar became firmer, the rate moving from \$2.81¹/₄ on 21st May to \$2.80¹/₂ on 5th June. Quotations remained at or slightly above that figure until mid-August. By then, seasonal factors had become less favourable, the current external account was no longer improving and London was losing its interest rate advantage over



other centres. Nevertheless, the pound, though a little easier, stayed just above par on the dollar throughout September and October — the Cuban crisis scarcely affected it — and strengthened towards the year-end.

The situation changed rather abruptly as it became clear that for the time being there could be no question of the United Kingdom's joining the European Economic Community. There was brief speculative pressure on the pound at the end of January 1963, resisted strongly by official intervention. The previous position was not, however, regained — though the rate remained well above \$2.80 until early March. Then came a second, stronger movement against sterling following discussion in the press and elsewhere of the merits of devaluation. Vigorous official intervention held the dollar rate at or very near \$2.80, where it has since remained.

At the end of April 1962 the rate for security sterling, at just above \$2.81, was scarcely different from the spot dollar rate on the official exchange market. This reflected the high level of overseas portfolio investment in the United Kingdom at that time. When the inflow declined to a lower level in mid-1962, at which it has since stayed, security sterling went to a slight but noticeable discount. For most of the time the difference between the two rates has been no more than 1 US cent. Between mid-March and mid-April 1963, however, the rate for security sterling was around \$2.78¹/₂.

The rate for investment dollars — used by UK residents to make investments outside the sterling area for which the official market may not be used — has shown wider movements. In May 1962 the two kinds of investment dollars, hard and soft, that had existed before were merged and at the same time permission was given for the new investment dollars to be used to finance, in addition to purchases of foreign currency securities, such direct investment outside the sterling area as the authorities were not prepared to see paid for via the official exchange market. At the end of May 1962 the investment dollar stood at rather over \$2.67, nearly 5 per cent. above the official rate; three months later it had fallen almost to \$2.73. Since then investment dollars have strengthened considerably. By mid-January 1963 they were at a premium of over 7 per cent., and following the breakdown of the Brussels negotiations this widened to 10 per cent. At the end of May 1963 the premium was still around 9 per cent.

During 1962 and early 1963 the German external position was fairly well in balance. Nevertheless there occurred some quite noticeable movements in the rate of exchange for the Deutsche Mark vis-à-vis the dollar. The first of these began at the end of May 1962, when the Mark, in common with other continental European currencies, strengthened appreciably as pressure on the dollar developed, and by early July the dollar rate was around DM 3.98. This movement was accentuated by the repatriation of foreign assets to which the German banks had recourse during June 1962 as internal liquidity tightened. On 20th June, in view of the general weakness of the dollar on the Continent, the Federal Reserve System — in agreement with the Bundesbank — began to sell considerable quantities of Deutsche Mark on the New York market.

The Deutsche Mark eased again from late July onwards and, after going below par at the very end of August, reached a discount of 0.35 per cent. by early November — its lowest point since the reintroduction of convertibility. The Federal Reserve System was able not only to buy back the Deutsche Mark it had sold during June and July but, in addition, to build up a net balance in that currency.

The Deutsche Mark began to recover after the first week of November, and by 10th December it was above par on the dollar. End-of-year operations, together with their early-January aftermath, caused the rate to rise sharply in late December and then fall back even more suddenly below par. As soon as this seasonal fluctuation was over, the Deutsche Mark began to strengthen again. By early March 1963 it was once more above par on the dollar, and since then it has become still firmer.

In contrast to the pound, the Swiss franc showed an easier tendency against the dollar during the first five months of 1962. In the absence of speculative movements of funds, it came increasingly under the influence of the country's trade deficit. The dollar rate reached nearly Sw.fr. 4.35 in early April 1962 and there was continuous intervention by the Swiss National Bank from mid-March until late May.

The heavy inflow of funds into Switzerland that began at the end of May quickly brought the dollar down to the National Bank's buying rate of Sw.fr. $4.31\frac{1}{2}$, where it remained until the US President's gold-price declaration of 23rd July. Thereafter the franc eased a little and the rate was mostly around Sw.fr. $4.32\frac{1}{2}$ until the Cuban affair brought the dollar back again to Sw.fr. $4.31\frac{1}{2}$, where it stayed for the rest of 1962. During the early part of 1963 the dollar was again somewhat firmer in Switzerland, though less so than it had been during the corresponding months of 1962.

With the Netherlands' underlying balance-of-payments situation more or less in equilibrium, the florin was quoted well above par on the US dollar during the period under review.

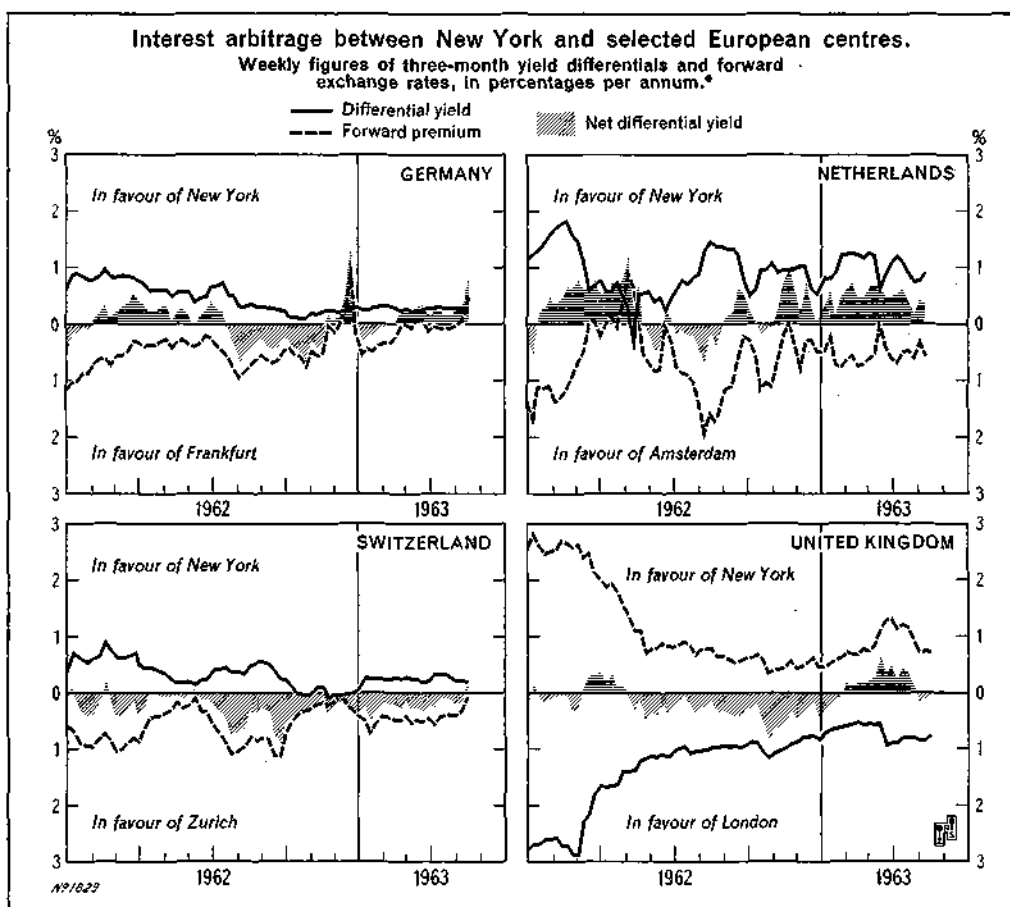
During the second quarter of 1962, when conditions on the Amsterdam money market were relatively tight, the net position in foreign currencies of the Dutch banking system deteriorated by \$75 million. The florin strengthened considerably vis-à-vis the dollar, reaching the upper intervention point in early May and remaining very firm (except for a brief interval in June) until late July 1962.

The international factors already mentioned in connection with other currencies kept the florin at or near its ceiling on the dollar during June and most of July 1962, until the general improvement in the showing of the dollar on the exchange markets. In September the dollar eased again vis-à-vis the florin in connection with the year's largest single tax payment in the Netherlands, which caused renewed pressure on bank liquidity. At this time the US Treasury offered small quantities of florins on the market in order to support the dollar. Some support was also given by the Federal Reserve

System during the Cuban crisis. The florin has again been very firm on the dollar during the first months of 1963 and in mid-March 1963 it rose to the upper intervention point.

During 1962 spot quotations for the Belgian franc vis-à-vis the dollar were rather stable at a premium level not much below that of the French franc and the lira. During the first two months of 1963, however, the dollar strengthened somewhat in Brussels, and on two occasions during this period the National Bank of Belgium made some use of the \$50 million balance acquired as a result of the swap carried out with the Federal Reserve Bank of New York in June 1962. Previously the swap had been partially used by the United States on a number of occasions between August and December 1962. In March 1963 the Belgian franc became firmer again.

Forward markets. In 1961, when the international financial system was being subjected to severe strains, the prices quoted for currencies on the forward exchange markets were the clearest symptom of the disturbances. It was therefore logical that in that year the US monetary authorities should have concentrated in the forward markets the main part of their efforts to



relieve pressure on the dollar — at one point in the spring of 1961 the US Treasury's forward sales of Deutsche Mark amounted to the countervalue of no less than \$340 million. A good indication of the change in conditions that has occurred since then is to be seen in the relatively smooth course of events in the forward markets during 1962, although official intervention was needed at times in order to keep things on an even keel.

In this field two general features may be said to have characterised the period under review. First, the range within which forward quotations for the dollar fluctuated was limited. Secondly, the spread between spot and forward dollar rates for the leading European currencies was much narrower than in 1961, for the most part not going beyond a point equivalent to a rate of interest of 1 per cent. per annum. For these improved conditions there were a number of reasons. Speculative pressures during 1962 never became as heavy as they had been the year before; interest rates in different financial centres came closer together; and effective action was taken by the monetary authorities on those occasions when market equilibrium showed signs of being upset.

These broad tendencies are illustrated in the preceding graph. The most obvious exceptions to them are provided by the marked widening of the discount on the forward dollar in Frankfurt, Zurich and Amsterdam in midsummer 1962. In the Swiss and Dutch cases these movements were countered by forward sales of francs and florins on the part of the US Treasury. The DM situation came back to equilibrium of its own accord. The forward premiums of the franc and the florin on the dollar diminished later in 1962, but there was an important difference between the two situations. The US authorities were able to liquidate their forward contracts in florins with the aid of spot purchases of that currency; in the Swiss case, however, the US Treasury still had some \$50 million of forward Swiss franc contracts outstanding early in 1963, despite having borrowed from the Swiss Government francs to the value of about \$80 million which were used to liquidate forward obligations.

The successive reductions of Bank rate in the United Kingdom from 6 to $4\frac{1}{2}$ per cent. during the first four months of 1962 were accompanied by a more or less complementary shrinking of the forward dollar premium in London, so that the net interest rate differential between London and New York on a covered basis, as measured by the respective Treasury bill rates, remained rather slight. During the middle months of the year, however, the net advantage moved in favour of London, until by October it was not far short of 1 per cent. An opposite movement began after the Cuban crisis and became more marked in early 1963, when, for reasons already given and following a further Bank rate reduction to 4 per cent., the pound came under considerable pressure. By March 1963 a net advantage of between $\frac{1}{2}$ and 1 per cent. had developed in favour of New York; this led the Bank of England to create the conditions in which the falling yield on Treasury bills might be reversed by making the market borrow at $\frac{1}{2}$ per cent. above Bank rate. This had the desired effect and the net interest advantage in favour of New York was reduced.

Other exchange developments. The continuation of generally satisfactory balance-of-payments situations in western European countries allowed a number of them to take the process of dismantling what was left of their exchange controls a stage further during the period under review.

In France two measures of liberalisation were put into effect at the end of 1962. First, French banks were given permission to accept French bank-notes held by banks abroad and to credit the sums in question to non-resident franc accounts. This means that the franc bank-note can no longer be quoted at a discount outside France, since it is now fully the equivalent of a deposit in a bank account in France. Of recent years the spread between the bank-note rate and the rate for telegraphic transfers had been very slight, the French authorities intervening when necessary to prevent the emergence of a substantial disagio. Secondly, the obligation imposed in 1953 on French exporters to sell from time to time a part of any foreign exchange they were holding on EFAC accounts was done away with, while at the same time the period for which exporters are allowed to retain that part of export proceeds which they are obliged to surrender was lengthened from one month to three months.

It should also be mentioned here that, as from 1st January 1963, the monetary unit of France ceased to be called the new franc and became once again the franc.

Austria has taken a number of steps towards greater exchange freedom. Perhaps the most important of these was the decision in August 1962 to accept the obligations of Article VIII of the International Monetary Fund, which requires the avoidance of restrictions on current external payments, of multiple exchange rates and of discriminatory currency practices. In the field of capital transactions, Austrian residents were given greater freedom in two stages last year. As from July 1962 they were allowed freely to purchase securities quoted on foreign stock exchanges. Since December 1962 they have been free, so long as they observe certain formalities, to make direct investments abroad; to reinvest profits earned abroad; to grant loans to foreign enterprises and, more generally, to give credits of any kind to non-residents for periods of up to five years, provided that the credits relate to trade transactions in which an Austrian resident is participating. At the same time the transfer of dowries and inheritances, as well as of emigrants' capital, was freed from restrictions.

Elsewhere in Europe, Italy and Spain have liberalised their regulations regarding capital transactions. As from 12th April 1963 residents of Italy were given permission to buy shares and bonds quoted on foreign stock exchanges. In Spain direct investments made by non-residents have since May 1962 benefited from the provision applied one month previously to their portfolio investments, namely that both interest and principal may be freely repatriated at any time, provided that the investment was made after July 1959. Since April 1963 non-residents have been allowed to acquire, without a special permit, a controlling interest in enterprises belonging to certain sectors of

Spanish industry. It is hoped that these measures will help to increase private foreign investment in Spain.

Two other exchange developments in western Europe may be mentioned. First, Portugal declared an official parity for its currency to the International Monetary Fund on 1st June 1962, just over a year after becoming a member of that institution. The parity is the same as the official rate of exchange in force since 21st September 1949, namely Esc. 28.75 = US \$1. The gold content is 0.0309103 grammes. Secondly, a new monetary unit came into being in Finland on 1st January 1963. It is the new markka, equal in value to 100 old markkas. Its gold content is 0.277710 grammes and the dollar parity is NFM 3.20 = US \$1.

On 1st April 1963 new exchange rates came into force for the Polish zloty and the Rumanian leu vis-à-vis other eastern-bloc countries. In the case of the Rumanian currency the changes are said to apply to non-commercial transactions. Whereas the Polish currency has been devalued by differing amounts against other eastern currencies, Rumania has revalued against Bulgaria, Hungary, Poland and the USSR, while lowering the exchange value of its currency, also by varying amounts, vis-à-vis other eastern countries. Against the Russian rouble the zloty has been adjusted from Zl. 15.15 to Zl. 15.33. In Rumania, on the other hand, the currency has appreciated from Lei 9.70 to Lei 8.30 vis-à-vis the rouble.

In Japan, at the same time as the measures described in Chapter I of Part II designed to discourage inflows of short-term funds, the regulations regarding foreign portfolio investment have been relaxed. On 1st August 1962 the waiting period for the repatriation of foreign capital invested in Japanese stocks and bonds was reduced from two years to six months, and on 1st April 1963 it was done away with altogether.

With effect from 22nd April 1963 the official margin of fluctuation for the yen against the dollar was widened from 0.5 to 0.75 per cent. on either side of parity. The new limits are Yen 357.30 and Yen 362.70 per dollar.

In New Zealand there was an easing of exchange controls on foreign capital in November 1962. Since then the repatriation of non-resident capital, including capital gains, has been allowed directly to the country of origin of the capital. Previously non-sterling-area capital invested in New Zealand could only be repatriated indirectly via a blocked sterling account in the United Kingdom.

1962 was a bad year for a number of Latin American countries. Domestic inflation, in some cases accompanied and partly caused by political instability, brought sharp falls in the internal and external values of the currencies of four of the most important of these countries — Argentina, Brazil, Chile and Colombia.

During the period under review the Argentine peso has depreciated very substantially. Following the departure of President Frondizi at the end of March 1962, the dollar exchange rate, which had been stabilised at Pesos 83 since the middle of 1959, began to fall sharply. By November 1962 it had declined to Pesos 150, concurrently with a further drop, from \$350 to 170 million, in the country's official gold and exchange assets. The cost of living was by then some 30 per cent. above what it had been at the beginning of the year. During the following months the gross exchange reserves stopped falling and the exchange rate recovered to about Pesos 135. Taxes of 10 and 20 per cent. continue to be applied to the proceeds of certain exports, while the system of import surcharges has been further developed. To these surcharges, which had previously ranged from 20 to 200 per cent., were added additional surcharges at the end of February 1963 on all categories of imports except raw materials. The effective range is now from 20 to 230 per cent. A new political crisis caused the government to suspend all gold and foreign exchange transactions in mid-May 1963.

In Brazil, too, the currency has markedly depreciated during the period under review. For this there have been three principal causes: domestic political uncertainties, rapid inflation and a lessening of capital inflow in the face of certain moves to control foreign investment in Brazil. It was owing to a political crisis that the authorities decided to close down the "free" exchange market in July 1962 and to grant a temporary monopoly in exchange transactions to the central bank. After a month in which imports were reduced to a very low level and financial transfers practically ceased, the market — rates on which are in fact officially controlled — reopened at a dollar rate of Cruz. 412, compared with Cruz. 367 before the closure. By September the rate had reached Cruz. 475. On the black market dollar quotations went from under Cruz. 400 in May to over Cruz. 700 by the end of August.

There followed a six-month period in which the "free" rate did not change, though on the black market the cruzeiro had reached over 800 to the dollar by early December, following the passing of a Foreign Capital Law containing complicated provisions for the registration of foreign capital, together with restrictions on remittances abroad. Foreign investors were, of course, also discouraged by the rapidity of inflation — the São Paulo cost-of-living index rose by 66 per cent. in the twelve months to February 1963. By April 1963 another adjustment of the "free" exchange rate had become inevitable and it was raised to Cruz. 620 = US \$1.

After two years of relative stability, during each of which prices rose by less than 10 per cent., rapid inflation returned to Chile in 1962 and the cost of living went up by nearly 30 per cent. The exchange system was modified in October 1962. The fixed official rate of Esc. 1.053 = US \$1, applicable to most trade and official operations, was abandoned in October 1962 after ten months and the rate allowed to move freely. By the end of the year quotations were at Esc. 1.66 and three months later they stood at Esc. 1.82 to the dollar. The floating rate for other transactions, which in January 1962

had been Esc. 1.38, weakened to Esc. 2.73 by November 1962. After a short rally quotations eased again, to reach Esc. 3.20 by the end of March 1963. In January 1963 Chile entered into a one-year stand-by arrangement with the IMF for an amount of \$40 million.

Following the consolidation of the country's external position between 1957 and 1959, Colombia's balance of payments began to deteriorate during the course of 1960 under the influence of a movement away from austerity. The official exchange reserves fell from \$212 to 153 million during 1960 and again to \$149 million during 1961, despite drawings of \$65 million from the International Monetary Fund. During the latter year the free exchange rate for the dollar depreciated by 18 per cent. from Pesos 7.23 to Pesos 8.80. At the end of 1962, by which time the official monetary reserves had been reduced to \$115 million, adjustments were made in the controlled exchange rates. The rate applicable to coffee export proceeds was changed from Pesos 6.50 to Pesos 7.10, while the rate for imports and certain financial transactions was adjusted from Pesos 6.70 to Pesos 9 per dollar. These measures were followed in January 1963 by the arrangement with the IMF of a one-year stand-by credit for \$52 million. Since the end of January 1963 the Colombian peso has recovered somewhat. The free-market rate, which at the end of December 1962 had stood at Pesos 11.12, was just under Pesos 10 per dollar in late April 1963.

In Nicaragua, on the other hand, a considerable improvement in economic conditions during the two preceding years made it possible to unify the country's exchange rates on 1st March 1963. All transactions are now freely conducted on the official exchange market based on the parity of Cordobas 7 = US \$1 established in 1955. This involved the abolition of a free exchange market used for some invisible and capital transactions. At the same time Nicaragua entered into a one-year stand-by arrangement with the IMF for an amount of \$11.25 million.

Finally, it may be mentioned that a new monetary unit came into existence in Bolivia on 1st January 1963. The new unit is the peso, worth 1,000 times its predecessor, the boliviano. The new parity is Pesos 11.88 = US \$1.

Elsewhere in the world, there were a number of exchange developments during the period under review. The Syrian pound was devalued on 24th July 1962, the official buying and selling rates for the dollar going from S£ 3.565-3.585 to S£ 3.80-3.82. In South Korea a new monetary unit was introduced in June 1962. It is the won, equal in value to ten units of its predecessor, the hwan. The new dollar parity is Won 130 = US \$1. In March 1963 Afghanistan devalued its currency, at the same time unifying the exchange rate structure. Previously there had been two official dollar rates — Afghanis 20 and Afghanis 28. The new official exchange rate is Afghanis 45 = US \$1.

* * *

In mid-May 1963 conditions on the gold and exchange markets were calm. Earlier in the year there had been days on which sterling, for reasons unconnected with the United Kingdom's immediate economic situation, came under pressure. This, like other temporary disturbances during the past year, was kept under control by prompt use of the combined resources of the monetary authorities. In the United States the financing of the balance-of-payments deficit, which is still uncomfortably high, seems less difficult, to judge by the fact that in the first four and a half months of 1963 US gold losses were only \$230 million. Apart from the British reserve loss in March, which was covered by deposits from other central banks, the only large movement of monetary reserves in recent months has been the continuation of substantial exchange surpluses in France.

There are grounds, partly to do with the actual economic situation and partly with the known attitudes of those in authority, for hoping that the present market stability can be maintained and consolidated. In the first place, it can be said that by and large the basic balance-of-payments situations of the most important countries are not likely to be the cause of serious problems in international payments. Secondly, the United States has now begun to do something about its external investment position, the weakness of which is that large liquid liabilities are covered by assets which, though considerably larger, are less liquid. During the past year the US Treasury has borrowed from a number of European countries, thereby simultaneously offsetting in part US business investments abroad as well as funding some of its own short-term foreign liabilities. From the European point of view, these loans enable spare resources to be employed more profitably than before and without exchange risk. Thirdly, it has by now been made clear that potentially disruptive movements of short-term funds will be promptly and firmly met by international monetary co-operation. The fact of joint action by the Federal Reserve System and the principal European central banks, in the various ways outlined in this Report, is without any doubt a permanent and most important new element making for international financial stability.

Finally, as stability is, in the long run too, inseparable from adequate liquidity, it now seems likely that, when circumstances allow, currencies other than the dollar and sterling will come to form a part of official reserve holdings.

V. 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 enlarged framework of the Organisation for Economic Co-operation and Development. The Agreement has two principal features: the European Fund and the Multilateral System of Settlements.

In carrying out its review of the Agreement prescribed by Article 32, the Board of Management felt, as in the previous year, that substantial changes should be avoided. Following the recommendation of the Board, the Council decided at the end of 1962 to continue the Agreement until 28th February 1963 in order to allow time for the consideration of two new measures which, while entailing no change in the text of the Agreement, required arrangements to be made between member central banks.

These arrangements came into force on 1st March 1963 and the Council extended the validity of the Agreement from that date until 31st December 1963; a further review of the Agreement will be made in the course of this period.

The new arrangements concluded between member central banks 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 1963.

1. Continuation of the Agreement.

While Part I of the Agreement remained unchanged, Part II (the Multilateral System of Settlements) has been modified in its application by the adoption of an understanding concerning the limitation of the exchange guarantee.

Member central banks have agreed that the maximum aggregate amount of sterling which may be notified for settlement at any one time under the Agreement shall be limited to £11,250,000; the individual amount for each member country is fixed on the basis of the interim finance limits indicated in Table B of the Agreement. The Bank of England has accepted an equivalent limit to the balance in the currency of each member country which it can report under the guarantee. In relationships between member central banks other than the Bank of England, balances continue to be covered by the exchange guarantee without limit.

Effect was given to the new arrangement by an exchange of letters between the Bank of England and other member central banks, which was

completed by the end of February 1963. These letters confirm the central banks' understanding that the limitations will continue to apply, unless amended or terminated following a further decision of the Council, for as long as the relevant provisions of the Agreement remain in force.

The second measure adopted in 1963 gives recognition to the rôle in monetary co-operation played by support arrangements between central banks. The central banks of member countries have each deposited a letter with the Bank for International Settlements, setting out their understanding of the procedure to be followed upon the conclusion of support arrangements, including any series of bilateral agreements; these operations may take various forms, such as "swaps", credits or deposits in gold or in currency, the issue of certificates in the currency of the creditor, etc.

The Bank for International Settlements will be notified by each participant of the existence and conditions of any such arrangements and of any transactions which may subsequently take place under them. The Bank for International Settlements will in turn inform other participating central banks and will make a report on a confidential basis to the Board of Management of EMA.

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 table. All amounts actually drawn are paid out and are repayable in gold.

At the end of March 1962 credits totalling \$75 million* were available to two countries; of this total, \$50 million had been drawn.

The second tranche of the credit of \$12 million granted to Iceland in February 1960 was cancelled with effect from 1st April 1962. On the same date a further credit of \$5 million was made available to Iceland for a period of two years but was cancelled at the request of Iceland as from 1st April 1963; no drawings were made on this credit.

Turkey repaid to the European Fund at maturity the first tranche of \$15 million of its second credit on 31st December 1962 and the second tranche of \$20 million on 14th February 1963. The third tranche of \$15 million matures on 30th June 1963.

In March 1962 Turkey was granted a third credit of \$45 million, which was made available in two tranches, each for a period of three years. The first tranche (\$20 million available from 1st April 1962) was drawn in full on 12th June 1962, and the second tranche (\$25 million available from 1st August 1962) was drawn in full on 9th October 1962.

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

Turkey was granted a fourth credit of \$50 million from the European Fund in March 1963. This credit was made available in two tranches: one of \$35 million from 15th March 1963, drawn in full on 21st March 1963, and one of \$15 million from 30th June 1963. It is to be repaid in four instalments: \$10 million on 31st October 1964, \$15 million each on 15th March and 31st October 1966 and \$10 million on 15th March 1967. Except for the \$10 million to be repaid in October 1964, each tranche is available for drawings for three years. For the first time it was decided to use the special provisions in the Agreement whereby the repayment schedule may extend over more than three years.

On the various credits granted from the European Fund, between June 1959 (when the first drawing was made) and March 1963, there were seventeen

EMA: 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 (1st credit)	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 (1st credit)	7.0	20th February 1960 to 19th February 1962	4.00	0.25
	5.0	1st August 1960 to 1st April 1962		
Turkey (2nd credit)	15.0	1st January 1961 to 31st December 1962	3.75	0.25
	20.0	15th February 1961 to 14th February 1963		
Iceland (2nd credit)	5.0	1st April 1962 to 1st April 1963	3.75	0.25
Credits available				
Turkey (2nd credit)	15.0	1st July 1961 to 30th June 1963	3.75	0.25
Turkey (3rd credit)	20.0	1st April 1962 to 31st March 1965	3.75	0.25
	25.0	1st August 1962 to 31st July 1965		
Turkey (4th credit)	35.0	15th March 1963 to dates below*	3.50	0.25
Credit granted and not available at end of March 1963				
Turkey (4th credit)	15.0	30th June 1963 to dates below*	3.50	0.25

* Repayments are due as follows: 10 million on 31st October 1964, 15 million on 15th March 1966, 15 million on 31st October 1966 and 10 million on 15th March 1967.

drawings totalling \$184.5 million; of this amount \$89.5 million had been repaid. The net amount drawn and outstanding after the operations for March 1963 was, therefore, \$95.0 million.

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. Since January 1962 the Agent has no longer been required automatically to call up the capital of the European Fund as soon as the liquid assets fall below \$100 million. The call up is now subject to variation at the discretion of the Board of Management.

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; a total of \$38 million has been called up from member countries with non-deferred contributions.

EMA: 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	—	—	65.5	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
June	—	—	70.0	—	—	5.0	—	5.0	70.0	75.0
July	—	25.0	70.0	—	—	5.0	—	30.0	70.0	100.0
October . . .	—	—	95.0	—	—	5.0	—	5.0	95.0	100.0
December . .	—	—	80.0	—	—	5.0	—	5.0	80.0	95.0
1963										
February . .	—	—	60.0	—	—	5.0	—	5.0	60.0	65.0
March	—	—	95.0	—	—	—	—	—	95.0	95.0

At the request of the Spanish Government, the Spanish contribution to the European Fund ceased to be deferred as from 30th October 1962. As a result member countries with non-deferred contributions were refunded in proportion to their contributions with an amount equivalent to the Spanish payment. The reclassification of the Spanish contribution means that, in the event of a call-up, the percentage share to be borne by all other countries with non-deferred contributions will be correspondingly reduced.

Multilateral System of Settlements.

In four and a quarter years payments to or by the European Fund in respect of the multilateral settlements have totalled \$35.9 million. The

**EMA: Payments made under the Multilateral System of Settlements,
January 1959 to March 1963.**

Accounting period	Payments made by the Fund to (+) or to the Fund by (-)									Total payments by and to the Fund
	Austria	Denmark	Greece	Iceland	Italy	Netherlands	Norway	Sweden	Turkey	
in thousands of US dollars										
1959 first financial year	+ 10,527	+ 10	—	—	+ 243	+ 1,400	+ 44	—	+ 2,350	14,574
1960 second financial year	—	67	-10,707	—	—	-1,378	876	- 243	-1,304	11,428
1961 third financial year	+ 8,676	+ 207	—	—	—	—	+ 343	—	+ 2,202	7,093
1962	—	83	- 9,283	1	—	—	-1,045	—	-1,016	
January . . .	+ 5,880	+ 23	+ 262	—	—	—	+ 274	—	+ 654	
February . . .	—	—	- 4,924	23	—	—	- 251	—	-1,895	
March . . .	—	—	—	—	—	—	—	—	—	
April	—	—	—	—	—	—	+ 36	—	+ 211	248
May	—	—	—	—	—	—	3	—	+ 202	202
June	—	—	—	—	—	—	+ 35	—	+ 279	314
July	—	—	—	—	—	—	21	—	+ 63	63
August	—	—	—	—	—	—	36	—	+ 49	49
September . .	—	—	—	—	—	—	66	—	+ 253	253
October	—	—	—	—	—	—	70	—	+ 274	274
November . . .	—	—	—	—	—	—	20	—	+ 503	503
December . . .	—	—	—	—	—	—	24	—	+ 179	179
1963	—	—	—	—	—	—	—	—	—	
January	—	—	—	4	—	—	+ 4	—	0	4
February	—	—	+ 116	—	—	—	10	—	- 105	116
March	—	—	+ 18	—	—	—	+ 19	—	- 37	37
Total payments by the Fund (+) or to the Fund (-)	+ 25,083	+ 240	+ 396	—	+ 243	+ 1,400	+ 782	—	+ 7,745	35,889
Net amount of settlements	+ 25,083	+ 90	-26,835	24	+ 243	+ 22	-1,724	- 243	+ 3,387	—

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) (iii).
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 krónur notified by Norway in February 1960 and a balance of Icelandic krónur notified by Denmark in August 1961.

settlement for each month takes place on the fifth working day of the following month.

No amounts of interim finance have been brought into the settlements, since all amounts drawn had been repaid before the end of the month. Only one country has made extensive 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; of the seven agreements originally notified only two remained in force in March 1963.

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 US 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 EMA supervises the execution of the Agreement and advises the Council of OECD on all related matters. The Board also 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. M. Hay, who succeeded Dr. von Mangoldt in January 1962, remains Chairman of the Board.

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 EPU, stood at \$87.8 million at the end of 1961 as a result of drawings on credits granted. The total declined slightly following repayments by

EMA: Summary of the Statement of Account of the European Fund.

After operations for month	Assets				Total of Statement	Liabilities	
	Liquid resources	US Treasury account	Uncalled capital of member countries	Credits and claims outstanding		Capital Fund	Income and expenditure account
in millions of units of account							
Opening	113.0	123.5	329.4	35.0	600.0	600.0	—
1959 December	104.4	123.5	302.9	80.0	610.9	607.5	3.4
1960 December	106.4	123.5	297.9	87.5	615.3	607.5	7.8
1961 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
April	114.2	123.5	297.9	82.8	618.4	607.5	10.9
May	114.3	123.5	297.9	82.8	618.5	607.5	11.0
June	95.4	123.5	297.9	102.8	619.6	607.5	12.1
July	95.1	123.5	297.9	102.8	619.3	607.5	11.8
August	95.2	123.5	297.9	102.8	619.4	607.5	11.9
September	95.3	123.5	297.9	102.8	619.5	607.5	12.0
October	70.4	123.5	297.9	127.8	619.6	607.5	12.1
November	70.5	123.5	297.9	127.8	619.7	607.5	12.2
December	90.4	123.5	297.9	110.5	622.3	607.5	14.8
1963 January	90.5	123.5	297.9	110.5	622.4	607.5	14.9
February	110.1	123.5	297.9	90.5	622.0	607.5	14.5
March	75.2	123.5	297.9	125.5	622.1	607.5	14.6

Iceland in January and February 1962 but later rose to a high point of \$127.8 million in October 1962 after Turkey drew the full amount of its third credit. Repayments by Turkey of the second credit and the second amortisation payment by Norway and Turkey in respect of the loans mentioned above reduced the total again, but the drawing by Turkey of the first tranche of the fourth credit brought the total at the end of March 1963 to \$125.5 million.

Drawings were met in the first place out of the liquid resources transferred from EPU until these were brought down to approximately \$100 million in July 1959. From then until January 1962 this level was maintained through the calling-up of member countries' contributions, as recorded by the decline in uncalled capital. Since that date, the call-up no longer being automatic, the liquid resources have been allowed to fall below the level of \$100 million.

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 seven distributions, each at the rate of 2 per cent. per annum, covering the period from January 1959 to December 1962.

* * *

The European Monetary Agreement is in the fifth year of its existence. The 1962 review led to no change in the text of the Agreement although the provision regarding the dollar guarantee of central-bank currency holdings has been modified in its practical application. Further, the rôle of the Board of Management of EMA in the field of international monetary co-operation has been strengthened by the adoption of a new procedure regarding support operations concluded between member central banks.

PART III

ACTIVITIES OF THE BANK.

1. Operations of the Banking Department.

The balance sheet of the Bank as at 31st March 1963, 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.

* * *

BIS: Annual balance-sheet totals
(first section).

Financial years ended 31st March	Total of balance sheet	Movement
	in millions of francs	
1959	3,528	+ 1,296
1960	3,430	— 98
1961	3,973	+ 543
1962	4,732	+ 759
1963	4,950	+ 218

The total of the first section of the balance sheet as at 31st March 1963 amounted to 4,950,068,854 francs,* against 4,731,975,095 on 31st March 1962.

The table shows the development of the end-of-year balance-sheet totals 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 as at 31st March 1962, 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 increasing slightly in April and May, the total of the first part of the monthly statement of account declined to 4,710 million francs — the lowest level in the financial year — on 30th June 1962. In subsequent months, with two exceptions, it showed a steady rise, which was particularly

* Except where otherwise indicated, the term "francs" in this Part signifies 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 US Treasury's selling price for gold at the end of the financial year.

BIS: Memorandum accounts (b).

Items	Financial years ended 31st March	
	1962	1963
	in millions of francs	
Earmarked gold	1,306	1,338
Bank balances	53	33
Bills and other securities	1,067	1,086
Total of items not included in the balance sheet	2,426	2,457

pronounced between the end of December 1962, when it stood at 4,761 million, and the end of March 1963, when it reached 4,950 million — the highest total for the financial year and also the highest since the Bank was founded.

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.

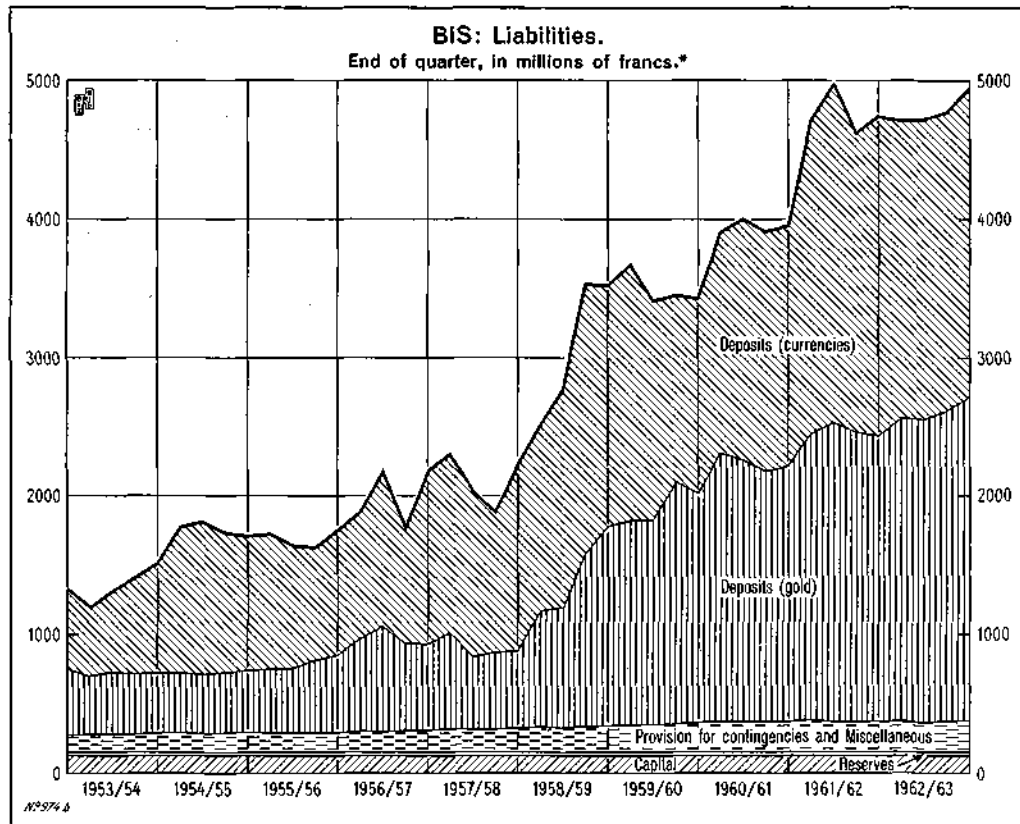
The reserves in the form of the Legal Reserve Fund and the General Reserve Fund rose from 24.1 million francs on 31st March 1962 to 24.8 million on 31st March 1963. As a result of the operations of the year (see below, Section 5, "Financial results") the balance of the Profit and Loss Account, which comprises the profit for the financial year ended 31st March 1963 and the balance brought forward from the preceding year, amounted to 21.3 million on 31st March 1963, against 20.2 million a year earlier. The amount of the item "Provision for contingencies" rose from 189 million on 31st March 1962 to 196.5 million on 31st March 1963. For the item "Miscellaneous" the figure was 20.3 million at the beginning of the year and 21.4 million at the end.

Thus, at the end of March 1963 the Bank's own funds amounted to 389 million francs, i.e. nearly 9 per cent. of the total of deposits (4,561 million) and about 8 per cent. of the total of the balance sheet on the same date (4,950 million).

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

BIS: Composition of resources.

Financial years ended 31st March	Own funds	Deposits	Total	Ratio of own funds to	
				deposits	balance-sheet total
	in millions of francs			in percentages	
1959	340	3,188	3,528	11	10
1960	361	3,069	3,430	12	11
1961	370	3,603	3,973	10	9
1962	379	4,353	4,732	9	8
1963	389	4,561	4,950	9	8



* Not including liabilities connected with the execution of the Hague Agreements.

B. Deposits.

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

BIS: Deposits, by origin.

Origin	Financial years ended 31st March		Movement
	1962	1963	
	in millions of francs		
Central banks	3,986	4,057	+ 71
Other depositors	367	504	+ 137
Total	4,353	4,561	+ 208

The deposits of central banks showed an increase of some 2 per cent., while those of "Other depositors" rose by about 37 per cent.

Deposits in gold showed a fairly substantial increase. Deposits in currencies registered a proportionately insignificant decline.

The increase in deposits in gold was divided almost equally between sight accounts and accounts at not exceeding three months. The large volume of sight deposits makes it possible for these to be converted, if occasion arises and subject to the depositors' agreement, into time deposits which the Bank

BIS: Deposits, by term.

Term	Deposits in gold			Deposits in currencies		
	Financial years ended 31st March		Movement	Financial years ended 31st March		Movement
	1962	1963		1962	1963	
in millions of francs						
At sight	1,815	1,976	+ 161	43	42	- 1
At not exceeding 3 months	157	302	+ 145	1,647	1,512	- 135
Between 3 and 6 months	—	—	—	529	525	- 4
Between 6 and 9 months	38	38	—	—	79	+ 79
Between 9 and 12 months	50	—	- 50	—	3	+ 3
Over one year	—	—	—	74	84	+ 10
Total	2,060	2,316	+ 256	2,293	2,245	- 48

can use to make investments in a weight of gold or as cover for forward operations or tied transactions.

The total of deposits at between six and nine months remained unchanged. On the other hand, no deposits at between nine and twelve months were held as at 31st March 1963.

The composition of the deposits in currencies received by the Bank showed, in fact, the opposite trend from that of deposits in gold. Sight deposits, which are negligible in relation to the overall total, did not change. Deposits at not exceeding three months underwent a fairly marked decline; deposits at between three and six months remained practically unchanged. Deposits at between six and twelve months are shown in the balance sheet at 82 million francs and deposits at over one year increased by 10 million.

In all, deposits in gold represented 47 per cent. of total deposits at the beginning of the financial year and deposits in currencies 53 per cent. On 31st March 1963 the position was the reverse, the ratios being 51 and 49 per cent. respectively.

EMPLOYMENT OF RESOURCES (assets).

The following table shows the distribution of the Bank's assets according to their nature.

BIS: Total cash and investments.

Nature	Financial years ended 31st March				Movement	
	1962	1963	1962	1963		
in millions of francs						
Cash						
Gold	2,469		2,396		- 73	
Currencies	56	2,525	56	2,452	—	- 73
Investments						
Gold	114		247		+ 133	
Currencies	2,024	2,139	2,182	2,429	+ 158	+ 291
Total						
Gold	2,583		2,643		+ 60	
Currencies	2,080	4,663	2,238	4,881	+ 158	+ 219

BIS: 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						
1962						
March . . .	2,469	114	2,060 (min.)	523	— 233	290
May	2,479	103 (min.)	2,079	504	— 221	283 (min.)
June	2,695	103	2,178	620	— 325	295
August . . .	2,721 (max.)	104	2,183	642 (max.)	— 353 (min.)	299
December . .	1,983 (min.)	179	2,214	— 152 (min.)	448 (max.)	296
1963						
March . . .	2,396	247 (max.)	2,316 (max.)	327	— 27	300 (max.)

The development of the Bank's gold position is shown in the preceding table, which gives the maximum and minimum figures for the financial year for each item with the relevant dates.

While there was a decline, though only a relatively slight one, in the Bank's bullion holdings, its investments in gold more than doubled in the course of the financial year. Assets in gold (bullion and investments) increased on balance by 60 million francs, whereas deposits in gold rose by 256 million francs. The difference of 196 million is accounted for by the shift over the year in the balance of forward operations — a decline of 206 million in the negative balance (gold to be delivered) — and the change in the net position, which on 31st March 1963 was 10 million francs higher than on 31st March 1962.

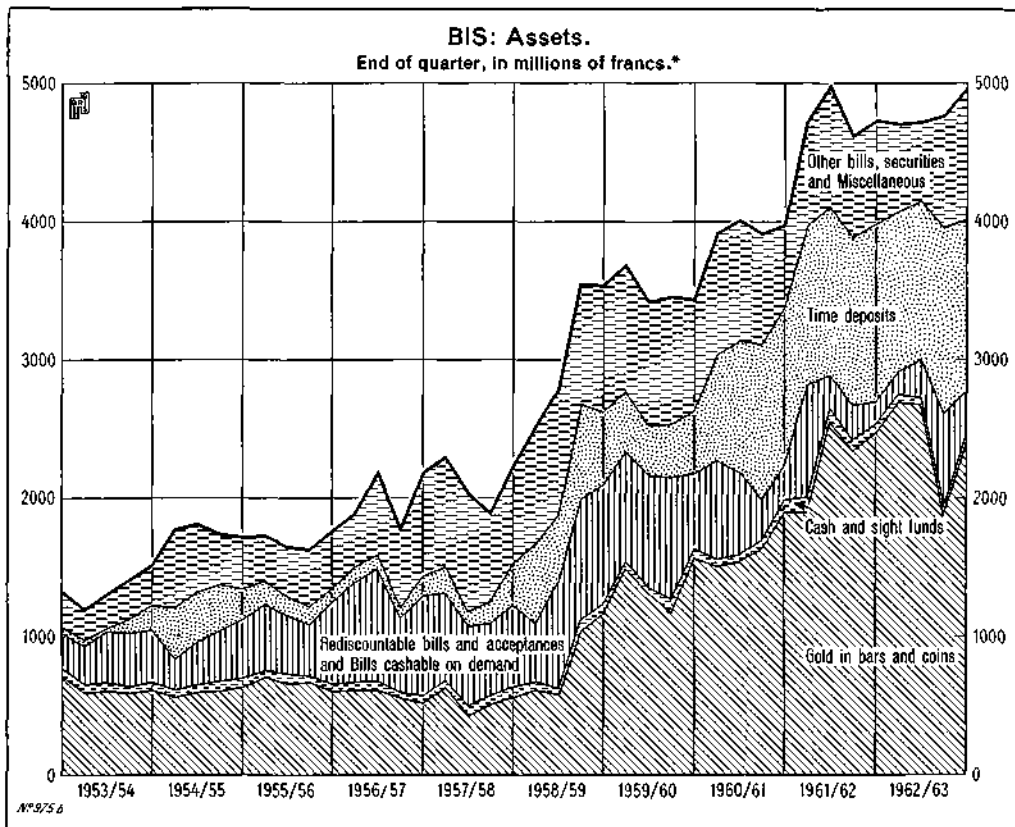
At certain times during the year — principally towards the end of 1962 — fairly wide fluctuations occurred in the gold position, primarily as a result of large swap operations.

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 movements in the item "Gold in bars and coins" (which consisted entirely of gold in bars) can be seen from the above table. On the whole they were not very large, with the sole exception of the decline at the end of December 1962; all the other end-of-month figures for this item were between about 2.3 and 2.7 milliard francs.

The figure for the item "Cash on hand and on sight account with banks" was 56 million francs at the beginning and the end of the financial year. In contrast to the previous financial year, it fluctuated within relatively narrow limits, reaching its lowest point of 40 million on 31st August 1962 and its highest point of 60 million on 31st October 1962. The average balance shown under this heading was 50 million.



* First part of statement of account.

On 31st March 1963 total gold and currency holdings represented 49.5 per cent. of the total of the first part of the Bank's balance sheet, compared with 53.4 per cent. a year earlier.

There were fairly large fluctuations in the Bank's holdings of "Rediscountable Treasury bills". From a level of 119 million francs on 31st March 1962 — the lowest in the financial year — the total had gone up to 265 million by 30th November and then rose to a peak of 667 million on 31st December. Thereafter it steadily declined, and stood at 306 million at the end of the financial year. This type of investment was constantly drawn upon to cover changes in the Bank's cash position, which were sometimes considerable.

The importance of the item "Bills cashable on demand", which was already relatively small at the beginning of the financial year, declined steadily in the course of the year. The total fell in fact from 43 million francs on 31st March 1962 to 9 million on 31st March 1963.

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 2,687 million francs. On 31st March 1963 it stood at 2,767 million. This figure represents 55.9 per cent. of the first part of the balance sheet,

against 56.8 per cent. a year earlier. During this period the percentage of sight deposits on the liabilities side rose from 39.3 to 40.7. These changes are of no practical significance; the Bank's liquidity ratio remains high.

B. Time deposits and investments.

The fluctuations that occurred during the financial year in the total of the item "Time deposits and advances" remained within narrow limits. On 31st March 1962 this item stood at 1,294 million francs; it reached its lowest point for the year (1,115 million) on 31st August 1962 and its highest point (1,344 million) on 31st December. On 31st March 1963 it amounted to 1,245 million. Investments in gold accounted for an extremely small proportion of the total, remaining at 3 million francs throughout the financial year.

There were greater fluctuations, on the other hand, in the total of the item "Other bills and securities". It declined from 682 million francs at the beginning of the financial year to its lowest level of 498 million on 31st July and then gradually rose, almost without a break, to reach 869 million on 31st March 1963, which was also the highest level for the financial year. Investments in gold accounted for 111 million of the total on 31st March 1962 and 244 million on 31st March 1963.

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.

BIS: Time deposits and advances and other bills and securities.

Periods	Financial years ended 31st March		Movement
	1962	1963	
	In millions of francs		
Not exceeding 3 months	1,552	1,313	- 239
Between 3 and 6 months	163	567	+ 404
Between 6 and 9 months	115	126	+ 11
Between 9 and 12 months	19	34	+ 15
Over 1 year	127	74	- 53
Total	1,976	2,114	+ 138

There was a very appreciable increase in investments at between three and six months; investments at not exceeding three months, on the other hand, registered a certain decline, as also did those at over one year. The distribution of the investments was governed primarily by interest rate considerations; at the same time there was, as mentioned in the analysis of the liability items, a reduction in deposits in currencies at not exceeding three months. Although there was an increase in the deposits entrusted to the Bank at more than six months, some of these were placed for somewhat shorter terms but with the assurance of reinvestment at maturity.

* * *

The structure of the deposits entrusted to the Bank and of its investments did not undergo any changes that might be described as fundamental. The main features in 1962-63 were the increase in the Bank's liabilities in gold and that in its assets in currencies. During the year the Bank made increasing use of the technique of swap operations and tied gold operations against currencies with central banks. The central banks concerned having chosen to strengthen their co-operation in these ways, the Bank is excellently placed to assist them in their joint actions.

The development of the margin between the interest earned on investments and that paid on deposits in currencies was, in general, unfavourable during the past financial year, and the obligation to maintain a particularly high degree of liquidity could only be fulfilled at the cost of a voluntary limitation of operations that were attractive from the point of view of profitability.

With regard to gold transactions, the Bank resumed, in agreement with the central banks, a certain amount of activity which enabled it to keep in touch with the markets and to play a useful part in operations.

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 were completed for both loans during the financial year 1962-63, with the exception of a few special cases which still remain to be settled.

The financial year 1962-63 ended for the Dawes Loan on 15th April 1963 and for the Young Loan on 1st June 1963. The interest in respect of the financial year 1962-63 amounted to the equivalent of about 14 million francs for the Dawes Loan and to the equivalent of about 39.1 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

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 1961-62	1962-63	
Conversion bonds					
American . . .	\$	44,061,000	5,914,000	1,650,000	36,497,000
Belgian . . .	£	583,100	58,800	15,400	508,900
British . . .	£	8,273,100	835,600	218,500	7,219,000
Dutch . . .	£	1,297,100	109,800	37,600	1,149,700
French . . .	£	1,927,100	190,600	51,300	1,685,200
Swedish . . .	S.kr.	14,209,000	1,269,000	361,000	12,579,000
Swiss . . .	£	1,130,500	110,200	30,000	990,300
Swiss . . .	Sw.fr.	8,249,000	715,000	201,000	7,333,000
Funding bonds					
American . . .	\$	6,197,000	985,000	230,000	6,982,000
Belgian . . .	£	157,700	19,900	4,500	133,300
British . . .	£	2,231,400	274,600	64,000	1,892,800
Dutch . . .	£	285,800	29,300	8,200	249,300
French . . .	£	498,200	62,100	14,400	421,700
Swiss . . .	£	115,000	13,500	3,300	98,200
Swiss . . .	Sw.fr.	414,000	47,000	10,000	357,000

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 1961-62	1962-63	
Conversion bonds					
American . . .	\$	55,352,000	2,408,000	679,000	52,265,000
Belgian . . .	B.fr.	202,587,000	8,955,000	2,432,000	191,200,000
British . . .	£	17,892,300	770,600	211,500	16,710,200
Dutch . . .	Fl.	50,820,000	1,965,000	764,000	48,091,000
French . . .	Fr.fr.	444,312,000	19,309,000	5,336,000	419,667,000
German . . .	DM	14,454,000	623,000	172,000	13,659,000
Swedish . . .	S.kr.	92,763,000	4,071,000	1,111,000	87,581,000
Swiss . . .	Sw.fr.	58,389,000	2,569,000	701,000	55,099,000
Funding bonds					
American . . .	\$	8,983,000	410,000	109,000	8,464,000
Belgian . . .	B.fr.	45,612,000	2,097,000	569,000	42,946,000
British . . .	£	4,221,200	194,700	50,000	3,976,500
Dutch . . .	Fl.	8,086,000	321,000	131,000	7,634,000
French . . .	Fr.fr.	97,895,000	4,365,000	1,150,000	92,380,000
German . . .	DM	410,000	18,000	6,000	386,000
Swedish . . .	S.kr.	6,014,000	279,000	71,000	5,664,000
Swiss . . .	Sw.fr.	1,405,000	64,000	17,000	1,324,000

* Nominal value on 1st May 1963 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.

year 1962-63 partly by purchases of bonds on the market and partly by drawings.

As regards the revaluation of the Deutsche Mark in March 1961, it has still not been decided whether the provisions of the London Agreement concerning the exchange guarantee attached to the Young Loan should be applied. Since the Bundesschuldenverwaltung (Federal Debt Administration) and the Trustee have not been able to reach an agreement, the Trustee has submitted the matter to the governments concerned by virtue of the London Agreement, namely, the Belgian, British, Dutch, French, Swedish, Swiss and United States Governments.

The bondholders were notified of the position by press communiqués. Furthermore, the Trustee has informed the Bundesschuldenverwaltung that, until the matter has been decided, 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 shown in the tables on the preceding page.

The Bank also performs the function of Trustee for the assented bonds of the Austrian Government International Loan 1930. The amount of interest due in respect of the financial year which ended on 31st December 1962 was the equivalent of about 0.7 million francs; this was duly paid to the Bank, which distributed it among the Paying Agents. Redemption in respect of the financial year 1962 was carried out by purchases of bonds on the market.

The position as regards the assented bonds of this loan is shown in the following table.

Austrian Government International Loan 1930.

Issue	Currency	Nominal value			Balance after redemption
		Bonds assented	Bonds purchased or drawn for redemption in respect of the financial years		
			1959 to 1961	1962	
American . . .	\$	1,667,000	217,000	44,000	1,406,000
Anglo-Dutch .	£	856,600	92,900	32,700	731,000
Swiss	Sw.fr.	7,102,000	640,000	230,000	6,232,000

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 last of these was payable on 1st July 1962. However, the Federal Republic of Germany's offers of settlement can be accepted up to 1st July 1967. The payments made so far to the holders through the intermediary of the Bank in its capacity as Trustee amount to the equivalent of about 4.1 million francs.

3. The Bank as Depository 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 Depository in respect of the loans of the High Authority which are secured in accordance with the provisions of that Act.

The total amount of the secured loans contracted by the High Authority, the last of which was raised in 1961, is equivalent to about 817 million

Secured loans of the High Authority
of the European Coal and Steel Community.

Series of Secured Notes of the High Authority	Dates of issue	Countries of issue	Lenders	Original amounts of loans	Amounts unredeemed on 1st April 1963	Rates of interest %	Year of final maturity
1st	1954	United States	US Government	\$ 100,000,000	84,100,000	3%	1979
2nd	1955	Belgium	Caisse Générale d'Épargne et de Retraite, Brussels	B.fr. 200,000,000	173,000,000	3½	1982
3rd	1955	Germany	Rheinische Girozentrale und Provinzialbank, Düsseldorf	DM 25,000,000	20,647,150	3%	1981
			Landesbank für Westfalen (Girozentrale), Münster	DM 25,000,000	20,647,150	3%	1981
4th	1955	Luxemburg	Caisse d'Épargne de l'État, Luxemburg	B.fr. 20,000,000 L.fr. 5,000,000	17,300,000 —	3½ —	1982 —
5th	1956	Saar	Landesbank und Girozentrale Saar, Saarbrücken	DM 2,977,450 ¹	2,456,396	4%	1977
6th	1956	Switzerland	Public issue	Sw.fr. 50,000,000	46,280,000	4%	1974
7th ²	1957	United States	Public issue	\$ 25,000,000	23,100,000	5½	1975
10th	1957	Luxemburg	Etablissement d'Assurance contre la Vieillesse et l'Invalidité, Luxemburg	L.fr. 100,000,000	97,315,914	5%	1982
11th } 12th }	1958	United States	Public issue	\$ 35,000,000	35,000,000	5	1978
			Public issue	\$ 15,000,000	5,000,000	4½	1963
13th } 14th }	1960	United States	Public issue	\$ 25,000,000	25,000,000	5%	1980
			Public issue	\$ 3,300,000	3,300,000	4%	1963
			Public issue	\$ 3,300,000	3,300,000	4%	1964
15th	1961	Luxemburg	Etablissement d'Assurance contre la Vieillesse et l'Invalidité, Luxemburg	L.fr. 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, was converted into Deutsche Mark in 1959. The original amount was 350,000,000 old French francs. ² The Secured Notes of the 8th and 9th Series have been entirely repaid.

francs. Repayments by the High Authority up to 1st April 1963 amounted to the equivalent of about 127 million francs, so that the total amount now outstanding is the equivalent of about 690 million francs. Particulars of these loans are given in the preceding table.

The High Authority has used the proceeds of these loans to grant credits in the member countries of the European Coal and Steel Community.

During the financial year 1962-63 the Bank for International Settlements received and paid out the equivalent of about 35 million francs in respect of interest and the equivalent of about 36 million francs in respect of redemption.

The High Authority has also raised loans which are not secured in accordance with the Act of Pledge, but the Bank is not concerned in these in any way.

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 V of Part II of the present Report.

The Bank continued to act as Agent for the execution of the financial operations of the EMA under the Organisation for Economic Co-operation and Development. The expenses of the Bank in this capacity amounted to 378,706 francs in the twelve months to March 1963; this amount has been duly reimbursed by the Organisation (as shown in the Profit and Loss Account for the financial year ended 31st March 1963).

5. Financial results.

The accounts for the thirty-third financial year ended 31st March 1963 showed a surplus of 21,210,271 francs. The comparable figure for the preceding financial year was 20,185,172 francs.

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 13,710,271 francs. After providing 5 per cent. for the Legal Reserve Fund as required by the Statutes, i.e. 685,514 francs, and with the addition of the balance of 7,605,221 francs brought forward from the previous year, there is a sum of 20,629,978 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 again be applied to the reduction of the amount of the undeclared cumulative dividend. This sum, which has been

fixed at 5,500,000 francs, will represent an extraordinary distribution of 27.50 francs per share. The total distribution will thus amount this year to 65 francs, payable on 1st July 1963 in the amount of 92.90 Swiss francs per share. As regards the shares in respect of which the dividend cannot be paid on that date, the conversion to Swiss francs will be effected on the day of payment. The balance carried forward will be 7,629,978 francs.

The amount of the undeclared cumulative dividend will, as a result of this distribution, be reduced from 269.47 to 241.97 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-third Annual Balance Sheet have been duly audited by Messrs. Price Waterhouse & Co., Zurich. The Balance Sheet, the Report of the Auditors and the Profit and Loss Account will be found at the end of this Report.

6. Changes in the Board of Directors and in the Management.

The mandate as a member of the Board of Mr. Per Åsbrink being due to expire on 31st March 1963, he was re-elected, under Article 28(3) of the Statutes, at the meeting of the Board held on 11th March 1963 for a further period of three years ending on 31st March 1966.

The mandate of M. Henri Derooy as a member of the Board was due to expire on 31st March 1963 and he was re-appointed under Article 28 (2) of the Statutes by M. Brunet, Governor of the Bank of France, in March 1963 for a further period of three years expiring on 31st March 1966.

The mandate of Sir Otto Niemeyer as a member of the Board being due to expire on 6th May 1963, he was re-appointed under Article 28 (2) of the Statutes by Lord Cromer, Governor of the Bank of England, in April 1963 for a further period of three years ending on 6th May 1966.

At its meeting held on 12th November 1962 the Board took note of the resignation of M. Guillaume Guindey from his post as General Manager of the Bank and decided to appoint M. Gabriel Ferras as the new General Manager. M. Ferras took over the functions of General Manager from M. Guindey on 1st May 1963.

At the Board Meeting held on 8th April 1963 the Chairman expressed the deep regret of all the members of the Board at M. Guindey's decision to resign in order to take up new and important functions in his home country, France. He paid a warm tribute to the smooth way in which the Bank had

functioned during the four and a half years in which M. Guindey had been General Manager and wished him every success in the new functions which would be entrusted to him.

* * *

A great sense of loss was felt in the Bank at the untimely death of Mr. Per Jacobsson, who had left the BIS in 1956 to take up the important functions of Managing Director and Chairman of the Board of Executive Directors of the International Monetary Fund in Washington. A tribute to his memory was paid by the Chairman at the meeting of the BIS Board held on 13th May 1963. He said that Per Jacobsson, who had devoted the greater part of his working life to the Bank, had left on it the imprint of his personality.

CONCLUSION.

The statistical indicators available for the spring months of 1963 have shown certain improvements in the economic situation of the western industrial countries. In particular, there has been a pick-up in economic activity in the United States and the United Kingdom which promises to give a better tone to the international economy as a whole. In continental Europe, also, the recent indicators have confirmed the upward trend of activity.

At the same time there has not been any great change in the basic problems with which the policy-making authorities have been confronted over the past year. And in each instance there is an element of conflict between internal and external considerations which adds to the difficulty of the problems and demands international co-ordination of policy in measures to solve them.

For continental Europe the essential problem is rising prices and vastly excessive wage increases. Even allowing for the effect of adverse weather conditions on the supply of certain foodstuffs, there has been no sign of dampening in the price trend — which is hardly likely so long as wages increase more than twice as fast as productivity. For a time large wage advances served a useful purpose: they helped to sustain internal demand in the interval when industrial investment and capital-goods exports were weakening; they induced a rise in both costs and imports, which brought down the current external surplus and substantially reduced the pressure exerted by continental western Europe as a whole on the international payments situation. But now, with profit margins narrowed in all countries and the external balance nearer to equilibrium in many, it is clear that the rise of money wages must be moderated.

This would be accomplished most appropriately by co-operation of all parties in a wages policy designed to secure a continued gain in real earnings without the excessive rise of money income that is only dissipated by higher prices. If success is not obtained by this means, the authorities will be obliged to consider more general measures of demand restraint — as some already have. So long as external reserves are rising, the danger of attracting funds from abroad will be an impediment to severe tightening of internal liquidity and interest rates, and the main burden of easing demand pressure will be on budgetary policy. A change in such policy would in any case be appropriate in several countries, as demand from the public sector has been rising sharply. While most continental countries could easily face the prospect of some decline in reserves, they cannot allow the recent pace of inflation to go unchecked.

Over the past two years policy on the Continent has generally leaned towards balance-of-payments considerations, at the risk of inflationary pressures. The situation has now changed. Most countries are again subject to

an inflationary climate, and there is no reason to expect monetary policy to become easier; indeed, the reverse would be more likely. Continental Europe can still facilitate international payments equilibrium in other ways; however, further improvement in the international payments situation will depend more on efforts made in the United Kingdom and the United States.

For the United Kingdom the basic problem in the past few years has been to find a workable formula for adequate growth without recurring balance-of-payments difficulties. While the authorities have used fiscal and monetary measures with great flexibility in meeting the shorter-term situations, the longer-term dual objective has not been assured.

Since the late months of 1962 the emphasis in policy has been on renewed expansion, and the steps taken to promote it have not been lacking in vigour. As the balance of payments is only in small surplus, however, the competitive position of the economy will have to be improved to support continuous expansion. It is generally recognised that active support of incomes policy is needed to ensure that objective. As a temporary expedient, the authorities are prepared to call upon reserves and borrowing facilities to meet a short-term bulge in imports. What really remains to be seen is whether labour is prepared to forgo its chase after that elusive extra per cent. of wage increase which has been frustrated in the past by rising prices and slow growth.

In the United States the twin problems of unused resources and external deficit have persisted for more than five years; while the magnitude of each has fluctuated, it is not apparent that either is being resolved. Measures of varying importance have been employed to alleviate these difficulties, but in the end it seems that the limitations on the flexible use of policy instruments have been as conspicuous as the positive steps taken.

In domestic policy the ceiling on the national debt may be considered the symbol of reluctance to use fiscal policy to make full employment an operating objective. Fiscal measures have been used to stop recession and to reset the economy on the path of expansion; they have not been used to escape from the domination by the economic cycle itself. Any country may find it necessary to reduce the fiscal restraint that comes automatically from a progressive tax system as national income rises or to compensate periodic weakness in private investment by investment in the public sector. There is little reason to suspect that such measures hold dangers for the United States that have not been evident elsewhere.

A more active domestic policy, however, also requires firmer measures to reduce the balance-of-payments deficit. In this sphere, too, the adoption of various corrective measures has been subject to limitations, for what were no doubt good reasons in each case. As a whole, however, the result has been to prolong the deficit. While much ingenuity has been shown in maintaining the international position of the dollar and protecting it against speculation, there is evident need for more basic action. Such action must

include further direction of monetary policy towards helping the balance of payments and further efforts to curtail the drain on external resources of government expenditure abroad. The authorities have indicated their support for action on these lines.

During the past year there has been close and fruitful co-operation to maintain stability of the international financial system and the concrete results achieved have been substantial. The potential resources of the IMF were increased by approval of the borrowing arrangements and a network of arrangements among various central banks has been built up to help meet short-term exchange needs. The United States, Canada and the United Kingdom all secured resources on a large scale to supplement their reserves in meeting foreign exchange needs and joint action was successful in keeping price fluctuations on the gold market within a narrow range. It is evident that new techniques are evolving to give the system flexibility and that the authorities have been ready to test their usefulness in practice. Thus, despite the strains to which it was submitted, the international payments system has worked smoothly.

None the less, there has been a steady stream of suggestions for more fundamental redesigning of the international financial system to increase the volume of liquid resources and to make them available more easily. What must be recognised, however, is that behind liquid resources there must be real resources, and that none of the main industrial countries considers it reasonable to supply a continuous stream of real resources to any other member of the group. The functioning of the international payments system depends less in the end on the technicalities of the mechanism itself than on the policies pursued in the different countries.

Respectfully submitted,

GABRIEL FERRAS

General Manager.

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

AS AT 31st MARCH 1963

BALANCE SHEET

ASSETS

IN GOLD FRANCS (UNITS OF 0.290 322 56...)

		%
Gold in bars and coins	2,396,133,002	48.4
Cash on hand and on sight account with banks	55,582,753	1.1
Rediscountable Treasury bills	306,475,172	6.2
Bills cashable on demand	9,158,189	0.2
Time deposits and advances		
Not exceeding 3 months	1,064,180,923	21.5
» » » » (gold)	3,405,463	0.1
Between 3 and 6 months	156,442,904	3.1
Between 6 and 9 months	3,584,563	0.1
Between 9 and 12 months	10,603,843	0.2
Over 1 year	<u>6,656,637</u>	0.1
	1,244,876,333	
Other bills and securities		
Gold		
Not exceeding 3 months	57,904,022	1.2
Between 3 and 6 months	92,921,791	1.9
Between 6 and 9 months	93,275,247	1.9
Currencies		
Not exceeding 3 months	187,078,024	3.8
Between 3 and 6 months	317,899,953	6.4
Between 6 and 9 months	29,221,439	0.6
Between 9 and 12 months	22,750,652	0.4
Over 1 year	<u>67,485,957</u>	1.4
	868,437,075	
Miscellaneous assets	1,115,106	0.0
Buildings and equipment	1	0.0
Own funds employed in execution of the Hague Agreements of 1930 for investment in Germany (see below)	<u>68,291,223</u>	1.4
	<u>4,950,068,854</u>	100
		Execution of Hague
Funds invested in Germany (see Note 2)		
Claims on Reichsbank and Golddiskontbank; bills of Golddiskontbank and Railway Administration and bonds of Postal Administration (matured) ...	221,019,558	
German Treasury bills and bonds (matured)	<u>76,181,040</u>	
	<u>297,200,598</u>	
MEMORANDUM ACCOUNTS		
a. Forward gold operations:		
Net balance: gold payable (currencies to be received)	27,135,486	
b. Funds, bills and other securities administered or held by the Bank for account of third parties:		
Earmarked gold	1,338,114,170	
Bank balances	32,515,667	
Bills and other securities	1,086,430,559	

**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, 7th May 1963.

AS AT 31st MARCH 1963

GRAMMES FINE GOLD — ART. 5 OF THE STATUTES)

LIABILITIES

		%
Capital		
Authorised and Issued 200,000 shares, each of 2,500 gold francs	<u>500,000,000</u>	
of which 25% paid up	125,000,000	2.5
Reserves		
Legal Reserve Fund	11,412,345	
General Reserve Fund	<u>13,342,650</u>	
	24,754,995	0.5
Deposits (gold)		
Central banks		
Between 6 and 9 months	37,934,789	0.8
Not exceeding 3 months	302,212,909	6.1
Sight	1,934,251,761	39.1
Other depositors		
Sight	<u>41,662,090</u>	0.8
	2,316,061,549	
Deposits (currencies)		
Central banks		
Over 1 year	83,789,437	1.7
Between 6 and 9 months	54,338,248	1.1
Between 3 and 6 months	508,748,781	10.3
Not exceeding 3 months	1,115,960,824	22.6
Sight	19,696,361	0.4
Other depositors		
Between 9 and 12 months	3,544,163	0.1
Between 6 and 9 months	24,700,286	0.5
Between 3 and 6 months	15,647,388	0.3
Not exceeding 3 months	396,370,303	8.0
Sight	<u>22,198,179</u>	0.4
	2,245,013,970	
Miscellaneous	21,422,848	0.4
Profit and Loss Account		
Balance brought forward from the financial year ended		
31st March 1962	7,605,221	
Profit for the financial year ended 31st March 1963	<u>13,710,271</u>	
	21,315,492	0.4
Provision for contingencies	196,500,000	4.0
	<u>4,950,068,854</u>	<u>100</u>
Agreements of 1930		
Long-term deposits		
Annuity Trust Account deposits of Creditor Governments (see Note 3)	152,606,250	
German Government deposit	<u>76,303,125</u>	
	228,909,375	
Own funds employed in execution of the Agreements (see above)	<u>68,291,223</u>	
	<u>297,200,598</u>	
NOTE 1 — For Balance Sheet purposes the currency amounts of the assets and liabilities have been converted into gold francs on the basis of quoted or official rates of exchange or in accordance with special agreements applicable to the respective currencies.		
NOTE 2 — Under an Arrangement dated 9th January 1953 between the Government of the Federal Republic of Germany and the Bank, which forms a part of the Agreement on German External Debts of 27th February 1953, it has been agreed that the Bank will not demand prior to 1st April 1966 the reimbursement of the principal of its investments in Germany described above, including arrears of interest thereon at 31st December 1952.		
NOTE 3 — The Bank has received confirmation from Governments whose deposits amount to the equivalent of 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 1963, 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 1963

		<u>Gold francs</u>
Net income from the use of the Bank's own funds and the deposits entrusted to it		26,648,003
Commission earned as Trustee, etc.		<u>728,755</u>
		27,376,758
Costs of administration:		
Board of Directors — fees and travelling expenses ...	241,881	
Executives and staff — salaries, pension contributions and travelling expenses	5,332,401	
Rent, insurance, heating, electricity	41,600	
Renewals and repairs of buildings and equipment ...	171,436	
Office supplies, books, publications, printing	300,243	
Telephone, telegraph and postage	155,156	
Experts' fees (auditors, interpreters, economists, etc.)	62,631	
Cantonal taxation	35,286	
Miscellaneous	<u>204,559</u>	
	6,545,193	
Less: Amounts recoverable for expenses as Agent of the Organisation for Economic Co-operation and Development (European Monetary Agreement) ...	<u>378,706</u>	<u>6,166,487</u>
		21,210,271
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 1963		13,710,271
Add: Balance brought forward from the preceding year		<u>7,605,221</u>
Total profits available		<u><u>21,315,492</u></u>
which the Board of Directors recommends to the Annual General Meeting called for 10th June 1963 should be dealt with as follows:		
Transfer to the Legal Reserve Fund — 5% of 13,710,271		685,514
Dividend of 37.50 gold francs, plus an amount of 27.50 gold francs, which increases the distribution to 65.— gold francs per share and reduces the amount of the undeclared cumulative dividend from 269.47 gold francs to 241.97 gold francs per share		13,000,000
Balance to be carried forward		<u>7,629,978</u>
		<u><u>21,315,492</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

Gabriel Ferras	General Manager
F. G. Conolly	Manager
Dr. Milton Gilbert	Economic Adviser, Head of the Monetary and Economic Department
Dr. Antonio d'Arma	Secretary General, Head of Department
Dr. Hans 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