BANK FOR INTERNATIONAL SETTLEMENTS

FORTIETH ANNUAL REPORT

1st APRIL 1969 — 31st MARCH 1970

BASLE

8th June 1970

TABLE OF CONTENTS

LIST OF TABLES AND GRAPHS

(Graphs are indicated by an asterisk)

Page

IV. Gold, Reserves and Foreign Exchange

V. The Euro-Currency Market

VI. The European Monetary Agreement

FORTIETH ANNUAL REPORT

submitted to the

ANNUAL GENERAL MEETING

of the

BANK FOR INTERNATIONAL SETTLEMENTS

held in

Basle on 8th June 1970.

Gentlemen,

I have the honour to submit herewith the fortieth Annual Report of the Bank for International Settlements for the financial year which began on 1st April 1969 and ended on 31st March 1970.

In the course of the financial year, the decisions taken at the Extraordinary General Meeting on 9th June 1969 to increase the capital of the Bank and to amend its Statutes were duly implemented. The authorised capital has thus been increased from 500 million gold francs, comprising a single tranche of 200,000 issued shares of equal gold nominal value, to 1,500 million gold francs divided into three tranches, each consisting of 200,000 shares of equal gold nominal value. In addition to the first tranche of 200,000 shares already in issue and paid up to the extent of 25 per cent., the whole of the second tranche of 200,000 new shares, paid up to the same extent out of the Bank's own funds, is now in issue; these new shares were offered to shareholders in accordance with the decision taken in June 1969 on the basis of one new share for each share of the first tranche registered in their names. As regards the third tranche of 200,000 new shares, all of which are reserved for subscription by central banks, a total of 48,325 of these shares, paid up to the extent of 25 per cent., was subscribed on 2nd January 1970. Full details of these changes in the capital structure of the Bank can be found in Chapter VII of this Report.

After deduction of the transfers to provisions, the net profit for the year amounted to 83,179,570 gold francs, compared with 45,000,000 gold francs for the preceding year.

The Board of Directors recommends that, in application of Article 51 of the Bank's amended Statutes, the present General Meeting should allocate the sum of 23,179,570 gold francs in payment of a total dividend of 56.25 gold francs per share, consisting of 37.50 gold francs in respect of the dividend of 6 per cent. and 18.75 gold francs representing the maximum further dividend of 3 per cent., such total dividend being payable in respect of a whole financial year in the case of the 400,000 issued shares of the first and second tranches and in respect of one-quarter of a financial year in the case of the 48,325 issued shares of the third tranche.

The Board further recommends the transfer of 30 million gold francs to the General Reserve Fund, 12 million gold francs to the Special Dividend Reserve Fund and 18 million gold francs to the Free Reserve Fund.

If these proposals are approved, the Bank's dividend for the financial year 1969–70 will amount to 56.25 gold francs per share on the 400,000 issued shares of the first and second tranches and to 14.0625 gold francs on the 48,325 issued shares of the third tranche. These amounts would be payable to shareholders on 1st July 1970 in the amounts of 80.40 Swiss francs and 20.10 Swiss francs per share respectively, and would result in shareholders who have retained the new shares of the second tranche to which they were entitled receiving a dividend of 112.50 gold francs, or 160.80 Swiss francs, this year in respect of each two shares they now hold, as opposed to 75 gold francs, or 107.15 Swiss francs, which they received last year in respect of each single share they then held.

Chapter I of this Report deals with economic developments and policies in Europe and the United States, Canada and Japan in 1969 and the early months of 1970. The next three chapters review developments in various countries in the field of credit, foreign payments, gold production, monetary reserves and foreign exchange. The fifth chapter gives a survey of events in the Euro-currency market and the sixth a review of the operations of the European Monetary Agreement. Chapter VII concerns the Bank's rôle in promoting co-operation between central banks, its current activities and the functions it performs on behalf of the European Coal and Steel Community and as Trustee for international loans.

I. SURVEY OF ECONOMIC DEVELOPMENTS AND POLICIES, 1969–70.

In most of the industrial countries the rate of expansion of economic activity quickened over the past year and the increase in total output was larger than in the previous twelve-month period. The main exceptions were the United States and the United Kingdom: in the former the trend of activity was slowed down by the restrictive measures aimed at breaking the grip of inflation; in the latter the objective of policy restraint was to assure a major improvement in the external accounts.

However, the focus of attention generally was not on output trends but on the feverish atmosphere that characterised the situation. The state of crisis which prevailed at times in the international monetary situation contributed to this atmosphere, though, happily, calm had been restored by the beginning of this year. Secondly, there was the heavy inflation of wages and prices in almost all countries, which remains a major problem. And thirdly, there was the upward spiral of interest rates on domestic and international markets, which has been reversed only moderately so far. These developments were a common background to the situation in the individual countries.

International monetary developments.

Exchange markets in the early months of 1969 were still under the influence of factors that had caused unrest the year before. The decisions of the French and German authorities in November 1968 to hold to the existing par values of their currencies overcame the crisis atmosphere, but they failed to dispel market expectations that a realignment of the exchange rates would be required in due course. The support for this view was that France's overall payments deficit and Germany's current-account surplus continued to be substantial. The prospects for sterling, too, still seemed uncertain; more than a year after devaluation the British trade balance remained in sizable deficit and the current-account balance of payments was barely moving into surplus.

Besides these inherited weaknesses, exchange markets were unfavourably affected by the large demands being made on the Euro-dollar market by US banks. This suction on foreign funds strengthened the market position of the dollar but put, or added to, strains on a number of European currencies.

In the gold market, too, there were tensions during the early part of 1969. In part, these were a reflection of currency anxieties, especially concerning the French franc. But, in addition, the supply/demand relationship was unfavourable. With a substantial payments surplus in 1968 and the first quarter of 1969, South Africa added nearly $800 million of its current gold production to reserves, drastically reducing the supply of new gold coming onto the market. From November 1968 to March 1969 the market price of gold rose from about $39 to almost $44; at this premium on the official price there was significant absorption of the speculative overhang.

In April 1969 a new crisis broke out in the exchange markets. General de Gaulle's resignation brought the French franc under added pressure and this was followed almost immediately by a renewal of rumours of a near-term revaluation of the Deutsche Mark. In the final days of April and the first days of May there was an inflow of funds to Germany totalling just over $4 milliard. This was stopped by the anouncement on 9th May that there would be no change in the DM parity, and some reflux of funds then occurred. But much of the earlier inflow remained in Germany and the underlying market situation continued to be unstable.

A first step towards removing the basic causes of market turmoil was taken on 8th August, when the French Government devalued the franc by 11.1 per cent., quickly following this up with a domestic stabilisation programme. The operation was supported by a $1 milliard stand-by arrangement with the IMF, as well as by some increases in the central-bank facilities originally made available to France after the November 1968 exchange crisis.

Strains on the franc then eased markedly during the rest of August. By this time, however, the date set for the elections in the German Federal Republic was approaching and markets again became unsettled in September owing to the possibility of revaluation after the elections. In the week before the voting, particularly, the Bundesbank had to buy in dollars from the market on an accelerating scale, and to avoid a "black Friday" the Frankfurt market was closed on 25th September. The election results on the following Sunday showed that a government favourable to revaluation would probably be installed in the coming weeks, so that the urgent problem which arose was how to manage the situation until a definite decision on the parity could be taken. The most practical solution was for the Deutsche Bundesbank to suspend its purchases of dollars at the upper intervention limit. This was an excellent tactical move both because the market was certain to keep the upward movement of the rate within reasonable limits and because other currencies were relieved of any pressure from speculation on the new parity. The Deutsche Mark at once appreciated by about 5 per cent., and in the next few weeks the Bundesbank even supplied dollars to the market to satisfy the demand for repatriation of foreign funds. Then, on 27th October a new parity came into force involving a revaluation of 9.3 per cent. This decision, though it was followed by short-lived movements of funds across the exchanges in the expectation that some other European currencies might be revalued, was in fact the second, and most important, step towards improving the international monetary situation.

During the nearly four weeks that preceded the formal revaluation of the Deutsche Mark there had already been a $1 milliard outflow of funds from Germany to other countries. This gained further momentum after 24th October, and by the end of the year the outflows had somewhat exceeded the inflows recorded during the first nine months. To a considerable extent the obverse of these outflows was a big favourable change in the terms of payment of many other countries. In particular, the French and British reserve positions benefited substantially from the revaluation of the Mark. And in both cases these benefits were reinforced by clear evidence of an improvement in the underlying balance-of-payments positions. The UK foreign trade balance had by the third quarter of 1969 improved sufficiently to produce a substantial surplus on goods and services combined. And in the French case there were signs towards the end of the year that the foreign trade deficit was responding to devaluation and the accompanying stabilisation programme. Moreover, the fact that the British and French exchange surpluses permitted both countries substantially to reduce their official short-term indebtedness contributed to the return of confidence.

In the meantime, and before the Deutsche Mark began to appreciate, the free price of gold had receded quite a lot from its March peak of almost $44 per ounce to a little over $40.5 at the end of September because several factors were working to improve the supply/demand relationship in the market. Firstly, with the turn in its balance of payments from surplus to deficit, South Africa's gold sales to the market began to exceed current production. Secondly, the rise of Euro-dollar interest rates meant effectively a very high cost of holding gold for certain classes of holders, while at the same time the market and reserve positions of the dollar had strengthened significantly. And thirdly, the ratification of the SDR scheme in late July and the probability that it would soon be activated on quite a substantial scale meant easing the stringency of other official reserves, particularly gold.

In these conditions, and with some European holders having built up sizable stocks of gold earlier in the year, the return of confidence in currencies after the appreciation of the Deutsche Mark gave a new disincentive to goldholding by investors with attractive alternatives. From mid-October onwards sellers clearly predominated over buyers, and in a little less than two months the market price fell to the official parity of $35.

An eventful year then closed with an agreement between South Africa and the IMF. Its essential feature is that the latter has undertaken to purchase newly-mined South African gold, to meet the country's external payments needs, whenever the market price is at $35 per fine ounce or below. Following this announcement, which appeared to put an effective floor of $35 to the price South Africa receives for its gold, though not necessarily to the market price, market quotations in fact fell somewhat below $35 on a number of days in January 1970, reaching a low point of $34.75. From end-January to mid-March the price hovered around the parity, though since then it has risen moderately. During the first three months of 1970 the IMF purchased some $285 million's worth of gold from South Africa.

Another aspect of the international monetary situation concerns the use of official credit facilities. Over the past few years changes in countries' gold and dollar reserves have often, though not always, been fairly modest in relation to their payments surpluses and deficits. To a considerable extent official financing has taken place through the Federal Reserve System's swap network, other central-bank credit facilities and changes in countries' IMF positions. And the events of the past year illustrate the continuing importance of these international credit facilities. Borrowings were often quickly repaid, as was intended in the case of central-bank facilities. But up until the end of the third quarter of 1969 the drawings on official assistance had given rise to rather large debtor and creditor positions for certain countries. The recent changes in the external positions of France, Germany and the United Kingdom, however, have brought very desirable reductions of these positions.

The United Kingdom, for example, had been able to make a good start on liquidating its official external debt in the first eight months of last year, though it had to draw again on central-bank assistance during the May and August–September exchange crises. After the peg on the Deutsche Mark was released, however, the position reversed dramatically. Besides the substantial basic surplus in the balance of payments, the turn in leads and lags was very favourable to sterling, allowing a massive reduction in the outstanding debtor position. In all, from the beginning of 1969 to the end of the first quarter of 1970 the United Kingdom's net adverse reserve position, including its intermediate-term debt to the IMF, had been reduced from £2,354 to 525 million. An improvement to this extent had not been dreamed of in early 1969.

In the case of France the net official external deficit for the first nine months of 1969 was $1.3 milliard, of which $1.1 milliard was financed through central-bank assistance and recourse to the IMF. And when the French position subsequently began to improve, net repayments of external indebtedness were actually in excess of the official sector's external surplus, so that gross reserves showed a small decline. All central-bank assistance has been repaid, though with the help of drawing on IMF facilities.

The other side of the coin, so to speak, can be seen in the case of Germany. Out of its previous external surplus and speculative inflow, Germany had built up substantial creditor positions by the start of 1969 through assistance to other central banks, in the IMF and in holdings of DM bonds issued by the US Treasury. Its creditor position increased during the period January–September, when a substantial fraction of the $1.9 milliard surplus on official account was recycled both directly and through the BIS to countries under exchange pressure. Then, over the six months following the abandonment of the old DM exchange parity, when the official-account deficit was $4.5 milliard, Germany was repaid the bulk of previous credits to central banks and, in addition, it withdrew $1.1 milliard of its accumulated credit in the IMF, as well as cashing in $0.8 milliard of its holdings of US Treasury securities denominated in Deutsche Mark. Being able to afford it, the German authorities took the huge loss of reserves with becoming sang-froid.

The significance of the kinds of changes outlined above is that they have led to a better distribution of reserves in the broad sense. The United

States participated in this improvement not only by means of its substantial official settlements surplus in 1969 but also because its position was strengthened by the better composition of its reserves. The repayment of DM bonds to Germany has already been noted. Also, US official holdings of sterling and French francs were reduced very considerably by repayments of previous assistance. In fact, total official US exchange holdings, despite large drawings by Italy on its swap line with the Federal Reserve in early 1970, declined between end-September 1969 and end-March 1970 by $1.8 milliard. On the other hand, the US reserve position in the Fund increased by a further $0.8 milliard over these six months; by the end of March 1970 it stood at nearly $2.6 milliard, which was $2.3 milliard above its end-1966 low point. In addition, the US reserve position has been improved by an increase in its gold stock, which rose by $1.1 milliard in the year April 1969–March 1970.

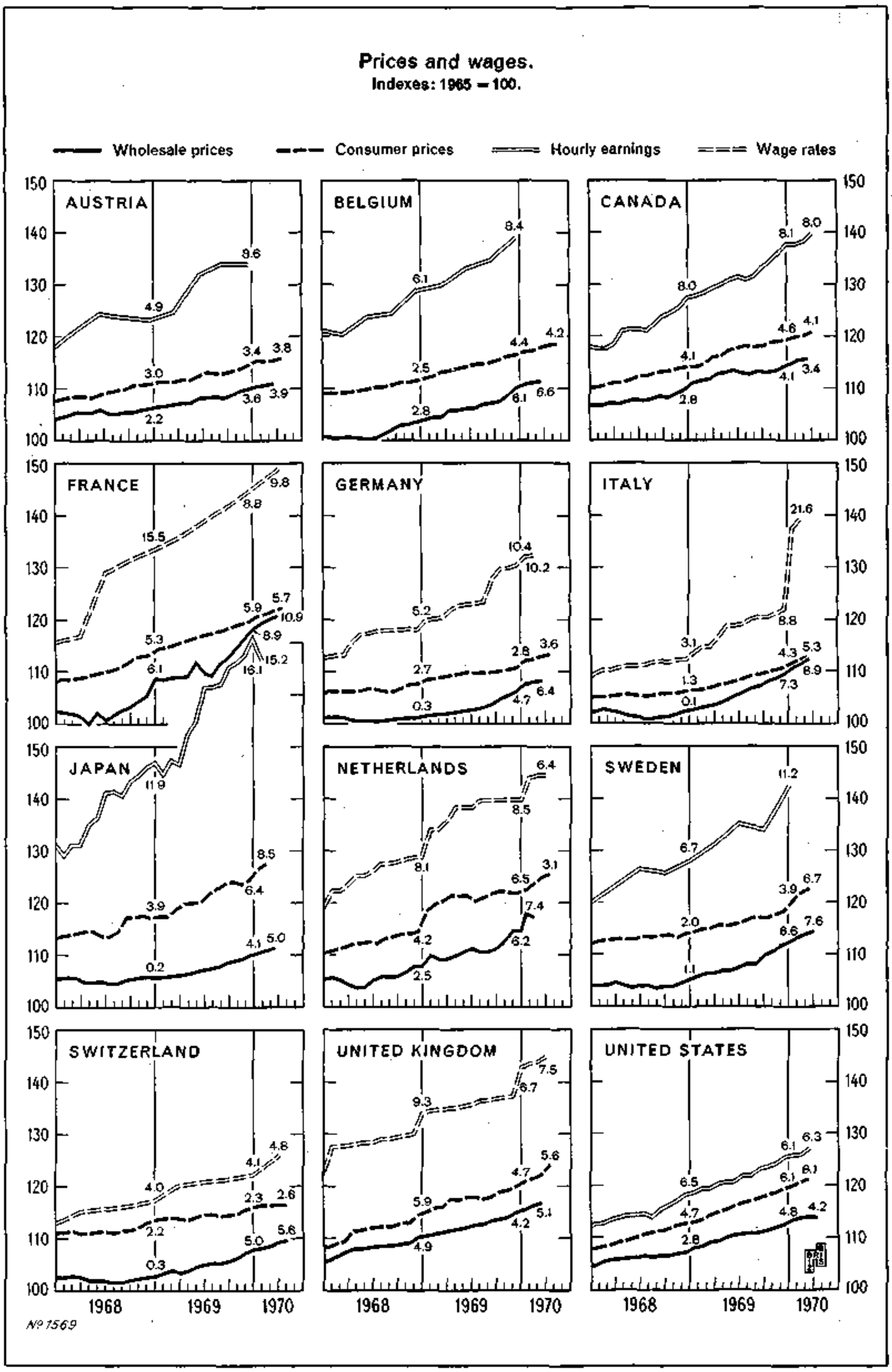
Other recent examples which highlight the importance of credit facilities in the ebb and flow of funds in the system include the Belgian and Dutch drawings on their swap lines with the Federal Reserve System, then subsequent repayment, before and after the revaluation of the Deutsche Mark. Altogether, in 1969 the United States' partners made gross drawings on their swap facilities with the Federal Reserve totalling $2.4 milliard and gross repayments of $3.4 milliard. Gross US drawings on partner countries totalled $0.7 milliard and gross repayments were of the same size.

Early in February 1970 facilities for short-term assistance among the central banks of the European Economic Community came into existence. First-stage facilities total $1 milliard, of which Germany's and France's shares are 30 per cent. each, Italy's 20 per cent. and those of Belgium and the Netherlands 10 per cent. each. Any participating central bank whose currency comes under pressure will be entitled to use up to the whole amount of its quota in the form of three-month renewable credits from its partners in the Community. In addition, a system of debtor and creditor rallonges, the maximum amount of which is also fixed at $1 milliard, is available for extending supplementary credits to any participant in case of need, over and above its quota. The BIS will act as Agent for the scheme.

Prices and wages.

The array of diagrams on the next page illustrates the pervasiveness of the rapid rise of prices and the more rapid rise of wages that characterised the past year and which have continued up to the present. With very few exceptions, the rate of increase was larger than over the previous twelve months; the rises of consumer-price indexes clustered around 5 per cent., while for wages the typical figure was about 8 per cent. Thus, inflation was well beyond a creeping pace.

To some extent the general rise of wholesale-price indexes over the past year was due to increases in international raw-material prices, particularly those of non-ferrous metals, resulting from high industrial demand. For the



Note: The figures indicate percentage rates of change over twelve months.

most part, however, the common pattern of price and wage trends has not reflected a comparable similarity of basic economic conditions or the outcome of simply mechanical supply/demand relations. But, inter-mixed with special situations in individual countries, there has been international transmission of price and wage increases in various ways.

As a broad generalisation, excessive demand has been the dominant force in about half the countries, conspicuously in Japan, Germany, Sweden and the Netherlands. The United States also falls into this group, even though demand there had eased by the end of last year; the continuing rise of prices and wages reflects the usual lag after a period of excess demand and the near-inevitable tendency for a large-sized wage round to run its course despite changed labour-market conditions. In Switzerland, too, the demand pressure on resources has been intense, though the recorded signs of inflation have been less marked. Wages throughout the economy have probably risen more than the wage index indicates.

In the other countries the dominant factor recently has been wage-push, mostly without the complication of excess demand. Higher money wages in turn stimulate demand, including import demand for any foreign goods whose prices have risen less than those of competing home goods. The recent sharp jumps in the rate of wage increase in Italy and the United Kingdom are clear cases of the force of negotiating power, with little else involved. In France there was the hangover from the wage/price spiral of the year before; while the large wage settlement in 1968 initiated the spiral, the consequent cost-of-living increase set the stage for new wage demands. As usual, too, devaluation contributed to an inflationary frame of mind — besides directly affecting import prices. Conversely, while revaluation was anti-inflationary for Germany, the direct price increase on goods imported from Germany was quite real for bordering countries having a large proportion of their trade with the Federal Republic.

Other factors contribute to making inflation contagious. With economies closely integrated, as in continental Europe, price leadership by dominant firms plays a conspicuous part in spreading increases across the industrial and geographic range. And in quite a few countries labour attitudes have been affected by wage increases, and even wage levels, in neighbouring countries, an influence that was most evident in Canada and Belgium over the past year.

Thus, it is easier to observe that the international climate has been inflation-prone than to give a simple explanation of it. To be sure, a significant factor has often been the failure to stop excess demand at an early stage, with the consequence that persistent pressure on the labour market has led to a broad upsurge of wage demands. Another factor, however, is the tendency for key wage bargains to set the pattern for the whole round of negotiations and for the wage increase, by a social rather than an economic process, to filter through the labour force. Then, after the cost of living has risen, it is more or less taken for granted by all sides in wage bargaining that price increases should be offset by higher wages and something more added. Even the size of this additional margin does not seem to be precisely affected by the state of demand for labour.

Interest rates.

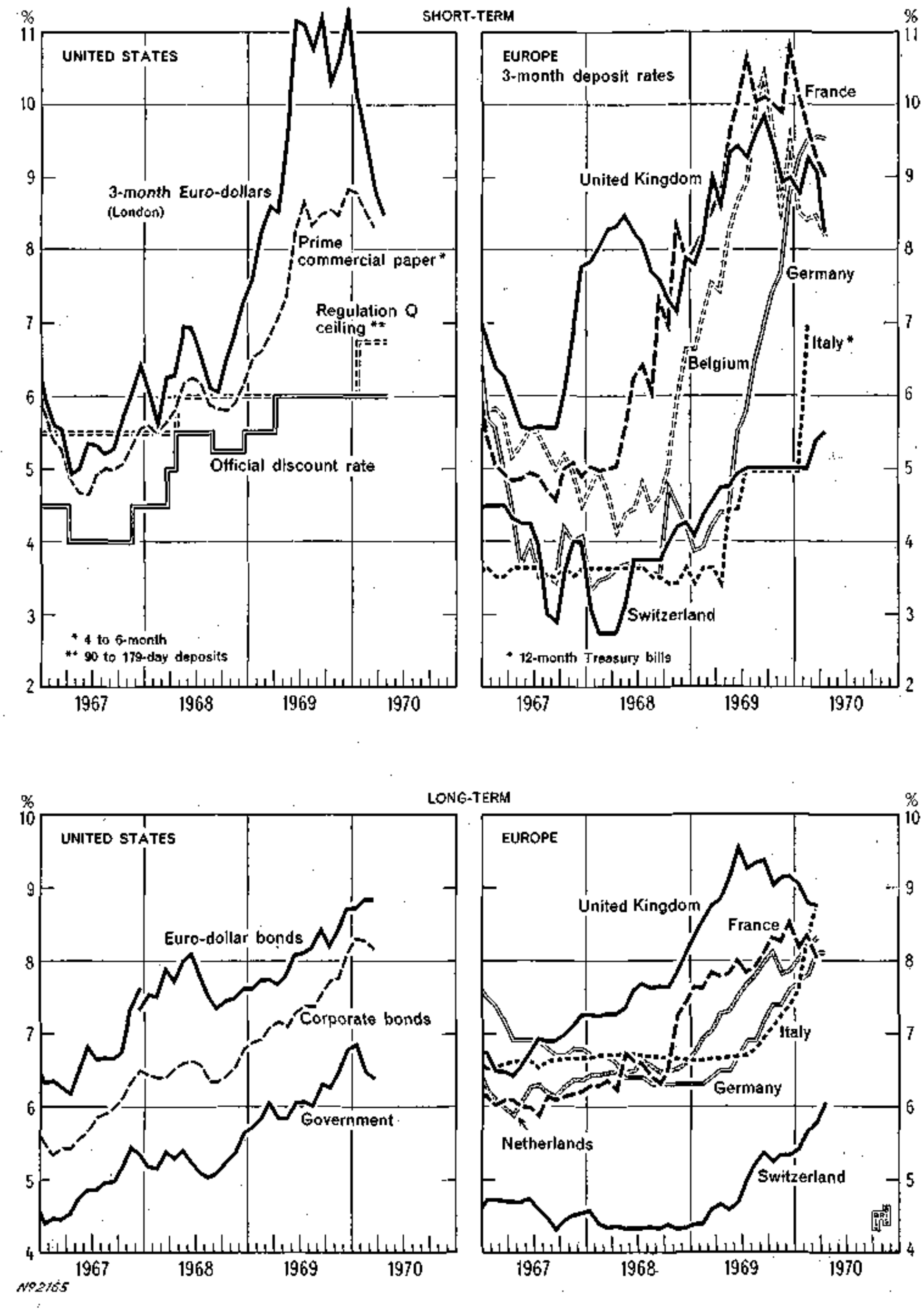
In the climate of inflation, and with monetary restraint measures being applied to combat it in quite a few countries, a rise in interest rates internationally in the past year was to be expected. However, the sweep of this movement and the heights reached in many markets were without modern parallel. There were, of course, special factors which affected certain countries, but the international links through which the escalation of rates was transmitted were much more direct than those relating to prices and wages.

Through most of 1968 interest rates were generally fairly flat at not unusual levels relative to prevailing economic conditions. Sterling rates were an exception owing to the 8 per cent. Bank rate called upon to support the devaluation of the currency, and rates in the Paris market also were raised sharply after the social disturbances in May–June to help limit the flight of funds. But beginning in late 1968, coincident with the shift to monetary restraint in the United States, interest rates soared. From December 1968 to the spring of 1970 thirty-nine increases were made in official discount rates of OECD countries, nearly one-half of which were in steps of one percentage point or more. These changes were in some cases adjustments to domestic market conditions and in others a means of aligning the domestic market with external rate levels. The changes tended to come in bunches, reflecting their close interdependence. As shown in the graph, money-market rates in the United States, the United Kingdom, the Euro-dollar market and several continental centres moved upwards steeply and narrowly together. In Germany, for external reasons, and in Italy, for domestic aims, interest rates were held back until the second half of the year. The rise in rates has been relatively moderate only in Switzerland and Japan; in both countries a stimulus to capital outflows has been appropriate.

The rate pattern was similar in the long-term sphere, with a further exception. Sterling long-term rates moved up faster than those elsewhere in late 1968 and early 1969 in response to the further effort being made to strengthen the UK external position.

With allowance for special circumstances in some countries, the main force behind the upsweep of rates and the exceptional levels they reached came from the United States. Much of the explanation lies in the cumulative effects of the protracted US inflation and in the way in which monetary restraint was applied there. Seeking to curb the business sector's strong demand for funds, increasingly based on inflationary expectations and the desire for protection against a liquidity squeeze, the monetary authorities aimed to limit bank lending by holding down the Regulation Q ceilings. The banks sought all possible means of offsetting their losses of time deposits and of meeting their commitments to corporate customers, which helped to drive up domestic money-market rates.

Short and long-term interest rates.



The peculiarity was that Regulation Q did not apply to funds obtained via the banks' foreign branches. Hence, the "keen cutting edge" of the Q ceiling reacted with severe effect on rates in the Euro-dollar market as the banks bid aggressively for this marginal source of funds. Three-month money passed the 12 per cent. mark in June and was not much lower during the rest of the year. These high rates attracted a substantial volume of funds from various parts of the world, including the United States. Rates in other markets were affected and foreign central banks often took action to assure that they were sufficiently affected. Moreover, the rise in US long-term rates transmitted itself via the Euro-bond market, both through new issues and through the arbitrage effects on the secondary market, to the capital markets of other countries.

On the other hand, apart from Germany and Italy, most western European countries have tended to rely on quantitative limitations in regulating the expansion of bank credit. At the beginning of 1969 bank credit ceilings were already in effect in the United Kingdom, France and the Netherlands, and over the year they were introduced, formally or informally, in most other countries. Though not expected to be continuously in force, credit ceilings have been used as a shorter-term expedient to ensure quick results in preventing excessive credit expansion. Moreover, such techniques help to limit the upward pressure on interest rates and the drawing-in of funds from abroad. More direct action on interest rates has usually been aimed at external considerations.

Though steps to control credit expansion spread in western Europe last year, the policies were not generally designed to be very restrictive. The only countries in which stringent restraint was clearly in evidence were the United Kingdom, France and Sweden. In the others domestic bank credit rose by about 10–15 per cent. When, in addition, it is remembered that 1969 was the first year in which the expansion of activity in most European countries began to press against resource limitations, the rapid rise of interest rates to exceptionally high levels seemed rather incongruous. This is to say that the moves to higher rates were in large degree defensive.

Whatever goes up must come down, it is said — excepting prices, wages and population. But the speed of descent of interest rates is likely to be much slower than their rocket-like rise.

United States.

The US authorities' efforts over the past year to dampen inflation have led to a significant easing of demand pressures and a modest decline in output. Industrial production showed a recessionary tendency during the third quarter of 1969, and by the first quarter of 1970 the real gross national product had declined by 0.8 per cent. from its level in the previous half-year. The labour market became much easier as unemployment increased from about 3½ to close to 5 per cent. of the labour force. However, prices and wages were still rising.

When the new Administration came into office at the beginning of last year, restrictive policies were already in operation. But the economy was still booming away, with over-full employment, the price/wage spiral tending to accelerate, and an inflationary psychology underlying expectations and decision-taking throughout the economy. In this situation the Administration emphasised the high priority it intended to give to restoring monetary stability.

In the fiscal sphere the budget estimates were reviewed and a cut of $4 milliard was proposed in expenditure. Also, it was proposed to repeal the investment tax credit of 7 per cent. as from April and to extend the income-tax surcharge, though with the rate reduced to 5 per cent. in the second half of the fiscal year. The tax measures were finally passed by Congress in December.

The swing of the budget into surplus was completed by the first half of 1969. With tax receipts rising and Federal outlays tapering off after three years of steep increase, the surplus on a national-accounts basis reached an annual rate of $11.8 milliard, compared with deficits of $9 and 1.5 milliard in the two halves of 1968. Thereafter it narrowed, partly because of increases in such items as debt interest and social security payments. Even so, Federal expenditure rose less in 1969 than the gross national product in current dollars, and purchases of goods and services in real terms showed a significant fall due to reductions in defence spending.

In the monetary sphere, the banks were under a tight squeeze by mid-1969. Open-market operations were conducted so as to hold down the reserve base, and in April reserve requirements were increased and the discount rate was raised from 5½ to 6 per cent. In the face of active loan demand, the banks' prime rate was put up in June to 8½ per cent. — the third rise since December.

The authorities were not seeking a sharp credit crunch à la 1966, however, and there was much talk of gradualism in the readjustment needed by the economy. It may be, in fact, that the adjustment turned out more gradual than intended and slowed down the impact on the price/wage spiral. The objective was, on the one hand, to restrain loans to business by the large banks so as to taper off the heavy increase in corporate investment and, on the other, to limit the squeeze on savings institutions and on the credit flow to home construction. The thumbscrew of the monetary inquisition was holding the Regulation Q ceiling on large-denomination certificates of deposit at 6¼ per cent., while other money-market rates floated up above the 8 per cent. level and Euro-dollar rates soared into the upper atmosphere of two-digit quotations. However, the efficacy of these tactics in cutting back the expansion of credit was hardly commensurate with the pressure brought on rates.

In the face of large losses of time deposits, loan demand on the banks remained very strong. The corporate sector was wary of being caught short of liquid funds, its need for working balances was rising, and both continuing inflation and the improbability of prolonged recession argued against major changes in longer-term investment plans. Besides, the cost of money to industry was not all that onerous — after taxes. So the banks, with firm loan commitments to their corporate customers, found ways to meet the demand: their government-security portfolios were sharply reduced; the Euro-dollar market was drawn on heavily, particularly in the first half of the year; and commercial paper issued by bank affiliates spurted ahead, especially in the second half. Measures to increase the cost of Euro-dollar borrowing were adopted around mid-year and action to limit the volume of commercial paper was considered later, though it was not in fact taken — perhaps because signs of easing in the economy were becoming evident. Regulation Q ceilings were raised finally in January 1970. Meanwhile, the impact of the tight monetary policy and high market rates on savings institutions was mitigated by sizable mortgage support operations by Federal agencies.

As an overall result new credit from all sources obtained by the economy in 1969 declined only moderately to \$86 milliard from \$97 milliard the year before — and this drop was more than accounted for by the shift of the budget into surplus. From the start of fiscal restraint around mid-1968 until mid-1969 there was little dampening of the boom in activity and the price/wage inflation had a free run for about a year. Of course, there have been social considerations involved in judging the force to be given to restraining policies; but fear of overkill after the tax increase was enacted in 1968 and the leaning towards gradualism subsequently surely blunted the priority on monetary stability.

As already mentioned, however, activity definitely eased in the second half of the year. Besides the drop in Federal Government purchases, house-building declined from the first quarter of 1969 onwards, and State and local government spending rose by only 1 per cent. between the second and fourth quarters. Mortgages and State and local bond issues were held back by the rise in market interest rates above the legal ceilings which apply to some of them. Consumer spending levelled off during the autumn and the personal savings ratio rose. In early 1970 new car sales were over 20 per cent. lower than a year before and the sharp decline on the stock market added a gloomy note. Only fixed investment by private industry showed resistance, despite difficult business conditions and some squeeze on profits. None the less, by the first quarter of 1970 equipment outlays at constant prices appeared to be faltering and activity as a whole was at the point of recession. This had to be weighed in setting policy for the future, along with the stubborn fact of continuing price and wage inflation.

In shaping fiscal policy for the year 1970–71, the Administration aimed to maintain a unified budget surplus despite a 15 per cent. increase in social security pensions on 1st January 1970 and the forthcoming abolition of the remaining 5 per cent. income-tax surcharge on 1st July. It was proposed to extend the excise taxes on cars and telephones until the end of 1971 and to allow expenditure to rise by only 1½ per cent. in current dollars, which meant a further reduction (on defence and space programmes) in real terms.

With this stance to fiscal policy and demand pressures subdued, a modest move was taken towards relaxing the squeeze on bank credit. Short-term interest rates eased seasonally after the year-end and by February the Federal Reserve System was giving some help to this movement. As market rates retreated significantly, the banks reduced their prime rate from 8½ to 8 per cent. at the end of March.

It was generally expected in the spring that the pause in expansion would be brief and that output would be increasing in the second half of the year. Not only was fiscal and monetary restraint less severe, but investment intentions showed a continued increase in capital-goods demand. Also, more wage contracts were due to be negotiated in 1970 than had been the case the year before and a pattern of largish increases was evident. However, it was expected that total demand would not again become pressing and that the labour market would remain easy. It was believed that under these conditions the rate of price increase would slow down — there were already some indications of this in the trend of industrial prices — but that it would still be around 3.5 per cent. at the end of 1970.

Besides the usual hazards of forecasting, this outlook depended upon the realism of the budget surplus, which seemed somewhat optimistic and still had to be made actual by Congress. A new uncertainty came in the form of a sudden strike of postal employees in the second half of March, after which Federal pay scales were raised generally by 6 per cent., the second increase in the fiscal year. In May it was officially stated that the Federal budget would be in overall deficit. Thus, it was not clear to what extent inflation would be brought under control.

In the balance of payments, the trade surplus was larger in the first quarter of 1970 after its low level in the two previous years. Overall, however, there was a large deficit on both the liquidity and official settlements balances which seemed likely to persist for the rest of the year.

United Kingdom.

The main feature of the British economy in the past year has been the turn-round in the position of sterling. After the devaluation in November 1967 the volume of imports had risen sharply and the balance of payments showed little improvement, despite a substantial increase in exports. The second half of 1968 was more favourable than the first, as the rise in imports tapered off and, in addition, the third quarter saw a net inflow of long-term capital because of several large US takeovers of British companies. However, the underlying position still appeared unsatisfactory, and restrictive financial policies were sharply tightened in November 1968 and April 1969. Various taxes were increased, hire-purchase restrictions were intensified and the ceiling on bank loans was lowered. In addition, an import deposit scheme was introduced, so as to tighten internal liquidity. A defensive attitude was required also because of the upswing of Euro-dollar rates. In February 1969

Bank rate was increased from 7 to 8 per cent., and, with less support given to the gilt-edged market, long-term yields rose from about 7.6 per cent. in September 1968 to 9.5 per cent. in June 1969.

In June the IMF approved a new stand-by arrangement allowing the United Kingdom to draw up to $1 milliard over the next twelve months. In a Letter of Intent written to the IMF the government stated that its objective for the year to March 1970 was a basic payments surplus of at least £300 million, support for which was to come from a budget surplus of at least £850 million and an upper limit on the expansion of domestic credit of £400 million. The payments target for the year to March 1970 represented an improvement of £500–550 million over the previous twelve months. In fact, the external balance had already moved out of deficit when the Letter of Intent was written, and over the specified twelve months the surplus was about twice as large as the target figure. Since mid-1969 the current-account surplus has been at an annual rate of more than £500 million; the gain over the same period of the year before was mostly due to the merchandise account. Long-term capital has also shown a net inflow, amounting in the second half of 1969 to nearly £100 million. The previous large outflow of capital to Australia ceased, foreigners bought more UK securities, and the UK public sector floated several loans in overseas capital markets.

Thus, about eighteen months after devaluation a very satisfactory outcome began to be achieved. The interesting question is how this was brought about and why it was so long delayed.

The export performance owed a good deal to the exceptionally fast growth of world trade; the value of world exports of manufactures in 1969 was 16 per cent. up on 1968. But without the improved competitiveness resulting from devaluation, UK industry would have been less able to take advantage of the favourable environment. This is clear from the fact that for the first time for many years the UK share of world manufactured exports showed virtually no decline in 1969; in the past it had fallen fastest when world trade was growing rapidly. But while devaluation was the decisive step in this regard, it seems that some time-lag was inevitable before it could be fully reflected in export performance.

The other half of the picture is that domestic demand was allowed to expand appreciably for some months after devaluation, but once firmer measures of restraint were imposed they gradually took effect. The main instrument was the budget, which acted through higher taxes and by halting the rise in public-sector expenditure. In the fiscal year 1969–70 the budget surplus available to repay borrowing was £1,130 million, and the public sector had an overall financial surplus of about £600 million, compared with a borrowing requirement of £450 million in 1968–69. In addition, the ceilings on bank credit were quite effective, and total domestic credit, far from expanding by £400 million, showed considerable contraction. Although the capital market became very tight, the authorities sold a large amount of government stock to the non-bank public. On the other hand, after mid-1969 net new issues by companies fell to a level little more than one-quarter of that in the first half of the year.

The impact of these policies was widely felt. Comparing the second half of 1969 with the second half of 1968, house-building showed a significant decline, while private business investment increased by only 3½ per cent., against 18 per cent. in the previous year. Inventory accumulation also levelled off and real private consumption was again held to a very slight increase. Altogether, from the second half of 1968 to the second half of 1969 total domestic demand showed no increase in real terms, whereas it had risen by 2¼ per cent. in 1967-68. In this way ample room was made for the shift of resources into the external balance. Even with rising exports, industrial production, which had risen month by month in 1968, has been rather flat since. The rate of price increase slowed down somewhat but was still around 5 per cent.

The return of confidence in sterling, which brought a huge reflow of funds to London and vastly improved the reserve position, is discussed elsewhere in this Report.

Into this idyll of stabilisation was reinjected the wages problem. The authorities took it as evident that the improved competitiveness resulting from devaluation must not be frittered away by an excessive rise in labour costs, and strong emphasis was put on incomes policy. Wages in the first year after devaluation had risen by 6 per cent., while in the twelve months to November 1969 the rise was 5 per cent. At the same time a courageous effort was being made to secure a statutory basis for incomes policy and to take a step towards modernising the basic labour legislation. As the year wore on, however, trade union opposition forced the government to retreat from the latter objectives, and in December it became clear that wage restraint had broken down. Several wage settlements were made in that month far beyond the guide-lines, and the start of a new round of excessive increases, punctuated by frequent strikes, was confirmed in the first quarter of 1970. The pace of wage rises indicated an increase for the year of at least 10 per cent. This, of course, reflected the pure exercise of bargaining power; with unemployment steadily around 2.5 per cent. and vacancies declining, the labour market was not under demand pressure.

As the wage increase was bound to have repercussions on demand and as the balance-of-payments improvement had to be safeguarded as much as possible, the policy attitude reflected at budget time in mid-April was cautious, and only mild easing of fiscal and monetary restraint was projected. Reductions in income tax to cut revenue by about £200 million in a full year were announced, but the budget was expected to remain in substantial surplus. Also, the Chancellor stated that domestic credit could be allowed to expand by up to £900 million in the new financial year. And import deposits, which had been reduced in December, were cut further from 40 to 30 per cent. Bank rate was lowered in both March and April, but rather to reflect the easing of international rates. However, to indicate that the general direction of policy remained restrictive, the clearing banks were asked to increase their special deposits with the Bank of England from 2 to 2½ per cent. and the Scottish banks from 1 to 1¼ per cent. With the policy changes, a growth of total final expenditure of 4 per cent. in real terms was expected over the year ahead; allowing for some acceleration of imports, a rise of 3½ per cent. was projected in the gross domestic product. The expected growth rate in nominal terms was not specified.

France.

In the early months of last year the two major problems facing the French authorities were to slow down the price/wage spiral and to restore the balance of payments to a sustainable position.

Although the overly expansive policy measures of 1968 were in the process of being reversed, their effects, combined with the large increases in wages and other incomes, had produced an active demand situation by mid-1969. Both private consumption and fixed investment grew strongly, and even exports were showing an upward trend. Wholesale prices had levelled off after their jump the year before; however, the rise in consumer prices was continuing at an annual rate of over 6 per cent., partly because of an increase in value added taxes, and was contributing to wage demands.

In these circumstances efforts were made to strengthen the shift to policy restraint. During the late spring and summer instalment-credit terms and conditions for housing loans were tightened, while the ceilings on bank credit expansion were extended and reinforced by quantitative limits on the growth of new medium-term rediscountable investment and construction credits in particular. In addition, for domestic as well as external reasons, money-market rates were kept closely in line with those on Euro-currency markets. In July the government decided to freeze three-quarters of the investment programme authorisations falling within the remaining months. But, while there seemed to be some brake on the expansion of activity, the inflationary climate was not significantly affected.

On the external side, the payments position was in substantial deficit. There was a deterioration in the trade balance, due primarily to higher domestic demand, but also reflecting a loss of international competitiveness. However, a large part of the current-account deficit recorded on a cash basis was attributable to unfavourable leads and lags in payments. And despite the exchange controls and restrictions on banks' foreign positions there was a leakage of domestic savings seeking safety by capital flight and gold-buying. As a result, the overall balance-of-payments deficit amounted to $1,700 million in the first half of 1969. French bank-notes were traded at a significant discount in foreign markets, confidence in the franc was low and it was widely considered that a change in the parity would have to come sooner or later.

Quite unexpectedly, in a period of relative calm, the government announced an 11.1 per cent. reduction in the gold parity of the franc, effective

Supply and use of resources.

Countries	Years	Sources of demand						Resources	
		Consumption		Gross fixed domestic capital formation			Exports of goods and services	Imports of goods and services	Gross national product
		Private	Public	Total	Plant and equipment	Dwellings			
		volume changes, in percentages							
Austria	1967	3.2	4.5	— 0.1	— 0.2	1.3	5.8	1.2	3.1
	1968	3.6	3.9	— 1.2	— 1.4	— 0.4	10.1	8.3	4.1
	1969	2.8	3.4	4.8	.	.	16.4	8.9	6.4
Belgium.	1967	2.7	5.9	1.1	2.4	— 3.4	6.7	3.5	3.4
	1968	4.9	6.7	— 1.3	— 1.1	— 2.4	11.3	12.9	3.8
	1969	5.1	4.9	9.5	9.3	10.0	16.0	15.5	6.0
Canada	1967	4.7	2.5	0.3	— 0.4	4.0	10.5	5.1	3.3
	1968	4.5	4.6	0.3	— 1.8	10.6	11.9	9.3	4.8
	1969	5.6	5.9	1.1	— 0.6	8.1	7.5	9.8	4.8
Denmark	1967	3.4	8.3	7.0	3.5	23.2	6.1	6.1	4.0
	1968	1.9	4.3	— 0.6	1.6	— 9.5	8.9	3.9	3.4
	1969	7.5	7.9	16.1	14.1	25.0	9.7	15.0	7.5
Finland	1967	2.1	5.5	— 3.3	— 3.5	1.0	5.9	— 1.4	2.7
	1968	0.2	5.2	— 3.4	— 4.1	— 2.8	11.9	— 2.4	2.4
	1969	7.4	4.4	13.0	13.2	12.0	16.0	21.3	8.0
France	1967	4.6	3.8	6.4	7.1	4.4	6.6	7.5	4.6
	1968	4.8	5.2	5.9	6.1	5.3	7.4	10.3	4.3
	1969	6.9	4.5	9.6	12.0	3.0	16.1	19.3	8.3
Germany	1967	0.6	3.3	— 8.4	— 9.1	— 6.0	8.5	— 1.3	— 0.3
	1968	4.0	— 0.9	6.0	9.9	1.3	13.4	14.7	7.2
	1969	7.7	4.1	12.8	17.0	— 2.5	11.9	16.2	8.0
Italy	1967	7.1	4.3	11.8	12.8	9.5	6.7	13.1	6.8
	1968	4.7	4.1	7.7	5.9	11.9	15.4	7.5	6.0
	1969	5.7	3.1	8.2	3.7	17.6	14.1	20.7	5.0
Japan	1967	9.5	5.4	18.1	18.8	15.3	6.3	22.4	13.1
	1968	9.6	7.2	21.5	22.4	17.6	22.5	12.8	14.3
	1969	9.8	6.0	19.0	19.8	15.6	20.4	13.8	12.8
Netherlands . . .	1967	5.1	4.1	7.8	6.0	15.2	6.8	6.2	6.1
	1968	5.7	1.8	12.7	13.7	8.9	12.1	12.8	6.9
	1969	3.5	4.3	0.5	2.2	— 4.5	16.0	14.0	5.2
Norway	1967	4.4	8.0	11.8	11.6	12.6	10.5	12.4	5.5
	1968	3.8	5.4	— 9.3	—11.3	3.8	10.8	0.0	3.9
	1969	7.9	8.1	— 3.9	— 5.6	5.9	6.3	5.6	4.6
Sweden	1967	2.8	3.8	4.9	2.4	14.5	5.3	3.6	2.3
	1968	4.3	8.3	— 0.9	— 2.1	2.9	7.9	8.4	4.0
	1969	4.2	6.2	4.2	4.6	3.3	12.1	13.1	5.2
Switzerland . . .	1967	2.9	1.7	0.5	1.6	— 2.6	4.3	5.0	1.8
	1968	2.9	1.9	3.8	3.7	4.1	10.8	8.1	4.0
	1969	4.6	3.8	7.1	5.5	12.5	12.3	12.6	5.2
United Kingdom .	1967	2.1	5.3	6.6	6.2	8.1	— 0.4	4.8	1.9
	1968	2.1	0.3	6.0	5.1	4.5	10.7	7.9	3.0
	1969	0.4	— 1.0	— 3.1	— 1.6	— 9.4	8.9	2.7	1.5
United States .	1967	2.9	12.3	— 1.0	— 0.1	— 4.6	4.7	6.6	2.5
	1968	5.2	6.6	5.0	2.9	14.4	8.3	16.1	4.9
	1969	3.0	1.3	4.5	5.1	2.1	5.3	7.4	2.8

11th August. It thereby sought to adjust for the overvaluation which had already come about and which was still working itself out as a result of the earlier wage and cost increases.

Devaluation was supported by new measures to restrain domestic demand, principally additional cuts in budgetary expenditure, an acceleration of corporate tax collections and premature termination of the 10 per cent. investment tax credit introduced in 1968. On the monetary side, hire-purchase controls were tightened further, and a number of measures were taken to slow down the rate of increase in the money supply, to increase the cost of credit, and to continue limiting its growth while encouraging the formation of savings. In addition, mainly for external reasons, the Bank of France's discount rate, which had reached 7 per cent. in June, was put up to 8 per cent. in October.

In the latter part of the year credit restraint was quite severe. Moreover, the government's cash budgetary position improved sharply, so that in 1969 the deficit came to Fr.fr. 3.4 milliard instead of Fr.fr. 11.5 milliard as originally estimated, while for 1970 it was proposed to restore the budget to balance.

Under the influence of these policies demand pressures have eased, reflecting particularly a pause in consumer spending. Exports turned up strongly and output continued to rise, but extra capacity becoming available as a result of the high level of investment helped to relieve strains. The labour market remained somewhat tight throughout 1969, but a slight easing was apparent in early 1970.

A slow-down in wage increases did not immediately become evident. Hourly rates advanced by 3 per cent. in the first quarter of 1970, bringing the rise over a twelve-month period to about 10 per cent. Consumer prices continued to go up, at an annual rate of over 5 per cent., still influenced in part by the change in the currency parity, as well as by higher international prices. Service prices are still frozen, but in most sectors the general price controls imposed for one month after devaluation have been replaced by a system of surveillance requiring advance notice of increases. This system has tended to limit and delay the impact on prices of earlier cost increases.

Immediately after devaluation there was some reflux of funds from abroad, but the market reaction did not indicate a general conviction that the external accounts would show a sufficient and lasting improvement; and in September heavy support for the franc was again necessary because of renewed uncertainty about the Deutsche Mark. With the revaluation of the Deutsche Mark in October, however, came a real return of confidence in the franc. The balance of payments moved into surplus in the fourth quarter, mainly as a result of the unwinding of leads and lags. In the early months of 1970 there was an even stronger reflux of funds and a considerable improvement occurred in the net official position. Moreover, the sustained upward trend in exports, outpacing imports, indicates that the improvement in the competitive position resulting from the change in currency parities has brought significant benefits.

Germany.

The revaluation of the Deutsche Mark, besides removing a major element of international uncertainty, was intended to cool off the export boom and to promote a more sustainable balance in Germany's external accounts. While export orders declined after revaluation, they recovered again in the early months of 1970; in any case, the large backlog from 1969 and the strong expansion of domestic demand caused the boom itself to continue unabated. Output and prices were rising rapidly and pressure on the labour market was evident, with vacancies exceeding unemployment by a factor of five and the number of immigrant workers on an upward trend.

The combination of domestic overheating and a growing current-account surplus had emerged in the course of 1968, as German exports responded strongly to an upsurge of demand in other countries. While the current-account surplus was fully matched by exports of long-term capital, it was felt that a more restrictive monetary policy would soon be needed to cool down the economy. The inconvenience of this was that it would probably reduce the capital outflow and at the same time further enlarge the current surplus. The government was reluctant to revalue because of the increased budgetary support to agriculture which this would entail, and also because restrictive policies imposed in other countries might alone weaken export markets in 1969–70, while the upswing in Germany continued. However, the border tax adjustments made in November 1968 amounted to a 4 per cent. revaluation on trade in industrial products.

The effect on the merchandise surplus in 1969 was not significant. The value of exports in the first three quarters was 17 per cent. higher than the year before, and while imports rose by 22 per cent., this basically reflected the mounting pressure of total demand. All components of demand expanded vigorously, with the steepest increase coming in business outlays on plant and equipment. The rapid rise in tax receipts pushed the Federal Government's budget into surplus for the year, but the net effect was not very restrictive. In the fourth quarter industrial production was 10 per cent. higher than in the corresponding quarter of 1968, and for the full year the real gross national product increased by 8 per cent. (6 per cent. per person employed).

With credit in other countries remaining tight and interest rates rising, Germany's net long-term capital exports in 1969 were more than twice as large as in 1968, reaching the remarkable total of DM 23 milliard. Although the capital outflow month by month was far in excess of the surplus on current account, its impact on the overall balance of payments was swamped up to September by the waves of hedging and speculation on a revaluation of the currency. The official reserves rose by DM 15 milliard between April and September. To offset the expansionary impact on bank liquidity, reserve requirements were raised in June and again in August, while the Bundesbank's discount rate was increased in steps from 3 per cent. in early April to 6 per cent. in September. Even so, bank lending continued to expand and the banks' liquidity ratio, though fluctuating widely, showed little net change.

Thus, in the early autumn of 1969 the economic and monetary situation was very much what it had been a year earlier — only more so.

The new government formed in October fixed the Deutsche Mark's parity at DM 3.66 to the dollar, a rise of 9.3 per cent. on the previous par value. The government initially expected revaluation to have a rather forceful impact in restraining inflationary pressures, both from the demand side and through its direct effect on prices. However, coming after a full year of excess demand for labour, revaluation was too late to prevent an outburst on the wages front. Early in September, following a number of wild-cat strikes, workers in the coal and steel industry were awarded pay rises of 11 per cent. and more, together with various fringe benefits. The rate of increase of wage earnings accelerated from the previous 8 per cent. per annum to 12½ per cent. in the fourth quarter and 14 per cent. in the first quarter of 1970. Thus, the boom was heightened still further by an upsurge of consumer spending, and price increases also accelerated. In early 1970 industrial wholesale prices were 6 per cent. higher than the year before, and the rise of export prices has about offset the abolition, after revaluation, of the 4 per cent. border tax.

While the need for restrictive financial policies was clear, the government remained concerned at the possibility of a downturn in the second half of 1970, partly as a delayed consequence of revaluation. About 3 per cent. of Federal Government expenditure for 1970 was therefore blocked on a temporary basis and, in addition, the Federal and Länder Governments agreed to establish an anti-cyclical reserve fund of DM 2.5 milliard with the Bundesbank. At the same time previously announced tax reductions were postponed — but other proposals for a temporary increase in taxes were not accepted.

Thus, as on several past occasions, the main task of curbing the boom devolved upon monetary policy. In this area, however, revaluation did lead to a substantial change of climate in a restrictive direction. The reflux of funds to other countries meant a contraction of bank liquidity and, at the same time, a big increase in bank borrowing by companies to replace balances which moved abroad. Despite some downward adjustment of reserve requirements, the banks' liquidity ratio dropped to close on 5 per cent. early in 1970, its lowest level for many years. Although the external surplus on current account remained large, the net outflow of private long-term capital, which had been held back by uncertainty over the exchange rate in the third quarter of 1969, came to DM 8.7 milliard in the fourth quarter and DM 3.7 milliard in the first quarter of 1970.

In this situation a further tightening of monetary policy was appropriate from both the domestic and external standpoints. Early in March the discount rate was raised to 7½ per cent. and the rate on secured advances to 9½ per cent. Also, to discourage an inflow of funds to the banks from abroad as a means of relieving the squeeze, a marginal reserve requirement of 30 per cent. was imposed on bank liabilities to non-residents.

The boom atmosphere continued in the spring months although the credit pinch was severe despite borrowing from the Euro-dollar market. It is expected that monetary restriction will be effective sooner or later, but the process of demand management has been lengthened because of the weak support from fiscal policy and because the very large wage round cannot be halted in mid-course. The disadvantages of delay in initiating firm restraining measures, complicated by the revaluation debate, have therefore been evident. Hence, the objective now must be to ease the strain on resources, particularly in the labour market, before another round of excessive wage settlements arises in the latter months of the year.

Italy.

Recent developments in Italy have been dominated by labour disturbances which started towards the middle of September and sharply interrupted economic expansion.

Although the pace of advance up to mid-1968 had been somewhat disappointing, much progress had been made by last summer towards achieving a better growth rate of real gross national product and fuller domestic absorption of available output. While exports of goods and services continued to advance strongly, domestic demand gathered momentum, bringing with it an even larger expansion of imports. In particular, private fixed investment picked up, owing to fuller utilisation of capacity and satisfactory profit expectations. Private consumption, too, followed the general upward trend as disposable income rose. During the first half of the year industrial production (excluding construction) was running 8 per cent. above the level of a year earlier. For 1969 as a whole real gross national product was then expected to rise by 7 per cent., against 6 per cent. in the preceding year.

In the background, however, were two unfavourable factors: price developments and persistent capital outflows. Following some years of notable stability, prices rose moderately between mid-1968 and the first quarter of 1969, but started to move up markedly thereafter. By September wholesale prices were 5.8 per cent. higher than a year earlier, owing mainly to a rise in world commodity prices, strong demand for building materials and some domestic harvest shortfalls. The corresponding increase in the cost of living was 3.6 per cent. As a consequence, a wage/price interaction was set in motion. Up to August cost-of-living allowances based on the sliding-scale agreements in industry had to be adjusted by five percentage points, against only two points in the whole of the preceding year. Other contributing factors were the reduction of regional wage differentials and the coming into force of previously negotiated wage increases. Thus, the rise in contractual wages in manufacturing industry, which had amounted to only 3.6 per cent. in 1968, reached an annual rate of 7.4 per cent. in the second quarter of 1969.

As to capital movements, the net outflow of funds under way since 1966 intensified during the first half of 1969, when it reached about $1,800 million and began to exceed the surplus on current account. However, the monetary authorities continued for the time being their policy of stabilising long-term interest rates. The object of this policy, which had been introduced earlier in the absence of effective budgetary stimuli, was to encourage investment. Instead of resorting to interest rate changes, a number of — mainly selective — measures were adopted to cut back net outflows of funds, including a request to the banks to reduce their net foreign creditor positions, the introduction of penalty charges for excessive borrowing from the central bank and new restrictions on financial institutions designed to discourage long-term portfolio investment abroad.

But, with capital exports continuing to rise and the overall external deficit becoming serious, the policy of stable interest rates became increasingly untenable. The initial moves towards tighter credit came in the third quarter; central-bank lending to the banks was tightened, the discount rate was raised to 4 per cent., and long-term interest rates were permitted to move up.

In the autumn the situation took a sharply adverse turn. With the eruption of strikes involving about half of the working population, working hours lost came to 300 million in 1969, compared with about 180 million back in 1962, when the last wage explosion occurred. The disturbances took place against a background of political instability. They were occasioned by the renewal of contracts negotiated three years earlier, when the climate of recession was still being felt, and followed a period of slightly declining unit labour costs. The immediate economic impact was an abrupt fall in industrial production during the last four months of the year, which brought down the average year-to-year rise in the index to only 3.3 per cent., compared with 6.3 per cent. in 1968. The corresponding increase in real gross national product, at 5 per cent., was 1 per cent. smaller than a year earlier and markedly lower than the rate expected prior to the "hot autumn". The trade balance was also adversely affected, with exports declining sharply while imports continued to rise. The effect of wage agreements concluded before the end of the year is estimated to have been an increase in wage costs of 15 per cent. Hence, the trend of prices was tilted further upwards.

By March 1970 the general index for minimum contractual wage rates in manufacturing industry was running almost 25 per cent. above the year-earlier figure, though this exaggerates the actual increase in the total wage bill. Wholesale prices and the cost of living were some 8½ and 5½ per cent. higher respectively, with the wholesale prices of investment goods up by a full 14 per cent. The sliding wage scale advanced five points by May, against a total of six for the whole of 1969.

On the output side, the economy, in a still strained atmosphere of industrial relations, began a painful recovery in early 1970. Though some vital sectors were still being hit by strikes, industrial production had by February regained its level of the previous summer. But, with political uncertainty persisting and with domestic interest rates comparatively low, the capital outflow continued and the lira came under pressure. In consequence, the Bank of

Italy raised its discount rate by 1½ per cent. on 6th March and long-term rates moved up soon afterwards to around 9 per cent. These measures, it is hoped, together with a return to greater political stability, will help to stop the haemorrhage of capital outflow. Of the cumulative 5½-year current-account surplus totalling roughly $11½ milliard, about $8½ milliard had been offset by capital exports, mostly at long term.

In view of its strong current-account position up to last autumn, of a certain margin of labour-cost saving that had previously been built up, and of a high underlying rate of productivity growth, Italy's capacity to absorb a wage explosion is not inconsiderable. However, if a setback such as that in 1963–64 is to be avoided, a concerted effort will have to be made by all parties to stop the wage/price spiral and to achieve a productivity increase by a rapid and substantial rise in output. In addition, it cannot be emphasised too strongly that the situation now calls for firm fiscal, as well as monetary, restraint.

Japan.

Given the soaring pace of industrialisation of the Japanese economy for more than a decade, the rise of the real gross national product by almost 13 per cent. last year is not news. What is striking is that the balance of payments, which had formerly fallen into deficit after several years of rapid domestic expansion, actually strengthened in the boom year of 1969. Perhaps external weakness may develop as the strain on domestic resources intensifies, but there was no sign of it in the early months of this year.

The current cyclical upswing, which started in the autumn of 1965, continued strongly over the past year. Exports and investment in plant and equipment were the dominant demand forces; both increased by about 20 per cent. after having risen by over 22 per cent. the year before. Housing construction also gained sharply and even private consumption increased by almost 10 per cent.

In the previous years of this expansion, price stability had been maintained; wholesale and export prices had been almost flat, and the cost-of-living increases were not excessive in Japan's rapidly changing socio-economic scene. This was in spite of wage increases of well over 10 per cent. By the middle of 1969, however, it was evident that price pressures were developing and that the increase in wages had accelerated sharply. At the end of the year the cost of living was about 6½ per cent. up on the year, while wholesale prices were 4 per cent. and export prices 5½ per cent. higher. The rise in wages over the year was over 16 per cent., compared with less than 12 per cent. the year before.

Monetary restrictions introduced in September 1967 in the face of an external deficit had been progressively relaxed up to the autumn of 1968, as their object had been achieved. At the beginning of 1969, therefore, the stance of monetary policy was easier than it had been a year earlier. Even so, the official attitude was one of caution; the discount rate had not reverted to its pre-squeeze level, and the large banks were still obliged to pay close attention to their reserve positions. Furthermore, the budget for the fiscal year 1969–70 was designed to be neutral; in fact, the rate of growth of government expenditure in 1969, as in the previous two years, was considerably below the nominal growth of the economy.

However, the need to slow down the developing inflationary spiral led the authorities, from the late summer onwards, to tighten monetary policy. On 1st September the discount rate was raised and reserve requirements against demand deposits were increased; also the so-called "reserve position guidance" given to city banks was made stricter in the last quarter. The budget proposals for the fiscal year 1970–71, on the other hand, provided for an increase in government expenditure of nearly 18 per cent. However, government borrowing was scheduled to fall, both as a proportion of revenue and absolutely, and a small increase in the corporate tax rate was introduced. Even so, the present stance of fiscal policy is unlikely to have much dampening effect.

In the last months of 1969 and the first quarter of this year there was little sign of slackening in the economy. Industrial production, shipments, equipment investment and personal expenditure continued to expand. The upward trend in wholesale and consumer prices persisted, while the gains in incomes and in orders for industrial machinery suggested that the main sources of demand were maintaining their previous rate of increase.

It was against this background of excessive demand and an only mild tightening of monetary policy that the balance of payments performed the unusual feat of increasing its overall surplus from $1.1 to 2.3 milliard. There had been an overall deficit of $571 million in 1967, so that in the space of two years there was a turn-round of nearly $2.9 milliard in the overall balance. $2.6 milliard of this was on trade account, exports in both years rising considerably faster than imports. The crucial factor was a huge increase in exports to the US market and to South-East Asia in particular. Exports levelled off in the third quarter of last year but since then have shown a renewed sharp rise. While the rise in imports has been accelerating, the trade surplus remains large.

Of the overall surplus of $2.3 milliard, only $0.8 milliard went into the official reserves. $1.5 milliard represented an improvement in the banks' foreign position. For most of 1969 high Euro-dollar rates induced the banks to increase their assets and reduce their borrowing in the Euro-dollar market, and from April onwards the authorities encouraged this process in order to prevent an excessive increase in the reserves.

Canada.

Like its large neighbour to the south, Canada has been faced with rather persistent price inflation. After three years of fairly rapid advances, the price rise towards the end of 1968 showed signs of acceleration. The Canadian authorities responded with strong monetary and fiscal restraint: as 1969 progressed, the banks were squeezed both by curtailment of the growth of the money supply and by an increase in secondary reserve requirements; Bank rate was raised in four steps from 6 per cent. in December 1968 to 8 per cent. in July 1969; the combined net position of the government sector on a national-accounts basis shifted from a deficit of Can. $190 million in 1968 to a surplus of close on Can. $1 milliard in 1969. These restrictive policies contributed to a slowing-down of the real growth of domestic output from the unsustainably high annual rate of over 7 per cent. between the second quarter of 1968 and the first quarter of 1969 to less than 2 per cent. between the first and last quarters of 1969. The trend of industrial production, though much obscured by strikes, showed virtually no further increase between March and December 1969. But despite this abrupt change in the trend of output — and against the long-run growth potential of the Canadian economy of over 5 per cent. — price increases have so far shown few signs of moderating.

The main sectors of slower growth in demand have been consumer durables (chiefly passenger cars), housing and capital outlays by the public sector. Inventory accumulation declined after the first quarter; however, business fixed investment continued to expand despite strikes and exceptionally high interest costs. Investment intentions for 1970 indicate an increase of 11.7 per cent. over estimated realised investment in 1969.

Employment followed the trend of output fairly closely and, seasonally adjusted, showed no further gains after June. This was reflected mainly in a slow-down in the growth of the labour force and a reduction in weekly hours worked rather than in an increase in the recorded unemployment ratio. In view of the rise in the cost of living and comparisons made with wages in the United States, however, the easing of demand for labour was not reflected in any moderation of wage and salary claims. In the second and third quarters of 1969, particularly, the Canadian economy was subjected to severe strikes. The weighted annual rise in base rates under collective agreements in 1969 averaged 7.9 per cent. (excluding the construction sector), or about as much as in 1968, while increases under settlements in the fourth quarter amounted to nearly 9 per cent. Since productivity gains levelled off parallel with the general economic slow-down, unit labour costs in the second half of 1969 exceeded their year-earlier level by 7.5 per cent. Profits per unit of output, which had been comparatively high for the last quarter of 1968 and the first half of 1969, dropped off sharply during the rest of the year.

On a December-to-December basis, the rise in wholesale prices accelerated from 2.8 per cent. in 1968 to 4.1 per cent. in 1969 and that in consumer prices from 4.1 to 4.6 per cent. Prices of consumer services jumped by 7.1 per cent., and although prices of consumer durables edged up by only 1.6 per cent. this was still three times as much as in 1968.

1970 has so far seen no major change in the economic climate. The Canadian economy has continued to expand at a rate well below its growth potential, but there has been little evidence of a slow-down in wages and prices. Consumer durable sales and housing starts weakened further, whereas business fixed investment remained buoyant and exports, which had been affected by the strikes in 1969, showed renewed strength.

It was apparent that wage increases had taken on a life of their own which bore little relation to the condition of ease in the labour market. And with an underlying growth rate of the labour force of about 3 per cent., a drawn-out struggle against wage/price inflation by general monetary and fiscal restraint would be likely to involve growing costs in terms of under-utilisation of the economy's potential.

In order to shorten the lag between the initiation of restrictive policies and their impact on wages and prices, the government announced at the end of 1968 that a Prices and Incomes Commission would be established. This Commission has so far been able to enlist the support of the business and public sectors, while its success in checking the inflationary psychology depends above all on securing the co-operation of the trade unions. A second important condition for restoration of reasonable price stability will, of course, be a moderation of the inflationary trends in the United States.

Belgium.

From late 1968 through the first three quarters of last year the Belgian economy was buffeted by the storms which broke over the international exchange and money markets. In addition, the expansion of domestic activity accelerated and rather unexpectedly reached a state of demand pressure on resources. These combined external and domestic problems gave the Belgian policy-makers a busy time formulating a series of actions to keep the situation in hand. Happily their efforts met with reasonable success.

On the external side, the Belgian franc was affected firstly by the uncertainties surrounding the Deutsche Mark and the French franc. As early as November 1968, at the time of the DM crisis, the Belgian franc weakened in the exchange market because of protective covering of DM obligations by firms and financial institutions in Belgium. And while there were periods of relative calm during the ensuing months of 1969, there was no reflux of funds from Germany but rather renewed pressure on the franc at the time of the May and September DM crises. In addition, the sudden devaluation of the French franc in August reacted on confidence in the Belgian franc. The general state of uncertainty was reflected in the discount which developed on the free market for the franc as from November 1968; there then followed a sharp widening between the controlled and free-market quotations, with peaks of 7 per cent. in both May and September. The market situation did not return to normal until after the revaluation of the Deutsche Mark.

Probably the more important source of external difficulty, however, was the spread that had opened up in both short and long-term interest rates between the Belgian and international markets. Up to December 1968 the

Belgian authorities had been pursuing an easy monetary policy, as indicated by the discount rate of 3¾ per cent., to maintain the momentum of domestic economic expansion. The sharp rise of international rates in subsequent months proved a powerful attraction to Belgian funds; to put the matter simply, investors bought dollar funds and securities instead of Belgian Government paper — as they were free to do. A vigorous policy reaction was required to stem the capital outflow.

On the domestic side, the expansion of the economy in 1968 had proceeded at a moderate pace; while exports were rising at a good rate, private investment demand was sluggish despite easy monetary conditions, so that stimulus to activity was being given by the public sector. In these conditions prices were reasonably stable, there were no signs of demand pressure and unemployment did not begin to recede until the fourth quarter. Even after the Belgian franc had been under strain for several months in 1969, there was no evidence of a decisive change in the domestic situation.

In an international environment of inflationary demand, exports became an increasingly dynamic force, rising by 20 per cent. from December 1968 to December 1969, against 10 per cent. over the preceding twelve months. In addition, fixed investment rebounded from a small contraction in 1968 to a 9.5 per cent. gain in 1969. Consequently, even though the rise in public consumption was smaller, the real gross national product increased by 6 per cent., compared with 3.8 per cent. the year before. The economy was surely entering the overheating stage, and it is not surprising that prices and wages showed more substantial gains than a year earlier. It is open to question, however, whether domestic strains alone can be considered the essential cause of the inflationary advances recorded, particularly in view of the significant rôle of exports in the demand configurations. It would seem rather that prices and wages in Belgium were bound to reflect to some extent the large advances in neighbouring countries.

Against this external and domestic background the tactics of the shift to restraining policies will be clear. Between December 1968 and September 1969 the discount rate was raised six times, from 3¾ to 7½ per cent.; ceilings were put on the rise permitted in bank advances and their rediscount facilities with the central bank were restricted; part of the banks' foreign exchange positions was also made subject to a ceiling, and exchange controls and hire-purchase and personal loan terms were tightened. On its side, the government suspended the contingency tranche of the extraordinary budget and made cuts in ordinary budget expenditure. The measures were not introduced as one restrictive programme but were spread out over the period and augmented as appeared necessary. Perhaps with the Dutch experience in mind, the introduction of the value added tax, scheduled for 1st January 1970, was postponed.

While the outflow of Belgian funds for placement abroad was slowed down considerably by the rise of internal interest rates and the liquidity squeeze, the payments position did not ease decisively until after the revaluation of the Deutsche Mark. This is seen most strikingly in the swing-round of the balance on current account on a cash basis: although for the year as a whole there was a surplus of some \$80 million, the first three quarters yielded a deficit of \$225 million, while in the last quarter a surplus of \$305 million was recorded. A substantial part of this turn-round is connected with the reversal that took place in leads and lags. The overall external surplus for the year, at \$170 million, was achieved thanks to a large inflow of non-resident capital (mostly borrowing abroad by non-monetary institutions of the public sector).

Some signs of an easier domestic climate appeared in the fourth quarter, while industrial production as well as both exports and imports flattened in the early months of 1970. The trend of prices so far this year has been upward at about the same pace as in 1969 and wages have also continued to rise at an excessive rate. Hence, the stance of policy has remained one of restraint, though with some relaxation of controls in view of the restored external position of the Belgian franc.

Netherlands.

While the sharp rise in interest rates and the speculative disturbances in exchange markets during the past year presented the Dutch authorities with certain problems, the main policy issues were concerned with actual and potential domestic price inflation.

At the end of 1968 accelerating domestic demand in anticipation of the introduction of the value added tax on 1st January 1969 increased the pressure on resources that was already being felt after eighteen months of rising production. Unemployment declined from 2.2 per cent. in June 1968 to 1.5 per cent. in January 1969, and at the turn of the year contractual hourly wage rates were 8 per cent. higher than one year earlier. Monetary policy was shifted to restraint to curb the threatening excess demand.

In adjusting to the value added tax system, entrepreneurs took the opportunity to make allowance for past and expected increases in costs in addition to the new tax. Consumer prices thus increased over the first four months of 1969 by around 6 per cent., only a quarter of which can be attributed strictly to the value added tax. In view of the price outburst the government imposed a price freeze, and over the next four months prices were quite flat. In September the freeze was relaxed, and the price rise in the rest of the year was moderate.

Although price policy was fairly successful during the later part of the year, price stability is still in danger. The differential between the increase in labour cost per worker and the productivity gain widened from 2 per cent. in 1968 to 6 per cent. in 1969. At the same time, as rising prices absorbed a good part of the wage increase, and to a lesser extent because of taxes and social security contributions, the gain in real incomes was small. Labour, therefore, pressed successfully for cost-of-living index clauses to be included in most of the new wage contracts. The price increase between December

1969 and April 1970, at 2.7 per cent., was rather large and a further rise may be expected when wages are adjusted upwards. The introduction of the sliding scale has added to the urgency of price stability as a policy aim.

In addition to its direct intervention in freezing prices, the government sought to pursue an anti-inflationary fiscal policy and succeeded in holding down the budget deficit in 1969 to about the same level as the year before, despite an unexpected shortfall of revenue during the transition to the value added tax system. For 1970 the projected growth of expenditure is again less than the rise of the gross national product and the budget objective is a reduction of the deficit. As in 1969, the government intends to finance the deficit largely by borrowing on the capital market.

In these circumstances the central bank pursued a restrictive policy. The discount rate was raised in several steps from 4½ per cent. in December 1968 to 6 per cent. in August 1969. Expansion of short-term bank credit to the private sector was restricted to 10 per cent. in 1969 and a slightly lower rate is aimed at in 1970 — subject to changes that might be called for by developments in the economy. Although enterprises turned more to longer-term bank credit, private investment was quite contained in 1969. A comparatively low rise in consumer credit and tightened hire-purchase terms contributed to a reduction in the growth of private consumption. But exports have been very strong and the gross national product still expanded by over 5 per cent. in real terms.

As to the balance of payments, the trade balance on a transactions basis has deteriorated somewhat, while the position of invisibles remained almost unchanged. But on a cash basis the current account improved, largely because of favourable leads and lags. With long-term and non-monetary short-term capital movements taken into account, the balance of payments closed in 1969 with a surplus of $150 million, and the position seems little changed so far this year.

Sweden.

The conjuncture in Sweden over the past year followed a pattern already seen in other cases, with an expansion of overall demand leading to pressure on the available productive potential and partly explaining a sharp loss of foreign exchange reserves, which was also occasioned by a change in capital flows.

The upswing which got under way in 1968 strengthened progressively during the past year. Exports continued to advance at a good rate; business fixed investment, which had fallen in the two previous years, recovered; and stock-building demand rebounded, especially for raw materials and semi-manufactured goods. Output continued to rise until the late summer of 1969, with productivity improving well. But strains on capacity and slow growth of the labour force subsequently limited the advance as unemployment was reduced to a bare minimum. Real gross national product expanded by 5.2 per cent. in 1969, compared with 4 per cent. in 1968, but, reflecting the strains on capacity and the rebuilding of stocks, the volume of imports rose by 13 per cent.

At the end of 1969 hourly earnings in industry stood 11.2 per cent. higher than a year earlier. Centrally negotiated agreements made provision during the year for substantial wage increases for low-paid workers. Partly because the claims of other groups were not fully met, Sweden underwent the novel experience of wild-cat strikes. The effect of the strike settlements on wage costs was relatively small, however, and the acceleration in wage drift was mainly due to excess demand for labour. Reflecting also higher import prices, the consumer-price index went up by 6.7 per cent. in the twelve-month period ending March 1970, compared with 1.9 per cent. in the previous twelve months.

Although Swedish exports increased sharply in both 1968 and 1969, the rise was somewhat outpaced by that of imports. Moreover, the balance on invisible account, which had already shown a steady decline during the 1960s, continued to deteriorate. As in earlier years, net tourist expenditure and unilateral transfers (mainly to developing countries) showed the greatest increases and thus accounted for most of the deterioration. As a result the total current-account deficit reached S.kr. 1.1 milliard in 1969, compared with S.kr. 0.6 milliard in 1968. Coinciding with these developments, the balance on recorded capital transactions, normally in surplus in recent years, swung around by some S.kr. 0.8 milliard between 1968 and 1969, thus moving into deficit. Although the timing indicates that interest rate differentials and DM covering played a rôle during the year, long-term capital outflows, especially direct investment, were quite significant for the year as a whole.

Official reserves declined sharply between November 1968 and September 1969. Although they recovered partly after the revaluation of the Deutsche Mark, a further decline took place during the first quarter of 1970. It seems that a significant improvement in the basic balance of payments will be required to redress the position.

To deal with these problems of external and internal imbalance, the authorities relied principally on credit restraint. Increases in the Riksbank's discount rate from 5 to 6 per cent. in Feburary 1969 and to 7 per cent. in July occasioned rises in domestic rates generally. Banks' lending potential was limited progressively during 1969, especially by stricter reserve requirements and the imposition of quantitative limits on their access to central-bank facilities. In addition, to help limit capital outflows, exchange controls were tightened, particularly by limiting approvals of direct investment abroad by residents.

In the government sphere some items of public expenditure were postponed in 1969 and activity in the building and construction sector was more closely regulated. In February 1970 certain taxes were increased, notably value added tax on durable consumer goods, and further public expenditure economies were foreseen. In April additional fiscal measures were announced, including a 25 per cent. investment tax on non-priority construction, and in May ceilings were put on bank lending. As prices and wages continue to rise, the balance-of-payments deficit persists and there have been few signs of a reaction in overall demand, it seems that a firmer budget policy may be required.

Switzerland.

In Switzerland, too, the rate of economic expansion quickened in the past year and total demand taxed productive capacity. Unemployment was virtually non-existent and the limits on the employment of foreign labour had been lowered. Yet even though price and wage inflation was the environment in surrounding countries, the increases in Switzerland were quite reasonable. Foreign demand has been the driving force behind the present expansion since its beginning, and real exports of goods and services increased by over 12 per cent. in 1969, after a rise of almost 11 per cent. the year before. But all components of domestic demand also quickened in 1969. Housing and industrial investment were particularly buoyant and, together with a larger gain in consumption, contributed to a sharper rise in imports than in exports.

The growth of public consumption was also larger than in the year before. As far as the Confederation is concerned, revenues benefiting from the boom increased faster than expected and resulted in a slight surplus instead of the deficit originally estimated.

Although the picture appears well-balanced for the year as a whole, tensions began to build up around the middle of the year, and the gain in demand and output was larger in the second half of the year than in the first half. Production had been unable to keep up with incoming orders since mid-1968; but order-books became spectacularly longer in the second half of 1969, even though the production index was 11 per cent. higher at the end of the year than at the beginning. Prices were not much affected except at the wholesale level, and here the increase was mainly due to the rise of import prices, later accentuated by the DM revaluation.

In view of a pending regulation to reduce the foreign labour supply, fixed investment was pushed up in the latter part of the year. This regulation was passed early in 1970 and imposes a ban on the entry of new foreign workers but provides for replacement of departing foreign workers on a rather limited basis. Whereas quotas used to be allotted to each enterprise by the individual cantons, the new quota applies to the Confederation as a whole and is aimed at increasing the mobility of foreign labour.

The investment boom puts new policy arrangements to their first test. In early September 1969 a binding agreement was concluded between the National Bank and most Swiss banks which enables the National Bank to apply marginal reserve requirements and to place limits on domestic credit expansion if other measures are not sufficient to regulate the money supply.

In view of this agreement, a proposed amendment to the National Bank Law providing for similar powers on a statutory basis was dropped by Parliament. The National Bank's first action under the agreement was to introduce a ceiling on the permissible growth of credit, which had accelerated sharply during 1969.

In January of this year, after the strains of late 1969 had become apparent, the rate of permissible credit expansion was reduced. Simultaneously, several stabilisation measures were put into effect by the government: the tariff reductions agreed to under the Kennedy Round were made ahead of schedule, hire-purchase terms tightened and cuts made in expenditure by public authorities and public services. To counteract foreign demand, export risk guarantees were reduced, but a proposed 5 per cent. temporary export deposit scheme has not yet been approved by Parliament. Meanwhile, there are indications that the growth of exports has reached a ceiling and that imports are moving on a steeper path.

Though the invisible balance is likely to improve, the surplus on current account, which, at Sw.fr. 2.2 milliard, was quite large in 1969, is expected to decline. With a continuing interest rate differential of 2–3 per cent. between Swiss and foreign markets, a substantial net outflow of long-term capital should continue.

Eastern Europe.

In the eastern European economies growth continued at a relatively fast pace, though somewhat more slowly than on the average in previous years. Total output was affected by adverse conditions for agriculture in the Soviet Union, Poland, eastern Germany and Czechoslovakia. For the area as a whole employment in industry rose by over 2 per cent. and productivity by nearly 5 per cent. With non-industrial sectors, especially services, absorbing more manpower, qualitative factors of economic growth became increasingly important. The economic reforms that have been under way for some years now are principally designed to improve efficiency and to accelerate innovations. In several of these countries the completion of investment projects that had already been initiated was speeded up at the expense of new plans, in order to reduce the incremental capital/output ratio. New investment was channelled into the fields where technology makes the fastest progress. Efforts to overcome strict bilateralism in foreign trade relations continue. Trade within the area and with outside countries increased considerably last year, in absolute terms as well as in relation to total production.

The economic scene in the *Soviet Union* is fairly representative of the entire area. The growth of national income slowed down to 6 per cent. in 1969 from 7.2 per cent. in 1968. This can largely be imputed to an absolute decline of 3.2 per cent. in agricultural output and, to a smaller extent, to a relative slackening of industrial production. In industry a 4.8 per cent. gain in productivity was insufficient to maintain the same rate of growth in output

Eastern European economies:
National income and industrial and agricultural production.

Countries	Net material product			Global industrial output			Global agricultural output		
	1967	1968	1969	1967	1968	1969	1967	1968	1969
	real annual increases, in percentages								
Albania	7.5	11.0	11.0	12.6	19.0	11.0	12.0	2.5	10.0
Bulgaria	9.0	6.4	7.7	13.5	10.4	10.0	3.5	— 8.7	2.4
Czechoslovakia. .	5.2	7.5	6.5	7.1	5.5	5.2	5.5	5.6	0.9
Eastern Germany.	5.4	5.3	5.0	6.5[1]	6.1[1]	7.0[1]	6.2[2]	1.0[2]	— 6.6
Hungary	8.7	5.0	6.0	8.9	5.0	3.0	4.0	1.0	5–6
Poland	5.6	9.0	3.5	7.7	9.4	8.9	2.5	4.5	— 4.7
Rumania	7.3	6.8	7.3	13.5	11.6	10.7	1.8	— 3.7	4.8
USSR	7.0[3]	7.2[3]	6.0[3]	10.0	8.1	7.0	1.6	3.2	— 3.2

[1] Excluding work in progress. [2] Net output. [3] Domestically distributed national income.
Source: UN Economic Commission for Europe, *Economic Survey of Europe in 1969.*

as in the previous year because of a smaller rise in employment. Hence, the increase in industrial production was 7 per cent., compared with 8.1 per cent. the year before. Production of consumer goods rose faster than that of investment goods for the second consecutive year. At 4 per cent., the rise in fixed investment was only half as great as in 1968; however, a sharper increase is planned for 1970. A new system of investment planning was introduced in the middle of 1969, providing for closer co-ordination of investment plans and more flexibility in credit-financing. Labour is shifting over to services, following the changing pattern in consumer demand. In 1969 the output of consumer services increased by 18 per cent., compared with a 7.4 per cent. rise in retail trade turnover. At the same time nominal wages went up by 3.9 per cent., compared with 7.5 per cent. the year before. The increase in real per capita income declined by one percentage point in each of the last two years to 5 per cent. Together with the rise in production, the slower growth in the purchasing power of households tended to reduce excess demand for consumer goods.

In *Poland* national income and exports were affected — even more than in the Soviet Union — by a decline, of 4.7 per cent., in agricultural production. Although industrial output was up by 8.9 per cent., the growth of national income fell back from 9 per cent. in 1968 to 3.5 per cent. in 1969. Exports of foodstuffs declined parallel with agricultural output, and total exports increased by 10 per cent. following a 13 per cent. rise in 1968. At the same time imports grew by 12.5 per cent., slightly faster than the year before. Despite a sizable adjustment of pensions, the increase in money incomes slowed down somewhat, as the rise in wages was kept to 3 per cent. However, the supply of consumer goods remained under strain and the situation deteriorated towards the end of the year.

In *eastern Germany* there was a further boost to industrial development. Total fixed investment increased by 13 per cent. on top of a 10 per cent. rise in 1968. Investment was concentrated particularly in industrial sectors requiring advanced technology. Industrial production rose by 7 per cent., compared with 6.1 per cent. in the previous year. Though agricultural output declined by 6.6 per cent. owing to a drought in the summer, the growth of national income came to 5 per cent., only slightly less than in 1968. The rise in real wages was close to that in national income. The accelerated growth of retail sales, which expanded by 6.1 per cent. in 1969, against 4.9 per cent. in 1968, suggests a fairly parallel rise in the standard of living.

The demand/supply imbalances that developed in *Czechoslovakia* in 1968 tended to be accentuated in 1969. Money incomes increased by 11.4 per cent., while expenditures rose by 12.3 per cent. These figures stand in contrast to the 6.5 per cent. real growth of national income. Despite this development of domestic demand, imports were restrained, so that a 5.3 per cent. rise in 1969 followed the increase of close on 15 per cent. in 1968. Exports, on the other hand, expanded by 9.5 per cent., almost twice as fast as in the previous year, and brought the external account into balance. Anti-inflationary measures were taken in the middle of 1969 and the budget estimates for 1970 provide for a fiscal surplus.

In *Hungary* the growth in money incomes, at 10 per cent., was close to that recorded in Czechoslovakia. However, with enterprises more market-oriented through the economic reform of 1968, and thanks to some destocking in trade, imbalances as regards the consumer sector were less apparent. Partly because of a shortening of working hours there was no gain in per capita output and, with industry in the process of adapting itself to the economic reform, production increased by only 3 per cent. But thanks to an above-average rise in agricultural output, the growth of national income came to 6 per cent., one percentage point higher than in the preceding year. Exports benefited from the good results in agriculture as well as from boom conditions in western Europe and increased by 16 per cent. Though the growth of imports speeded up from 1.5 per cent. to 7 per cent., the trade balance switched from a small deficit in 1968 to a surplus of almost $150 million in 1969.

In *Rumania* the growth of fixed investment, which had reached rates of over 10 per cent. in each of the years 1966–68, slackened to 5 per cent. in 1969. At 10.7 per cent., the expansion of industrial output was only slightly reduced. The growth rate of imports, after having been as high as 27 per cent. in 1967, fell back to 4 and 6 per cent. in 1968 and 1969 respectively. A doubling of the rate of increase in exports to 10.4 per cent. only helped to narrow the trade gap. A similar development occurred in *Bulgaria*, where outlays on fixed investment and imports actually declined, while the expansion of industrial production and of exports remained relatively stable at an annual rate of 10 and 11.5 per cent. respectively. In both countries the growth rate of the net material product recovered in 1969, from 6.8 to 7.3 per cent. in Rumania and from 6.4 to 7.7 per cent. in Bulgaria. In *Albania* the rise in national income, of 11 per cent., was the same as in 1968. It was the result of very good harvests, while industrial output, after having increased by 19 per cent. in 1968, rose by 11 per cent. in 1969.

Economic activity in *Yugoslavia* during 1969 was stimulated by the monetary expansion of 1968. The gross national product, at constant prices, increased by 10 per cent. after a 4 per cent. rise in 1968. However, the upswing was accompanied by steeply climbing prices; in December 1969 consumer prices were 12 per cent. higher than twelve months before. There was also a sharp increase in foreign trade, especially with western European countries. The trade deficit widened by $120 to 660 million as a result of rises of 19 and 17 per cent. respectively in imports and exports. Owing to high tourist receipts and a sharp increase in workers' remittances, the deficit on current account, at around $130 million, was only slightly higher than in the previous year. The foremost aim remains to establish price stability, which would also help to improve the balance-of-payments position.

II. MONEY, CREDIT AND CAPITAL MARKETS.

Over the past year and a half there has been a widespread return to policies of monetary restraint in western industrial countries and Japan. In the United States and Canada the shift in policy came in late 1968, whereas in the United Kingdom restraint had already been in force for some time. On the Continent the timing of the changeover in policy differed from country to country and in some cases did not occur until the latter part of 1969.

In a context of strong credit demand and inflationary expectations, monetary restraint drove interest rates to very high levels. The main pressures emanated from the United States, but policy in the United Kingdom, and to some extent as well the flow of funds into Germany up to the time of the revaluation, also contributed to the upward movement. Other countries accommodated themselves to high international rates, though in some cases they might have preferred to deal with domestic problems rather differently.

Since last autumn, primarily as a result of developments in Germany, Italy, the United Kingdom and the United States, interest rate differentials have become very narrow. But, as inflationary forces are still widespread, it is not yet possible to discern any trend towards lower rates or, for that matter, any clearly disparate relative movement as between countries.

Liquid-asset formation and bank credit.

In recent years a lively controversy has been going on about the rôle of monetary policy and the impact of the money supply on economic activity. It is often overlooked that changes in the money supply are in the practical sense frequently not within the effective control of the central bank. Or, to put it another way, what happens to the money supply is a consequence of the entire policy "mix" — not only monetary and debt-management but also foreign exchange, incomes and budget policies. Distortions in spheres primarily amenable to these other types of policy — for example, an inappropriate exchange rate, a wage explosion or a large budgetary imbalance — can make it difficult, if not impossible, for the monetary authority to hold to independent targets relating to the money supply. In short, the management of money generally is both the responsibility and the reflection of economic policy as a whole. Monetary policy itself can only be efficient when it is operating against a background of satisfactory performance in other policy areas.

This point can be illustrated by means of the following table, where changes in the monetary and quasi-monetary liabilities of the banking system are shown with their counterpart changes in (i) net foreign assets, (ii) credit to the public sector and (iii) credit to the private sector.

The banking system: Monetary survey.

Countries	Years	Annual changes in main assets: Net foreign assets	Annual changes in main assets: Credit to public sector	Annual changes in main assets: Credit to private sector	Annual changes in main liabilities: Money	Annual changes in main liabilities: Quasi-money	Gross national product at market prices	Money and quasi-money[1] as percentages of GNP
		in milliards of national currency units						
Austria	1967	4.92	3.41	8.94	3.45	10.58	279	55.8
	1968	4.54	3.45	11.16	3.87	12.13	295	57.7
	1969	3.51	3.96	19.47	4.69	16.62	323	58.9
Belgium	1967	7.90	6.60	25.40	10.90	21.50	975	46.3
	1968	— 11.00	31.30	26.60	26.10	18.30	1,036	47.7
	1969	8.60	28.30	15.50	9.80	29.50	1,139	47.0
Canada	1967	0.01[2]	1.28	2.08	1.59	1.51	65.6	34.6
	1968	0.33[2]	0.75	2.06	1.64	1.86	71.5	36.1
	1969	0.07[2]	— 0.96	2.05	— 0.69	1.41	78.1	35.7
Denmark	1967	0.00	1.21	2.96	1.78	1.84	85.0	48.6
	1968	— 0.12	3.06	3.71	3.54	2.34	92.7	49.4
	1969	— 0.52	0.75	6.33	3.00	2.04	105.2	49.0
Finland[3]	1967	— 250	10	1,752	— 39	1,053	29,900	42.6
	1968	1,006	— 419	902	488	1,176	33,700	41.9
	1969	203	— 50	2,105	470	1,478	37,100	42.6
France	1967	1.18	5.26	24.90	9.04	20.53	572	42.0
	1968	— 15.72	3.26	34.63	15.84	13.77	625	43.4
	1969	— 9.35	3.51	23.43	0.94	17.10	724	40.8
Germany	1967	5.12	13.89	18.33	11.53	22.61	495	45.7
	1968	11.25	11.17	30.90	7.22	32.87	539	48.3
	1969	— 3.05	1.59	51.15	11.20	28.52	601	50.1
Italy	1967	225	259	3,569	2,534	1,595	43,800	69.8
	1968	346	1,484	2,924	2,284	1,736	47,100	73.1
	1969	— 750	1,125	4,256	3,327	1,128	51,500	75.4
Japan	1967	— 214	882	5,154	1,653	2,923	43,100	73.1
	1968	403	759	5,094	1,786	3,270	51,080	71.0
	1969	801	499	7,336	3,127	4,118	60,030	70.8
Netherlands . . .	1967	0.31	0.42	2.51	1.16	2.26	83.0	34.4
	1968	— 0.31	1.25	2.40	2.17	2.00	91.3	35.8
	1969	0.86	0.58	2.67	1.57	2.19	102.2	35.8
Norway	1967	1.17	— 0.27	1.84	0.83	2.08	60.2	51.4
	1968	1.03	1.18	1.96	1.86	2.14	64.6	52.9
	1969	— 0.38	1.09	3.17	1.15	2.57	69.4	55.3
Spain	1967	3.40	48.20	131.50	74.30	100.20	1,617	70.7
	1968	4.30	56.70	184.40	65.90	159.90	1,764	76.1
	1969	— 18.40	60.20	233.00	98.00	183.80	1,945	82.3
Sweden	1967	— 0.16	1.15	4.92	1.30	3.67	127	33.3
	1968	— 0.07	1.83	5.26	2.30	4.55	136	35.7
	1969	— 1.77	2.37	1.48	— 0.64	1.26	147	35.6
Switzerland . . .	1967	0.66[4]	0.80	6.23	2.26	3.45	68.8	100.5
	1968	2.55[4]	0.95	8.10	4.08	5.64	74.0	104.5
	1969	0.57[4]	1.41	11.50	4.30	11.53	79.9	112.8
United Kingdom[3]	1967	— 355	1,332	512	1,497	—	40,000	34.3
	1968	— 1,088	1,406	686	964	—	42,800	35.0
	1969	597	— 729	574	456	—	45,700	34.0
United States . .	1967	— 0.10[2]	24.30	16.40	13.30	22.00	794	43.5
	1968	0.90[2]	13.80	30.40	11.90	20.60	866	43.2
	1969	1.30[2]	— 5.70	19.30	7.80	— 12.40	932	41.3

[1] Annual averages (based on quarterly data). [2] Monetary authorities only. [3] In millions of national currency units. [4] National Bank only.

Source: IMF, *International Financial Statistics*. For France and Germany, national statistics.

Monetary restraint found expression, as usual, in a slower growth of money and quasi-money relative to the gross national product. The retardation was particularly marked in the United States, the United Kingdom and France and was also evident in Belgium, Canada, Japan and Sweden. As, however, these ratios are based on annual averages, and as in some cases restraint was either relatively ineffective or introduced late in the year, the growth of liquid assets in some countries continued to match or even exceed that of the gross national product. The relative increases were considerable in Switzerland, Spain, Norway, Italy, Germany and Austria. Moreover, when set against the growth of real as distinct from nominal gross national product, money and quasi-money still showed a relatively large rise in all countries.

In a number of countries the slower expansion of money and quasi-money owed much to a reduction in the banking system's credit to the public sector. In the United States, the United Kingdom and Canada the changes were very large indeed. In the United States the Federal budget shifted from a substantial deficit in 1967 and 1968 to a surplus in 1969, while the banks, in order to sustain lending activity, reduced their holdings of government securities. Similarly, in the United Kingdom the entire public sector moved into surplus, and the monetary authorities sold a large volume of gilt-edged securities outside the banking system. In Canada, too, the central-government budget shifted from deficit to a small surplus, while the banks at the same time unloaded government securities onto the market. In Japan the reduction in the banking system's purchases of government securities was attributable primarily to the decrease in the government's financing requirement.

On the Continent budgetary changes were usually less pronounced, but a number of countries recorded better results than the year before. In Belgium the government's deficit was smaller, though capital-market tightness kept the need for monetary financing fairly high. In France, too, there was a substantial reduction in the central government's budget deficit. In Denmark the central government used its sizable cash surplus to improve its account with the central bank. In Germany the public sector shifted from a financial deficit to a surplus, which enabled it to repay short-term bank credit and to cease recourse to the new issues market. In Spain the decrease in net lending to the public sector reflected mainly an improvement in the central government's budget. In the Netherlands the cash deficit was slightly smaller than before, and the government financed a much higher proportion of its needs through the capital market. In Italy the government's borrowing requirement declined somewhat; however, with the shift to monetary restraint in the summer, the banks began to sell government securities and the central bank was forced to help fill the breach. In Sweden an increase in the government's financial requirements was more than accounted for by an expansion in its lending for housing.

Movements in the banking system's foreign assets, and their distribution between the central bank and the banks, played an important rôle in determining the growth rates of money and quasi-money in 1969. In the United Kingdom an external surplus helped to sustain monetary expansion, and in the United States the large inflow of Euro-dollars, though recorded as non-deposit sources of funds, came to much the same thing. In Japan, where the overall external surplus increased, liquid-asset formation was kept down partly by inducing the banks to improve their net foreign exchange position. In Canada, on the other hand, the basic surplus was somewhat smaller and high interest rates abroad attracted net outflows of funds via the banks.

On the Continent, Germany's large external surplus in 1968 and in 1969 until the revaluation rendered control of liquid-asset formation very difficult, and the problem continued after revaluation, despite the net capital outflow, until bank liquidity became quite low. Net foreign assets declined substantially last year in France, Italy, Spain and Sweden, and they either fell

Changes in official discount rates since 1967.

Country and date of change	Official discount rate in %
Austria	
27th June 1963	4½
18th April 1967	4¼
26th October 1967	3¾
11th September 1969	*4¾*
22nd January 1970	*5*
Belgium	
2nd June 1966	5¼
2nd February 1967	5
23rd March 1967	4¾
11th May 1967	4½
14th September 1967	4¼
26th October 1967	4
7th March 1968	3¾
19th December 1968	4½
6th March 1969	*5*
10th April 1969	*5½*
29th May 1969	*6*
3rd July 1969	*7*
18th September 1969	*7½*
Canada	
14th March 1966	5¼
30th January 1967	5
7th April 1967	4½
27th September 1967	5
20th November 1967	6
22nd January 1968	7
15th March 1968	7½
2nd July 1968	7
29th July 1968	6½
3rd September 1968	6
18th December 1968	6½
3rd March 1969	*7*
11th June 1969	*7½*
16th July 1969	*8*
12th May 1970	*7½*
Denmark	
11th June 1964	6½
19th December 1967	7½
19th March 1968	7
13th June 1968	6½
29th August 1968	6
31st March 1969	*7*
12th May 1969	*9*

Country and date of change	Official discount rate in %
France	
8th April 1965	3½
3rd July 1968	5
13th November 1968	6
14th June 1969	*7*
9th October 1969	*8*
Germany	
27th May 1966	5
6th January 1967	4½
17th February 1967	4
14th April 1967	3½
12th May 1967	3
18th April 1969	*4*
20th June 1969	*5*
11th September 1969	*6*
9th March 1970	*7½*
Greece	
17th January 1963	5½
25th July 1967	4½
25th June 1968	5
1st February 1969	*5½*
1st July 1969	*6*
15th September 1969	*6½*
Italy	
7th June 1958	3½
14th August 1969	*4*
9th March 1970	*5½*
Japan	
26th June 1965	5.475
1st September 1967	5.84
6th January 1968	6.205
7th August 1968	5.84
1st September 1969	*6.25*
Netherlands	
2nd May 1966	5
15th March 1967	4½
20th December 1968	5
9th April 1969	*5½*
4th August 1969	*6*
Norway	
14th February 1955	3½
27th September 1969	*4½*

Country and date of change	Official discount rate in %
Portugal	
1st September 1965	3
25th April 1970	*3½*
Spain	
9th June 1961	5
27th November 1967	5¾
22nd July 1969	*6¼*
23rd March 1970	*6½*
Sweden	
10th June 1966	6
3rd February 1967	5½
10th March 1967	5
15th December 1967	6
9th February 1968	5½
11th October 1968	5
28th February 1969	*6*
11th July 1969	*7*
Switzerland	
6th July 1966	3½
10th July 1967	3
15th September 1969	*3¾*
United Kingdom	
14th July 1966	7
26th January 1967	6½
16th March 1967	6
4th May 1967	5½
19th October 1967	6
9th November 1967	6½
20th November 1967	8
21st March 1968	7½
19th September 1968	7
27th February 1969	*8*
5th March 1970	*7½*
15th April 1970	*7*
United States	
6th December 1965	4½
7th April 1967	4
20th November 1967	4½
22nd March 1968	5
19th April 1968	5½
30th August 1968	5¼
18th December 1968	5½
4th April 1969	*6*

moderately or grew less rapidly in Norway, Austria, Finland and Switzerland. Earlier in the year external pressures were also strong in Belgium, Denmark and the Netherlands, but the situation subsequently changed, mainly as a consequence of the reversal of flows following the German revaluation. In some countries, particularly Germany and Italy, long-term capital outflows in response to high interest rates tended to limit monetary expansion. A similar effect came about through the net export of funds by the banks, since this normally involved the exchange of domestic for foreign currency via the central bank.

The growth of bank credit to the private sector slowed down earlier in the United States than in Canada, while in the United Kingdom it continued to be kept in check by a quantitative ceiling. In Japan, on the other hand, resort to monetary restraint as from last summer did little to prevent a big increase in credit to private borrowers.

On the Continent, bank lending to the private sector recorded substantial rises in most countries, generally because monetary restraint was not applied until quite late in the year. Thus, in Austria, Denmark, Finland, Italy, Norway, Spain and Switzerland bank credit expansion accelerated in comparison with 1968. In Germany an already high rate of expansion was reinforced by post-revaluation borrowing by business to replace a heavy reflux of funds abroad. Subject to quantitative limitations, the growth of bank lending was held down in the Netherlands and declined fairly sharply in France and Sweden. In Belgium a ceiling put limits on credit expansion over much of the year, but there was also a weakening of credit demand in conjunction with a huge reflux of funds after the German revaluation.

Domestic capital markets.

Capital markets generally came under considerable strain last year. A key factor was monetary restraint, which brought banks under pressure and caused them to reduce their security holdings or to purchase fewer securities than before. Moreover, faced with rising interest rates and the prospect of continued inflation, the public was reluctant to engage in long-term commitments, though this began to change in some countries after interest rates were thought to have reached their peaks. On the demand side, the net placement of public-sector securities went down in most countries, partly as a reflection of improved budget positions. In the private sector, where the demand for capital remained strong, bond issues showed relatively small declines, or even increased, while share issues in a number of countries were markedly higher.

In the United States the reduction in total issues in the calendar year 1969 reflected mainly the Federal Government's shift from budget deficit to surplus, though outside the budget proper new issues by government agencies, mainly in support of the mortgage market, rose from just over \$3 milliard in 1968 to nearly \$9 milliard in 1969. Otherwise, a decline in local-authority and foreign issues was more than offset by a rise in share issues, with corporate

Domestic capital markets: Net issues.

Countries	Years	Public: State	Public: Local authorities and public bodies	Private[1]: Shares	Private[1]: Bonds	Foreign bond issues	Total	Private and foreign issues	Total net issues
		in milliards of national currency units						as percentages of GNP	
Belgium	1967	12.17	24.98	14.77	21.12	0.17	73.21	3.7	7.5
	1968	18.56	24.75	22.17	30.38	0.93	96.79	5.2	9.3
	1969	17.40	24.38	20.92	14.93	.	77.63	3.1	6.8
Canada	1967	0.82	1.68	0.50	0.83	—	3.83	2.0	5.8
	1968	0.91	1.32	0.55	0.53	0.01[2]	3.31	1.5	4.6
	1969	0.25	1.16	0.78	0.43	—	2.62	1.6	3.4
Denmark	1967	−0.16	.	0.28	4.37	—	4.50	5.5	5.3
	1968	−0.12	.	0.13	6.85	—	6.86	7.5	7.4
	1969	−0.14	.	0.32	8.20	—	8.38	8.1	8.0
France	1967	0.21	0.87	3.15	7.00	0.20	11.43	1.8	2.0
	1968	−0.94	0.81	3.63	5.80	—	9.30	1.5	1.5
	1969	−0.95	0.43	7.54	6.95	—	13.97	2.0	1.9
Germany	1967	2.03[3]	3.06	1.91	10.23	0.86[4]	18.09	2.6	3.7
	1968	1.24[3]	2.46	3.15	13.97	5.15[4]	25.97	4.1	4.8
	1969	0.34[3]	0.27	2.80	11.77	6.17[4]	21.35	3.5	3.6
Italy	1967	457	562[5]	396	1,389	22	2,826	4.1	6.5
	1968	831	513[5]	473	1,705	44	3,566	4.8	7.6
	1969	538	1,024[5]	681	1,774	9	4,026	4.8	7.9
Japan	1967	645	245	384	1,702	—	2,976	4.8	6.9
	1968	581	163	478	1,536	—	2,758	3.9	5.4
	1969	372	179	475	1,475	—	2,501	3.2	4.2
Netherlands	1967	0.32	0.76	0.08	0.35	0.05[2]	1.56	0.6	1.9
	1968	0.26	0.71	0.09	0.39	0.11[2]	1.57	0.6	1.7
	1969	0.83	0.64	0.15	0.30	—	1.92	0.4	1.9
Sweden	1967	1.20	0.53	0.55	5.61	—	7.89	4.8	6.2
	1968	2.15	0.38	0.48	6.27	—	9.30	5.0	6.8
	1969	1.71	0.35	0.84	7.83	—	10.73	5.9	7.3
Switzerland[6]	1967	0.06	0.89	1.33	1.60	0.71[4]	4.59	5.3	6.7
	1968	0.16	0.60	1.92	2.05	0.82[4]	5.56	6.5	7.5
	1969	0.19	0.44	2.44	1.91	0.74[4]	5.72	6.4	7.2
United Kingdom	1967	0.53[7]	0.22	0.07	0.41	0.11	1.33	1.5	3.3
	1968	−0.51[7]	0.12	0.36	0.27	0.23	0.49	2.0	1.1
	1969	0.18[7]	0.07	0.20	0.41	0.19	1.06	1.8	2.3
United States[8]	1967	12.60[9]	7.80	4.80	16.00	1.90[2]	43.10	2.9	5.4
	1968	16.70[9]	10.00	3.80	14.00	1.90[2]	46.40	2.3	5.4
	1969	3.60[9]	8.80	7.60	14.00	1.30[2]	35.30	2.5	3.8

[1] Includes issues of semi-public credit institutions and nationalised industries. [2] Gross. [3] Change in market holdings of bonded loans and medium-term notes. [4] Includes parts of international issues handled by domestic banks. [5] Includes indirect Treasury borrowing. [6] Includes privately-placed issues. [7] Change in marketable debt with a maturity of over one year in public hands. [8] Based on Federal Reserve flow-of-funds data, excluding mortgage loans. [9] Direct issues, including agency issues and participation certificates.

bond issues remaining at the 1968 level. Much the same pattern was apparent in Canada, where, in addition, capital-market tightness led local governments and corporations to borrow more abroad.

In the United Kingdom, though the public sector shifted from deficit to surplus, the authorities placed a substantial volume of gilt-edged securities with the non-bank public. Corporate borrowers were virtually out of the market in the second half of the year.

In Germany net issues dipped considerably, owing partly to the public sector's reduced financing requirements and partly to a decline in bank demand for securities. Foreign issues, however, rose to record proportions. In Japan the reduction in net issues was primarily due to the government's smaller budget deficit.

In Italy a larger volume of public-sector issues and private share flotations contributed to a rise in total net issues. However, as a result of a change in monetary policy, which brought in its train a reduction in credit institutions' security purchases, Bank of Italy purchases considerably exceeded the overall rise in net issues. In Denmark, too, central-bank purchases of securities, which were particularly large in 1968 and still sizable in early 1969, facilitated a larger volume of new issues.

In France and Switzerland net issues were higher in 1969. In both countries the central government's budget was stronger, and borrowing by local authorities was down. Share issues rose considerably in both markets, but bond issues increased only in France. In Switzerland domestic and foreign bond issues, which continued to be subject to approval, were slightly below the 1968 level.

In Sweden the rise in net bond issues was attributable mainly to housing mortgage institutions, but business firms became more active in the share market. The market received support from commercial-bank security purchases, probably in conjunction with the imposition last year of compulsory liquidity requirements.

In the Netherlands the central government, with a substantial budget deficit again, borrowed aggressively in the capital market. This compelled the local authorities to cover a large proportion of their financial needs by short-term borrowing and induced firms to borrow more from banks at medium and long term.

Foreign and international bond issues.

Total foreign and international bond issues, after rising sharply to a new record of $6.4 milliard in 1968, fell back to $5.3 milliard last year. Conventional foreign issues on single domestic markets dropped by more than one-quarter to $2.2 milliard, while international ("Euro") issues declined by nearly one-tenth to about $3.1 milliard. Europe continued to gain in importance relative to the United States in supplying capital funds internationally.

Foreign issues. Two-thirds of the decline in conventional foreign issues was accounted for by issues in the United States, where the total dropped from about $1.9 milliard in 1968 to less than $1.4 milliard in 1969. International institutions ceased their issues in the United States altogether and raised more funds in Europe, not so much through new issues as through other types of borrowing from monetary institutions. Moreover, Canada, the largest single borrower on the US market, turned more to European sources of funds.

Foreign and international bond issues: Public offerings and private placements, 1967–69.[1]

Borrowing countries or areas	Years	Foreign issues: markets of issue						Inter-national issues[2]	Total issues abroad
		Europe				United States	Total		
		Germany[2]	Switzer-land	Other countries	Total				
		in millions of US dollars							
Continental Europe	1967	—	54	5	59	—	59	886	945
	1968	99	89	14	202	—	202	658	860
	1969	56	93	—	149	3	152	1,082	1,234
United Kingdom . .	1967	—	23	—	23	—	23	51	74
	1968	—	15	—	15	—	15	134	149
	1969	13	30	6	49	—	49	235	284
Canada	1967	—	—	—	—	1,172	1,172	—	1,172
	1968	63	—	—	63	1,155	1,217	38	1,256
	1969	81	—	—	81	1,104	1,185	228	1,412
United States . . .	1967	22	49	—	71	—	71	527	598
	1968	35	139	—	174	—	174	2,059	2,232
	1969	25	134	66	225	—	225	1,032	1,257
Japan.	1967	—	—	—	—	15	15	—	15
	1968	—	14	—	14	—	14	180	194
	1969	—	—	—	—	9	9	246	255
Rest of the world .	1967	—	17	116	133	237	370	305	675
	1968	101	25	31	158	280	438	259	698
	1969	37	28	—	65	239	304	247	551
International institutions . . .	1967	—	14	100	114	510	624	120	744
	1968	218	50	138	405	470	931[3]	40	971
	1969	207	14	30	251	—	251	40	291
Total issues placed	1967	22	157	221	400	1,933	2,333	1,889	4,222
	1968	515	331	184	1,030	1,905	2,991[3]	3,368	6,359
	1969	419	298	102	819	1,355	2,174	3,110	5,284

[1] Issues with an average maturity of five years or more. Company borrowing through foreign subsidiaries is normally treated as borrowing by the country of the parent company. [2] Non-resident issues in Germany between March 1964 and the end of 1967 are generally treated as international issues. In March 1964 the 25 per cent. withholding tax (coupon tax) on interest payments on German bonds held by non-residents was announced. As a result, non-resident issues, which are not subject to that tax, were sold during this period mainly to foreigners, at interest rates below those prevailing on the domestic market. Excluded from foreign issues in Germany are "Schuldscheindarlehen" (loans secured by certificates of indebtedness) placed privately. [3] Including small amounts placed in other areas.

In Europe, where foreign issues continued generally to be subject to official authorisation or informal control, new issues declined by $210 million to $820 million last year. By far the most important lenders were Switzerland, where policy towards foreign issues was slightly less liberal than in 1968, and Germany, where from the spring of 1969 onwards issues were restricted by informal bank control. The figures for Germany considerably understate foreign recourse to domestic funds, which in other forms showed a large increase in 1969.

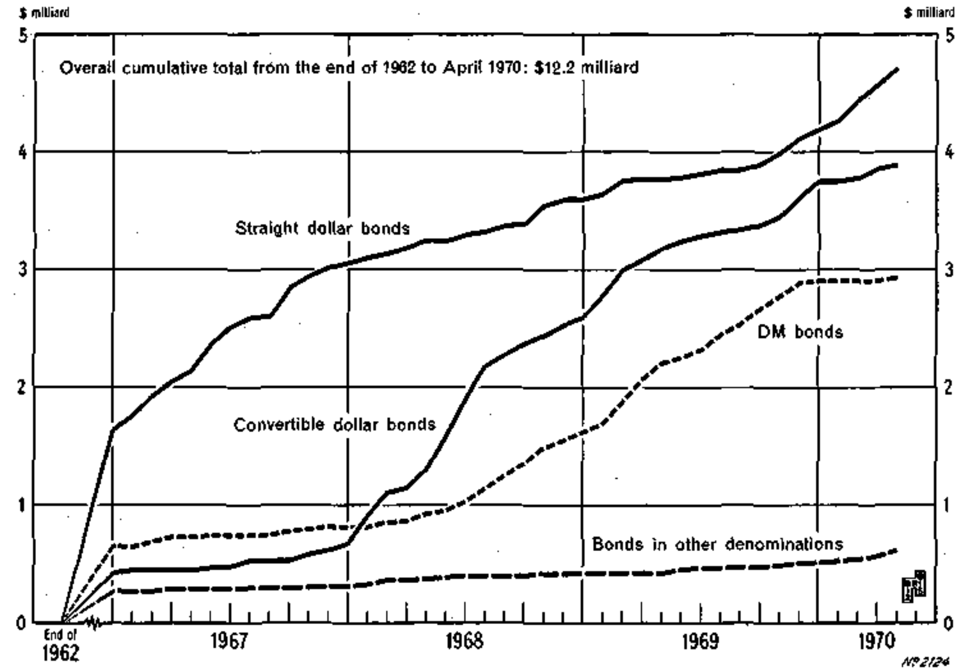
International issues. New international ("Euro") issues dropped by $260 million to $3.1 milliard in 1969, but this total was still far above that of $1.9 milliard recorded in 1967. Borrowing by US corporations and their financial affiliates, at over $1 milliard, was half what it had been in 1968, when the severe tightening of the balance-of-payments control programme had induced an exceptionally large volume of issues, partly in anticipation of actual need.

An outstanding feature of 1969 was the increase in the activity of western European borrowers, whose issues rose by two-thirds to reach $1,315 million. The largest borrowers were leading industrial countries: the United Kingdom, Germany, France, Italy and the Netherlands. To a large extent, as in the case of the United States, borrowing by European countries has become closely associated with balance-of-payments considerations. In the United Kingdom, France and Italy, in particular, borrowers were given official encouragement for balance-of-payments reasons to tap the international bond market. Moreover, foreign direct investment by Dutch firms increased last year and was largely financed abroad by private placements of bonds and shares. Denmark, too, substantially increased its recourse to the market. German borrowers, entirely absent from the market in 1968, made some issues once again last year, and there was for the first time a sizable Swiss issue. On the other hand, there was a reduction in issues by borrowers from Austria, Finland and Norway.

Canadian borrowers, who first entered the market in 1968, became very active issuers, and Japan, despite its large external surplus, increased its borrowing somewhat. Australian issues went up sharply, but those by New Zealand, South Africa and Latin America declined.

The funds on the international bond market continued to come, directly and indirectly, principally from European countries. Excluding issues of foreign

International bond issues.
Cumulative totals, as from the end of 1962.

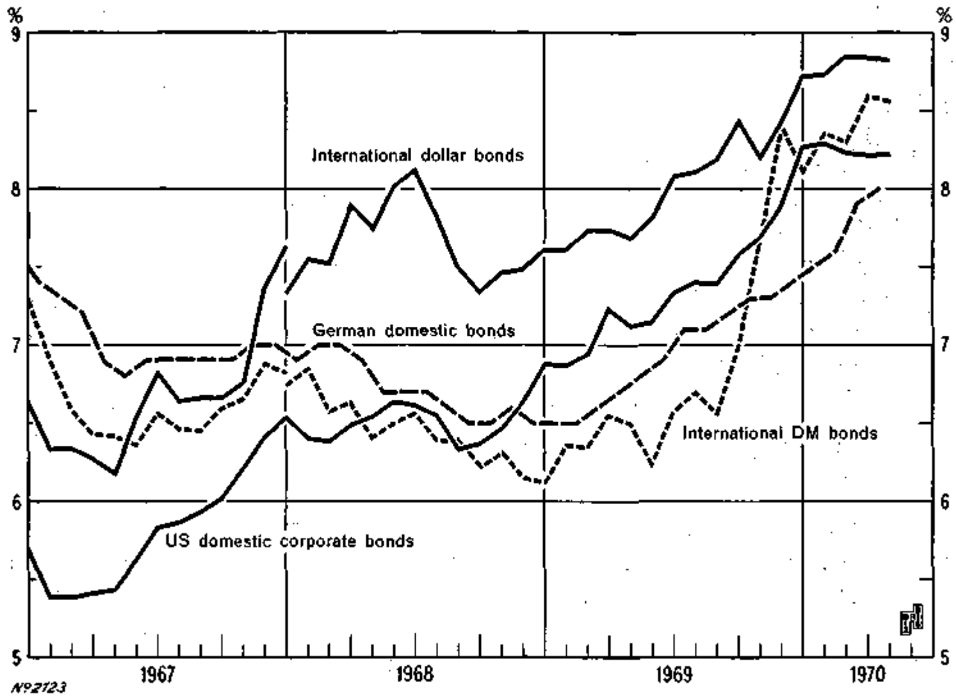


bonds on its market, Germany's acquisition of international issues came to some \$1.1 milliard, or three-quarters more than in 1968. For other countries indications are only indirect. Italy experienced an outflow of domestic capital amounting to over \$3.8 milliard, an appreciable part of which may have found its way into the Euro-bond market. Switzerland, of course, continued to be a major source of supply, mostly on behalf of non-residents, and Belgian investors, too, put funds into Euro-bonds.

As to types of issue, straight dollar bonds, and even more so convertible dollar issues, fell off after the first quarter of 1969. Among the reasons for this were the high and rising rates of interest on straight bonds and the downward trend on the US equities market. But another factor was the growing attractiveness to investors of DM issues, owing to expectations of revaluation. The share of DM issues in total international flotations rose from one-tenth in 1967 to two-thirds in the third quarter of 1969, whereupon it fell after revaluation to one-quarter in the last quarter (and to nil in the first quarter of 1970). On the other hand, straight and convertible dollar bonds showed a certain recovery following the DM revaluation.

Yields on international dollar bonds moved up throughout the year, broadly in line with the trend of yields on US domestic corporate bonds. The average yield on international DM bonds remained much below that on German domestic bonds until after revaluation, when profit-taking caused it

Yields on US dollar and DM bonds, international and domestic issues.*



* US domestic bond yields are calculated to final maturity, the others to average maturity.

to leap well above the domestic level. Concurrently, probably as a result of a shift in demand, the yield on international dollar bonds eased for a time in relation to that on US domestic corporate bonds.

For the first four months of 1970 total issues of foreign and international bonds are provisionally estimated at \$1.4 milliard, down from \$1.7 milliard in the previous four months and \$2.1 milliard in the corresponding period of 1969. Foreign issues were well below the level of the year before, and with two exceptions they took place only in the United States and Switzerland. In Germany the bank supervisory committee put a stop to bank participation in new foreign and international DM issues during the first quarter. Almost all international issues were denominated in dollars. Straight dollar issues at 9 per cent. or more became quite common, while relatively few convertibles reached the market. Apart from US firms, which took up \$225 million, the most active borrowers were from Italy, France, Canada and the United Kingdom, in that order. Up to now demand for capital on the international bond market has remained strong, one feature being the appearance of Italy as a major participant on the borrowing side. In May, after having obtained a \$300 million privately-placed medium-term credit from banks abroad, with rates adjustable every six months in line with those on the Euro-dollar market, the Italian state electricity concern (ENEL) made a publicly-offered 10-year international issue of \$125 million carrying a floating interest rate, to be adjusted every half-year to three-quarters of a percentage point above the rate for six-month Euro-dollars but with a minimum rate of 7½ per cent. In Switzerland, with effect from May 1970, foreign issues were temporarily suspended.

Credit developments in individual countries.

United States. Monetary restraint from late 1968 onwards was slow to take effect. For one thing, financial institutions and borrowers, by turning to alternative sources of funds at increasingly high interest rates, found ways of shielding themselves from the sting of credit restrictions. In addition, the economy had built up a comfortable liquidity cushion. In the second half of 1968 money and time deposits had increased at an adjusted annual rate of 12 per cent., against a rise in the gross national product in money terms at a rate of about 7½ per cent. In this period, too, the commercial banks added to their government security holdings (including agency issues) at an annual rate of over \$9 milliard.

Following an increase in the official discount rate from 5¼ to 5½ per cent. in December 1968, new reserves were supplied to the banks through open-market operations on a less liberal basis than before. Market interest rates, both at short and long term, tended to rise, and they were given a fresh push upwards in April, when the discount rate was raised to 6 per cent. On this occasion, too, reserve requirements against demand deposits were put up half a percentage point. The banks' prime lending rate, which stood at

6¾ per cent. in December 1968, was adjusted upwards three times to reach 8½ per cent. in early June.

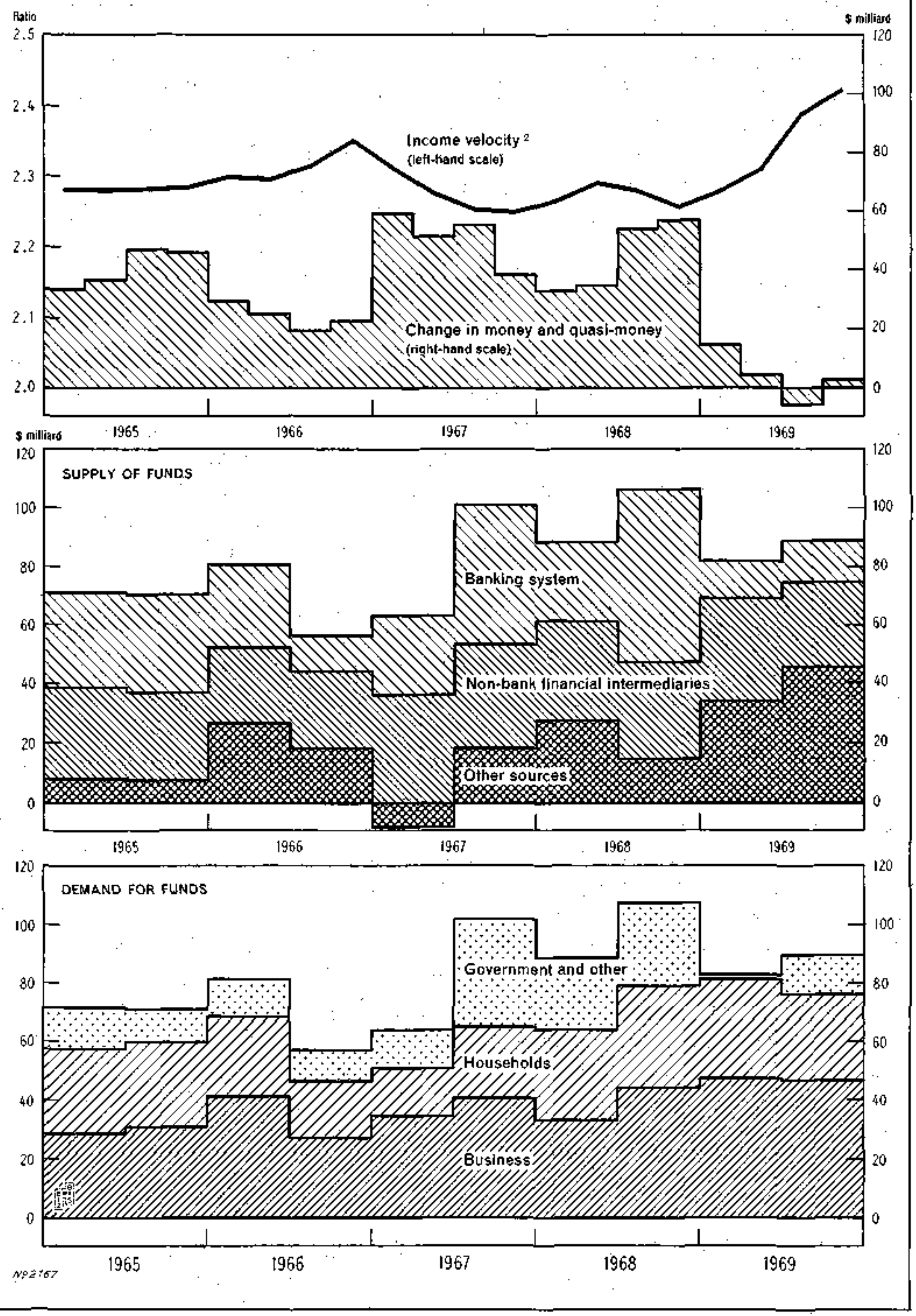
To concentrate restraint on business loans by large banks, no change was made in Regulation Q ceilings on time deposit rates. With a widening gap between market and ceiling rates, the banks experienced a steady loss of time deposits. The volume of large certificates of deposit outstanding declined from about $24 milliard in November 1968 to some $11 milliard by the end of 1969. Moreover, whereas the banks' total reserves had increased by 7.7 per cent. in 1968, they rose negligibly in the first half of 1969 and declined by 1.6 per cent. over the year as a whole. The banks' borrowing from the Federal Reserve, which came to $765 million in December 1968, rose to a peak in May 1969 and averaged about $1.2 milliard in the second half of the year.

Symptomatic of restraint, the expansion of the money supply slowed down from 7.2 per cent. in 1968 to 2.5 per cent. in 1969. Taking money and time deposits together, the change was even more pronounced, with a shift from an increase of 9.4 per cent. in 1968 to a decline of 1.5 per cent. last year. Correspondingly, the commercial banks' total loans and investments, after rising by 11 per cent. in 1968, increased at an adjusted annual rate of 4.1 per cent. in the first half of 1969 and remained flat in the second half.

Faced with strong credit demand, particularly from corporate business, the commercial banks looked to various alternative sources of loanable funds. Besides borrowing aggressively in the Federal funds market, they turned on a major scale to the Euro-dollar market, where they took up an additional $7.4 milliard in the year to mid-December 1969. The raising of Euro-funds reached a peak in the summer, when action was taken to discourage such borrowing. First, with effect from end-July, outstanding cheques or drafts arising out of Euro-dollar transactions were required to be counted as demand deposits subject to reserve requirements and, secondly, with effect from October, a 10 per cent. reserve requirement was imposed on net borrowings from foreign banks in excess of an earlier base. In 1969 the commercial banks also reduced their holdings of government securities (including agency issues) by $11.5 milliard, or more than three times as much as during the 1966 credit squeeze. In these ways commercial-bank loans, which had risen by 12 per cent. in 1968, expanded at an annual rate of 10½ per cent. in the first half of 1969 and 5½ per cent. in the second half. Not included in these figures, moreover, are loans transferred to bank affiliates, which financed them largely through issues of commercial paper. The volume of such paper rose from about $800 million in May 1969 to $4.2 milliard by the end of the year and continued to rise rapidly in 1970.

Though the expansion of the banks' total loans and investments was compressed, the aggregate growth of credit in all forms dropped off only from $97 milliard in 1968 to $86 milliard in 1969. This decline, moreover, was accounted for by the budget outcome, since the Federal Government turned

United States: Income velocity and the flow of funds.[1]



[1] Adjusted quarterly or half-yearly data at annual rates. [2] Gross national product divided by money and quasi-money (time and savings deposits).

round from net borrowing of \$13 milliard in 1968 to net debt repayment of \$5 milliard in 1969. Total net credit to other sectors increased from \$84 milliard in 1968 to \$91 milliard last year, though by the fourth quarter it was down to an adjusted annual rate of \$85 milliard.

Total credit was so well maintained because of the huge expansion of direct lending outside the system of financial intermediaries. As reflected in the graph, the banking system (including the central bank) accounted in 1969 for only 16 per cent. of total net credit flows, as against 44 per cent. in 1968 and 30 per cent. in the "credit crunch" of 1966. Moreover, the lending share of non-bank financial intermediaries rose only modestly and resulted primarily from the steady increase in insurance and pension funds. On the other hand, the placing of funds directly in credit-market instruments by investors other than financial institutions was responsible last year for 47 per cent. of total net credit growth, against only 21 per cent. in 1968. Such financial investment consists mostly of purchases of commercial paper, mortgage claims and all kinds of security issues, including government securities sold by financial institutions for liquidity reasons.

Given the further expansion of gross national product at current prices, the decline in the rate of growth of money and quasi-money during 1969 was associated with a marked increase in its income velocity. To a substantial extent, this rise merely mirrored the fact that, with market rates of interest high, demand expansion was financed increasingly by credit transactions based on the acquisition of financial assets other than bank deposits. But higher velocity was also partly due to the drawing-down of existing money balances for spending purposes.

The strength of credit demand derived largely from the business sector, whose borrowing in the credit markets rose from \$39 milliard in 1968 to \$47 milliard in 1969 and kept at the same high level throughout the year. Though their bank loans grew more slowly during the year, corporations largely compensated for this by issuing commercial paper. Moreover, they issued bonds and shares on a somewhat larger scale than in 1968.

In the household sector signs of credit restraint were fairly clear. After reaching a peak in the second quarter of 1969, the growth of home mortgages slowed down somewhat. A sharper decline was avoided largely through the activities of Federal agencies (namely the Federal National Mortgage Association and the Federal Home Loan Board), which made larger capital issues and used the proceeds to support the mortgage market, partly by purchasing mortgages and partly by making loans to savings institutions. With the deposit rates offered by these institutions subject to Regulation Q, deposit growth had fallen off sharply by the second half of 1969. Instalment credit and bank loans to households also declined after the second quarter.

State and local governments, also feeling the pinch of credit restraint, raised about \$9 milliard in the credit markets, or slightly less than in 1968. In certain cases their borrowing was limited by legal interest rate ceilings on tax-exempt bonds. Moreover, uncertainties concerning the future tax status of income from such securities accentuated market weakness last year and a number of issues were postponed.

In early 1970 monetary conditions became somewhat easier. In January the Federal Reserve Open-Market Committee decided that "increased stress should be placed on the objective of achieving a modest growth in the monetary aggregates, with about equal weight being given to bank credit and the money stock". Around the same time the authorities raised Regulation Q ceilings, with those on large single-maturity deposits of three to six months going up from 6 to 6¾ per cent. Subsequently, with the demand for bank credit showing signs of weakening, short-term interest rates fell considerably below their December peaks. For a time in late March and early April certificates of deposit of the large commercial banks rose, though rates on them were generally still not competitive with those on money-market instruments at less than one year. As one symptom of easier monetary conditions, the securities portfolio of the weekly-reporting Federal Reserve member banks showed a cumulative rise from end-December to end-April of nearly $1 milliard, whereas in the same period of 1969 they had declined by $5.4 milliard. Another indication was the reduction in the banks' prime lending rate from 8½ to 8 per cent. in late March. From about the middle of April interest rates moved upwards again, partly as a result of recognition by the market that the extent of the easing of policy had in fact been quite limited.

United Kingdom. The monetary impact of a strong combination of fiscal, debt-management and credit policies over the past year can be seen in the behaviour of domestic credit expansion via the banking system. This aggregate, after amounting to as much as £1,760 and 1,905 million in 1967 and 1968 respectively, dropped last year to a negative figure of £215 million. The main reason was the surplus of £475 million in the public sector as a whole, after net borrowing requirements of £1,805 and 1,315 million in 1967 and 1968. In addition, there were substantial net sales of government debt to the non-bank public. Bank credit to the private sector was also kept under tight restraint throughout the year. The swing from external deficit into surplus, however, tended to sustain the growth of the money supply, which came to 3 per cent. in 1969, compared with 6½ per cent. in 1968.

As to public-sector borrowing, the gilt-edged market remained depressed up to the late spring of 1969 and the authorities generally allowed prices to reflect market pressures. Yields on long-dated government stock rose to as much as 9¾ per cent. in early June. The revival of the market from then onwards reflected favourable external trends but was also encouraged by the removal in the April budget of the capital gains tax on gilt-edged securities. In the second half of 1969 net sales of government stock to the non-bank public came to about £450 million. In these circumstances the decline in interest rates was limited, and yields on long-dated stock were still slightly above 9 per cent. in December.

United Kingdom: Changes in saving, investment and financial assets and liabilities, by sectors.

Items	Years	Public sector	Persons	Industrial and commercial companies	Banks	Other financial institutions	Overseas sector[1]
		in millions of £ sterling					
Saving plus net capital transfers	1967	2,060	2,070	2,825	250		
	1968	2,815	2,005	3,385	230		
	1969	4,065	1,985	3,505	270		
Gross domestic capital formation (—) . .	1967	— 3,730	— 1,130	— 2,490	— 275		
	1968	— 3,850	— 1,335	— 3,150	— 360		
	1969	— 3,745	— 1,240	— 3,670	— 465		
Financial surplus or deficit	1967	— 1,670	935	335	— 30		— 330[2]
	1968	— 1,040	670	235	— 125		— 305[2]
	1969	325	745	— 160	— 195		365[2]
Corresponding changes in financial assets and liabilities[3]							
Bank lending	1967	25	— 140	— 295	1,280	— 80	790
	1968	— 80	— 45	— 525	3,545	— 40	2,855
	1969	155	75	— 630	5,230	20	4,845
Notes and coin, and bank deposits	1967	— 140	775	365	— 1,900	155	— 740
	1968	— 220	730	220	— 3,425	70	— 2,625
	1969	— 130	470	— 250	— 4,990	175	— 4,725
Gold and foreign exchange reserves	1967	— 320					— 320
	1968	— 115					— 115
	1969	45					45
Overseas loans and investments[4]	1967	330		120		10	460
	1968	— 320		135		30	— 155
	1969	110		— 35		—	70
Marketable government debt	1967	— 915	— 235	—	235	510	— 410
	1968	— 45	— 260	— 40	— 395	40	— 695
	1969	810	85	— 10	— 590	275	565
Non-marketable government debt	1967	5	— 35	30	— 10	10	—
	1968	— 5	— 40	55	— 10	— 5	—
	1969	— 215	— 235	380	15	—	— 60
Local-authority debt	1967	— 670	115	40	345	165	— 5
	1968	— 580	245	— 30	260	165	55
	1969	— 595	210	— 85	325	120	— 30
Claims on other financial institutions[5]	1967		2,720	—		— 2,650	75
	1968		2,535	25		— 2,455	105
	1969		2,625	55		— 2,695	— 20
Shares and securities[6] . . .	1967	5	— 595	— 10	60	595	55
	1968	55	— 490	— 120	70	605	120
	1969	15	— 415	— 145	35	370	— 145
Other domestic loans[7] . . .	1967	70	— 980	— 20	40	890	
	1968	225	— 995	— 300	20	1,050	
	1969	130	— 855	— 295	— 10	1,030	
Unidentified	1967	— 60	— 690	95	320		— 225
	1968	45	— 1,010	605	350		145
	1969	10	— 1,210	855	510		— 180

[1] A positive figure indicates an increase in UK claims (or a decrease in UK liabilities) vis-à-vis the overseas sector. [2] Net foreign investment (i.e. balance of goods and services). [3] A minus sign represents a decrease in assets or an increase in liabilities. [4] Includes, *inter alia*, the UK account with the IMF. [5] Net inflow to life assurance and pension funds and deposits with other financial institutions. [6] Including transactions in unit trust shares. [7] Includes mainly loans for house purchases.

Source: Bank of England.

In the spring of 1969 considerable attention was focused on the banks' efforts to bring their lending to the private sector within the ceiling laid down in November 1968. Earlier, the London clearing and Scottish banks had been asked to reduce their sterling lending, excluding government-guaranteed export and shipbuilding credits, to 98 per cent. of its November 1967 level. The overall ceiling for other banks was 102 per cent. However, the banks failed to achieve this reduction by the target date of March 1969, and in May the clearing and Scottish banks' lending was running about 2¾ per cent. above the required level. The Bank of England therefore decided to halve the interest rate payable on "special deposits" held with it until compliance with the ceiling was achieved.

The difficulty experienced by the London clearing and Scottish banks in cutting back their advances was ascribable partly to overdraft commitments and partly to growing liquidity pressure on borrowers. By August lending had risen to 4½ per cent. above the ceiling. At the beginning of October, to reduce the discrepancy which had developed between rates for bank financing and other market rates, these banks raised their lending rates, independently of a change in Bank rate, by half a percentage point. Shortly afterwards the Bank of England gave them to understand that it would not press for compliance with the ceilings, provided that lending was kept close to them. This new attitude was conditioned by several considerations: the extension of the import deposit scheme, the fact that the large sales of gilt-edged stock made by the authorities since the end of June had added to the banks' difficulties and, finally, the liquidity pressures expected in the January–March "revenue" quarter. Subsequently, in November and December, in conjunction with inflows of funds from abroad, bank advances did in fact decline.

With their gross investment rising relative to their own saving, industrial and commercial companies found the domestic credit climate increasingly inhospitable in 1969. In the first half, moreover, they had to put up import deposits in the amount of £435 million, some of which was financed from abroad. Their borrowing in the form of bank credit, including unrestricted categories, came to £630 million, compared with about £525 million in 1968. Their recourse to capital issues, though somewhat larger than in 1968, dropped off sharply in the second half of the year as a result of high interest rates and the depressed equities market. Another possible source of funds — loans and mortgages by non-bank financial institutions — was obstructed by the shift of some lenders towards gilt-edged securities. In these circumstances, and interrelated with the growing strength of sterling, companies increasingly turned abroad for funds, particularly in late 1969.

With regard to the personal sector, in November 1968 hire-purchase terms had been tightened and the finance houses had been asked to reduce their lending by March 1969 to 98 per cent. of the end-October level. In consequence, consumer hire-purchase debt rose last year by only £25 million. Moreover, partly owing to inflexible deposit rates and a slower inflow of funds previously, the building societies' net advances for house purchases declined by about £100 million in 1969. On the lending side, the personal sector reduced its National Savings claims, added little to its deposits and cut back its purchases of unit trust shares. On the other hand, its net sales of company securities were smaller and it added appreciably, after the first quarter, to its holdings of government securities.

In the fiscal year 1969–70 the Exchequer surplus available to repay borrowing came to £1,130 million, representing an improvement of close on £2,500 million over two years. Anticipation of this surplus, which was seasonally concentrated very largely in the first quarter of 1970, had given rise to fears of a severe liquidity squeeze. In the event these fears were not realised. For one thing, in accordance with the banks' new profits disclosure requirements, the changeover to new accounting procedures effectively improved bank liquidity by rather more than 2 per cent. The authorities deliberately refrained from offsetting this improvement. Another factor was the vast inflow of funds from abroad, believed to have come largely over company accounts and to have been induced partly by domestic credit restraints. Finally, restricted bank lending, after declining in late 1969, began to rise modestly; the clearing and Scottish banks were about 5½ per cent. over their ceiling at mid-March.

The gilt-edged market continued strong in the first quarter of 1970, and the authorities' net sales to the non-bank public for the financial year as a whole may have been appreciably above the figure of £550 million recorded in the first three quarters. Fairly early in 1970, however, sales of stock appear to have been pressed less aggressively so as to help revive the market for new industrial issues. The yield on industrial bonds fell from 10¾ per cent. in December to just below 10 per cent. by March.

For the fiscal year 1970–71 the target for domestic credit expansion is £900 million, against a net contraction of probably over £500 million in 1969–70. The public sector's surplus will decline and the net placing of debt with the non-bank public is expected to be lower. In addition, bank credit to the private sector will be permitted to expand more than in 1969–70 so as to avoid excessive stringency for companies and thus not to hamper domestic investment. Instead of the ceiling on bank advances the authorities will rely more in future on changes in special deposits, and for banks other than the clearing and Scottish banks on the use of the cash deposit scheme, to regulate bank liquidity and lending. For guidance, however, the Chancellor in his budget speech suggested a gradual and moderate rise of about 5 per cent. in the year to March 1971 in lending formerly subject to ceilings. Finance houses are expected to observe the same guiding principles.

The Chancellor further indicated that he expected the rise in the money supply to be rather smaller than that in domestic credit. Moreover, the authorities are not anxious to encourage a further inflow of short-term capital. The two-stage reduction in Bank rate in March and April, from 8 to 7 per cent., reflected this attitude.

Canada. In an effort to combat inflation, monetary policy was tightened progressively as from the fourth quarter of 1968. Bank rate was increased from 6 to 6½ per cent. in December 1968 and again to 7 per cent. in March 1969. Steps were taken to increase the pressure on bank cash positions, and, with the help of a restrictive fiscal policy, the growth in bank deposits slowed down.

But demand for bank credit remained strong, boosted by expectations of further rises in interest rates. The banks expanded their loans at an adjusted annual rate of 23 per cent. in the first half of 1969, mainly by progressively running down the substantial liquid-asset holdings which they had built up in 1968. Hence, in April 1969 the Bank of Canada announced an increase in the secondary liquid assets ratio from 7 to 8 per cent. with effect from 1st June. The banks partly countered this by continuing to sell government securities, and their liquid claims fell by early 1970 to unprecedentedly low levels relative to total assets. Their lending to business and consumers rose in the second half of 1969 at an annual rate of only 3.4 per cent.

In applying restraint the authorities sought to avoid distortions that might arise from excessive rate competition for deposits. Bank rate was increased further to 8 per cent. in two steps in June and July. The larger banks were requested to refrain from aggressive interest rate competition on short-term certificates of deposit in Canadian dollars. This helped to bring about a decline in domestic currency time deposits and contributed to slowing down the growth of total Canadian dollar deposits from an annual rate of 8.7 per cent. in the first half of 1969 to 1.5 per cent. in the second half. Up to the summer high interest rates abroad enabled the banks to attract a substantial volume of domestic funds by offering high rates on foreign currency "swapped" deposits, the counterpart of which was placed mainly in the United States. To limit this, the Bank of Canada requested the banks in July to regard the existing level of swapped deposits as a temporary ceiling.

Monetary policy was strongly supported in 1969 by a pronounced turn-round in the central government's budget position from a net financing requirement of about $1 milliard in 1968 to a small cash surplus in 1969. However, particularly as a result of net sales of bonds by the banks amounting to $481 million for 1969 as a whole, compared with net acquisitions of $1,098 million in 1968, the securities market came under increasing strain. During the year the average yield on long-term government bonds rose by a full percentage point to over 8.3 per cent. In these circumstances local authorities, public bodies and corporations reduced their net Canadian dollar bond issues to $1.6 milliard in 1969, compared with $1.8 milliard in 1968. On the other hand, these borrowers increased their recourse to foreign currency bond issues to $1.5 milliard from $1.3 milliard in 1968 and also raised more funds through issues of shares and short-term paper.

A relative shift in the flow of funds away from the banks enabled other financial institutions, especially the sales finance and consumer loan companies, greatly to expand their lending activities. The trust and mortgage loan companies also supplied more credit and the flow of funds into housing was well maintained until towards the end of 1969. This was partly because public housing finance activity expanded but, in addition, mortgage interest rates were more flexible than in the past and in the prevailing inflationary climate borrowers appeared willing to pay very high rates. By the end of the year, however, the granting of mortgage loans had fallen considerably and consumer lending had slackened.

The policies adopted contributed to a slow-down in activity much earlier than in the United States. However, inflation was not effectively brought under control, and in early 1970 monetary policy remained restrictive. Nevertheless under the influence of developments abroad, both short and long-term interest rates eased somewhat, and the Bank of Canada removed the ceiling on swapped deposits at the end of March. The government's budget for 1970–71 again provides for a surplus and in March the introduction of direct hire-purchase controls was proposed. In May, in order to prevent inflows of funds from undermining credit restraint, Bank rate was lowered to 7½ per cent. and, with effect from July, the banks' secondary liquid assets ratio was raised from 8 to 9 per cent.

Japan. Besides being the fourth full year of rapid economic expansion and the second year of large external surplus, 1969 was a year of domestic overheating and accelerated price rises. Up to the summer monetary policy remained relatively easy. In the previous autumn bank lending ceilings had been removed, and instead the authorities adopted a system of guidance over city banks' net liquidity positions. In exercising this guidance, the Bank of Japan from April 1969 onwards sought to encourage outflows of funds by taking into account any deterioration in bank liquidity attributable to borrowings of yen call money for the purpose of repaying Euro-dollar or other foreign borrowings.

In September 1969 the Bank of Japan's discount rate was increased from 5.84 to 6.25 per cent. In addition, reserve requirements on sight deposits were put up, for the larger banks from 1 to 1½ per cent. In the same month the surveillance over bank liquidity was tightened. And, as a further move to encourage short-term capital outflows, the Bank of Japan, from October 1969 to January 1970, supplied yen funds to the exchange banks for use in outward switching.

In all, the banks improved their net foreign position last year by about Yen 530 milliard. Since the liquidity deriving from the increase in official reserves was considerably less than this, the Bank of Japan helped to supply the banks with additional reserves through its net loans and security purchases, which rose to Yen 885 milliard in 1969 from Yen 510 milliard in 1968. None the less, with their loan demand strong, the banks were brought under liquidity pressure. After having reduced their net recourse to call money by Yen 120 milliard in 1968, they increased it by Yen 370 milliard in 1969.

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

Items	Years	Corporate business	Personal sector	Central government	Public enterprises and local authorities	Banking system	Other financial institutions	Rest of the world[1]
		In milliards of yen						
Financial surplus or deficit	1967	−2,830	4,110	− 290	−1,055			− 70[2]
	1968	−2,910	4,670	75	−1,455			375[2]
	1969	−3,435	5,180	380	−1,340			785[2]
Corresponding changes in financial assets and liabilities[3]								
Money and time deposits	1967	1,725	4,335	− 805	210	−3,280	−2,185	
	1968	1,990	4,870	− 995	155	−4,325	−1,700	
	1969	3,065	6,525	−1,190	220	−5,235	−3,385	
Insurance and trust claims	1967	75	1,275	− 165	5	− 30	−1,165	
	1968	130	1,515	− 235	5	—	−1,415	
	1969	165	1,815	− 280	5	10	−1,710	
Securities (net)	1967	− 420	475	− 480	− 925	700	605	
	1968	− 370	620	− 380	− 890	600	565	
	1969	− 445	1,045	− 75	− 880	255	335	
Loans	1967	−5,135	−1,835	1,130	− 315	3,235	2,925	
	1968	−5,610	−1,865	1,505	− 635	3,650	2,960	
	1969	−7,865	−2,715	1,705	− 650	4,650	4,875	
Official reserves	1967							− 25
	1968							320
	1969							220
Other foreign claims (net)	1967	− 115	—	105	− 30	− 40	—	− 70
	1968	− 55	—	90	− 50	115	—	90
	1969	− 205	—	225	− 20	525	—	600
Miscellaneous transactions[4]	1967	1,045	− 140	− 80	—	− 590	− 185	25
	1968	1,005	− 470	90	− 40	− 40	− 410	− 30
	1969	1,845	−1,485	− 5	− 20	− 200	− 115	− 30

[1] A positive figure indicates an increase in Japan's claims (or a decrease in Japan's liabilities) vis-à-vis the rest of the world. [2] Net foreign investment (i.e. balance of goods and services). [3] A minus sign represents a decrease in assets or an increase in liabilities. [4] Including trade credit and statistical discrepancies.

The call-money rate rose from about 7 per cent. in the summer to 8½ per cent. by the end of the year.

Reflecting the strong business demand for credit, loans and discounts granted by the banks accelerated during the year, expanding for 1969 as a whole by 16.3 per cent., compared with 14.6 per cent. in 1968. On the other hand, the rate of deposit formation with the banks, though, at 16.4 per cent., about the same as credit expansion, was somewhat slower than the rate of 17.1 per cent. recorded in 1968.

A notable financial development last year was the relative growth in the channelling of funds via non-bank financial institutions. Deposits with these institutions accelerated sharply, contributing to a growth of 24 per cent. in their lending, against 21 per cent. in 1968. Taking both bank and non-bank financial institutions together, the expansion of the money supply plus time deposits accelerated from 15 per cent. in 1968 to 18 per cent. in 1969. On the other hand, the increase in gross national expenditure in money terms dropped off from about 18½ per cent. in 1968 to 17½ per cent. last year, while real expenditure growth declined from 14.3 to 13 per cent. Just as in some other countries, therefore, monetary restraint does not appear to have led to a significant tightening of credit markets as a whole. Corporate business, whose big increase in investment was covered largely by higher internal savings, borrowed heavily and used the proceeds partly to build up liquidity and extend trade and consumer credit to the personal sector.

In early 1970 interest rates continued to rise and larger business concerns seemed to find credit more difficult to obtain. But no revision of spending plans was evident. In its budget for 1970–71 the government proposed an increase from 35 to 36.75 per cent. in the corporate tax and envisaged a reduced borrowing requirement. The conflict between monetary restraint and the need to reduce the external surplus continues to be a difficult problem.

Germany. In 1969 the revaluation was in many respects a watershed for domestic credit markets. But up to September, and extending into the last quarter as well, the effective restraint of credit expansion was not feasible. Towards the end of 1968, reflecting earlier monetary ease and a large external surplus, the banks' free liquidity reserves had mounted to almost DM 40 milliard, or 15 per cent. of deposit liabilities, compared with a low of 6 per cent. at the middle of 1966. When, therefore, an additional DM 19 milliard of short-term funds entered the country in the first nine months of 1969, monetary policy focused mainly on efforts to reduce or neutralise bank liquidity.

New measures were introduced mostly between March and September. The official discount rate was raised in three steps from 3 to 6 per cent. and the lombard rate was put up from 3½ to 7½ per cent. In addition, the Bundesbank continued to offer preferential swap facilities to encourage the banks to keep funds abroad. In the first nine months, moreover, DM 7½ milliard of liquidity was absorbed by other credit measures, including open-market operations. Already from December 1968 a 100 per cent. marginal reserve requirement had been in force in respect of bank liabilities to non-residents. In March 1969 the Bundesbank announced a 20 per cent. reduction in the credit institutions' rediscount quotas, with full effect as from July. Subsequently, minimum reserve requirements were raised on two occasions: in June by 15 per cent. for domestic liabilities and 50 per cent. for liabilities to non-residents, and in August by 10 per cent. across the board. A further DM 8 milliard reduction in bank liquidity resulted in January–September from the external basic deficit, and an additional DM 8 milliard was absorbed by an improvement in public-sector finances which enabled the authorities to sterilise funds with the central bank and reduce their money-market indebtedness to credit institutions. Despite all this, the banks' liquid assets at the end of September were still equivalent to almost 12 per cent. of their deposit liabilities.

In the last quarter of 1969 the forces affecting bank liquidity shifted dramatically. The reflux of funds abroad, coupled with a rise in the basic deficit, drew over DM 23 milliard away from the credit institutions. However, mitigating measures taken by the authorities, together with public-sector

Germany: Saving, investment and changes in financial assets and liabilities, by sectors.

Items	Years	Private households	Housing	Enterprises	Public sector	Credit institutions[1]	Other financial institutions[2]	Rest of the world[3]
		In milliards of Deutsche Mark						
Net saving plus capital transfers	1967	30.60	7.35	17.95	9.55	3.05	0.45	
	1968	35.20	8.10	27.60	13.95	3.30	0.55	
	1969	41.50	5.15	23.15	29.15	— 0.20[4]	0.40	
Net investment (—)	1967	—	—21.35	—20.70	—16.00	— 0.70	— 0.65	
	1968	—	—21.90	—36.85	—18.00	— 1.05	— 0.55	
	1969	—	—22.85	—51.55	—20.15	— 1.35	— 0.75	
Financial surplus or deficit	1967	30.60	—13.95	— 2.75	— 6.40	2.35	— 0.15	9.70[5]
	1968	35.20	—13.80	— 9.25	— 4.00	2.20	—	10.35[5]
	1969	41.50	—17.70	—28.35	9.00	— 1.55[4]	— 0.35	2.55[5]
Corresponding changes in financial assets and liabilities[6]								
Money, time and savings deposits	1967	18.95	0.20	11.50	4.85	—39.40	1.60	— 1.35
	1968	24.45	0.15	12.75	5.30	—50.65	1.70	— 6.20
	1969	26.20	0.10	12.65	7.95	—55.40	1.20	— 7.25
Claims on non-bank financial institutions	1967	8.65	—	0.70	0.15	0.10	— 9.65	—
	1968	9.10	—	1.20	0.15	0.10	—10.55	— 0.05
	1969	10.95	—	1.30	0.10	0.10	—12.45	— 0.05
Money-market paper	1967	—	—	0.70	— 4.30	4.10	—	0.55
	1968	—	—	0.10	— 0.75	— 0.45	— 0.15	— 1.20
	1969	—	—	— 1.15	6.25	— 5.20	—	— 0.10
Bonds and shares: Purchases	1967	4.00	—	1.55	— 0.75	12.60	2.15	0.05
	1968	4.65	—	2.65	0.50	15.70	3.70	— 0.70
	1969	8.75	—	4.10	0.30	10.85	3.10	0.75
Sales	1967	—	— 0.05	— 3.95	— 4.10	— 9.50	— 0.05	1.85
	1968	—	— 0.10	— 3.80	— 2.50	—14.70	— 0.05	6.75
	1969	—	— 0.05	— 2.95	0.45	—12.95	— 0.10	10.75
Bank credit.	1967	— 0.90	— 8.85	—10.70	— 6.00	33.20	0.05	6.80
	1968	— 2.75	— 9.85	—14.55	— 8.15	44.65	—	9.35
	1969	— 3.80	—11.20	—38.10	— 8.65	75.45	— 0.25	13.45
Other loans	1967	— 0.15	— 3.65	— 1.20	— 0.75	—	5.75	—
	1968	— 0.10	— 3.20	— 1.55	— 0.45	—	5.35	—
	1969	— 0.15	— 5.70	— 1.75	— 0.60	—	8.15	—
Other claims and liabilities .	1967	—	— 1.60	— 1.35	4.50	—	—	1.50
	1968	— 0.20	— 0.80	— 6.10	1.95	—	—	— 5.20
	1969	— 0.50	— 0.85	— 2.50	3.20	—	—	— 0.65
Gold and foreign exchange	1967					0.30		0.30
	1968					7.55		7.55
	1969					—14.40[4]		—14.40

[1] Including the central bank. [2] Building and loan associations and insurance sector. [3] A positive figure signifies an increase in Germany's claims (or a decrease in Germany's liabilities) vis-à-vis the rest of the world. [4] After Bundesbank balance-sheet adjustments resulting from DM revaluation (counterpart changes appear under "*Rest of the world*"). [5] *Net foreign investment (i.e. balance of goods and services).* [6] A *minus sign* represents a decrease in assets or an increase in liabilities.

drawings on funds held with the Bundesbank, reduced the adverse liquidity impact to just over DM 13 milliard. In November the Bundesbank abolished the 100 per cent. marginal reserve requirement against liabilities to non-residents, brought the average reserve requirements for such liabilities down to those for domestic liabilities and reduced overall reserve requirements by

10 per cent. In December, moreover, by raising the lombard rate from 7½ to 9 per cent., at a time when rediscount margins had become narrow, it induced the banks to draw upon their short-term assets abroad. By the end of the year the banks' liquidity ratio had fallen to 6.8 per cent.

Credit demand increased sharply in 1969. Together, the two sectors represented by enterprises and housing doubled their financial deficit to DM 46 milliard from DM 23 milliard in 1968. The enterprise sector alone increased its net recourse to loans from credit institutions from DM 14.6 to 38.1 milliard, much of which was borrowed after revaluation owing to the heavy drain of funds abroad. At the same time it changed over from being a net taker to a net supplier of funds to the securities market and continued to accumulate bank deposits much as before. A stabilising element, on the other hand, was the public sector's swing of DM 13 milliard from deficit to surplus, which was accompanied by a marked reduction in recourse to the capital market and an improved position vis-à-vis the banking sector. As to the credit institutions, deposits rose vigorously but loans went up even more, leading to a curtailment in their purchases of securities. The growth of the money supply accelerated from 7.5 per cent. in 1968 to 10.9 per cent. last year.

On the securities market, net issues declined from DM 26 milliard in 1968 to DM 21.4 milliard in 1969. Industrial enterprises relied principally on share issues. As to bond issues, the public sector virtually withdrew from the market, while credit institutions borrowed less than in 1968. On the other hand, German participation in international issues, together with conventional foreign issues on the domestic market, rose from DM 5.2 milliard in 1968 to DM 6.2 milliard in 1969, or from 20 to 27 per cent. of total issues. As from May 1969 the banks' informal capital-market committee limited DM issues by foreign borrowers, initially fixing a monthly ceiling of DM 500 million but later reducing it to DM 300 million. Taking both domestic issues and net transactions with foreigners in bonds and shares, which together came to DM 26 milliard, the share of new capital raised by foreigners on the German securities market amounted to 45 per cent.

In 1970 the authorities intensified their efforts to contain the boom and to limit long-term capital outflows. In March, in the absence of further fiscal action to reinforce the government measures taken in January, the Bundesbank raised the discount rate from 6 to 7½ per cent. and the lombard rate from 9 to 9½ per cent. At the same time, to ward off short-term inflows, marginal reserve requirements of 30 per cent. were imposed on liabilities to non-residents. Bank credit grew somewhat less fast, but the money supply at end-March was 14.6 per cent. higher than a year earlier, partly because of an interest-rate-induced shift from longer-term deposits. In the first quarter net bond issues were well below their level in the corresponding period of 1969. At the same time foreign recourse to the German new issues market was brought temporarily to a standstill, but in April issue activity was resumed on a modest scale.

Italy. Over the first seven months of 1969 the authorities kept on a course of relative monetary ease. A key element of policy was still the stabilisation of long-term interest rates, the purpose being to encourage fixed investment and the flow of funds to the capital market. Already in late 1968, however, this policy had been running into difficulties. With interest rates rising abroad, the outflow of long-term capital accelerated from the autumn of 1968 up to the summer of 1969, leading to a steady loss of official reserves. The resulting pressure on bank liquidity appeared mainly in the guise of stronger credit demand rather than in a loss of deposits.

The monetary authorities, assuming the external strains to be temporary, took measures up to July both to maintain basic monetary ease and to limit net capital outflows. In this period bank liquidity was adversely affected not only by the external deficit but also by a decline in the net outflow of funds from the Treasury, largely as a result of reduced lending for public investment. To some extent these pressures were eased by a curtailment, compared with the same period of 1968, in sales of Treasury securities on the capital market. In addition, the banks were asked in late March gradually to reduce their positive foreign position — then showing net assets of about $750 million — to one of balance by mid-1969. And, as another source of funds, the banks limited their seasonal repayment of debt to the central bank. Largely for external reasons, while keeping the official discount rate unchanged at 3½ per cent., measures were taken to limit excessive recourse to central-bank credit. In March repeated recourse by banks to the Bank of Italy for loans against securities was made subject to penalty rates of up to 1½ percentage points above the discount rate, and in late June similar rates were applied to rediscounting beyond certain limits. In April operations of foreign investment funds in Italy were made subject to the proviso that half the portfolio should consist of Italian securities. In addition, the banks were forbidden for the time being to participate in consortia for foreign issues.

In August, with heavy capital outflows persisting and price trends beginning to cause concern, the authorities shifted clearly towards monetary restraint. The official discount rate was put up from 3½ to 4 per cent., and the penalty margins of 1½ percentage points for rediscounts and lombard advances were retained. What is more important, given that central-bank credit in Italy is discretionary, the Bank of Italy adopted a restrictive attitude in its lending to the banks. In these circumstances the banks sold bonds and, as the Bank of Italy gave only limited support to the market, long-term yields rose, moving up from about 6½ per cent. in July to some 8 per cent. at the end of the year.

The credit institutions' domestic loans increased fairly evenly over the year, rising by Lit. 3,140 milliard, or about 15 per cent., against 10½ per cent. in 1968. The growth of total deposits, on the other hand, dropped off from a rate of 13½ per cent. in 1968 to 12 per cent. last year. Though in absolute terms the rise in deposits, at Lit. 3,665 milliard, exceeded that in loans, the difference was more than absorbed by the normal increase in compulsory reserves. What gave ground was the credit institutions' net purchases of securities, which declined from Lit. 1,535 milliard in 1968 to Lit. 1,200 milliard in 1969.

Net capital issues amounted in 1969 to Lit. 4,025 milliard, compared with Lit. 3,565 milliard in 1968 and Lit. 2,825 milliard in 1967. Bond issues on behalf of the Treasury and by special credit institutions were higher than in the previous year, and private share issues went up too. But whereas in 1968 the Bank of Italy had purchased bonds only in the amount of Lit. 220 milliard, last year it had to take in Lit. 1,215 milliard, mostly in the last five months of the year. The volume of new issues purchased by the banks and the public dropped off to Lit. 2,810 milliard from Lit. 3,345 milliard in the preceding year.

In the early months of 1970, with the economy slowly recovering from the previous autumn's disruptive events, new measures were required to stem the outflow of capital. In February, together with a shortening of payments terms in external trade, it was laid down that bank-note remittances from abroad must be made directly to the Bank of Italy in Rome. Then, in early March, the official discount rate was adjusted upwards from 4 to 5½ per cent., with the supplementary margin of 1½ percentage points for excessive borrowing being retained. Soon afterwards long-term interest rates moved to the neighbourhood of 9 per cent. (tax-free to holder). These changes have brought Italian rates closer to international levels.

France. In the spring and summer of 1969 new restraint measures, aimed mainly at credit to the private sector, were taken to reinforce the budgetary and credit restrictions introduced in November 1968. In May the quantitative limitations on short-term bank credit were prolonged until the end of 1969, the December ceiling being fixed at 107 per cent. of the September 1968 level. At the same time, the minimum down-payment on instalment purchases was raised from 20–25 to 30 per cent. and the maximum repayment period reduced, generally from 21 to 18 months. Furthermore, interest rates on time and savings deposits were increased. In June the Bank of France raised its discount rate from 6 to 7 per cent. Shortly afterwards, to help check a rapid expansion of credits not covered by the ceilings, limits for the year were placed on the granting of medium-term equipment and construction credits eligible for rediscounting or for the mortgage market. On the other hand, the authorities partially offset the sharp drain on bank liquidity resulting from the external deficit by reducing reserve requirements in respect of time and savings deposits from 2.5 to 0.5 per cent. as from late June.

Credit to the private sector continued to expand during the spring and summer, though the large external deficit tended to slow down the growth of the money supply. In the credit sphere, however, the August devaluation implied the need for still more measures of restraint. Soon afterwards hire-purchase regulations were tightened again, with an increase in minimum down-payments to 40 or 50 per cent. and a reduction in maximum repayment periods generally to 15 months. Limits were placed on the long-term lending of the Crédit National and the Crédit Agricole as well as on loans by the Economic and Social Development Fund to public enterprises in the competitive sector. Moreover, with the 1969 ceiling already exceeded, the granting of medium-term rediscountable equipment credits was temporarily suspended. Subsequently, in October, the Bank of France increased its discount rate to 8 per cent. In addition, the banks' compulsory minimum holdings of medium-term paper were raised from 14 to 15 per cent. of deposit liabilities, and rediscounts of such credits granted as from the beginning of November were confined to paper maturing within two years. New ratios for financial institutions, limiting their granting of mainly long-term non-rediscountable credits in relation to their own funds and long-term liabilities, were introduced in November.

Under the influence of these measures, and of the changed climate resulting from the franc and DM parity adjustments, total credit-granting to the private sector slowed down considerably towards the end of the year, and the growth of time and savings deposits accelerated. In 1969 as a whole, money and quasi-money rose by 6.3 per cent., compared with 11.6 per cent. in 1968. Sight deposits, which had expanded by 11 per cent. in 1968, showed little net increase last year. On the other hand, an acceleration in the second half of the year brought the growth in quasi-money to 24 per cent., or the same rate as in 1968. The expansion of bank credit to the private sector dropped to 11.7 per cent. in 1969 from 21.3 per cent. in 1968. Credit from the banking system to the public sector (including special housing loans) also increased less, rising by Fr.fr. 3.5 milliard in 1969, compared with Fr.fr. 5.4 milliard in 1968. The banking system's net foreign assets declined by Fr.fr. 9.3 milliard, following a reduction of Fr.fr. 15.7 milliard in 1968. The decline was associated largely with losses of official reserves, but in addition the banks brought their net foreign positions into deficit in order to comply with regulations introduced in late 1968 and early 1969.

A substantial reduction in the government's budget deficit was achieved in 1969. In the last quarter, when the balance of payments moved into surplus, Treasury financing operations contributed to keeping bank liquidity under strain. The banks' rediscounting with the Bank of France and the specialised credit institutions increased by Fr.fr. 10.5 milliard in 1969. On the money market greater emphasis was given to interest rate policy in regulating bank liquidity and the Bank of France's intervention rates were adjusted closely in line with trends in interest rates abroad. The rate on day-to-day money increased by 2 percentage points during the year.

Mainly because of sharp rises earlier in the year, total medium-term rediscountable credits and long-term loans both grew by about 18 per cent. in 1969, whereas short-term credits, which were subject to limitation throughout the year, increased by only 4 per cent. Lending to the economy by the specialised credit institutions and the finance institutions expanded by 12.3 per cent. in 1969, or somewhat faster than bank credit.

The private sector also borrowed considerably more funds by way of security issues in 1969. On a rising market, issues of shares more than doubled, going up from Fr.fr. 3.6 milliard in 1968 to Fr.fr. 7.5 milliard in 1969. Including issues of nationalised industries, private-sector bond issues expanded from Fr.fr. 5.8 to almost 7.0 milliard. This increase was facilitated by a net retirement of securities by the government and a decline in issues by the rest of the public sector. Total net domestic bond issues came to Fr.fr. 6.4 milliard, compared with Fr.fr. 5.7 milliard in 1968. Influenced by the interest rate policy applied for new issues, market yields rose slowly during most of the year. Mainly as a result of increases in early 1969 and of a renewed upward tendency towards the end of the year, yields were typically 1 percentage point higher in December 1969 than a year earlier.

The government's budget proposals for 1970 provide for a restoration of overall balance. Quantitative limits on the expansion of short-term bank credit and rediscountable medium-term credit were prolonged until the end of June 1970. Since February, when the ceilings were placed on a statutory basis, credit institutions exceeding the limits have been required to lodge non-interest-bearing deposits with the Bank of France for a minimum term of one month. On the other hand, in March certain foreign currency loans for use abroad were exempted from the credit ceilings and an increase of up to 1½ per cent. per month in short-term export credits was permitted outside the general credit-granting limitations. Consumer-credit regulations were eased very slightly in January and again in the spring. At the end of April the limitations on certain types of medium and long-term credits were liberalised; in particular, the ceilings on the expansion of medium-term rediscountable equipment credits in the first half of 1970 were raised, generally from 6 to 8 per cent. However, to help offset the liquidity effects of the improved external balance, the ratio for banks' minimum holdings of medium-term paper was put up from 15 to 16 per cent.

Belgium. In the spring and summer of 1969 the monetary authorities acted both to limit exchange losses and to keep credit expansion within reasonable bounds. The official discount rate was raised from 4½ to 6 per cent. in three stages from March to May, and in early April limits were imposed on banks' spot positions in foreign currency drawn from the controlled exchange market plus their advances on convertible franc accounts. At the end of April a ceiling permitting an expansion of 14 per cent. for 1969 as a whole was placed on bank credit to enterprises and individuals, including Belgian franc credits granted abroad. In addition, the National Bank limited rediscounting by individual banks to 16 per cent., initially, of their average resources in 1968 (including own funds but excluding interbank accounts); this limit is subject to reduction in the case of lending beyond the ceiling. Bills drawn on the National Road Fund maturing after the end of September were made ineligible for rediscounting. Further, for a period of one year as from June, a minimum ratio was introduced in respect of holdings of easily negotiable bank assets in relation to short-term Belgian franc liabilities.

In the summer, faced with still higher interest rates abroad and with currency uncertainties as well, the authorities raised the official discount rate further to 7 per cent. in July and then to 7½ per cent. in September. As the limits on bank credit expansion proved to be generous relative to need, the ceiling for the second half-year was reduced in the autumn so as to restrict the expansion over the year as a whole to 11.2 per cent. At the same time, the ceiling was extended to the first half of 1970 and, as before, similar limitations were placed on credits approved by the public credit institutions, the private savings banks and the insurance companies. In August, moreover, the ceiling on bank rediscounting with the National Bank was lowered to 14 per cent. and in September it was announced that this limit would be reduced progressively each month to 10 per cent. by end-March 1970.

As a result of expenditure economies and a cyclical rise in tax revenues, the government's net financing requirement fell from B.fr. 34.1 milliard in 1968 to B.fr. 28.1 milliard in 1969. As B.fr. 4.8 milliard was met from abroad, whereas in 1968 net foreign indebtedness had been reduced by B.fr. 3.7 milliard, official recourse to the domestic market decreased by B.fr. 14.5 milliard. The government's long-term domestic borrowing fell, and its net recourse to the credit institutions, at B.fr. 20 milliard, though less than in 1968, again made a substantial contribution to domestic liquidity creation.

Although outflows of funds were a problem for much of 1969, there was a substantial reflux towards the year-end, and for the twelve months as a whole the net foreign assets of the banking system went up by B.fr. 8.6 milliard, following a decline of B.fr. 11.0 milliard in 1968. This turn-round in the balance of payments, together with higher enterprise profits and activation of liquid balances, helped to damp down private-sector credit demand. With, in addition, credit-granting by other financial institutions considerably greater in 1969, the banking system's lending to the private sector came to only B.fr. 13.5 milliard, against B.fr. 25.6 milliard in 1968. Money and quasi-money grew by 7.7 per cent., compared with 9.5 per cent. in 1968; whereas currency plus sight deposits fell off in the second half of the year, the growth of quasi-money, to a large extent reflecting rising interest rates for time deposits, accelerated from 15.7 per cent. in 1968 to 21.8 per cent. in 1969. An easing of domestic activity and a capital reflux led towards the end of the year to a more comfortable liquidity situation. The rate on day-to-day money declined from its peak of 7.48 per cent. in September to 6.07 per cent. in December, at which level it was still about 2¾ percentage points higher than a year earlier.

The government's 1970 budget proposals, presented in October, provided for an overall deficit similar to that in 1969, but a programme of anti-inflationary measures was announced in November following the DM revaluation. This included selective reductions of tax rebates on exports, higher social insurance contributions and a further tightening of hire-purchase controls. In addition, limitations were placed on house-building authorisations and on government aid for private investment.

In March 1970, with the utilisation of bank credit still well below the ceilings and credit approvals beginning to accelerate, the existing ceilings were replaced by a new system limiting the increase in credit utilised during the first nine months of 1970 to 5.5 per cent. for each bank. The expansion of credit covered by the new limitations, together with that of export credit, which was excluded from them, will be about equivalent to the actual rise during the same period of 1969. The granting of credit in excess of the limits is to be penalised by reductions in rediscount ceilings at least equivalent to the excess. Export credits were made rediscountable outside these ceilings as from March, but the rediscount coefficients are to be reduced to 9 per cent. in two stages in June and September.

Netherlands. At the end of 1968, after two years of relative monetary ease, the authorities had switched over to a policy of restraint. In view of domestic price pressures and rising interest rates abroad, the Nederlandsche Bank raised the discount rate from 4½ to 5 per cent. in December of that year. In addition, it reached agreement with the banks on a limitation of short-term credit expansion which implied a 10 per cent. ceiling for 1969 as a whole. Long and medium-term bank credit was to be kept in line with the growth of longer-term resources.

In the spring and summer of 1969 the continued rise in interest rates abroad, combined with strong domestic credit demand, led to two further discount rate adjustments — to 5½ per cent. in April and to 6 per cent. in August. But, as by mid-year the banks had considerably increased their net foreign assets, financing them to an unduly large extent by borrowing from the Nederlandsche Bank, they were requested in July to reduce their foreign positions by 10 per cent. of a given base by the end of the year. After the DM revaluation, however, when large flows of funds into the Netherlands quickly eased financial tensions, the banks were again allowed to build up their net positions abroad to 125 per cent. of the base-period figure. Short and long-term interest rates increased by about 1½ percentage points from late 1968 up to October 1969 but then eased off over the remainder of the year.

For 1969 as a whole the public sector's financial deficit came to just over Fl. 4 milliard, or approximately the same as in 1968. Hence the growth of credit demand stemmed largely from the private sector, where financing needs continued to expand vigorously.

In an environment of rising interest rates, the pattern of the flow of funds changed considerably last year. The net volume of funds coming onto the capital market, at Fl. 9.8 milliard, was practically the same as in 1968. An increase of some Fl. 900 million in flows from institutional and private investors was approximately offset by a decline in investment by banks. On the demand side, the central government stepped up its borrowing, which rose from Fl. 1.3 to 2.2 milliard, while the private sector and local authorities had relatively greater recourse than before to banks and the money market.

In line with the credit ceiling, the growth of short-term lending to the private sector fell to 10 per cent., or half as much as in 1968. On the other hand, medium and long-term bank credit increased by Fl. 1.4 milliard, against a rise of Fl. 0.3 milliard in 1968, so that total bank lending to the private sector went up by 17 per cent., or just 1 percentage point less than in 1968. Thanks to the government's greater recourse to the capital market, bank credit to the public sector expanded by only 8 per cent., after rising by 12 per cent. in the preceding year.

The growth of the money supply, together with quasi-money held with the credit institutions, was cut back from 14 per cent. in 1968 to 10.5 per cent. last year, though the banks' longer-term resources continued to grow at a relatively fast rate. In the year to January 1970 the banks' indebtedness to the Nederlandsche Bank went up by about Fl. 0.5 milliard, which was well in excess of the improvement in their net foreign position.

For 1970 the ceiling on short-term bank credit has been extended on essentially the same basis as in 1969. In the early months of the year the domestic capital market began to tighten again, and long-term interest rates moved up approximately in line with those on the international capital market.

Switzerland. In the first eight months of 1969 the authorities were confronted with a marked acceleration in domestic credit expansion without adequate means to cope with it. Though the Confederation's budget again produced a surplus, the control of bank liquidity rested largely on the maintenance of relatively low interest rates and hence on capital outflows. In the event, however, a rapid growth of deposits enabled banks to respond generously to domestic credit demand as well.

At the beginning of September the monetary authorities reached a gentleman's agreement with the major banks on the principles on which credit ceilings and marginal minimum reserve requirements could be applied if necessary. Simultaneously a ceiling was imposed on total domestic lending, with the permissible annual rate of expansion ranging from 9 to 11½ per cent. depending on the individual bank's previous rate of lending activity. In the circumstances it was later decided not to proceed with legislative proposals to widen the scope of the National Bank's policy instruments.

At mid-September, following the trend in money-market rates, the National Bank raised its discount rate from 3 to 3¾ per cent. Given the attractiveness of Euro-currency rates, however, the banks tended to keep their domestic liquidity to a bare minimum, while considerably increasing their borrowing from the National Bank. Though capital outflows coupled with domestic lending restraint were welcome, and official swap facilities were made amply available at balance-sheet dates, the National Bank disapproved of the excessive use of its facilities for interest arbitrage. Reaffirming the temporary and exceptional nature of these facilities, it arranged with the large banks ceilings on their central-bank borrowing for the rest of the year.

Domestic credit, which in 1968 had expanded by 8.4 per cent., was at the end of August 1969 12.7 per cent. above the year-earlier level. However, the credit ceiling brought the growth down to 12.3 per cent. for the year as a whole. Most of the rise was accounted for by business loans; the increase in mortgages was relatively subdued, amounting to 8 per cent. Deposits again went up by about 20 per cent., reflecting mainly a large expansion in time deposits, both resident and non-resident.

Net issues of securities totalled Sw.fr. 5.7 milliard, Sw.fr. 0.2 milliard more than the year before, with a rise of Sw.fr. 0.5 milliard in share issues. Net bond issues declined by Sw.fr. 0.4 milliard to Sw.fr. 3.3 milliard. The share accounted for by foreign borrowers remained almost unchanged at just under one-quarter. Although yields increased by around 1 percentage point during the year (those on the Confederation's bonds reached 5.4 per cent. at the year-end), subscriptions were not always satisfactory. Up to September the bank supervisory committee generally approved all issue applications, but after that it became more restrictive.

In January 1970, as part of a broader stabilisation programme, the rate of permissible credit expansion was reduced by 15 per cent., giving an annual growth rate of 7.65–9.75 per cent. Since domestic credit at end-February 1970 was 13.3 per cent. above the year-earlier figure, a sizable deceleration was called for. Authorisations for new bond issues in the first quarter were at about the same level as in the corresponding period of 1969; however, the share of foreign issues declined considerably, and in May such issues were suspended for an unspecified period. Interest rates continued to rise; the banks' private discount rate and the rate on time deposits were raised by half a percentage point to 5¼ and 5½ per cent. respectively, while the rates on cash certificates were increased generally by a quarter of a percentage point. Swiss interest rates are still well below those ruling elsewhere, and the ceiling on bank credit is a deterrent to the repatriation of bank assets held abroad. Continued buoyant expansion, however, could lead to an unwanted repatriation of funds by industrial firms.

Austria. Economic activity picked up considerable speed in the course of 1969, but capacity limits were not approached until nearly the end of the year. Led by exports, expansion gained support from domestic demand as time went on. Industrial production was on average 11.4 per cent. higher than in 1968 and real gross national product went up by 6.4 per cent. Wages rose more or less in line with productivity, but their growth accelerated somewhat after the turn of the year.

With an external surplus — though a reduced one — continuing to feed bank liquidity, lending by credit institutions increased by Sch. 23.3 milliard, compared with Sch. 14.3 milliard in 1968. This expansion, however, was associated with a major shift away from foreign borrowing, which had totalled Sch. 5.7 milliard in 1968 and did not increase at all in 1969. The retreat from foreign borrowing, which had been largely at long term, was ascribable to tight money conditions abroad as well as to exchange rate uncertainties.

With regard to Austrian credit institutions, the expansion of domestic bank credit, at 16.7 per cent., was 6 percentage points greater than in 1968 and ran ahead of the growth in total deposits and bank bonds, which went up by 14.4 per cent., or 3 percentage points more than in 1968. Deposits of more than 2½ years' maturity were made more attractive to savers by new rates ranging up to 5½ per cent., and the banks' bond issues were quite large. At the same time banks increased their holdings of government short-term paper somewhat more than in 1968 and further built up their net foreign position. To help accommodate these changes, the banks ceased to purchase securities and, more important, had extensive recourse to borrowing from the central bank.

Net bond issues amounted to Sch. 4.3 milliard in 1969, compared with Sch. 3.1 milliard in 1968. Yields on government bonds edged up slightly, to reach 7.6 per cent. at the end of 1969. Sales of domestic and foreign investment fund certificates were substantial, and the latter, in so far as they were denominated in foreign currencies, were made subject to special approval by the National Bank.

Over most of the year monetary policy remained relatively easy. In the first part of the year, when exchange rate considerations caused Austrian borrowers to shift from foreign to domestic sources of funds, the National Bank provided ample borrowing facilities for banks and also lowered minimum reserve requirements by 1½ percentage points to 8½ per cent. for sight deposits and 5½–6½ per cent. for time and savings deposits. In September, by which time domestic business activity had become quite strong, the National Bank raised its discount rate from 3¾ to 4¾ per cent. and put up its rate for lending against securities, previously on a split basis, to a uniform 5¼ per cent.

The revaluation of the Deutsche Mark forced new policy choices. Largely on the grounds that the Austrian balance of payments was considered to be roughly in equilibrium, revaluation was rejected. Instead, the authorities introduced a stabilisation package which included, in addition to selective measures to stimulate imports, an increase in reserve requirements of 1 percentage point to 9½ per cent. for sight deposits and 6½–7½ per cent. for other deposits.

In January 1970 the National Bank raised its rates by a quarter of a percentage point to 5 per cent. for rediscounts and 5½ per cent. for advances against securities to act as a warning against over-expansion of the economy, and in February absorbed some Sch. 1½ milliard of liquidity by placing cash certificates of its own with the banks. In these months demand and cost pressures increased, and the balance of payments moved into deficit.

Sweden. A shift to credit restraint commenced in February 1969 with a rise in the Riksbank's discount rate from 5 to 6 per cent. Subsequent measures aimed at bringing bank liquidity under better control and strengthening the demand for bonds, while checking outflows of funds. Thus, in March bank liquidity ratios, hitherto informal, were made legally binding and an interest penalty of 4 per cent. on any shortfall was introduced. Liquid assets were defined broadly, as before, to include government and housing bonds, but the eligibility of banks' foreign currency claims on banks abroad was limited. In addition, the savings and insurance organisations and the National Pension Fund undertook, in agreements with the Riksbank, to invest two-thirds of the increase in their total assets in 1969 in cash and government bonds and in housing.

In spite of these changes and of an external deficit which reduced bank liquidity, the commercial banks increased their advances to the business sector in the first half of 1969 by S.kr. 2.7 milliard, compared with S.kr. 1.9 milliard in the first half of 1968. But their indebtedness to the Riksbank rose strikingly to a peak of S.kr. 3.1 milliard in June, against S.kr. 0.6 milliard in June 1968.

In these circumstances further restraints were forthcoming. In July the Riksbank increased its discount rate to 7 per cent. and instructed the banks to place with it on non-interest-bearing account the equivalent of 1 per cent. of their principal liabilities, with deficiencies being subject to a penalty of discount rate plus 3 per cent. Moreover, for the first time, quantitative limits were placed on the borrowing of individual banks from the Riksbank. These limits were to be adjusted to take account of the progress of each bank towards a cut-back in lending other than for housing (which was covered by separate agreements) to beginning-of-1969 levels.

Commercial-bank credit to the business sector contracted sharply in the second half of 1969, and the increase for the whole year came to only S.kr. 0.8 milliard, compared with S.kr. 3.3 milliard in 1968. There was a net reduction in commercial-bank loans for housing, in conjunction with funding through increased purchases of mortgage bonds by other financial institutions.

Sweden: Net credit flows.

Lenders	Years	Borrowers				
		Government	Local authorities	Housing sector	Business sector	Total
		in millions of Swedish kronor				
Riksbank	1968	1,230	10	110	25	1,375
	1969	1,505	—	— 10	— 15	1,480
Commercial banks	1968	255	95	2,000	3,320	5,670
	1969	1,525	100	1,180	795	3,600
Other banks	1968	510	650	2,095	975	4,230
	1969	15	510	2,550	535	3,610
Public insurance institutions	1968	535	495	2,780	1,885	5,690
	1969	590	605	2,815	1,600	5,610
Private insurance institutions	1968	190	115	890	600	1,795
	1969	— 280	155	1,350	630	1,850
Others	1968	655	55	5	410	1,125
	1969	435	— 25	—	680	1,095
Total	1968	3,370	1,415	7,875	7,215	19,885
	1969	3,795	1,345	7,885	4,225	17,245

Commercial banks themselves purchased more housing bonds and government securities in order to fulfil the liquidity requirements, particularly as their net foreign assets declined after September.

The government's cash deficit rose from S.kr. 3.4 milliard in 1968 to S.kr. 3.8 milliard in 1969, the change being more than accounted for by an increase in lending for housing. At the same time, through debt-management operations in the long-term market, the monetary authorities withdrew funds totalling some S.kr. 2 milliard, compared with about S.kr. 1.5 milliard in 1968. Over most of 1969 bank indebtedness to the Riksbank remained consistently higher than in 1968, but a repatriation of funds from abroad helped the banks to reduce it to S.kr. 880 million in December, compared with S.kr. 850 million a year earlier.

The increase in total net lending declined from S.kr. 19.9 milliard in 1968 to S.kr. 17.2 milliard in 1969, in conjunction with an even sharper decrease in overall borrowing by the business sector both from banks and by means of bond issues. Little change occurred between 1968 and 1969 in the total volume of funds raised by the housing sector. There was, however, a substantial increase in issues of mortgage bonds, facilitated by the investment ratios applying to financial institutions. Outside the banking sector the total flow of funds declined very slightly in 1969.

By early 1970 the private sector's liquid balances had been reduced considerably but, with inflationary pressures still strong, steps were now taken to support credit restraint by a tighter fiscal policy. The government's budget for the year beginning July 1970 provided chiefly for a significant switch from direct to indirect taxation to take effect mainly as from January 1971. But the value added tax on most durable consumer goods was increased from 10 to 14 per cent. as from February 1970, whilst in April a postponement of government orders was announced and an investment tax, similar to that in effect in 1967 and 1968, was introduced on new non-priority construction between May 1970 and July 1971. Moreover, by agreement with the Riksbank, the commercial banks undertook as from May to limit their total credit-granting other than for housing by December 1970 to 104 per cent. of the end-1969 figure. Finally, the terms of access to central-bank credit and the rate of interest payable on deposits with the Riksbank have been made dependent on the extent of compliance with the liquidity ratios, the credit ceiling and housing credit guide-lines.

Denmark. In the spring of 1969, with industrial exports, consumption, business investment and housing all rising strongly, economic expansion accelerated and the external current account went further into deficit. The Nationalbank's discount rate was raised from 6 to 7 per cent. in March, and after a major exchange crisis had developed it was put up to 9 per cent. in May. In addition, to strengthen the budget, the government announced cuts in public expenditure and increases in excise taxes. Shortly afterwards, the Nationalbank concluded agreements with the commercial and savings banks providing for increases in the banks' reserve deposit commitment from 10 to 20 per cent. in respect of the growth of their deposit liabilities between September 1968 and April 1969 and to 30 per cent. in respect of deposit growth thereafter. The banks were permitted to invest the tied funds in a wider range of bonds but the scope for meeting the requirement by placing funds abroad was reduced. In addition, the banks undertook to keep the growth of total lending within limits consistent with a balanced growth of the economy.

Foreign exchange holdings were bolstered by loans from abroad, by the activation of central-bank swap facilities and by an IMF drawing. But as domestic demand continued to expand and credit-granting accelerated, the banks were asked to check construction lending and in the autumn further steps were taken to restrict liquidity. In September the Nationalbank, which had previously sought to moderate the rise in interest rates, suspended bond-market operations altogether, and it was agreed to cancel the reduction scheduled for November in the banks' marginal liquidity reserve ratio. Over the whole of 1969 D.kr. 880 million of commercial and savings-bank funds was absorbed by the growth of required reserves. Moreover, the government's growing budget surplus helped to absorb liquidity.

Reflecting the strength of credit demand, the commercial and savings banks expanded their private-sector claims by 15 per cent. in 1969, compared with 9½ per cent. in 1968. Money and quasi-money grew by 10½ per cent. in 1969, appreciably slower than in 1968. Although the commercial banks' deposit growth slackened to 11 per cent. from nearly 17½ per cent. in 1968, they accelerated their loans to the economy by curtailing security purchases and by running down part of the liquid assets accumulated in 1968 — especially net foreign assets. Moreover, their borrowings from the Nationalbank, which had been reduced by D.kr. 206 million in 1968, rose by D.kr. 684 million in 1969.

The private sector, particularly the building-credit institutions, borrowed much more on the capital market in 1969. Total domestic security issues came to D.kr. 8.38 milliard, compared with D.kr. 6.86 milliard in 1968 and D.kr. 4.50 milliard in 1967. Bond purchases by the Nationalbank occurred mainly in the first quarter and for 1969 as a whole were less than in 1968. The banks also reduced their acquisitions of bonds, but placements with other investors increased, particularly in late 1969. Bond yields eased a little after October, but at the end of the year the yield on first mortgage bonds stood at about 10 per cent. In December new measures to stabilise the bond market were aimed mainly at curbing borrowing by local authorities and the construction sector.

Average hourly earnings in the private sector accelerated to 11 per cent. in 1969 and the wage-regulating price index, which is calculated net of indirect taxes, went up by 5.4 per cent., against only 2.7 per cent. in 1968. Much of this increase came after mid-year, when the general price controls imposed after devaluation in November 1967 were lifted. Income-tax rates for 1970, the first year of the withholding system, were fixed so as to increase revenue from this source substantially, and the government's 1970–71 budget proposals provide for a cash surplus of D.kr. 1.5 milliard.

In March the government ordered that no new government building or construction projects be commenced before October 1970. Moreover, in an agreement with the Nationalbank, the banks undertook to avoid for six months any net increase in loans other than social housing credits, which were already subject to special conditions. Further proposals in May included a price stop for services and an increase from 12½ to 15 per cent. in the value added tax.

Norway. Rising exports led a resumption of growth in early 1969, and the upswing gained momentum in the spring and summer with a strong expansion of private and public consumption.

Credit policy was aimed at encouraging growth based on large-scale investment projects by facilitating bond financing. On the other hand, it sought to limit the rise in commercial and savings-bank lending in 1969 to N.kr. 1,800 million, or to about the same amount as in 1968. But in the first half of the year commercial-bank lending expanded strongly and the recommended ceiling seemed likely to be substantially exceeded. In consequence, the commercial banks' required liquidity ratio was raised from 9 to 11 per cent. in two stages in June and July.

At the end of September Norges Bank's discount rate was raised from 3½ per cent., at which level it had stood for fourteen years, to 4½ per cent. This step was taken partly in view of rising rates abroad, but it also took account of the need for changes in discount-rate-linked rates, including those on bank deposits and state bank lending as well as the interest rate payable on most outstanding loan contracts. Moreover, it came at the same time as a rise of one percentage point in rates on new bond issues. As a large increase in the absorptive capacity of the bond market seemed necessary, particularly in view of the growing financing requirements of the state banks and a temporary rise in the government's budget deficit, the commercial and savings banks were required to invest 33 per cent. of the growth in their total resources as from October in bonds, and a similar 40 per cent. investment ratio was set for life assurance and pension institutions to take effect as from January 1970. Moreover, the commercial banks' required liquidity ratios were raised further, those for larger banks to 12 per cent. for December and to 13 per cent. as from January 1970.

The increase in commercial and savings-bank lending in 1969 came to N.kr. 3,000 million, or 13 per cent., considerably in excess of the year's target and of the 9 per cent. rise recorded in 1968. Banks also augmented their bond holdings, mainly in order to meet the higher reserve requirements. This was achieved, despite a slow-down in the growth of deposits, largely by increases in the banks' foreign liabilities and their borrowings from the central bank.

In January 1970 the turnover tax was replaced by a 20 per cent. value added tax on consumption and a 13 per cent. tax on investment goods. Accompanying fiscal measures, chiefly income-tax concessions and welfare benefits, were designed to help equalise the burden of higher prices, and price controls were imposed as from September 1969 until January 1970 to prevent premature or excessive rises. But the government's 1970 budget proposals envisaged a total net borrowing requirement of N.kr. 3.2 milliard, against N.kr. 1.7 milliard in 1969, with the increase attributable mainly to changes in early 1970 in the timing of tax collections.

In these circumstances and with activity still rising, the restrictive credit policy was supplemented by further temporary liquidity restraints. Between February and April the banks were required to observe a minimum primary liquidity ratio, while the required ratio for their total liquidity, including holdings of government bonds, was temporarily raised for the larger commercial banks from 13 to 15 per cent. Credit policy envisages keeping the increase in commercial and savings-bank credit for the whole of 1970 to N.kr. 2,050 million, or about 8 per cent.

Finland. The economic upswing, initiated by exports in late 1968, was reinforced last year by a strengthening of domestic demand, particularly private fixed investment. Policy continued to be conditioned by the stabilisation programme of March 1968 in support of the 1967 devaluation. Most prices and rents remained frozen, wage increases up to end-1969 were limited to productivity gains, and indexing arrangements had been generally abolished. The aim of fiscal policy was to keep down expenditure, avoid tax increases and reduce government domestic loan issues. In the monetary sphere, bank lending rates were not to be raised in 1969, and early in the year the authorities sought mainly to moderate the liquidity effects of the external surplus.

Exports continued to advance and, partly reflecting an earlier liberalisation of hire-purchase terms, consumption went up faster. Though price controls over certain goods were relaxed, wages rose only moderately and thus helped to keep prices fairly stable. Imports accelerated, however, and by the autumn strains on resources began to threaten. The action required seemed to be to check the rapid expansion of credit to the private sector. In September the Bank of Finland concluded an agreement under which each credit institution undertook to limit the increase in its lending to 90 per cent. of the growth in its deposit liabilities. Moreover, banks' rediscounting quotas with the Bank of Finland were reduced to 85 per cent. of their previous level as from October and to 75 per cent. as from January 1970.

In conjunction with the economic upswing, bank credit to the private sector expanded by 14½ per cent. in 1969, compared with only 6½ per cent. in 1968. This was slightly faster than the growth of money and quasi-money, which rose by 13 per cent. following an increase of 12½ per cent. in 1968. On the other hand, the government's position vis-à-vis the banks improved, and the banks also drew upon their liquid reserves. This helped them not only to grant more credit to the private sector but also to reduce their net foreign liability position. At the end of 1969 the banks' net indebtedness to the central bank was a little less than a year earlier.

In September the provisions of the stabilisation agreement, including price controls and wage restraint, were extended until the end of 1970. In line with the agreement, no tax changes were proposed in the government's 1970 budget but expenditure restraint was to continue. To enable more effective fiscal restraint, the government decided towards the end of 1969 to establish a reserve through which budgetary funds could be paid into a blocked account at the Bank of Finland during an upswing, and released later in a recessionary period. It was proposed that inpayments should commence as from the first quarter of 1970. In addition, the government concluded agreements under which industrial groups undertook progressively to set aside some F.mk. 400 million during 1970 and early 1971. Most of these funds will be placed in counter-cyclical deposits with the Bank of Finland, subject to release at the government's discretion or at the latest in three stages between 1972 and 1974. As from April 1970 the commercial banks' rediscount quotas were reduced to 65 per cent. of the September 1969 level. But in view of the more effective control over spending made possible by the counter-cyclical policy measures, the 90 per cent. limitation in bank credit-granting was discontinued.

Spain. The slow-down in economic activity after devaluation in 1967 was followed by a recovery in 1968 and a full-scale boom in 1969. The growth of the gross national product, at 8 per cent. in real terms, was almost double that in 1968. Investment showed a steep rise and private consumption followed close behind, contributing to an external current-account deficit substantially larger than in the previous year. As wages and prices remained subject to government control, the cost-of-living index showed only a moderate increase of 3.5 per cent., though it accelerated towards the end of the year.

Up to the summer credit demand was very strong, while high interest rates abroad tended to draw short-term funds from Spain, mainly via changes in terms of payment. In July the official rediscount rate was therefore raised to a uniform 5.5 per cent. from a split base of 5.1 and 4.5 per cent. for financial and commercial bills respectively. This was accompanied by a general recasting of interest rates, and lending and deposit rates, except those for sight deposits, were linked to the official rediscount rate.

Credit institutions' lending to the private sector (including purchases of industrial securities), after recording a large rise of 21.3 per cent. in 1968, accelerated further to a twelve-month increase of 24.1 per cent. by September 1969. At this point a ceiling was imposed on bank credit, which helped to bring the expansion of lending to the private sector down to 21.6 per cent. for the year as a whole. Moreover, thanks to an improvement in the government's budget, the credit institutions' lending to the public sector rose by only 7.6 per cent., against 20.3 per cent. in 1968. Up to the late summer money and quasi-money expanded at a rate of about 20 per cent. per annum. However, as a result of a deterioration in the external position, combined with credit restriction as from September, the growth of money and quasi-money for 1969 as a whole came to 18.8 per cent., or the same rate as in the preceding year. During the year private banks' liquid assets fell from 10.3 to 7.4 per cent. of their total deposits, and their unutilised rediscount margins narrowed considerably.

Late in 1969, after rising imports had brought about a sharp decline in foreign exchange reserves, the government introduced a scheme requiring a 20 per cent. six-month non-interest-bearing deposit in respect of all imports. In addition, to curb private consumption, hire-purchase terms were tightened.

In early 1970 the external situation improved and monetary reserves rose. As from the beginning of the year wage control was relaxed, so that only annual wage contracts providing for increases above 6.5 per cent. (or, for longer-term contracts, 8 per cent.) now require authorisation. To counteract price pressures, the government announced a 10 per cent. cut in planned budget expenditure authorisations in 1970. In March the rediscount rate was raised by one percentage point to 6.5 per cent.

Portugal. Last year industrial output expanded faster than in 1968, but a decline in agricultural production kept overall growth to modest proportions. Exports went up somewhat and, although public investment rose, consumption seems to have provided the main stimulus to expansion. Imports turned up sharply, and their higher prices, together with a faster increase in industrial wages, caused domestic prices to rise more rapidly.

The government's total ordinary and extraordinary expenditure is estimated to have gone up by some 10 per cent., or at approximately the same rate as in 1968, but there was a considerable rise in 1969 in expenditures related to the Development Plan and on other investments. A good outturn in tax revenue helped to improve overall budget results.

The banking system's credit to the private sector expanded by 22 per cent. in 1969, compared with about 16 per cent. in 1968. Credit-granting by other financial institutions also seems to have increased at a faster rate. As there was apparently no general acceleration in fixed investment, new credit was mainly used to finance various short-term needs and an accumulation of liquid balances. Money and quasi-money went up by over 17 per cent., compared with about 13 per cent. in 1968. The rise in official exchange reserves contributed less to the liquidity of the economy in 1969; the commercial banks improved their net exchange positions, while borrowing more from the central bank and reducing their free liquidity.

The government's 1970 budget envisages a growth of 13 per cent. in total expenditure, reflecting a considerable rise in investment, and also increases in public service salaries as from January. Chiefly as a result of certain fiscal improvements, total revenue will go up sufficiently to keep the budget in overall surplus. In view of higher interest rates abroad, and as a step primarily to foster savings rather than to check credit expansion, the Bank of Portugal's discount rate was raised from 3 to 3½ per cent. in April 1970.

Yugoslavia. When at the beginning of 1969 it was recognised that the acceleration of economic activity might go too far, monetary policy was used to slow down the rate of expansion. In the first quarter minimum reserve requirements were increased from 30 to 32 per cent., following a rise from 25 to 30 per cent. in November 1968. Special credits granted by the National Bank to other banks were decreased by an amount equivalent to the effects of a rise of 1 percentage point in reserve requirements. Moreover, the banks had to transfer to the National Bank the obligatory deposits importers were required to place with them 30 days prior to actual payment. Finally, a 20 per cent. minimum down-payment for consumer goods was introduced. These measures were generally aimed at withdrawing excess liquidity from the banks but also at making room for additional selective discount credits to be granted by the National Bank to other banks for the promotion of exports and agriculture.

The effectiveness of these measures was such that minimum reserve requirements were brought down again to 30 per cent. in August. For the year as a whole the money supply increased at the projected target rate of 12 per cent., against a rise of 24 per cent. in 1968. The expansion in short-term credits was slightly above the target rate of 16 per cent. and was associated with the drain of funds stemming from a larger balance-of-payments deficit. The growth of quasi-money and other liquid balances further accelerated in 1969, so that total liquid resources, including the money supply, went up by 17 per cent., compared with 19 per cent. in 1968.

The deceleration of money-supply growth decreased the liquidity of enterprises and thus led to inter-firm payment difficulties and restraint in investment expenditure. This contributed to a slowing-down in economic expansion in the last quarter of the year, though the effects in curbing increases in prices and imports have been rather weak.

III. WORLD TRADE AND PAYMENTS.

The growth in the dollar value of world trade accelerated further in 1969. World exports went up by $30 milliard, or 14 per cent. — their highest rate of increase in any year since 1951 — as against a rise of $22 milliard, or 11.5 per cent., in 1968. Allowing for higher prices, however, the volume growth of world exports actually fell off from 13.5 to 10 per cent. At the same time real economic expansion in the industrialised countries declined from 6 to 5 per cent.

International trade.

Areas	Exports			Imports			Increases in value of	
	1967	1968	1969	1967	1968	1969	exports	imports
							1969	
	In milliards of US dollars						In percentages	
Developed areas								
Western Europe								
EEC	56.1	64.2	75.8	55.1	62.1	75.7	*18.0*	*22.0*
EFTA	29.2	31.5	36.3	35.8	38.1	41.9	*15.0*	*10.0*
Other countries	6.1	6.4	7.5	10.1	10.5	12.4	*17.5*	*18.0*
Total	91.4	102.1	119.6	101.0	110.7	130.0	*17.0*	*17.5*
United States	31.6	34.6	38.0	28.7	35.5	38.5	*9.5*	*8.5*
Canada	11.1	13.2	14.4	11.0	12.5	14.4	*9.5*	*15.0*
Japan	10.5	13.0	16.1	11.7	13.0	15.0	*23.5*	*15.5*
Other areas[1]	6.4	6.7	7.6	7.8	8.1	8.9	*14.0*	*8.5*
Total	151.0	169.6	195.7	160.2	179.8	206.8	*15.5*	*15.0*
Developing areas								
Latin America	11.0	11.6	12.5	10.3	11.2	12.1	*8.0*	*8.0*
Other areas	28.6	31.7	34.8	31.4	33.8	35.5	*9.5*	*5.0*
Total	39.6	43.3	47.3	41.7	45.0	47.5	*9.0*	*6.0*
Grand total[2]	190.6	212.9	243.0	201.8	224.8	254.4	*14.0*	*13.0*

[1] Australia, New Zealand and South Africa. [2] Represents roughly 90 per cent. of world trade, as the trade of centrally-planned economies is included only to the extent that it is reflected in the imports and exports of their trade partners in the West.

Notwithstanding the increase in export prices, the 1969 growth in the dollar value of international trade would have been somewhat less than it in fact was had the slow-down in the industrialised countries' economic growth rate not been largely in the United States, where the propensity to import is low. Thus, despite a reduction from 23.5 to 8.5 per cent. in the growth of US imports between 1968 and 1969, the increase in the rest of the world's exports accelerated from 12 to 15 per cent. The main impetus came from continental western Europe, and especially the Common Market countries,

Main industrial countries: Growth of exports to different areas
(based on dollar values).

Areas	Years	Exports to						
		Western Europe		North America	Japan	Other developed countries*	Developing countries	Total
		EEC	EFTA					
		in percentages over previous year						
EEC	1967	5.5	4.5	7.5	42.0	12.5	6.5	6.5
	1968	18.0	7.5	28.5	9.0	5.0	12.0	14.5
	1969	26.0	13.5	4.5	16.0	13.5	12.0	18.0
EFTA.	1967	— 1.5	10.5	— 1.5	28.5	2.0	— 1.5	2.0
	1968	10.0	6.0	18.0	3.0	2.0	10.5	8.5
	1969	18.5	15.0	4.0	29.5	15.5	16.0	15.0
North America .	1967	3.0	7.5	12.0	18.0	— 2.5	1.0	5.5
	1968	8.0	10.5	19.0	9.0	3.0	9.0	11.5
	1969	14.5	4.0	14.0	16.0	6.0	4.5	9.5
Japan	1967	— 8.0	38.0	1.5	—	1.5	10.5	7.0
	1968	25.5	4.5	35.0	—	15.5	22.0	24.0
	1969	41.0	— 5.0	23.0	—	37.0	22.0	23.5

* Including centrally-planned economies.

where the growth of imports accelerated from 12.5 to 22 per cent. The developing countries' imports, on the other hand, rose rather less than in 1968.

Looking at the country and area break-down of the 1969 increase in world exports, Japan led the way with a growth rate of 23.5 per cent. That country's sales to the United States increased less than in 1968, by 21.5 per cent. as against 35.5 per cent., but its exports to EEC countries rose much faster, by 41 per cent. as against 25.5 per cent. After Japan, the EEC countries put up the best performance, with an expansion of 18 per cent. Much of this was in intra-area trade, the growth of which quickened from 18 to 26 per cent., but in addition the EEC countries practically doubled the growth of their exports to the EFTA group. EEC exports to North America, on the other hand, went up by only 4.5 per cent., compared with 28.5 per cent. the year before. EFTA countries' exports followed a pattern rather similar to that of the EEC group, but their overall growth rate of 15 per cent. was somewhat lower.

In the United States, on the other hand, despite the slow-down in the domestic economy and the intensification of boom conditions in a number of European countries, the rate of expansion of exports did no more than hold steady, in current dollar terms, at 9.5 per cent. In volume, the growth rate actually fell to 5 per cent. and the decline in the US share of industrialised countries' exports gathered speed. US exports to EEC countries and Japan nearly doubled their rate of increase between 1968 and 1969, but the growth of sales to the EFTA group and to the developing countries slowed down substantially. The developing countries, too, did not share in the acceleration of world trade. Their export growth rate was maintained at 9 per cent. in dollar terms, but in volume it slipped from 9 to 6 per cent.

The turn-round of 5 percentage points between 1968 and 1969 in the movement of the unit-value index of world exports, from a decline of 1.5 to an increase of 3.5 percentage points, may be attributed to several factors. Firstly, in 1968 there was the effect of the devaluation of sterling and certain other currencies in November 1967. This not only tended to reduce the export prices, expressed in dollars, of the countries concerned but also put some competitive pressure on other countries. In 1969, the border tax on German exports and the subsequent revaluation of the Deutsche Mark had the opposite kind of effect, which was only partly offset by the devaluation of the French franc. Secondly, there were quite marked increases in raw-material prices. Between the third quarter of 1968 and the last quarter of 1969 the export-price index for primary commodities rose by 6 per cent. and that for non-ferrous metals by 28 per cent. And thirdly, larger wage increases may have made firms in some countries less able to insulate export prices from unit-cost developments.

Looking at the development of export prices in the three major countries where exchange rate changes have occurred since 1967, by the fourth quarter of 1969 French prices were about the same in dollar terms as they had been a year earlier, Germany's were up by 9 per cent., and those of the United Kingdom had just begun to exceed the level at which they had stood at the time of devaluation.

Balances of payments.

Despite major shifts in individual positions, the combined current-account surplus of the main industrial areas showed very little change in 1969. In Europe, the fall in the Common Market's surplus from $4.1 to 2.3 milliard was practically offset by a shift in the EFTA's position from a $0.3 milliard deficit to a $1.2 milliard surplus. Japan's current balance, after its spectacular improvement in 1968, strengthened by another $1.1 milliard, whereas the surplus of the United States and Canada combined dropped from $1.2 to 0.2 milliard and stood $7 milliard below its 1964 peak. North America has thus ceased to play its former rôle as the main exporter of real resources — a function which has largely been taken over by Europe and Japan.

After deducting the increase of $0.2 milliard in official gold stocks, transfers of goods and services from the main industrial countries to the rest of the world in 1969 amounted to $5.7 milliard. Of this amount, $2.3 milliard represents the combined current-account deficit of other developed western countries and $3.4 milliard that of the rest of the world — mainly developing areas. In 1964, when the main industrial areas had the same combined current surplus as in 1969, the current deficit of other developed areas was $1.5 milliard and official gold stocks rose by $0.6 milliard. In that year, therefore, the main industrial countries' current surplus vis-à-vis the rest of the world was $3.8 milliard. In other words, despite the growth of their real incomes since 1964 and the increase in prices, the current dollar value of the main industrial countries' transfers of real resources to other countries has declined.

Balances of payments of the main industrial areas.

Items	Years	United States*	Canada	Japan	EFTA	EEC	Total
		in milliards of US dollars					
Trade balance	1967	+ 3.9	+ 0.6	+ 1.2	- 4.4	+ 4.6	+ 5.9
	1968	+ 0.6	+ 1.4	+ 2.6	- 4.1	+ 5.3	+ 5.8
	1969	+ 0.7	+ 0.9	+ 3.8	- 3.2	+ 3.8	+ 6.0
Services	1967	+ 0.1	- 1.1	- 1.4	+ 3.4	- 0.1	+ 0.9
	1968	+ 0.7	- 1.5	- 1.5	+ 3.8	- 1.2	+ 0.3
	1969	+ 0.2	- 1.6	- 1.6	+ 4.4	- 1.5	- 0.1
Current balance	1967	+ 4.0	- 0.5	- 0.2	- 1.0	+ 4.5	+ 6.8
	1968	*+ 1.3*	*- 0.1*	*+ 1.1*	- 0.3	*+ 4.1*	*+ 6.1*
	1969	+ 0.9	- 0.7	+ 2.2	+ 1.2	+ 2.3	+ 5.9
Net capital movements .	1967	- 8.1	+ 0.8	- 0.4	+ 0.9	- 2.6	- 9.4
	1968	- 3.3	+ 0.5	—	+ 0.5	- 5.9	- 8.2
	1969	- 6.3	+ 1.2	+ 0.1	+ 0.1	- 9.0	-13.9
Overall balance	1967	- 4.1	+ 0.3	- 0.6	- 0.1	+ 1.9	- 2.6
	1968	- 2.0	+ 0.4	+ 1.1	+ 0.2	- 1.8	- 2.1
	1969	- 5.4	+ 0.5	+ 2.3	+ 1.3	- 6.7	- 8.0
of which *Changes in net official reserve position . .*	1967	*- 3.4*	*—*	*- 0.1*	*- 1.1*	*+ 1.4*	*- 3.2*
	1968	*+ 1.7*	*+ 0.1*	*+ 0.9*	*- 1.7*	*- 2.6*	*- 1.6*
	1969	*+ 2.6*	*—*	*+ 0.8*	*+ 0.9*	*- 4.4*	*- 0.1*
Changes in net short-term external position of banks .	1967	*- 0.7*	*+ 0.3*	*- 0.5*	*+ 1.0*	*+ 0.5*	*+ 0.6*
	1968	*- 3.7*	*+ 0.3*	*+ 0.2*	*+ 1.9*	*+ 0.8*	*- 0.5*
	1969	*- 8.0*	*+ 0.5*	*+ 1.5*	*+ 0.4*	*- 2.3*	*- 7.9*

* For the sake of uniformity, the US balance of payments is here shown, contrary to the liquidity presentation, with the changes in non-liquid liabilities to foreign official agencies and in the banks' short-term foreign assets treated as monetary movements.

If the overall current account showed little change last year, total reported net capital outflows, which here exclude changes in the net short-term foreign positions of commercial banks, rose sharply from $8.2 to 13.9 milliard. At the same time, the combined net foreign liabilities of the banking systems of the main industrial areas increased by $7.9 milliard. Both these developments were heavily influenced by Euro-dollar flows. Thus, a considerable part of the increased capital outflow from the United States reflected the movement of US non-bank funds to the Euro-dollar market, while nearly the whole of the increase in the US banks' net short-term foreign liabilities consisted of Euro-dollar borrowings. Part of the $9 milliard outflow from the EEC group may also have passed through the Euro-dollar market; of this amount, $2.3 milliard was offset by repatriation or borrowing of short-term funds, again mainly in the Euro-dollar market, by the banks in these countries.

The large increase in reported net capital outflows from the main industrial areas brought their overall deficit up from $2.1 to 8.0 milliard. This, of course, does not represent these countries' combined payments deficit vis-à-vis the rest of the world but has its counterpart in the increase of $7.9 milliard in the net foreign liabilities of their banking systems. What happened was that there were large-scale capital outflows from these countries in the form of transfers of non-bank funds to the Euro-dollar market. Such funds were ultimately borrowed by banks, in this case banks in the United States, so that the counterpart to the capital outflow is a financing item, not a capital inflow.

Measured on the basis of the change in their combined net official external assets, the main industrialised countries were practically in balance in 1969, against a deficit of $1.6 milliard in the previous year.

* * *

United States. 1969 was a most unusual year for the US balance of payments. Measured on the liquidity basis, there was a very large adverse shift from a $0.2 milliard surplus to a deficit of $7.1 milliard, whilst on the official reserve transactions basis the surplus increased from $1.6 to 2.7 milliard. Neither of these indicators gives a true picture of the underlying external payments situation in 1969. The official reserve transactions surplus, as explained on page 118, exaggerates the actual improvement in the net reserve position; and on the liquidity basis the recorded change of $7.3 milliard in comparison with 1968 is even more misleading. Much of this change was due to two factors, neither of which can be said to have represented a real deterioration in the balance of payments. One was the discontinuation of the previous practice of window-dressing the liquidity balance by encouraging foreign official holders of dollars to transfer their assets from liquid to non-liquid form. And the other was the substantial circular flow of funds which is known to have occurred out of the United States to the Euro-dollar market and then back again to the United States through the foreign branches of US banks. If these two special factors are left aside, the deterioration in the balance of payments was substantially smaller than is indicated by the change in the liquidity balance.

The surplus on goods and services account declined by a further $0.4 to 0.9 milliard, the lowest figure since 1959. This deterioration occurred entirely in the services account, where, owing to the sharp rise in US interest rates and in US bank borrowing from the Euro-dollar market, interest payments to non-residents increased by $1.5 to 4.4 milliard. As a result of this the net surplus on investment income account, despite a gain in earnings on US foreign investments, decreased slightly for the first time since 1952. Net military expenditure rose by $0.3 milliard and net travel expenditure by $0.1 milliard. US travel expenditure abroad, after a period of relative stability, rose by $0.4 milliard, or 12 per cent., in 1969; but most of this was offset by an increase in foreign travel expenditure in the United States.

The trade surplus (excluding military items) edged up only slightly, from $0.6 to 0.7 milliard, perhaps limited by the dock strikes in early 1969. With the general economic slow-down, however, it showed a clear tendency to improve during the course of the year, reaching an annual rate of about $1.8 milliard in the fourth quarter; in the first quarter of 1970 the annual rate went up to $2.1 milliard.

United States: Balance of payments.[1]

Items	1968	1969[2] Year	1969[2] 1st quarter	1969[2] 2nd quarter	1969[2] 3rd quarter	1969[2] 4th quarter	1970[2] 1st quarter
	in millions of dollars						
Merchandise trade (f.o.b.)[3]							
Exports	33,600	36,485	7,480	9,600	9,580	9,830	.
Imports	32,975	35,795	7,580	9,600	9,240	9,375	.
Trade balance	+ 625	+ 690	− 100	−	+ 340	+ 455	+ 520
Services							
Investment income	+ 6,045	+ 5,805	+ 1,545	+ 1,400	+ 1,440	+ 1,420	.
Military expenditure	− 3,105	− 3,375	− 790	− 875	− 805	− 910	.
Foreign travel	− 1,250	− 1,320	− 315	− 340	− 365	− 295	.
Other services	− 960	− 890	− 260	− 180	− 210	− 240	.
Total	+ 730	+ 220	+ 180	+ 5	+ 60	− 25	.
Balance on goods and services	+ 1,355	+ 910	+ 80	+ 5	+ 400	+ 430	.
US Government grants and capital	− 3,955	− 3,865	− 795	− 1,155	− 1,040	− 880	.
US private capital							
Direct investment	− 3,025	− 3,060	− 930	− 1,055	− 1,135	+ 60	.
Other long-term capital	− 1,080	− 1,400	− 275	− 480	− 430	− 215	.
Short-term capital	− 1,050	− 550	− 155	− 515	+ 290	− 170	.
Foreign capital							
Private	+ 6,160	+ 4,585	+ 1,675	+ 635	+ 915	+ 1,360	.
Official	+ 2,405	− 715	− 35	− 285	− 575	+ 180	.
Total capital movements	+ 3,410	− 1,140	+ 280	− 1,700	− 935	+ 1,215	.
Errors and omissions	− 640	− 2,965	− 1,240	− 1,040	− 1,035	+ 350	.
Balance on liquidity basis	+ 170	− 7,060	− 1,675	− 3,890	− 2,610	+ 1,115	− 1,945[4]
Increase in US liquid liabilities other than to foreign monetary authorities, less increase in official non-liquid liabilities	+ 1,470	+ 9,770	+ 2,805	+ 5,115	+ 1,685	+ 165	.
Balance on official reserve transactions basis	+ 1,640	+ 2,710	+ 1,130	+ 1,225	− 925	+ 1,280	− 3,315[4]

Note: In mid-May 1970 the following revised figures were published for the balances on the liquidity and official reserve transactions bases. Corresponding revisions to the individual components are not yet available.

	Year	1st quarter	2nd quarter	3rd quarter	4th quarter
Balance on liquidity basis	− 7,210	− 1,610	− 3,820	− 2,310	+ 530
Balance on official reserve transactions basis	+ 2,715	+ 1,190	+ 1,300	− 615	+ 840

[1] On a transactions basis. [2] Quarterly data are seasonally adjusted. [3] Excluding military grant shipments and military import purchases. [4] Excluding initial allocation of SDRs ($865 million).

Non-military exports (on a Bureau of Census basis) expanded by $3.25 milliard, or 9.5 per cent., practically the same rate as in 1968. In volume exports slowed down somewhat, since the increase in the unit-value index more than doubled to 3.5 per cent. In the case of finished manufactured goods the index rose by about 5 per cent. Exports of non-agricultural products expanded by \$3.6 milliard, or 13 per cent. The areas of most rapid growth were metals and advanced technological products. Exports of iron and steel products and of scrap benefited from both the steel boom in western Europe and the Canadian strikes and, after several years of near-stagnation, jumped by \$0.5 to 1.2 milliard. Sales of electronic computers and parts went up by \$0.3 to 0.7 milliard. On the other hand, exports of chemicals edged up by only 3 per cent. and shipments of civil aircraft declined by \$160 million owing to the imminent introduction of jumbo jets. Shipments of agricultural products also declined. They contracted by \$0.3 to 6 milliard and were nearly \$1 milliard below their 1966 peak.

The growth of imports slowed down from 23.5 to 8.5 per cent., mostly because there was no increase at all in purchases of industrial supplies and materials, or of foods, feeding-stuffs and beverages. (In 1968 imports of these categories of goods had risen by \$3 milliard, partly as a result of purchases in anticipation of the dock strike.) In addition, the growth rate of imports of motor-cars, engines and spare parts slowed down considerably; they rose by \$1.1 milliard, against \$1.7 milliard in 1968. Imports of other capital and consumer goods went up by over \$1.5 milliard in each of the last two years. Their growth of 20 per cent. over 1968, however, showed strong signs of slowing down in the second half of the year.

On capital account, there was little change in total outflows of US capital, which amounted to \$5 milliard. US direct investment abroad was practically unchanged from 1968 at \$3 milliard, though direct investment in western Europe, after a \$0.5 milliard decline in 1968, recovered by \$0.25 milliard. US net purchases of foreign securities rose by \$0.1 milliard.

The largest shifts in the movement of US capital occurred in the short-term sector. Foreign claims of US non-banks, after a \$1 milliard increase in 1968, declined by \$0.3 milliard. The main reason for this was that, in contrast to 1968, there was no longer a large build-up by US corporations of unused proceeds from foreign bond issues. On the other hand, foreign short-term claims reported by US banks increased by \$0.9 milliard, which was \$0.8 milliard more than in 1968. Claims on Canada and Japan were up by \$0.5 milliard and claims on western Europe by \$0.3 milliard. A substantial part of these increases was probably related to export finance. Assets (long and short-term) reported under the mandatory restraint programme went up by \$0.15 milliard, after a \$0.6 milliard decline in 1968.

Total foreign capital inflows to the United States went down by \$4.7 milliard from their quite exceptional 1968 level. In the official sector, owing principally to the discontinuation of the window-dressing practice already mentioned, there was a very large shift from an inflow of \$2.4 milliard to an outflow of \$0.7 milliard. It took two main forms: foreign official institutions' long-term deposits and holdings of certificates of deposit were reduced by \$0.8 milliard, after having increased by \$0.5 milliard in 1968; and these institutions' holdings of certain non-marketable medium-term US Government securities, which had risen by \$1.5 milliard in 1968, fell by \$0.4 milliard last year.

In the private sector, the inflow of foreign non-liquid capital, while very large by past standards, declined by $1.6 milliard in comparison with 1968. Foreign purchases of US securities other than Treasury issues were down by $1.3 milliard, US bond issues abroad contracting from $2.1 to 1 milliard and foreign purchases of US shares from $2.1 to 1.5 milliard. At $3 milliard, however, total net foreign purchases of US securities were still nearly ten times the yearly average for 1960–67. In addition, borrowing by US non-banks from abroad was $0.8 milliard less than in 1968, no doubt because of tight monetary conditions in Europe. Foreign direct investment in the United States, on the other hand, went up sharply from $0.3 to 0.75 milliard. Before 1967 it had never exceeded $0.25 milliard in any one year.

Taking the whole of the capital account together, there was a shift between 1968 and 1969 from a net inflow of $3.4 milliard to a net outflow of $1.1 milliard. In addition, the negative errors and omissions item rose from $0.6 to 3 milliard. This change, too, can be considered as essentially part of the capital account, since behind it there must have been unrecorded transfers of US funds to the Euro-dollar market.

Canada. The overall balance-of-payments surplus increased further in 1969, from $0.4 to 0.5 milliard. On current account, despite a slow-down in the economy after the first quarter of the year, the deficit widened by $0.6 milliard. There was, however, a practically offsetting rise of $0.5 milliard in net long-term capital inflows, so that the basic surplus of $1.3 milliard was little less than in 1968. Short-term capital outflows declined by $0.2 milliard.

Nearly four-fifths of the deterioration on current account stemmed from merchandise trade. Nevertheless, the trade surplus of $0.9 milliard was the second largest since the war. Exports rose by 10 per cent., as against 19 per cent. in 1968, and imports by 15 per cent., as against 13 per cent. Part of the increase in both exports and imports reflected price rises — 4.5 per cent. for export unit values and 3.5 per cent. for those of imports. Excluding sales of motor-cars and spare parts to the United States, however, exports rose by only 4.5 per cent. in value and hardly at all in volume. During the last three quarters of the year strikes reduced sales of iron ore, steel, nickel and shipments of commodities from British Columbia ports. Partly for these reasons, and partly because of the slow-down in the US economy, the growth of exports to the United States, excluding the motor-car sector, fell off from 17 to 8 per cent. Exports to other countries actually declined very slightly. Apart from the effects of the Canadian strikes, there was a sharp fall, from $0.7 to 0.5 milliard, in wheat shipments, mostly to the Soviet Union and China. Imports, excluding those of motor-cars and spare parts from the United States, went up by 14 per cent., or twice as fast as in 1968. Purchases of capital goods were up by 19 per cent., and there were substantial increases in most other categories too. The Canadian steel strike, as well as the Kennedy Round tariff cuts, contributed to the high rate of growth of imports. This fell

Canada: Balance of payments.[1]

Items	1968	1969[2] Year	1969[2] 1st quarter	1969[2] 2nd quarter	1969[2] 3rd quarter	1969[2] 4th quarter
	In millions of US dollars					
Merchandise trade (f.o.b.)						
Exports[3]	12,635	13,870	3,465	3,365	3,400	3,640
Imports	11,250	12,965	3,220	3,165	3,220	3,360
Trade balance	+ 1,385	+ 905	+ 245	+ 200	+ 180	+ 280
Services	− 1,440	− 1,570	− 375	− 390	− 420	− 385
Current balance	− 55	− 665	− 130	− 190	− 240	− 105
Long-term capital						
Transactions in Canadian securities	+ 1,465	+ 1,620	+ 575	+ 395	+ 470	+ 180
Transactions in foreign securities	− 435	+ 85	− 55	− 10	+ 60	+ 90
Direct investment	+ 440	+ 340	+ 70	+ 120	+ 60	+ 90
Other	−	− 45	− 85	− 60	− 15	+ 115
Total	+ 1,470	+ 2,000	+ 505	+ 445	+ 575	+ 475
Basic balance	+ 1,415	+ 1,335	+ 375	+ 255	+ 335	+ 370
Short-term capital[4]	− 975	− 785	− 350	− 20	− 230	− 185
Overall balance (= changes in monetary items)	+ 440	+ 550	+ 25	+ 235	+ 105	+ 185

[1] On a transactions basis. [2] Quarterly data for the current balance are seasonally adjusted. [3] Including gold production available for export. [4] Including adjustment factors.

off in the first quarter of 1970, when imports were only 2 per cent. above the corresponding period of 1969. With exports rising by 13.5 per cent., the trade surplus on a customs basis increased from $0.2 to 0.6 milliard.

The rest of the 1969 deterioration on current account resulted from a $0.2 milliard increase in net foreign travel expenditure. Other services items showed a small improvement, so that altogether the deficit on invisible account went up by $0.1 milliard.

On long-term capital account the principal change was that Canadian investors, who in 1968 had added $0.4 milliard to their holdings of foreign securities, mainly shares in US companies, reduced them by $0.1 milliard during 1969. As in the past, Canadian security issues abroad provided the bulk of the long-term capital inflow. The net inflow from direct investment declined from $0.4 to 0.3 milliard, mainly because of increased Canadian direct investment abroad.

On short-term capital account, the tightening of domestic monetary conditions led to a substantial expansion of short-term foreign borrowing. Non-resident holdings of Canadian commercial and finance paper increased by $0.3 milliard, after a $0.1 milliard decline in 1968. This was partly offset, however, by a rise in the short-term foreign assets of Canadian non-banks, attracted by the high level of interest rates elsewhere, so that the net short-term capital outflow from the non-bank sector declined from $1 to 0.8 milliard.

Japan. In 1969 Japan succeeded in raising its foreign trade surplus by a further $1.2 milliard, from $2.5 to 3.7 milliard, and its overall external surplus from $1.1 to 2.3 milliard.

On a balance-of-payments basis, the growth in the value of imports accelerated from 13 to 17 per cent., while that of exports declined slightly, from 25 to 23 per cent. Taking into account a 4.5 per cent. increase in unit values, the 1969 increase in the volume of exports was 18 per cent., as against 24 per cent. the year before. The seasonally-adjusted trade surplus declined somewhat in the course of the year, and by the last quarter imports were running 23 per cent. above the level of a year earlier and exports 20 per cent., as against increases of 11 and 31 per cent. respectively in the first quarter.

Japan: Balance of payments.[1]

Items	1968	1969					1970
		Year	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter
	in millions of US dollars						
Merchandise trade (f.o.b.)							
Exports	12,750	15,730	3,285	3,800	4,160	4,485	4,045
Imports	10,220	11,980	2,680	2,880	3,090	3,330	3,460
Trade balance	+ 2,530	+ 3,750	+ 605	+ 920	+ 1,070	+ 1,155	+ 585
Services	— 1,480	— 1,565	— 430	— 360	— 390	— 385	— 510
Current balance	+ 1,050	+ 2,185	+ 175	+ 560	+ 680	+ 770	+ 75
Long-term capital	— 240	— 165	+ 50	+ 75	— 105	— 185	— 435
Basic balance	+ 810	+ 2,020	+ 225	+ 635	+ 575	+ 585	— 360
Short-term capital[2]	+ 290	+ 265	+ 55	—	+ 85	+ 125	+ 345
Overall balance (= changes in monetary items)	+ 1,100	+ 2,285	+ 280	+ 635	+ 660	+ 710	— 15[3]

[1] On a transactions basis. [2] Including errors and omissions. [3] Excluding initial allocation of SDRs ($120 million).

Exports to western Europe rose by 24 per cent., as against 16 per cent. in 1968, while sales to the United States increased by 22 per cent., a substantial gain but considerably less than the one of 36 per cent. achieved the year before. Exports of machinery and equipment continued to account for almost half of total exports, and they went up by 26 per cent. during the year. On the import side, purchases of machinery and equipment rose by 23 per cent. and those of metal ore and scrap, partly as a result of the rise in prices, by almost 20 per cent. By countries, deliveries from the United States, which is Japan's largest supplier, rose by 16 per cent. and imports from developing countries, which account for 42 per cent. of the total, by 18.5 per cent. In relative terms, imports from Indonesia and Australia showed the biggest increases — 58 and 35 per cent. respectively.

In the other main sectors of the balance of payments there were no substantial net changes in 1969. The deficit on services account increased moderately, from $1,480 to 1,565 million, while net outflows of long-term capital went down further, from \$240 to 165 million. Foreign purchases of Japanese shares rose sharply, from \$230 to 730 million, but on the other hand Japanese long-term capital exports showed a big increase, from \$1,095 to 1,520 million. The slightly smaller net inflow of short-term capital amounted to \$265 million, of which \$200 million was trade credit. In the first quarter of 1970 the net outflow of long-term capital amounted to \$435 million — of which \$200 million represented loans by the Bank of Japan to the IBRD — compared with a net inflow of \$50 million a year earlier. Together with a narrowing of the current surplus, owing to less satisfactory results on both trade and services account, the capital outflow brought about a sharp reversal in the overall balance, from a \$280 million surplus to a \$15 million deficit.

Western Europe. As measured by the changes in net official monetary assets and in the short-term foreign position of the banks, the combined payments balance of western European countries in 1969 showed a deficit of \$5.7 milliard. On current account there was a combined surplus of \$2.3 milliard, while net capital outflows reached the high figure of \$8 milliard. The EEC current surplus alone was as big as that for the whole of Europe. It was, however, \$1.8 milliard less than in 1968, owing to reductions in the German and Italian surpluses, particularly the former, as well as to an increase in France's deficit. The EFTA current surplus and the current-account deficit of the "other" European countries offset each other, the EFTA position showing an improvement of \$1.5 milliard on 1968 as a result of the turn-round on the UK current account. The large outflow on capital account came essentially from two countries, Germany and Italy, where monetary conditions were relatively easy. In Italy's case the outflow also reflected political uncertainties.

United Kingdom. From the second quarter of 1969 onwards, the British balance of payments began, after a period of suspense and uncertainty that had been protracted by delays in adopting appropriate domestic fiscal and monetary policies, to reap the benefits of the November 1967 devaluation. These benefits, to which were added the effects of the very rapid rise in world trade and of certain favourable elements on long-term capital account, transformed the basic balance from a deficit of \$955 million in 1968 to a surplus of \$930 million. The trade balance improved by \$1,160 million and the invisible surplus by \$460 million, and the long-term capital account shifted from a net outflow of \$215 million to a net inflow of \$50 million. Furthermore, there was a favourable turn-round of \$785 million in the balancing item, so that the overall balance of payments improved by \$2.7 milliard.

Exports, including net adjustments for under-recording, increased in value by 12 per cent., compared with 22 per cent. in 1968. The rise in sterling export prices accounted for 3 per cent. of the growth in 1969, as against 8 per cent. in 1968. After allowing for the effects on both years' figures of the 1967 UK dock strikes, the increase in export volume was about 11 per cent. in 1969, as against perhaps 9 per cent. in the preceding year.

United Kingdom: Balance of payments.[1]

Items	1968	1969[2] Year	1st quarter	2nd quarter	3rd quarter	4th quarter
	in millions of US dollars					
Merchandise trade (f.o.b.)						
Exports and re-exports	14,740	16,830	3,880	4,075	4,400	4,475
Imports	16,335	17,165	4,185	4,295	4,305	4,380
Trade balance	— 1,595	— 335	— 305	— 220	+ 95	+ 95
Net adjustment to recorded exports	+ 315	+ 100	+ 85	+ 85	— 45	— 25
Payments for US military aircraft	— 260	— 145	— 80	— 35	— 5	— 25
Trade balance (adjusted for items above)	— 1,540	— 380	— 300	— 170	+ 45	+ 45
Services						
Official	— 1,675	— 1,885	— 470	— 480	— 480	— 455
Private	+ 2,475	+ 3,145	+ 825	+ 815	+ 760	+ 745
Total	+ 800	+ 1,260	+ 355	+ 335	+ 280	+ 290
Current balance	— 740	+ 880	+ 55	+ 165	+ 325	+ 335
Long-term capital						
Official	+ 50	— 225	— 105	— 65	+ 30	— 85
Private						
UK investment abroad	— 1,755	— 1,425	— 435	— 380	— 210	— 400
Foreign investment in the United Kingdom	+ 1,490	+ 1,700	+ 330	+ 475	+ 410	+ 485
Total	— 215	+ 50	— 210	+ 30	+ 230	—
Basic balance	— 955	+ 930	— 155	+ 195	+ 555	+ 335
Basic balance, before seasonal adjustment	— 955	+ 930	— 210	+ 410	+ 535	+ 195
Balancing item	— 350	+ 435	+ 435	— 185	— 245	+ 430
Overall balance (= changes in monetary items)	— 1,305	+ 1,365	+ 225	+ 225	+ 290	+ 625

[1] On a transactions basis. [2] Quarterly data for current and long-term capital accounts are seasonally adjusted.

On a trade account basis, exports of manufactured goods rose by 15.5 per cent. in value in 1969 and, with world trade in manufactures going up at about the same rate, the United Kingdom was able to maintain its share in the world market. This was in sharp contrast to previous periods of rapid expansion in world trade.

As regards the geographical distribution of UK exports, the principal rise was in sales to western Europe, which increased by 19 per cent., following a similar advance in 1968; exports to EEC countries rose by 18 per cent., with sales to France going up by 23 per cent., while those to EFTA countries increased by 22 per cent., sales to Switzerland rising particularly strongly. Exports to the sterling area showed a growth of 13 per cent., but those to the Soviet Union and eastern Europe rose only slightly and sales to the United States actually declined.

Imports, excluding US military aircraft, rose by 5 per cent., compared with 22 per cent. in 1968. Some 4 per cent. of the increase was attributable to higher prices, and only about 2 per cent. to a rise in volume, as against a 9 per cent. volume increase in 1968. Although the economy was more sluggish in 1969 than in the preceding year, the growth of imports was smaller than might have been expected from this factor alone; credit restraint and the import deposit scheme, both of which affected stock-building, and the devaluation of sterling, which perhaps prompted some import substitution, may have contributed towards reducing the United Kingdom's import propensity.

By commodities on a trade account basis, the smallness of the rise in the volume of imports was largely attributable to falls of 3 and 4 per cent. in the two categories of basic materials and food, beverages and tobacco respectively, neither of which are subject to the import deposit scheme. Imports of fuels rose by 7 per cent., while those of manufactures, most of which are subject to the import deposit scheme, went up by 5 per cent., well below both the previous year's rise of about 14 per cent. and the annual average over the last decade of around 10 per cent.

The improvement in the seasonally-adjusted trade balance was concentrated in the second and third quarters, when exports went ahead much faster than imports and payments for US military aircraft were declining. And the third-quarter result was maintained in the fourth quarter, despite a sharp fall in exports to North America. The terms of trade, though more favourable early in the year, subsequently worsened, to show a slight deterioration on 1968.

The invisible surplus reached $1,260 million in 1969, $460 million more than in the previous year. This was despite the resumption of interest payments on the post-war North American loans amounting to $85 million, which, together with higher domestic interest rates and larger overseas holdings of government securities, were responsible for an increase of $210 million in the official sector's net payments. The surplus on private invisible account rose by $670 million, of which net investment income accounted for $585 million. Direct investment income of UK oil companies in particular showed a large gain and there was also a fall in earnings on foreign investment in the United Kingdom.

On long-term capital account, the small net inflow was the first since 1961. In the private sector, there was a turn-round from 1968 of $540 million to a net inflow of $275 million. Outward portfolio investment declined from $560 million to virtually nil, partly in connection with the downturn on Wall Street and partly because of a sharp reduction in purchases of Australian securities. At the same time, inward portfolio investment increased from $210 to 445 million. $130 million of this increase was accounted for by nationalised industries' and local authorities' borrowing in overseas markets. In addition, foreign purchases of UK company securities were $230 million higher than in 1968, but transactions in gilt-edged securities produced a small outflow, after an inflow the year before. Partly offsetting the turn-round from 1968 of $790 million on outward and inward portfolio investment taken together, outward direct investment was $215 million higher, and inward direct investment $35 million lower, than the year before.

In the official sector, a net long-term inflow of $50 million in 1968 gave way to a net outflow of $225 million. The major factors in this reversal were the resumption of North American loan repayments, which amounted to $90 million, subscription payments totalling $105 million to the International Development Association and a reduction from $180 to 25 million in the Export-Import Bank's aircraft purchase loans. On the other hand, offset loans received from Germany were $75 million higher than the year before.

The balancing item for the year was positive to the extent of $435 million, though with very wide swings between the first and second and the third and fourth quarters. By far the most important influence in these oscillations was the building-up and unwinding of unfavourable leads and lags, to a considerable extent in relation to the development of the German situation. Further factors in the last quarter were the return of confidence in sterling and the tight liquidity position of the UK corporate sector.

Given the $2.6 milliard official financing surplus shown in the table on page 121, the overall balance-of-payments result for the first quarter of 1970 must have been very favourable. On trade account, the seasonally-adjusted surplus came to $85 million, rather more than in the two preceding quarters. In addition, the invisible surplus is estimated to have been running at almost $100 million a month. The biggest component of the first-quarter surplus, however, seems likely to have been a large positive balancing item.

France. During the first three quarters of 1969 France had a further balance-of-payments deficit of $1.9 milliard, following the $3.2 milliard deficit for the year 1968. While more than half of the 1968 deficit had been on capital account, in the first nine months of last year the current-account deficit was larger than the overall deficit. Much of this deterioration on current account was due to unfavourable terms of payment, and when these were reversed, following the devaluation of the franc and the revaluation of the Deutsche Mark, the balance of payments improved rapidly to an estimated overall surplus of $250 million in the final quarter of the year.

The influence of the build-up and subsequent unwinding of leads and lags on the trade balance appears clearly from a comparison of the payments figures with the customs data. During the first three quarters of 1969 the import surplus came to $750 million on an adjusted customs basis (f.o.b.) and $1,450 million on a cash basis. In the final quarter, on the other hand, when the previously accumulated leads and lags were being unwound, the balances, both on a customs basis and on a cash basis, were approximately in equilibrium. For 1969 as a whole, the cash import surplus of $1,450 million appears to have been inflated by about $700 million through unfavourable terms of payment.

On a c.i.f. customs basis imports from non-franc-area countries increased last year by 32 per cent., measured in francs, compared with 15 per cent. in 1968. Approximately three-quarters of the rise was due to an expansion in

France: Balance of payments[1]
vis-à-vis non-franc-area countries.

Items	1968	1969 Year[2]	1969 1st quarter	1969 2nd quarter	1969 3rd quarter	1969 4th quarter[2]
	in millions of US dollars					
Merchandise trade (f.o.b.)						
Imports	11,610	.	3,630	3,950	3,385	.
Exports	11,195	.	3,105	3,155	3,255	.
Trade balance	— 615	— 1,450	— 525	— 795	— 130	—
Services	— 840	— 680	— 205	— 240	— 235	—
Current balance	— 1,455	— 2,130	— 730	— 1,035	— 365	—
Long-term capital						
Private						
Net French investment abroad	— 625	.	— 40	— 15	— 30	.
Net foreign investment in France	+ 300	.	+ 255	+ 10	+ 115	.
Banking sector	— 355	.	— 40	+ 10	— 45	.
Total	— 680	+ 420	+ 175	+ 5	+ 40	+ 200
Official	— 30	— 60	— 15	— 5	— 40	—
Total	— 710	+ 360	+ 160	—	—	+ 200
Basic balance	— 2,165	— 1,770	— 570	— 1,035	— 365	+ 200
Short-term capital, multilateral settlements and adjustments	— 1,040	+ 90	+ 10	— 115	+ 145	+ 50
Overall balance (= changes in monetary items)	— 3,205	— 1,680	— 560	— 1,150	— 220	+ 250

[1] On a cash basis. [2] BIS provisional estimates.

volume and the remainder to higher prices. In the first half of the year practically all of the increase reflected a growth in volume, but in the second half more than 50 per cent. of the gain was attributable to price rises. Unit values of exports rose by 7 per cent. on average last year; this accounts for over one-quarter of the 26 per cent. rise in value. In the fourth quarter, however, nearly half of the expansion of exports was due to higher prices.

The import surplus vis-à-vis non-franc-area countries increased from $1,420 to 2,480 million. The structural deficit in trade with EEC countries went up from $1,160 to 1,570 million and the structural surplus vis-à-vis EFTA countries was reduced from $280 to 20 million. France's trade balance also deteriorated vis-à-vis all other major areas.

As regards the different categories of commodities, imports of consumer goods showed the fastest advance, having expanded by 42 per cent. (motor-cars by 36 per cent.), whereas those of capital goods increased by 33 per cent. (machinery and electrical equipment by 43 per cent.). Both imports and exports of, agricultural products went up by 30 per cent. Other groups of exports showing a high growth rate were capital goods (30 per cent.) and consumer goods (26 per cent.). The export/import cover ratio fell from 89 per cent. in 1968 to 84 per cent. last year. In the last quarter, however, it again reached 89 per cent. on a seasonally-adjusted basis, thus coming closer to the 93 per cent. which the French authorities consider a position of equilibrium. This equilibrium rate was achieved in the first quarter of 1970, when the percentage cover reached 95 per cent. (it was exactly 100 per cent. in March) as a result of a faster growth of exports than of imports. In comparison with the first quarter of 1969, exports and imports expanded by 20 and 10 per cent. respectively. The import surplus was consequently reduced from $445 to 195 million.

On capital account, where stringent controls over outward movements of funds were in force, the net outflow of $1,750 million in 1968 gave way to a net inflow of about $450 million. On private long-term account the net inflow is estimated at over $400 million. Nearly half of this inflow is attributable to French issues abroad. In the first quarter of 1969 four international DM loans, totalling the equivalent of almost $130 million, were issued, of which the Caisse Nationale de l'Energie and the Caisse Nationale des Autoroutes accounted for $50 million each. In the last quarter a private issue denominated in US dollars, amounting to $55 million, brought the year's total to $185 million, and in the first quarter of 1970 issues abroad came to nearly $70 million. On short-term capital account, including multilateral settlements and adjustments, the flight of funds stopped. The net outflow of $115 million in the second quarter, before devaluation, was followed by a reflux in the third and fourth quarters, so that for 1969 as a whole there was a small net inflow of $90 million.

Germany. Mainly owing to a huge increase in long-term capital outflows, Germany's basic balance of payments, which in 1968 had been virtually in equilibrium, showed a deficit of $4.2 milliard in 1969. This was also the overall external deficit for the year, as short-term capital movements, taking the twelve months together, were negligible. During the course of the year, however, there were violent shifts in the short-term capital account (including errors and omissions). Expectations of a change in the parity of the Deutsche Mark produced a net inflow of $4 milliard in the first nine months of the year, most of it during the second and third quarters; when these expectations were fulfilled there was an outflow of the same size in the fourth quarter. These very large changes in the short-term capital account were the principal factor behind the shift in the overall external balance from a surplus of just on $2 milliard in the first nine months of the year to a $6.2 milliard deficit in the final quarter. An additional factor, however, was a strong deterioration in the basic balance in the fourth quarter. While this, too, was in part a consequence of revaluation, it represented an accentuation of, rather than any change in, the existing trend.

On current account, the external surplus declined between 1968 and 1969 from $2.8 to 1.8 milliard. Rather more than half of this change was on trade account, where the surplus fell from $4.6 to 4 milliard. Allowing, however, for the artificial increase in the trade surplus at the end of 1968, Germany: Balance of payments.[1]

Items	1968	1969[2] Year	1969[2] 1st quarter	1969[2] 2nd quarter	1969[2] 3rd quarter	1969[2] 4th quarter	1970[2] 1st quarter
	in millions of US dollars						
Merchandise trade							
Exports (f.o.b.)	24,890	29,045	6,570	7,130	7,410	7,935	.
Imports (c.i.f.)	20,295	25,075	5,805	6,180	6,300	6,790	.
Trade balance	+ 4,595	+ 3,970	+ 765	+ 950	+ 1,110	+ 1,145	+ 745
Services and transfers	− 1,740	− 2,215	− 535	− 500	− 390	− 790	− 825
Current balance	+ 2,855	+ 1,755	+ 230	+ 450	+ 720	+ 355	− 80
Current balance (unadjusted)	+ 2,855	+ 1,805	+ 315	+ 560	+ 445	+ 485	+ 5
Long-term capital							
Private	− 2,540	− 5,485	− 1,400	− 1,020	− 690	− 2,375	− 1,025
Official	− 340	− 480	− 40	− 20	− 180	− 240	− 65
Total	− 2,880	− 5,965	− 1,440	− 1,040	− 870	− 2,615	− 1,090
Basic balance	− 25	− 4,160	− 1,125	− 480	− 425	− 2,130	− 1,085
Short-term capital							
Private	+ 135	− 190	+ 125	+ 520	+ 680	− 1,515	+ 200
Official	+ 275	− 45	− 60	+ 55	− 25	− 15	− 10
Total	+ 410	− 235	+ 65	+ 575	+ 655	− 1,530	+ 190
Errors and omissions	+ 735	+ 205	+ 425	+ 1,745	+ 525	− 2,490	+ 635
Overall balance (= changes in monetary items)	+ 1,120	− 4,190	− 635	+ 1,840	+ 755	− 6,150	− 260[3]

[1] On a transactions basis. [2] Quarterly data for the current balance are seasonally adjusted. [3] Excluding initial allocation of SDRs ($200 million).

just before the introduction of the border tax arrangements, there was probably very little underlying decline in the foreign trade surplus in 1969. Moreover, on a seasonally-adjusted basis it increased from quarter to quarter during the year, though only slightly in the last quarter.

In DM terms, imports rose by 21 per cent., as against 16 per cent. the year before. The rise in exports was the same in both years at 14 per cent. As average unit values for imports were higher by just over 2 per cent., and those for exports by just under 2 per cent., the volume increases in imports and exports were 18 and 12 per cent., as against 18 and 16 per cent. in 1968. Comparing the first nine months of 1969 with the final quarter, the growth of imports slowed down from 22 to 17 per cent. in DM value and from 19 to 16 per cent. in volume, and that of exports from 17 to 8 per cent. in DM value and from 15 to 5 per cent. in volume. Early in 1970 the index of wholesale export prices was 6 per cent. above the level of a year earlier.

Taking the year as a whole, one reason for the slower growth of exports was a small decline in deliveries to the United States, which had gone up by 38 per cent. in 1968. Sales to EEC and EFTA countries, on the other hand, which account for two-thirds of total exports, rose faster than in 1968, with increases of 21 and 13 per cent. respectively. On the import side, deliveries from the EEC, the EFTA and the United States were up by 27, 20 and 16 per cent. respectively. By categories, the largest increase was in imports of finished manufactured goods (32 per cent.); imports of food products showed a rise of 13 per cent.

The deficit on services and transfers increased from $1.7 to 2.2 milliard. Net expenditure on foreign travel rose from $0.7 to 0.9 milliard and workers' remittances by $0.2 to 0.7 milliard. The latter increase corresponded roughly to the rise in the number of foreign workers employed in Germany.

Three-quarters of the change in Germany's basic balance of payments in 1969 was on long-term capital account, where total net outflows amounted to $6 milliard. Private long-term capital outflows increased from $2.5 to 5.5 milliard, net German investment abroad going up from just under $3 milliard to just over $5.6 milliard, while net private foreign investment in Germany dropped from $0.4 milliard to only $0.1 milliard. The increase in private investment abroad by German residents took two main forms: portfolio investment went up from $1.4 to 2.4 milliard and long-term credits and loans from $1.1 to 2.6 milliard. In addition, direct German investment abroad also showed some increase, from $0.4 to 0.6 milliard, and was, for the first time since the war, in excess of foreign direct investment in Germany. Foreign portfolio investment showed a net outflow of $0.3 milliard, practically all of which occurred in the fourth quarter.

During this final quarter of 1969 net outflows of private long-term capital amounted to $2.4 milliard, of which credits and loans accounted for $1.1 milliard. Before revaluation, German banks had taken on substantial commitments to non-residents. These were heavily called on during the last quarter of the year, when German interest rates were still attractive and there were no longer any uncertainties about the rate of exchange. German foreign portfolio investment, at $0.7 milliard, was also at a very high level during this quarter, one reason being that new issues of foreign DM securities on the German market were harder to sell to non-residents than before, since there was no longer the prospect of a capital gain from revaluation.

The $4 milliard inflow of short-term capital during the first nine months of the year, which includes unidentified transactions but excludes changes in the short-term foreign position of the banking system, consisted essentially of two things: $1.3 milliard of short-term borrowing abroad by German enterprises; and a positive errors and omissions item of $2.7 milliard. These inflows were concentrated in the months of May and August–September, when they amounted to $2.2 and 1.2 milliard respectively. The short-term capital outflow during the final quarter of the year included a $1.5 milliard reduction in net foreign credits taken up by German enterprises and a $2.5 milliard negative errors and omissions item.

Excluding the initial allocation of special drawing rights, Germany's overall payments balance for the first quarter of 1970 showed a deficit of

$0.3 milliard. On an adjusted basis, the current account showed a deficit of $80 million, against a surplus of $230 million a year earlier. This was due to a $300 million increase in the deficit on services and transfers. Both capital movements and the errors and omissions item reflected the tighter monetary conditions in Germany. Long-term capital outflows were still large, at $1.1 milliard, but much less than in either the preceding quarter or the first quarter of 1969, while on short-term capital account, including errors and omissions, there was a net inflow of $0.8 milliard.

Italy. Italy's balance of payments, too, deteriorated considerably between 1968 and 1969, from a surplus of $0.6 milliard to a deficit of $1.2 milliard — the first since 1963. The current surplus, at $2.4 milliard, was a little smaller than in 1968 but still very substantial. Capital outflows, however, went up by $1.5 to 3.5 milliard.

On current account, there was a decline in the trade surplus from $1 to 0.6 milliard, about half of which was offset by a further rise in net receipts from services, from $1.6 to 1.8 milliard. Workers' remittances went up by $100 million, investment income by $70 million, and net receipts from travel by $30 million. On a seasonally-adjusted basis most of the deterioration on trade account occurred in the last quarter of the year, when the economy was quite severely affected by strikes. In comparison with the last quarter of 1968 there was a deterioration of $450 million, which corresponded exactly to the growth of imports. The current balance worsened by about the same amount between the first quarters of 1969 and 1970, as there was a shift of $350 million from surplus to deficit in the trade account and a decline of $130 million in receipts from services.

On the basis of customs figures (imports c.i.f.), the trade deficit went up from $100 million in 1968 to $700 million in 1969; it came to $200 million in the first nine months and $500 million in the last quarter. Imports, which had risen by only 4.5 per cent. in 1968, when domestic demand was rather weak, increased by 22.5 per cent. in the first nine months of 1969 in response to a high level of investment and the growing spending power of the population. In the following months, when demand slackened less than supply, imports increased by 17 per cent. compared with the last quarter of 1968, an acceleration in imports of consumer goods offsetting the slow-down in other categories of imports, particularly plant, machinery and equipment, and fuel and power.

Exports, which had gone up by 17 per cent. in 1968, continued to expand at an even faster rate — 21 per cent. — in the first nine months of 1969, but their growth stopped in the last quarter, when only food exports went up more than in the preceding nine months, whereas the export growth rate for durable consumer goods fell back from 26.5 to 8 per cent. and that for capital goods from 24 to 3 per cent. Exports of other groups of products actually fell below their level in the last quarter of 1968.

Italy: Balance of payments.[1]

Items	1968	1969[2] Year	1969[2] 1st quarter	1969[2] 2nd quarter	1969[2] 3rd quarter	1969[2] 4th quarter	1970[2] 1st quarter
	in millions of US dollars						
Merchandise trade (f.o.b.)							
Exports	10,095	11,645	2,795	3,030	3,080	2,740	2,955
Imports	9,050	11,060	2,570	2,805	2,845	2,840	3,075
Trade balance	+ 1,045	+ 585	+ 225	+ 225	+ 235	— 100	— 120
Services							
Travel	+ 1,110	+ 1,140	+ 255	+ 290	+ 310	+ 285	+ 220
Workers' remittances	+ 850	+ 945	+ 245	+ 225	+ 265	+ 210	+ 245
Other	— 380	— 300	— 25	— 20	— 130	— 125	— 120
Total	+ 1,580	+ 1,785	+ 475	+ 495	+ 445	+ 370	+ 345
Current balance	+ 2,625	+ 2,370	+ 700	+ 720	+ 680	+ 270	+ 225
Capital movements							
Residents	— 2,150	— 3,865	— 955	— 1,155	— 975	— 780	.
Non-residents	+ 460	+ 435	+ 200	+ 100	— 110	+ 245	.
Errors and omissions	— 350	— 115	— 305	— 180	+ 290	+ 80	.
Total	— 2,040	— 3,545	— 1,060	— 1,235	— 795	— 455	— 935
Overall balance (= changes in monetary items)	+ 585	— 1,175	— 360	— 515	— 115	— 185	— 710[3]

[1] On a transactions basis. [2] Quarterly data for the current balance are seasonally adjusted. [3] Excluding initial allocation of SDRs ($105 million).

In absolute terms and for the year as a whole, exports went up by $1.5 to 11.7 milliard, half of the rise occurring in trade with France and Germany. Exports to the United States increased by some $200 million and those to the USSR by $100 million. Imports rose from $10.3 to 12.5 milliard, about $1 milliard of the rise being accounted for by deliveries from EEC countries, which expanded by 30 per cent.

The trade balance continued to deteriorate in the first quarter of 1970. The deficit amounted to $455 million, compared with $65 million in the corresponding months of 1969, as imports went up by 19 per cent. and exports by only 5.5 per cent. There was, in particular, a drop of 18 per cent. in exports of motor-cars owing to the persistent labour disputes, while car imports shot up by 56 per cent.

The net capital outflow, which had increased from $1.2 to 2 milliard in 1968, soared to $3.5 milliard last year. Whereas net foreign investment in Italy continued to run at over $400 million, the net outflow of Italian funds — nearly all private — went up by $1.7 to 3.9 milliard. As in previous years, the outflow via exports of bank-notes was the biggest item: at $2.2 milliard, it was twice as large as in 1968. Private loans went up from $85 to 465 million, mainly in response to interest rate differentials. Authorised portfolio investment rose from $280 to 460 million, of which $235 million was placed with foreign investment trusts. After a slow-down of capital exports in the second half of the year, there was an outflow of over $900 million in the first quarter of 1970.

In addition to the monetary measures taken in 1969 in order to check the capital outflow (see Chapter II, page 62), in February 1970 the terms of payment for imports and exports were shortened and the repatriation of Italian bank-notes was made more difficult, in that Italian bank-notes remitted from abroad now have to be presented to the Bank of Italy in Rome for conversion.

Belgium-Luxemburg Economic Union. The overall balance of payments improved substantially in 1969, from a deficit of $220 million to a surplus of $170 million. Most of this was due to developments on capital account, but there was also some increase in the current surplus.

On a payments basis the trade deficit was reduced by $170 to 95 million. The trade balance on a customs basis, however, showed an improvement of $255 million (as it shifted from a deficit of $170 million to a surplus of $85 million), the difference of $85 million being attributable to unfavourable terms of payment. In fact, within the year there were wide fluctuations in the balance on a cash basis, from a $300 million deficit in the first nine

Belgium-Luxemburg Economic Union: Balance of payments.[1]

Items	1968	1969				
		Year	1st quarter	2nd quarter	3rd quarter	4th quarter
	in millions of US dollars					
Merchandise trade						
Imports	6,660	7,875	1,825	2,005	1,990	2,055
Exports	6,395	7,780	1,775	1,925	1,825	2,255
Trade balance	− 265	− 95	− 50	− 80	− 165	+ 200
Services						
Merchanting and processing	+ 240	+ 290	+ 75	+ 45	+ 85	+ 85
Travel	− 125	− 140	− 20	− 20	− 90	− 10
Other	+ 185	+ 25	+ 10	− 10	− 5	+ 30
Total	+ 300	+ 175	+ 65	+ 15	− 10	+ 105
Current balance	+ 35	+ 80	+ 15	− 65	− 175	+ 305
Capital movements						
Public authorities	− 70	− 55	− 20	+ 15	− 20	− 30
Semi-official[2]	− 10	+ 190	+ 105	+ 70	+ 10	+ 5
Private						
Foreign investment in the BLEU	+ 240	+ 355	+ 40	+ 95	+ 100	+ 120
BLEU investment abroad	− 335	− 290	− 140	—	− 90	− 60
Total	− 175	+ 200	− 15	+ 180	—	+ 35
Errors and omissions	− 80	− 110	− 50	− 15	+ 105	− 150
Overall balance (= changes in monetary items)	− 220	+ 170	− 50	+ 100	− 70	+ 190

[1] On a cash basis. [2] Public enterprises and non-monetary financial institutions of the public sector.

months, when leads and lags were against Belgium, to a surplus of \$200 million in the final quarter, when this movement was reversed.

The BLEU's foreign trade was buoyant in 1969. Imports and exports rose by 20 and 23 per cent. respectively in value, as against 15 per cent. in each case the year before. In volume, the increase in both imports and exports was about 17 per cent. in 1969. Most of the additional imports came from Germany and France. On the export side, sales of transport equipment and fuels expanded by 34 and 30 per cent. respectively and those of machinery by 25 per cent. Exports to EEC countries rose by 30 per cent. and the export surplus vis-à-vis these countries reached \$1 milliard, more than offsetting deficits in trade with all other areas.

The improvement on trade account was to a considerable extent compensated by a reduction in the net invisible surplus from \$300 to 175 million. Military expenditure abroad increased and net investment income declined.

The balance on capital account shifted from a net outflow of \$175 million to a net inflow of \$200 million. A little over half of this change resulted from net borrowing of \$190 million by public enterprises and non-monetary financial institutions of the public sector, and in particular from loans taken up abroad by the Société Nationale de Crédit à l'Industrie. Private capital movements also shifted from a net outflow to a net inflow, foreign investment in Belgium — of which direct investment represents the major part — increasing from \$240 to 355 million, while Belgian investment abroad declined by \$45 million.

Netherlands. The overall balance of payments of the Netherlands, too, improved between 1968 and 1969, from a deficit of \$100 million to a surplus of \$150 million. The current-account surplus increased by \$110 million and the net outflow of long-term capital declined by \$125 million.

The private long-term capital account was in balance last year, an outflow of \$145 million during the first nine months having been followed by a similar inflow in the last quarter. An increase in net direct investment abroad (including inter-company credits) from \$40 to 150 million was largely offset by a rise in the net inflow on account of portfolio transactions from \$40 to 135 million. Net foreign purchases of Dutch securities went up from \$300 to 375 million; half of this amount was received in the last quarter, when non-residents bought large quantities of Dutch bonds, partly in expectation of a revaluation of the florin. The outflow of official capital, which had risen in 1968 because of a \$65 million debt prepayment to the United States, fell back to \$30 million, which represented aid to developing countries. The short-term capital account, as in 1968, was also approximately in balance, a net outflow through the non-bank sector being almost offset by a reduction in bank lending.

The surplus on current account — the third in succession — increased from \$60 to 170 million. The trade deficit declined by \$130 million to \$350

Netherlands: Balance of payments.[1]

Items	1968	1969					1970
		Year	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter
	in millions of US dollars						
Merchandise (f.o.b.)							
Imports	8,295	9,645	2,120	2,405	2,315	2,805	2,545
Exports	7,815	9,295	2,095	2,330	2,240	2,630	2,450
Trade balance	− 480	− 350	− 25	− 75	− 75	− 175	− 95
Services							
Investment income	+ 200	+ 205	+ 15	+ 10	+ 80	+ 100	+ 15
Other	+ 340	+ 315	+ 65	+ 100	+ 15	+ 135	+ 85
Total	+ 540	+ 520	+ 80	+ 110	+ 95	+ 235	+ 100
Current balance	+ 60	+ 170	+ 55	+ 35	+ 20	+ 60	+ 5
Capital movements							
Long-term							
Dutch securities	+ 300	+ 375	+ 70	+ 40	+ 75	+ 190	+ 70
Foreign securities	− 260	− 240	− 65	− 110	− 25	− 40	− 55
Direct investment[2]	− 40	− 150	+ 50	− 130	+ 10	− 80	+ 65
Banks and other private capital[3]	− 60	+ 15	—	− 45	− 15	+ 75	
Official	− 95[4]	− 30	− 5	− 10	− 5	− 10	− 5
Total	− 155	− 30	+ 50	− 255	+ 40	+ 135	+ 75
Basic balance	− 95	+ 140	+ 105	− 220	+ 60	+ 195	+ 80
Short-term							
Non-banks	− 5	− 50	− 20	—	− 15	− 15	− 30
Banks	− 60	+ 40	− 20	+ 5	—	+ 55	− 105
Errors and omissions	+ 60	+ 20	+ 25	+ 105	− 120	+ 10	+ 60
Total	− 5	+ 10	− 15	+ 110	− 135	+ 50	− 75
Overall balance (= changes in monetary items)	− 100	+ 150	+ 90	− 110	− 75	+ 245	+ 5[5]

[1] On a cash basis. [2] Including inter-company credits at long and short term. [3] Mostly credits. [4] Including a debt prepayment of $65 million to the United States. [5] Excluding initial allocation of SDRs ($85 million).

million, while net receipts from invisibles fell off by $20 million. In the first quarter of 1970 the current account was practically balanced — against a surplus of $55 million a year earlier — as the $100 million surplus in services slightly exceeded the trade deficit.

On the basis of customs figures, imports rose from $9.3 to 11 milliard in 1969 and exports from $8.3 to 10 milliard. The increase in imports speeded up from 9 to 18.5 per cent. and that in exports from 14 to 19 per cent. As average import prices rose by 3 per cent. in 1969 and export prices by 2 per cent., the volume indexes went up by 15 and 17 per cent. respectively. On the import side, purchases of consumer goods, raw materials and semi-manufactured goods accounted for the acceleration in both volume and value, for those of investment goods slowed down. As regards exports, those of manufactured goods expanded by 19 per cent. in terms of value (against 15 per cent. in 1968), of which only 1 per cent. represented a rise in prices. The biggest gains were registered by transport equipment, metals, textiles and mineral fuels. Sales of natural gas rose by nearly 50 per cent. The growth of exports of non-processed agricultural commodities accelerated from 11 to 18 per cent., 12 per cent. being attributable to a larger volume of sales and 5 per cent. to higher prices. The EEC partner countries accounted for three-quarters of the increase in exports and not quite two-thirds of that in imports.

Austria. For the second year in succession, Austria's overall balance of payments showed a surplus of just over $100 million. However, whereas in 1968 the surplus was entirely due to a net inflow of capital, in 1969 it closely reflected a $100 million current surplus — the largest since the present parity of the schilling was established in 1953.

The growth of exports accelerated from 10 to 21 per cent., with sales of machinery and electrical equipment rising by 28 per cent. The growth of imports also quickened, but only from 8 to 13 per cent. In absolute figures, the structural import surplus was reduced from $540 to 435 million. In the first quarter of 1970 it went up to $600 million at an annual rate. Net invisible receipts rose from $455 to 535 million in 1969, most of the increase being accounted for by a rise in earnings from travel.

On long-term capital account, in contrast to the large net inflows recorded in 1967 and 1968 ($185 million in the latter year), there was a small net outflow of $25 million in 1969, chiefly owing to the pull of high interest rates abroad. The net outflow of Austrian private capital increased from $95 to 145 million, as a result of larger purchases of foreign securities by Austrian residents and increased lending by financial institutions. At the same time the net inflow of foreign private capital declined, so that, on balance, the private capital account shifted from a net inflow of $5 million in 1968 to a net outflow of $55 million last year. In the case of official capital transactions the contrast with 1968 was even more marked, the net inflow falling from $180 to 30 million. The net inflow of short-term capital doubled from $15 to 30 million.

Switzerland. Last year Switzerland's balance-of-payments surplus, which in 1968 had reached the unusually large figure of $1,150 million, returned to a more normal level of $155 million. Apart from the fact that there was no longer a flight of funds from France, which had so greatly affected the results for 1968, there were two other reasons for the reduction of the surplus in 1969. The growing momentum of domestic expansion helped to increase the trade deficit from $480 to 630 million, and a change in policy led to a rise in identified long-term capital exports from $800 to 1,100 million. Taking into account a further increase in the invisible surplus, from $1,025 to 1,140 million, the deficit on current and identified long and medium-term capital account went up from $275 to 635 million. Unidentified capital movements produced an inflow of $790 million — a substantial figure, but little more than half what it had been the year before.

Western European countries: Balances of payments.

Countries	Years	Trade balance (f.o.b.)	Services[1]	Current balance	Net capital movements (inflow +)[2] Long-term	Net capital movements (inflow +)[2] Short-term	Overall balance[3]
		in millions of US dollars					
Belgium-Luxemburg*	1968	− 265	+ 300	+ 35	− 255		− 220
	1969	− 95	+ 175	+ 80	+ 90		+ 170
France*	1968	− 615	− 840	− 1,455	− 710	− 1,040[4]	− 3,205
	1969[5]	− 1,450	− 680	− 2,130	+ 360	+ 90[4]	− 1,680
Germany	1968	+ 5,660	− 2,805	+ 2,855	− 2,880	+ 1,145	+ 1,120
	1969	+ 5,110	− 3,305	+ 1,805	− 5,965	− 30	− 4,190
Italy	1968	+ 1,045	+ 1,580	+ 2,625	− 2,040[6]		+ 585
	1969	+ 585	+ 1,785	+ 2,370	− 3,545		− 1,175
Netherlands*	1968	− 480	+ 540	+ 60	− 155[4]	− 5	− 100
	1969	− 350	+ 520	+ 170	− 30	+ 10	+ 150
Total EEC	1968	+ 5,345	− 1,225	+ 4,120	− 5,940		− 1,820
	1969	+ 3,800	− 1,505	+ 2,295	− 9,020		− 6,725
Austria	1968	− 540[7]	+ 455	− 85	+ 185	+ 15	+ 115
	1969	− 435[7]	+ 535	+ 100	− 25	+ 30	+ 105
Denmark*	1968	− 300	+ 185	− 115	+ 105		− 10
	1969	− 430	+ 180	− 250	+ 175		− 75
Norway	1968	− 790[7]	+ 940	+ 150	+ 15	− 15	+ 150
	1969	− 775[7]	+ 870	+ 95	− 160	+ 10	− 55
Portugal	1968	− 305	+ 350	+ 45	+ 85	+ 10[8]	+ 140
	1969	− 375	+ 435	+ 60	+ 5	+ 20[8]	+ 85
Sweden	1968	− 170[7]	+ 60	− 110	+ 115	− 50	− 45
	1969	− 180[7]	− 45	− 225	− 95	− 10	− 330
Switzerland	1968	− 480[7]	+ 1,025	+ 545	+ 605		+ 1,150
	1969	− 630[7]	+ 1,140	+ 510	− 355		+ 155
United Kingdom	1968	− 1,540	+ 800	− 740	− 215	− 350	− 1,305
	1969	− 380	+ 1,260	+ 880	+ 50	+ 435	+ 1,365
Total EFTA	1968	− 4,125	+ 3,815	− 310	+ 505		+ 195
	1969	− 3,205	+ 4,375	+ 1,170	+ 80		+ 1,250
Finland	1968	+ 25[7]	+ 40	+ 65	+ 95	+ 80	+ 240
	1969	− 50[7]	+ 65	+ 15	+ 65	− 30	+ 50
Greece	1968	− 765[7]	+ 530	− 235	+ 205	+ 65	+ 35
	1969	− 900[7]	+ 550	− 350	+ 205	+ 140	− 5
Iceland	1968	− 50	—	− 50	+ 30	+ 10	− 10
	1969	− 10	+ 5	− 5	+ 20	—	+ 15
Ireland	1968	− 395[7]	+ 340	− 55	+ 40	− 15	− 30
	1969	− 525[7]	+ 380	− 145	+ 160	—	+ 15
Spain*	1968	− 1,730	+ 1,425	− 305	+ 530	− 120	+ 105
	1969	− 2,105	+ 1,610	− 495	+ 430	− 155	− 220
Turkey	1968	− 270[7]	+ 45	− 225	+ 210		− 15
	1969	− 265[7]	+ 65	− 200	+ 160		− 40
Total "other"	1968	− 3,185	+ 2,380	− 805	+ 1,130		+ 325
	1969	− 3,855	+ 2,675	− 1,180	+ 995		− 185
Grand total	1968	− 1,965	+ 4,970	+ 3,005	− 4,305		− 1,300
	1969	− 3,260	+ 5,545	+ 2,285	− 7,945		− 5,660

Note: Balances of payments of countries marked with an asterisk are on a cash basis.
[1] Including unilateral transfers. [2] Difference between current and overall balances. Includes errors and omissions. [3] Equal to changes in net official assets and the net foreign position of commercial banks, except in the cases of the United Kingdom and Turkey; for the United Kingdom includes also changes in miscellaneous short-term capital, and for Turkey includes only changes in net official assets. [4] Including multilateral settlements and adjustments. [5] BIS provisional estimates. [6] Including official debt prepayments. [7] Imports c.i.f. [8] Including the balance of Portuguese overseas territories vis-à-vis the non-escudo area.

Foreign trade was characterised by a strong advance in imports and only a slight rise in the already high growth rate of exports. Imports expanded by 17 per cent., against 9 per cent. in 1968. Purchases of raw materials and semi-finished products were up by 21 per cent., and those of consumer and investment goods by 18 and 13 per cent. respectively. The increase in exports, at 15 per cent., was only 1 percentage point higher than in the previous year. Exports to the EFTA countries increased at a slower rate than total exports in both 1968 and 1969, while those to the EEC rose faster. The latter went up by 18 per cent. last year, including an increase of 23 per cent. in sales to Germany. The trade balance was also affected by a 2 per cent. deterioration in the terms of trade. The trade deficit widened as the year proceeded from a seasonally-adjusted annual rate of $360 million in the first quarter to one of $950 million in the fourth quarter. In the first three months of 1970 imports showed a rise of 31 per cent. over the year and the trade deficit was running at an annual rate of $1,270 million.

As in 1968, the increase in net receipts from invisibles came largely from investment income, which went up by $80 to 520 million. The growth in the net outflow of identified long-term capital was more than accounted for by the trebling of the banks' long-term loans to foreigners to a total of $525 million. The National Bank was liberal in authorising such loans, in order to help curb domestic liquidity. In addition, investment trusts' placements of funds abroad went up by $80 million to $245 million. On the other hand, net new foreign issues in Switzerland and purchases of foreign shares by Swiss residents both fell short of the 1968 level; together they declined by $135 million. Roughly two-thirds of the outflow on identified long and medium-term capital account was offset by net receipts from unidentified transactions.

Sweden. The overall balance of payments for 1969 showed a substantial deterioration on the year before, from a deficit of $45 million to one of $330 million. More than half of this change was on capital account, where the usual net inflow was replaced by a net outflow of $105 million, while the rest was due to invisibles.

On capital account, the deterioration for the year 1969 is attributable to two factors: a turn-round in net direct investment, from an inflow of $60 million to an outflow of $90 million, which was connected with take-overs of foreign firms by Swedish businesses; and an increase of $35 million in net official capital outflows. There was a marked contrast between capital movements in the two halves of the year, a net outflow of $160 million giving way to a net inflow of $50 million. The outflow was stimulated by high interest rates abroad and the German situation, and the subsequent turn-round was due to domestic restrictive measures and the resolution of the DM problem.

On current account, the main feature was the $105 million deterioration in invisibles, from a surplus of $60 million to a deficit of $45 million.

Unilateral transfers, consisting partly of aid to developing countries, rose by $45 million, and the travel deficit by $35 million, while shipping receipts fell by $25 million. The trade deficit of $180 million was almost the same as in 1968, but imports and exports were considerably larger than in that year, with growth rates of 15 and 16 per cent. respectively. In volume terms, imports expanded more than exports, but there was a 1 per cent. improvement in the terms of trade. In the first quarter of 1970, with imports on a customs basis rising by 21 per cent. and exports by 13 per cent., the trade deficit amounted to $210 million, greater than that recorded for the whole of 1969.

Denmark. During the course of 1969 Denmark's balance of payments showed rather wide fluctuations, substantial deficits in the first two quarters being followed by a position of approximate balance in the third quarter and a large surplus in the fourth. The deficit in the first part of the year was on current account, owing exclusively to a large trade deficit, while the fourth-quarter surplus was mainly on capital account. For the year as a whole, the overall deficit widened from $10 to 75 million, an increase of $135 million in the current deficit being partly offset by larger net capital inflows.

On a customs basis, exports rose by 14.5 per cent. in 1969. Exports of industrial goods, which account for over 60 per cent. of the total, went up by 20 per cent., while those of farm products showed a gain of less than 6 per cent. In terms of Danish kroner imports increased by 18 per cent., almost twice as fast as in 1968.

At $180 million, the surplus on invisible account was practically unchanged from 1968, higher receipts from shipping and on travel account being offset by a rise in net interest and dividend payments as well as in aid to developing countries. The current deficit widened from $115 to 250 million.

On capital account, the increase from $105 to 175 million in net inflows was the result of a number of factors. The most important were the increase in net public borrowing abroad, from $80 to 110 million, and the decline in the net outflow in respect of commercial credits from $40 to 10 million. In the first half of the year residents made substantial repayments of commercial credits and inward direct investment was running at a low level. By mid-year tighter domestic policies had stopped the private capital outflow and then in the last quarter, with the DM question settled, there was an overall capital inflow of $105 million; this included $65 million of commercial credit taken up by residents and $45 million of direct investment.

Norway. In 1969 Norway had an overall balance-of-payments deficit of $55 million, the first since 1962. This was due to substantial exports of capital. Total net capital outflows amounted to $150 million, which was more than could be covered by the favourable current balance.

Owing to the high level of interest rates abroad and the expectation of a DM revaluation, there was a net capital outflow of $225 million in the first nine months of the year. Long-term outflows came to $180 million, including substantial repayments of foreign loans by shipping companies and other debtors, and to this was added a short-term capital outflow of $45 million. In the last quarter, however, restrictive monetary measures, together with the reaction following the revaluation of the Deutsche Mark, produced a net inflow of $20 million on long-term and $55 million on short-term capital account.

The $95 million surplus on current account, although smaller than in 1968, is largely explained by a further substantial improvement in trade in ships. This had already shown better results in 1968, when the deficit was reduced from $310 to 105 million, and in 1969 there was actually a net surplus of $90 million. Exports of ships (mainly old vessels), at $325 million, were $50 million higher, and imports of ships (mostly of new ones), at $235 million, were $145 million lower than in 1968. Excluding trade in ships, the trade deficit went up from $685 to 865 million. Exports rose faster than in 1968, by 13 as against 9 per cent., with metals accounting for nearly half of the increase. But the strong expansion of domestic investment and consumption pushed the growth rate of imports up from only 4 per cent. in 1968 to 17 per cent. Roughly 40 per cent. of last year's rise in imports, part of which took place in anticipation of the introduction of a value added tax at the end of the year, was accounted for by transport equipment, machinery and appliances.

The invisible surplus fell last year from $940 to 870 million. Net earnings from shipping were down by $75 million, partly through lower freight rates and partly through the reduction in the merchant fleet, which is reflected in the net surplus from trade in ships. This surplus disappeared in the first quarter of 1970. With the trade deficit (excluding ships) rising from $155 to 235 million over the year, and despite a small increase in invisible receipts, the current account shifted from a surplus of $85 million to a deficit of $15 million. This deterioration was entirely offset by a reversal in the capital account from a net outflow to a net inflow.

Iceland. In 1969 Iceland's balance of payments showed very clearly the benefits of the November 1968 devaluation. Exports, which had declined by 31 per cent. in 1967 and a further 15 per cent. in 1968, rose by 21 per cent. Imports, which had already fallen by 13 per cent. in 1968, went down by another 15 per cent. Consequently, the trade deficit was reduced, from $50 to 10 million. The increase in exports was due to a $10 million rise, to $80 million, in sales of fish products, and the commencement of aluminium exports, which amounted to $7 million. On the import side, purchases of investment goods showed a marked decline.

The large improvement on trade account, together with a modest rise in net invisible receipts, brought the current-account deficit down from $50 to 5 million. Partly offsetting this, there was a drop in net capital imports from $40 to 20 million. Net public loans raised abroad were $10 million lower than in 1968 and with the completion of the first stage of the aluminium plant there was also a $5 million decline in direct investment. The overall balance of payments, therefore, shifted from a $10 million deficit to a $15 million surplus.

Finland. As was to be expected, Finland's balance of payments was no longer as favourable in 1969 as it had been immediately after the 1967 devaluation. Nevertheless, despite a large increase in imports, some reduction in long-term capital inflows and a substantial turn-round on short-term capital account, the overall balance showed a surplus of $50 million.

On trade account there was a deficit of $50 million in 1969, a deterioration of $75 million on the previous year. Exports increased by 21.5 per cent., but a strong recovery of domestic consumption and investment pushed imports, which in 1968 had declined by 5 per cent., up still faster — by 26.5 per cent. There were marked increases, of 6 and 8 per cent., in unit values of exports and imports respectively, so that the volume of exports went up by 15 per cent. and that of imports by 19 per cent. Wood and paper products accounted for 43 per cent. of the rise in the value of exports, and metal and engineering goods for another 30 per cent. On the import side, capital goods accounted for 40 per cent. and goods to be used in production for 37 per cent. of last year's increase. As imports and exports continued to rise by about 20 per cent. in the first quarter of 1970, the trade deficit, at $55 million, was exactly the same as a year earlier.

Net invisible receipts increased by $25 million in 1969, to $65 million, so that the current account still showed a small surplus of $15 million. The net transport surplus went up by $10 million and the cancellation of $20 million of Finland's war debt to Sweden gave rise to a corresponding improvement in the balance of unilateral transfers.

The inflow of long-term capital from abroad came to $65 million, $30 million less than in 1968. Much more significant was the turn-round on short-term capital account, from an inflow of $80 million in 1968 to a net outflow of $30 million. As in a number of other European countries, and for the same reasons, large outflows of short-term funds occurred in the second and third quarters of the year, but were partly offset by an inflow in the final quarter.

Portugal. As shown by the data on monetary movements, the surplus in Portugal's overall balance (including the balance of Portuguese overseas territories vis-à-vis the non-escudo area) declined from $140 to 85 million in 1969. As regards the metropolitan area only, the net inflow of private capital at long and medium term, which had been declining in recent years, fell from $70 million to zero. Financial credits obtained from abroad were smaller than in 1968 and repayments larger, giving a net outflow of $20 million for this item in place of the $25 million net inflow recorded in 1968. The balance of trade credits also showed a shift, of $20 million, from an inflow to an outflow.

The current surplus vis-à-vis foreign countries showed a moderate improvement from $45 to 60 million. Workers' remittances increased by the substantial amount of $130 million, which more than offset a $45 million decline in tourist receipts and a $70 million rise in the trade deficit from $305 to 375 million. On a customs basis, imports, which had shown practically no increase in 1968, went up by 20 per cent. Much of the growth consisted of larger purchases of metals, machinery and transport equipment. Imports of agricultural products — to make up for crop deficiencies — rose substantially. The growth rate of exports also accelerated, though less rapidly, from 7 to 12 per cent.

Spain. In 1969 Spain's balance of payments reverted to deficit. The trade balance deteriorated and the net inflow of long-term capital was smaller than in 1968. These adverse developments were partly offset by a further increase in invisible receipts, so that the basic balance shifted from a surplus of $225 million to a deficit of $65 million. In addition, there was a short-term capital outflow of $155 million, which brought the overall payments deficit to $220 million.

The current-account deficit, at $500 million, was some $200 million greater than in 1968, only about half of the deterioration of $375 million in the trade balance having been offset by an improvement on services account. This was due in particular to a growth in receipts from foreign travel and workers' remittances, which increased by $140 and 105 million respectively. The larger trade deficit primarily reflected the impact on imports of the strong recovery in domestic demand. In addition, however, devaluation rumours gave rise to adverse leads and lags in October and November, following which an import deposit scheme was introduced in December. In 1969, on a customs basis and in terms of value, imports increased by 20 per cent., as against only 1 per cent. the year before. Purchases of raw materials and semi-manufactured goods rose by 28 and 38 per cent. respectively, and those of capital goods by 17 per cent. Food and agricultural imports, which had declined by 12 per cent. in 1968, went up last year by 13 per cent. At the same time the growth of exports also accelerated to almost 20 per cent. Not quite half of the latter rise occurred in trade with EEC countries and most of the rest in trade with countries outside Europe and North America. Sales to North America were a little smaller than in 1968. In the first quarter of 1970 the growth of exports slowed down to 16.5 per cent., while that of imports accelerated to 23.5 per cent.; the trade deficit came to $600 million, against $450 million a year earlier.

The decline in the long-term capital inflow from $530 to 430 million in 1969 was concentrated in the public sector, where net foreign borrowing fell from $130 to 25 million. On private account the net inflow was therefore about the same as in 1968, net receipts from direct and real-estate investment being higher and those from portfolio investment and foreign loans lower.

IV. GOLD, RESERVES AND FOREIGN EXCHANGE.

Gold production, markets and reserves.

For the fourth year in succession, world gold production showed very little change. US gold production, which had been adversely affected in the preceding two years by the strikes in the copper-mining industry, recovered in 1969, with a gain of 255,000 ounces, and South African output edged up by about 110,000 ounces. These increases, however, were roughly offset by the continued decline in the gold production of Canada and Australia.

World gold production.

Countries	1929	1940	1946	1953	1965	1966	1967	1968	1969
	weight, in thousands of fine ounces								
South Africa . . .	10,412	14,046	11,927	11,941	30,540	30,869	30,535	31,169	31,276
Canada	1,928	5,333	2,849	4,056	3,606	3,319	2,986	2,688	2,434
United States . . .	2,059	4,870	1,575	1,958	1,705	1,803	1,584	1,478	1,733
Ghana	208	886	586	731	782	684	767	727	707
Australia	427	1,644	824	1,075	878	917	805	786	700
Philippines	163	1,121	1	481	437	454	491	527	540
Japan.	298	405	43	228	265	254	253	238	253
Colombia	137	632	437	437	319	281	258	240	219
Mexico	655	883	420	483	216	214	165	177	181
Total listed .	16,287	29,820	18,662	21,390	38,748	38,795	37,844	38,030	38,043
Other countries[1] .	2,053	7,640	2,768	2,870	2,392	2,405	2,316	2,440	2,437
Estimated world total[1] .	18,340	37,460	21,430	24,260	41,140	41,200	40,160	40,470	40,480
	in millions of US dollars								
Value of estimated world total at $35 per fine ounce .	640[2]	1,310	750	850	1,440	1,440	1,405	1,415	1,415

[1] Excluding the USSR, eastern Europe, mainland China and North Korea. [2] At the official price of $20.67 per fine ounce then in effect, $380 million.

In South Africa the sharply divergent trends of output in the older and newer mining areas continued during 1969. In the newer mining areas production rose by 530,000 to 26.9 million ounces, whereas the rest of South African output fell by a further 420,000 to 4.4 million ounces. Owing to the substantial premium of the free-market price over the official gold price and the large amounts the South African authorities were able to market at these prices, 1969 was quite a good year for the South African gold-mining industry. Average receipts per ounce of gold rose from $35.4 in 1968 to $37.1, and despite a moderate decline in the average gold content of the ores mined and a small increase in costs per ton of ore milled, profits per ounce of gold went up from $13.3 to $14 (excluding profits from uranium). Total profits, including premiums from special sales not counted in the above figures, advanced from $410 to 457 million.

Calculated at $35 per fine ounce, total western output was worth $1,415 million in 1969. As has been the case every year since 1965, no sales of gold by Russia were reported.

As regards the absorption of new gold production, the main feature of 1969 was the sharp increase, in comparison with the last nine months of 1968, in the proportion sold on the free market. Since the suspension of the gold pool arrangements in March 1968, variations in the amount of gold coming onto the market have been governed essentially by the volume of supply from South Africa. Given the stability of South African production, this in turn depends on the state of South Africa's balance of payments and on the amount of South African sales to official holders. In the nine months following the suspension of the gold pool arrangements, South Africa had added $500 million, or about 60 per cent. of its current gold output, to reserves. Owing mainly to the deterioration of its balance of payments, in 1969 South Africa sold not only the whole of its current production but also $130 million out of its official reserves. Consequently, and despite continuing foreign official purchases from South Africa, the total amount of new gold coming onto the market is estimated to have risen from $390 million in the last nine months of 1968 to $1,305 million in 1969, or from 37 to 92 per cent. of current world output. In 1966, the last full year before the 1967–68 gold crisis, non-monetary absorption of gold is estimated to have amounted to $1,410 million. While accurate figures for the consumption of gold by industry and the arts are not available, the amount of new gold sold on the market during 1969 suggests that privately-held stocks increased somewhat during the course of the year.

Estimated uses of gold.

Items	1968 April to December	1969 1st quarter	2nd quarter	3rd quarter	4th quarter	Year
	in millions of US dollars					
Change in South African reserves	500	125	— 105	— 170	20	— 130
Change in western official holdings outside South Africa	170	20	25	105	90	240
Amount sold on free market *	390	200	430	430	245	1,305
Total (= gold production)	1,060	345	350	365	355	1,415

* Residual figures.

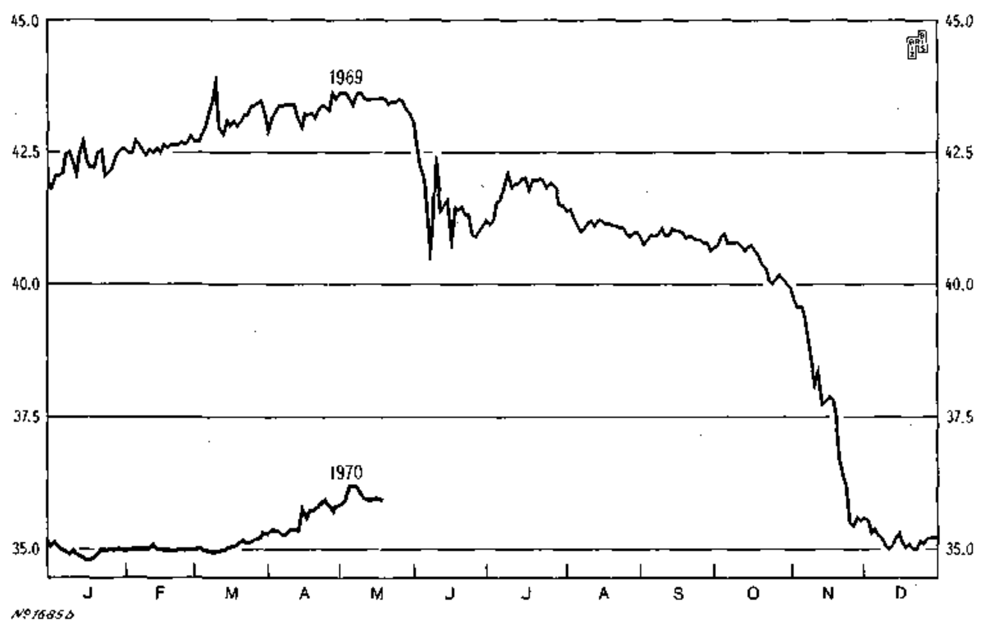
The amount of new gold added to western official stocks outside South Africa during 1969 was $240 million. This included a $50 million repayment in gold by South Africa to the IMF on a drawing it had made in April 1969 and the conversion into gold at the South African Reserve Bank of $110 million of South African currency drawn on the Fund by other countries.

As regards the development of prices in the free gold market, 1969 came in like a lion and went out like a lamb. The year opened with the London fixing price at about $42 per ounce of gold, and the upward trend continued until the end of April, when the price stood at $43.6. On the demand side, an important factor in the situation was currency uncertainties, particularly concerning the French franc; in fact the threat of renewed social unrest in France had pushed the price up to a peak of $43.8 on one day in March and the situation that arose out of the resignation of General de Gaulle was largely responsible for the firmness of the gold price at the end of April. On the supply side, taking the first four months of 1969 as a whole, the basic factor in the situation was the continuing relatively low level of South African sales.

From May onwards South African gold sales (mostly, but not entirely, to the market) began to exceed current production. Despite the continued strength of private demand, partly from gold dealers, this led in the further absence of official purchases to some immediate easing of the gold price. It also contributed indirectly to a sharp drop in quotations in early June, when demand began to fall off in the face of expectations of further large South African sales, the more settled political situation in France and the extremely high interest rates then obtainable on the Euro-dollar market.

The free-market price subsequently recovered from its $40.6 low in early June to nearly $42 around the middle of July. Then, towards the end of that month, the announcement of the Group of Ten's agreement on the creation of SDRs led to a renewed easing of quotations. By early August the price was at $41 an ounce and it stayed close to this level until the middle of October, when it began to fall sharply, reaching a low point of $34.75 around the middle of January 1970.

Price of gold bars on the London market.*
In US dollars per fine ounce.



* Daily figures at afternoon fixing.

The pronounced fourth-quarter weakening of the gold market was not a consequence of current South African sales. On the contrary, the total amount of new gold marketed in the last three months of 1969 was less than 60 per cent. of what it had been in either the second or third quarter. It was rather that a number of factors — the ratification and prospective activation of the SDR scheme, the parity changes in France and Germany, the improvement in the situation of sterling and the continuing high level of Euro-dollar interest rates — combined to produce a marked reduction in net demand.

At the end of the year an agreement was reached concerning the IMF's policy with respect to gold purchases from South Africa. Under this agreement the Fund undertakes to buy gold from South Africa at $35 an ounce (less a handling charge): firstly, out of current production up to any amount necessary to meet South Africa's current exchange needs whenever the free-market price of gold falls to or below $35 an ounce; secondly, irrespective of the free-market price, to the extent that South Africa's foreign exchange requirements exceed, over a semi-annual period, what can be obtained through the sale of its total current production; thirdly, up to an amount of $35 million a quarter, gold held by South Africa on 17th March 1968, minus subsequent sales to monetary authorities.

For its part, South Africa has undertaken to sell its current gold production in "an orderly manner" on the market to the full extent of current payments needs. In this connection South Africa has stated that it "does not envisage unusual or non-traditional foreign borrowings or other special transactions" that would affect the amount of new gold it may need to sell in order to meet current payments needs. Moreover, when selling gold other than in the market, the South African authorities "intend in practice normally to offer such gold to the Fund".

In short, the arrangements effectively put a floor of $35 per fine ounce (less the Fund's charge of ¼ per cent.) to the price received by South Africa for its gold but not to the market price of gold. In fact, the market price dropped to 25 cents below $35 per ounce for some days in January 1970. From end-January to mid-March quotations stayed around the official parity and then rose to $36.2 per ounce in early May. During the first three months of 1970 the Fund purchased some $285 million of gold from South Africa, an amount approximately equal to the quarter's production. As South Africa's gold reserve fell by $115 million during the quarter, it must in addition have sold roughly that amount on the market.

After having declined by $2,325 million in the three preceding years, western official gold reserves edged up by $110 million to $41,015 million during 1969. Within this small overall change, there occurred fairly large movements in the gold reserves of some individual countries.

The biggest increase in gold reserves was recorded by the United States. As a result of $1,170 million of purchases and $200 million of sales, its gold stock, after heavy declines in 1967 and 1968, recovered by $970 to 11,860

World gold reserves.

Countries or areas	Changes in 1967	Changes in 1968	Changes in 1969	Holdings at end-1969
	in millions of US dollars			
United States	− 1,170	− 1,175	+ 970	11,860
United Kingdom	− 650	+ 185	− 5	1,470
Other western Europe	+ 150	− 660	− 755	19,670
of which				
Belgium	*− 45*	*+ 45*	*− 5*	*1,520*
Denmark	*—*	*+ 10*	*− 25*	*90*
France	*− 5*	*−1,355*	*− 330*	*3,545*
Germany	*− 65*	*+ 310*	*− 460*	*4,080*
Ireland	*—*	*+ 55*	*− 40*	*40*
Italy	*− 15*	*+ 525*	*+ 35*	*2,955*
Netherlands	*− 20*	*− 15*	*+ 25*	*1,720*
Portugal	*+ 55*	*+ 155*	*+ 20*	*875*
Sweden	*—*	*+ 20*	*—*	*225*
Switzerland	*+ 250*	*− 465*	*+ 20*	*2,640*
Other	*− 5*	*+ 55*	*+ 5*	*1,980*
Canada	− 30	− 150	+ 10	870
Japan	+ 10	+ 20	+ 60	415
Latin America	+ 20	+ 35	+ 55	1,090
Middle East	+ 95	+ 270	− 35	1,055
Other Asia	+ 60	+ 40	− 20	730
Other Africa	+ 95	+ 740	− 90	1,535
of which				
South Africa	*− 55*	*+ 660*	*− 130*	*1,115*
Other countries	+ 20	+ 125	+ 5	435
Total for all countries	− 1,400	− 570	+ 195	39,130
International institutions	− 180	− 130	− 85	1,885
of which				
BIS	*− 200*	*+ 275*	*− 130*	*−480*
European Fund	*− 10*	*− 10*	*+ 25*	*55*
IMF	*+ 30*	*− 395*	*+ 20*	*2,310*
Grand total	− 1,580	− 700	+ 110	41,015

million. There were purchases of $500 million from Germany, $325 million from France and $200 million from the BIS.

The United States apart, increases in individual countries' gold reserves were quite small in absolute amounts, but in some cases fairly large in relation to these countries' total gold stocks. Thus, Japan's gold reserves went up by $60 to 415 million, those of the Democratic Republic of the Congo by $42 to 55 million and those of Argentina by $25 to 135 million.

The largest declines in official gold reserves were shown by Germany, France and South Africa. Germany's gold reserve fell by $460 to 4,080 million, while that of France was reduced by $330 to 3,545 million, nearly $1,700 million down from its 1966–67 peak. The $130 million decrease in South Africa's gold stock to $1,115 million followed upon a $660 million increase in 1968. In contrast to these three countries, where the gold losses were related to balance-of-payments developments, there were two countries where a relatively sharp reduction in official gold holdings went hand in hand with increased total reserves, pointing to some lessening of their interest in gold. Ireland's total reserves expanded by $145 million, while its gold stock was reduced by half to $40 million, and Kuwait's gold holdings were reduced by $35 to 85 million, while its overall reserves edged up slightly to $180 million.

As regards international institutions, the BIS negative spot gold position widened by $130 to 480 million during 1969. It was reduced by $65 million in the first quarter, when there were reversals of end-year operations, and increased by $195 million in the last quarter, when the Bank sold $200 million of gold to the US Treasury. Despite sales of $150 million to member countries in connection with drawings by France and the United Kingdom, the IMF's gold stock showed a small net increase of $20 million.

Preliminary indications are that world gold reserves increased by an estimated $205 million during the first quarter of 1970. Countries' gold reserves are estimated to have gone up by $20 million and those of international institutions by $185 million. The IMF gold stock increased by $200 million, purchases of $285 million from South Africa being partly offset by sales totalling $100 million to twelve other member countries. Changes in individual countries' gold holdings during the quarter included reductions of $115 and 40 million respectively in the reserves of South Africa and Iraq, and increases of $55 and 45 million in those of Japan and the United States.

Global reserves.

Following increases of $1.7 and 2.9 milliard in 1967 and 1968 respectively, countries' global reserves, defined as the total of gold reserves, foreign exchange reserves and Fund reserve positions as reported by the IMF, showed only a very small rise of $0.1 milliard for the year 1969. At the same time there was a marked difference in the composition of the overall change. Countries' total gold reserves, which had fallen in both 1968 and 1969 owing to market sales by the gold pool (partly offset in 1968 by the accumulation of gold in South Africa's reserves), rose by $0.2 milliard in 1969. Even more strikingly, total foreign exchange reserves, which had gone up very substantially in the two preceding years, declined slightly, by $0.3 milliard.

Looked at by groups of countries, the very small growth of global reserves in 1969 was entirely due to events in the developed parts of the world. Indeed, the developing countries' reserves rose by slightly more than they had done in 1968 — $1.3 against 1.1 milliard — though, contrary to what happened in 1968, with virtually the whole of the increase in exchange reserves.

In the developed world, reserve growth in the group of "other developed countries" fell away between 1968 and 1969 from $1.3 milliard to zero. The main factor here was the change from surplus to deficit in South Africa's balance of payments.

It is in the Group of Ten countries that the contrasts between reserve developments in 1968 and 1969 are most marked. These countries' gold stocks, Changes in global reserves, 1967-69.

Areas and periods	Gold	Foreign exchange	IMF reserve positions	Total
	in millions of US dollars			
All countries				
1967	− 1,400	+ 3,650	− 585	+ 1,665
1968	− 570	+ 2,725	+ 740	+ 2,895
1969	+ 195	− 290	+ 240	+ 145
Group of Ten				
1967	− 1,740	+ 3,080	− 480	+ 860
1968	− 2,060	+ 2,080	+ 465	+ 485
1969	+ 310	− 1,585	+ 135	− 1,140
Other developed countries				
1967	—	+ 100	− 125	− 25
1968	+ 965	+ 135	+ 180	+ 1,280
1969	− 160	+ 75	+ 85	—
Developing countries				
1967	+ 340	+ 470	+ 20	+ 830
1968	+ 525	+ 510	+ 95	+ 1,130
1969	+ 45	+ 1,220	+ 20	+ 1,285
Group of Ten excluding United States and United Kingdom				
1967	+ 80	+ 1,810	− 575	+ 1,315
1968	− 1,070	+ 1,350	− 405	− 125
1969	− 655	− 950	− 900	− 2,505
United Kingdom				
1967	− 650	+ 245	—	− 405
1968	+ 185	− 455	—	− 270
1969	− 5	+ 110	—	+ 105
United States				
1967	− 1,170	+ 1,025	+ 95	− 50
1968	− 1,175	+ 1,185	+ 870	+ 880
1969	+ 970	− 745	+ 1,035	+ 1,260

after having fallen in 1968 by just over $2 milliard, rose last year by $0.3 milliard. And their exchange reserves, which in 1968 had risen by just enough to compensate for the loss of gold, fell last year by $1.6 milliard. The official foreign exchange holdings of the United States declined by $0.7 milliard, those of the United Kingdom showed a moderate rise of $0.1 milliard, and in the other countries of the Group exchange reserves were reduced by $1 milliard. Germany's exchange reserves alone fell by $1.1 milliard, and smaller declines in Canada and Italy were more than offset by gains in Belgium and Japan.

Some part of the reason for the much smaller rise of global reserves during 1969 can be found in the fact that IMF reserve positions went up by only $0.2 milliard, whereas in 1968 they had risen by $0.7 milliard. This was not a consequence of any significant decline in member countries' net use of the Fund, but rather reflected the fact that a large part of net drawings in 1969 were made by three European countries — Germany, Belgium and Denmark — all of which drew on Fund reserve positions and not on their credit tranche facilities at the Fund. As a result, their drawings produced no

Composition of changes in global reserves.

Items	1967	1968	1969
	in millions of US dollars		
Change in global reserves	+ 1,665	+ 2,895	+ 145
Gold	— 1,400	— 570	+ 195
IMF reserve positions	— 585	+ 740	+ 240
from: gold subscriptions	+ 35	+ 50	+ 30
members' credit tranche drawings	— 620	+ 690	+ 210
Foreign exchange from special transactions	+ 5,030	+ 4,170	— 2,590
US Government non-marketable bonds	+ 420	+ 1,850	— 450
Central-bank facilities (estimated)	+ 4,120	+ 2,320	— 2,140
UK dollar security portfolio	+ 490	—	—
Other foreign exchange (residual)	— 1,380	— 1,445	+ 2,300

increase in the outstanding total of Fund reserve positions but only a shift in such positions from the drawing countries to the countries whose currencies were drawn.

The essential factor in the failure of global reserves to rise more than insignificantly in 1969 was, however, the small decline in total exchange reserves that occurred during the year. And the reason for this was the quite marked reversal of the special transactions between monetary authorities which had been the source of the substantial increases in exchange reserves that took place in 1967 and 1968. In fact, the "cancellation" of exchange reserves in 1969 brought about by the reimbursement of central-bank credits may be estimated at $2.1 milliard. In this connection it has to be remembered that assistance taken from, or repaid to, the United States by other countries has a double effect on reserve statistics, since both the dollars received or repaid by the borrower, and the corresponding changes in US reserves, have to be counted.

The failure of global reserves to rise significantly during 1969 thus coincided with a more normal development of both gold and foreign exchange reserves than had been the case in some earlier years. In that sense, it represented a change for the better. At the same time, however, it pointed up the absence of any quasi-automatic mechanism for ensuring a steady growth of global reserves. It is this gap that the special drawing rights, introduced on 1st January of 1970, are intended to help fill.

Activation of special drawing rights.

While of less immediate impact on the international monetary situation than the changes in the external position of several major countries, outlined in Chapter I, the introduction of the SDR scheme is potentially the most important new orientation of the monetary system since Bretton Woods. The Amendment to the IMF's Articles of Agreement establishing the SDR facility came into force on 28th July 1969, following its acceptance by the required three-fifths majority of the Fund's membership having four-fifths of total voting power in the Fund. At the Fund's Annual Meeting in October 1969 it was decided to make a first activation of the scheme for a total of $9.5 milliard over the three years 1970–72, with $3.5 milliard of SDRs to be allocated in 1970, and $3 milliard in each of the two succeeding years. In fact, some $3.4 milliard's worth of SDRs was allocated to 104 members of the Fund on 1st January 1970.

The decision to activate the SDR scheme reflected general agreement that there existed a global need to supplement reserves. As evidence of this need two broad indicators were advanced: the increasing recourse by countries in recent years to restrictions on international transactions, mainly but not exclusively in the field of capital transactions; and the increasing recourse to international credit facilities for the financing of balance-of-payments disequilibria and for sustaining reserve growth.

It was provided in the scheme that, in addition to a judgement concerning the global need to supplement reserves, the decision to activate the facility should take into account, as special considerations, both "the attainment of a better balance-of-payments equilibrium" and "the likelihood of a better working of the adjustment process in the future". These considerations related particularly to the persistent deficits of the United States and the United Kingdom. While it was not clear in the summer of 1969 that these countries were sure of attaining a better balance in their external payments, it was accepted that their efforts to do so were not likely to be weakened by the initial allocations of SDRs. Furthermore, it was recognised that once they were effectively moving towards a better balance on external account, their efforts would be impeded if other countries were forced to take defensive measures because of lack of growth in global reserves. In this connection, it was significant that there appeared to be only a few countries that were prepared to accept substantial reductions in their monetary reserves. These considerations led to the conclusion that it would not be inappropriate, from the point of view either of the attainment of a better balance-of-payments equilibrium or of a better working of the adjustment process, to proceed with an early allocation of special drawing rights. At the same time, however, the doubts that still remained about the fulfilment of these considerations weighed in the choice of three years as the first basic period for the operation of the scheme, instead of the five-year basic period normally provided for. This will ensure earlier review of how the operations of the special drawing rights are working out in practice and give the opportunity for any changes that may seem warranted.

The total allocation of $9.5 milliard provided for during the first basic period represented a compromise between different points of view. Projections of future reserve needs, as well as of the extent to which these might be met through growth of the total of traditional reserve assets, were made. However, not only were the hazards of such calculations evident but also there were some differences of conception as to what constitutes global needs. The amounts finally decided upon took some account of the views both of those who believed that the growth of reserves had been inadequate for some time past, and who therefore favoured substantial initial allocations, and of those who urged a more cautious approach until experience had been gained with the operation of the scheme.

During the first quarter of the scheme's operation, twenty-nine countries used a total of \$301 million of SDRs. \$105 million was used by the United Kingdom and the bulk of the remainder by twenty-six less-developed countries. Twelve countries used 70 per cent. or more and a further eight countries between 25 and 50 per cent. of their allocations. Twenty participants received a total of \$153 million of SDRs during the quarter. \$141 million of this amount was transferred to twelve industrial countries, of which the United States accounted for \$53 million. In addition, \$148 million of SDRs was transferred to the Fund, partly for currency repurchases and partly in payment of Fund charges.

Monetary movements.

United States. For the year 1969 as a whole, the change in the external monetary position of the United States was dominated by US bank borrowing of \$7 milliard from the Euro-dollar market through their foreign branches. Mainly because of this, US liquid liabilities to non-official foreigners went up by \$8.8 milliard, so that despite a recorded \$7.1 milliard deficit in the balance of payments, measured on the liquidity basis, for the second year running a surplus was recorded on the official reserve transactions basis.

Owing to certain statistical peculiarities, described in Chapter III of this Report, the liquidity balance for 1969 did not accurately reflect the size of the underlying payments deficit. At the same time, owing to certain statistical limitations the sum of the changes in US official reserves and in reported liabilities to foreign official agencies did not accurately reflect the balance of official monetary transactions. The official settlements surplus of \$2.7 milliard was made up of a \$1.2 milliard rise in reserves and a \$1.5 milliard decline in liabilities to foreign official agencies. The latter figure appears to indicate that foreign official holders reduced their dollar balances by \$1.5 milliard during 1969. Data on global foreign exchange reserves reported to the IMF, however, together with what is known about changes in official holdings of currencies other than dollars, suggest that there may in fact have been little change during 1969 in total official foreign holdings of dollars. The explanation of this discrepancy is that the US reporting of liabilities to foreign official agencies covers only those official dollar balances of foreign countries that are held with banks in the United States. Evidently, therefore, there must have been during 1969 a marked increase in dollar reserves held with banks outside the United States, which show up in the US statistics as part of the very large rise in liabilities to non-official foreigners. The recorded official settlements surplus of \$2.7 milliard thus considerably overstates the real improvement in the net reserve position of the United States during 1969.

United States: External monetary movements.[1]

Items	1968	1969 Year	1969 1st quarter	1969 2nd quarter	1969 3rd quarter	1969 4th quarter	1970 1st quarter
	In millions of US dollars (+ = increase in assets, decrease in liabilities)						
Reserves	+ 880	+ 1,190	+ 50	+ 300	+ 685	+ 155	+ 385
of which							
Gold	*−1,175*	*+ 970*	*− 55*	*+ 320*	*+ 10*	*+ 695*	*+ 45*
Foreign exchange	*+1,185*	*− 815*[2]	*+ 75*	*− 245*	*+ 440*	*−1,085*	*− 830*
Special drawing rights	—	—	—	—	—	—	*+ 920*
IMF gold tranche position	*+ 870*	*+1,035*	*+ 30*	*+ 225*	*+ 235*	*+ 545*	*+ 250*
Liabilities to foreign official agencies	+ 760	+1,520	+1,660	+ 905	−1,730	+ 685	−2,315
of which							
Liquid	*+3,100*	*+ 525*	*+1,705*	*+ 540*	*−2,240*	*+ 520*	*−2,740*
Non-liquid	*−2,340*	*+ 995*	*− 45*	*+ 365*	*+ 510*	*+ 165*	*+ 425*
Balance on official reserve transactions basis	+1,640	+2,710	+1,710	+1,205	−1,045	+ 840	−1,930
less Non-liquid liabilities to official foreigners	−2,340	+ 995	− 45	+ 365	+ 510	+ 165	+ 425
Total change in official liquid position	+3,980	+1,715	+1,755	+ 840	−1,555	+ 675	−2,355
plus Liabilities to non-official foreigners	−3,810	−8,775	−3,025	−4,655	−1,420	+ 325	+1,620
Balance on liquidity basis	+ 170	−7,060	−1,270	−3,815	−2,975	+1,000	− 735

[1] See note to table on page 84. [2] The 1969 decline in US official foreign exchange holdings shown in the above table is $70 million greater than that shown in the table on page 115. This is because it excludes the effect of the DM revaluation on this item.

Looking at the details of the recorded official monetary movements, the striking feature on the assets side is the improvement in the composition of US reserves. The gold stock increased by $970 million, while official holdings of convertible foreign exchange, which represent overwhelmingly the counterpart of US short-term assistance to foreign monetary authorities, declined by $815 million as a result of repayments by the United Kingdom and France. These developments contrasted sharply with the experience of 1968, when there were gold losses of $1,175 million and an increase in official exchange holdings of $1,185 million. Reinforcing the favourable developments in gold and foreign exchange holdings, the third component of US monetary reserves, the gold tranche position at the IMF, showed a continuation of the upward trend seen in 1968, with a further increase of $1,035 million to a record level of $2,325 million at the end of the year.

On the liabilities side, the reduction was mainly in the non-liquid component following the discontinuation of the window-dressing operations described in Chapter III. Foreign official agencies' holdings of dollar time deposits and certificates of deposit with original maturities of over one year fell by $835 million in the course of 1969. Non-liquid official liabilities were also affected by a $365 million decline in foreign official holdings of non-marketable medium-term US Government paper, including Export-Import Bank certificates of participation.

In the first quarter of 1970 the unadjusted liquidity and official reserve transactions balances were both in deficit. After taking credit for the first allocation of SDRs, these deficits were $0.7 and 1.9 milliard respectively. Excluding the SDR allocations, the figures are $1.6 and 2.8 milliard. The reason why the official-sector balance was much more unfavourable than the liquidity balance is that, contrary to what happened during most of 1969, there was an outflow of short-term funds in the form of a $1.6 milliard decline in liquid liabilities of US banks to non-official foreigners. This included $1 milliard of repayments by US banks of earlier borrowings from their foreign branches. The receipt of $0.9 milliard of SDRs, together with the fact that dollar holdings of foreign official institutions increased by $2.3 milliard, enabled the United States to show a $0.4 milliard increase in gross reserves despite the sizable deficit on the official reserve transactions basis.

United Kingdom. On the external monetary side, the improvement in the UK balance of payments and in the position of sterling that took place in 1969 and continued during the first quarter of 1970 allowed the British authorities to make large repayments of official external indebtedness. During these fifteen months short-term indebtedness to foreign monetary authorities was reduced by $3,780 million, more than half of it in the first quarter of 1970 alone, and there were net repayments of $275 million to the IMF. In addition, official monetary assets increased by $290 million; this was more than accounted for by special drawing rights, the gold and dollar reserves actually declining slightly over these fifteen months.

For the year 1969 the official financing surplus amounted to $1,740 million. While most of this originated in the $1,365 million balance-of-payments surplus, there were also net receipts of $375 million from monetary movements other than official financing. This inflow of $375 million was, by and large, the net result of three main factors: a rise of $700 million in sterling balances other than those representing the counterpart of central-bank assistance; net miscellaneous capital inflows of $480 million; and, on the other hand, an outflow of $695 million in the form of increased external sterling claims of UK banks.

The rise in sterling balances was mainly in the sterling area, where it amounted to $655 million. To a large extent it reflected balance-of-payments developments in this group of countries, but there was also some increase in the proportion of their reserves held in sterling. In fact, total officially-held sterling-area balances went up during the year by $930 million, of which $695 million is estimated to be covered by the September 1968 guarantees.

Miscellaneous capital inflows amounted to the unusually high figure of $480 million. And this figure includes an even larger amount — estimated at $670 million — of import credit received. Much of the import credit was taken during the first half of the year, in connection with the import deposit scheme introduced in November 1968.

Export credit recorded within monetary movements is estimated to have increased during 1969 by the same amount as import credit, i.e. $670 million. And it is export credits that essentially account for the further expansion of $695 million in the banks' external sterling claims, nearly three-quarters of which consisted of a rise in claims on the non-sterling area.

United Kingdom: External monetary movements.

Items	1969 Year	1969 1st quarter	1969 2nd quarter	1969 3rd quarter	1969 4th quarter	1970 1st quarter
	in millions of US dollars (+ = increase in assets, decrease in liabilities)					
Official financing						
Reserves	+ 110	+ 50	— 25	— 10	+ 95	— 125
Special drawing rights	—	—	—	—	—	+ 305
Repayments to:						
Foreign monetary authorities	+ 1,605	+ 280	+ 520	— 125	+ 930	+ 2,175
in sterling	*+ 1,460*	*+ 150*	*+ 735*	*— 30*	*+ 605*	.
in foreign currencies	*+ 145*	*+ 130*	*— 215*	*— 95*	*+ 325*	.
IMF	+ 25	+ 300	— 325	+ 25	+ 25	+ 250
Total	+ 1,740	+ 630	+ 170	— 110	+ 1,050	+ 2,605
Other monetary movements						
Other sterling liabilities	— 700	— 305	— 150	+ 210	— 455	.
to sterling-area holders	*— 655*	*— 450*	*— 85*	*+ 120*	*— 240*	.
to non-sterling-area holders	*+ 90*	*+ 175*	*— 65*	*+ 120*	*— 140*	.
to international institutions	*— 135*	*— 30*	—	*— 30*	*— 75*	.
Sterling claims of UK banks on non-residents	+ 695	+ 130	+ 210	+ 140	+ 215	.
UK banks' foreign currency liabilities (net)	+ 115	+ 25	+ 35	+ 85	— 30	.
UK banks' liabilities in OSA currencies (net)	— 5	— 15	+ 25	— 30	+ 15	.
Miscellaneous capital	— 480	— 240	— 65	— 5	— 170	.
Total	— 375	— 405	+ 55	+ 400	— 425	.
Overall balance	+ 1,365	+ 225	+ 225	+ 290	+ 625	.

Looking at the course of monetary movements other than official financing through the year, there were considerable fluctuations from quarter to quarter, owing mainly to variations in the movements of sterling balances and in the miscellaneous capital inflow. The banks' external sterling claims, on the other hand, increased fairly steadily from quarter to quarter, reflecting the rise in exports and export credit. In the first quarter both the miscellaneous capital inflow and the rise in sterling balances were substantial. The former reflected rather closely the first effects of the import deposit scheme, which caused import credits received during the quarter to reach the high figure of $265 million. The $305 million rise in sterling liabilities (other than those representing the counterpart of assistance) was more than accounted for by the sterling area, where favourable seasonal factors plus some rebuilding of sterling reserves as a consequence of the September 1968 guarantees produced an increase of $450 million in these countries' balances. In the second and third quarters the miscellaneous capital inflow fell off quite sharply, though the volume of new import credits received in the second quarter was as large as it had been in the first. At the same time, seasonal factors caused the sterling area's sterling balances to rise more slowly during the second quarter and then to decline by $120 million in the third. The non-sterling area's sterling balances also declined by $120 million in the third quarter, no doubt as a result of the uncertainties in the international monetary situation. Then, in the final quarter, there was another substantial rise both in sterling balances and in miscellaneous capital inflows. In addition to a renewed expansion of $240 million in sterling-area sterling balances, there was this time also a $140 million increase in the balances of the non-sterling area (excluding the counterpart of assistance) reflecting the return of confidence in sterling. The miscellaneous capital inflow during this quarter included the receipt of a further $130 million of import credit, as domestic monetary conditions remained very tight.

France. In the financing of France's external deficit during the first nine months of 1969 there was a sharp contrast between the first quarter of the year and the two succeeding quarters. In the first quarter, when the overall payments deficit was $560 million, the banks reduced their net foreign positions by $745 million, thus allowing an increase of $185 million in net official monetary assets. The reduction in the banks' foreign positions was essentially the result of an instruction from the Bank of France in January that all banks with net asset positions in foreign exchange vis-à-vis non-residents were to bring them into balance by end-April and that all banks with net liability positions in foreign exchange vis-à-vis non-residents were to maintain them at least at the existing levels.

France: External monetary movements.

Items	1969		
	1st quarter	2nd and 3rd quarters	4th quarte
	in millions of US dollars (+ = increase in assets, decrease in liabilities)		
Net official assets	+ 185	− 1,485*	+ 200*
of which			
Reserves	− 215	+ 20	− 175
IMF credit tranche position	—	− 500	—
Other (net)	+ 400	−1,005*	+ 375*
Banks' net position	− 745	+ 115*	+ 50*
Overall balance	− 560	− 1,370*	+ 250*

* BIS provisional estimates.

The banks complied with this regulation partly by reducing their foreign currency assets abroad and partly by borrowing foreign currency from non-residents — their foreign currency claims on non-residents fell by $295 million and their foreign currency liabilities to non-residents rose by $390 million during the first quarter.

In the second and third quarters the pattern of financing changed completely and the overall deficit was fairly closely reflected in a decline in net official assets. This included substantial use of central-bank credit facilities and a $500 million drawing on the IMF in September.

Then, in the last quarter, when the balance of payments moved into surplus, the French authorities used the inflow of exchange, together with $175 million from the reserves, to repay part of their indebtedness to central banks. During the first months of 1970 there was a substantial further increase in net official monetary assets. This, together with a further drawing of $485 million on the IMF, permitted the repayment of all outstanding central-bank debts by April, as well as some increase in reserves.

Germany. During the period under review there were large swings both in the level of net official monetary assets and, to a lesser but not insignificant extent, in the net foreign position of the banking system.

In the first quarter of 1969, as well as an overall payments deficit of $635 million, there was a net outflow of funds through the banks of $1,180 million. The principal reason for the outflow was that non-residents reduced their DM balances at German banks by $720 million, thereby reversing the build-up of these balances that had taken place during the previous quarter, which had included the November 1968 exchange crisis. In addition, the banks' DM claims on non-residents went up by $225 million. Net official assets fell by $1,815 million during the quarter, the exchange reserves going down by $1,530 million.

Germany: External monetary movements.

Items	1969			1970
	1st quarter	2nd and 3rd quarters	4th quarter	1st quarter
	in millions of US dollars (+ = increase in assets, decrease in liabilities)			
Net official assets	− 1,815	+ 3,730	− 4,920	+ 355
Gold	—	+ 55	− 515	—
Convertible foreign exchange	− 1,530	+ 3,735	− 3,350	+ 560
Special drawing rights	—	—	—	+ 220
Other reserve assets	− 95	+ 75	− 220	− 500
IMF reserve position	− 160	+ 110	− 1,160	—
Other (net)	− 30	− 245	+ 325	+ 75
Banks' net position	+ 1,180	− 1,135	− 1,230	− 415
Overall balance	− 635	+ 2,595	− 6,150	− 60

In the second and third quarters of the year, which included the April–May and August–September inflows of funds, there was an overall external surplus of $2,595 million. And during the third quarter there was also a $1,045 million inflow through the banking sector, with the banks reducing their DM claims on non-residents by $460 million and non-residents adding $430 million to their DM balances at German banks. The official-sector surplus for the April–September period therefore amounted to $3,730 million and this was broadly reflected in the rise of exchange reserves. As already mentioned on page 6, part of the increase in the reserves was used

Continental European countries, Canada and Japan: External monetary positions.

Countries	End of year	Gold and foreign exchange (net)	Net IMF and GAB position	Total official assets (net)	Commercial banks (net)	Total foreign assets (net)	Changes (+ = increase in assets, decrease in liabilities): Total official assets	Changes: Commercial banks
		In millions of US dollars						
Austria	1968	1,355	160	1,515	− 10	1,505	+ 35	+ 80
	1969	1,385	165	1,550	60	1,610	+ 35	+ 70
Belgium	1968	2,155	300	2,455	− 735	1,720	− 280	+ 80
	1969	2,410	155	2,565	− 675	1,890	+ 110	+ 60
Denmark	1968	340	85	425	65	490	− 85	+ 75
	1969	425	—	425	− 10	415	—	− 75
Finland	1968	350	—	350	− 110	240	+ 245	− 5
	1969	300	40	340	− 50	290	− 10	+ 60
France	1968	3,270	—	3,270	− 60	3,210	−3,705	+ 500
	1969	2,670[1]	− 500	2,170[1]	− 640[1]	1,530[1]	−1,100[1]	− 580[1]
Germany	1968	8,815	1,515	10,330	235	10,565	+1,735	− 615[2]
	1969	7,155	305	7,460	−1,080	6,380	−3,005[2]	−1,185[2]
Greece	1968	295	25	320	10	330	+ 35	—
	1969	290	25	315	10	325	− 5	—
Iceland	1968	25	− 5	20	− 10	10	− 10	—
	1969	35	− 10	25	—	25	+ 5	+ 10
Ireland	1968	495	45	540	180	720	+ 105	− 135
	1969	630	60	690	45	735	+ 150	− 135
Italy	1968	4,645	895	5,540	735	6,275	− 135	+ 720
	1969	4,160	865	5,025	75	5,100	− 515	− 660
Netherlands	1968	1,950	500	2,450	− 90	2,360	− 165	+ 65
	1969	2,070	440	2,510	—	2,510	+ 60	+ 90
Norway	1968	625	70	695	105	800	+ 35	+ 115
	1969	615	85	700	45	745	+ 5	− 60
Portugal	1969	1,365	20	1,385	155	1,540	+ 130	+ 10
	1969	1,430	20	1,450	175	1,625	+ 65	+ 20
Spain	1968	1,095	—	1,095	− 50	1,045	+ 45	+ 60
	1969	835	—	835	− 10	825	− 260	+ 40
Sweden	1968	635	165	800	275	1,075	− 20	− 25
	1969	560	100	660	85	745	− 140	− 190
Switzerland	1968	4,485	—	4,485	510	4,995	+ 625	+ 525
	1969	4,495	—	4,495	655	5,150	+ 10	+ 145
Turkey	1968	70	− 50	20	.	.	− 15	.
	1969	20	− 40	− 20	.	.	− 40	.
Total	1968	31,970	3,725	35,695	1,205[3]	36,860	−1,425	+1,430[3]
	1969	29,485	1,710	31,195	−1,315[3]	29,900	−4,635	−2,390[3]
Canada	1968	2,635	205	2,840	960	3,800	+ 130	+ 305
	1969	2,415	480	2,895	1,455	4,350	+ 55	+ 495
Japan	1968	2,570	290	2,860	− 790	2,070	+ 860	+ 240
	1969	3,035	625	3,660	695	4,355	+ 800	+1,485

[1] BIS provisional estimates. [2] After elimination of statistical changes. [3] Excluding Turkey.

Note: For Group of Ten countries, plus Switzerland, the figures (with the exception of those for France in 1969) are those used for multilateral surveillance. They do not in most cases correspond exactly to published reserve figures.

to recycle the inflow of funds, directly to the United Kingdom and France as well as through the BIS to other countries that were feeling the effects of the German surplus.

In the last quarter of the year there was an overall payments deficit of $6,150 million. With their liquidity positions coming under heavy pressure from the large external deficit and the associated increase in their domestic lending, the banks reduced their net foreign position by $1,230 million. The total of official financing required during the quarter was $4,920 million. Once again, the main change was in the exchange reserves, which declined by $3,350 million, including the liquidation of the earlier recycling operations. In addition, Germany sold $500 million of gold to the United States, its claims on the IMF were reduced by $1,160 million and it cashed in $215 million of non-marketable US Government bonds denominated in Deutsche Mark.

The overall deficit fell very sharply in the first quarter of 1970. Including Germany's first allocation of $200 million of SDRs, it was only $60 million; without the SDRs, it was $260 million. The banks' net foreign position deteriorated by a further $415 million and net official assets went up by $355 million. The German authorities cashed in a further $540 million of non-marketable US Government bonds, so that, in addition to the SDRs received, there was also a $560 million rise in the exchange reserves.

Italy. The substantial deterioration in Italy's balance of payments in 1969, to an overall deficit of $1,175 million, had as its monetary counterparts a reduction of $660 million in the banks' net foreign position and a decline of $515 million in net official monetary assets.

Most of the decline in the banks' net foreign assets took place in the second quarter of the year. During the first quarter an outflow of capital, attracted by higher interest rates abroad, had led to a fall of $380 million in net official assets. In March the authorities requested the banks to bring their net foreign position, which at end-January had shown assets of over $800 million, into balance by mid-year. The banks' net foreign assets in fact declined by $530 million during the second quarter — an amount which fully covered the overall payments deficit for the quarter and thus eliminated the need for any official financing during these months, when rates in the Euro-dollar market were at their highest. There was a further $230 million decline in the banks' net foreign position during the last quarter, which brought their net foreign assets down to $75 million by the end of the year.

There were two main components of the $515 million fall in net official assets for the year as a whole. Official holdings of medium and long-term external assets were reduced by $300 million, including the repayment by the US Treasury of a $100 million non-marketable security denominated in lire. And official liabilities to foreign monetary authorities increased by $155 million. The first-line reserves of gold and dollars, and the IMF reserve position, showed little change for the year as a whole.

In January and February 1970 the external situation worsened very considerably. There was an overall deficit of $685 million in these two months, even after taking credit for an SDR allocation of $105 million; and, with a $95 million outflow of funds through the banks, net official assets declined by $780 million. Official liabilities rose by $820 million, essentially through drawings on the Federal Reserve swap line. In March the loss of reserves was halted and there was an overall surplus of $80 million.

In *Belgium* and the *Netherlands*, the payments deficits recorded for 1968 were replaced by surpluses in 1969. In both countries, but particularly in the Netherlands, the surplus for the last quarter of the year was greater than that for the year as a whole, reflecting the impact of the DM revaluation.

Belgium. Over the first nine months of the year there was a small external deficit of $20 million. Broadly speaking, monetary movements during this period took the form of offsetting shifts between the official and banking sectors. The banks' net foreign liabilities declined by $150 million. Non-residents' holdings of Belgian francs were reduced by $145 million, mostly in the third quarter. Over the same nine months net official financing requirements therefore amounted to $170 million. These were more than covered by drawings of $195 million on the swap facility with the Federal Reserve and a decline of $230 million in the IMF reserve position, half of which resulted from Belgian mobilisation of claims on the Fund (including GAB) in July, so that the exchange reserves actually rose by $225 million.

In the final quarter of the year there was an overall payments surplus of $190 million. In addition, the banks' foreign position reversed itself by $90 million, including a $60 million rebuilding of non-residents' Belgian franc balances, so that the net official position improved by $280 million. Drawings on the Federal Reserve swap facility, which at one point in August had reached $245 million, were reduced by $205 million to nil during the quarter. And the Fund reserve position was reconstituted to the extent of $85 million, partly through direct repayments and partly as a result of Germany's recourse to the Fund in November and December. Moreover, as there was at the same time a $120 million reduction in the National Bank's portfolio of export bills, the exchange reserves also rose during the quarter, by $125 million. A further overall surplus of $65 million during the first quarter of 1970 was about equal to Belgium's SDR allocation of $70 million. The banks' net foreign liabilities declined by $25 million and the net official assets rose by $40 million, including the SDR allocation.

Netherlands. During the first nine months of 1969 there was an overall payments deficit of $95 million. Parallel with this, the banks' net foreign position improved by $115 million, mainly in the form of a $75 million rise in net foreign currency claims on non-residents, reflecting the attraction of Euro-dollar interest rates. In fact, during the first six months of the year the improvement in the banks' foreign position was $160 million. Early in July, as described on page 141, the Nederlandsche Bank acted to control this outflow and the banks' net foreign assets then declined by $45 million during the third quarter.

Over the same nine months net official assets declined by $210 million. A net amount of $110 million was drawn on the Federal Reserve swap facility — $190 million to end-July, followed by repayments of $80 million in August; and the IMF reserve position declined by $135 million.

In the last quarter of the year, when there was an overall surplus of $245 million, the net official monetary position improved by $270 million. The outstanding swap drawings were repaid; the IMF reserve position rose by $80 million, almost entirely as a result of Germany's use of the Fund's resources; and the exchange reserves went up by $75 million.

The overall balance for the first quarter of 1970 was a surplus of $90 million; as in Belgium, this was about equal to the allocation of SDRs, which in the Netherlands' case amounted to $85 million. Excluding the SDR allocation, monetary movements during the first quarter consisted of a $45 million inflow through the banks and a roughly equal rise in net official assets.

Sweden. During the first nine months of 1969 Sweden's net external monetary assets fell quite substantially, from $1,075 to 710 million. Net official assets declined by $280 million — the exchange reserves by $215 million and the IMF reserve position by $55 million. The banks' net foreign assets also fell, by $80 million, with their net foreign currency claims on non-residents going down by $95 million.

Between the third and fourth quarters of the year the balance of payments shifted from a deficit of $80 million to a surplus of $35 million. This was accompanied by a further $110 million reduction of the banks' net foreign assets, again concentrated on their foreign currency positions, so that there was an improvement of $140 million in the official monetary position. Exchange reserves rose by $160 million during the quarter.

An overall surplus of $60 million in January 1970 (including a $40 million allocation of SDRs) was followed in February and March by deficits totalling $100 million. For the quarter as a whole there was no change in the banks' net foreign position and net official assets declined by $40 million, the SDR allocation being more than offset by a $80 million drop in exchange reserves.

Switzerland. In 1969 Switzerland's overall payments surplus fell from $1,150 to 155 million. The table on page 124 shows the external monetary counterparts of the 1969 surplus to be an increase of $145 million in the banks' net foreign assets and a very small rise of $10 million in net official monetary assets. As usual, however, the significance of these figures can only be seen in the light of the end-year exchange transactions between the Swiss

National Bank and the Swiss commercial banks. End-year swap transfers of dollars from the banks to the National Bank were $45 million higher in 1969 than the year before and totalled $795 million. On the other hand, the National Bank redeposited with the banks for reinvestment abroad $155 million of the dollars it received from them under swaps at end-1969. (These deposits are therefore included in the foreign exchange assets of the banks, and not of the National Bank, at the end of 1969.) Thus, the effective end-year transfers of dollars from the banks to the National Bank were $110 million less in 1969 than they had been in 1968. If allowance is made for this, the change in Switzerland's external position during 1969 consists of a $120 million increase in net official assets and a rise of only $35 million in the banks' net foreign position.

Taking the actual changes in net official assets during 1969, the gold stock rose by $20 million and the exchange reserves declined by $110 million. Other net official assets, not included in the reserves, increased by about $100 million, including the purchase of $95 million of US Government non-marketable bonds.

In the first quarter of 1970 net official assets went down by $430 million. The reversal of end-year operations produced a decline of $710 million during January, while end-quarter window-dressing operations led to an increase of $305 million in March. This was then almost exactly reversed in April.

Other European countries. Austria's payments surplus for 1969 amounted to $105 million, almost the same as in the preceding year. And the overall pattern of external monetary movements was also similar to that in 1968, with the banks' net foreign position increasing by $70 million and net official assets by $35 million. In the first quarter of 1970 net official assets declined by $25 million and the banks' net foreign assets rose by $35 million. Excluding the SDR allocation of $30 million, however, the decline in net official assets works out at $55 million.

In *Denmark* the balance of payments deteriorated in 1969 to a deficit of $75 million, entirely reflected in a reduction of the banks' net foreign assets. Beween end-1967 and March 1969 the banks' foreign position had increased by $100 million, but it began to fall in the second quarter as a result of instructions from the Nationalbank and this trend continued for the rest of the year. Net official assets were unchanged for the year as a whole, the exchange reserves rising by $110 million at the expense of a $85 million reduction in the IMF reserve position, which included a $45 million drawing on the Fund in May 1969, and one of $25 million in the gold stock. During the course of the year, however, there were quite substantial fluctuations in the net official foreign assets, with a decline of $135 million during the first six months, mostly in the first quarter, and an equal recovery in the last quarter following a tightening of policy in Denmark and the revaluation of the Deutsche Mark. The payments surplus of $25 million in the first quarter of 1970 was the same as Denmark's SDR allocation. Including the SDRs, net official assets showed a very small increase, while the banks' foreign position improved by $20 million. *Finland's* overall surplus declined from the high 1968 figure of $240 million to $50 million for 1969. The overall surplus was less than the $60 million outflow of funds through the banks, so that net official assets declined slightly. The exchange reserves in fact fell by $50 million, but this was mainly because Finland's IMF reserve position increased by $40 million, partly through direct repayments to the Fund and partly through other countries' drawings of markkas. Net official monetary assets rose by $60 million during the first quarter of 1970. $20 million of this represents Finland's SDR allocation and most of the rest had a counterpart in a deterioration of the banks' net foreign position. In *Norway*, as in Denmark, the overall deficit for 1969 was very closely reflected in a decline of $60 million in the banks' net foreign assets. There were substantial offsetting shifts of foreign exchange between the banking sector and the official monetary sector during the course of the year — from the central reserves to the banks in the first and third quarters and then back to the reserves in the last quarter of the year. In the first quarter of 1970 the pattern of monetary movements was reversed again, net official assets declining by $35 million (including a $25 million SDR allocation) while the banks' net foreign assets went up by $45 million.

Portugal's surplus of $85 million gave rise to increases of $65 million in net official assets and $20 million in the banks' foreign assets. The latter, in fact, rose by $55 million during the first nine months of the year, and then declined by $35 million in the final quarter. During the first quarter of 1970 net official assets fell by $55 million. In *Spain*, where the balance of payments turned round quite markedly from a surplus of $105 million in 1968 to a deficit of $220 million, net official monetary assets fell by $260 million. Except for the seasonally favourable third quarter, there were reserve losses throughout the year, increasing from $70 million in the first quarter to $150 million in the fourth. This trend was reversed in the first quarter of 1970, when net official assets, including an SDR allocation of $40 million, rose by $75 million.

Canada. The overall surplus for 1969 was $550 million, which was $115 million higher than in the previous year. Practically the whole of it went to finance a further marked rise of $495 million in the banks' net foreign assets, mainly foreign currency claims on the United States. Within the overall rise of $55 million in net official monetary assets during the year, the IMF reserve position went up by $275 million and the exchange reserves dropped by $220 million. The drop in exchange reserves included the net use of $175 million of non-marketable US Government bonds issued to Canada in 1968 in return for Canadian exemption from the mandatory US controls on capital outflows. During the first quarter of 1970 Canada's net official foreign assets rose by the substantial amount of $500 million. $290 million of this was the counterpart of an inflow of funds through the banks, while a further $125 million represented Canada's first SDR allocation.

Japan. The main feature of external monetary movements in Japan during 1969 was the emergence, for the first time, of a substantial net foreign asset position in the banking sector. In fact, the foreign position of the Japanese banks changed by $1,485 million during the year, from net liabilities of $790 million to net assets of $695 million. This development, which began in the second quarter of the year, was in part a natural consequence of the widening gap between interest rates in Japan and elsewhere, but it was strongly encouraged by the Japanese authorities. In April 1969 the Bank of Japan permitted the banks to borrow in the domestic money market in order to repay Euro-dollar or other foreign indebtedness. The banks then improved their net foreign positions by $1,220 million over the second and third quarters, reducing their gross foreign currency liabilities to non-residents by $390 million while adding $830 million to their gross foreign currency claims on non-residents. Towards the end of September further measures to encourage the build-up of the banks' foreign positions were taken, partly with the object of avoiding too rapid an increase in official reserves. The Bank of Japan, through "en pension" transactions, provided the banks with yen funds for the purchase of foreign exchange from the reserves through renewable 90-day swaps at flat rates. During the last quarter of the year the banks' net foreign assets went up by a further $305 million.

Despite these measures, Japan's net official monetary assets increased by $800 million, or almost 30 per cent., during 1969. And of this amount $575 million was received in the second half of the year. The exchange reserves rose by $390 million and the IMF reserve position by $335 million. Japan also added $60 million to its gold reserve during the year.

In the first quarter of 1970 the overall surplus fell to $105 million, the lowest figure since the corresponding quarter of 1968. Excluding Japan's first SDR allocation, which amounted to $120 million, there was in fact a small overall deficit. The banks' foreign position, reversing the previous trend, declined by $300 million and this, together with the SDR allocation, allowed a rise of $405 million in net official assets.

Operations of the IMF.

The International Monetary Fund experienced another year of high activity in 1969. Member countries' gross drawings and their gross repurchases were both considerably less than in 1968 but their net use of the Fund's resources, at $1,283 million, was not much smaller. This figure includes the repayment to Belgium and Germany, at their request, of $410 million of GAB claims out of other countries' currency subscriptions. Operations by European countries — in particular Belgium, France, Germany and the United Kingdom — accounted for over 80 per cent. of gross drawings and about two-thirds of

International Monetary Fund: Drawings and repurchases in 1969.

Countries or areas	Drawings		Repurchases[1]		Net drawings	
	in millions of US dollars					
Europe		2,410		1,046		1,364
of which						
Belgium	*117*[2]		*33*		*84*	
France	*501*		*—*		*501*	
Germany	*880*[3]		*—*		*880*	
United Kingdom	*850*		*923*		*— 73*	
Other	*62*		*90*		*— 28*	
United States		—		—		—
Canada		—		—		—
South Africa		66		50		16
Middle East		54		33		21
Latin America		177		190		— 13
Asia		127		204		— 77
of which						
India	*—*		*148*		*— 148*	
Indonesia	*66*		*18*		*48*	
Rest of world		37		65		— 28
Total		2,871		1,588		1,283

[1] Includes repayments of $8 million by other members' drawings. [2] Includes Fund's repayments of $70 million of its 1968 borrowings from Belgium. [3] Includes Fund's repayments of $340 million of its 1968 borrowings from Germany.

gross repurchases. Moreover, net drawings by European countries slightly exceeded total net drawings. Outside Europe, transactions included a $148 million repurchase by India and net drawings of $48 and 45 million respectively by Indonesia and Israel.

Seventeen different currencies were drawn on the Fund in 1969, of which by far the most used was the US dollar. Of total gross drawings, $1,340 million was in that currency, followed by $310 million each in Deutsche Mark and yen, $295 million in Canadian dollars, $195 million in lire and $110 million in South African rand. Except for the Deutsche Mark and the lira, these were also the currencies chiefly used on a net basis. Altogether Fund holdings of US dollars, yen, Canadian dollars and rand declined over the year by $1,035, 195, 175 and 95 million respectively. On the other hand, holdings of all the main continental currencies, which had been the ones principally used for drawings during most of the 1960s, increased in 1969. This was particularly the case with French francs and Deutsche Mark, holdings of which, as a result of France's and Germany's recourse to the Fund, increased by $500 and 695 million respectively.

The GAB was activated twice during the year, for a total amount of $390 million, in connection with drawings by the United Kingdom in June and by France in September. Parallel with these operations, the Fund sold $150 million of gold to fourteen countries in order to replenish its holdings of their currencies. On the other hand, the Fund also repaid $715 million borrowed in earlier years, so that its total GAB borrowings declined by $325 million during the year. In addition, there was a $210 million redistribution of GAB claims from Germany to other participants in December 1969.

The GAB is to be renewed again, for a five-year period, as from October 1970.

During the first quarter of 1970 members' gross drawings totalled $706 million and their gross repurchases, including those resulting from other members' drawings, $543 million. The principal drawings were $485 million by France and $150 million by the United Kingdom. The latter country also repurchased $338 million from the Fund; this, together with other members' purchases of sterling, completed the repayment of its $1.4 milliard May 1965 drawing. There was also a further repurchase by India of $57 million during the quarter.

In February 1970 a resolution put forward by the Fund's Executive Directors for increasing members' quotas was approved by the necessary 85 per cent. majority. If all members were to increase their quotas to the maximum proposed, total quotas would go up from their present level of $21.3 milliard to about $28.9 milliard.

Foreign exchange markets.

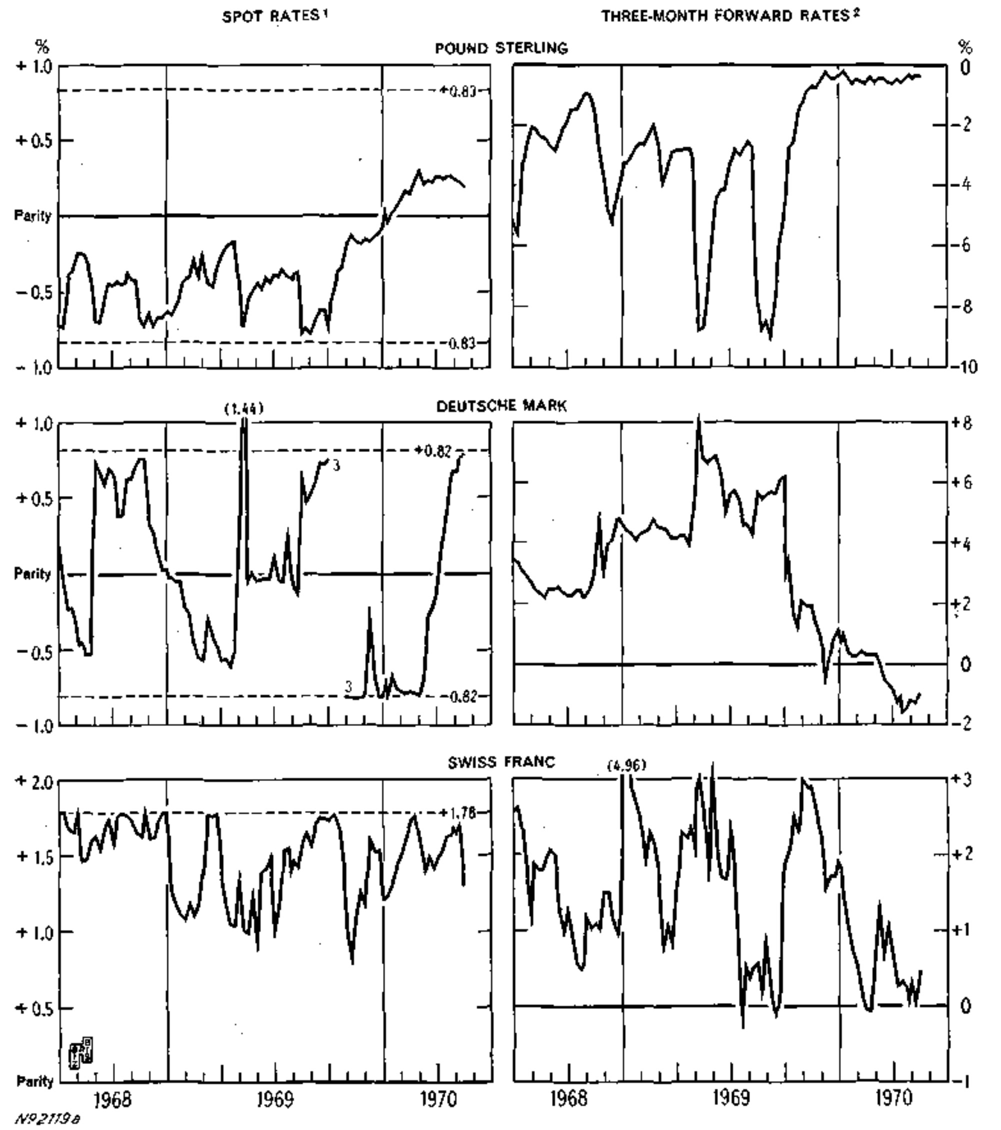
The course of events in the exchange markets over the period under review divides, for most currencies, into two phases. During the first of these, which lasted until the end of September, conditions were basically unsettled owing to the persistence of uncertainties about important currency parities, coupled with the effects of US bank borrowing in the Euro-dollar market. The decision to allow the Deutsche Mark to appreciate, following as it did on the French devaluation and the emergence of a basic external surplus in the United Kingdom, ushered in the second phase, during which the general market situation has been transformed. With the aid of a decline in Euro-dollar rates after the turn of the year, most major European currencies, in contrast to the situation a year earlier, were above par on the dollar in the spring of 1970. The principal exceptions were the Italian lira, the Dutch florin and the Swedish krona.

Sterling. Except for a brief interruption in early March, the position of sterling was improving during the first months of 1969. The unwinding of leads and lags built up during the November 1968 crisis, together with the seasonally high earnings of sterling-area countries, enabled the authorities to buy substantial amounts of foreign exchange in the market. The spot rate against the dollar rose from little above the lower intervention point in early January to only 0.1 per cent. below parity in mid-April.

Towards the end of April sterling weakened again as expectations of possible changes in the parities of the French franc and the Deutsche Mark revived. The spot rate dropped to the lower intervention point and the three-month forward discount on the dollar widened to over 15 per cent. per annum at one point. Once it became clear that no parity changes were contemplated, the pressure eased. In the spot market the rate for the dollar had recovered to 0.4 per cent. below parity by late May, and it then fluctuated rather narrowly around this level until early August, by which time the authorities had recouped the exchange lost during the April/May crisis. In the forward market, too, conditions improved from mid-May, and during July the three-month forward discount on the dollar was mostly below 3 per cent.

The devaluation of the French franc on 11th August brought renewed selling of sterling. The spot rate against the dollar was allowed to fall slightly

Pound sterling, Deutsche Mark and Swiss franc quotations for the US dollar.



¹ Friday figures, as percentages above (+) or below (—) par on the US dollar. ² Friday figures, as premium (+) or discount (—) on the spot rate in percentages per annum. ³ Previous intervention limits suspended on 30th September; new parity from 27th October 1969.

beyond the usual intervention point, to about 0.8 per cent. below parity, both in mid-August and again at the end of the month, by which time the three-month forward discount had widened to 8.5 per cent. per annum. Early in September came the news that the basic balance of payments had moved into surplus during the second quarter, but although there was no real pressure on sterling, spot and forward rates remained weak until the end of September. Then, as soon as the Deutsche Mark began to appreciate and money flowed out of Germany, sterling was one of the main beneficiaries. By early in November the spot rate against the dollar was almost at par and the three-month forward discount had shrunk to less than 1 per cent. The spot rate was held back by the need to purchase as many dollars as possible for the repayment of official indebtedness, as well as by a renewal of pressures in the Euro-dollar market as the year-end approached. When Euro-dollar rates eased at the very end of the year, spot sterling went above par on the dollar for the first time since April 1968.

With a huge inflow of funds — partly to relieve domestic liquidity pressures and partly the reversal of positions previously taken up against the pound — superimposed on a basic balance-of-payments surplus, sterling has continued in heavy demand since the beginning of the year. The spot rate rose to about 0.35 per cent. above parity by early March. In early May, after two reductions in Bank rate, it was still firm and the three-month forward discount on the dollar had almost run off. Following the announcement that a general election would be held in June, quotations eased somewhat.

Deutsche Mark. Under the influence of the balance-of-payments deficit, the Deutsche Mark weakened in the exchange markets during the early part of 1969. The spot rate against the dollar declined by about 0.6 per cent., from just below parity, between the beginning of the year and late February. Except for a few days in early March, it remained fairly weak until mid-April.

The Deutsche Mark began to strengthen again in late April owing to political uncertainties in France. Shortly afterwards, rumours of a DM revaluation revived and during the first days of May the demand for Deutsche Mark was the heaviest ever experienced. The spot rate against the dollar went beyond the upper intervention point and on 9th May was 1.3 per cent. above par. The three-month forward premium on the dollar, which had stood between 4 and 5 per cent. per annum since the beginning of the year, went to 9 per cent. during the crisis. As soon as the decision not to revalue was announced, the spot rate fell to the parity, at or slightly below which level it then remained for the next three months. Immediately following the French devaluation, the spot Deutsche Mark again rose to its ceiling against the dollar in mid-August and during the ensuing pre-election period quotations varied between 0.5 and 0.75 per cent. above parity. The three-month forward premium on the dollar, which had narrowed to about 4 per cent. between the May crisis and the French devaluation, widened to over 6 per cent. by late September.

In an attempt to avoid a repetition of the May crisis, the German authorities closed the exchange market on 25th and 26th September, immediately before the elections. When their results were known, and the formation of a government less attached to the old parity appeared likely, funds continued to pour in from abroad and on 30th September the German authorities ceased buying dollars in the market at the previous upper limit of DM 3.97. The spot rate against the dollar immediately rose to 4.5 per cent. above parity. By mid-October it was 6.75 per cent. and on 24th October 7.3 per cent. above. The German Government then announced a formal revaluation of 9.3 per cent. During the period of transition to the new parity the Deutsche Bundesbank stood ready every day to buy Deutsche Mark at rates slightly below those prevailing in the market, thereby putting a floor just below each successive rise of the rate. By the time the new parity was fixed, sales of dollars from the reserves to meet the outflows of funds totalled $1 milliard. The new gold content of the Deutsche Mark is 0.242806 grammes and the new dollar parity DM 3.66.

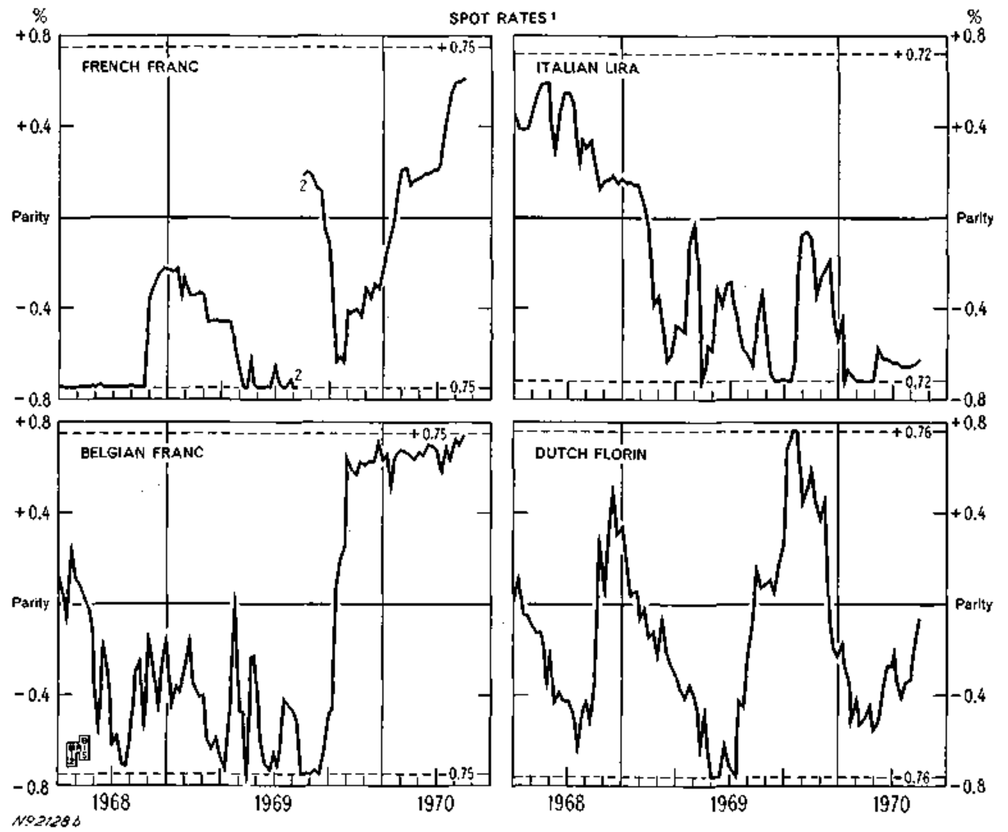
When the market reopened following the change of parity, the spot rate went immediately to the new lower intervention point, at or around which it then remained for over four months, except for a very brief recovery in early December, when the Bundesbank's lombard rate was raised from 7½ to 9 per cent. The tightening of monetary policy in March 1970, however, led to a steady improvement in the spot rate. Parity with the dollar was reached at the beginning of April and towards mid-May the Deutsche Mark touched its upper limit. The three-month forward premium on the dollar began to decline steadily from end-September 1969 and by April 1970 had given way to a discount of over 1 per cent. per annum.

Swiss franc. Although the international monetary disturbances of 1969 for the most part bypassed the Swiss franc, they did on occasion have some effect on the exchange rate. At the beginning of March nervousness about the French franc brought an inflow of funds into Switzerland, causing the spot rate against the dollar to reach its ceiling of 1.78 per cent. above par in advance of the banks' usual end-quarter operations. In early May the Swiss franc eased slightly as part of the general movement into Deutsche Mark. In October, on the other hand, speculation that the Swiss franc might be revalued with the Deutsche Mark caused the spot rate against the dollar to remain near the top of its range well after the reversal of the banks' end-September window-dressing. Following official denials that revaluation was being contemplated, the rate fell sharply by early November to 0.8 per cent. above par on the dollar, its lowest level since May 1968.

Apart from these episodes, exports of funds to the Euro-dollar market helped to keep the Swiss franc below its upper limit against the dollar during most of 1969. Early in 1970 the weakening of the spot rate with the reversal of end-year window-dressing did not proceed so far as usual. In the middle of January a package of anti-inflationary measures included the proposal of an export deposit scheme. This, together with the government's attempts to amend legislation so as to allow for a parity change without reference to Parliament, reminded the market of the recent history of the Deutsche Mark. The spot rate almost reached its ceiling against the dollar in February, but the demand for Swiss francs was not sustained and by early March the rate had eased back to 1.4 per cent. above par. A further rise took quotations more than 1.7 per cent. above the dollar parity in early May, after which they eased somewhat.

French franc. At the beginning of 1969 the exchange-market situation of the French franc was still benefiting to some extent from the exchange control and other official measures taken after the November 1968 crisis. Nevertheless, the spot rate against the dollar declined almost from the start of the year and by early March was about 0.45 per cent. below parity. In April, as the political situation deteriorated, the spot franc weakened further against the dollar and following General de Gaulle's resignation it reached the lower intervention point, at or close to which it then remained for most of the time until 8th August.

French franc, Lira, Belgian franc and Florin quotations for the US dollar.



[1] Friday figures, as percentages above (+) or below (—) par on the US dollar. [2] New parity from 11th August 1969.

On that day the government announced an 11.1 per cent. devaluation. The new gold content of the franc is 0.16 grammes and the new dollar parity Fr.fr. 5.5542. Spot quotations for the franc immediately rose to about 0.2 per cent. above the new dollar parity. With the approach of the German elections, however, the rate went below par in mid-September and, contrary to what happened in the case of sterling, it continued to weaken during October to more than 0.6 per cent. below par immediately before the German revaluation. Since then the improvement in market quotations for the franc has been even more pronounced than for sterling. Leads and lags began to be reversed as soon as the Deutsche Mark was formally revalued, but at first the spot rate rose rather slowly and was still 0.35 per cent. below parity in early December. Then, with the foreign trade balance showing clear signs of improvement, the strengthening of the franc gathered momentum. The dollar parity was reached in mid-January and by early May the spot rate had risen by another 0.6 per cent.

Italian lira. Unlike sterling and the French franc, the lira weakened on the exchange markets during the period under review. Having begun the year 1969 almost 0.2 per cent. above par on the dollar, the spot rate declined, under the pressure of the outflow of capital, to about 0.6 per cent. below parity in mid-March. A month later there was a very brief recovery to about par, but by 9th May the demand for Deutsche Mark had pushed the spot rate to its lower limit. In the recovery that followed, the lira remained well below par on the dollar, despite enforced repatriation of foreign assets by the banks, and actually became weaker as the tourist season approached its peak in late July and early August.

Immediately following the French devaluation, and again between mid-September and mid-October, the spot rate against the dollar returned to its lower limit. With the revaluation of the Deutsche Mark it improved considerably, briefly touching parity in mid-November. The underlying weakness of the balance of payments was felt again, however, from mid-December onwards and the very large exchange losses in January and February kept the lira almost continuously at its lower limit. Towards the end of February, when the regulations governing the repatriation of Italian bank-notes were tightened up, the discount at which lira bank-notes were quoted in Switzerland widened temporarily from 4 to 7 per cent. While the balance of payments has improved considerably since then and the lira bank-note has recovered to within 3.5 per cent. of parity, on the official exchange market the spot lira was still quoted at more than 0.6 per cent. below par on the dollar in mid-May 1970.

Belgian franc. During the first nine months of 1969 the Belgian franc was vulnerable both to the pull of the Euro-dollar market and to the intermittent phases of currency unrest. Under the influence of the first of these factors the spot rate against the dollar declined between early February and early April from less than 0.2 per cent. below parity to near the lower intervention point. After a brief recovery to parity with the dollar in mid-April, the exchange crisis that began in late April pushed the spot rate temporarily down to its lower limit by 9th May. A further period of weakness began at the end of May and reached its climax immediately following the French devaluation. Fears that the Belgian franc, too, might be devalued brought the spot rate on the official market down to its lower limit again and at the same time a discount of around 7 per cent. appeared on the financial market.

The franc remained weak for some time after the French devaluation, the spot rate against the dollar being still at the lower limit on 12th September. Subsequently, however, with domestic interest rates much higher than earlier in the year and with the exchange control regulations having been tightened on various occasions between April and August, the Belgian franc moved dramatically from having been a candidate for devaluation to being, temporarily, one for revaluation. Since October the franc has been consistently firm in the exchange markets; late in that month the spot rate against the dollar touched the upper intervention limit and by the end of the year the discount of the financial franc had virtually disappeared. In mid-May 1970 the spot rate in the official market was more than 0.7 per cent. above the dollar parity.

Dutch florin. Under the influence of the same external pressures as affected the Belgian franc, as well as of domestic inflationary forces, spot quotations for the florin against the dollar declined during the first five months of 1969 from 0.35 per cent. above parity to the lower intervention point. In mid-July, following the imposition of controls on the banks' foreign positions, the rate began to appreciate and early in August it went just above parity. Towards the end of September a further rise in spot quotations began and by mid-October, with a revaluation of the Deutsche Mark in the offing, market recollections of March 1961 pushed the rate to its upper limit against the dollar. Following official announcements that this time the florin would not follow the Deutsche Mark, the spot rate eased. In November it began to decline sharply and by late January 1970 was over 0.5 per cent. below par on the dollar. The florin strengthened again in March and, although some of the ground gained was lost in April, by mid-May it stood close to par on the dollar.

Other European currencies. During most of 1969 the *Swedish krona* was under pressure in the exchange market and the authorities had to sell substantial amounts of exchange from the reserves. The spot rate against the dollar fluctuated between parity, at which point it was being supported by the Riksbank, and about 0.4 per cent. above. In February 1970, under the pressure of further exchange losses, the Riksbank abandoned its support at the parity level, and the rate fell to around 0.6 per cent. below par by early March. In mid-May the krona was still 0.5 per cent. below its dollar parity. The *Danish krone* declined from its dollar parity in mid-March 1969 and remained weak until the German revaluation. The subsequent recovery took the spot rate above parity in November, where it stayed until mid-April 1970. Since then quotations have eased a little. The *Norwegian krone* fluctuated rather narrowly around its dollar parity throughout 1969 and in the early months of 1970. Reflecting the continued strength of the balance of payments, the *Austrian schilling* was quoted between 0.4 and 0.8 per cent. above its dollar parity practically throughout the period under review. It did, however, slip momentarily to near its parity at the time of the May 1969 currency crisis. With the balance of payments moving into substantial deficit, spot quotations for the *Spanish peseta* against the dollar eased from 0.4 per cent. above par in early March to just below parity at the end of May and in early June. After strengthening in August, when tourist receipts were at their peak, the peseta was allowed to fall just below par against the dollar again in late November, when devaluation rumours brought quite heavy pressure on the reserves. Confidence was rapidly restored and in early May 1970 the rate was again 0.4 per cent. above the dollar parity.

Canadian dollar. During the first half of 1969 the Canadian dollar weakened as a consequence of rising interest rates elsewhere. From a point close to its effective ceiling at the beginning of the year the spot rate against the US dollar fell to below parity by July. Much of the outflow, which more than outweighed a substantial inflow of long-term capital, came from bank deposits swapped by residents out of Canadian into US dollars in order to avoid the ceilings on Canadian dollar deposit rates. As well as raising its official discount rate in three steps between March and July, from 6½ to 8 per cent., the Bank of Canada acted to cut off this outflow directly in mid-July by requesting the chartered banks not to allow any further increase in the level of "swapped" US dollar deposits. The spot rate immediately moved above the dollar parity and by the end of the year had reached its ceiling again. During the first five months of 1970, owing partly to a favourable basic balance of payments and partly to declines in certain interest rates abroad, the Canadian dollar was in very strong demand and the official reserves rose by more than $1.2 milliard, excluding Canada's first allocation of special drawing rights. The ceiling on "swapped" US dollar deposits was removed at the end of March, but the rate of reserve accumulation accelerated in April and May. Consequently, the authorities announced that, with effect from 1st June, "for the time being the Canadian Exchange Fund will cease purchasing sufficient US dollars to keep the exchange rate of the Canadian dollar in the market from exceeding its par value of 92½ US cents by more than 1 per cent."

Other exchange developments.

Mention has already been made earlier in this Report of the two most important parity changes that occurred in 1969, those of the French franc and the Deutsche Mark. (The French devaluation was followed by similar changes of parity in all the member countries of the franc area, except Algeria, Morocco and Tunisia.) As well as these fundamental changes, there were also a considerable number of modifications in the foreign exchange regulations of European countries during the period under review. Most of these modifications can be divided into two broad categories: on the one hand, measures taken to restrict outward movements of capital, including short-term funds, many of which were defensive reactions to outflows provoked by the high level of Euro-dollar interest rates and expectations of changes in currency parities; and on the other hand, certain relaxations of exchange restrictions in countries where the balance of payments was strengthening.

As regards the introduction of new exchange restrictions, a number of such measures were taken in Belgium during the first nine months of 1969, when the franc came under considerable pressure. In April the authorities fixed limits for the total of the banks' foreign currency assets drawn from the regulated exchange market, as well as for their advances to non-residents in domestic currency convertible on the regulated market. This was followed, during the May international currency crisis, by a ruling, designed to curtail the adverse movement of leads and lags, that banks could only sell foreign exchange to Belgian importers for immediate authorised payments to non-residents. In August all individual purchases of foreign exchange on the official market in excess of the countervalue of B.fr. 10 million, i.e. $200,000, were made subject to prior authorisation and at the same time the payment of interest on residents' foreign exchange balances with Belgian banks arising out of export earnings was prohibited. Finally, on 1st October the ceilings on the banks' foreign assets introduced in April were lowered.

In Denmark the banks had been requested in February 1969 to reduce their foreign exchange assets by about one-fifth, to their average level during the first half of 1968. In May advance repayments of foreign indebtedness by Danish residents were prohibited and prepayments on imports made subject to official authorisation. In addition, the banks were prohibited from satisfying the reserve requirements imposed on them by the Nationalbank through an increase in their foreign assets, as had previously been allowed, except in those cases where their net foreign position was negative.

In Italy a number of direct measures were taken during 1969 and early 1970 to stem, or offset the effects of, the various forms of capital outflow that were weakening the external position. Mention has already been made on page 125 of the enforced reduction in the banks' net foreign position during the second quarter of 1969. In addition, on 1st April the authorities suspended the general authorisation to the banks to participate in financial consortia for the taking-over and placing in Italy of foreign security issues. At the same time, the sale in Italy of shares in foreign investment funds was made subject to the condition that 50 per cent. of the assets of such funds be invested in Italian securities and a more restrictive attitude was adopted to outward transfers of capital by emigrants. More drastic measures to stop the outflow of funds were taken in February 1970, when the maximum time-limit for the repatriation of export proceeds was reduced from one year to four months after delivery and the maximum period for the advance payment of imports shortened from one year to thirty days before arrival of the goods. At the same time, in order to discourage the export of Italian bank-notes, it was ruled that remittances of such notes from abroad for crediting to non-resident lira accounts could be made only to the Bank of Italy in Rome.

In the Netherlands the authorities requested the banks at the beginning of July 1969 to reduce their total net foreign assets either to the end-May level or to the average for end-March and end-April. Furthermore, the banks were to see to it that the average level of their net foreign assets during the second half of 1969 was 10 per cent. below the level in the chosen base period. In November these restrictions were relaxed to permit the banks to increase their net foreign assets to 125 per cent. of the level in the chosen base period.

In Spain an import deposit scheme was introduced early in December 1969 for a period of one year in order to check the deterioration of the current-account balance of payments. The scheme applies to all imports, the rate of the deposits, which are non-interest-bearing, being 20 per cent. and their term six months.

In Sweden the exchange losses occasioned by the high level of capital exports in 1969 led the authorities to introduce a number of new restrictive measures as from September. Official authorisations for direct investments abroad, the rate of which had doubled in 1969, were cut back to their 1968 level; the regulations governing the repurchase by residents of Swedish securities held abroad, and the payment of life assurance premiums and pension scheme contributions to insurance companies abroad were tightened up; the payment of interest by Swedish banks on residents' foreign currency accounts arising out of export proceeds was prohibited; and a more restrictive attitude was adopted towards outward transfers of capital by emigrants.

Turning to relaxation of restrictions by European countries during the period under review, in the United Kingdom the import deposit scheme was extended for a further year until December 1970, but the rate of deposit was twice reduced, from 50 to 40 per cent. in December 1969 and again to 30 per cent. in May 1970. Furthermore, the authorities have indicated their intention not to extend the operation of the scheme beyond December 1970. A second relaxation was the increase in the foreign travel allowance for UK residents, announced on 1st January 1970, from £50 per annum to £300 in foreign exchange plus £25 in sterling per journey.

In France the devaluation was immediately followed by a change in the regulations governing residents' transactions in foreign securities. Instead of being obliged either to dispose of their foreign exchange balances arising from sales of foreign securities on the official exchange market or to reinvest them abroad, they were permitted to sell such balances to other residents for investment abroad. This measure reintroduced a security exchange market in France. In December 1969 restrictions on the export of foreign means of payment from France by non-residents were eased.

In April 1970, by which time France's external monetary situation had improved very substantially, two further relaxations of exchange restrictions were announced. The annual currency allowance for foreign travel, other than business trips, by residents was raised from Fr.fr. 1,000 to 1,500. And in the same month the ratio applicable to the compulsory deposits of dollars by French banks at the Bank of France, introduced early in 1969, was reduced from 100 to 50 per cent. of any bank's net asset position in foreign currencies vis-à-vis non-residents.

In Finland, too, the currency allowance for foreign travel by residents was increased, in July 1969, from F.mk. 1,000 to 3,000 per journey. The new allowance is equivalent to about US $715.

In Germany the revaluation of the Deutsche Mark on 27th October was accompanied by the abolition of the 4 per cent. border tax arrangements for imports and exports introduced in November 1968. Then, in view of the large outflow of funds from Germany, the 100 per cent. marginal reserve requirement on bank liabilities to non-residents was abolished in November and the prohibition on the payment of interest on non-resident deposits at German banks was lifted in December.

In Greece, since October 1969, all Greek nationals employed abroad have been able to open convertible foreign currency accounts with domestic banks, into which they may pay their foreign earnings. Interest rates of 7–8 per cent. per annum are at present paid on such accounts.

In the United States there were only minor changes during the period under review in the controls on capital outflows. With effect from October 1969 the operation of the interest equalisation tax on US citizens' purchases of foreign securities was extended until March 1971. At the same time the provisions of this law were modified to allow the Administration, in the event of a sufficient improvement in the balance-of-payments situation, to reduce the rates at which the tax applies to purchases of newly-issued foreign securities. In December 1969 it was announced that the balance-of-payments restraint programme would be continued without substantial change in 1970. However, the amount above which the restrictions on direct investment outflows apply was raised from $1 to 5 million, provided that the additional $4 million is invested in developing countries. Furthermore, the controls on bank lending were slightly relaxed to allow banks to grant credits of one year or more in duration to non-residents for the financing of US exports, up to a limit for each bank of 0.5 per cent. of its total assets at the end of 1968. On the other hand, the controls on outward portfolio investment by non-bank financial institutions were extended to include purchases of Japanese securities.

In Japan the continuing substantial external surplus has permitted a number of relaxations in exchange practices and regulations during the past year or so. Mention has already been made on page 130 of the measures taken by the Japanese authorities since April 1969 to encourage the banks to shift from foreign currency to yen financing of imports, which helped to produce a large turn-round, from net liabilities to net assets, in the Japanese banks' foreign positions. In addition, the foreign travel allowance for Japanese residents was raised from $500 to 700 per journey in April 1969 and again to $1,000 in March 1970. With effect from September 1969, restrictions on remittances of current income from Japan by foreign nationals and of profits earned by foreign-owned companies located in Japan and set up with local funds before July 1963 were lifted. Finally, in February 1970 it was announced that Japanese investment trusts are to be allowed to place up to half of their funds in foreign securities, within a total limit of $100 million.

In the Philippines, as part of a stabilisation programme designed to correct the balance of payments, there was a reform of the exchange system, amounting to a substantial devaluation of the currency, in February 1970. Official support for the peso at the parity of Pesos 3.90 = US $1 was abandoned and a free exchange market established for all transactions, except sales of 80 per cent. of the proceeds from specified major export items, which continue to be made at the parity. This measure was accompanied by some relaxations of trade and payments restrictions. In March 1970 the free-market selling rate stood at Pesos 6.12 = US $1.

There was also a reform of the exchange system in Indonesia, coupled with other stabilisation measures, in April 1970. The two previously existing exchange markets were merged and a single rate of Rupiahs 378 = US $1, which was previously the rate in the secondary exchange market, was established. It applies to all transactions except imports of goods and services paid for with exchange deriving from foreign aid, for which the rate of Rupiahs 326 = US $1 continues to be used.

In August 1969 the Cambodian riel was devalued by 37 per cent., its gold content being lowered from 0.0253905 to 0.016 grammes. The new dollar parity is Riels 55.542, but the exchange rate vis-à-vis the French franc, which previously had not corresponded to the relation between the gold value of the two currencies, remained unchanged at Riels 10 = Fr.fr. 1.

During the period under review, the currency units of Bermuda, Jamaica and Rhodesia were changed from the pound to the dollar. In Bermuda, where the changeover took place in February 1970, 2.4 dollars are equivalent to one pound and the Bermudan dollar is at parity with the US dollar. (At the same time, the Bahamas dollar was devalued very slightly, bringing it, too, to parity with the US dollar.) In Jamaica and Rhodesia, where the dollar was introduced in September 1969 and February 1970 respectively, two units of the new currency are equal to one of the old and the new dollar parities are J$0.83 = US $1 and R$1 = US $1.40 respectively.

In Latin America there were again regular downward adjustments of exchange rates in Brazil and Chile. The free rate in Brazil, which in May

1969 stood at Cruz. 4.0375 = US $1, was adjusted downwards eight times by a total of 11 per cent. during the following twelve months. This depreciation, however, was much less than in the preceding twelve months, when it had amounted to 20 per cent. The depreciation of the Chilean escudo has recently been much greater than that of the Brazilian cruzeiro and rate adjustments have been more frequent. The cumulative depreciation of the escudo during the year to May 1970 was about one-quarter. In Costa Rica, on the other hand, the free-market selling rate, which in April 1969 had been raised from Colones 7.10 to 6.95, was unified with the official selling rate of Colones 6.65 = US $1 in December and at the same time all exchange controls were removed. In Argentina a currency reform came into effect on 1st January 1970, existing currency being exchanged for new currency at the rate of 100 for 1. The new dollar parity is Pesos 3.50 = US $1.

V. THE EURO-CURRENCY MARKET.

In 1969 the Euro-currency market continued to show remarkable growth. The foreign currency liabilities vis-à-vis non-residents of the banks of the eight reporting European countries shot up by $22.8 to 56.7 milliard and their assets by $20.2 to 58.2 milliard. Net of redeposits, the total amount of credit extended through the Euro-currency market may be estimated to have increased from about $30 milliard to nearly $45 milliard and its dollar component from $25 to 37.5 milliard.

This enormous expansion, in the course of which interest rates were pushed up to hitherto unthought-of levels, reflects the intensity of the demand pressures to which the market was subjected in 1969. The dominant factor behind this development was the US credit squeeze and the resultant heavy demand for Euro-dollars by US banks, particularly in the first half of the year. A second influence that also operated mainly in the first half of the year was the substantial Euro-dollar borrowing by the French and Italian banks induced by officially-imposed reductions in their net foreign asset positions. A third factor was the recurrent demand for dollars for conversion into Deutsche Mark in anticipation of the parity change. And in the fourth quarter, when there was a huge reflux of foreign funds from Germany, the German banks themselves drew on the Euro-dollar market to ease the strain on their liquidity position.

The unprecedented growth of the Euro-dollar market brings to the fore the question of the balance-of-payments implications of this expansion. In examining this question, it is important to differentiate between the various directions taken by the Euro-dollar flows. To the extent that the funds were both supplied from outside the United States and ultimately used outside that country, what occurred was a capital flow between or within third countries which during part of its passage happened to be denominated in dollars. Like any other capital flow outside the United States, this may have an effect on the inter-country distribution of official reserves but it would not in general affect their total volume (leaving aside the reserve-currency rôle of sterling); and such flows will not have much influence on, nor be much influenced by, the current state of the US balance of payments. According to the estimates in the table on page 158, Euro-dollar credit flows between third countries amounted to about $5 milliard in 1969, viz. $5.5 milliard of funds taken up and used outside the United States minus $0.5 milliard for an indirect flow from the reporting area through the Bahamas and certain other places to the United States.

The remaining $7.5 milliard of the $12.5 milliard increase in Euro-dollar credits was vis-à-vis US residents — primarily US banks. This Euro-dollar flow to the United States was fed essentially from four main sources.

Three of these did not actually involve a net capital flow to the United States; they were: (1) an outflow of US funds into the Euro-dollar market, estimated at about \$2 milliard; (2) a \$0.5 milliard transfer by private non-US residents of their dollar balances from banks in the United States to banks in the Euro-dollar market; (3) a transfer by foreign official agencies of their dollar holdings from New York to banks outside the United States — perhaps some \$1.5 milliard. All that happened in these three cases, which aggregate about \$4 milliard, were circular flows of funds from the United States to the Euro-dollar market and back again to the United States. These flows had, of course, no effect on private bank liquidity and official reserves of countries outside the United States, but part had a considerable impact on the US balance of payments. The circular movement of US funds — case (1) — gave rise to a corresponding \$2 milliard increase in the liquidity deficit, and the circular movement of foreign official funds — case (3) — to a \$1.5 milliard increase in the official settlements surplus. In case (1) the growth of the Euro-dollar market was thus one of the causes of the US liquidity deficit, while in case (3) it was partly a result of the deficit, since in its absence foreign official agencies would have had rather less reserves available for transfer to the Euro-dollar market. In case (2) there was no direct causal link with the US balance of payments either way.

Estimated balance-of-payments effects of Euro-dollar flows in 1969.

Sources of funds borrowed by US banks	Effect on		
	US liquidity balance	US official settlements balance	Official settlements balance of rest of the world
	in milliards of US dollars		
(1) Exports of US funds to the Euro-dollar market (\$2 milliard)	– 2.0	—	—
(2) Transfers of foreign private funds from the United States to the Euro-dollar market* (\$0.5 milliard) .	—	—	—
(3) Transfers of foreign official funds from the United States to the Euro-dollar market* (\$1.5 milliard) .	—	1.5	—
(4) Transfers of funds held outside the United States to the Euro-dollar market (\$3.5 milliard) .	—	3.5	– 3.5
Total (\$7.5 milliard)	– 2.0	5.0	– 3.5

* It is assumed that all these funds were held in "liquid" form. To the extent that this might not have been the case, the first column would understate the negative impact of the Euro-dollar flows on the US liquidity balance.

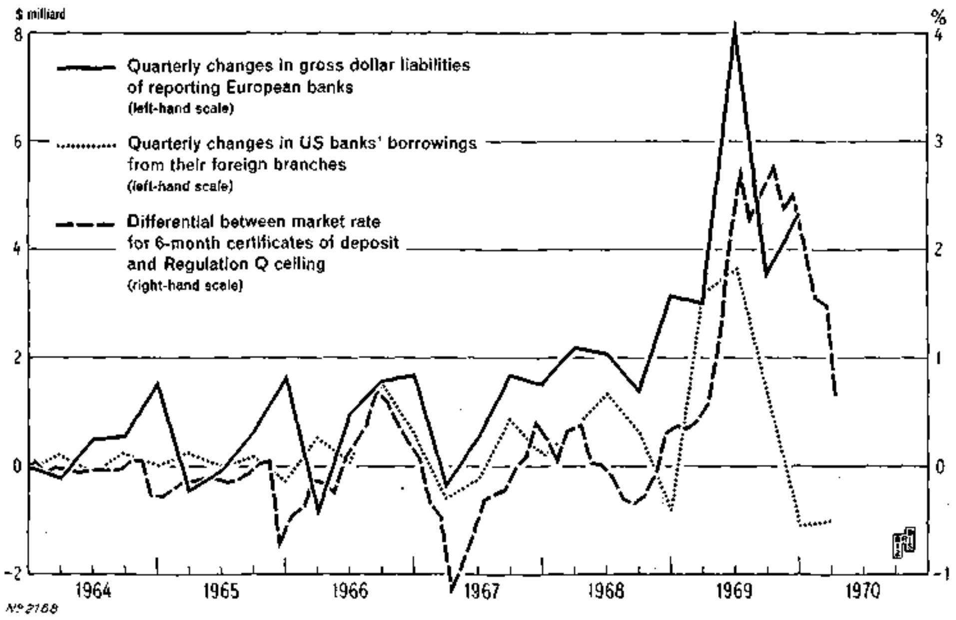
It is only in respect of the fourth source that a genuine capital flow to the United States and a corresponding reduction in official reserves and private bank liquidity of the rest of the world tended to take place. And this occurred to the extent that the funds borrowed by the US banks stemmed from the conversion of other currencies into dollars. Computed as a residual, this capital flow to the United States came to about \$3.5 milliard (i.e. \$7.5 minus 4 milliard). It is probably mainly in this case that a strong causal link can be construed from the US liquidity deficit to the growth of the market, since without such a deficit other countries might not have felt able to afford the $3.5 milliard reserve cost of the Euro-dollar flow to the United States.

This $3.5 milliard capital inflow did not reduce the US liquidity deficit since it was recorded below the line, but it did, of course, lead to a corresponding improvement in the US official settlements balance. Nevertheless, it exerted an expansionary influence on the monetary base of the US economy only to the extent that the countries concerned financed their corresponding capital outflow not out of their dollar reserves but through gold sales or drawings on the Federal Reserve swap network. With this exception, all that was involved, as in the other three cases discussed above, was essentially a transfer of ownership of dollar balances already held in the United States.

It should be noted that the figures given in the preceding paragraphs only cover funds which have passed at one stage or another through the banks of the reporting European countries. By comparison, the US statistics show an increase in liquid liabilities to foreign commercial banks of $9.3 and not 7.5 milliard.

The part played by Regulation Q in the US credit squeeze and its impact on the Euro-dollar market, as well as the defensive measures taken by other countries, have already been discussed in previous chapters. The graph on page 148 looks at the rôle of Regulation Q in a somewhat longer perspective. It suggests a fairly close relationship between the restrictive effect of the Regulation Q ceilings on the US banks, as measured by the premium of US money-market rates over the corresponding Regulation Q ceilings, and the expansion of dollar deposits held with banks outside the United States. But it also indicates that the Euro-dollar market has gone on expanding, though at a more moderate pace, even at times when US money-market rates were lower than the Regulation Q ceilings and when the ceilings were consequently not really operative. The declines in Euro-dollar deposits that occurred in the first quarters of 1965, 1966 and 1967 were due in part to the normal seasonal fall in Euro-dollar deposit rates associated with the reversal of end-year operations. At the same time it can be seen from the graph that when they were operative the Regulation Q ceilings had a strong stimulative impact on the growth of the market. This influence acted in two basic ways: firstly, by strengthening the Euro-dollar banks' ability to offer higher rates than the banks in the United States; and secondly, by giving rise to a demand for Euro-dollar funds by US banks and thus pushing up Euro-dollar deposit rates. These effects were discernible in 1966, the first half of 1968 and, in particular, 1969 when the premium of secondary-market rates for US certificates of deposit over the corresponding Regulation Q ceilings widened to over 2 percentage points. The tapering-off of the US banks' new borrowing in the second half of 1969, notwithstanding the continued high level of this premium, is no doubt partly attributable to the measures taken by the US authorities to reduce the incentive for US banks to borrow in the Euro-dollar market.

Growth of the Euro-dollar market.



One such measure enacted with effect from 31st July closed an important loop-hole in the computation of reserve requirements which had arisen in connection with certain types of US banks' Euro-dollar transactions involving their foreign branches. This measure obliged US banks to count as demand deposits subject to reserve requirements cheques issued by them on behalf of their foreign branches. A second measure, announced in late June and effective as from the reserve computation period beginning 4th September, imposed a marginal 10 per cent. reserve requirement on the banks' Euro-dollar borrowing from their foreign branches above the average amount outstanding in May 1969. This requirement, with certain qualifications, also covered direct branch lending to US non-bank residents, transfers of assets by US banks to their foreign branches and borrowing from foreign banks. Moreover, it was laid down that a reduction in a bank's indebtedness to its foreign branches below the May average would automatically entail a corresponding decrease in its reserve-free base, the intention of this provision being to insure against too rapid a reversal of the Euro-dollar flow to the United States.

Since the maximum reserve requirement to which the US banks are subject on domestic time deposits is 6 per cent., the 10 per cent. reserve requirement means that, assuming interest rate conditions to be otherwise equal, it has become more expensive for US banks to raise funds through their foreign branches than by accepting them on deposit within the United States. The effect of this has already been felt in regard to deposits by foreign official agencies, the interest rates for which are exempt from the Regulation Q ceilings; by offering more favourable rates in New York than in London, the US banks in the last quarter of 1969 began to encourage these agencies to shift their dollar balances back to the United States. It seems likely that in the case of a decline in US money-market rates below the Regulation Q ceilings this 10 per cent. reserve requirement will put an end to most of the US banks' Euro-dollar borrowing beyond their reserve-free quotas, which aggregate about $10 milliard.

Total external positions. The increasing interdependence of national financial markets was reflected in an almost explosive rise in the banks' short-term foreign positions. The external liabilities of the banks of the eight reporting European countries went up by $24.7 to 72.1 milliard and their assets by $22.9 to 70.6 milliard. Their combined net external position, after swinging from about $1.9 milliard of liabilities to $0.3 milliard of assets in 1968, shifted back to $1.5 milliard of liabilities. This net inflow of $1.8 milliard may seem surprising in view of the US banks' tug for funds. But it was more than accounted for by the French, Italian and Swedish banks, which responded to the guide-lines imposed by their central banks, and by the German banks, which were affected by the large outflow of funds after the Deutsche Mark revaluation. All four countries were in substantial payments deficit. The net external position of the banks of the United Kingdom and Switzerland, both surplus countries, showed considerable increases. Similarly, the banks' net external assets of two other countries with payments surpluses, viz. Canada and Japan, which are not included in the above totals, rose by $0.5 and 1.5 milliard respectively.

By far the greater part of the increase in external positions occurred in foreign currencies; the reporting European banks' liabilities and assets in domestic currency went up by only $1,840 and 2,660 million respectively. Most of these latter increases were ascribable to the United Kingdom, Switzerland and Germany. The $820 million rise in net assets in domestic currency was more than accounted for by the Swiss and the British banks, the former exporting their domestic liquidity surplus exclusively in the form of Swiss francs while their net external assets in foreign currency declined, and the latter showing a large increase in their export credits.

The European banks' liabilities and assets in dollars went up by $19,200 and 17,150 million respectively, and those in the six other individually reported foreign currencies by $3,500 and 3,210 million. At $46.1 and 47.6 milliard, dollar liabilities and assets outstanding at the end of 1969 were about three times as high as in December 1966. The European banks' combined net assets in dollars expanded by $790 million in the first half of the year, owing to switches out of other currencies for the purpose of lending to US banks, but declined by $990 million in the third quarter as a result of the movement into Deutsche Mark. A further $1,850 million decline in the fourth quarter mainly reflected the Euro-dollar borrowing by the German banks and a shift in the BIS's dollar assets from the Euro-dollar market to New York.

The bulk of the increase in positions in the six reported currencies other than the dollar was in Deutsche Mark and Swiss francs, whereas sterling

Short-term liabilities and assets of the reporting banks of individual countries vis-à-vis non-residents.[1]

Countries	End of month	Liabilities		Assets		Net position		
		Domestic currency	Foreign currencies	Domestic currency	Foreign currencies	Domestic currency	Foreign currencies	Total
		in millions of US dollars						
Belgium-Luxemburg	1968 December	590	2,670	330	2,320	– 260	– 350	– 610
	1969 March	600	2,860	340	2,580	– 260	– 280	– 540
	June	570	3,620	340	3,370	– 230	– 250	– 480
	September	470	3,580	350	3,220	– 120	– 360	– 480
	December	510	4,030	340	3,640	– 170	– 390	– 560
France	1968 December	700	4,640	390	4,660	– 310	20	– 290
	1969 March	680	5,040	310	4,380	– 370	– 660	–1,030
	June	650	5,770	290	5,230	– 360	– 540	– 900
	September	860	6,530	290	5,940	– 570	– 590	–1,160
	December	880	7,490	300	6,970	– 580	– 520	–1,100
Germany	1968 December	3,030	580	1,500	1,640	–1,530	1,060	– 470
	1969 March	2,320	560	1,650	1,780	– 670	1,220	550
	June	2,740	1,000	2,000	2,560	– 740	1,560	820
	September	3,200	1,160	1,580	2,540	–1,620	1,380	– 240
	December	3,670	2,140	1,990	1,850	–1,680	– 290	–1,970
Italy	1968 December	600	3,730	300	4,470	– 300	740	440
	1969 March	670	3,780	350	4,590	– 320	810	490
	June	750	4,690	400	5,000	– 350	310	– 40
	September	710	4,820	410	5,160	– 300	340	40
	December	760	6,310	440	6,430	– 320	120	– 200
Netherlands	1968 December	620	1,460	430	1,560	– 190	100	– 90
	1969 March	590	1,450	460	1,640	– 130	190	60
	June	720	1,980	600	2,170	– 120	190	70
	September	640	2,280	490	2,460	– 150	180	30
	December	800	2,490	520	2,770	– 280	280	—
Sweden	1968 December	230	300	90	700	– 140	400	260
	1969 March	240	410	130	710	– 110	300	190
	June	270	430	150	740	– 120	310	190
	September	260	430	130	720	– 130	290	160
	December	240	450	100	660	– 140	210	70
Switzerland[2]	1968 December	3,180	3,350	2,580	5,610	– 600	2,260	1,660
	1969 March	3,360	3,670	3,150	5,760	– 210	2,090	1,880
	June	3,350	4,570	3,730	7,220	380	2,650	3,030
	September	3,500	4,830	3,990	7,500	490	2,670	3,150
	December	3,840	5,030	3,870	7,130	30	2,100	2,130
United Kingdom . .	1968 December	4,670	17,110	4,110	17,060	– 560	– 50	– 610
	1969 March	4,620	19,750	4,240	19,720	– 380	– 30	– 410
	June	4,790	25,280	4,510	25,280	– 280	—	– 280
	September	4,560	27,910	4,620	28,000	60	90	150
	December	4,760	28,710	4,830	28,770	70	60	130
Total	1968 December	13,620	33,840	9,730	38,020	–3,890	4,180	290
	1969 March	13,080	37,520	10,630	41,160	–2,450	3,640	1,190
	June	13,840	47,340	12,020	51,570	–1,820	4,230	2,410
	September	14,200	51,540	11,850	55,540	–2,350	4,000	1,650
	December	15,460	56,650	12,390	58,220	–3,070	1,570	–1,500
Canada	1968 December	610	2,750	80	4,240	– 530	1,490	960
	1969 March	610	3,350	80	4,900	– 530	1,550	1,020
	June	630	3,700	90	5,540	– 540	1,840	1,300
	September	620	4,060	80	6,010	– 540	1,950	1,410
	December	630	4,330	110	6,300	– 520	1,970	1,450
Japan	1968 December	370	4,210	—	4,450	– 370	240	– 130
	1969 March	330	4,190	—	4,350	– 330	160	– 170
	June	350	3,900	10	4,810	– 340	910	570
	September	340	3,810	10	5,170	– 330	1,360	1,030
	December	370	4,130	10	5,850	– 360	1,720	1,360

[1] The figures in this table are partly based on different series from those used in the rest of this chapter and are therefore not strictly comparable with them. [2] Including Euro-currency assets and liabilities of the BIS.

External positions of reporting European banks in dollars and certain other foreign currencies.

End of period		Dollars	Other foreign currencies						
			Total	Deutsche Mark	Swiss francs	Sterling	Dutch florins	French francs	Italian lire
		in millions of US dollars							
		Liabilities							
1964	December	9,650	2,570	770	820	760	90	80	50
1965	December	11,390	2,820	870	930	730	170	100	20
1966	December	14,760	3,570	970	1,220	710	70	570	30
1967	June	14,930	4,120	1,470	1,300	950	90	280	30
	December	18,110	4,150	1,670	1,400	800	100	150	30
1968	March	20,280	5,110	2,110	1,750	920	90	200	40
	June	22,360	5,590	2,180	2,030	1,020	120	190	50
	September	23,740	6,220	2,660	2,160	890	170	280	60
	December	26,860	6,670	3,010	2,300	800	250	230	80
1969	March	29,860	7,420	3,060	2,800	900	280	260	120
	June	37,880	9,120	4,260	3,290	910	350	170	140
	September	41,420	9,940	4,800	3,790	760	240	170	180
	December	46,060	10,170	4,640	4,030	810	350	210	130
		Assets							
1964	December	9,000	3,030	1,100	680	940	140	100	70
1965	December	11,590	3,550	1,390	760	980	230	140	50
1966	December	16,060	3,840	1,420	930	800	170	450	70
1967	June	16,580	4,480	1,670	830	1,340	200	360	80
	December	19,890	4,570	2,060	1,110	870	230	240	60
1968	March	22,270	5,410	2,500	1,580	740	210	300	80
	June	25,560	5,540	2,730	1,570	600	280	260	100
	September	27,420	6,220	3,330	1,700	620	240	240	90
	December	30,420	6,980	3,920	1,820	610	290	240	100
1969	March	33,650	7,050	4,020	1,850	590	250	220	120
	June	42,230	8,730	5,380	2,010	670	310	200	160
	September	44,780	10,370	6,980	2,240	630	240	150	130
	December	47,570	10,190	5,990	2,980	580	370	150	120
		Net position							
1964	December	— 650	460	330	— 140	180	50	20	20
1965	December	200	730	520	— 170	250	60	40	30
1966	December	1,300	270	450	— 290	90	100	— 120	40
1967	June	1,650	360	200	— 470	390	110	80	50
	December	1,780	420	390	— 290	70	130	90	30
1968	March	1,990	300	390	— 170	— 180	120	100	40
	June	3,200	— 50	550	— 460	— 420	160	70	50
	September	3,680	—	670	— 460	— 270	70	— 40	30
	December	3,560	310	910	— 480	— 190	40	10	20
1969	March	3,790	— 370	960	— 950	— 310	— 30	— 40	—
	June	4,350	— 390	1,120	—1,280	— 240	— 40	30	20
	September	3,360	430	2,180	—1,550	— 130	—	— 20	— 50
	December	1,510	20	1,350	—1,050	— 230	20	— 60	— 10

and French franc positions continued to decline in importance. The expansion in Deutsche Mark (excluding of course the external Deutsche Mark positions of the German banks themselves) was particularly pronounced, liabilities increasing by $1,630 million and assets by $2,070 million. The rise in liabilities may have owed something to the upsurge in 1969 in international bond issues denominated in Deutsche Mark, but the main factor behind it was a growth in deposits held in anticipation of a change in the parity of that currency. This is underlined by the fact that in the second and third quarters the increase in Deutsche Mark liabilities amounted to $1,740 million while in the last quarter there was a decline of $160 million. This time-pattern was even more marked in the case of assets, which rose by $2,960 million and then declined by $990 million in the same two periods. The resultant $1,220 million rise in the banks' net Deutsche Mark assets in the second and third quarters may have partly reflected the banks' spot covering of forward sales of Deutsche Mark to customers.

The reporting banks' liabilities in Swiss francs expanded by $1,730 million and their assets by $1,160 million. The particularly rapid rise in liabilities chiefly reflected the fact that the Swiss banks (whose positions are of course not included in these totals) exported their excess liquidity in domestic currency and left the switching into dollars or other currencies to the receiving banks.

As to the individual countries, banks in the United Kingdom alone accounted for over half of the recorded increase in external liabilities and assets in foreign currencies. Their liabilities went up by $11.6 to 28.7 milliard and their assets by $11.7 to 28.8 milliard, a major part of which was accounted for by the branches of US banks in London. The rôle of UK banks as ultimate suppliers and users of Euro-dollar funds, on the other hand, has remained relatively modest, with outward switching being limited by the exchange controls and inward switching by the high cost of forward cover ruling throughout most of 1969.

Though less important than UK banks as intermediaries, the Swiss banks rank first as net suppliers of Euro-currency funds. In 1969 their net external assets in domestic plus foreign currencies (including the Euro-currency positions of the BIS) expanded by $470 million, a $1,490 million increase in the first three quarters being largely offset by a $1,020 million decrease in the final quarter. One reason for this sharp fourth-quarter decline was year-end repatriations; whereas in previous years these had been offset by larger Euro-currency placements by the BIS, in the fourth quarter of 1969 the decline was accentuated by the BIS transferring part of its dollar holdings from the Euro-dollar banks to the United States.

The French banks' external liabilities in foreign currencies went up by $2,850 million and their assets by $2,310 million last year. Their net position shifted from $20 million of assets to $520 million of liabilities. The Italian banks' net assets in foreign currencies rose by $70 to 810 million in the first quarter, but declined by $690 million during the rest of the year. Dollars held under swaps with the Italian Exchange Office declined by $410 to 1,590 million. The Dutch banks' net assets in dollars increased from $10 to 540 million, whereas their net position in the other reported foreign currencies shifted from $60 million of assets to $280 million of liabilities.

By far the largest changes in net foreign positions were shown by the German banks. The movement in Deutsche Mark liabilities reflected the

Short-term liabilities and assets of ten countries' commercial banks in certain foreign currencies vis-à-vis non-residents.

Countries	End of month		US dollars			Other currencies[1]		
			Liabilities	Assets	Net	Liabilities	Assets	Net
			in millions of US dollars					
Belgium-Luxemburg	1968	December	1,310	1,460	150	1,330	810	— 520
	1969	March	1,280	1,680	400	1,540	870	— 670
		June	1,840	2,170	330	1,730	1,120	— 610
		September	1,780	1,850	70	1,760	1,300	— 460
		December	2,110	2,410	300	1,890	1,180	— 710
France	1968	December	3,040	3,430	390	1,600	1,230	— 370
	1969	March	3,340	3,230	— 110	1,700	1,150	— 550
		June	3,900	4,030	130	1,870	1,200	— 670
		September	4,600	4,330	— 270	1,930	1,610	— 320
		December	5,310	5,430	120	2,180	1,540	— 640
Germany	1968	December	510	1,490	980	60	120	60
	1969	March	490	1,650	1,160	50	90	40
		June	890	2,380	1,490	70	120	50
		September	1,060	2,330	1,270	70	160	90
		December	2,000	1,670	— 330	90	120	30
Italy	1968	December	2,630	3,200	570	1,090	1,240	150
	1969	March	2,530	3,360	830	1,230	1,210	— 20
		June	3,120	3,680	560	1,550	1,310	— 240
		September	3,310	3,660	350	1,480	1,470	— 10
		December	4,650	4,780	130	1,640	1,620	— 20
Netherlands	1968	December	970	980	10	500	560	60
	1969	March	960	1,170	210	570	490	— 80
		June	1,300	1,450	150	730	730	—
		September	1,350	1,710	360	1,010	820	— 190
		December	1,590	2,130	540	980	700	— 280
Sweden	1968	December	210	490	280	90	190	100
	1969	March	280	500	220	130	200	70
		June	250	480	230	170	240	70
		September	280	470	190	150	230	80
		December	300	420	120	150	220	70
Switzerland[2]	1968	December	2,820	4,390	1,570	410	1,020	610
	1969	March	3,080	4,450	1,370	480	1,180	700
		June	3,860	5,650	1,790	630	1,380	750
		September	4,160	5,970	1,810	690	1,490	800
		December	4,460	5,520	1,060	530	1,580	1,050
United Kingdom	1968	December	15,370	14,980	— 390	1,590	1,810	220
	1969	March	17,900	17,610	— 290	1,720	1,860	140
		June	22,720	22,390	— 330	2,370	2,630	260
		September	24,880	24,460	— 420	2,850	3,290	440
		December	25,640	25,210	— 430	2,710	3,230	520
Total	1968	December	26,860	30,420	3,560	6,670	6,980	310
	1969	March	29,860	33,650	3,790	7,420	7,050	— 370
		June	37,880	42,230	4,350	9,120	8,730	— 390
		September	41,420	44,780	3,360	9,940	10,370	430
		December	46,060	47,570	1,510	10,170	10,190	20
Canada	1968	December	2,700	4,130	1,430	50[3]	110[3]	60
	1969	March	3,320	4,810	1,490	30[3]	90[3]	60
		June	3,680	5,450	1,770	30[3]	100[3]	70
		September	3,990	5,870	1,880	70[3]	140[3]	70
		December	4,240	6,170	1,930	90[3]	140[3]	50
Japan	1968	December	3,930	4,090	160	300	350	50
	1969	March	3,940	4,050	110	260	280	20
		June	3,670	4,530	860	250	260	10
		September	3,550	4,860	1,310	260	290	30
		December	3,810	5,470	1,660	330	360	30

[1] Sterling, Swiss francs, Deutsche Mark, Dutch florins, French francs, Italian lire.
[2] Including Euro-currency assets and liabilities of the BIS. [3] All other currencies, but mainly sterling.

Short-term liabilities and assets of ten countries' commercial banks in certain foreign currencies vis-à-vis non-residents, excluding positions vis-à-vis the country of issue of the currency in question.

Countries	End of month	US dollars Liabil-ities	US dollars Assets	US dollars Net	Other currencies[1] Liabil-ities	Other currencies[1] Assets	Other currencies[1] Net
		In millions of US dollars					
Belgium-Luxemburg . . .	1968 December	1,060	1,060	—	860	350	— 510
	1969 March	1,040	1,270	230	950	410	— 540
	June	1,490	1,670	180	970	490	— 480
	September	1,500	1,430	— 70	1,240	600	— 640
	December	1,850	1,970	120	1,210	600	— 610
France	1968 December	2,600	2,320	— 280	1,110	720	— 390
	1969 March	*3,080*	*2,090*	*— 990*	*1,230*	*810*	*— 420*
	June	3,410	2,460	— 950	1,170	740	— 430
	September	4,020	2,860	— 1,160	1,340	1,010	— 330
	December	4,910	3,970	— 940	1,580	960	— 620
Germany	1968 December	450	960	510	20	—	— 20
	1969 March	400	1,150	750	20	10	— 10
	June	820	1,770	950	20	10	— 10
	September	1,010	1,500	490	20	10	— 10
	December	1,830	780	— 1,050	20	10	— 10
Italy	1968 December	2,480	2,910	430	620	870	250
	1969 March	2,370	3,120	750	710	950	240
	June	2,860	3,440	580	860	1,000	140
	September	3,070	3,460	390	940	1,120	180
	December	4,410	4,430	20	1,090	1,240	150
Netherlands	1968 December	860	840	— 20	320	310	— 10
	1969 March	840	1,010	170	350	300	— 50
	June	1,200	1,250	50	410	460	50
	September	1,240	1,490	250	510	500	— 10
	December	1,480	1,890	410	380	450	70
Sweden	1968 December	190	330	140	60	70	10
	1969 March	200	330	130	60	70	10
	June	220	340	120	100	100	—
	September	220	280	60	100	110	10
	December	260	290	30	120	120	—
Switzerland[2]	1968 December	2,500	3,540	1,040	260	480	220
	1969 March	2,700	3,420	720	280	650	370
	June	3,380	4,640	1,260	420	820	400
	September	3,650	4,860	1,210	480	840	360
	December	4,020	4,580	560	310	1,040	730
United Kingdom	1968 December	12,580	7,720	— 4,860	.	.	.
	1969 March	14,700	7,840	— 6,860	.	.	.
	June	18,960	8,550	—10,410	.	.	.
	September	21,010	10,040	—10,970	.	.	.
	December	22,100	11,660	—10,440	.	.	.
Total	1968 December	22,720	19,680	— 3,040	.	.	.
	1969 March	25,330	20,230	— 5,100	.	.	.
	June	32,340	24,120	— 8,220	.	.	.
	September	35,720	25,920	— 9,800	.	.	.
	December	40,860	29,570	—11,290	.	.	.
Canada	1968 December	2,190	1,800	— 390	30[3]	80[3]	50
	1969 March	2,660	2,250	— 410	30[3]	70[3]	40
	June	2,940	2,880	— 60	30[3]	70[3]	40
	September	3,310	3,060	— 250	50[3]	120[3]	70
	December	3,430	3,080	— 350	80[3]	100[3]	20
Japan	1968 December	1,450	1,240	— 210	40	170	130
	1969 March	1,540	1,260	— 280	20	110	90
	June	1,150	1,420	270	20	90	70
	September	1,080	1,640	560	30	120	90
	December	1,020	2,010	990	40	160	120

[1] Sterling, Swiss francs, Deutsche Mark, Dutch florins, French francs, Italian lire.
[2] Including Euro-currency assets and liabilities of the BIS. [3] All other currencies, but mainly sterling.

various speculative waves that occurred in the last half of 1968 and in 1969. Thus, net external liabilities in Deutsche Mark rose by $1,240 million in the second half of 1968, fell by $860 million in the first quarter of 1969, and went up again by $950 million during the subsequent six months. In contrast, the movements in the banks' net external position in foreign currencies (chiefly dollars) were essentially governed by domestic credit conditions and the Bundesbank's swap policy. Despite substantially lower domestic interest rates (except in the last quarter of 1969) the strength of the Deutsche Mark in the forward markets tended to turn the covered interest arbitrage margins against the dollar, so that it was largely in consequence of the Bundesbank's policy of offering forward cover at below market rates that the German banks' net assets in foreign currencies went up by $1,000 million between June 1968 and June 1969. In the third quarter of last year net assets declined by $180 million, and under the impact of the severe squeeze on bank liquidity the net position in foreign currencies shifted from $1,380 million of assets to $290 million of liabilities in the fourth quarter. Taking domestic and foreign currencies together, the German banks exported a net $1,290 million in the first half of 1969 but took up $2,790 million from abroad in the second half — a shift of over $4 milliard.

Sources and uses of Euro-dollars. The tables on pages 156 and 158 seek to estimate the origins and destinations of the Euro-dollar credit flows channelled through the banks of the eight reporting European countries. The two tables differ in several respects. That on page 156 simply gives a geographical break-down of the banks' total dollar liabilities and assets vis-à-vis non-residents; the dollar positions vis-à-vis residents, for which complete statistics are not available, are not covered. Moreover, it shows on only one side of the balance sheet funds which are obtained by the banks in domestic or third currencies but re-lent in the form of dollars or vice versa; this, together with the exclusion of positions vis-à-vis residents, explains why assets and liabilities in this table usually do not add up to the same totals. On the other hand, the table overstates in some ways the volume of Euro-dollar credit provided to final users. Thus, the positions vis-à-vis countries within the reporting area are inflated by the double-counting which arises when funds, before being ultimately used for the financing of economic activity, are redeposited several times between the banks within the area; in that case one and the same credit chain may be recorded several times under liabilities and/or assets. Moreover, the table gives the banks' total positions vis-à-vis US residents, though not all of them are necessarily related to the Euro-dollar market.

The table on page 158 tries to correct these distortions, but has to depend to a large extent on estimates. It includes positions vis-à-vis residents, and makes allowance on the sources side for the banks' use of the proceeds from domestic or third-currency deposits for conversion into dollars, and on the assets side for the banks' use of Euro-dollar funds for the granting of domestic or third-currency credits. It seeks also to eliminate the duplication

Dollar positions of reporting European banks vis-à-vis non-residents.

Positions vis-à-vis	1968				1969			
	March	June	September	December	March	June	September	December
	In millions of US dollars							
Liabilities								
Outside area								
Other western Europe	1,570	1,580	1,850	1,900	2,060	2,140	2,430	2,790
Eastern Europe	440	430	520	660	600	600	790	1,030
Canada	1,060	1,040	1,030	1,310	1,830	2,350	2,840	2,940
Japan	90	90	100	90	160	220	250	390
Latin America	1,120	1,210	1,240	1,250	1,510	1,860	2,130	2,550
Middle East	1,320	1,500	1,510	1,470	1,810	2,120	2,370	1,990
Other	1,580	1,720	1,840	2,010	2,570	3,200	3,480	3,570
Total	7,180	7,570	8,090	8,690	10,540	12,490	14,290	15,260
United States	2,770	3,620	3,690	3,930	4,020	5,140	5,260	4,550
Total outside area	9,950	11,190	11,780	12,620	14,560	17,630	19,550	19,810
Inside area								
Belgium	960	1,250	1,200	1,200	1,490	1,940	1,910	2,320
France	1,340	1,600	1,570	1,710	1,770	2,170	2,460	3,470
Germany	1,010	610	830	1,100	1,130	1,770	1,470	880
Italy	1,480	1,660	1,830	2,540	2,730	3,020	3,110	4,230
Netherlands	570	610	660	720	940	1,270	1,470	1,780
Sweden	200	280	270	300	340	320	280	250
Switzerland	3,150	3,770	3,680	4,160	4,250	6,480	7,310	7,910
United Kingdom	1,400	1,210	1,520	2,290	2,150	2,870	3,410	4,770
Total inside area	10,110	10,990	11,560	14,020	14,800	19,640	21,420	25,610
Unallocated	220	180	400	220	500	410	450	640
Grand total	20,280	22,360	23,740	26,860	29,860	37,880	41,420	46,060
Assets								
Outside area								
Other western Europe	1,330	1,430	1,490	1,520	1,540	1,380	1,380	1,610
Eastern Europe	800	820	920	950	930	920	980	1,000
Canada	800	910	900	910	1,100	1,240	1,460	1,360
Japan	1,230	1,450	1,510	1,690	1,650	1,390	1,470	1,480
Latin America	900	970	980	1,200	1,320	1,280	1,460	1,440
Middle East	390	310	410	470	340	390	490	460
Other	780	890	960	1,020	1,310	1,540	2,030	2,110
Total	6,230	6,780	7,170	7,760	8,190	8,140	9,270	9,460
United States	7,500	9,790	10,450	10,730	13,390	18,060	18,590	17,740
Total outside area	13,730	16,570	17,620	18,490	21,580	26,200	27,860	27,200
Inside area								
Belgium	640	700	700	820	720	1,170	1,230	1,360
France	1,180	880	1,030	1,600	1,860	2,140	2,520	3,300
Germany	330	340	480	590	500	920	1,110	1,600
Italy	1,110	1,070	1,160	1,740	1,410	1,700	1,840	3,060
Netherlands	590	600	640	690	590	930	920	1,050
Sweden	160	170	200	220	220	180	210	270
Switzerland	1,010	960	1,140	1,130	1,230	1,610	1,790	1,990
United Kingdom	3,520	4,270	4,450	5,120	5,520	7,320	7,030	7,480
Total inside area	8,540	8,990	9,800	11,910	12,050	15,970	16,650	20,110
Unallocated	—	—	—	20	20	60	270	280
Grand total	22,270	25,560	27,420	30,420	33,650	42,230	44,780	47,570

arising from the interbank depositing of funds within the reporting area, and to include only that part of the banks' positions vis-à-vis the United States which is related to Euro-currency activity. The criteria and estimating methods used in making these adjustments have been outlined in earlier Reports.

The estimates in the table on page 158 indicate that, after rising from \$17.5 to 25 milliard in 1968, net Euro-dollar credit outstanding through the reporting banks went up further to \$37.5 milliard in 1969. On the sources side, about \$2.2 milliard of this \$12.5 milliard growth seems to have been supplied by North America, \$6.2 milliard by western Europe and \$4.1 milliard by the rest of the world.

As recorded, dollar deposits by US residents with banks in the reporting area, which had expanded by about \$1.5 milliard in 1968, went up by only \$0.6 milliard in 1969. There are three main reasons for this slower increase. Firstly, 1969 witnessed both a sharp drop in US Euro-bond issues and an increase in the proportion of the proceeds from such issues that was employed for direct investment abroad or for transfers back to the United States. As a result, the residual use of Euro-bond proceeds by US corporations for building up their bank balances abroad (mainly in Euro-dollars) amounted to only \$120 million, against \$970 million in 1968. Secondly, US funds which entered the Euro-dollar market through nominee or trustee accounts in Europe, or via banks outside the reporting area, show up in the tables as funds supplied from within western Europe or from the rest of the world respectively. The US payments statistics suggest that the actual outflow of US funds to the Euro-dollar market was of the order of \$2 milliard, which would imply that nearly \$1.5 milliard of US funds might have entered the market in these roundabout ways. Thirdly, seasonal factors, i.e. chiefly year-end repatriations by US corporations in compliance with the balance-of-payments restraint programme, played a bigger part in 1969 than in 1968. Thus, in the last quarter of 1969 Euro-dollar deposits by US residents declined by \$0.7 milliard, whereas in the corresponding period of 1968 they had shown a \$0.2 milliard increase.

The expansion in Canadian funds supplied to the reporting banks from \$1.3 milliard in 1968 to \$2.9 milliard was partly a side-effect of the efforts of the Canadian monetary authorities to limit the rise in interest rates on domestic Canadian dollar deposits — a policy which tended to increase the interest rate premium in favour of "swapped" US dollar deposits.

Of the \$6.2 milliard of new funds supplied by western Europe, about \$5.4 milliard seems to have come from within the reporting area. The main feature here was the sharp advance of \$4.2 milliard in deposits by non-banks, while the banks' own conversions of domestic or third-currency funds into dollars increased by only about \$1.2 milliard. This was an almost complete reversal of the pattern in 1968. Apart from the strengthening of domestic credit demand in most European countries, the main factor behind the relatively modest contribution of the banks to the growth of the market was the limits imposed by the central banks of various European countries, notably France,

Estimated net size of the Euro-dollar market.

Items	1966 December	1967 December	1968 June	1968 December	1969 June	1969 December
	in milliards of US dollars					
Sources						
United States	1.1	1.7	2.9	3.2	4.4	3.8
Canada	0.6	0.9	1.0	1.3	2.3	2.9
Total	1.7	2.6	3.9	4.5	6.7	6.7
Western Europe						
Inside area	8.4	9.6	12.2	13.2	16.8	18.6
of which:						
Non-banks	*2.8*	*4.0*	*4.8*	*5.2*	*8.1*	*9.4*
Banks[1]	*5.6*	*5.6*	*7.4*	*8.0*	*8.7*	*9.2*
Other western Europe	1.1	1.4	1.5	1.9	2.1	2.7
Total	9.5	11.0	13.7	15.1	18.9	21.3
Japan	—	0.1	0.1	0.1	0.2	0.4
Eastern Europe	0.4	0.4	0.4	0.6	0.6	1.0
Other	2.9	3.4	4.4	4.7	7.1	8.1
Total	3.3	3.9	4.9	5.4	7.9	9.5
Grand total	14.5	17.5	22.5	25.0	33.5	37.5
Uses						
United States	4.4	5.2	8.8	9.5	16.7	16.5
Canada	0.6	0.7	0.9	0.9	1.2	1.3
Total	5.0	5.9	9.7	10.4	17.9	17.8
Western Europe						
Inside area	6.3	6.9	7.1	7.9	8.9	11.7
of which:						
Non-banks	*3.7*	*4.1*	*4.5*	*4.7*	*5.1*	*5.6*
Banks[2]	*2.6*	*2.8*	*2.6*	*3.2*	*3.8*	*6.1*
Other western Europe	0.9	1.2	1.4	1.5	1.3	1.6
Total	7.2	8.1	8.5	9.4	10.2	13.3
Japan	0.6	1.0	1.4	1.7	1.4	1.5
Eastern Europe	0.7	0.8	0.8	0.9	0.9	1.0
Other	1.0	1.7	2.1	2.6	3.1	3.9
Total	2.3	3.5	4.3	5.2	5.4	6.4
Grand total	14.5	17.5	22.5	25.0	33.5	37.5
Net[3]						
United States	3.3	3.5	5.9	6.3	12.3	12.7
Canada	—	− 0.2	− 0.1	− 0.4	− 1.1	− 1.6
Total	3.3	3.3	5.8	5.9	11.2	11.1
Western Europe						
Inside area	− 2.1	− 2.7	− 5.1	− 5.3	− 7.9	− 6.9
of which:						
Non-banks	*0.9*	*0.1*	*− 0.3*	*− 0.5*	*− 3.0*	*− 3.8*
Banks	*− 3.0*	*− 2.8*	*− 4.8*	*− 4.8*	*− 4.9*	*− 3.1*
Other western Europe	− 0.2	− 0.2	− 0.1	− 0.4	− 0.8	− 1.1
Total	− 2.3	− 2.9	− 5.2	− 5.7	− 8.7	− 8.0
Japan	0.6	0.9	1.3	1.6	1.2	1.1
Eastern Europe	0.3	0.4	0.4	0.3	0.3	—
Other	− 1.9	− 1.7	− 2.3	− 2.1	− 4.0	− 4.2
Total	− 1.0	− 0.4	− 0.6	− 0.2	− 2.5	− 3.1

[1] Conversions by the banks of domestic or third-currency funds into dollars. [2] Conversions by the banks of dollars into the domestic or third currencies; excluding, however, the Italian banks' use of Euro-dollars for third-currency loans to residents (included under non-bank uses). [3] A minus sign indicates that the area or grouping in question is a net supplier of Euro-dollar funds, whereas the absence of a sign indicates that it is a net user.

Italy, Belgium and the Netherlands, on their banks' net foreign positions. At the same time, the high Euro-dollar deposit rates opened up new sources of funds to the market. Large deposits were certainly made by non-bank corporations and private individuals that had previously shown little interest in holding Euro-dollar balances. It should be borne in mind, however, that the figures for funds supplied by European non-bank residents include US funds or funds from third countries entering the market through nominee and trustee accounts; similarly, funds shown as having been supplied by banks include conversions into dollars of domestic or third-currency funds obtained from outside the reporting area; moreover, they also include Euro-dollar assets of the BIS, which in the BIS's balance sheet may have their counterpart in liabilities to monetary institutions outside the reporting area. There can therefore be no doubt that the $6.2 milliard figure overstates the contribution of western European owned funds.

Bearing in mind these various reservations, some further idea of the rôle of individual European countries on the supply side of the market can be obtained from the table on page 156, though the figures for the inside area are, of course, substantially inflated by redeposits between banks. It can be seen that by far the largest increase in liabilities — $3.75 milliard — occurred vis-à-vis Switzerland. Since the Swiss banks built up their foreign assets to a large extent in the form of Swiss francs, it would appear that the greater part of this $3.75 milliard stemmed from non-banks or trustee accounts. If Swiss francs and third currencies are included, the liabilities of the banks of the seven other reporting European countries vis-à-vis Switzerland went up by as much as $5.5 milliard, over half of this increase occurring in the second quarter alone. The growth of liabilities vis-à-vis the other countries of the inside area mainly reflects interbank deposits, but liabilities to non-banks, though relatively small in absolute terms, also went up very strongly, particularly vis-à-vis Italy and Belgium.

New funds from the rest of the world amounted to $4.1 milliard, against $1.5 milliard in 1968, probably mainly on account of the high interest rate level. Liabilities towards Latin America (see table on page 156) doubled from $1.25 to 2.55 milliard, while those towards the Middle East went up by $0.9 to 2.4 milliard in the first nine months of 1969 but dropped by $0.4 milliard in the last quarter. This decline may have been partly a reflection of the more attractive rates offered for official funds by the US banks in New York after the 10 per cent. reserve requirement was put on their branch borrowings, and perhaps also of some movement back into sterling. Japanese residents (primarily banks) have for the first time assumed some importance as suppliers of Euro-dollar funds, though in absolute terms the reporting banks' liabilities towards Japan are still quite small. Even eastern European countries seem to have responded to the extraordinarily high Euro-dollar rates, since liabilities towards this area went up by nearly $0.4 milliard to $1 milliard. Also noteworthy is the $1.6 milliard increase in liabilities towards "Other", which includes such areas as the Bahamas and Bermuda.

On the uses side, US borrowing accounted for \$7 milliard, or well over half of the growth of the Euro-dollar market. Of the remainder, \$0.4 milliard was taken up by Canada, \$3.9 milliard by western Europe and \$1.2 milliard by the rest of the world.

The reporting banks' Euro-dollar claims on the United States soared by about \$7.2 to 16.7 milliard in the first half of last year, edged up by another \$0.5 milliard despite the announcement of the new US regulations in the third quarter, and declined, partly as an offset to year-end repatriations by US firms, by \$0.7 to 16.5 milliard in the last quarter.

Virtually the whole of the estimated \$3.9 milliard increase in western Europe's use of Euro-dollar funds was accounted for by the reporting area. Direct lending to non-banks rose by about \$0.9 to 5.6 milliard, while the banks' use of dollar funds for conversion into domestic or third currencies expanded by \$2.9 to 6.1 milliard; the pattern was thus the reverse of that on the sources side. The relatively small increase in lending to non-banks, which include the European subsidiaries of US firms, is undoubtedly explained by the high cost of Euro-dollar funds. Most of it, in fact, occurred in the second and third quarters, when there was a demand for Euro-dollar funds for conversion into Deutsche Mark. \$1.4 milliard of the increase in the banks' own use of Euro-dollar funds occurred during the first nine months of 1969 and was attributable to Euro-dollar borrowing by the French and Italian banks as well as the movement into Deutsche Mark. The \$1.5 milliard rise in the last quarter reflected both year-end factors and the Euro-dollar borrowing by the German banks.

The increase in Euro-dollar borrowing by the rest of the world from the banks of the reporting area decelerated from \$1.7 milliard in 1968 to \$1.2 milliard in 1969. Japan, which had taken up \$0.7 milliard of new credits in 1968, repaid \$0.2 milliard in 1969. Latin America's and the Middle East's new takings also declined. The item "Other" in the table on page 156 jumped by \$1.1 to 2.1 milliard; a large part of this rise seems to have occurred vis-à-vis the Bahamas and may also have gone to the United States.

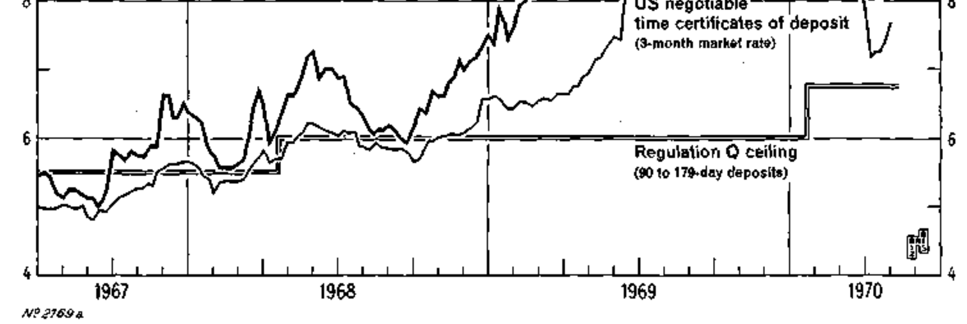
On a net basis, the main feature of the first half of the year was a \$6 milliard flow of Euro-dollar funds through the banks of the eight reporting European countries to the United States, \$3 milliard of which came from within western Europe, \$0.7 milliard from Canada and \$2.3 milliard from the rest of the world. In the second half of the year the changes in area balances were much smaller. The flow to the United States narrowed to \$0.4 milliard, and there was a \$0.7 milliard flow into western Europe; the counterparts were a further \$0.5 milliard outflow from Canada and one of \$0.6 milliard from the rest of the world. It should be kept in mind, however, that these figures are not identical with balance-of-payments flows, mainly because of disguised circular flows from and to the United States. In balance-of-payments terms the actual net outflow from western Europe in 1969 as a whole might have been smaller than \$1.5 milliard.

Interest rate developments. Whereas in previous years rate movements of 1 or 1½ percentage points had been regarded as exceptional, the changes that occurred in the course of 1969 were of the order of 4–5 percentage points and carried Euro-dollar rates to unprecedented levels. The same thing applies to interest rate differentials: prior to 1969 the premiums of Euro-currency rates over the rates paid on deposits in the respective currency in its national market had, except in the case of sterling, usually stayed within the range of 1–2 percentage points; in the course of 1969, however, the premium widened to about 3 percentage points in the case of dollars and at times exceeded 6 percentage points in the case of Swiss francs.

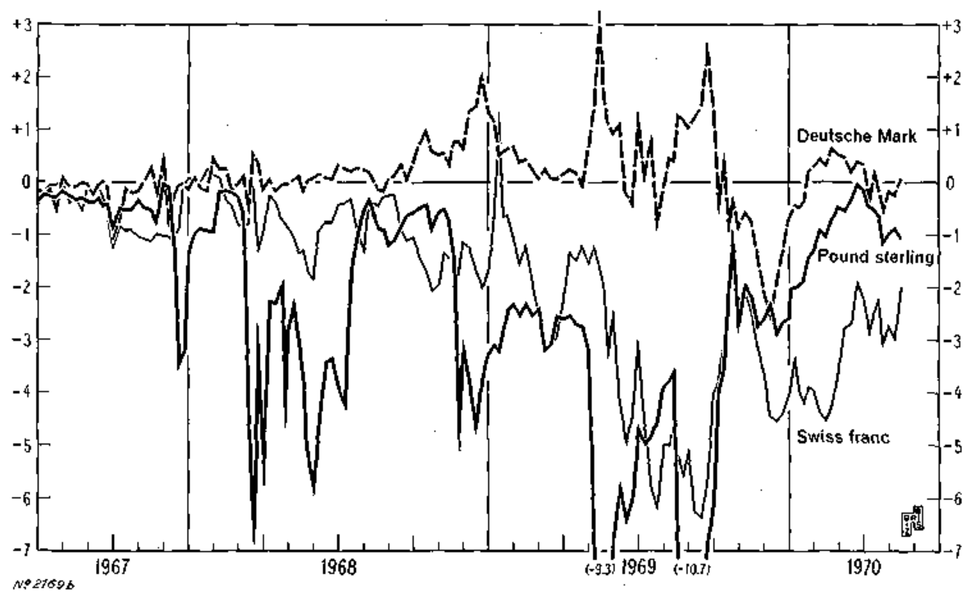
Reflecting the strength of Euro-dollar demand from US banks, and repatriations and borrowing by French banks, the three-month Euro-dollar rate in early 1969 failed to show its usual seasonal decline. It continued upwards from the level of about 7¹/₈ per cent. in the first half of December to 8½ per cent. in early March and then seemed to stabilise at that level. This upward movement in interest rates, which at the time was considered out of the ordinary, succeeded in attracting a large volume of new funds from both within and outside the reporting area, notably from Switzerland, Canada, Latin America and the Middle East. The US banks borrowed about $3 milliard, and the French banks' net external foreign currency position shifted in the first quarter of 1969 from $20 million of assets to $660 million of liabilities.

Despite the regulations introduced in late March and early April by the central banks of Italy and Belgium concerning a reduction in the banks' net

Interest rates on dollar deposits in London and New York.
Weekly, in percentages per annum.



Interest rate arbitrage margins.*
Weekly, in percentages per annum (in favour of Euro-dollar = —).



* Covered differentials between 3-month dollar deposits in London and domestic rates for deposits in Deutsche Mark, sterling and Swiss francs.

foreign assets, the market remained relatively calm until the end of April. Then, however, the demand for Euro-dollars for conversion into Deutsche Mark set off a fresh rise in interest rates. The three-month deposit rate jumped from 8⁵/₈ per cent. in late April to about 9½ per cent. in early May, and, despite the subsequent unwinding of the Deutsche Mark speculation, continued to rise until it reached 12⁵/₈ per cent. on 11th June, two days after the increase in the US prime rate from 7½ to 8½ per cent. It fluctuated around 11 per cent. for the rest of the month. The pressures underlying this extreme rise in market rates mainly reflected the intensity of credit demand with which, partly as a result of preparation for the mid-June corporate tax date, banks were faced in the United States. In the three weeks from 28th May to 18th June the loans of the large commercial banks in the United States rose by $5.5 milliard while their certificate of deposit funds went down by $1.3 milliard. The US banks' Euro-dollar indebtedness, which had shown relatively little increase since the second half of March, jumped by over $3 milliard during this three-week period.

Though quieter than in May and the first half of June, the market remained relatively tense during the summer. Interest rates fluctuated around 11 per cent. and at this high level maintained their appeal for outside funds; the covered interest rate premiums of Euro-dollars in London over franc deposits in Switzerland fluctuated between 5 and 6 per cent. during this period. The market volume continued to grow rapidly, though at a more normal pace than during the spring. Owing to the new regulations announced by the US authorities and to the high level already attained, the increase in

US banks' Euro-dollar borrowing slowed down, but it continued to be one of the main forces keeping up interest rates. In the later part of the summer, however, came the rush into Deutsche Mark. Moreover, the high premium of the Deutsche Mark in the forward market turned the covered arbitrage margins comfortably in favour of placements in Germany, and the reporting banks outside Germany themselves seem to have switched nearly $1 milliard out of dollars into Deutsche Mark.

By the same token, the floating of the Deutsche Mark and the subsequent fixing of the new parity led to a substantial easing of market conditions and the three-month rate dropped to a low of about 9 per cent. in the second half of October. However, at the end of that month the proposals to put some curb on issues of commercial paper by the holding companies of US banks led to renewed tightening of market conditions. The US banks' Euro-dollar takings advanced from $13.6 milliard at the end of October to $15.0 milliard in the third week of November, their highest level for the year. End-year influences such as the repatriation of US corporate funds, and heavy borrowing by the German banks, tightened the market further. The three-month rate went back up to $11^5/_8$ per cent. around the middle of December and, at $12^7/_8$ per cent., the one-month rate even went beyond its mid-June peak.

The customary seasonal decline in late December and in early 1970 was reinforced by repayments by US banks, and the three-month rate fluctuated in the neighbourhood of 9½ per cent. during the second half of January and in February. The upward adjustment of the Regulation Q ceilings on 21st January had no immediate impact on the Euro-dollar market as US money-market rates remained well above these ceilings. The recovery of sterling in the forward market favoured switching into sterling and there was apparently substantial demand for Euro-dollars from Japan during this period. In March increasing evidence of some relaxation of US monetary restraint caused market conditions to ease further. The US banks' Euro-dollar takings fell from about $13.4 milliard in the second half of Feburary to some $12 milliard at the beginning of April, at which level they were about $3 milliard below their November peak. Towards the end of April, however, US demand for Euro-dollar funds began to strengthen again. The three-month rate, which had reached a low of $8^1/_8$ per cent. around the middle of the month, resumed an upward path, and parallel with the renewed tightening of the US financial markets touched 9¾ per cent. in the second half of May.

VI. THE EUROPEAN MONETARY AGREEMENT.

The European Monetary Agreement (EMA), which came into force on 27th December 1958, serves as a framework for co-operation between the monetary authorities of Contracting Parties, with the broad objective of encouraging multilateralism in international trade and currency convertibility. Its two principal operational aspects are: the European Fund, from which members may receive short or medium-term balance-of-payments assistance, and the Multilateral System of Settlements, under which each member country's central bank is assured of obtaining settlement in US dollars of its holdings of other members' currencies at an exchange rate known in advance. The Agreement is operated by the Council of the Organisation for Economic Co-operation and Development (OECD) and by a Board of Management. The Bank for International Settlements, acting as Agent, is entrusted with the execution of all financial operations under the Agreement.

Continuation of the Agreement.

Following a comprehensive review of the working of the Agreement by the Board of Management in 1968, the Agreement was renewed unchanged for a further three-year period until 31st December 1971 with only minor technical amendments to the Directives for its application. While the Agreement will be kept under continual review, a further general assessment is to be carried out by September 1971 to decide on its renewal beyond 31st December of that year.

Operations under the Agreement.

European Fund. At the end of March 1969 the total of credits outstanding was $135 million.* Of this amount, $105 million represented credits to Turkey, $25 million a credit to Greece and $5 million a credit to Iceland.

On 25th April 1969, following the further devaluation of the Icelandic króna in November 1968 and the subsequent improvement in the Icelandic economic position, Iceland repaid in advance the credit of $5 million granted in November 1968 and originally due on 14th May 1969.

On 6th February 1970, the due date and value date for multilateral settlements for January, Greece made the second repayment, of $10 million, on the credit of $30 million granted in February 1966. The final repayment, of $15 million, on this credit is due on 7th February 1971.

* 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.

In May 1969 the Turkish authorities requested a medium-term credit of $15 million in order to refinance three repayment instalments — the fourth, fifth and sixth — each of $5 million, under the sixth credit, due respectively on 30th June, 30th September and 31st December 1969. In the first quarter of 1969 Turkey's export performance had suffered as a result of a sharp fall in the world-market price of cotton, and difficulties, arising from the US dock strikes at the beginning of the year, had been experienced in the exporting and marketing of tobacco. By a decision of the Council of 24th June 1969, therefore, a credit bearing interest at the rate of 3 per cent. per annum was granted to Turkey in three tranches, each of $5 million, taking effect from the above-mentioned dates and repayable on 30th April 1970. The purpose of the credit was to give Turkey time to devise and apply appropriate measures to remedy the balance-of-payments situation. On the due dates the three

EMA: Utilisation of credits granted from the European Fund.

At value date for settlements for month	Greece		Iceland		Spain		Turkey		Totals		
	Available and undrawn	Drawings outstanding	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
December. . . .	—	—	—	—	51.0	24.0	0.5	21.0	51.5	45.0	96.5
1960											
December. . . .	—	—	5.0	7.0	76.0	24.0	15.0	21.5	96.0	52.5	148.5
1961											
December. . . .	—	—	7.0	5.0	—	—	—	50.0	7.0	55.0	62.0
1962											
December. . . .	—	—	5.0	—	—	—	—	80.0	5.0	80.0	85.0
1963											
December. . . .	—	—	—	—	—	—	—	95.0	—	95.0	95.0
1964											
December. . . .	—	—	—	—	—	—	—	105.0	—	105.0	105.0
1965											
December. . . .	—	—	—	—	—	—	—	90.0	—	90.0	90.0
1966											
December. . . .	—	30.0	—	—	—	—	—	80.0	—	110.0	110.0
1967											
December . . .	—	30.0	—	—	—	—	—	95.0	—	125.0	125.0
1968											
June	—	30.0	—	—	—	—	—	115.0	—	145.0	145.0
November . . .	—	30.0	—	5.0	—	—	—	115.0	—	150.0	150.0
December. . . .	—	30.0	—	5.0	—	—	—	110.0	—	145.0	145.0
1969											
January.	—	25.0	—	5.0	—	—	—	110.0	—	140.0	140.0
March	—	25.0	—	5.0	—	—	—	105.0	—	135.0	135.0
April	—	25.0	—	—	—	—	—	105.0	—	130.0	130.0
1970											
January.	—	15.0	—	—	—	—	—	105.0	—	120.0	120.0
March	—	15.0	—	—	—	—	—	100.0	—	115.0	115.0

instalments under the sixth credit were repaid by means of drawings on the three tranches of the new tenth credit.

Finally, on 31st March 1970, the due date, Turkey made a further repayment — the seventh — of $5 million on the sixth credit, reducing the amount outstanding under that credit to $35 million.

All these transactions are included in the table on the previous page, which shows the position regarding the utilisation of credits from the European Fund at the value date for multilateral settlements (the fifth working day of the following month) for February 1959, when the first credits were granted, for the end of each year from 1959 to 1967 and for each month from end-1967 to March 1970 in which changes occurred.

On the various credits granted between June 1959, when the first drawing was made, and March 1970 there were thirty-four drawings totalling $414.5 million; of this amount, $299.5 million has been repaid. The amount outstanding at the end of March 1970, therefore, was $115 million, of which $100 million was owed by Turkey and $15 million by Greece.

Multilateral System of Settlements. Details of the transactions carried out under the Multilateral System of Settlements since the Agreement came into force are shown in the table on the following page.

In the earlier years these transactions related for the most part to the settlement of balances held under bilateral payments agreements between member countries, and the volume of transactions declined gradually from $15 million in 1959 to about $1 million in 1964, reflecting the progressive termination of those agreements. Settlements originating under the exchange guarantee given on member countries' central-bank holdings of other members' currencies took place on only three occasions before 1964, and then for small amounts.

For three years after October 1964, when the last bilateral payments agreement between member countries — that between Greece and Turkey — was terminated, the settlement mechanism was not used. It was brought into operation again, however, in November 1967 in order to implement the exchange guarantee as a result of the several adjustments to the exchange parities of member countries' currencies in that month. Twenty balances in sterling and Spanish pesetas, totalling $17.4 and 0.1 million respectively, were brought into a special settlement on 29th November; fifteen balances in Danish kroner, totalling $2.4 million, were settled on 30th November and two small Icelandic króna balances were settled on 5th December.

The settlement machinery was again used in November 1968 when the Icelandic króna was further devalued, although only one small balance was brought into the special settlement.

When the French franc was devalued on 11th August 1969, fifteen balances in French francs, amounting to $25 million, were notified for special settlement, which took place on 21st August 1969. A short time later, following

EMA: Payments made under the Multilateral System of Settlements.

Country	Payments made by the Fund (+) or to the Fund (—)					Net amount of settlement
	1959-64	1967	1968	1969	Total 1959-69	
	in thousands of US dollars					
Austria	+ 25,083	+ 823	—	+ 30	+ 25,936	
	—	—	—	—	—	+ 25,936
Belgium	—	+ 633	—	+ 129	+ 762	
	—	—	—	—	—	+ 762
Denmark . . .	+ 240	+ 1,830	+ 9	+ 171	+ 2,250	
	— 150	— 2,434	—	—	— 2,584	— 334
France	—	+ 1,383	—	—	+ 1,383	
	—	—	—	— 24,995	— 24,995	— 23,612
Germany . . .	—	+ 3,444	—	+ 285	+ 3,729	
	—	—	—	—	—	+ 3,729
Greece	+ 689	+ 1,210	—	+ 116	+ 2,014	
	— 28,762	—	—	—	— 28,762	— 26,748
Iceland	—	+ 306	—	+ 5	+ 312	
	— 24	— 9	— 9	—	— 42	+ 270
Italy	+ 243	+ 1,047	—	+ 514	+ 1,804	
	—	—	—	—	—	+ 1,804
Netherlands .	+ 1,400	+ 1,604	—	+ 21	+ 3,025	
	— 1,378	—	—	—	— 1,378	+ 1,647
Norway	+ 689	+ 12	—	+ 4	+ 906	
	— 2,505	—	—	—	— 2,505	— 1,600
Portugal . . .	—	+ 1,926	—	+ 20,813	+ 22,739	
	—	—	—	—	—	+ 22,739
Spain	—	+ 53	—	+ 1,237	+ 1,290	
	—	—	—	—	—	+ 1,290
Sweden . . .	—	+ 2,447	—	+ 28	+ 2,475	
	— 243	—	—	—	— 243	+ 2,232
Switzerland . .	—	+ 2,338	—	+ 212	+ 2,550	
	—	—	—	—	—	+ 2,550
Turkey	+ 9,212	+ 132	—	+ 734	+ 10,078	
	— 4,694	—	—	—	— 4,694	+ 5,384
United Kingdom . .	—	+ 624	—	+ 696	+ 1,320	
	—	— 17,368	—	—	— 17,368	— 16,048
Total	37,756	19,812	9	24,995	82,571	—

the suspension by the German authorities of their buying and selling rates for the US dollar on 30th September, a special settlement was arranged for 9th October 1969 in order to give the opportunity to any member countries which wished to take it of settling their DM balances at a rate equivalent to the suspended lower margin. Since, however, after suspension of the margins the DM exchange rate moved in a sharply upward direction, no DM balances were notified for special settlement. Following the revaluation of the Deutsche Mark, Germany notified new margins applicable from 27th October 1969.

The cumulative total of settlements under the Multilateral System, therefore, now stands at $82.6 million.

No amounts of interim finance have been drawn under the Agreement since March 1963.

Statement of Account.

The operations of the European Fund described in the previous pages are reflected in the following summary of the Statement of Account.

Credits and claims outstanding, which amounted at the beginning of operations to $35 million, representing long-term claims on Norway and Turkey taken over from the EPU, stood at $150.1 million at end-March 1969. Of this sum, $135 million represented credits outstanding and $15.1 million

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

At value date for settlements for month	Assets				Total of *Statement*	Liabilities	
	Liquid resources	US Treasury account	Uncalled capital of member countries	Credits and claims out-standing		*Capital* Fund	Income and expendi-ture account
	In millions of units of account						
Opening	113.0	123.5	328.4	35.0	600.0	600.0	—
1959 December	104.4	123.5	302.9	80.0	610.9	607.5	3.4
1960 December	106.4	123.5	297.9	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 December	90.4	123.5	297.9	110.5	622.3	607.5	14.8
1963 December	82.1	123.5	297.9	123.1	626.6	607.5	19.1
1964 December	79.3	123.5	297.9	130.6	631.4	607.5	23.9
1965 December	101.3	123.5	297.9	113.1	635.8	607.5	28.3
1966 December	89.4	123.5	297.9	130.5	641.3	607.5	33.8
1967 December	82.6	123.5	297.9	142.8	646.9	607.5	39.4
1968 December	71.8	123.5	297.9	160.1	653.3	607.5	45.8
1969 January	76.3	123.5	297.9	155.1	652.8	607.5	45.3
February	76.5	123.5	297.9	155.1	653.0	607.5	45.5
March	81.6	123.5	297.9	150.1	653.1	607.5	45.6
April	86.8	123.5	297.9	145.1	653.3	607.5	45.8
May	87.1	123.5	297.9	145.1	653.6	607.5	46.1
June	89.8	123.5	297.9	145.1	656.3	607.5	48.8
July	89.5	123.5	297.9	145.1	656.0	607.5	48.5
August	89.7	123.5	297.9	145.1	656.2	607.5	48.7
September	90.0	123.5	297.9	145.1	656.5	607.5	49.0
October	90.2	123.5	297.9	145.1	656.8	607.5	49.3
November	90.5	123.5	297.9	145.1	657.1	607.5	49.6
December	96.6	123.5	297.9	142.2	660.3	607.5	52.8
1970 January	106.2	123.5	297.9	132.2	659.9	607.5	52.4
February	106.5	123.5	297.9	132.2	660.2	607.5	52.7
March	111.7	123.5	297.9	127.2	660.4	607.5	52.9

the balance of the long-term claims on Norway and Turkey. The total declined in April 1969 as a result of the repayment by Iceland already described, and fell further in December following the ninth amortisation payment in respect of the long-term claims on Norway and Turkey, amounting to $2.8 million. Finally, the afore-mentioned credit repayments by Greece and Turkey on 6th February and 31st March respectively brought the total outstanding at the end of March 1970 to $127.2 million.

The Fund's non-liquid assets thus declined by $22.8 million during the year. Together with undistributed net income during the period amounting to $7.3 million, the Fund's liquid resources rose to $111.7 million, the highest level since May 1962.

There was no call-up of capital in the period under review, so that the amount of member countries' uncalled contributions remained at $297.9 million. In addition, the sum of $123.5 million, representing the unused balance of the EPU capital contributed by the United States and transferred to the European Fund, may still be called, provided that the amount of member countries' paid-up contributions has reached a level of $148 million (i.e. equal to the active EPU capital transferred to the Fund in 1958), in equal proportion to the payment of further contributions by member countries. At present, member countries' paid-up contributions total $38 million and, together with the $148 million of active former EPU capital, the total of the Fund's operating capital comes to $186 million. The amount of $607.5 million shown as the capital liability of the Fund in the Statement of Account also includes the uncalled amounts mentioned above.

Net income received during the calendar year 1969 amounted to $8.2 million, the highest annual total yet recorded. A small drop, compared with 1968, in income received from interest on claims and credits drawn, owing to the lower average level of amounts outstanding, was more than offset by the higher yields obtained on the Fund's liquid dollar investments. It brought the cumulative total of net income received since the start of operations to $61.9 million. The payment of interest on member countries' contributions was again based on the principle that the cumulative amount of interest paid to each member country should be equal to 90 per cent. of the share in the Fund's net income which the country would have received if the Fund had been liquidated at the end of the period in respect of which interest is paid. The amount paid out in respect of 1969 came to $1.2 million and brought the cumulative amount of interest paid in gold to member countries to $9.8 million. This corresponds to an average annual rate of interest of 2.5 per cent. on the $38 million of called-up contributions. After the payment of interest in January 1970 on contributions in respect of the second half of 1969, undistributed net income amounted to $52.4 million. Of this amount, $45.9 million represented the equivalent share, in the Fund's net income, attributable to the $148 million of active EPU capital transferred to the Fund. Virtually all of the remainder represented the 10 per cent. balance of the Fund's net income not yet allocated.

Management of the European Monetary Agreement.

The Board of Management of the EMA supervises the execution of the Agreement and advises the Council of the OECD on all related matters. The Board also follows the economic and financial situation in 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 when necessary, recently about six times a year. In December 1969 the Council re-appointed M. Hay of the Swiss National Bank as Chairman of the Board for a further year.

The Bank for International Settlements, as Agent, presents monthly reports on the operations carried out under the Agreement and on the investments of the European Fund. To assist the Board in following international financial developments, the Bank also provides monthly statistical material on the international gold and foreign exchange markets and on the external monetary positions of OECD countries, which the Representative of the Bank comments upon regularly at the Board's meetings.

Since 1963 the Bank for International Settlements has also been entrusted with the transmission of confidential information to participating member central banks relating to the conclusion and utilisation of concerted bilateral arrangements through which special support is given to the currency of a member country. As a result of the conclusion of new arrangements and the extension of existing arrangements in 1968 the work of the Bank connected with the notification of support operations among member countries' central banks was considerably intensified. This activity continued in 1969.

VII. ACTIVITIES OF THE BANK.

1. Development of co-operation between central banks and international organisations.

The rôle played by the Bank in the field of co-operation between central banks in monetary matters had visible results last year, when massive repayments were made under the various arrangements set up by groups of major central banks and the BIS for the purpose of relieving pressures within the international monetary system. As in previous years, the Bank collaborated with certain central banks in co-ordinated action to alleviate undesirable strains on markets, in particular the Euro-dollar market. The Bank's business relations with central banks have also continued to expand rapidly.

In addition to the regular meetings of the Governors of the central banks of the Group of Ten countries and Switzerland and to those of the Board of Directors of the BIS, the Bank continued to organise meetings of central-bank experts to study and exchange information on economic and monetary problems of general interest and to examine matters such as the development of the gold and foreign exchange markets and the Euro-dollar market. Meetings of other groups of central-bank experts were also arranged by the Bank for the purpose of studying various technical and legal questions.

Further, the Bank continued to carry out the functions entrusted to it in August 1964 by the Ministers of the Group of Ten of collecting and distributing to all participants of the Group and to Working Party No. 3 of the OECD statistical data concerning the means applied to finance surpluses and deficits on external account. These data provide the essential basis for multilateral surveillance of international liquidity creation. On the occasion of their meetings at the Bank the Governors of the central banks of the Group and Switzerland also have the opportunity of exchanging the latest information on arrangements entered into between members of the Group for new or enlarged credit facilities and on the evolution of such credits. Co-operation in this field continues to be of great value. The Bank has also again been associated in the work of the Deputies of the Group of Ten.

2. Operations of the Banking Department.

The Balance Sheet of the Bank and the Profit and Loss Account as at 31st March 1970, certified by the auditors, are reproduced at the end of this Report.

* * *

The balance-sheet total, which had stood at 14,642,777,907 francs* on 31st March 1969, amounted to 20,699,016,057 francs on 31st March 1970, when it for the first time exceeded the 20 milliard mark. There was a particularly sharp gain over the year of 6,056,238,150 francs, or 41 per cent.

In constrast to what happened in the preceding financial year, the increase was not due to any special transactions. In this connection, in fact, it should be noted that the paying-up of capital following the issue of new shares was effected by drawing on the Bank's provisions or by debiting subscribers' gold accounts.

The total of the monthly statement of account rose from month to month, except in November 1969 and January 1970; in these two months, particularly the latter, it declined.

BIS: Development of the balance-sheet total over the past ten financial years.

Financial years ended 31st March	Total of balance sheet	Movement over the year	
	in millions of francs		in percentages
1961	3,973	+ 543	+ 16
1962	4,732	+ 759	+ 19
1963	4,950	+ 218	+ 5
1964	5,778	+ 828	+ 17
1965	7,850	+ 2,072	+ 36
1966	7,882	+ 32	—
1967	8,232	+ 350	+ 4
1968	12,041	+ 3,809	+ 46
1969	14,643	+ 2,602	+ 22
1970	20,699	+ 6,056	+ 41

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 European Coal and Steel Community and as Trustee for international

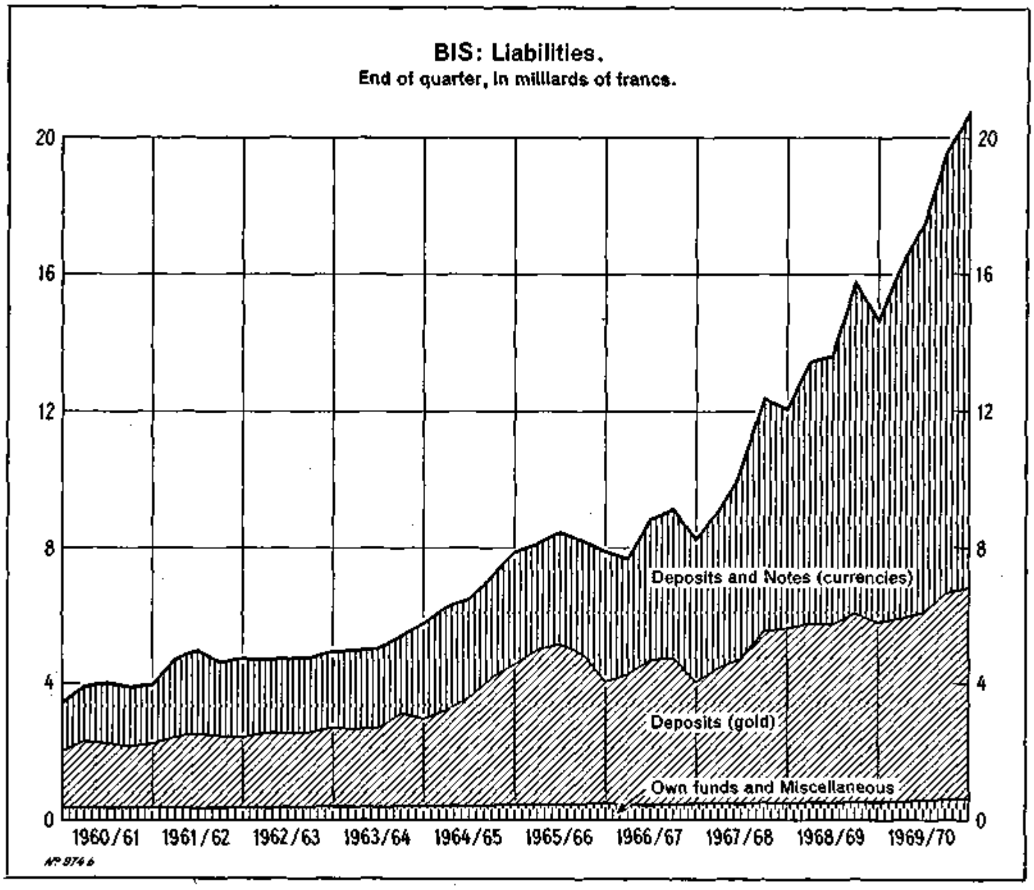
BIS: Memorandum accounts (b).

Items	Financial years ended 31st March 1969	1970
	in millions of francs	
Earmarked gold	1,116	1,068
Bank balances	32	17
Bills and other securities	594	543
Total of items not included in the balance sheet	1,742	1,628

* Except where otherwise indicated, the term "francs" in this chapter signifies *gold francs*. The method of conversion into gold francs (units of 0.290 322 58... grammes fine gold — Article 4 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.

government loans. As was done in the case of the balance sheet as at 31st March 1969, 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 previous page.

Composition of resources (liabilities).



A. Capital and reserves.

As a result of the implementation during the financial year of the decisions taken by the Annual and Extraordinary General Meetings held on 9th June 1969, considerable changes have taken place in the structure of the items "Capital", "Reserves" and "Provisions".

Details of these changes, and in particular of the two capital increases effected during the financial year, are given in Section 6 below under the heading "Amendment of the Bank's Statutes and adjustment of its capital and reserves", and the movements in the three items in question are summarised in the tables at the end of this Report.

This section will therefore confine itself to the changes recorded in these items over the year.

The "Capital authorised and issued" totalled 500 million francs on 31st March 1969. On 31st March 1970 the "Capital authorised" was three times that figure, i.e. 1,500 million, and the "Capital issued" came to 1,120.8 million; as a result of the new issues of shares, the "Capital paid up" rose from 125 to 280.2 million.

Except for the Special Dividend Reserve Fund, which remained unchanged at 10 million, all the Bank's reserves underwent an increase. The Legal Reserve Fund was raised from 12.5 to 28 million, the General Reserve Fund from 37.8 to 64.9 million and the Free Reserve Fund from 15 to 80 million.

The total of the two items "Capital paid up" and "Reserves" thus increased over the financial year by 263 million, going up from 200 to 463 million. The uncalled capital rose by 466 million, from 375 to 841 million.

As regards other liabilities, the "Provision for Contingencies", which had stood at 220 million at the beginning of the financial year, was completely liquidated during the year. The item "Miscellaneous liabilities" went up from 43.4 to 44.5 million. The "Provision for Building Purposes" was increased from 1.5 to 48.7 million. Finally, the total of the "Profit and Loss Account", i.e. the net profit for the financial year 1969–70, amounted to 83.2 million, against 45 million for the previous financial year. Details of the proposed distribution of this profit are given in Section 7 below.

BIS: Development of the composition of resources over the past ten financial years.

Financial years ended 31st March	Paid-up capital and reserves	Borrowed funds	Other liabilities	Balance-sheet total
	in millions of francs			
1961	148	3,603	222	3,973
1962	149	4,353	230	4,732
1963	150	4,561	239	4,950
1964	150	5,370	258	5,778
1965	151	7,417	282	7,850
1966	151	7,449	282	7,882
1967	151	7,764	317	8,232
1968	170	11,548	323	12,041
1969	200	14,133	310	14,643
1970	463	20,060	176	20,699

B. Borrowed funds.

The following tables show the *origin*, *nature* and *term* of the Bank's borrowed resources.

The deposits of central banks increased very considerably (+ 59 per cent.) over the year; they were at their highest level at the end of the financial year. Part of the rise was accounted for by funds received from various central banks in the overseas sterling area under the terms of the Second Group Arrangement, which came into force in September 1968 (see last year's Report).

BIS: Borrowed funds, by origin.

Origin	Financial years ended 31st March 1969	Financial years ended 31st March 1970	Movement
	in millions of francs		
Central banks	11,324	18,001	+ 6,677
Other depositors	1,224	1,225	+ 1
Notes	1,585	834	— 751
Total	14,133	20,060	+ 5,927

The deposits of other depositors, on the other hand, showed no overall change, though there were fairly sharp fluctuations in the course of the financial year: for example, the total of such deposits was twice as high in January as at the end of the financial year.

The amount of notes outstanding was practically halved as a result of a reduction in notes expressed in currencies and sold to commercial banks in various countries, which had served to finance a number of operations carried out in the interests of the central-bank community. As the reasons for which they had been issued no longer obtained, these notes were not renewed on maturity.

BIS: Borrowed funds, by nature and term.

Term	Deposits in gold			Deposits in currencies			Notes in currencies		
	Financial years ended 31st March 1969	1970	Movement	Financial years ended 31st March 1969	1970	Movement	Financial years ended 31st March 1969	1970	Movement
	in millions of francs								
Sight	2,234	2,320	+ 86	40	97	+ 57	—	—	—
Not exceeding 3 months	2,778	2,841	+ 63	5,031	11,660	+ 6,629	594	277	— 317
Over 3 months	286	1,013	+ 727	2,179	1,295	— 884	991	557	— 434
Total	5,298	6,174	+ 876	7,250	13,052	+ 5,802	1,585	834	— 751

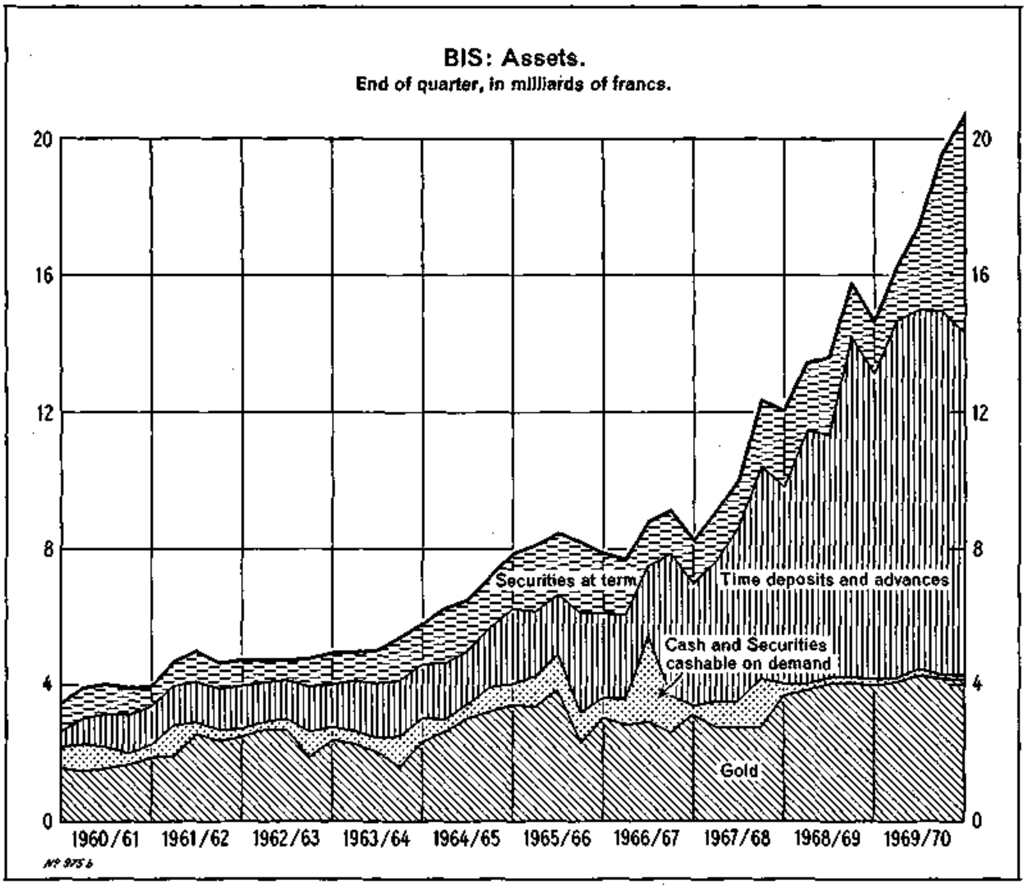
"Deposits in gold" underwent a relatively moderate increase (+17 per cent.), most of which was in respect of gold deposits at over three months. As can be seen from the balance sheet, the gold deposits of "Other depositors" are now all at sight.

"Deposits in currencies", on the other hand, rose appreciably, not only in absolute but also in relative terms (+ 80 per cent.). The increase in funds at not exceeding three months was greater than the overall rise. The decline in deposits at over three months was a consequence of amortisation payments made — mostly in advance — under the Group Arrangement concluded in June 1966 and consolidated in September 1968 (see last year's Report), for on receipt of these payments the Bank repaid the deposits it had received from central banks for the partial financing of that Arrangement.

The decrease in the total amount of "Notes" was divided more or less equally between funds at not exceeding three months and those at over three months.

At the beginning of the financial year "Deposits in gold" represented 37 per cent. of total borrowed resources, "Deposits in currencies" 52 per cent. and "Notes" 11 per cent. On 31st March 1970 the percentage ratios were 31, 65 and 4 respectively. Thus, in spite of the decline in the total for "Notes", the share of total resources in currencies continued to develop as in preceding financial years, increasing from 63 per cent. to 69 per cent. and thus for the first time exceeding two-thirds of the Bank's total liabilities.

Employment of resources (assets).



The development of the Bank's gold position is shown in the table on the following page, which gives the maximum and minimum figures for the financial year.

The increase in gold holdings was almost equal to the growth of sight deposits in gold plus that of the Bank's net assets in gold; the increase in the latter item was partly due to the issue of the first part of the third tranche of the Bank's shares, which was subscribed in gold.

The net balance of forward operations was positive throughout the financial year and showed a fairly substantial increase in the last quarter.

BIS: Gold position.

End of month	Gold	Invest-ments in gold	Deposits in gold	Net balance	Net balance of forward operations	Net assets in gold
	In millions of francs					
1969						
March . . .	3,976 (min.)	451	−5,298	− 871	+1,341	470 (min.)
May.	4,006	418	−5,287 (min.)	− 863	+1,346	483
August . . .	4,110	418	−5,348	− 820 (max.)	+1,320 (min.)	500
September .	4,262 (max.)	416 (min.)	−5,551	− 873	+1,376	503
1970						
March . . .	4,161	462 (max.)	−6,174 (max.)	−1,551 (min.)	+2,110 (max.)	559 (max.)
Movement: 31st March 1969 to 31st March 1970	+ 185	+ 11	− 876	− 680	+ 769	+ 89

This growth was due largely to various operations involving forward purchases of gold against currencies; the operations in question were covered by fresh time deposits in gold.

BIS: Distribution, by nature, of cash holdings and other investments.

Nature	Financial years ended 31st March 1969		1970		Movement	
	In millions of francs					
Cash						
Gold	3,976		4,161		+ 185	
Currencies	56	4,032	61	4,222	+ 5	+ 190
Other investments						
Gold	451		462		+ 11	
Currencies	10,159	10,610	16,002	16,464	+ 5,843	+ 5,854
Total						
Gold	4,427		4,623		+ 196	
Currencies	10,215	14,642	16,063	20,686	+ 5,848	+ 6,044

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

A. Sight funds and securities cashable on demand.

The item "Gold" (consisting exclusively of gold in bars) increased by 185 million, as explained above.

The figure for the item "Cash on hand and on sight account with banks" rose from 56 to 61 million.

On 31st March 1970 total cash holdings (gold and currencies) represented 20.4 per cent. of the balance-sheet total, compared with 27.5 per cent. a year earlier.

The item "Treasury bills" had amounted to 67 million on 31st March 1969. In June 1969 it fell to 7 million and it remained at that level until the end of the financial year.

The item "Other securities cashable on demand", at 62 million, remained virtually unchanged over the year.

At the beginning of the financial year the total of the Bank's sight funds and securities cashable on demand, comprising the various asset items so far analysed, was 4,160 million and represented 28.5 per cent. of the total of the balance sheet; on 31st March 1970 the corresponding figures were 4,291 million and 20.7 per cent. Over the same period sight deposits on the liabilities side increased from 2,274 million to 2,417 million, while their share of the balance-sheet total fell from 15.5 to 11.7 per cent.

B. Time funds.

The figure for the item "Time deposits and advances" rose from 8,964 million to 10,017 million, i.e. by 1,053 million, or 11.7 per cent. This growth represents the difference between the following two groups of operations:

(i) investments carried out on the Euro-currency market and, to a lesser extent, credits granted to a number of central banks;

(ii) the liquidation, on the proposal of the central bank concerned, of investments which had been made under the Second Group Arrangement, and amortisation payments received, as already mentioned, in respect of the earlier Group Arrangement, which had been consolidated in September 1968.

The total of "Securities at term" rose almost continuously from month to month, registering a substantial increase from 1,518 million at the beginning of the financial year to its maximum of 6,378 million at the end. This increase resulted mainly from investments in certificates of deposit of US banks, which were offset to a comparatively small extent by the maturing of government certificates, in particular British Treasury notes.

BIS: Time deposits and advances and securities at term, by maturity.

Periods	Financial years ended 31st March 1969	1970	Movement
	in millions of francs		
Not exceeding 3 months	6,935	13,589	+ 6,654
Over 3 months.	3,547	2,806	— 741
Total	10,482	16,395	+ 5,913

It may be noted that, parallel with the movements registered by deposits received in currencies, there was a very marked increase in investments at not exceeding three months, which almost doubled, and a decrease in those at over three months.

* * *

The financial year 1969–70 was a most satisfactory one in every respect. The Bank attained a new, very high level of activity and continued to pursue its principal objective, which is to strengthen co-operation with the central banks; it provided increased facilities to its members and further developed its dealings with the market. This high degree of activity was reflected in a rise both in the balance-sheet total and in the volume of operations, which reached a new record of 213 milliard in 1969–70, against 184 milliard in 1968–69 and 174 milliard in 1967–68.

3. The Bank as Trustee for international government loans.

Since 1st January 1970 the Bank has been performing the function of Trustee for the new bonds of the German External Loan 1924 (Dawes Loan) 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 Bank assumed this function in succession to Mr. Nelson D. Jay, M. Emmanuel Monick and Sir Otto Niemeyer, all of whom retired as Trustees for the Dawes Loan at the end of 1969. Prior to their retirement the Bank had since 1930 acted as their Fiscal Agent in the administration of the Loan.

The financial year 1969–70 for the Dawes Loan ended on 15th April 1970. Under the terms of the London Agreement conversion bonds for a total amount equivalent to about 247 million francs were issued in exchange for old bonds of the Loan. On 15th October 1969 all the then outstanding bonds of the conversion issues, amounting to the equivalent of about 154 million francs, reached maturity and were redeemed. As regards the funding bonds of the Loan, which mature on 15th October 1972, redemption in respect of the financial year 1969–70 was effected by purchases of bonds in the market. The interest payments for the conversion and funding bonds in the year under review amounted in total to the equivalent of about 5.7 million francs.

In conformity with the agreements in force, the Bank continued in the year under review to perform the function of Trustee for the new bonds of the German Government International Loan 1930 (Young Loan) issued by the Government of the Federal Republic of Germany in accordance with the London Agreement. In respect of the financial year 1969–70 for the Young Loan, which ended on 1st June 1970, redemption of conversion and funding bonds was effected by purchases of bonds on the market. For the year under review the interest payments in respect of the Loan amounted to the equivalent of about 34.0 million francs.

German External Loan 1924 (Dawes Loan).
Conversion bonds.

Issue	Currency	Nominal value		
		Bonds issued	Bonds purchased or drawn for redemption in respect of the financial years 1958–59 to 1968–69	Bonds redeemed at maturity on 15th October 1969
American . . .	$	44,118,000	19,563,000	24,555,000
Belgian	£	583,500	181,200	402,300
British	£	8,277,200	2,572,200	5,705,000
Dutch	£	1,324,000	391,900	932,100
French	£	1,929,600	593,500	1,336,100
Swedish . . .	S.kr.	14,209,000	4,124,000	10,085,000
Swiss	£	1,130,800	347,600	783,200
Swiss	Sw.fr.	8,251,000	2,351,000	5,900,000

German External Loan 1924 (Dawes Loan).
Funding bonds.

Issue	Currency	Nominal value			
		Bonds issued	Bonds purchased for redemption in respect of the financial years		Balance after redemption
			1958–59 to 1968–69	1969–70	
American . . .	$	8,209,000	2,643,000	269,000	5,297,000
Belgian	£	157,800	53,300	5,600	98,900
British	£	2,232,300	746,200	80,400	1,405,700
Dutch	£	291,700	89,600	9,900	192,200
French	£	499,000	168,100	18,100	312,800
Swiss	£	115,000	37,900	4,000	73,100
Swiss	Sw.fr.	415,000	124,000	12,000	279,000

The question whether the exchange guarantee attached to the Young Loan under the terms of the London Agreement is applicable in the case of the revaluation of the Deutsche Mark in 1961 has still not been settled, and the matter remains in the hands of the governments of the countries in which issues of the Loan were made. Following the further revaluation of the Deutsche Mark in October 1969, and on the basis of the considerations put forward in connection with the earlier revaluation, the Trustee expressed the view that the exchange guarantee was also applicable in the case of the further revaluation of the Deutsche Mark. The Bundesschuldenverwaltung (Federal Debt Administration), maintaining the position it adopted in 1961, was unable to agree.

The Trustee has therefore advised the governments concerned of the situation created by the further revaluation of the Deutsche Mark and has informed the Bundesschuldenverwaltung that, until the matter has been settled, it reserves the rights of the bondholders with regard to the application of the exchange guarantee attached to the Young Loan also in the case of the further revaluation of the Deutsche Mark in 1969, irrespective of whether the relative bonds and coupons are presented for payment or not.

The position as regards the Young Loan is shown in the following table.

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 1968-69	1969-70	
		Conversion bonds			
American . . .	$	55,498,000	7,920,000	953,000	46,625,000
Belgian	B.fr.	202,851,000	28,509,000	3,323,000	171,019,000
British	£	20,662,900	2,882,600	339,300	17,441,000
Dutch	Fl.	52,574,000	7,229,000	855,000	44,490,000
French	Fr.fr.	501,637,000	70,006,000	8,705,000	422,926,000
German	DM	14,504,000	2,013,000	237,000	12,254,000
Swedish . . .	S.kr.	92,780,000	12,996,000	1,519,000	78,265,000
Swiss	Sw.fr.	58,385,000	8,191,000	962,000	49,232,000
		Funding bonds			
American . . .	$	9,010,000	1,235,000	133,000	7,642,000
Belgian	B.fr.	45,683,000	6,347,000	683,000	38,653,000
British	£	4,930,200	676,900	72,700	4,180,600
Dutch	Fl.	8,499,000	1,167,000	125,000	7,207,000
French	Fr.fr.	110,466,000	14,963,000	1,734,000	93,771,000
German	DM	416,000	56,000	6,000	354,000
Swedish . . .	S.kr.	6,014,000	833,000	90,000	5,091,000
Swiss	Sw.fr.	1,405,000	192,000	21,000	1,192,000

* Nominal value on 1st May 1970, established in accordance with the provisions of the London Agreement on German External Debts of 27th February 1953 but without taking account of the revaluations of the Deutsche Mark in March 1961 and October 1969.

The Bank is also Trustee for the assented bonds of the Austrian Government International Loan 1930, the service of which was carried out in conformity with the relevant agreements.

The following table shows the position with regard to this Loan.

Austrian Government International Loan 1930.

Issue	Currency	Nominal value			
		Bonds assented	Bonds purchased or drawn for redemption in respect of the financial years		Balance after redemption
			1959 to 1968	1969	
American . . .	$	1,667,000	715,000	92,000	860,000
Anglo-Dutch .	£	856,600	359,900	50,500	446,200
Swiss	Sw.fr.	7,102,000	2,517,000	341,000	4,244,000

4. The Bank as Depositary under the terms of the Act of Pledge concluded with the European Coal and Steel Community.

The Bank has continued to perform the functions of Depositary in respect of the loans of the European Coal and Steel Community which are secured in accordance with the provisions of the Act of Pledge concluded between it and the Community on 28th November 1954.

Secured loans of the European Coal and Steel Community.

Series of Secured Notes	Dates of issue	Countries of issue	Lenders	Original amounts of loans		Amounts unredeemed on 1st April 1970	Rates of interest %	Year of final maturity
1st	1954	United States	US Government	$	100,000,000	55,900,000	$3\frac{7}{8}$	1979
2nd	1955	Belgium	Caisse Générale d'Epargne et de Retraite, Brussels	B.fr.	200,000,000	126,400,000	$3\frac{1}{2}$	1982
3rd	1955	Germany	Westdeutsche Landesbank Girozentrale, Düsseldorf and Münster[1]	DM	50,000,000	27,170,100	$3\frac{3}{4}$	1981
4th	1955	Luxemburg	Caisse d'Epargne de l'Etat, Luxemburg	B.fr.	20,000,000	12,640,000	$3\frac{1}{2}$	1982
				L.fr.	5,000,000	—	—	—
5th	1956	Saar	Landesbank und Girozentrale Saar, Saarbrücken	DM	2,977,450[2]	1,476,815	$4\frac{1}{4}$	1977
6th	1956	Switzerland	Public issue	Sw.fr.	50,000,000	20,000,000	$4\frac{1}{4}$	1974
7th[3]	1957	United States	Public issue	$	25,000,000	9,800,000	$5\frac{1}{2}$	1975
10th	1957	Luxemburg	Etablissement d'Assurance contre la Vieillesse et l'Invalidité, Luxemburg	L.fr.	100,000,000	74,023,045	$5\frac{5}{8}$	1982
11th[3]	1958	United States	Public issue	$	35,000,000	21,200,000	5	1978
13th[3]	1960	United States	Public issue	$	25,000,000	18,400,000	$5\frac{3}{8}$	1980
15th	1961	Luxemburg	Etablissement d'Assurance contre la Vieillesse et l'Invalidité, Luxemburg	L.fr.	100,000,000	84,883,149	$5\frac{1}{4}$	1986
16th	1961	Netherlands	Public issue	Fl.	50,000,000	39,950,000	$4\frac{1}{2}$	1981

[1] The original lenders, Rheinische Girozentrale und Provinzialbank and Landesbank für Westfalen Girozentrale, were merged as from 1st January 1969 under the name Westdeutsche Landesbank Girozentrale. [2] 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. [3] The Secured Notes of the 8th, 9th, 12th and 14th Series have been entirely redeemed.

Such secured loans were issued during the period up to and including 1961 for a total amount equivalent to about 821 million francs. Since September 1961 the Community has raised loans which are not secured in accordance with the Act of Pledge, and the Bank has no function in connection with such loans.

Repayments by the Community up to 1st April 1970 in respect of secured loans amounted to the equivalent of about 409 million francs, so that the total amount outstanding was reduced to the equivalent of about 412 million francs. Further particulars of these loans are given in the table above.

The Community has used the proceeds of these loans to grant credits in the member countries.

During the financial year 1969–70 the Bank received from the borrowers and distributed among the Paying Agents for the service of the secured loans the equivalent of about 22 million francs in respect of interest and the equivalent of about 40 million francs in respect of redemption.

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

The Bank's activities in its continuing capacity as Agent for the execution of the financial operations of the EMA under the Organisation for Economic Co-operation and Development have been described in Chapter VI of this Report. The Bank has received in this connection, as last year, a contribution of Sw.fr. 500,000 towards its administrative expenses, together with the reimbursement of its out-of-pocket expenses; these amounts have been credited to "Costs of administration" in the Bank's Profit and Loss Account.

6. Amendment of the Bank's Statutes and adjustment of its capital and reserves.

The Extraordinary General Meeting referred to in Chapter VII, Section 7, of the Thirty-ninth Annual Report of the Bank took place on 9th June 1969; its purpose was to consider proposals to adjust the Bank's capital and amend its Statutes. The resolutions put before the meeting were passed unanimously and took effect on 10th December 1969 after the Swiss Government, acting with the agreement of the other governments that are parties to the 1930 Convention respecting the BIS, had given the authorisation required by the Convention. As a result, the amendments in the Bank's Statutes together with the consequential amendments in the references to the Statutes contained in the Bank's Constituent Charter came into force on that day. The Bank's authorised capital was thus immediately raised from 500 million to 1,500 million francs, to consist, as indicated in Article 4 of the amended Statutes, of 600,000 shares of equal gold nominal value, of which a first tranche of 200,000 shares, paid up to the extent of 25 per cent., or 625 francs per share, was already issued, and two further tranches of 200,000 shares each were available for issue in accordance with Articles 5 and 6 of the amended Statutes.

In accordance with the decision of the Extraordinary General Meeting and with Article 5 of the amended Statutes, on 29th December 1969 the 200,000 shares of the second tranche of the Bank's increased capital were offered for subscription to shareholders — the shares being paid up to the extent of 625 francs per share by drawing the amount required from the Bank's own funds — on the basis of one new share for each share registered in the books of the Bank. In subscribing, the shareholders accepted liability in regard to the unpaid three-quarters, viz. 1,875 francs per share. When the period for subscription ended on 31st March 1970, the great majority of shareholders had subscribed for the shares to which they were entitled and only a small percentage of the shares needed to be taken up on that date, against payment of an amount in Swiss francs equivalent to 625 francs per share, by the eight central banks represented on the Board of Directors, which had guaranteed the subscription of the whole issue. The sum thus received from the guaranteeing central banks was subsequently paid to the shareholders who had not subscribed within the specified time-limit. As a result of the paying-up of the shares of the second tranche as to 625 francs each out of the Bank's own funds, the Provision for Contingencies was reduced from 220 to 95 million francs, and the remaining balance was immediately liquidated in accordance with the decision of the Extraordinary General Meeting by transferring 12.5 million francs to the Legal Reserve Fund, 50 million francs to the Free Reserve Fund and 32.5 million francs to the Provision for Building Purposes.

Pursuant to the decision of the Extraordinary General Meeting, and in accordance with Article 6 of the amended Statutes, on 2nd January 1970 a first issue was made of shares of the third tranche of the Bank's increased capital, all of which are reserved for subscription by central banks. As a result of this issue the central banks of Canada and Japan, which were already making a substantial contribution to the Bank's activities, became members of the Bank. At the same time, two other central banks which were already members of the Bank subscribed for additional shares in order to round off the number of shares which they had previously subscribed when joining the Bank. In addition, the new provisions of Article 9 of the Statutes were applied for the first time, and the founder central banks which exercised their rights under Article 8 (2) to subscribe for a proportion of the newly-issued shares placed some of these shares at the disposal of the Bank for cancellation. As a result, the Board of Directors was able to issue an equivalent number of fresh shares to other member central banks.

On the occasion of this first issue of shares of the third tranche of the Bank's capital, a total of 48,325 shares was subscribed. The subscription price was fixed by the Board of Directors, acting under the authority given by the Extraordinary General Meeting, at 937.50 francs per share. As the shares were paid up to the extent of 25 per cent., or 625 francs per share, the subscription price included a premium of 312.50 francs per share, viz. 50 per cent. of the amount paid up. The aggregate premium received on this first issue of shares of the third tranche therefore amounted to 15,101,563 francs, and was allocated by the Board as to 3,020,313 francs to the Legal Reserve Fund and as to 12,081,250 francs to the General Reserve Fund.

As a consequence of the measures mentioned above, at the end of the financial year the Bank's paid-up capital had been increased from 125 million francs to over 280 million francs and the number of issued shares, paid up to the extent of 25 per cent., or 625 francs per share, had risen from 200,000 to 448,325. At the same time the Bank's uncalled capital had been increased from 375 million francs to over 840 million francs.

Alongside these alterations in the share capital of the Bank, a number of important changes have also taken place in its reserves and provisions. The Legal Reserve Fund, which stood at 12.5 million francs at the beginning of the year, has since been increased on the occasion of each of the two issues of shares mentioned above, that is to say by the 12.5 million francs drawn from the Provision for Contingencies on 29th December 1969 and by the 3,020,313 francs allocated from the share premium received on 2nd January 1970. Each of these increases had the effect that the Legal Reserve Fund has been maintained throughout the year at the full amount provided for under Article 51 of the Statutes in relation to the paid-up capital. At the end of the year this Fund therefore amounted to 28,020,313 francs. The General Reserve Fund was increased by the allocation of the balance of the premium received on the issue of the shares of the third tranche, viz. 12,081,250 francs. Taking into account the appropriation of 15 million francs from the net profit for the previous financial year, at 31st March 1970 this Fund stood at 64,833,210 francs.

The liquidation of the Provision for Contingencies, which has already been mentioned above, also increased the Free Reserve Fund, which stood at 80 million francs at the end of the financial year after inclusion of the appropriation of 15 million francs from the previous year's net profit. As for the Provision for Building Purposes, which represents the funds available for building and equipping the Bank's new premises, a sum of 1,329,000 francs was deducted during the year in respect of the purchase of the remaining small portion of the site for these new premises. On the other hand, the Provision was strengthened by the 32.5 million francs credited from the Provision for Contingencies and by the transfer of 16 million francs from the surplus for the year. On 31st March 1970 the balance of the Provision for Building Purposes therefore stood at 48,671,000 francs.

On an overall view, the combined effect of all these measures was that at the end of the financial year 1969–70 a more appropriate relationship had been established between the total of the Bank's balance sheet, on the one hand, and the aggregate of the capital (called and uncalled) and reserves, on the other. If the recommendations of the Board of Directors as to the appropriation of the net profit for the year are approved, the General Reserve Fund and the Free Reserve Fund of the Bank will be further strengthened by a total of 48 million francs.

7. Net profits and their distribution.

The accounts for the fortieth financial year ended 31st March 1970 show a surplus of 101,368,556 francs. The surplus for the financial year 1968–69 was 49,686,320 francs. This very large increase in earnings is mainly attributable to the substantial expansion in the Bank's resources in currencies and to the considerable growth in the volume of its operations, both of which have already been mentioned in Section 2 of this Chapter.

The Board of Directors has decided to transfer 2,188,986 francs to the Provision for Exceptional Costs of Administration and 16,000,000 francs to the Provision for Building Purposes. After deduction of these two transfers, the net profit amounts to 83,179,570 francs, compared with 45,000,000 francs for the previous financial year. The appropriation of this amount is fixed by clauses (2), (3), (4) and (5) of Article 51 of the amended Statutes.

On the basis of these provisions, the Board of Directors recommends that the net profit of 83,179,570 francs be applied by the General Meeting in the following manner:

(i) a sum of 23,179,570 francs in payment of a total dividend of 56.25 francs per share, consisting of 37.50 francs in respect of the priority dividend of 6 per cent. per annum and 18.75 francs representing the maximum further dividend of 3 per cent. per annum, such total dividend being payable in respect of a whole financial year in the case of the 400,000 issued shares of the first and second tranches and in respect of one-quarter of a financial year in the case of the 48,325 issued shares of the third tranche;

(ii) an amount of 30,000,000 francs to be transferred to the General Reserve Fund;

(iii) an amount of 12,000,000 francs to be transferred to the Special Dividend Reserve Fund; and

(iv) an amount of 18,000,000 francs, comprising the remainder of the available net profit, to be transferred to the Free Reserve Fund. This Fund can be used by the Board of Directors not only for meeting losses incurred by the Bank but also for any other purpose which is in conformity with the Statutes.

Under these proposals of the Board of Directors the new provisions of Article 51 (5), which permit the transfer to the Special Dividend Reserve Fund of up to 40 per cent. of the balance of the available net profit after all other payments and appropriations have been made, are being applied for the first time. The proposed transfer to the Special Dividend Reserve Fund of the sum of 12,000,000 francs, which for this year is the statutory maximum, would result in this Fund being raised to 22,007,964 francs; this amount would bear approximately the same ratio to the currently paid-up capital as the Fund bore to the paid-up capital at the end of the last financial year before the Bank's capital was increased.

As regards the dividend for the financial year 1969–70, the proposals of the Board provide for a total dividend amounting to 56.25 francs per share on the 400,000 issued shares of the first and second tranches and to 14.0625 francs on the 48,325 issued shares of the third tranche. These amounts will be payable on 1st July 1970 in the amounts of 80.40 Swiss francs and 20.10 Swiss francs per share, respectively, to shareholders whose names are entered in the Bank's share register on 20th June 1970. For shareholders who have retained the new paid-up shares of the second tranche to which they were entitled, the effect of the proposals as to the dividend is that this year they will receive a dividend of 112.50 francs, or 160.80 Swiss francs, in respect of each two shares they now hold, as opposed to 75 francs, or 107.15 Swiss francs, which they received last year in respect of each single share they then held.

The Balance Sheet, the Profit and Loss Account, the proposed Appropriation of the Net Profit and the movements during the financial year on the paid-up Capital, Reserves and Provisions will be found at the end of this Report.

The Bank's accounts have been audited by Messrs. Price Waterhouse & Co., Zurich, who have confirmed that the Balance Sheet and the Profit and Loss Account give a true and fair view of the state of the Bank's affairs at 31st March 1970 and of its profit for the year ended on that date. Messrs. Price Waterhouse & Co.'s report is appended at the foot of the Balance Sheet.

8. Changes in the Board of Directors.

The mandate of M. Maurice Frère as a member of the Board was due to expire on 7th August 1969 and he was re-appointed under Article 27 (2) of the Statutes by Baron Ansiaux, Governor of the National Bank of Belgium, in July 1969 for a further period of three years ending on 7th August 1972.

The mandate of Dr. Donato Menichella as a member of the Board was due to expire on 7th November 1969 and he was re-appointed under Article 27 (2) of the Statutes by Dr. Carli, Governor of the Bank of Italy, in September 1969 for a further period of three years ending on 7th November 1972.

On 1st January 1970 Dr. Karl Klasen succeeded Herr Karl Blessing as President of the Deutsche Bundesbank and became an ex officio member of the Board. At the meeting of the Board held on 8th December 1969 the Chairman expressed the sincere and deep gratitude of all members of the Board for the outstanding services which Herr Blessing had rendered to the Bank during his twelve-year term of office. In January 1970 the Chairman welcomed Dr. Klasen on the occasion of his first attendance at a meeting of the Board.

The mandate of Dr. Jelle Zijlstra as a member of the Board was due to expire on 31st March 1970. In conformity with Article 27 (3) of the Statutes, the Board re-elected Dr. Zijlstra, President of the Nederlandsche Bank, as a member of the Board of Directors for a further period of three years ending on 31st March 1973.

CONCLUSION.

The domestic climate in industrial countries over the past year has been marked by inflationary tendencies which, as time went on, became more widespread and seemed generally to accelerate. While this can be partly accounted for by policy lapses, there have also been various instances of explosive developments on the wages front.

Until late 1968 Germany seemed a bastion of monetary stability, but this became threatened as fierce pressures developed on labour resources in 1969 and the opportune moment for applying restraint slipped by. Policy action was inhibited in two ways. The political situation worked against early decisions on either revaluation or fiscal restraint. And with large capital exports providing the only offset to the big trade surplus and the speculative inflows of funds, external considerations were an obstacle to a restrictive monetary policy. From the first settlement of the autumn, wage increases of 12–14 per cent. began to be agreed upon, and the resultant pressure on costs has meant that revaluation has been accompanied by DM price advances, even in export industries.

Moreover, revaluation, when it finally came, had little immediate impact on the domestic boom, and the new government's efforts at fiscal restraint were not translated into action. The central bank therefore moved actively to monetary restriction in March of this year. This is likely to dampen the overheated climate in the end, but the lag to be expected is uncertain in view of the spread of the wage spurt through the economy.

In the United Kingdom, policy instruments had, after some delay, been set to consolidate the new sterling parity. A substantial overall surplus in the public-sector accounts was achieved and monetary policy was holding private credit on a tight rein. The favourable response in the balance of payments exceeded expectations and, in addition, the rate of price and wage increases had moderated.

To hold on to the gains made, and thus set the stage for renewed expansion without inflation, the government attempted to initiate an effective incomes policy and to secure more order in labour relations — two weak points of many years' standing. These efforts, however, failed. And later in the year it became apparent that a new wage round in the 10 per cent. range was under way.

Among the major countries, Italy appeared at the start of last year to be relatively safe from inflation. Prices had been flat during 1968 and the rise in labour earnings moderate. Unlike in Germany, moreover, there was a margin of unused resources in the economy and it was generally felt that public investment outlays could safely be stepped up, particularly as the current-account external surplus was large. But, in an atmosphere of political instability, high wage demands began to appear and labour unrest became widespread. The extensive strikes in the autumn were settled at a high price. Contractual wage rates jumped abruptly over 20 per cent. at the end of the year and it has been estimated that the rise in actual labour earnings during 1970 will be well over 15 per cent. The immediate challenge to Italy was to contain the increased spending power by restrictive measures. So far these have been confined largely to central-bank restraints on credit to the private sector. With labour relations and political conditions still unsettled in mid-1970, the country's economic prospects remain uncertain.

The French wage outburst in mid-1968 was likewise the consequence of socio-political unrest rather than of demand pressures in the labour market. The authorities have since then been concerned with the restoration of economic equilibrium. This involved a devaluation of the franc, which was smoothly handled during the calm of the summer holidays and was supported by domestic stabilisation measures. On the external side the results achieved have so far surpassed expectations and the French authorities have reason to be satisfied with them. But wages and prices, partly it is true as an aftermath of devaluation, continue to rise too fast for comfort.

The wave of inflation in the United States since 1965 has been conspicuous until recently in owing least to wage push as an autonomous force. Excess demand was generated by mounting Federal Government expenditures and, under the pressure of full employment, wages of non-unionised labour rose more than the advances provided for in union contracts. The breakdown of the wage guide-lines under these conditions showed once again the incompatibility of wage policy and lax demand management.

In the first half of 1969 the shift to a budget surplus was accomplished and the attack on inflation was supported by monetary restrictions. These efforts succeeded in suppressing excess demand, and have produced a downturn of production and employment since the autumn of last year, but the lag in the checking of price and wage rises has been all too evident. Thus, the situation has become one in which more direct wage/price policy, formal or informal, might well be contemplated. So far the authorities' attitude towards such measures has been negative.

According to policy strategy at the beginning of this year, the grip of inflationary psychology was expected to be overcome by fiscal tightness. And, on the other hand, moderate relaxation of monetary policy was to be counted on to prevent a plunge into recession. Provided the budget target were fairly well met, the outlook foreseen would seem reasonable. However, the budget prospect for the coming fiscal year has recently deteriorated and the economy is now going through the sort of phase in which some doubts about the general outlook must arise.

These developments, as well as the behaviour of wages and prices in a number of other industrialised countries over the past year, serve to underline once again certain inescapable facts of economic life. One is that delays in tackling inflation are not only costly but serve to make later corrections more difficult. A second is that, where demand inflation is the problem, restrictive monetary policies are no substitute for adequate fiscal measures. Furthermore, it has become increasingly evident that incomes policy, broadly conceived, may be a prerequisite of orderly economic development. Few central banks or ministries of finance would dissent from the view that incomes policy cannot make up for the inadequacies of other measures; at the same time few would profess faith that wage push can be dealt with by monetary and fiscal actions alone.

On the international monetary scene, the events of the past year divide into two sharply contrasting phases: a continuation, and at times a further heightening, of the unsettled conditions that were carried over from 1968, followed by an abrupt change of climate and the emergence of a calmer situation in the gold and exchange markets than had been evident for some years. In the gold market, conditions had already begun to ease from the spring of 1969 onwards. The real turning-point, however, came in the last quarter of 1969 as a consequence of three important adjustments: the devaluation of the French franc, together with the accompanying domestic stabilisation programme; the appearance of a basic external surplus in the United Kingdom; and, as the cap-stone, the revaluation of the Deutsche Mark.

The general easing of tensions brought about by these events was reinforced by two major international decisions: the activation of the SDR scheme and the agreement reached between South Africa and the IMF regarding South African gold sales. The first allocation of SDRs in January 1970 marks an important new step in the evolution of the monetary system. In the first four months of the scheme's operation, some $400 million of SDRs have been used, most of them by certain developing countries and by the United Kingdom. Roughly half of these SDRs were transferred to the IMF, for currency repurchases or payment of charges, while most of the rest were taken up by the United States and other industrial countries. It is, of course, too soon to judge the longer-term effects of the introduction of SDRs into the system, including their effects on the problems that arise as a result of the coexistence in central-bank reserves of different types of assets with varying characteristics. In any case, the decision to activate the scheme had certain immediate consequences on the behaviour of markets. It undoubtedly played some part in easing conditions in the gold market. And this state of affairs was consolidated, for the time being, by the agreement about the disposal of South African gold.

The welcome and overdue change in the international monetary situation does not mean that earlier difficulties have all been cleared up — even in those countries whose economic and financial fortunes have improved most dramatically. The positions of both sterling and the French franc are still protected by exchange controls; and the United Kingdom's reserves are still very far from adequate, with substantial international indebtedness remaining to be repaid. It can, however, be said that the recently found strength of both currencies rests solidly on the fundamental corrective measures that have been taken.

Before the recovery of sterling and the French franc, the position of the dollar was gaining strength throughout most of 1969. In this case, however, the source of strength was the considerable inflow of short-term funds to the United States, which more than covered the deficit in the rest of the balance of payments. For 1970 a further deficit is forecast, together with an outflow of funds. This prospect has already materialised in the first quarter of the year.

The inflow of funds to the United States in 1968 and 1969 put pressure on some other countries' reserves and led to fairly widespread defensive measures being taken. There was, therefore, room at the beginning of this year for some quite substantial rebuilding of other countries' dollar reserves, as well as for the removal of the restrictions imposed last year on the foreign operations of commercial banks in a number of European countries. Furthermore, the United States now has a large reserve position in the IMF on which it can draw, as well as its SDR holdings and the not insignificant quantities of gold it has purchased from other countries over the past two years. The financing of its payments deficit has therefore not presented any problem so far this year.

The basic problem of restoring a sustainable equilibrium in the US balance of payments, however, remains. Some overall external deficit may be sustainable, though just how much it is hard to say. Equally hard to discern, however, is how the US authorities expect, by their own actions, to correct the balance of payments. A further tightening of controls on capital outflows would be undesirable, and still more so any introduction of trade controls. The current account is admittedly showing signs of improvement now that demand pressures have eased and it is essential that the US authorities bring the present cost inflation under control too. It can, however, hardly be considered in the interests of either the United States or the rest of the world for the US economy to be pushed into a severe recession.

The problem of the restoration of balance-of-payments equilibrium in the United States forms one element of the background to current official discussions about possible greater flexibility of exchange rates. In part these discussions concern suggested technical changes in the system which might, in the view of some, be of assistance to central banks in dealing with speculative movements of funds. The most important idea being discussed, however, is to what extent, if any, the international adjustment process would be facilitated by more frequent, but smaller, changes in parities, with the emphasis on upward rather than downward adjustments.

While there is no dispute about the harmful effects produced by clinging to unrealistic exchange rates, experience shows that to change a country's official parity, upwards as well as downwards, is difficult primarily from a political standpoint, even when there is clear evidence of a substantial fundamental disequilibrium. The making of more limited parity changes, evidence of the need for which would itself necessarily be more limited, might present just as great difficulties.

In certain individual cases, where a country is experiencing the combination of full employment and a large external surplus, revaluation of the currency may be called for. But the idea sometimes put forward that a disequilibrium in the US balance of payments should be corrected mainly through systematic upward adjustments of exchange rates by other countries is more questionable. It may be doubted whether the countries prepared to revalue would be sufficient in number or in economic strength to produce the desired result. Furthermore, while the longer-term future pattern of the international balance of payments cannot be foreseen, serious tensions could well arise if partner countries of the United States were to be faced repeatedly with the dilemma of whether to accumulate unwanted dollars in their reserves or to revalue.

The fact is that the international monetary system is passing through a process of radical change, the outcome of which no objective observer can claim to know. Given present political and economic limitations, one of the principal uncertainties is how the position of the dollar is to be strengthened. And this has implications not only for other countries individually but also for the future of the newly-launched SDR scheme. If there are to be substantial increases in official dollar holdings, SDRs will not be the main source of additions to reserves and the transition, hoped for by many of their advocates, to a system of deliberately managed reserve growth will not have been achieved. Furthermore, unbalanced reserve growth runs the risk of being excessive reserve growth; and this is hardly likely to facilitate countries' efforts to maintain external discipline, especially in a world of rather general monetary depreciation.

The acceleration of monetary depreciation is, in fact, the main problem which faces many countries at the present moment. At the same time, because of delays that have occurred in making some necessary adjustments, there is a danger of possible exaggerated pessimism about the future in certain quarters. What is required is the abandonment of lopsided policies, including excessive reliance on monetary measures, and the adoption of a better-balanced and more comprehensive approach to the problem of inflation. This would complement and reinforce the progress made over the past year towards a better international equilibrium.

Gabriel Ferras

General Manager

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

AT 31st MARCH 1970

BALANCE SHEET

ASSETS — IN GOLD FRANCS (UNITS OF 0.290 322 58...

			%
Gold		4,161,152,416	20.1
Cash on hand and on sight account with banks		60,771,269	0.3
Treasury bills		7,076,183	0.0
Other securities cashable on demand		61,732,144	0.3
Time deposits and advances			
Gold			
Not exceeding 3 months	40,893,459		0.2
Currencies			
Not exceeding 3 months	8,049,864,044		38.9
Over 3 months	1,926,064,220		9.3
		10,016,821,723	
Securities at term			
Gold			
Not exceeding 3 months	295,215,948		1.4
Over 3 months	125,390,945		0.6
Currencies			
Not exceeding 3 months	5,202,749,318		25.1
Over 3 months	754,962,279		3.7
		6,378,318,490	
Miscellaneous		13,143,831	0.1
Land, buildings and equipment		1	0.0
		20,699,016,057	100

MEMORANDUM ACCOUNTS

a. Forward gold operations:	
Net balance: gold receivable (currencies payable)	2,109,760,712
b. Funds, bills and other securities administered or held by the Bank for account of third parties:	
Earmarked gold	1,067,601,934
Bank balances	17,405,030
Bills and other securities	543,433,558

AT 31st MARCH 1970

GRAMMES FINE GOLD — ART. 4 OF THE STATUTES) LIABILITIES

			%
Capital			
Authorised: 600,000 shares, each of 2,500 gold francs ...	1,500,000,000		
Issued: 448,325 shares	1,120,812,500		
of which 25% paid up		280,203,125	1.3
Reserves			
Legal Reserve Fund	28,020,313		
General Reserve Fund	64,833,210		
Special Dividend Reserve Fund	10,007,964		
Free Reserve Fund	80,000,000		
		182,861,487	0.9
Deposits (gold)			
Central banks			
Sight	2,122,563,928		10.2
Not exceeding 3 months	2,840,684,260		13.7
Over 3 months	1,013,169,349		4.9
Other depositors			
Sight	197,291,448		1.0
		6,173,708,985	
Deposits (currencies)			
Central banks			
Sight	80,346,033		0.4
Not exceeding 3 months	10,771,522,428		52.0
Over 3 months	1,171,676,708		5.7
Other depositors			
Sight	16,750,173		0.1
Not exceeding 3 months	887,917,112		4.3
Over 3 months	123,357,396		0.6
		13,051,569,850	
Notes			
Not exceeding 3 months	276,679,818		1.3
Over 3 months	557,601,444		2.7
		834,281,262	
Miscellaneous		44,540,778	0.2
Provision for Building Purposes		48,671,000	0.3
Profit and Loss Account		83,179,570	0.4
		20,699,016,057	100

REPORT OF THE AUDITORS TO THE BOARD OF DIRECTORS AND TO THE GENERAL MEETING OF THE BANK FOR INTERNATIONAL SETTLEMENTS, BASLE

In our opinion the Balance Sheet and the Profit and Loss Account give a true and fair view of the state of the Bank's affairs at 31st March 1970 and of its profit for the year ended on that date. We have obtained all the information and explanations which we have required. The Bank has kept proper books, and the Balance Sheet and the Profit and Loss Account are in agreement with them and with the information and explanations given us.

Zurich, 4th May 1970. PRICE WATERHOUSE & CO.

PROFIT AND LOSS ACCOUNT

for the financial year ended 31st March 1970

		Gold francs
Net interest and other income ...		113,513,818
Less: Costs of administration:		
Board of Directors ...	176,492	
Management and Staff ...	9,550,586	
Office and other expenses ...	2,418,184	12,145,262
Net operating surplus ...		101,368,556
Less: Amounts appropriated to:		
Provision for Exceptional Costs of Administration ...	2,188,986	
Provision for Building Purposes ...	16,000,000	18,188,986
NET PROFIT for the financial year ended 31st March 1970 ...		83,179,570

APPROPRIATION OF NET PROFIT

(Article 51 of the Statutes)

		Gold francs
Net profit ...		83,179,570
Dividend of 6% p.a. on paid-up capital		
37.50 gold francs per share on 400,000 shares for twelve months	15,000,000	
9.375 gold francs per share on 48,325 shares for three months	453,047	15,453,047
		67,726,523
Additional dividend (statutory maximum) of 3% p.a. on paid-up capital		
18.75 gold francs per share on 400,000 shares for twelve months	7,500,000	
4.6875 gold francs per share on 48,325 shares for three months	226,523	7,726,523
		60,000,000
Transfer to General Reserve Fund ...		30,000,000
		30,000,000
Transfer to Special Dividend Reserve Fund (statutory maximum) ...		12,000,000
		18,000,000
Transfer to Free Reserve Fund ...		18,000,000
		—

Movement on the paid-up Capital, Reserve Funds and Provisions during the financial year ended 31st March 1970

(Not including allocations to Reserves to be decided at the Annual General Meeting)

In gold francs

Paid-up Capital

Balance at 1st April 1969:	
200,000 shares, each of 2,500 gold francs, of which 25% is paid up ...	125,000,000
Add: 200,000 further shares, each of 2,500 gold francs, of which 25% is paid up, issued on 29th December 1969	125,000,000
48,325 further shares, each of 2,500 gold francs, of which 25% is paid up, issued on 2nd January 1970	30,203,125
Balance at 31st March 1970 per Balance Sheet	280,203,125

Reserve Funds

	Legal Reserve Fund	General Reserve Fund	Free Reserve Fund
Balances at 1st April 1969	12,500,000	37,751,960	15,000,000
Add: Transfers from Profit and Loss Account 1968/69 ...		15,000,000	15,000,000
Transfers from Provision for Contingencies ...	12,500,000		50,000,000
Allocation of the 50% premium received on 2nd January 1970 on the issue of 48,325 new shares	3,020,313	12,081,250	
Balances at 31st March 1970 per Balance Sheet... ...	28,020,313	64,833,210	80,000,000

Provision for Contingencies

Balance at 1st April 1969		220,000,000
Applied in accordance with Resolutions passed at the Extraordinary General Meeting held on 9th June 1969:		
(a) in paying up, to the extent of 25%, 200,000 shares issued on 29th December 1969	125,000,000	
(b) in transfers to:		
Legal Reserve Fund	12,500,000	
Free Reserve Fund	50,000,000	
Provision for Building Purposes	32,500,000	220,000,000
		—

Provision for Building Purposes

Balance at 1st April 1969	1,500,000
Add: Transfer from Provision for Contingencies	32,500,000
Transfer from Profit and Loss Account 1969/70	16,000,000
	50,000,000
Less: Amortisation of expenditure incurred during the financial year	1,329,000
Balance at 31st March 1970 per Balance Sheet	48,671,000

BOARD OF DIRECTORS

Dr. J. Zijlstra, Amsterdam	Chairman of the Board of Directors, President of the Bank
Maurice Frère, Brussels	Vice-Chairman

Baron Ansiaux, Brussels
M. J. Babington Smith, London
Dr. Rudolf Brinckmann, Hamburg
Dr. Guido Carli, Rome
Henri Deroy, Paris
Dr. Karl Klasen, Frankfurt a/M.
Dr. Donato Menichella, Rome
The Rt. Hon. Sir Leslie O'Brien, London
Dr. Edwin Stopper, Zurich
Olivier Wormser, Paris
Per Åsbrink, Stockholm

Alternates

Dr. Paolo Baffi, Rome, or
Prof. Francesco Masera, Rome
Bernard Clappier, Paris, or
Marcel Théron, Paris
Dr. Otmar Emminger, Frankfurt a/M., or
Johannes Tüngeler, Frankfurt a/M.
C. J. Morse, London, or
R. G. Raw, London
Cecil de Strycker, Brussels

MANAGEMENT

Gabriel Ferras	General Manager
Dr. Milton Gilbert	Economic Adviser, Head of the Monetary and Economic Department
Dr. Antonio d'Aroma	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
Dr. Antonio Rainoni	Manager

D. H. Stapleton	Assistant Manager
Prof. Dr. F. E. Klein	Assistant Manager
A. N. Barltrop	Sub-Manager