BANK FOR INTERNATIONAL SETTLEMENTS

FORTY-FOURTH ANNUAL REPORT

1st APRIL 1973 – 31st MARCH 1974

BASLE

10th June 1974

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FORTY-FOURTH ANNUAL REPORT

submitted to the

ANNUAL GENERAL MEETING

of the

BANK FOR INTERNATIONAL SETTLEMENTS

held in

Basle on 10th June 1974

Gentlemen,

I have the honour to submit herewith the forty-fourth Annual Report of the Bank for International Settlements for the financial year which began on 1st April 1973 and ended on 31st March 1974.

After transfer of 8,148,785 gold francs to the Provision for Exceptional Costs of Administration and 15,000,000 gold francs to the Provision for Building Purposes, the net profit for the year amounted to 145,063,281 gold francs, compared with 122,063,281 gold francs for the preceding year and 148,832,656 gold francs for the financial year 1971–72.

The Board of Directors recommends that, in application of Article 51 of the Bank's Statutes, the present General Meeting should allocate the sum of 18,042,187 gold francs in payment of the preferential dividend of 6 per cent. per annum, or 37.50 gold francs per share, and that from the remainder of the net profit it should appropriate 9,021,094 gold francs — a sum falling within the statutory limit of 20 per cent. — in payment of the maximum further dividend of 3 per cent. per annum, or 18.75 gold francs per share.

The Board further recommends that 56,813,983 gold francs be transferred to the General Reserve Fund, and the remainder of 61,186,017 gold francs to the Free Reserve Fund.

If these proposals are approved, the Bank's total dividend for the financial year 1973–74 will amount to 56.25 gold francs per share. This will be payable to shareholders on 1st July 1974 in Swiss francs.

Chapter I of this Report gives a survey of economic developments and policies in 1973–74, dealing in particular with the problems created by the oil crisis, the acceleration of inflation, the expansion of money and credit, the floating of exchange rates and the prospects for international monetary reform. The second chapter analyses developments in individual countries in respect of production, prices and monetary and fiscal policies. The following two chapters review the events of last year in the fields of foreign trade and payments, gold production, global reserves and foreign exchange markets. The fifth chapter examines developments in the Euro-currency and Euro-bond markets. Chapter VI concerns the Bank's activities during the financial year, the Balance Sheet and the financial results.

I. SURVEY OF ECONOMIC DEVELOPMENTS AND POLICIES, 1973-74.

The international economic developments that emerged over the past year were troubled ones and the troubles can be expected to continue for some time ahead before there are firm signs that they have diminished in intensity. Most notable was the eruption of the price of oil. While the initial threat of acute shortages of petroleum products has faded, the higher prices intensified the rate of inflation and affected consumption and production patterns. The much higher cost of oil imports is in the process of changing the structure of trade balances among countries and it will present many countries with difficult financing problems for the period well beyond this year.

The past year has also brought an accentuation of the inflation problem. Even before the oil crisis, price inflation was at a higher rate than the year before and, with increased oil prices added, price increases have generally been at new high rates for the post-war period. Official measures to dampen inflation have had little success and the only optimistic view is that the inflation bulge will recede as the pressure on resources and on commodity markets eases.

In the sphere of demand and output, the strong expansion of 1972 moved ahead to boom conditions in the first half of last year. Output tended to level off in the second half for several reasons and was more recently adversely affected by the oil crisis. Early in 1974 there seemed to be a danger that a significant recession might develop, but more recent indications are that the setback will not be prolonged.

For more than a year now the international monetary system has been under a régime of floating exchange rates. Since this situation was brought about by market tensions that the authorities were unable to withstand, it relieved in some ways the serious unbalanced positions that had previously developed. Nonetheless, market rates have been subject to such wide swings and erratic movements that official intervention on a large scale proved necessary. Thus, the experience with floating rates was hardly satisfactory and there was every reason for the Committee of Twenty to continue to seek a reformed system of "stable but adjustable par values". This work was not brought to a successful conclusion, however, though it is hoped that some interim measures may be put forward that will contribute towards monetary stability.

Oil.

The oil crisis began with the decisions of the Arab oil-producing countries in mid-October 1973, following the renewal of hostilities in the Middle East, to curtail production of crude oil and raise prices.

Output was to be reduced cumulatively month by month from the September level by 5 per cent., or about 1 million barrels a day. In relation to total world crude oil output, the proposed monthly cuts amounted to about 2 per cent. Early in November this decision was changed to an immediate cut of 25 per cent. in relation to September output, to be followed by the originally scheduled monthly reductions. The cut in supplies was not applied uniformly to the user countries: an embargo was put on exports of oil to the United States and the Netherlands, while a number of countries, including France and the United Kingdom, were to receive the same quantities as they had on average in the first nine months of 1973. These differential effects, however, were partially offset by a redistribution by the oil companies of non-Arab oil exports between the user countries.

With the first cuts in production, the Arab producing countries, followed by other members of the Organisation of Petroleum Exporting Countries (OPEC), increased their posted prices for crude oil by 70 per cent., from $3.01 to $5.11 per barrel in the representative case of light crude oil. Then, on 23rd December, the posted price was increased again to $11.65 per barrel for an initial period of three months from 1st January 1974. These two increases in posted oil prices meant that the producing countries' "take" on that part of their oil production in which the international companies have an equity interest went up from $1.75 to $7 per barrel, while the c.i.f. price of such oil in Europe rose from $3.65 to $8.90 per barrel. These figures, however, understate the overall average cost of oil, since for that part of output which the producers themselves sell, either to the international companies or direct to user countries, prices tend to be closer to the posted prices.

At first the prospective shortage of supply seemed the most serious aspect of the new situation, appearing to threaten the oil-using countries with major economic dislocation. Oil imports account for 70 per cent. of total energy supplies in Japan and about 60 per cent. on average for western Europe, twice the proportion at the beginning of the 1960s. In the United States the figure is only 10 per cent., while Canada alone of the major industrial countries is virtually self-sufficient in oil on a net basis. In nearly all countries, therefore, restrictions were introduced on less essential energy uses, with a view to avoiding industrial cutbacks.

However, following the late-December increase in prices and the decision, two days later, of the Arab producing countries to restore output to 85 per cent. of the September level, it became clear that the main problem was going to be price rather than quantity. Subsequently, in late March, most Arab oil-producing countries decided to lift the embargo on supplies to the United States. By April the output of Saudi Arabia, the world's largest producer, was back to the September 1973 level. With posted prices maintained at the 1st January level for a further three months from 1st April, it seemed that few countries were going to find their demand for oil running ahead of available supplies. Most of the restrictions introduced earlier on the use of oil had in fact been lifted. All the importing countries, however, were faced, in greater or lesser degree, with the unfavourable impact of the high price on their domestic economies, their price levels and their balances of payments.

In the domestic economies the oil crisis of last October was quickly followed by a major decline in demand for automobiles. Car sales in the United States in March 1974 were 21 per cent. below their September 1973 level, while over the same period the output of the automobile industry fell by 27 per cent. In Germany

Selected countries: Oil imports in relation to GNP and trade, 1973.

Countries	Imports	Exports	Net oil imports	GNP at current market prices	Total imports	Net oil imports in relation to GNP	Net oil imports in relation to total imports
	in milliards of US dollars					in percentages	
United States	7.5	0.5	7.0	1,289.1	69.1	*0.5*	*10.2*
United Kingdom	4.1	0.8	3.3	174.7	38.9	*1.9*	*8.3*
Germany	5.9	0.6	5.3	346.2	54.4	*1.6*	*9.8*
France	4.3	0.7	3.6	273.6	39.4	*1.3*	*9.1*
Italy	3.2	1.2	2.0	137.9	26.6	*1.5*	*7.7*
Netherlands	2.9	2.1	0.8	59.8	20.3	*1.4*	*4.1*
Denmark	0.7	0.1	0.6	27.8	7.7	*2.2*	*8.2*
Switzerland	0.7	—	0.7	38.1	10.6	*1.9*	*6.8*
Japan	6.7	—	6.7	412.7	38.3	*1.6*	*17.6*

registrations of new cars in March 1974 were 29 per cent. and output of passenger cars was 21 per cent. below the level of a year earlier, having recovered from an even larger fall in the three previous months. New registrations in Japan were down 18 per cent. in January and 40 per cent. in March, though at first production was maintained to replenish stocks of distributors abroad. These developments in turn affected the automobile industry's own demand for materials and supplies, as well as the level of employment in the automobile and related industries. Demand in other sectors where the price of oil products or the use of automobiles plays a significant part, such as non-urban housing and tourism, has also been affected in some countries.

In the early stages of the oil crisis widespread fears were expressed that more general deflationary effects might be felt. Certainly, consumers' expenditure on oil products has increased sharply since last autumn, despite the fall in the quantities purchased, so that consumers had less money available for other expenditures. The reductions in demand for automobiles and related products and services, however, probably cover a major part of the loss of real purchasing power due to higher oil prices. And, in addition, a number of factors may be expected to support demand. Consumers can to some extent reduce their rate of savings. Furthermore, a major stimulus has been given to investment in domestic sources of energy. In the external sector the same is true of exports to oil-producing countries, though there could be some offset to this in lower sales to those countries worst hit by the payments aspect of the oil situation.

A second effect of the oil price increases has been the added impetus given to the forces of cost inflation. The direct effect on consumer price indexes was of the order of 2–3 per cent. in most European countries, and nearly 4 per cent. in Japan. In the United States and Canada the impact was smaller, owing to the much greater importance of domestic energy, the prices of which could be held down to some extent. Everywhere, however, repercussions are being felt on the cost of domestic energy, whether from oil or other sources. And the general increase in the cost of energy, both imported and domestic, will in turn add to production costs throughout a wide range of industries and services. Furthermore, these price and cost increases are affecting demands for increases in money incomes.

The most significant effect of the jump in oil prices will be on the structure of the international balance of payments. In fact a disequilibrium has now emerged in the international balance of payments on current account on a scale not seen since the immediate post-war period. Since, however, oil imports are customarily paid for some three months after the oil is actually "lifted" in the producer countries, the first payments on the basis of the prices posted at the end of 1973 did not begin to be felt until April 1974. The increased export earnings of the oil-producing countries are expected to give these countries in 1974 a current payments surplus much bigger than those previously recorded by all the developed countries taken together. As the main counterpart to this, the developed countries as a group will have a current payments deficit much larger than their customary surplus. In addition, many of the non-oil developing countries will experience a severe deterioration in their current external accounts.

While some months will elapse before a general picture can be obtained of the total extra cost of oil to the importing countries — estimates for 1974 range as high as $60 milliard — some preliminary indication of its importance for individual economies can be gained from figures already published. Thus, in Japan total imports of petroleum and petroleum products in March 1974 were $1.3 milliard, or 283 per cent., higher than a year earlier, of which very little was increased volume. In the United States, where the volume of oil imports was reduced as a result of the Arab countries' embargo, the total value of oil imports in March this year was some $1.2 milliard, or 220 per cent., higher than a year earlier.

The new payments disequilibrium will be exceptional not only in size but also in character. On the one hand, in the short run the oil-importing countries have only limited possibilities of decreasing the demand for oil or increasing the supply of other types of energy. On the other hand, the oil-exporting countries, which in total accounted for less than 5 per cent. of world imports last year, will be unable for some time to spend on imports more than a fraction of their increased earnings. Hence, it is evident that the usual adjustment measures open to individual countries that encounter payments difficulties will not be feasible for the oil-importing countries as a group. They will in the main have to accept their deficits, covering them by the use of reserves and borrowed funds. If many countries, for whatever reasons, were to attempt to improve their current balances of payments through currency depreciation, deflation or direct restrictions on imports, the results could be serious both for world trade and for the world economy. The Committee of Twenty recognised this at its January 1974 meeting in Rome and stressed the need, in present circumstances, for countries not to "adopt policies which would merely aggravate the problems of other countries".

Most countries with sound basic payments positions before the oil price increase seem unlikely to encounter difficult financing problems in 1974. Italy and the United Kingdom, however, whose increased oil bills come on top of already sizable deficits, have already announced their intention of correcting their non-oil deficits. In early May the Italian authorities imposed a 50 per cent. deposit scheme on imports other than raw materials and most capital goods, with the aim of curtailing the trade deficit through a reduction of domestic liquidity. Later in the month Denmark increased taxes on various consumer goods as an import-saving measure. And other countries, particularly in the non-industrialised world, may find themselves with little choice but to improve the rest of their balance of payments to help bear the burden of extra oil costs.

The implications for the oil-exporting countries are that for the next year or two they can be expected for the most part to accumulate external assets of a monetary character. While some part of these funds will no doubt be placed directly in the developed countries, both in private financial markets and in short-term government debt, it appears likely that a large part of the funds will be placed in the Euro-currency market. These countries' past practices in the management of reserves point in that direction.

While the oil-importing countries are likely to finance part of their combined deficit from reserves, a number of factors will tend to limit this type of financing. In the first place, the distribution of world reserves is uneven and does not correspond to that of financing needs. Secondly, most countries in payments deficit soon begin to consider their reserves inadequate and become reluctant to draw them down. This tendency is likely, in present circumstances, to be reinforced by the usefulness of reserves as a support for borrowing. Thirdly, official gold holdings, which even at the present official gold price represent a quarter of total official reserves, are for the time being effectively frozen at that price. Many countries faced with large oil deficits will probably seek to balance their external accounts by means of capital inflows of one kind or another.

In the industrialised world this has already led a number of countries to take administrative measures to encourage inflows of funds. In addition, some governments have already arranged to borrow substantial amounts in the Euro-currency market. As regards administrative measures, France and Japan — which were already in balance-of-payments deficit — have since late last year not only removed restrictions that previously existed on inflows of funds but in addition have acted to encourage foreign borrowing, and to discourage foreign lending, by their residents. In the United Kingdom the regulations governing the financing of foreign investment have been tightened up. Furthermore, countries whose payments positions are at present basically strong, such as Belgium, Germany, the Netherlands and Switzerland, have relaxed the restrictions imposed on inflows of funds at the beginning of the 1970s. As regards official Euro-currency borrowing, the French Government announced in February 1974 that it had arranged to borrow $1.5 milliard from the Euro-dollar market for seven years, while in March the British Government announced a ten-year loan for $2.5 milliard. In addition, public-sector institutions in both the United Kingdom and Italy are continuing, with government encouragement, to tap the Euro-market. Total syndicated Euro-credits raised during the first quarter of 1974 amounted to $13.8 milliard, of which France, Italy and the United Kingdom accounted for nearly two-thirds — virtually all of it under official auspices.

It thus appears likely that a considerable part of the oil-exporting countries' surpluses this year may be rechannelled to the oil-importing countries via the Euro-currency market. As the borrowing countries are likely to need funds for periods of several years whilst the oil-exporting countries may want to keep their investments rather liquid, there could be a considerable maturity transformation of the funds coming into the market, on their way from the original depositors to the final borrowers. The market could, therefore, come under strain if there were a sudden large shift of deposits, either from one centre to another or from one currency to another.

Of course, it is customary for the large banks in the Euro-market to assure their liquidity position, for example by setting limits on the extent to which they lend at longer term against short-term deposits and by establishing credit lines with banks in the United States. Furthermore, in the past the Euro-currency market has always been able to bid successfully for the funds it required. However, if the market is to be a main vehicle for the financing of the new payments disequilibrium that has emerged, the monetary authorities of those countries whose banks are principally involved will need to watch its evolution with particular care.

The other main market through which funds could be channelled to finance the deficits of the oil-importing countries is that of the United States. Since the end of January this year the US capital market and banking system have been completely open to foreign borrowers for the first time since the early 1960s. The extent to which the US markets will actually be called upon to finance the payments deficits of the oil-importing countries will partly depend on the extent to which oil-producing countries' surplus funds are invested in the United States.

Not all countries will be able to draw on the international markets to finance their payments deficits, while some will only be able to obtain in this way a part of the funds they need. Developing countries in particular, but also some developed countries, may therefore be expected to turn to the various international lending agencies. Agencies primarily concerned with development projects, such as the IBRD, may be able to help out in this matter, and some resources are to be supplied by the oil-exporting countries. For some countries development aid may be the most appropriate type of finance, but it is not clear as yet to what extent funds may be available.

The International Monetary Fund is also available for interim financing from its general account. Several factors may, however, limit this source of finance. Firstly, Fund drawings are generally made on countries with strong payments positions. The prospect is that, apart from the oil-exporting countries, few other Fund members will have payments surpluses; besides, drawings on the oil countries themselves would be limited by the fact that they have small quotas in the Fund. Secondly, the Fund is not in a position to purchase currencies on any scale from member countries so long as its gold stock is frozen and its holding of SDRs rather small. A special facility in the IMF is therefore under consideration which would provide for the Fund to borrow currencies from the oil-exporting countries and lend them, outside the borrowing countries' quota entitlements, to finance oil-induced payments deficits for longer periods than those which apply to ordinary Fund drawings. As this matter is still under discussion, the potential importance of the proposed facility will only become clear at a later date.

Another possible problem noted by some observers is that the new oil situation could add to exchange-market instability. The prospect of large oil-induced payments deficits has itself increased balance-of-payments uncertainties so that exchange markets could from time to time be subject to the effects of shifts in confidence from one currency to another. The accumulation of large foreign assets by the oil-exporting countries would increase the potential for such shifts, but their monetary authorities would be likely to see the dangers of aggravating instability.

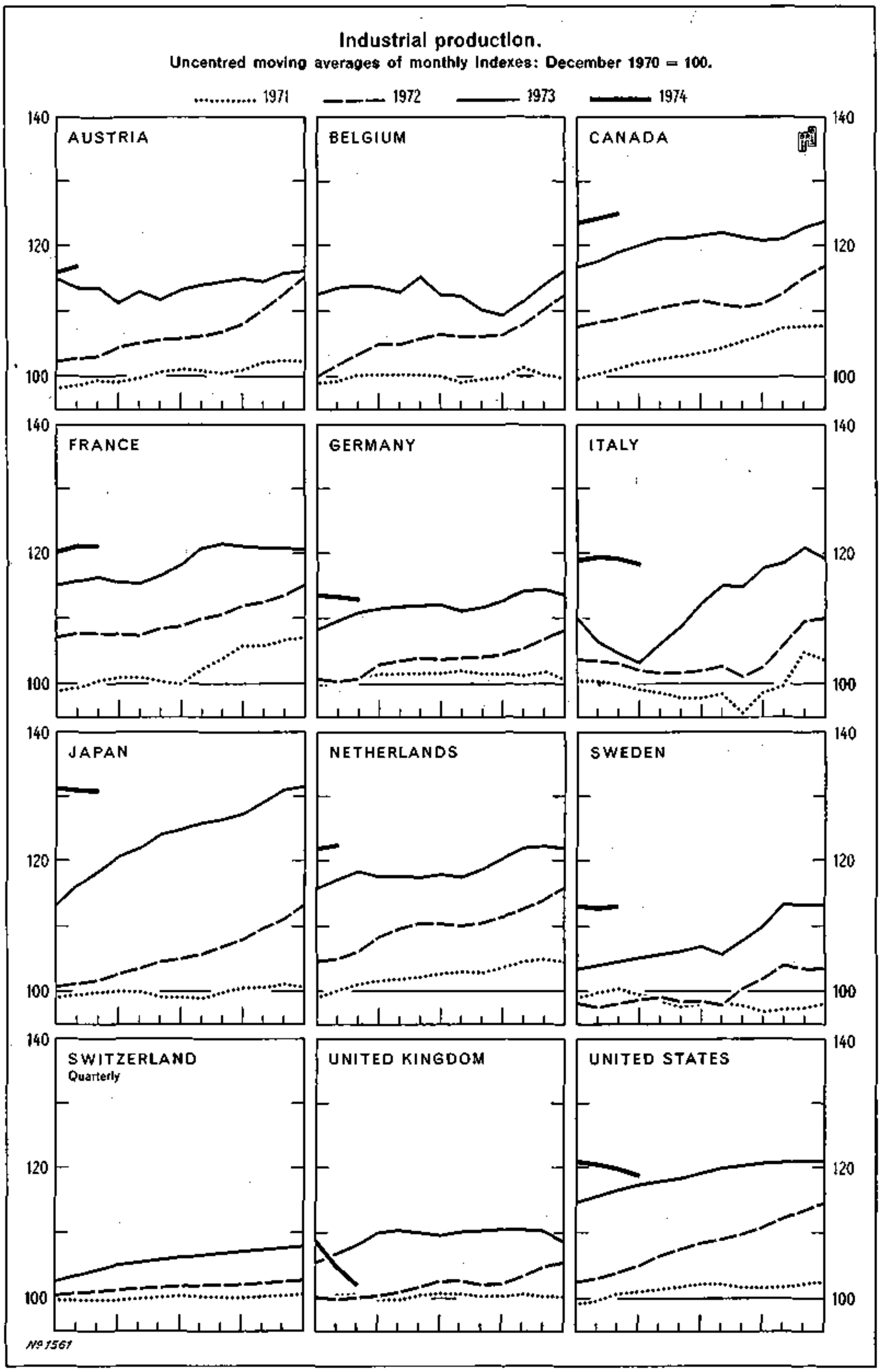
The above observations suggest that the payments problems in 1974 should generally be manageable, though individual countries are likely to encounter serious difficulties. Nevertheless, it must be noted that conclusions drawn at the present time are largely conjectural, since actual experience with the new situation is still limited. In particular, the rechannelling of a huge volume of funds through private-market institutions may run up against limits, in view of the credit risks involved or the bulge in the banks' liabilities to relatively few depositors. Looking further into the future is even more hazardous. However, it is evident that efforts will be pressed to develop new sources of oil and other types of energy with the aim of securing a real adjustment of the payments problem.

Production and demand.

In the course of the past year there has been a major change in the cyclical situation of demand and output from intense boom to definite easing. This was brought about by several factors which differed somewhat among the industrial countries.

Around the middle of 1973, well before the onset of the oil crisis, output in the industrial countries entered a phase of slower, more erratic growth. This slow-down was at first not attributable to restrictive monetary and budget policies. Led by the United States and Germany, most countries were in fact gradually changing over to policies of restraint, with emphasis mainly on tighter monetary conditions. But in many cases these policies did not begin to show results until later in the year and, moreover, the effects were felt largely in specific sectors such as housing and durable consumer goods.

The notable feature of the slow-down was more the extent to which it was a result of physical limitations of productive capacity and shortages of basic materials and skilled labour. These pressures on resources, in turn, had been an outgrowth of the sheer intensity and wide geographical spread of the preceding boom in aggregate demand. As from about the summer of 1972, with the upswing already well under way in most countries, the growth of output accelerated suddenly and sharply. By the first half of 1973 real output in the industrial countries as a group was expanding at a rate well over half as much again as its long-term trend — and this in the face of rapidly dwindling margins of unutilised resources. In the course of 1973, also, the few countries that had lagged behind — Italy, the Netherlands and Sweden — went far towards catching up. Whereas in 1972 real output had grown faster than the long-term average in only seven of the countries shown in the table (page 12), this number increased in 1973 to thirteen. In short, by mid-1973 the economies of the western industrial countries and Japan had begun to reach their capacity limits, with serious pressures being felt in particular on international commodity markets. Money incomes continued to rise about as fast as before, and price inflation tended to accelerate.


Industrial production.
Uncentred moving averages of monthly indexes: December 1970 = 100.
1971
1972
1973
1974
140
120
100
AUSTRIA
BELGIUM
CANADA
FRANCE
GERMANY
ITALY
JAPAN
NETHERLANDS
SWEDEN
SWITZERLAND
Quarterly
UNITED KINGDOM
UNITED STATES
Nº 1561

What analysts may ultimately have to say about the links between the breakdown of the Bretton Woods system of fixed parities and the spread and intensification of world-wide inflation remains to be seen. The gathering breadth and momentum of the upswing in activity, however, can be directly related to the subsequent shift of demand-management policies. Following the Smithsonian agreement in December 1971, most western European countries and Japan took further strong measures to reflate their economies, partly to take up slack caused by policy restraint in 1969–70 but in some cases also to facilitate the balance-of-payments adjustments implied in previous exchange rate changes. Concurrently, the United States, although needful of caution in taking up the slack in its economy so as to promote external adjustment, was impatient to reduce unemployment and pursued quite expansionary policies throughout 1972. Another factor was that some countries with weak external positions considered that the transition to floating exchange rates provided them with greater scope for policies aimed at high growth rates. Finally, some national authorities evidently did not take sufficient account of reflationary policies elsewhere; the outcome was a lock-step march into world boom.

Exports were a leading element of demand in most countries, reflecting in part the international scramble for goods and services as domestic sources of supply narrowed. Though moving in opposite directions in terms of exchange rates, the United States and Germany both experienced year-on-year gains of over 15 per cent. in the volume of exports of goods and services, with foreign demand continuing to be buoyant in early 1974. Most other countries recorded increases of 10–15 per cent. Increased competitiveness resulting from the floating of sterling contributed to a sharp advance in the exports of the United Kingdom, but this seemed to peter out in the autumn as capacity limitations came into play. On the other hand, the exports of Japan and Italy showed considerable strength in the second half of the year, and those of several other countries spurted ahead in the autumn and winter months.

In most countries investment in industrial plant and equipment has been another strong component of demand. It accelerated quite sharply in Canada, Italy, Japan, the Netherlands and the United Kingdom in 1973 and sustained its already good momentum in the United States, France and Spain. In certain countries, particularly Italy, the Netherlands and Sweden, the unsatisfactorily low level of investment in recent years led the authorities to pursue relatively easy monetary policies in 1973. On the other hand, in Germany and Switzerland, where monetary conditions were very tight, industrial investment showed only a small gain. The strength of investment in most countries was attributable to high capacity utilisation and to the buoyancy of other demand components. Many industrial sectors, taken by surprise at the speed of the upswing, were unable to fulfil the heavy demands made upon their output. Their limited capacity reflected partly the relatively low level of investment in recent years and partly the emphasis, given the rapid growth of wages, put on labour-saving rather than capacity-increasing projects.

Residential housing activity, one of the more dynamic factors of demand in 1972, turned in a mixed performance last year. In the United States, despite official efforts to soften the impact of monetary restraint, the housing sector was hard hit, and in the United Kingdom, too, dwelling construction declined in the second half

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			
		annual average or annual volume changes, in percentages							
Austria	1962-71	4.6	3.1	6.0	.	.	8.6	8.8	4.8
	1972	6.8	4.7	14.8	.	.	10.8	11.2	7.1
	1973	4.8	4.0	2.5	.	.	7.0	9.8	5.5
Belgium	1962-71	4.3	5.8	4.1	5.2	0.8	9.1	8.2	4.8
	1972	5.9	7.2	4.9	2.5	14.0	6.9	7.5	5.4
	1973	5.8	4.7	7.2	.	.	9.6	10.8	5.7
Canada	1962-71	4.8	5.7	5.5	5.5	5.4	9.0	7.9	5.5
	1972	7.8	3.4	3.6	2.1	9.2	6.7	11.5	5.8
	1973	8.6	4.4	10.4	10.2	11.0	6.5	11.0	7.1
Denmark	1962-71	4.2	7.2	6.5	6.3	7.2	7.0	7.5	4.7
	1972	3.0	7.2	2.5	.	.	7.9	3.4	4.6
	1973	.	.	.	.	.	.	.	5.0
Finland	1962-71	4.4	5.8	3.2	2.8	4.9	6.8	7.2	4.7
	1972	7.4	5.7	6.5	3.6	15.3	15.3	4.1	7.1
	1973	6.0	4.3	4.2	4.6	3.0	4.0	12.7	5.4
France	1962-71	5.6	3.5	8.2	8.2	8.0	10.1	11.2	5.8
	1972	5.8	3.9	7.6	8.4	5.4	9.0	10.3	5.4
	1973	5.7	2.5	6.7	7.0	5.8	11.7	13.4	6.1
Germany	1962-71	4.9	4.4	5.1	5.8	2.7	9.0	10.3	4.6
	1972	3.4	4.4	1.9	— 0.8	13.5	7.8	8.2	3.0
	1973	3.1	4.4	0.5	0.6	0.3	16.4	10.0	5.3
Italy	1962-71	5.6	3.8	3.3	3.2	3.5	10.9	10.1	4.9
	1972	3.3	4.6	0.4	— 0.2	1.9	11.6	13.1	3.1
	1973	6.2	3.3	9.9	11.5	5.3	5.3	11.9	5.9
Japan	1962-71	8.9	6.8	13.0	12.7	14.7	16.3	12.1	10.2
	1972	9.1	9.6	9.5	8.5	14.7	7.5	8.4	8.9
	1973	8.7	7.3	16.2	16.1	16.9	6.6	23.2	11.0
Netherlands . . .	1962-71	6.0	3.5	6.3	6.1	7.4	9.6	9.7	5.5
	1972	3.3	1.6	— 1.3	— 6.0	15.6	8.8	3.7	4.5
	1973	2.4	1.2	4.6	5.4	2.2	14.1	11.7	5.2
Norway	1962-71	4.1	6.1	5.0	4.6	7.4	7.3	7.4	4.8
	1972	2.3	5.1	— 4.6	— 7.2	7.8	13.9	0.0	4.3
	1973	1.9	5.9	14.6	17.2	3.6	8.1	15.6	3.6
Spain	1962-71	6.3	5.9	8.2	10.2	1.1	12.8	13.2	6.8
	1972	6.7	6.8	15.0	17.2	3.1	11.0	18.5	7.8
	1973	6.8	6.0	15.5	16.5	7.5	14.0	17.5	8.0
Sweden	1962-71	3.2	5.5	4.1	4.2	3.9	7.7	6.9	3.9
	1972	2.5	1.4	5.5	6.3	2.7	6.0	5.2	2.5
	1973	2.3	2.7	— 1.4	— 0.5	— 4.5	15.1	7.9	2.9
Switzerland . . .	1962-71	4.5	3.7	5.1	5.7	3.4	7.3	7.7	4.1
	1972	5.7	4.5	7.7	5.0	16.3	5.7	6.5	5.8
	1973	4.5	4.3	3.0	2.9	3.2	6.1	5.9	4.3
United Kingdom .	1962-71	2.4	2.1	3.7	3.8	2.9	5.1	4.5	2.4
	1972	5.9	3.9	1.7	0.9	5.6	3.8	10.2	2.3
	1973	4.5	3.7	4.3	4.4	4.1	9.0	10.2	6.0
United States . .	1962-71	4.4	3.4	4.3	5.2	1.9	6.3	8.5	4.1
	1972	6.2	4.6	9.8	7.3	18.2	7.0	11.5	6.1
	1973	5.1	1.2	6.1	8.6	— 1.4	19.9	4.3	5.9

of the year. In the Netherlands and the Scandinavian countries housing activity was depressed, evidently in large part because supply has temporarily overtaken demand. In Germany and Switzerland the growth of residential construction has slowed down mainly because of tight credit-market conditions, but in these countries, too, a better balance between supply and demand has emerged. House-building maintained a strong upward trend in Canada, where the flow of mortgage funds remained plentiful, and also in Japan, where there is a strong underlying demand. In Belgium it continued to expand buoyantly before easing up somewhat last winter, while in Spain dwelling construction actually accelerated.

Consumption expenditure, though a less dynamic demand factor in 1973 than earlier in the upswing, continued in most countries to grow about as fast as or faster than its long-term trend. The principal exceptions were Germany and the Netherlands, where personal saving appears to have increased on precautionary grounds, and Sweden, where real wages showed little increase. The inroads made on real wage gains by accelerating consumer prices, especially after the middle of 1973, contributed to a slowing-down of consumption in a number of countries, particularly the United States, the United Kingdom, Japan, Switzerland and Austria. In Canada the sharp rise in consumption, despite the small increase in real wages, was attributable for the most part to larger farm incomes, personal income-tax cuts and higher government transfer payments. In Italy a huge rise in wage rates considerably outpaced the speeding-up of consumer price increases and gave a strong impetus to consumption. In a few countries — Belgium, France and the United Kingdom — efforts were made to restrain lending for consumption purposes. Since last autumn the pattern of consumption has been substantially affected by the oil crisis, the immediate impact being felt mainly in terms of reduced motor-car sales and demand weakness in a number of energy-related sectors.

As a matter of stabilisation policy, a number of countries sought to curb the growth of public expenditure last year. These efforts were not marked by great success, although in the United States, France and Belgium the rate of increase of public consumption was lowered substantially. Particularly in Japan, but also in the United Kingdom and Switzerland, public consumption grew at a rate in excess of the long-term trend. For Japan this was the result of earlier plans to switch resources from external to domestic use — plans which had to be reversed during the year as inflation took hold and the balance of payments moved into deficit. In the United Kingdom, after overall growth aims had received priority during most of 1973, growing economic strains in the autumn necessitated a curtailment of government expenditure plans. Although in Italy public consumption outlays rose more slowly in 1973, public investment and government transfer payments increased strongly on the basis of earlier plans to reactivate the economy. In the Netherlands and Sweden, where economic activity was below potential output, public consumption also increased only slowly. In the Netherlands this reflected continuing efforts to curb the growth of the public sector, while in Sweden it was more the indirect effect of the housing slump in depressing local-authority spending.

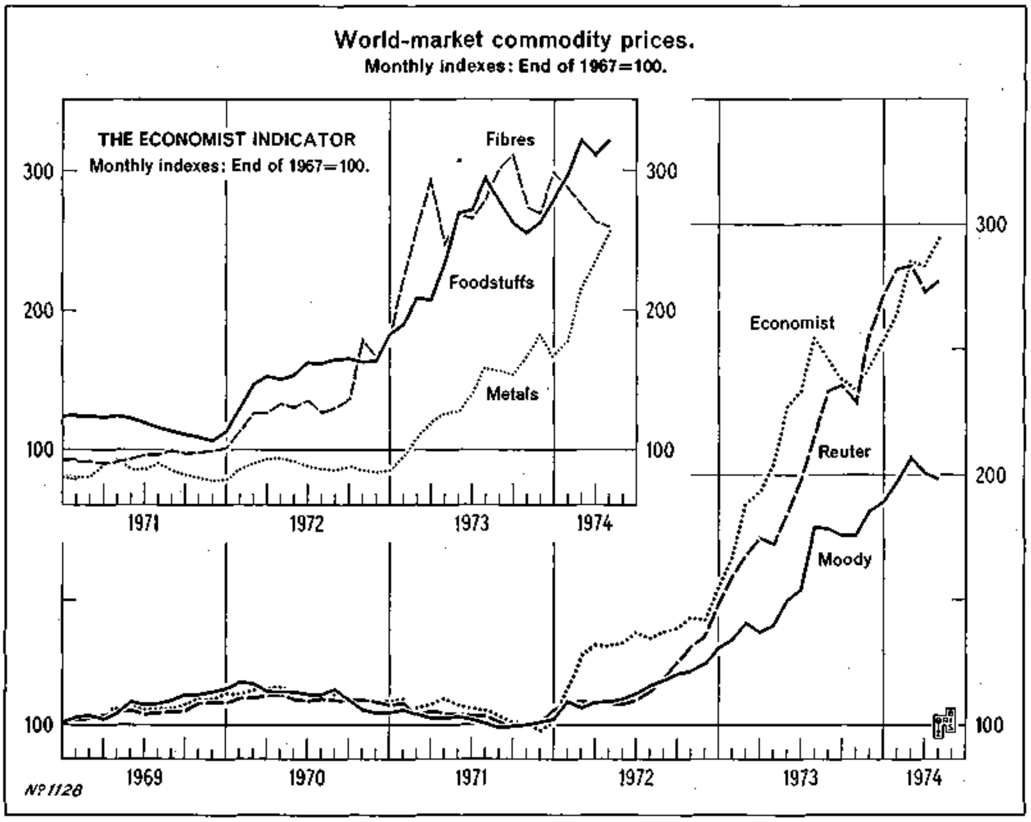
Real imports of goods and services were influenced to a large extent by the pattern of effective exchange rate adjustments, but the relative pressure of domestic demand on prices also played a rôle. In the United States imports decelerated sharply, while in the United Kingdom and Canada they grew at about the same rate despite a much bigger rise in real output than in 1972. In Germany and Sweden they accelerated relative to real output growth, but this may have been induced partly by the even faster rise in exports. The most marked speeding-up of imports occurred in the case of Japan and the Netherlands, reflecting mainly restocking activity. In most countries imports tended to accelerate towards the end of 1973 and in early 1974. This may well have been due to the need to replenish stocks, which in many countries had fallen to rather low levels.

Up to the spring of 1974 the widely-heralded deflationary impact of higher oil prices was still more a fear than a reality. Although demand had fallen off in certain sectors, the initial pessimism concerning the business outlook gradually waned, especially after the removal of the oil embargo, and prospects for a resumption of growth in the course of 1974 improved. However, higher energy prices implied changes in demand, production and investment patterns that would require time to work themselves out. Thus, while it was recognised that the higher prices would have depressive effects on real income and hence on spending, it was possible to view these effects, for the time being, as disinflationary rather than deflationary. In their budget and monetary policies, therefore, the authorities of most countries have continued on a restrictive course with the hope of lowering the rate of inflation in the second half of the year.

The acceleration of inflation.

The increasingly grave inflationary process now confronting the western industrial countries and Japan has been under way since the mid-sixties. Efforts later in that decade to curb the pressure of demand led to a fall in the rate of economic growth in the years 1970–71 but did little to check the pace of the wage/price spiral. Subsequently, the breakdown of the gold-dollar system added new inflationary forces. The US dollar was declared inconvertible and twice devalued in the context of a major realignment of exchange rates, fixed parities gave way to a régime of floating rates and the general adoption of expansionary domestic policies hastened the emergence of a boom of world-wide proportions. Hence in the international commodity markets strong demand conditions have been overlaid with hedging and speculative considerations reflecting an erosion of confidence in paper currencies. Since the middle of 1972 the prices of primary products have rocketed, and the quadrupling of oil prices in late 1973 and early 1974 has given them a powerful second-stage boost. Most countries expect the rise in domestic prices in 1974 to exceed the increases recorded last year.

The higher inflation rate over the past year was again mainly due to primary product prices, which on world markets rose considerably faster than in 1972. In the twelve months to December 1973 Moody's index of dollar prices increased by 46 per cent., while Reuter's index of sterling prices of a somewhat different basket of commodities went up by 88 per cent. The different results shown by the two indexes had little to do with pound/dollar exchange rate changes; they were due rather to the weights assigned to particular commodities and to the effects of price control in the United States. The Economist index, based on a wider coverage of commodities, recorded a dollar-based increase of 65 per cent. over the same period. By any measure



the upward movement was enormous and showed only limited signs of abating in the early months of 1974. In January–April 1974 the rises in the three indexes, none of which includes oil or gold, were 5.5, 2.2 and 15.8 per cent.

In the course of 1973 and early 1974 the price boom affected an increasing number of commodities. Most foods and agricultural raw materials, which had been the front-runners in 1972, continued after a pause in the summer to rise strongly. Particularly sharp increases were recorded by cocoa, wheat, maize, sugar, edible fats and oils, wool and cotton, although by the spring of 1974 cotton and wool prices were noticeably below their 1973 peaks and meat, wheat and maize prices were roughly the same as at end-December. Since early 1973 a new feature has been the faster rise in the prices of industrial materials, especially non-ferrous metals and rubber. There were also substantial rises in various primary products not included in the world-market commodity indexes, such as timber, pulp and petroleum products, the latter having started to advance well before the steep upward adjustments in posted oil prices in the autumn.

From the supply standpoint, global productive capacity was in general very tightly stretched. As far as foods and agricultural raw materials are concerned, the supply situation improved last year thanks to more favourable climatic conditions and to government programmes to encourage production, but prices continued to suffer from the delayed effects of the poor harvests of 1972. It was also quite evident that the capacity utilisation of industries producing other basic materials was everywhere

Changes in international commodity prices.[1]

Commodities	Percentage price changes from[2]					
	December 1971 to December 1972		December 1972 to December 1973		December 1973 to April 1974	
	£ terms	$ terms	£ terms	$ terms	£ terms	$ terms
Coffee	+ 20	+ 12	+ 14	+ 13	+ 23	+ 27
Cocoa	+ 66	+ 54	+ 81	+ 79	+ 81	+ 87
Tea	+ 1	— 6	+ 7	+ 6	+ 32	+ 36
Sugar	+ 62	+ 50	+ 42	+ 40	+ 70	+ 76
Wheat	+ 50	+ 39	+ 120	+ 118	+ 2	+ 5
Maize	+ 39	+ 29	+ 95	+ 92	— 5	— 2
Beef	+ 27	+ 18	+ 31	+ 29	+ 3	+ 7
Lamb	+ 33	+ 24	+ 57	+ 55	— 13	— 10
Soya beans	+ 19	+ 10	+ 81	+ 79	— 14	— 12
Groundnut oil	+ 19	+ 10	+ 75	+ 73	+ 39	+ 44
Wool	+ 140	+ 123	+ 58	+ 57	— 19	— 16
Cotton	+ 9	+ 1	+ 120	+ 118	— 18	— 15
Rubber	+ 46	+ 35	+ 143	+ 140	— 20	— 18
Softwood	+ 13	+ 5	+ 111	+ 109	+ 6	+ 9
Wood pulp	— 6	— 12	+ 30	+ 28	+ 17	+ 21
Newsprint	+ 4	— 3	+ 25	+ 23	+ 22	+ 25
Aluminium	— 11	— 17	+ 19	+ 17	+ 16	+ 20
Copper	+ 7	— 1	+ 118	+ 115	+ 32	+ 36
Lead	+ 44	+ 34	+ 95	+ 93	+ 14	+ 18
Nickel	+ 15	+ 7	— 1	— 2	+ 12	+ 15
Tin	+ 12	+ 4	+ 76	+ 74	+ 37	+ 41
Silver	+ 53	+ 42	+ 60	+ 58	+ 54	+ 59
Iron ore	— 3	— 10	+ 16	+ 15	+ 10	+ 13
Steel scrap[3]	+ 42	+ 32	+ 59	+ 57	+ 37	+ 41
Crude oil (light)	+ 21	+ 12	+ 106	+ 104	+ 128	+ 135

[1] Quotations in the United Kingdom; end-of-period prices. [2] The differences between price changes in sterling and dollar terms reflect relative movements in the sterling/dollar exchange rate. [3] US quotation.

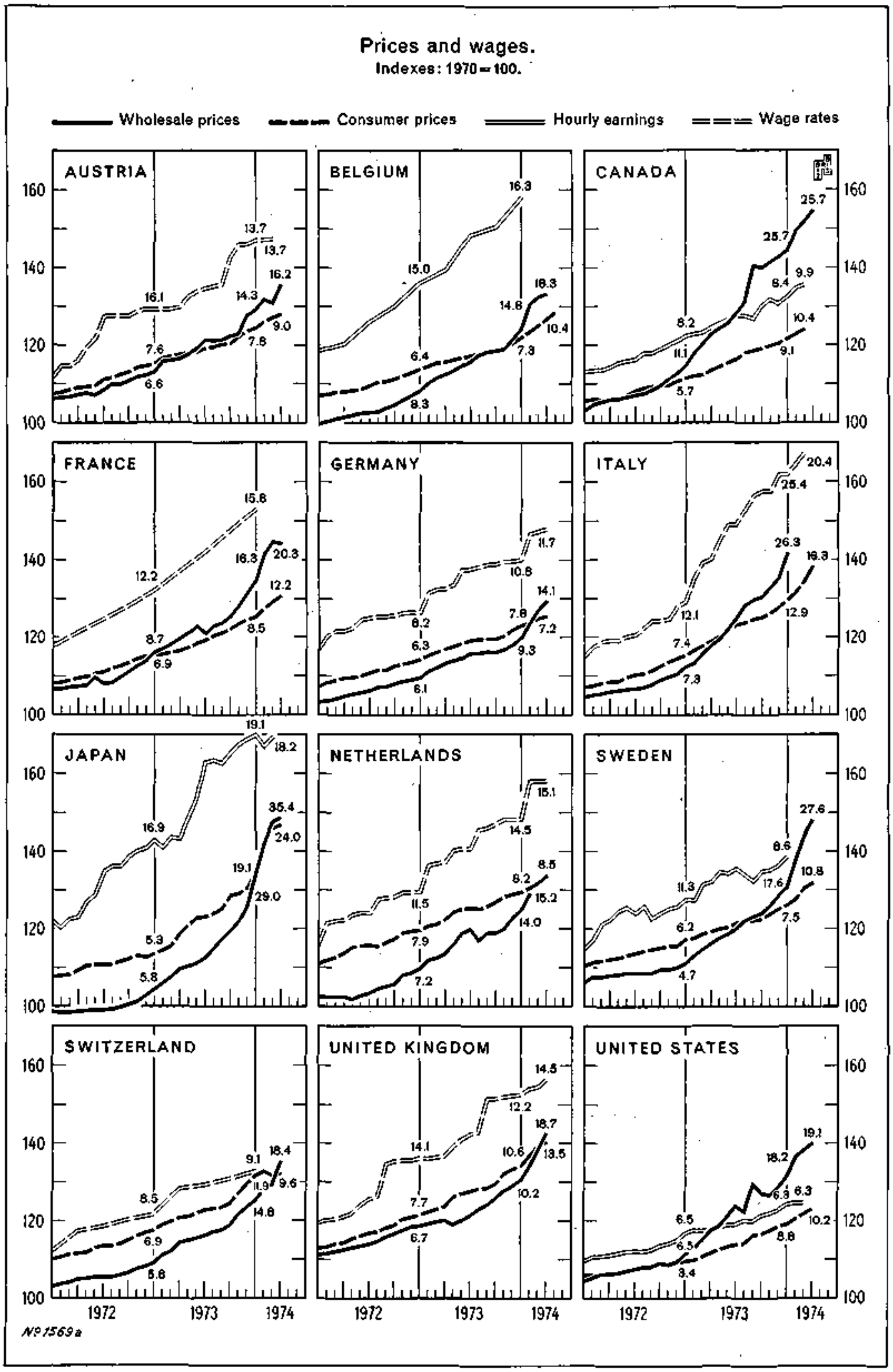
exceptionally high. This reflected not only strong demand pressure but often also a dearth of "capital-widening" projects in recent years. In the United States, for example, capacity limitations contributed to shortages of such materials as steel, timber and petroleum, which were also in strong demand abroad. In addition, there were again instances of serious disruption to output — copper from Chile and zinc from North America were hit by strikes and in Pakistan the cotton crop was reduced by floods. The energy crisis threatened output and prices indirectly as well as directly; rubber prices, for instance, began to rise as synthetic substitutes became both more expensive and scarcer.

Though the emergence of a world-wide commodity boom should fundamentally be seen as a case of collective "mea culpa", its balance-of-payments impact has varied widely from country to country. Moreover, from the standpoint of domestic inflation, these differentiated effects have been accentuated by relative movements in exchange rates. Thus, the large effective depreciations experienced during 1973 by the United Kingdom and Italy, both of which are heavily dependent on imports, contributed to rises of about 40 per cent. in the unit values of their imports. In addition, as the UK terms of trade deteriorated by 16 per cent. and those of Italy by 10 per cent., further inflationary repercussions could be expected from the resultant erosion of real income. Average import prices in the United States rose by more than one-quarter but an almost equally rapid increase in export prices kept the terms-of-trade loss down to 3 per cent. In this case both the higher import and the higher export prices added significantly to the inflation of domestic prices. In three countries whose currencies were revalued — Germany, the Netherlands and Switzerland — average import values rose by only 9–12 per cent., but in a fourth — Japan, heavily dependent on commodity imports — they went up by 22 per cent. The case of Canada, as a major producer of basic materials, is different again; average export values rose by 24 per cent. to give a terms-of-trade gain of about 8 per cent.

In short, import prices increased much more than consumer prices and probably accounted for a sizable proportion of overall inflation in individual industrial countries. But it is significant that export unit values rose rapidly too, including those of manufactured goods, and in most cases again by appreciably more than consumer prices. The chief exceptions were Germany and Switzerland, where exporters had to hold down prices expressed in domestic currency in view of the substantial appreciation of these countries' currencies. It seems probable that, given the widespread strength of demand, buyers who were forced to turn to imports because of capacity limits at home were prepared to pay considerably higher prices; and on the supply side, given that some form of surveillance or control of prices for domestic consumption was in operation in many countries, firms took the opportunity to raise prices on their export business. Thus, as the foreign trade sector in most countries is quite large and expanding in relation to the domestic sector, price inflation was transmitted through international trade.

Wholesale prices began to rise more rapidly in 1973 and, partly in reflection of higher oil prices, advanced steeply in late 1973 and early 1974. In Japan the wholesale price index in the spring of 1974 stood at a level 35 per cent. higher than a year before, while the next largest increases, ranging from 20 to 30 per cent., occurred in the United States, Canada, France, Italy and Sweden. In all these countries the rises in wholesale prices substantially exceeded those in consumer prices. In most other countries, where the increase was between about 15 and 20 per cent., wholesale prices rose at rates closer to consumer prices until the turn of the year when oil prices shot up. Changes in the individual items of wholesale price indexes broadly reflected the pattern that emerged on international commodity markets.

With regard to consumer prices, the results among individual countries have been more diverse, partly on account of the differing impact of higher oil prices. By the spring of 1974 the twelve-month increase in most countries was between 8 and 16 per cent., compared with around 6–8 per cent. during 1972. In Japan the rise was 24 per cent. Moreover, in view of the sharper increases in wholesale prices in most countries, it would appear that an appreciable amount of consumer price inflation has yet to come through. As regards component items, food prices continued to show large gains in some countries, especially the United States, Canada and Japan, and, with some delay owing to price controls, also in France and Italy. The faster consumer price increases, however, were more generally attributable to rises in non-food products, especially in the energy sector, and in some cases also in services.



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

Not unexpectedly, wage rates and earnings rose in most countries by more than in the previous year, though in some cases gains in productivity helped to cushion the effect on prices. Among the continental western European countries the acceleration was fairly marked in Germany, France and the Netherlands, but much more so in Italy. In the United Kingdom, Sweden, Switzerland and Japan wages moved up roughly in line with consumer prices. In the United States wage restraint was quite exceptional in comparison with other countries; earnings rose over the year by less than 6½ per cent. but recent wage contracts have exceeded 10 per cent.

In recent years national authorities have turned increasingly to direct action in the incomes field with a view to bringing wage/price inflation under better control. These initiatives have stemmed partly from growing disillusionment over reliance solely on demand restraint policies, which too often seemed to slow up output and productivity gains without markedly curbing cost-push inflation. The results of these efforts have been rather mixed, not least because a cardinal prerequisite for their success — the absence of excessive demand pressure — has often been lacking. Even this qualified success, however, has helped to demonstrate the usefulness of incomes policies in certain circumstances over certain periods of time. Hence in one form or another official efforts to guide incomes behaviour may be expected to continue.

Once again last year the most broadly-formulated prices and incomes policies were pursued in the United States and the United Kingdom. Regulatory action in other countries mostly concerned prices, profit margins and rents, although in some cases governments sought, formally or informally, to influence the outcome of key wage negotiations. However, in two important countries, Germany and Japan, the authorities have preferred to give strong emphasis to demand-management policies rather than to move to more direct price/wage policy.

The United States' control programme entered a third and ostensibly final stage in January 1973, when it was liberalised in certain respects and made essentially self-administering. The guide-line for annual wage and fringe-benefit increases of 6.2 per cent., the price-rise target of 2½ per cent. and the ceiling of 4 per cent. on dividend increases all remained in force. Coming as a surprise, this decision contributed to a weakening of confidence at home and abroad. Concurrently, the rising trend of consumer prices, which had been kept down to an annual rate of only 3.2 per cent. over the first two phases of the control programme, tilted steeply upwards.

In the ensuing months the rise in world commodity prices and the substantial depreciation of the dollar gave a new impetus to domestic inflation. At the beginning of May it was felt necessary to reintroduce a compulsory advance notification procedure for price increases and in mid-June prices were frozen for two months pending the formulation of new mandatory rules for a fourth phase of control. Under these rules prices could be raised to reflect rising costs in so far as necessary to preserve absolute but not percentage profit margins. The new phase became effective when the freeze expired and was to last until the end of April 1974. In practice, policies of sectoral decontrol were evolved, based on informal commitments on the part of industry with respect to subsequent price behaviour, and the dismantling of controls went ahead rapidly in the early months of 1974. The formal demise of the programme at the end of April was an anticlimax.

The effectiveness of the US control programme has been a matter of considerable controversy. The new freeze in particular led to many distortions, and the sharp rises in costs over the past year had inevitably to be passed on in higher prices. At the end of April consumer prices were some 10 per cent. above their year-earlier level. With regard to wages, a steady and more moderate trend in hourly earnings of 6–7 per cent. characterised the entire control period from August 1971 onwards and reflected a high degree of labour restraint. Some of the credit must surely go to the wage guide-lines and the effective way in which the control authorities helped bring these to bear on wage negotiations.

The policy applied in the United Kingdom is notable in that it has placed at least as much emphasis on the control of incomes as on the control of prices. The second stage of the UK programme began in April 1973 and contained statutory limitations which would allow wage rates to increase by about 8 per cent. annually at the most, permit prices to rise by only enough to cover higher costs (but not the whole of higher labour costs) and keep profits reasonably in line with those of recent years. This stage was fairly successful, though the price level continued to be pushed upwards by soaring import prices. As envisaged, a third and more flexible stage took over early in November, laying down new criteria permitting average wage settlements to break into double figures. In addition, threshold arrangements provided for additional payments in the event of the retail price index going up by 7 per cent. or more within a period of twelve months. By the turn of the year the rise in oil prices had dashed any remaining hopes of securing that degree of restraint.

In January 1974 the Pay Board published a report on pay relativities. In the interests of longer-term incomes policy it was essential to examine possible machinery and guide-lines for altering the relative structure of pay between different groups of industries and labour, but the report was also seen as a way of settling the coal-miners' dispute. This was duly effected on generous terms — the miners' award averaged 29 per cent. — soon after a new government took office in March. The trouble with relativity arguments is that they seem likely to add to pay settlements without any counter-balancing negative relatives being considered. In this form the relativities approach may only add to existing inflationary problems unless the basic norm is substantially reduced. Meanwhile the new government has increased the attention given to containing prices; to this end some goods have been subsidised and residential rents were frozen in March for the remainder of the year.

In other countries direct action to restrain inflation was applied almost exclusively to prices. In France the system of guide-lines on incomes and prices, together with a compulsory review procedure for prices, continued in operation. In November the authorities began to take a tougher line on prices in cases where profit margins had been growing, and surveillance arrangements were reintroduced for some industrial sectors which had been freed in June 1972. This programme was again tightened in December as part of an anti-inflationary package which also imposed a freeze for the first half of 1974 on rents and certain public-sector charges, and requested firms to limit increases in dividends; however, at the same time the authorities reaffirmed their commitment to free wage bargaining.

In the Netherlands a tripartite "social contract" held out the hope of more moderate wage increases in 1973, but in the event wage gains accelerated owing to the increasing use of escalation contracts. For 1974 new legislation gave the government wage-control powers, and the advance notification requirement for price increases was tightened. In Belgium, where wages and salaries are generally indexed to prices, the authorities continued to rely on an early-warning system for price rises, backed up by certain enforcement powers.

In late July the newly installed Italian Government announced an anti-inflationary package which included a freeze until the end of October on the prices of most basic consumer items as well as on those of goods produced by large industrial companies. From then onwards price increases have required justification and official approval. At the same time the rent freeze benefiting lower-income earners was continued.

In July 1973 the Swiss Federal price commissioner set out certain guide-lines: prices should not in principle rise by more than costs and that part of costs attributable to above-average wage increases would not normally be accepted as valid grounds for price increases. In early December a national referendum validated the anti-inflation programme, which had then been running for a year, so that the surveillance of prices, wages and profits continues.

In Sweden a law was passed in July 1973 giving the government powers to apply price freezes and to require notification of price rises. These powers were subsequently invoked with respect to timber and petroleum products. In January 1974 Denmark introduced a two-month freeze on prices and profit margins, allowing for cost increases to be passed on, and subsequently prolonged it with more limited coverage. In February the government announced an anti-inflation programme that included subsidies to industry and a compulsory savings plan.

In Spain a price freeze covering a wide range of products and services was announced in mid-September to last until the end of 1973. An anti-inflationary programme for 1974 was laid down in December: price increases were to be subject to surveillance, dividends were to be held down and collective wage settlements were not in general to exceed the rise in the cost of living. In Ireland and in Luxemburg price controls were also extended in 1973, but in Australia, after the government had set up a price control tribunal in May 1973, the electorate rejected in a referendum held in December the vesting of powers of price control with the government. In September the Canadian authorities took steps to restrain the price level when, as part of a broader anti-inflation programme, they froze the prices of domestically consumed petroleum products for five months and increased subsidies on wheat and milk destined for home consumption.

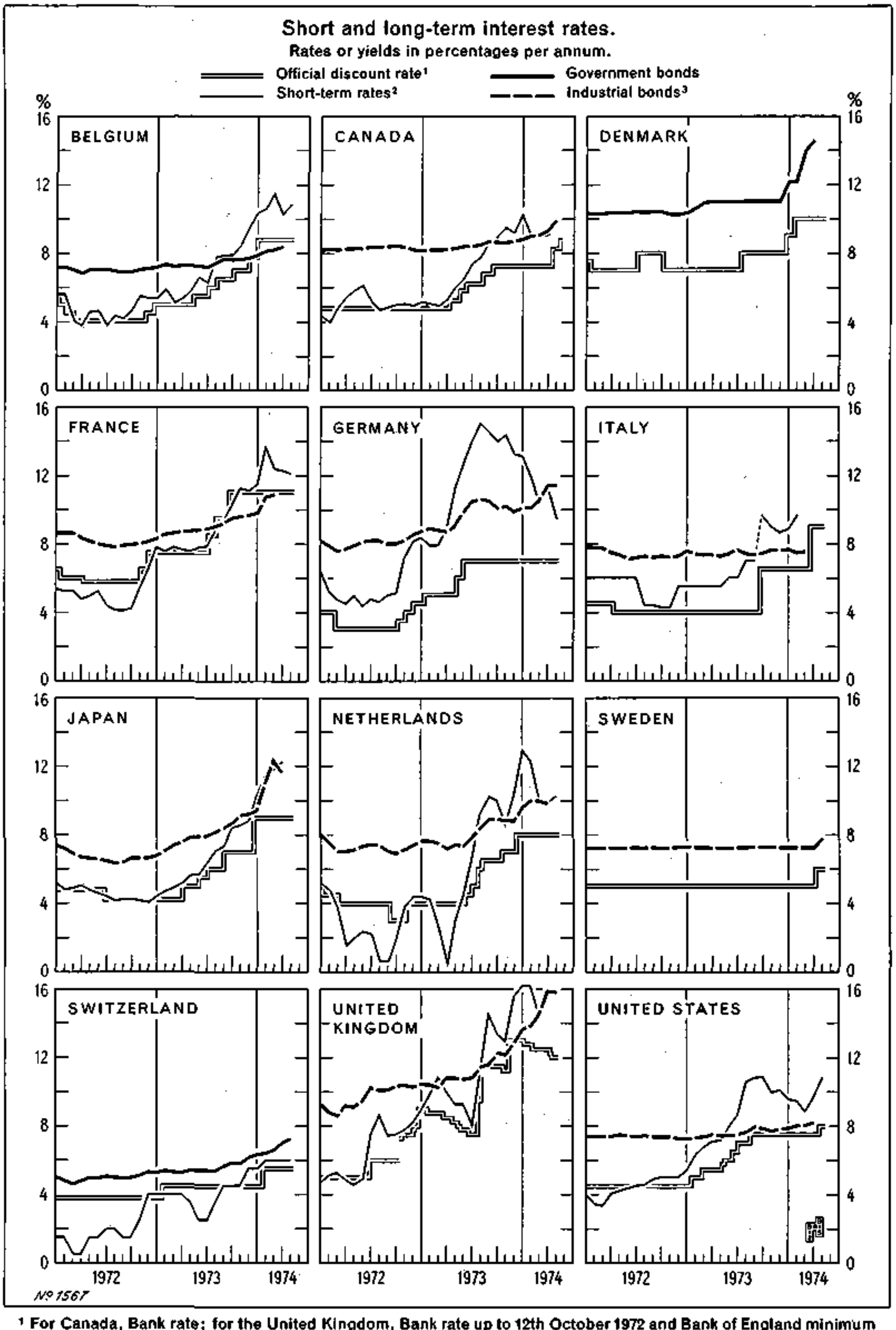
In most countries the short-term outlook for consumer prices seems unfavourable. In view of relatively sharp increases in international commodity and domestic wholesale prices it is likely that much inflation has yet to come through at the consumer level. On the other hand, a phase of slower demand growth, although it did little to contain inflation in 1970–71, should have a better chance of success in the aftermath of a world-wide boom. In conjunction with an improvement in supplies, it might well lead to a tapering-off of international commodity inflation and hence to a damping-down of wholesale and consumer price rises.

Money, credit and interest rates.

Over the past year, much as in 1969, a leading feature of monetary developments has been soaring interest rates. But during this restraint phase, in contrast to the earlier one, the monetary aggregates have grown rapidly as well, though in some countries at a gradually decelerating rate. On the basis of past experience this combination of high interest rates and fast monetary growth may seem paradoxical. However, it largely reflects the limited effect that monetary policy could have on inflationary forces of the kind and intensity that prevailed in the recent upswing. Large international flows of funds, heavy public-sector financing requirements, strong upward movements in wages, sharply rising costs of imported foodstuffs and basic materials, the emergence of bottlenecks and sectoral dislocations — all these things in varying combinations in different countries have limited the potential impact of monetary restraint. Short of risking a severe liquidity crisis and a sharp downturn in the economy, the monetary authorities have had little choice but to allow a large part of higher costs and prices to be financed.

The active move towards higher interest rates began in late 1972 and continued throughout 1973. In the initial phase the United Kingdom led the way, with short-term rates being adjusted upwards in the six months following the floating of sterling in June 1972. However, in the first half of 1973 the initiative was taken over by Germany and the United States, which on domestic grounds raised their official discount rates progressively to reach peak levels by the summer. At this point the United Kingdom gave a further sharp boost to short-term interest rates to help protect sterling, and long-term yields also began to move steeply upwards. Similar action proved necessary in November, when the Bank of England's minimum lending rate was raised to a peak of 13 per cent. Against this background, the upward adjustments of rates by other countries — particularly France, Belgium, the Netherlands and Japan — were generally concentrated in the second half of 1973. Though stress was usually laid on the need to align rates with those abroad, the adjustments were increasingly made with an eye also to domestic economic conditions.

In the United States and Canada the rise in interest rates was until recently confined mainly to the short-term sector of the market, but in a number of other countries long-term rates also rose steeply. By the spring of 1974 industrial bond yields in Denmark and the United Kingdom were nearly 16 per cent., while in France, Germany, the Netherlands and Japan yields on private-sector bonds stood at around 10 per cent. or more. In Belgium and Switzerland there were fairly moderate upward movements. On the other hand, in Italy and Sweden long-term yields remained rather stable and relatively low as a reflection both of special features of the markets and of policies aimed at encouraging investment. For a time in early 1974 short-term interest rates showed signs of easing, but by early spring they had firmed again, in particular under the influence of the tight stance of monetary policy in the United



[1] For Canada, Bank rate; for the United Kingdom, Bank rate up to 12th October 1972 and Bank of England minimum lending rate thereafter. [2] 3-month interbank rate, except in the following cases: Canada, 90-day finance paper; France, 1-month private bills; Italy, 12-month Treasury bills up to September 1973 and 6-month bills thereafter; Japan, call-money; and the United States, Federal funds. [3] For Italy, industrial credit institutes' bonds; for Japan, Telephone and Telegraph bonds; for the Netherlands, private bonds.

States and of widespread borrowing on international markets. From February to May US short-term market interest rates moved up by around 3 percentage points and long-term yields by about ½ percentage point. In late April the official discount rate was put up to 8 per cent. and by mid-May the banks' prime lending rate rose to 11½ per cent.

At the start of 1973 monetary expansion was proceeding at an alarmingly high rate, following a sharp acceleration in the course of 1971 and 1972. Since then the efforts of the authorities to bring the growth of the monetary aggregates under better control have met with some success. By the spring of 1974 the growth rate of the money supply broadly defined (M_2) had declined moderately in the United States and the United Kingdom and dropped off considerably in Germany, France and Japan. It had accelerated, on the other hand, in Italy, the Netherlands and Sweden, partly in conjunction with the growth of output, as well as prices.

In most countries M_1 (the money supply narrowly defined) expanded a good deal less rapidly than M_2, but this largely reflected a shift from sight deposits to higher-yielding time and savings deposits, which in some cases also appear to have increased at the expense of market instruments. Another factor swelling the M_2 figures in some countries — for example, the United Kingdom, the Netherlands and the United States — was the tendency at times for interest rate patterns to encourage bank borrowing for purposes of acquiring high-yielding time deposits (the so-called "merry-go-round" process). Even after due allowances, however, the rates of monetary expansion were exceptionally high, especially as the growth of real output was much slower after mid-1973.

One of the limitations on monetary restraint in recent years has been the huge volume of external flows of funds, largely associated with exchange rate uncertainties. Outflows from the United States from 1971 up to early 1973 were particularly large and appear to have been derived to a substantial extent from new domestic credit creation. Concurrently, other countries sought in a variety of ways to ward off or offset inflows of funds, but they had only partial success. In a number of them, therefore, the strength of monetary expansion by early 1973 was based largely on cumulative foreign exchange inflows showing up in the banking system's net acquisition of foreign assets.

The transition to floating exchange rates in March 1973 weakened, but did not fully sever, the link between external flows of funds and changes in the monetary aggregates. Indeed, a feature of recent experience is that floating rates did not provide as much domestic monetary autonomy as had often been expected. At times, national authorities found it appropriate to intervene in the markets in order to prevent excessive swings in their exchange rates. It remains true, however, that in western Europe most of the contribution of increases in official exchange reserves to monetary expansion in 1973 occurred early in the year, prior to and just after the move to floating rates. Since then the surplus countries have found that floating, leading off from an already more realistic international structure of rates, has been helpful in bringing monetary expansion under better control.

Another source of monetary excesses in some countries has been the state of public-sector budgets. In the United Kingdom the borrowing requirement, which had

The money supply.

Countries		1969 Dec.	1970 Dec.	1971 Dec.	1972 June	1972 Dec.	1973 June	1973 Dec.	1974 March
		percentage changes over twelve months							
United States	M_1	3.5	6.0	6.3	5.2	8.7	8.3	5.7	6.5
	M_2	2.5	8.4	11.2	9.1	11.1	10.0	8.6	9.3
Canada	M_1	4.4	5.0	19.9	9.5	11.8	15.8	12.9	12.2
	M_2	4.3	10.3	16.4	16.9	14.5	12.1	19.1	20.3
Japan	M_1	20.6	16.8	29.7	19.9	24.7	29.9	16.8	15.4
	M_2	18.5	16.9	24.3	22.8	24.7	24.7	16.8	15.1
Belgium	M_1	2.6	8.3	11.2	14.5	14.0	12.5	7.8	9.1
	M_2	7.7	8.2	13.1	15.7	16.1	16.6	14.4	17.3
France	M_1	0.4	11.1	11.8	13.1	14.9	10.9	9.6	9.2*
	M_2	6.3	15.2	18.2	19.2	18.6	14.2	15.1	16.2*
Germany	M_1	6.4	8.7	11.8	14.2	14.3	5.8	2.0	− 1.1
	M_2	10.0	10.5	14.3	13.9	16.9	18.2	14.0	9.8
Italy	M_1	15.8	27.2	18.8	17.7	17.4	22.2	24.1	.
	M_2	11.4	13.6	17.1	18.5	18.2	20.7	23.3	.
Netherlands	M_1	8.1	11.8	15.0	18.5	17.7	9.4	0.0	− 3.8
	M_2	10.2	11.0	9.0	12.6	11.9	14.9	21.9	21.4
Sweden	M_1	− 3.8	8.5	9.3	11.9	7.7	5.6	9.9	12.1
	M_2	2.1	10.6	2.8	13.6	13.2	13.9	14.7	16.2
Switzerland	M_1	6.9	7.3	39.5	31.3	4.2	2.7	− 1.4	− 5.5
	M_2	18.9	8.9	26.6	21.6	2.2	3.4	3.9	+ 6.4
United Kingdom	M_1	0.0	9.3	15.4	18.5	13.6	9.4	4.1	2.5
	M_2	3.0	9.4	13.5	23.6	27.6	23.1	28.9	26.3

Note: M_1 = currency and demand deposits.
M_2 = M_1 plus quasi-money, according to national definitions, which differ from country to country.
* February.

been close to nil in 1970, rose further from just over £2,000 million in 1972 to £4,200 million in 1973. Although nearly half this total was met by sales of debt to the public, borrowing in other forms accounted for about one-quarter of domestic credit expansion via the banking system. In Italy the public sector's rapidly growing borrowing requirement was financed last year almost entirely by the banking system and was equivalent in size to three-fifths of the growth of bank lending to the private sector. The Belgian Treasury, though able to bring down its net borrowing requirement from the high 1972 level, joined other public bodies in having considerable recourse to monetary financing.

In most other countries moderate budget deficits were recorded, but public-debt management was generally applied so as to retard monetary expansion. In the United States the banks were induced by monetary restraint to cut back their holdings of government securities, and in Germany and the Netherlands the central government borrowed in excess of need so as to absorb liquidity. In Canada and Japan the financing needs of the public sector were larger than in 1972 but they were met without significant recourse to bank credit. In France the Treasury achieved a moderate budget surplus and improved its position vis-à-vis the Bank of France.

By the spring of 1974 the growth rate of bank credit to the private sector, responding to the influence of monetary restraint, had in most countries dropped off significantly from its 1973 peak. The main exceptions were Canada, Italy, the Netherlands and Sweden, where output growth had either risen or was being well maintained. Almost everywhere, however, the underlying demand for credit was evidently still quite strong, boosted by investment and working capital requirements under conditions of rapidly rising costs of basic materials and wages. Given the rate of inflation in some countries, it was apparent that the growth of credit in real terms implied increasingly severe restraint.

New techniques of monetary control, or variations on old ones, were widely applied over the past year, but the results were rather mixed. In the United States the suspension of remaining Regulation Q ceilings on large time deposit rates, together with the adoption of a two-tier prime lending rate, signalled a monetary restraint policy involving more emphasis on the cost of credit and less on availability. In consequence, the improved ability of the banks to compete for funds helped to avoid a credit "crunch", but restraint was somewhat slow to take effect; housing, as usual, bore the main brunt. In the United Kingdom, where for the second year running the main emphasis of monetary policy was placed on interest rates and credit competition, credit expansion again far exceeded earlier standards. Towards the end of 1973 a new scheme was introduced calling for supplementary special deposits in the event of banks' deposit liabilities growing at more than a specified rate. And in the Netherlands, in contrast to previous reliance on credit ceilings, the authorities depended on this occasion on liquidity ratios and more stringent controls on central-bank credit.

Ceilings on bank credit expansion were applied in a number of countries, among them Japan, Austria, Belgium, France, Italy, Norway and Switzerland. Reserve requirements were also employed flexibly in various countries, and Belgium joined France in applying a reserve requirement to the assets side of the banks' balance sheets. A significant development in Germany was a changeover early in 1973 from reliance on bank liquidity as a principal target of monetary restraint to aiming at a more direct, stricter regulation of central-bank credit as such. Indeed, with the advent of floating exchange rates, the quantitative control of central-bank credit appears to have taken on greater importance in several countries.

Capital markets have generally come under considerable pressure over the past year, although in some cases higher profits reduced the need for recourse to long-term funds. A pervasive factor has been the continuing strong preference for liquidity, reflecting concern about inflation and uncertainties about long-term interest rates. One consequence of this development, already in evidence for several years now, is that an increasingly large proportion of total lending has been channelled via credit institutions at the expense of capital-market activity. It is also true, however, that the volume of private-sector issues was influenced significantly last year by the mode of application of monetary restraint. In those countries where bank credit ceilings were applied capital-market borrowing generally showed somewhat larger gains than elsewhere. In other words, the ceilings tended to shift credit demand partly to the capital market.

Over the past year monetary authorities have found that floating exchange rates, far from providing a policy-making nirvana, have at times confronted them with more difficult choices than ever. It has been seen that, in so far as monetary conditions are kept relatively easier than abroad, the exchange rate weakens, and this tendency feeds on itself owing to perverse short-term trade effects. Thus, particularly for countries with weak external positions, the additional monetary autonomy promised by floating rates has proved largely illusory. Where, in other words, rates are already at realistic levels, exchange-market pressures may require quicker responses than in the past. Interest rate movements in recent months seem to confirm that the monetary authorities have shown considerable sensitivity to external considerations of policy.

Up to now the general move to high interest rates has not come into serious conflict with domestic policy objectives. After mid-1973 the slowing-down of output, combined with the quickening of inflation, foreshadowed the emergence of a familiar policy dilemma, which loomed still more ominously as a result of higher oil prices. Recognising that adjustments in demand and production patterns would involve short-term dislocations, but also that cost inflationary forces might outweigh those of demand deflation, monetary authorities have generally continued to give priority to combating the inflationary trend. Hence, policies of monetary restraint in the spring of 1974 were generally maintained, though in a few cases measures have been taken to relieve extreme pressure on interest rates.

Floating exchange rates.

March 1973 saw the final breakdown of the Bretton Woods monetary system, without any signs that a new organised system would soon emerge. The Committee of Twenty has continued to labour on a monetary reform but, as discussed later in the chapter, found the task beyond its powers. Reform of a kind, therefore, was brought about by the market, through unco-ordinated floating of exchange rates. This relieved the problems associated with the maintenance of unrealistic exchange parities but at the cost of substituting for them a high degree of exchange rate volatility.

At the beginning of 1973 a year had passed since the Smithsonian realignment of currencies without signs of progress towards adjustment of the pre-Smithsonian international payments disequilibrium. In fact, the US foreign trade deficit and the German and Japanese trade surpluses had increased in the course of 1972. In addition, the United Kingdom's foreign trade balance had turned from surplus to deficit and Italy's payments deficit had increased significantly. Not surprisingly, therefore, confidence in the exchange rate structure was precarious, particularly as it had been necessary for the UK authorities to let sterling float because of the market pressures that arose in June–July. It was true that by early January 1973 there had been six months of relative calm; but it was only the calm before the next storm.

That storm broke in late January. On the 22nd of that month Italy introduced a separate exchange market, with a floating rate, for financial transactions. One day later the Swiss franc, which had come into strong demand immediately following the Italian move, was allowed to float — and quickly appreciated by several per cent. During the first week of February a renewed major movement out of the US dollar pushed the exchange reserves of other Group of Ten countries up by $8 milliard, with $6 milliard going to Germany alone. The exchange markets were then closed and, in sharp contrast to August 1971, the dollar was devalued by a further 10 per cent. on 13th February. On the following day the yen and the commercial lira were added to the group of floating currencies.

The second dollar devaluation in a little over a year came as the last straw, so far as confidence in fixed exchange rates was concerned. Pressures on the dollar quickly built up again and, following large further official purchases of exchange by the German authorities on 1st March, the markets were once more closed. After nearly three weeks of official monetary discussions in various forums business was resumed on 19th March with the dollar floating against all other major currencies. The six EEC countries whose currencies were not already floating, plus Norway and Sweden, decided to maintain fixed margins between their currencies, and the Deutsche Mark and the Austrian schilling were revalued by 3 and 2¼ per cent. respectively. A number of European countries further tightened their controls against inflows of funds. A new era had begun.

Since then the course of exchange rates between the dollar and European currencies can be divided into three phases — first down, then up and then down again. In the first phase from mid-March until early July 1973 the dollar fell sharply against most European currencies. Until mid-May, however, there was little change in the pattern of rates that had emerged on 19th March. The currencies participating in the joint European float were well within what would have been their permitted post-Smithsonian margins of fluctuation against the dollar had they returned to fixed rates, while the Swiss franc and the yen had appreciated vis-à-vis the dollar by roughly 5 per cent. over and above the February devaluation. But for large official intervention the yen would have begun to depreciate against the dollar, as in Japan leads and lags had reversed themselves from March onwards.

Renewed market unrest became evident in the third week of May when the dollar, mainly under the impact of political uncertainties in the United States, began to depreciate against most European currencies. The announcement, late that month, that in April the US foreign trade balance had moved back into surplus did nothing to halt the trend; and matters got worse at the end of the month when German monetary policy was drastically tightened. Believing that floating against the dollar would allow rather free scope for an independent monetary policy, the German authorities raised the official discount rate and announced on 30th May that the banks would, in principle, not be allowed new lombard credit for the time being. The Deutsche Mark began to move up in the European snake and to appreciate against the dollar, pulling the other snake currencies and the Swiss franc along with it. At the beginning of June the Deutsche Mark was 5 per cent. above its cross parity with the dollar and by the 28th of the month the premium had reached almost 14 per cent. From mid-June the Deutsche Mark was at the top of the snake and by 28th June the Bundesbank had been obliged to buy DM 4½ milliard of snake currencies. The decision was then taken to revalue by a further 5½ per cent.

As with the February devaluation of the dollar, this action had the effect of further upsetting the exchange markets. The movement out of dollars and into

Estimates of effective exchange rate changes.

Currencies	19th March–6th July 1973	6th July 1973–25th January 1974	25th January–24th May 1974	19th March 1973–24th May 1974	21st Dec. 1971–24th May 1974	Range of fluctuation since 19th March 1973, highest over lowest
	percentage changes					
Japanese yen	− 4.2	− 6.1	+ 3.1	− 7.3	+ 5.7	12.2
Swiss franc	+ 10.6	− 8.6	+ 6.4	+ 7.6	+ 21.3	11.4
Deutsche Mark	+ 14.7	− 6.7	+ 5.7	+ 13.1	+ 20.7	15.1
Belgian franc	+ 0.9	− 4.6	+ 5.1	+ 1.2	+ 5.9	6.2
French franc	+ 3.6	− 13.2	− 2.2	− 12.0	− 7.0	20.2
Dutch guilder	+ 0.2	+ 3.0	+ 3.2	+ 6.5	+ 10.8	9.4
Swedish krona	+ 1.1	− 4.0	+ 4.6	+ 1.4	+ 2.5	5.7
Canadian dollar	− 1.7	+ 7.0	− 0.6	+ 4.7	+ 1.7	7.3
Sterling	− 6.3	− 0.3	+ 0.8	− 5.8	− 17.8	12.4
Italian lira	− 14.7	+ 3.5	− 3.1	− 14.5	− 18.4	17.8
US dollar	− 8.8	+ 16.7	− 8.4	− 2.5	− 9.3	16.7

Notes: 1. The effective change in the exchange rate of the currency of an individual country is defined as equivalent to that unilateral change which it is estimated would affect the country's trade balance to the same extent as the actual multilateral changes in exchange rates that have taken place.
2. Changes are measured in post-Smithsonian central and middle rates of exchange for all currencies except the Canadian dollar, for which the rate of Can. \$1 = US \$1 is used.
3. Where two-tier markets operate, the commercial rate of exchange has been used.

Deutsche Mark persisted and by 6th July, a week later, conditions in the markets had become so disorderly that normal trading was difficult. The Deutsche Mark had risen a further 9½ per cent. against the dollar, bringing its appreciation against that currency since 19th March to 25 per cent., while the Swiss franc had risen nearly 40 per cent. against the dollar since 23rd January. On a trade-weighted basis, the average depreciation of the dollar against the currencies of its main trading partners since the float began was 9 per cent. — despite the fact that the exchange rates against its two largest trading partners, Canada and Japan, had not changed. This was about the same order of change as the Smithsonian and February 1973 devaluations. Reflecting the chaotic currency situation, the price of gold had risen to a peak of \$127 an ounce, nearly double the end-1972 level and 50 per cent. above the point at which it had stood in March.

At their regular BIS monthly meeting in July, the central-bank Governors issued a statement noting that arrangements were in place for official intervention to restore a more orderly market situation. Even in the market it was generally believed that the decline of the dollar had gone well below its equilibrium zone. Hence, a strong recovery of the dollar began, which was reinforced by an increase in the Federal Reserve swap network at this time from \$11.7 to nearly 18 milliard. At the same time, market intervention on a limited scale was initiated by the Federal Reserve and the Bundesbank, for a total of some \$600 million by the end of the month. It was not, however, until near the end of July, when German money-market conditions were eased, that the new trend in the exchange market was given a firm basis. It was assisted in this by some tightening of the US money market, as well as by the announcement of a further US foreign trade surplus for June.

Thus, the second phase of floating rates was initiated, extending from early July 1973 to late January 1974. By mid-August the dollar had recovered about half of the ground lost during May–July, the Federal Reserve's July swap drawings had been repaid and from then on markets were relatively calm until mid-September. At that point the Dutch authorities, partly as an anti-inflationary measure, revalued the guilder by 5 per cent. The effects of this were primarily felt inside the EEC, where there was a large movement out of the French franc into Deutsche Mark and Belgian francs; but the recovery of the dollar, too, was temporarily interrupted. By the end of the month, however, with the aid of further central-bank intervention — in which the Bank of France used over a third of its reserves in foreign exchange — together with restrictive measures by France and Belgium, the situation had been brought under control without any further changes in EEC exchange rates.

From end-September until late January, with the exception of a brief period following the outbreak of the Middle East war, the recovery of the dollar gathered strength. During October two factors gave the dollar a powerful boost. Firstly, there was the accumulating evidence of a strong recovery in the US balance of payments. The foreign trade surplus reached the high figure of $800 million for September and continued to be substantial for several months thereafter. Secondly, and more indirectly, sentiment about the dollar relative to other currencies was strengthened by the new oil situation. The market reaction to this was that the United States, despite the oil embargo placed on it by the Arab oil-producing countries, was in a better situation than Europe or Japan to withstand both the internal and external effects of the OPEC countries' actions owing to its lesser dependence on oil imports.

By late January the weighted average rate of exchange of the dollar against its main trading partners had appreciated from the July low point by nearly 17 per cent., almost twice the earlier decline. This not only reversed the May–July 1973 fall but wiped out most of the February 1973 devaluation. The dollar, in fact, was almost back to its immediate post-Smithsonian level on an overall view, though not in relation to each of its main trading partners individually. Among those currencies which had appreciated most up to July 1973, the Deutsche Mark and the Swiss franc reached low points in January against the dollar which were more than 20 per cent. below the previous peaks. In addition, the yen, which from mid-March to end-October 1973 had been held at 265 to the dollar, was subsequently allowed to depreciate to a rate of 300 in January. Also in January, what was left of fixed exchange rates shrank further when the French authorities decided to leave the European snake and to allow the franc to float against all currencies. This step was taken to protect France's foreign exchange reserves against the strains on the balance of payments that were likely in the light of the higher prices of oil imports.

The third phase of exchange rate movements began in late January, with the dollar again depreciating and most European currencies appreciating. A number of factors were involved in this reversal. So far as the dollar is concerned, it began to be felt at the end of January that the rise in exchange rates had been overdone. The market had seen by then that the impact of extra oil costs on the US balance of payments would be rather substantial and in addition there was a prospect of capital outflows from the United States following the removal of the controls. While in the first instance both these factors were primarily psychological, the US banks did step up their foreign lending from February onwards and the extra cost of oil did push the trade balance back into deficit in March. Despite the rise of domestic interest rates near the end of the quarter, the dollar continued to weaken in April and May, with political uncertainties again having a depressive effect.

On the side of other currencies, the immediate effect of the new oil situation had been tempered by the relatively mild winter, by the natural effect of higher prices on demand and by some administrative measures to reduce oil consumption. In addition, there was some easing in market prices for oil. Moreover, the removal of US capital export controls had been followed by the easing of controls on capital inflows in a number of other countries. These included Germany, where the trade surplus expanded further in the early months of 1974, leading to market expectations of a possible further revaluation of the Deutsche Mark — which was soon recommended by German economic research institutes.

The combination of these factors produced a kind of replay of the events of May–July 1973. The Deutsche Mark and the Swiss franc rose vis-à-vis the dollar by a little over 20 per cent. from their January 1974 low points, almost reaching the high points touched in early July 1973; the dollar itself, against the trade-weighted average of its main partner currencies, depreciated by some 9 per cent. from its January high. The gold price, which in late November 1973 had fallen back about one-third from its July peak, was affected by a new speculative buying wave in early 1974, reaching $185 per ounce at one point near the end of February before settling down in the $160–170 range. While the rise in the market price of gold was partly related to the downward movement of the dollar, it came to an end much sooner and was also linked to anticipations of possible bullion purchases by oil-producing countries as well as to increasing distrust of currencies in general.

In summary, three major swings of the pendulum have taken place in dollar exchange rates in the space of a year; in the EEC fixed exchange rate area there were two periods of major strain, the Deutsche Mark and the guilder were revalued yet again and, with the decision to float the French franc in January 1974, Germany was the only one of the four major EEC countries still left in the European snake; and the market price of gold fluctuated more wildly than ever around a rising trend, ending up in May 1974 around the $160 level. In late May 1974 the dollar's weighted exchange rate vis-à-vis its main trading partners was within 2½ per cent. of where it had stood when the floating began, while the US current balance of payments had improved substantially. On the other hand, in Germany and Italy, whose currencies had respectively appreciated by 13 per cent. and depreciated by 14.5 per cent. on a trade-weighted basis, the disequilibria in the current balances of payments had increased since early 1973.

The circumstances of the past year no doubt partly explain the disturbances on exchange markets. Firstly, general floating started at a time of large payments imbalances and after all confidence in the prevailing rates of exchange had been eroded. Secondly, the accelerating rate of inflation was another factor acting against confidence and exchange stability. Thirdly, the huge increase in oil prices and anticipations of the impact it would have on payments positions added a new element of uncertainty. However floating rates might have behaved under less disturbed conditions, it is evident that since March 1973 the market has not been able to form a view of what the approximate underlying equilibrium rates of exchange might be. Hence, the market was often influenced by short-term psychological sentiment which was not counteracted by a build-up of stabilising foreign exchange positions by banks and foreign exchange dealers because of the large risks involved.

Despite the vagaries of exchange movements, the volume of international trade continued to expand. This happened under conditions of a very strong sellers' market and does not indicate what might be the trade effects of floating rates under less exceptional conditions. The trade balance of the United States improved and that of Japan deteriorated, as would be expected from the relative changes in their exchange rates from the pre-Smithsonian levels. For Germany, on the other hand, the trade surplus reached new record highs, even though the Deutsche Mark underwent a huge total revaluation.

An evident benefit of floating to some central banks, in particular those that were previously subject to large speculative money inflows, was that they have no longer been obliged to expand domestic money supply by purchasing foreign exchange at rates declared in advance to the market. In other words, the authorities did not present the same sitting target for attack as they did formerly. Of course, those inflows were not simply a consequence of exchange rates being fixed. They were due rather to the maintenance of unrealistic fixed rates in situations of major disequilibrium.

However, many central banks have not felt themselves relieved of all burden of exchange-market intervention, for one reason or another. Mention has already been made of the relatively moderate amounts expended in this way by the US and German authorities in the chaotic conditions of July last year. Similar operations were carried out, in less hectic situations, later in the year and early in 1974. More importantly, however, some countries with payments imbalances have not been willing to accept the depreciation of their currencies that pure market forces would have brought about. To prevent this happening, Italy, the United Kingdom and Japan intervened with milliards of dollars in the exchange market. In the case of Japan the purpose was to allow the previous abnormal inflow of funds to be reversed without a decline in the exchange value of the yen which would have stopped the adjustment of the external surplus. For the United Kingdom and Italy, which were in deficit, the objective was to give more time for the adjustment process to work itself out, without excessive deterioration in the terms of trade and aggravation of the inflationary spiral.

While inflation contributed to the instability of exchange rates, it is also the case that floating rates were a factor in the acceleration of inflation. For currencies which floated down, the effect of higher prices of imports was a direct inflationary impulse. But the large swings in rates had a wider influence on the inflationary atmosphere in that they contributed to lack of confidence in money and a growing preference for a wide variety of real assets. Hence, the first year's experience with floating rates showed that, on balance, they complicated the problem of attaining and maintaining monetary stability.

International monetary reform.

The Committee of Twenty was established by the Board of Governors of the IMF in July 1972 with a mandate to prepare proposals for a reform of the international monetary system and related issues. At that time, of course, the system was operating under the realignment of exchange rates instituted by the Smithsonian agreement of December 1971, which hopefully gave a reasonable basis for the formulation of reform proposals. After the authorities were obliged to accept generally floating exchange rates in March 1973, however, it was evident that the problem of reform had become much more difficult. Nonetheless, when the Committee received a first draft outline of reform from its Deputies in September 1973, it optimistically set a deadline of July 1974 for reaching agreement on the issues involved. But in January 1974 the Committee felt obliged to postpone the deadline in the light of the confused outlook for international payments brought about by the large rise in oil prices.

As previously intended, the Committee is to complete its work this summer; but it will confine itself to submitting a broad conception of a new monetary system, in the form of a revision of last year's outline, together with recommendations for action on a few interim measures.

While the Committee's change of plan in January was triggered by the oil crisis, the state of its prior discussions had not been such as to hold out great promise that agreement on a workable system would soon be reached. The main features of reform being discussed, about which there were various views, were the following: an effective and symmetrical adjustment process, including better functioning of the exchange rate system; co-operation in dealing with disequilibrating capital flows; an appropriate degree and form of convertibility, with symmetrical obligations on all countries; better international management of global liquidity; consistency between arrangements for adjustment, convertibility and global liquidity; and the promotion of the flow of real resources to developing countries.

The fundamental question concerned the nature of the reformed exchange rate régime. On this subject the Committee, meeting at Ministerial level in March 1973 just after the rather widespread adoption of floating rates, had laid down that "in the reformed system the exchange rate régime should remain based on stable but adjustable par values", adding that "floating rates could provide a useful technique in particular situations". On the face of it this implied a par value system on something like the Bretton Woods model, but with the excess rigidities removed. It appeared, however, that there was not uniformity of view between countries as to the relative importance of the stability of rates and their adjustability. Hence, this basic issue was somewhat blurred.

The three pillars of the proposed new system were to be an improved adjustment process, currency convertibility and the management of global liquidity. As to how these aims were to be achieved, the Committee's discussions revealed major differences of opinion, mainly between the United States and a number of European countries; nor was it evident that the principal proposals for change in these three areas would restore a situation in which exchange rate stability was the rule rather than the exception.

The main proposal for the improvement of the adjustment process came from the United States. This was that increases or decreases in the level of a country's official reserves beyond agreed points should be used as an objective indicator of significant disequilibrium in its balance of payments, and would call for examination by the IMF. "Disproportionate" changes would be taken to indicate that there was an objective need for adjustment, with the country or countries involved being called on by the Fund to take corrective action. Countries would decide on their own adjustment policies, although the Fund would be able to apply "graduated pressures" on them to adjust if their imbalances persisted long enough.

The basic objective of the US proposal was to assure rapid adjustment of imbalances so that the restoration of stable exchange rates and convertibility in the new system would not founder because of a persistent drain on a deficit country's reserves. In addition, it sought to secure the co-operation of both surplus and deficit countries in the adjustment process and thereby to reduce political obstacles to it. There was a question, however, of whether the objective indicator idea would be operational in practice. When a country was approaching the point at which its reserve level "objectively" indicated an adjustment need, the facts would be known to the market. It could therefore have brought on the anticipated adjustment, in a disorderly way only too familiar from the latter days of the Bretton Woods system.

In any case, other major countries found other difficulties with the proposal. They believed that, although it purported to leave countries free to choose their own adjustment policies, in practice it would be likely to produce rather frequent, and sometimes unnecessary, changes in exchange rates. Some of them also felt that, because of their smaller size and of the emphasis laid by the United States on the contribution of surplus countries to a better adjustment process, the onus of adjustment would fall on them rather than on the United States. More generally, they felt that the adjustment process should not proceed mechanistically, on the basis of reserve movements alone, but that each case of payments disequilibrium was necessarily a matter for judgement, in which other considerations would need to be taken into account. Eventually a compromise formula was reached on this question, under which the need for adjustment would be a matter for "assessment" by a Committee of the Fund, with "major importance" being attached to disproportionate reserve movements.

While the United States saw a mandatory adjustment process as the key element in monetary reform, many European countries emphasised the importance of restoring and maintaining currency convertibility. In their view the cause of the breakdown of the Bretton Woods system had been the progressive abandonment of dollar convertibility and the consequent excessive accumulation of dollars in other countries' reserves. They therefore proposed that in the reformed system countries should be obliged — except for working balances — to present for conversion any foreign exchange purchased by their monetary authorities in the market. The United States (and other reserve centres) were to be protected from the consequences of the presentation for conversion of "old" exchange reserves by the establishment at the IMF of a substitution facility, from which they could purchase reserve assets to the extent that conversions of their currencies exceeded their official payments deficit incurred during a given period.

The United States did not find this proposal acceptable as it believed that any countries which wanted to add dollars to their reserves should remain free to do so. The idea of mandatory convertibility was also open to the difficulty that it would introduce into the system an element of compulsion and rigidity that would appear to complicate the maintenance of exchange rate stability.

The third element of reform was to be management of global liquidity. This was seen as coming about through the SDR being made the principal reserve asset of the system, with the rôle of gold and reserve currencies being reduced. Like the proposal for mandatory currency convertibility, the idea that the growth of global reserves ought to be directly managed is linked to the belief that their uncontrolled growth had been an important factor in the collapse of the Bretton Woods system. This view overlooks the fact that the excessive growth of reserves did not just happen but was the natural outcome of allowing fundamental disequilibrium in the system to persist over many years. Hence, it looks to a symptom rather than a cause of the Bretton Woods breakdown. Also underlying the aim of managing the level of global reserves is the notion that it is possible to determine objectively how much reserve growth the system is going to need. In practice such a variety of situations can arise over any given period of time that for such estimates to turn out right would require a lot of luck. Flexibility in the provision of reserves will always be needed if countries are to be able to defend the exchange rate structure when it comes under pressure.

In addition to these difficulties relating to the concept of global reserve management, the discussions showed that there would be problems involved in actually carrying it out. On its negative aspect, the reduction of the reserve rôle of gold and currencies, there were some quite marked differences of view in the Committee. As regards gold, the United States and some other countries were strongly opposed to a large rise in the official price; a number of important countries, however, believed it was desirable that some active use be made of the substantial amounts of gold held in reserves. It was that belief which led the Finance Ministers of the Common Market to favour, in April 1974, the idea of official gold transactions at market-related prices. As regards currency reserves, which in practice means mainly dollar reserves, it is true that a good many countries expressed strong opposition to their continued growth. Nevertheless, the dollar still remains today the most active reserve element, just as it was under the Bretton Woods system — and for the same reasons of convenience. Any plan for drastically reducing the dollar's rôle would have to take account of that.

The positive aspect of the proposal for global reserve management, i.e. that SDR allocations be the main instrument of reserve growth, also presented problems. Apart from the question of rigidity already mentioned, these essentially come down to reconciling this aim with the fiduciary nature of the SDR. For the SDR to be the principal reserve asset of the system, its use by countries in payments deficit would have to be regarded, both by the creditor countries and by the markets, not as something akin to drawing on a credit line, as is the case with ordinary Fund drawing rights, but as on all fours with the use of gold or currency reserves. This could be a difficult conception for surplus countries to accept as the volume of SDRs grew larger and larger.

Complicating the problems encountered by the Committee in its discussion of particular aspects of reform were certain general ideas which coloured its approach to the whole subject. One of these was the notion that the new monetary system ought to be symmetrical, with no member of it enjoying advantages denied to others. This view, the most obvious manifestation of which was the proposal to reduce the rôle of the dollar in the system, sometimes led to "fairness" rather than workability being made the touchstone of a proposal's acceptability. In addition, there was the idea that the system ought to be a managed one. Over the past decade there has been no lack of attempts at international monetary co-operation and compromise; while these efforts have certain things to their credit, it is not easy to say that the experience has been encouraging for the advocates of managing the whole monetary system. Lastly, and most fundamentally, there was the view that the Committee's job was not just to see which of the Fund's Articles could usefully be changed but to create a whole new system and to anticipate how it would function. This was a more ambitious approach than the one that led to the creation of the IMF. At Bretton Woods the negotiators had limited themselves to setting out certain basic objectives, establishing a few rules of good conduct and providing credit lines for countries to draw on in case of need. Had they tried to draw up a complete blue-print of the system, the post-war world as it actually developed would certainly not have fitted their scheme of things. This time, the coming of the oil crisis showed that the plan of reform was insufficient to meet the new situation even before it could be agreed upon.

From this point of view, it may be said that the decision in January 1974 to proceed with monetary reform as an evolutionary process, though it appeared to some as a retrograde step taken simply under the pressure of events, will prove helpful in the difficult task of regaining exchange rate stability.

As far as the first steps in that evolutionary process are concerned, at its January 1974 meeting the Committee of Twenty was able to agree on two points that are expected to figure among its recommendations to the Fund's Board of Governors. The first of these concerned the establishment, between the Board of Governors and the Board of Executive Directors, of a new Council of Governors with a structure similar to that of the Committee of Twenty. The Council would be a decision-making body, with responsibility for managing and adapting the monetary system and overseeing the introduction of monetary reform. As such a body cannot be set up without amending the Fund's Articles, it was further agreed to recommend that an interim committee be created with the same composition as the proposed Council and with advisory functions in the same areas. It is envisaged that the interim committee should exercise surveillance over both the adjustment process and the evolution of international liquidity.

The second point on which the Committee of Twenty agreed in January concerned the valuation of the SDR. The existing valuation in terms of gold had come, in conjunction with the present official price of gold in terms of currencies, to mean that countries were almost as reluctant to use their SDRs as they were to part with their gold reserves. In order to enable the SDRs to be used under the present conditions of widespread floating exchange rates, the Committee agreed that it would be desirable, for an interim period, to base their valuation on a "basket" of major currencies. Work on this proposal is now proceeding in the Fund. Other areas in which the Committee is discussing the possibility of recommendations to the Fund Board of Governors include the establishment of guide-lines for countries' exchange rate policies during periods of floating and the question of the flow of real resources to developing countries, particularly those which are importers of oil.

II. DEVELOPMENTS AND POLICIES IN INDIVIDUAL COUNTRIES.

This chapter describes the changing pattern of problems and policies in individual countries: the United States, Canada, Japan, those of western and eastern Europe, South Africa, Australia and New Zealand.

United States. The economic upswing, propelled by the strong expansionary policies continuing in force throughout most of 1972, reached its zenith in the first quarter of 1973, when real gross national product was 8 per cent. up over twelve months and 13 per cent. up over two years. Thereafter output continued to rise until the autumn months, but at a gradually declining pace. To a considerable extent the slow-down reflected the emergence of supply constraints as resource utilisation became more intense. Unemployment declined from 5.0 per cent. in the first quarter to 4.6 per cent. in October, with labour shortages becoming evident. More important, utilisation rates of plant capacity in major basic materials industries reached a record 96 per cent. in the third quarter. The value of unfilled orders for durable goods rose by fully one-third over the year.

The strains on productive capacity, accentuated by the world commodity boom and the further devaluation of the dollar, brought upward pressure on the US price level. The price regulations imposed under the Economic Stabilization Act were not very effective in these circumstances, even though the wages aspect of the policy was not subjected to serious challenge. The guide-line for wage settlements, both under the second policy phase from November 1971 to January 1973 and under the third phase that succeeded it, was 6.2 per cent. per annum including fringe benefits. In the event, first-year pay increases under new contracts in 1973 averaged less than 6 per cent., the lowest figure for several years; and in the fifteen months ending March 1974 hourly earnings rose at an annual rate of 6 per cent. By contrast, consumer prices in December 1973 were nearly 9 per cent. and food prices alone 20 per cent. higher than twelve months before; and in the first quarter of 1974 the overall index advanced at a rate of 13 per cent. per annum, while the rise in wholesale prices was almost double that figure.

Prices of primary agricultural commodities and of exports and imports were throughout exempt from direct regulation; but during 1973 the authorities sought by various means to increase the availability not only of foodstuffs but of metals, timber and petroleum coming onto the US market. The most important steps were the enlargement of import quotas for foodstuffs, temporary export restrictions on some agricultural products and also on scrap iron, sales from government stockpiles and liberalisation of petroleum imports. In addition, action was taken to phase out agricultural support payments aimed at discouraging production.

Apart from these measures, the ups and downs of control policy affected the pattern of month-to-month price increases. The main landmarks last year were the imposition of price ceilings on mineral-oil products and meat in March 1973; the requirement as from May that large companies give advance notification of price increases of more than 1.5 per cent. over the January level; a two-month freeze on all retail and wholesale prices from mid-June to mid-August (though the health and food sectors were exempted after one month); and the introduction thereafter of a fourth phase, which generally stiffened earlier price restrictions while at the same time providing for the removal of controls in selected areas. The new price restrictions were more severe, particularly in that they permitted only absolute and not percentage mark-ups to be maintained as costs rose. Controls were first abolished mainly in industries producing basic materials which were in excess demand and liable to be diverted into exports if home-market prices were held down, such as fertilisers, some non-ferrous metals and timber. More generally, the gradual approach to decontrol anticipated the expiry of the government's price-control authority at the end of April 1974, by which time fiscal and monetary restraint, it was hoped, would have brought an easing of demand pressures.

As regards fiscal policy, Federal Government outlays on goods and services declined in real terms by 6 per cent. between 1972 and 1973; and while transfer payments rose substantially, tax accruals were larger than forecast. As a result the Federal budget, which on a national accounts basis had recorded deficits of $22.2 and 15.9 milliard in 1971 and 1972, was in balance by the second quarter of 1973 and in moderate surplus thereafter. State and local governments showed a sizable surplus for the second year running — $10.5 milliard, compared with $13.1 milliard in 1972 — as higher spending was almost matched by increases in tax revenue and Federal grants-in-aid.

On the monetary side, the emphasis in efforts to curb credit expansion was placed on raising the cost of credit rather than restricting its availability. The object was to slow down the growth of demand without causing a severe credit "crunch" of the 1966 or 1969 variety. The rise in short-term interest rates and in member-bank borrowings from the Federal Reserve, under way since the spring of 1972, quickened over the year-end. Heavy credit demands in the first quarter of 1973 were associated not only with the domestic boom but with the flight from the dollar in February and March. The Federal Reserve discount rate, after remaining unchanged at 4½ per cent. throughout 1972, was raised in two steps to 5½ per cent. In March member-bank borrowings topped $1.8 milliard, an increase of $1.3 milliard in six months, while the Federal funds rate reached 7 per cent.

In April the Committee on Interest and Dividends issued guide-lines for a system of dual prime lending rates: the market-adjusted prime rate would apply as before to large corporations, while small businesses and farms would benefit from a lower, administered rate. This prepared the way for a more definite tightening of monetary policy. In mid-May the Federal Reserve Board suspended altogether the Regulation Q interest rate ceilings on large certificates of deposit (those on large CDs at less than 90 days had already been lifted in June 1970) and raised from 5 to 8 per cent. the reserve requirement against any increase in banks' resources resulting from issues of such certificates and of bank-related commercial paper. These changes facilitated the removal of discrimination against the banks' foreign borrowings, reserve requirements on which were lowered from 20 to 8 per cent. The 8 per cent. requirement was also extended to finance paper, a previously exempt category. And from July reserve requirements on most demand deposits were raised by ½ percentage point.

These moves further strengthened the tendency towards higher interest rates. Five more increases in the discount rate took it to 7½ per cent. in mid-August, while short-term market yields rose even more, by about 3 percentage points between March and August. Credit continued to expand rapidly, however, with the banks reducing their holdings of government securities and also competing vigorously for funds through the issue of CDs. Market rates came to a peak in September, with the banks' prime rate at 10 per cent., Federal funds at almost 11 per cent., and the CD rate even going somewhat above this level. In consequence, the authorities raised in September the marginal reserve requirement on increases in large CDs since mid-May from 8 to 11 per cent. As shown in the following table, total credit expansion was exceptionally large in the twelve months to the middle of 1973, amounting as a

United States: Uses and sources of credit-market funds.[1]

Items	1969	1970	1971	1972 1st half	1972 2nd half	1973 1st half	1973 2nd half	1974 1st quarter
	adjusted annual rates, in milliards of dollars							
Demand for funds								
US Government securities	− 3.6	12.8	25.5	12.4	22.2	17.0	2.5	6.8
Corporate and foreign bonds	13.0	20.6	19.7	14.4	12.0	10.6	12.7	19.4
State and local-government securities	9.9	11.3	16.6	12.0	11.9	6.5	13.6	10.9
Mortgages	27.7	25.7	46.8	60.9	73.7	74.6	71.4	54.7
Consumer credit	10.4	6.0	11.2	15.8	22.5	24.7	20.4	8.2
Bank loans	15.3	6.4	9.3	14.5	29.3	54.2	29.2	45.3
Other	15.3	9.8	5.9	4.7	6.2	4.7	19.8	19.1
Total[2]	88.0	92.6	135.0	134.7	177.8	192.3	169.6	164.4
Met directly by								
Federal Government	2.9	2.8	3.2	1.5	3.1	1.0	5.1	1.6
Federal Reserve	4.2	5.0	8.8	4.5	− 4.1	11.8	6.7	2.5
Commercial banks	18.2	35.1	50.6	57.2	82.4	101.3	77.8	80.8
Other financial institutions	36.7	39.9	60.9	73.2	87.7	83.5	60.2	68.6
Private non-financial sector	26.3	− 0.5	−14.9	− 7.9	− 1.9	−16.8	26.7	9.7
Foreign sector	− 0.3	10.3	26.4	6.2	10.6	11.5	− 6.9	1.2
Total	88.0	92.6	135.0	134.7	177.8	192.3	169.6	164.4
Corresponding changes *in financial assets*								
Money (M_1)	7.7	10.5	13.0	14.5	18.7	10.3	13.6	2.9
Time and savings deposits	− 2.3	56.1	81.2	88.8	82.6	98.8	60.9	93.0
Credit-market claims	82.6	26.0	40.8	31.4	76.5	83.2	95.1	68.5
Total	88.0	92.6	135.0	134.7	177.8	192.3	169.6	164.4
[1] Does not include equity issues by non-financial business, which amounted to	3.4	4.9	11.7	10.5	9.5	5.7	5.8	0.7
Total net flows, including equities	91.4	97.5	146.7	145.2	187.3	198.0	175.4	165.1
Total, as percentage of GNP	*9.8*	*10.0*	*13.9*	*12.9*	*15.8*	*15.7*	*13.3*	*12.2*

[2] Excludes funds raised by US Government-sponsored credit agencies for re-lending purposes.

proportion of the nominal gross national product to 15.8 per cent., against only 9.8 per cent. in the restraint year 1969.

By the autumn, however, high market rates were significantly depressing the inflow of funds to mortgage institutions. Despite increased support from banks and from the Federal agencies, residential investment outlays, after nearly two years on a high plateau, fell in real terms by 12 per cent. between the third and fourth quarters. The annual rate of private housing starts dropped from 2.3 million in the first half of 1973 to 1.6 million in the period October 1973–March 1974. As to other demand components, combined public-sector spending on goods and services declined fractionally after mid-1973. Consumer outlays continued to rise until the autumn, chiefly because of higher spending on services. Purchases of durables had declined from the first quarter onwards; while this is partly explained by industry's inability to meet orders, some tapering-off in demand was also to be anticipated after the preceding upsurge of 30 per cent. in two years. In the fourth quarter the oil crisis led to a much sharper drop in automobile sales, and total expenditure on durables fell by 6 per cent., the immediate impact on economic activity being cushioned by a build-up of car inventories. The only elements of final demand that continued to expand were business fixed investment and exports, the former spurred by capacity shortages and improved corporate earnings, as well as by the fiscal incentives for investment dating from 1971, and the latter by dollar devaluation and the scramble for primary commodities.

Production duly turned down in the closing months of 1973, with industrial output falling by 2.7 per cent. from November to March. Two-thirds of the decline occurred in the automobile and public-utility sectors and was thus directly attributable to the oil problem. Unemployment went up from 4.6 per cent. in October to 5.2 per cent. in January–February. Real gross national product at an adjusted annual rate declined sharply by 6.3 per cent. in the first quarter of 1974.

The Federal budget estimates for 1974–75, presented in early February, were based on the assumption of a moderate recovery in output after mid-year, led by business investment and government purchases of goods and services. The GNP increase for 1974 over 1973 was projected at 8 per cent. in nominal and 1 per cent. in real terms. This is well below the economy's long-run potential and implies a rising trend of unemployment through the year. However, as in 1973, the unemployment figure may exaggerate the available margin of slack. Various basic materials remain in short supply and, in addition, the economy has to adapt itself to the new energy situation. In some areas this can be accomplished fairly quickly — in the car industry, for instance, a shift towards smaller models should facilitate a revival of consumer buying later in the year. But in the energy sector itself horizons are more distant. Project Independence, launched in November 1973, aims at making the United States self-sufficient in fuel by 1980. Until this goal has been brought nearer, the supply of energy will remain subject to uncertainty. A further source of concern is, of course, the rate of inflation. Disposable real wages declined by about 4½ per cent. in the twelve months ending March 1974, partly because of the lack of productivity gains in this phase of the cycle. While productivity gains may quicken in the period ahead, so may the increase in money wages, as workers endeavour to catch up with price rises and as more extensive wage indexation arrangements come into effect. In this situation the authorities have been reluctant to stimulate demand, and the new Federal budget, despite higher purchases of goods and services, will be barely expansionary. The projected deficit of $9.4 milliard for 1974–75 compares with an estimate of $4.7 milliard (revised down from $12.7 milliard) for 1973–74 and is equivalent to a full-employment surplus of $8 milliard.

Monetary policy has been similarly cautious. The trend towards tighter money was halted in the early autumn of 1973 when credit expansion appeared to be slowing down; but, contrary to market expectations, no significant relaxation followed. With the Federal funds rate holding stable, short-term market rates retreated by 1¼ percentage points in October, but rose again towards the year-end. The prime rate went back to 10 per cent. after a brief spell at 9½ per cent. With the growth of bank credit apparently more moderate, the authorities reduced the marginal reserve requirement on increases in large CDs from 11 per cent. back to 8 per cent.

A repeat performance took place in the first four months of 1974. Hints of an easier monetary policy led market yields to decline initially and some banks announced a prime rate as low as 8½ per cent. at the beginning of March. A sharp reversal followed, however, and the prime rate began to climb again. In January–April 1974 business loans by large commercial banks, which had expanded by 18 per cent. in each of the two preceding years, continued to increase almost as fast as before. Long-term interest rates, which had risen very gently through 1973, showed a stronger upward movement, the yield on triple-A corporate bonds reaching 8.3 per cent. in April, compared with 7.7 per cent. at the start of the year. After a two-year lull, issues by corporations and State and local governments picked up considerably.

The balance-of-payments surplus and the appreciation of the dollar on the exchange markets in the autumn of 1973 had led the authorities to terminate, after more than a decade, controls on US capital outflows. At the end of January 1974 the interest equalisation tax was reduced to zero and all limits were removed on loans and investments abroad by US banks and businesses. In subsequent months rising interest rates in the Euro-currency market were accompanied by a substantial increase in US bank lending abroad, a weakening of the dollar on the exchanges and a renewed rise in US interest rates. In the spring, with prices and bank loan demand again speeding up, the monetary authorities reaffirmed their determination to keep policy on a restrictive course. In April the official discount rate was raised to 8 per cent. and the banks' prime lending rate moved up by late May to 11½ per cent.

Canada. During 1973 the Canadian economy moved with unexpected speed towards full capacity operation, and policy shifted to a less expansionary stance. Both domestic and foreign demand were vigorous. Personal consumption accelerated further as sales of new cars, other durables and semi-durables all grew at rapid rates. These sales were to a certain extent linked to housing investments, as a record number of dwelling starts were registered for the third year in a row. Business investment rose by some 12 per cent. in real terms during 1973 under the influence of fiscal stimulus from faster write-offs. Expenditure by the government sector on goods and services accelerated slightly. While merchandise exports grew at 8 per cent. in volume terms during the year, their prices were moving ahead in step with the world-wide commodity price boom. Consequently an even larger growth of import volume did not cause a deterioration in the trade balance.

Total employment, a recurrent source of concern, recorded the fastest growth in twenty-five years. The unemployment rate dropped noticeably and the degree of plant capacity utilisation rose to 95 per cent. — comparable with earlier peak levels. The consumer price level advanced by 9 per cent. from end-1972 to end-1973, largely under the impact of food prices. Wage settlements also involved an average increase of 9 per cent., with a trend towards tying future increases to consumer price developments appearing in major contracts negotiated late in the year.

Canada: Total funds raised by major sectors.

Sectors	1969	1970	1971	1972	1973
	in milliards of Canadian dollars				
Non-financial business . . .	4.2	3.2	5.3	4.7	6.7
Consumers	1.3	0.7	1.4	2.2	2.6
Mortgage borrowers	1.7	1.5	2.5	4.0	6.0
Provinces and municipalities	2.2	2.3	2.9	3.5	3.1
Total	9.4	7.7	12.1	14.4	18.4
Government of Canada . . .	0.3	2.0	3.0	1.6	− 0.1
Grand total	9.7	9.7	15.1	16.0	18.3
As percentage of GNP . . .	*12.2*	*11.3*	*16.2*	*15.5*	*15.4*

The Federal Government's budget for 1973 reflected a continuing and, as it turned out, excessive concern over the still high level of unemployment. Personal and corporate income taxes were cut and a two-year write-off period was introduced for industrial plant and equipment. Certain indirect taxes were reduced and old-age pensions were increased. Consequently net Federal Government expenditure was expected to increase by over Can. \$0.5 milliard, or about ½ per cent. of gross national product. Of longer-run significance was the commitment to adjust personal income-tax brackets and exemptions regularly from 1974 onwards for the effects of inflation on income.

Monetary policy showed more flexibility in shifting towards a less expansionary stance. In the period April–September 1973 Bank rate was raised in five steps from 4¾ to 7¼ per cent. In April discussions were held with the chartered banks with the object of bringing about a moderation, though not a drastic curtailment, in the rate of growth of their loans. The aim was to achieve this moderation with a minimum of impact on small business borrowers, on lending in less rapidly growing regions of the country and on mortgage lending. In conjunction with these moves, commercial-bank liquidity was put under additional pressure by restricting the supply of cash reserves. A countervailing concern, however, was that the Canadian dollar might become a magnet for international capital flows. Consequently, movements in domestic short-term interest rates were, where possible, so influenced that they would rise more slowly than corresponding rates abroad, particularly in the United States. From time to time this required an easing of the restrictive cash reserve policy.

Against this background and in the context of very strong demand for credit, the commercial banks' total major assets grew during 1973 by 17 per cent., compared with 15 per cent. in the previous year. The pace of bank lending to business remained high throughout 1973, although this partly reflected considerable switching by corporate borrowers from commercial paper to bank sources after mid-year under the influence of changing interest rate differentials. Personal loans registered an increase of over 20 per cent. for the third successive year, and the banks' mortgage credits outstanding increased by over one-third. Only the banks' holdings of liquid assets — primarily Government of Canada obligations — grew more slowly during 1973 than in the preceding year, increasing by just 3 per cent.

The corresponding increases in chartered bank deposits, when combined with currency growth, implied a broadly-defined money stock increase in 1973 of 15 per cent., or about the same as in 1972. Currency and demand deposits, on the other hand, decelerated under the influence of sharp increases in short-term interest rates. The rate of growth of this monetary aggregate — now viewed by the Canadian monetary authorities as the more meaningful indicator of the impact of monetary policy — was reduced by half to an annual rate of 8 per cent. during the second half of 1973.

Total funds raised by domestic borrowers other than the Government of Canada increased by nearly 30 per cent. in 1973, the flow being particularly strong in the case of non-financial business and mortgage borrowers. The developing surge in business investment, including inventories, was a strong stimulus to the demand for funds. The major supplier of credit here was the banking system, partly on account of the somewhat depressed conditions in stock and bond markets. As regards mortgage credit, the Canadian experience was in sharp contrast to that in the United States during 1973. The deposit-taking institutions principally involved in mortgage finance were able to operate on the basis of narrower interest rate spreads than had traditionally been observed in Canada. They were consequently better able to maintain their share of the flow of savings during a period of rapidly rising interest rates. Central-bank encouragement of mortgage lending by the chartered banks was a second significant factor in supporting the mortgage market. Funds raised by the various levels of government, on the other hand, declined during 1973. At Federal level, a combination of funds derived from market sales of foreign exchange and declining domestic working balances permitted a marginal decline in outstanding debt. At the provincial and municipal level as well there was some net use of previously accumulated financial assets.

A substantial increase in interest rates occurred in 1973 under the influence of rate movements abroad, strong domestic credit demand, and a less expansionary monetary policy. While policy was not so tight that Canadian interest rates rose to the levels witnessed in the United States, even so short-term paper rates were 5 percentage points higher at year-end than at the beginning of 1973. Chartered-bank lending rates for large-scale borrowers moved up by 3½ percentage points. In the longer-term bond markets interest rates advanced by some ¾ percentage point during the year.

In the spring of 1974 the strength of aggregate demand and the pressure on prices continued unabated. Business investment moved strongly ahead under the influence of the need for new capacity, high rates of profits during 1973 and new projects in the energy field. Housing starts and new car sales showed little sign of a slow-down. Exports were still responding to the surge in international commodity prices. In these circumstances, with consumer prices accelerating further, restrictive demand policies continued to be appropriate. Prompted by rising interest rates abroad and intense credit demand at home, the Bank of Canada raised its discount rate in two steps in April and May from 7¼ to 8¾ per cent.

The banking system: Monetary survey.

Countries	Years	Annual changes in main assets			Annual changes in main liabilities		Rate of change in		
		Net foreign assets	Domestic credit to public sector	Domestic credit to private sector	Money	Other liquid liabilities	domestic credit[1]	money and other liquid liabilities[1]	nominal GNP[2]
		in milliards of national currency units					in percentages		
Austria	1972	7.30	4.87	42.29	17.71	24.06	18.6	16.2	15.4
	1973	− 1.14	15.60	25.98	8.57	30.74	13.8	13.1	14.6
Belgium	1972	16.30	46.20	66.00	61.30	96.30	18.3	17.5	11.6
	1973	7.20	45.10	53.90	38.10	114.10	13.6	14.4	13.4
Canada	1972	− 0.37[3]	0.39	5.67	2.82	2.05	18.2	12.9	10.7
	1973[4]	0.20[3]	0.11	6.96	2.04	4.65	18.2	15.9	14.8
Denmark	1972	1.69	2.30	9.48	7.29	4.01	18.7	18.9	13.7
	1973[5]	2.40	0.57	10.63	6.40	5.55	15.0	16.5	17.5
Finland[6]	1972	812	− 272	3,260	981	2,561	13.8	16.0	16.0
	1973	− 462	−2,468	6,146	1,151	3,014	14.9	16.2	19.6
France	1972	6.51	− 2.30	76.12	39.33	38.27	18.5	18.6	11.4
	1973	− 7.43	− 8.69	73.09	29.69	44.31	13.6	15.0	13.7
Germany	1972	8.66	10.26	78.22	17.78	40.07	15.2	12.8	9.2
	1973	26.68	10.59	54.63	3.56	32.27	9.7	7.0	11.6
Italy	1972	− 676	4,114	7,360	9,396	3,401	20.5	22.9	9.1
	1973[5]	− 693[7]	6,169	10,875	10,195	3,668	27.2	22.4	17.0
Japan	1972	1,483	736	18,323	6,833	9,809	25.2	24.7	14.4
	1973	−3,100	− 473	16,700	5,785	8,363	17.1	16.8	24.5
Netherlands	1972	3.71	0.17	7.10	5.26	3.93	12.9	14.8	13.8
	1973	1.78	− 1.42	13.14	− 0.06	11.30	18.4	15.8	13.6
Norway	1972	1.03	1.95	4.49	3.12	3.62	13.0	12.8	9.0
	1973	0.08	2.08	5.21	3.45	4.62	13.0	13.6	13.1
Spain	1972	61.88	24.56	455.03	226.05	337.26	20.6	23.3	17.7
	1973	63.20	7.78	701.12	262.76	453.88	25.2	24.1	20.5
Sweden	1972	2.97	1.10	5.75	1.46	6.21	9.9	12.6	8.9
	1973	5.75	1.37	7.29	2.13	8.31	11.4	15.3	10.3
Switzerland	1972	2.01[8]	1.62	12.17	2.91	6.66	11.5	7.8	15.2
	1973	0.52[8]	2.57	10.68	− 0.09	7.38	9.9	5.5	12.9
United Kingdom[6]	1972	− 835	1,033	5,714	1,569	4,135	25.6	27.8	10.2
	1973	− 634	2,139	6,170	646	6,540	25.1	27.4	14.0
United States	1972	0.20[3]	13.10	61.50	18.60	39.70	13.0	11.5	9.5
	1973	1.20[3]	14.00	73.30	17.50	48.70	13.4	11.7	11.6

[1] December to December. [2] Year to year. [3] Monetary authorities only. [4] Monetary data, third quarter to third quarter. [5] Monetary data, November to November. [6] In millions of national currency units. [7] Estimate. [8] National Bank only.

Japan. The economic upswing last year was particularly fast and the overheating which developed had a spectacular impact on both inflation and imports. Although output growth had been very rapid since the autumn of 1972, concern with reducing the external payments surplus precluded a decisive shift to monetary restraint until early 1973 when the yen was floated. By then the boom had a strong momentum and the cushion of liquidity that had been built up delayed the impact of credit restraint. With output growth slowing down from the summer onwards as the economy increasingly ran into bottlenecks and shortages, real gross national product rose by 11 per cent. for the year as a whole — by no means a record for Japan. But with spending increasingly reflected in higher prices, the GNP price deflator came to 12.1 per cent., against 5.0 per cent. in 1972.

Last year the major expansionary impetus came from a 19 per cent. rise in real private equipment investment, which had been sluggish for the previous two years, and from a continuing boom in housing. Government spending, reflecting a new emphasis on social benefits and infrastructure, had led the recovery in 1972, and the budget for the year ending March 1974 provided for a further large rise in outlays. Steps were taken from May onwards to postpone some public investments but government spending remained an expansionary force. Personal consumption also showed a further strong advance. Stock accumulation was very large in the first half of the year but subsequently slowed down as policy restraint began to take hold.

To the problems of overheating were added towards the end of the year those arising from oil developments. Imports of oil were a higher proportion both of total imports and of total energy requirements in Japan than in any other industrialised country. Moreover, the economy was geared to a very rapid rate of increase in energy consumption. The threat of oil shortages and the temporary rationing of energy supplies added to the supply difficulties already being experienced in the economy and set off a wave of speculative buying.

With a sharp acceleration towards the end of the year, wholesale prices, which for many years previously had shown very little increase, rose by 29 per cent. in 1973, while the rise in consumer prices came to 19 per cent. Part of the rise reflected higher prices for raw-material and energy imports, compounded late in the year by the depreciation of the yen. But most of it seems to have been due to overstrain in the domestic economy.

In these circumstances, monetary policy was tightened progressively during the year. Quantitative limits on the increase in bank lending under the "window guidance" system, reintroduced in January, were extended in April to cover local banks and mutual savings banks, the major institutions lending to small business, and were made progressively more restrictive quarter by quarter. This action was reinforced by five successive increases in banks' compulsory reserve requirements. As a result the coefficients, which vary according to the type of liability and the level of deposits at each bank, were brought up from a maximum of 1½ per cent. in early January 1973 to one of 4¼ per cent. in January 1974. After passing through a trough towards the end of 1972 money-market rates commenced a steep upward climb which the Bank of Japan encouraged by raising its basic discount rate, first from

4¼ to 5 per cent. in April, then to 7 per cent. in three stages in May, July and August. In December the rate was raised further to 9 per cent.

Under the influence of these measures there was a marked slow-down in bank lending from the spring onwards. For the year as a whole the increase came to 16.6 per cent., compared with 25.6 per cent. in 1972. With the help of a sharp turn-round in the external accounts, the twelve-month growth rate of the money supply, broadly defined, was brought down by December 1973 to 16.0 per cent. from 28.5 per cent. in November 1972. This increase compares with a rise in nominal gross national product of 25.8 per cent. between the fourth quarters of 1972 and 1973. The tightening was also reflected in a general sharp rise in interest rates during 1973, and especially towards the end of the year. By March 1974 call-money rates, at around 12 per cent., were 7 percentage points higher than a year earlier, while over the same period bond yields had risen by 4–5 percentage points.

The impact of credit restraint can be clearly seen in the financial position of corporations. Reflecting the higher level of investment, this sector had a larger financial deficit last year but received much less new bank credit. Although it raised

Japan: Changes in financial assets and liabilities.

Items	Years	Corporate sector	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 (—)	1971	— 4,130	7,530	830	—2,230			—2,000
	1972	— 6,180	10,580	720	—3,080			—2,040
	1973	— 6,875	9,920	1,510	—4,585			30
Corresponding changes in financial assets and liabilities								
Money and time deposits	1971	8,220	8,185	—1,820	255	— 10,755	—4,085	
	1972	7,440	13,905	—2,630	275	— 12,830	—6,160	
	1973	4,440	15,665	—3,050	360	— 8,845	—8,570	
Insurance and trust claims	1971	375	2,590	— 475	10	5	—2,505	
	1972	665	3,160	— 610	5	10	—3,230	
	1973	445	3,440	— 790	10	95	—3,210	
Securities (net)	1971	— 635	1,705	385	—1,370	— 840	815	380
	1972	— 625	1,240	—1,040	—1,525	330	2,210	210
	1973	— 780	1,660	70	—1,960	1,050	400	— 190
Loans	1971	— 13,620	—3,825	2,490	—1,130	9,530	6,555	
	1972	— 16,180	—5,375	3,010	—1,745	11,035	9,255	
	1973	— 15,160	—8,670	5,090	—2,810	6,950	14,600	
Official reserves	1971							—3,775
	1972							— 915
	1973							1,645
Other foreign claims (net)	1971	— 740	20	175	5	— 760	25	1,395
	1972	10	50	190	5	800	85	—1,335
	1973	990	20	255	5	— 20	80	—1,425
Miscellaneous transactions[2]	1971	2,270	—1,145	75	—	2,820	— 805	
	1972	2,510	—2,400	1,800	— 95	655	—2,160	
	1973	3,180	—2,495	— 65	— 190	770	—3,300	

[1] A negative sign represents an increase in Japan's claims (or a decrease in Japan's liabilities) vis-à-vis the rest of the world. [2] Including trade credit and statistical discrepancies.

more funds on the security market, the sector added substantially less to its liquid assets. Public enterprises and local authorities experienced a similar development, although their financial position was cushioned by an increase in lending from the government. The personal sector had a smaller surplus, largely because of the rise in expenditure on housing, but at the same time sharply increased its borrowing and continued to accumulate liquid assets. An interesting feature of the year was the strong growth in deposits and lending of the non-bank financial institutions, contrasting sharply with developments in the banking sector. With its revenues buoyant, the central government's financial surplus approximately doubled, enabling it to increase its lending to other sectors while reducing its net recourse to security issues. This reduction more than offset the increased call on this market by other issuers. Finally, Japan's large current-account surplus vis-à-vis the rest of the world in 1972 changed into small deficit in 1973, with much of the decline in official foreign exchange reserves having a counterpart in increased investment abroad by the corporate sector.

By early 1974 the authorities were giving clear priority to efforts to check inflation, accepting that these might cause the growth of output during the year to fall well below the economy's potential. The government's budget for the year ending March 1975 provided for a marked slow-down in the rate of growth of spending, particularly on investment account, and for increases in taxes, notably on corporate profits and dividends. The quantitative limits on the increase in lending by financial institutions were made much more restrictive in respect of the first and second quarters of 1974, while in February the banks were requested to curtail severely their lending to wholesale and retail trade, to industrial enterprises which appeared to be holding excess stocks, and for purchases of land. Moreover, the government adopted administrative measures first to restrain corporate investment and also to limit increases in the prices of key commodities and consumer goods. At the end of March Parliament approved a 10 per cent. surcharge on corporate profits in excess of certain limits.

In the spring there were signs that speculative pressures had eased and that a cooling-down in the economy was beginning to get under way.

United Kingdom. After about two years of expansion, economic activity in Britain tapered off in the second half of 1973 as capacity limitations began to be felt. During the growth phase the policy emphasis had been primarily on fiscal stimulus, with monetary policy playing largely an accommodative rôle. Taxes were considerably reduced, raising public-sector borrowing requirements to £2.1 milliard in 1972 and £4.2 milliard in 1973. In both years about half the deficit was financed by debt sales to private non-bank holders. At the same time, bank lending to the private sector, excluding lending in foreign currencies for investment overseas, rose sharply by £5.7 milliard in 1972 and by £6.2 milliard in 1973. To some extent these increases reflected a re-intermediation of lending via the banking system following the abolition of quantitative credit ceilings. Domestic credit expansion, which in 1971 had totalled £1.1 milliard, thus jumped to £6.9 milliard in 1972 and to £8.7 milliard in 1973.

United Kingdom: Domestic credit expansion.

Items	1969	1970	1971	1972	1973
	in millions of £ sterling				
Public-sector borrowing requirement[1]	— 475	—	1,380	2,055	4,200
Net sales of public-sector debt to non-bank private sector (—)	— 345	— 115	—2,105	—1,025	—2,050
Bank lending to private sector[2]	530	1,125	1,580	5,720	6,155
Bank lending in sterling overseas	150	25	295	135	390
Domestic credit expansion	— 140	1,035	1,150	6,885	8,695

[1] The difference between the public sector's financial deficit (see table on page 51) and its net borrowing requirement is accounted for by loans of various kinds, refinancing of export credits and until 1971 transactions in import deposits. [2] Excluding lending in foreign currencies for investment overseas.

The economic upswing which resulted was led by consumers' expenditure, especially on cars and other durables, and by private house-building. Business and public-sector capital outlays remained sluggish in real terms during 1971 and 1972, but a long-awaited upturn began in the first half of 1973. Seasonally adjusted, public-sector consumption rose moderately throughout. Exports of goods and services also increased substantially in the early part of 1973, after being level for over eighteen months; the real gain over the two-year period from the first half of 1971 to the first half of 1973 was about 12½ per cent., similar to that of private consumption and slightly less than that of private fixed investment. Imports, however, rose by around 20 per cent., nearly twice as much as total final expenditure. As a result, the increase in real gross domestic product worked out at 9 per cent. over two years.

The slow-down after mid-year was partly influenced by accidents of timing, some consumer outlays being shifted into the early months of 1973 to anticipate the introduction of value added tax in April. It also reflected the dislocations caused by the oil situation and the miners' pay dispute in November and December. The basic factor, however, was the rapid disappearance of slack in the economy. Unemployment declined month by month and in December 1973 stood at 500,000, or 2.2 per cent., seasonally adjusted, compared with a peak of over 900,000 in March 1972. Shortages of skilled labour and materials were widely reported. Vacancies in December totalled more than 460,000, a figure nearly as high as the number of unemployed and three times the total two years before. Moreover, the rise in employment was much larger than the fall in registered unemployment, as more workers, especially women working part-time, rejoined the labour force. The employment increase was also greater than expected in relation to the growth of output and disappointed earlier hopes of a rise in overall productivity. Nearly all the new employment was in various service trades, reflecting the dominant rôle of consumption demand in the upswing.

The expansion of domestic demand and progressive tightening of supply conditions boosted imports and held back the improvement in export performance. On top of that, however, the terms of trade deteriorated by some 20 per cent. between mid-1972 and December 1973. This was mainly due to the steep rise in world commodity prices but also to the effective depreciation of sterling by 13 per cent. over the same period. In view of the large adverse shift in the terms of trade, one might have expected a more favourable adjustment of trade volumes, although allowance must be made for time lags. In order to help bridge over the adjustment period, special measures were employed to limit the depreciation of sterling. These included the provision of exchange-cover facilities on borrowing overseas by public-sector bodies, the renewal of sterling guarantee agreements and an easing of regulations governing private borrowing of foreign currency for use in the United Kingdom.

In addition, monetary policy was geared to maintaining an internationally competitive level of interest rates. Declining short-term yields during the spring of 1973, when yields overseas were rising, led to a substantial fall in the sterling exchange rate in the early summer, so in mid-July the Bank of England announced a rise in the banks' special deposit ratio from 3 to 4 per cent., withdrawing about £260 million of liquidity. At the same time, regulations governing the asset portfolio of the discount houses were modified, relieving the houses of their obligation to hold at least 50 per cent. of their assets in short and medium-term public-sector debt and imposing instead a maximum ratio of non-public-sector debt to capital resources. Interest rates then rose sharply and the Bank of England's minimum lending rate was put up in two steps from 7½ to 11½ per cent.

The high level of market rates had some unwelcome implications at home. In September the mortgage rate for new borrowers was raised to 11 per cent. (having already risen from 8½ to 10 per cent. in earlier months), despite a move on the part of the authorities to shield the building societies by limiting to 9½ per cent. the interest on bank deposits of less than £10,000. The banks were also requested to restrain lending for purposes of consumption, property development and financial transactions, so as to ensure availability of credit for exports and industrial investment. The undesirability of allowing customers to use overdraft facilities for the purpose of investing in higher-yielding money-market instruments was also stressed.

In the autumn, with signs of resource strains becoming stronger and cost pressures still increasing, the trade deficit worsened and the rate of price inflation crept up to 10 per cent. A further shift of financial policy towards restraint could no longer be postponed. In mid-November the Bank of England's minimum lending rate was raised from 11¼ to 13 per cent. and the banks were asked for another 2 per cent. of special deposits. A month later, when in the context of the miners' dispute and a national power crisis industry was temporarily put on a three-day working week, restrictions were reimposed on hire-purchase and similar credit facilities. Also, a new form of special deposits was introduced, related to the future growth of banks' interest-bearing liabilities and designed to limit the growth of the money supply broadly defined, partly by encouraging the banks to restrict the money-market arbitrage transactions mentioned above. The initial objective was to keep the increase in these liabilities to not more than 8 per cent. over six months, starting from the fourth-quarter average. A bank or finance house exceeding the target will be required to make special deposits on a steeply rising scale (progressing to 50 per cent. of any excess over 3 per cent.) as from July 1974. In view of this new arrangement, half the previous 2 per cent. call for special deposits was cancelled.

On the fiscal side, a cut of £1,200 million (about 2 per cent. of gross domestic product) was announced in public expenditure for 1974–75, to be achieved by a 20 per cent. reduction in capital spending (except for the energy industries and public-sector

United Kingdom: Saving, investment and changes in financial assets and liabilities.

Items	Years	Public sector	Overseas sector[1]	Persons	Industrial and commercial companies	Banks	Other financial institutions
		In millions of £ sterling					
Saving plus net capital transfers	1971	4,339		2,822	4,008	449	
	1972	3,093		3,479	4,949	535	
	1973	2,775		4,664	6,580	1,134	
Gross domestic capital formation (—)	1971	−4,588		−2,030	−4,036	−524	
	1972	−4,674		−2,731	−4,198	−592	
	1973	−5,732		−3,195	−7,208	−943	
Financial surplus or deficit (—)	1971	−249	−1,067[2]	792	−28	−75	
	1972	−1,581	−69[2]	748	751	−57	
	1973	−2,957	1,527[2]	1,469	−628	191	
Corresponding changes in financial assets and liabilities[3]							
Bank lending	1971	442	−2,228	−576	−730	3,511	−419
	1972	−589	−7,489	−1,927	−2,988	14,025	−1,032
	1973	−1,782	−12,595	−1,027	−4,302	20,543	−837
Notes and coin and bank deposits	1971	−204	3,359	1,153	993	−5,482	181
	1972	−498	7,462	2,013	2,288	−12,183	918
	1973	−444	13,877	3,519	2,607	−20,584	1,025
Total currency flow	1971	3,228	−3,228				
	1972	−1,265	1,265				
	1973	210	−210				
Overseas loans and investments	1971	319	77		−360		−36
	1972	486	−570		87		−3
	1973	351	−285		−102		36
Marketable government debt	1971	−3,703	472	470	−1	1,383	1,379
	1972	981	327	5	−20	−1,713	420
	1973	−1,234	−267	820	−9	7	683
Non-marketable government debt	1971	−171	−28	395	−184	−16	4
	1972	−362	—	467	−76	−21	−8
	1973	68	—	48	−67	−41	−8
Local-authority debt	1971	−654	83	−232	25	772	6
	1972	−423	149	−82	125	31	200
	1973	−1,214	308	329	164	21	392
Claims on other financial institutions[4]	1971		54	4,189	47		−4,290
	1972		−111	4,840	45		−4,774
	1973		51	4,955	75		−5,081
Shares and securities[5]	1971	79	74	−1,223	6	155	909
	1972	12	−525	−855	−132	115	1,385
	1973	8	175	−1,287	475	295	334
Other domestic loans[6]	1971	260		−2,039	−184	89	1,874
	1972	143		−2,941	−18	350	2,466
	1973	953		−2,854	−921	297	2,525
Unidentified	1971	155	298	−1,345	360	−95	
	1972	−66	−577	−772	1,440	−233	
	1973	127	473	−3,034	1,452	584	

[1] A negative figure indicates an increase in UK claims (or a decrease in UK liabilities) vis-à-vis the overseas sector. [2] Balance of goods and services, plus (in 1973) capital transfer payments under the Sterling Agreements. [3] A minus sign represents a decrease in assets or an increase in liabilities. [4] Net inflow to life assurance and pension funds and deposits with other financial institutions. [5] Including transactions in unit trust units. [6] Mainly loans for house purchase.

Source: Bank of England.

house-building) and a 10 per cent. reduction in current outlays other than staff costs. A 10 per cent. surcharge was imposed on surtax for 1972–73 and capital gains from land or buildings with development value were made subject to income tax or full corporation tax rates.

The restrictions on industrial working hours lasted until early March and reduced real gross domestic product in the first quarter by 3½ per cent. from the fourth quarter level. Expenditure fell by less, because guaranteed pay arrangements and unemployment benefits helped to maintain personal incomes. Inventories must therefore have declined substantially, but the further deterioration in the trade balance was fully accounted for by the higher oil bill.

Apart from the miners, fairly widespread assent was given to the third phase of the Conservative government's prices and incomes policy, which came into force in November. Whereas Phase II in April 1973 had limited pay settlements to 8 per cent. on an annual basis, Phase III permitted increases of around 10 per cent. taking into account bonuses for efficiency and "unsocial working hours". It also included a threshold clause sanctioning additional increases of up to 40p a week (approximately 1 per cent. before tax) if the rise in the retail price index should reach 7 per cent. within twelve months starting from October 1973, plus another 40p for each percentage point rise beyond that. The terms of this clause may have underrated the delayed impact of sterling depreciation on industrial costs and clearly did not reckon with either the continued upsurge in primary commodity prices or, above all, the jump in oil prices. Under the new norms pay settlements covering about one-third of the labour force (7–8 million employees) were concluded before the general election at the end of February 1974.

In his March budget following the election, the new Labour Chancellor decided in view of the prevailing uncertainties to leave the balance of policy little changed and indicated the possibility of another budget later in the year. Increases in direct and indirect taxation were calculated to yield about £1,380 million per annum, and national insurance contributions, especially those paid by employers, were substantially raised. In addition, major price increases were announced for several nationalised industries (electricity, coal, rail and the post office), designed to reduce Exchequer support to these industries in 1974–75 to £500 million from the £1,400 million which it might otherwise have reached. Steel prices were also raised by 25 per cent. On the other hand, higher pensions were to cost an extra £1,240 million per annum, additional food subsidies £500 million and increased housing expenditure £200 million. Altogether, the public-sector borrowing requirement for 1974–75 was projected at £2,733 million, some £1,500 million less than the outturn for 1973–74. This budget judgement was influenced by the balance-of-payments position and by the desirability of reducing the government's credit demands. The increase in real gross domestic product from the second half of 1973 to the second half of 1974, relying to a very large extent on stock-building, was projected at 2½ per cent., implying a lessened strain on resources. To help finance the external deficit the government arranged to borrow $2.5 milliard for ten years from the Euro-currency market.

As regards the price/wage spiral, the miners' dispute was settled outside the terms of Phase III with a pay award of nearly 30 per cent. The Labour government's intention was to replace existing guide-lines in due course with a system of voluntary wage restraint as part of a "social contract" with the trade unions. In this context the budget, besides increasing pensions and food subsidies, slanted income-tax increases towards the higher income brackets, closed various tax loop-holes and announced a forthcoming gift tax as well as plans for a tax on personal wealth. Already before the budget housing rents had been frozen for the remainder of 1974. In addition, the previous government's Industrial Relations Act was to be repealed, and the legal rights of trade unions strengthened. Meanwhile, the threshold clause remains in operation until the autumn. It was activated for the first time in May, when retail prices rose above the threshold figure of 7 per cent. to stand 9.8 per cent. above the October 1973 level.

The escalation of industrial costs, coupled with continuing strict control of domestic prices, worsened the outlook for company profits and liquidity and suggested that investment plans might be cut back. But in 1973, at least, profits had risen at a much faster rate than gross domestic product at current prices. In the circumstances domestic financial markets reacted adversely to the budget statement, especially to the higher national insurance contributions and a projected increase of over £420 million in corporation tax payments for 1974–75, which mainly reflected an advance in tax dates. The personal sector was also affected by the rise in income tax reducing the post-tax yield on fixed-interest securities, and by the ending of tax relief on personal interest payments on loans other than for house purchase, which meant a substantial jump in the cost of credit. The yield on long-dated government stocks, which had climbed steadily from 9.6 per cent. in February 1973 to 13.5 per cent. a year later, jumped to nearly 15 per cent. in March. And the equity market fell back sharply for a time, receding to its level of six years earlier, or to 50 per cent. below the all-time high, before recovery set in.

The banks' special deposit ratio had already been reduced from 5 to 4½ per cent. in early February to help offset the effects of an unexpectedly large seasonal Exchequer surplus. To reassure the markets and encourage some reduction in interest rates, which were high by international as well as domestic standards, the ratio was lowered by three further steps in April to 3 per cent. Short-term rates eased, enabling the Bank of England to lower its minimum lending rates in stages to 11¾ per cent. The government also offered building societies a special loan of £500 million to forestall a further rise in the mortgage rate. During the first three months of 1974 the money supply, broadly defined, grew at an adjusted annual rate of 16 per cent., against a rise of about 29 per cent. during 1973.

Germany. In the eighteen months to the first quarter of 1974 German merchandise exports increased in volume by over 30 per cent. and in value by 50 per cent. Export orders rose even faster, thus building up a sizable backlog. While this upsurge initially reflected the trend of world demand, its continuation must be ascribed not only to the supply bottlenecks and labour disputes which affected some other industrial countries but also to the success of the country's anti-inflationary efforts. The result was that more productive capacity became available for exports, thus strengthening industry's ability to compete on deliveries and helping it to overcome the impact of successive Deutsche Mark revaluations. Anticipation of exchange rate changes at times provided an additional spur to foreign buyers.

The early stages of the export boom were followed by a brief spurt in plant and equipment outlays; and with other components of demand, notably house-building, also moving ahead, real gross national product rose from the third quarter of 1972 to the first quarter of 1973 at an annual rate of 12 per cent. The labour market became tighter and wages showed signs of accelerating. Credit policy accordingly turned to restraint during the winter of 1972–73, with increases in the official discount rate and cuts in rediscount quotas, buttressed by the controls on capital inflows that had been introduced earlier. Moreover, the 1973 budget presented in February provided for a wide-ranging set of restraint measures, including a temporary surcharge on income tax, a reduction in investment incentives, an increase in the mineral-oil tax and a government stabilisation loan.

Following the currency upheaval in February–March, monetary policy took on a new look. First, the decision to revalue the Deutsche Mark by another 3 per cent. and then allow it to float in concert with other European currencies greatly strengthened the defences against capital inflows. Secondly, liquidity-absorbing measures had by the end of March reduced the free reserves of the banking system to negligible proportions. In recent years the growing efficiency of domestic and international money markets had meant that such reserves were no longer needed by the banks for operational purposes and therefore ceased to function as a reliable fulcrum for monetary control. Accordingly, the authorities took steps to hasten their disappearance and since the spring of 1973 the immediate focus of policy has been on the control of the supply of central-bank money.

Policies of restraint were intensified in subsequent months. In May–June the Bundesbank raised its discount rate in two steps to 7 per cent. and suspended until further notice the granting of secured advances to the banks. In addition, the government announced a major tightening of fiscal policy, calculated together with the February measures, and as a primary effect only, to reduce domestic demand in the twelve months to mid-1974 by DM 15 milliard (about 1½ per cent. of gross national product). On the tax side the 10 per cent. surcharge on corporation tax and on income tax in the high-income brackets was extended to middle-range incomes; accelerated depreciation allowances, abolished previously for buildings, were also withdrawn temporarily for plant and equipment expenditure; tax concessions on new owner-occupied dwellings were suspended; and a tax of basically 11 per cent. was introduced (for a maximum of two years) on all business fixed investment. As regards Federal Government spending, some capital outlays were postponed for a year and all non-mandatory expenditure was cut by 5 per cent., and the Länder governments were requested to take similar action. Also, to facilitate credit restraint, increases in revenue in excess of original estimates were to be used to reduce public-sector borrowing needs by up to DM 5.5 milliard, any remainder being sterilised at the Bundesbank, together with substantial liquid reserves of the social security fund and the proceeds of successive tranches of the government stabilisation loan announced in February.

These initiatives brought a sharp rise in long-term as well as short-term interest rates, the yield on government bonds climbing from 8.5 per cent. in March to 10 per cent. at mid-year. In the circumstances, capital inflows increased once again and in June exchange restrictions were tightened. Nonetheless, with exports continuing to forge ahead, and speculative flows of funds still getting through, the authorities revalued the Deutsche Mark again towards the end of June, this time by 5.5 per cent. Even after this change inward movements of capital remained a source of concern for several more months and prompted new exchange measures.

After the middle of the year monetary policy aimed at maintaining the degree of restraint already achieved. With banks operating practically on the basis of zero free reserves, the authorities found it useful from time to time to employ new techniques of intervention for ironing out transient liquidity shortages and excesses in the money market. The Bundesbank, continuing a practice begun in April, gave assistance at moments of acute tightness by taking bills from the banks for ten-day periods, outside rediscount quotas, at interest rates varying between 11 and 16 per cent. At other times undue liquidity in the market was absorbed by supplying the banks with five and ten-day Treasury paper. In October the utilisation ceiling for rediscount quotas (previously fixed at 60 per cent.) was reduced to 45 per cent. for large and 55 per cent. for medium-sized banks; and minimum reserve ratios for domestic sight and time liabilities were raised by 3 per cent. of their September 1973 level. From late November, special secured advances were made available on an overnight basis.

Restrictive policies had a pronounced impact both on credit flows and on the tempo of the economy. Expansion of bank lending to domestic non-banks (including the public sector), which in the two years before March 1973 had been running at an annual rate of more than 14.5 per cent., moderated in the following twelve months to 8.3 per cent. Over the same period the money supply levelled off, but the stock of money plus quasi-money did not slow down as much, because rising interest rates led to a large build-up of time deposits at the expense not only of sight but also of savings deposits. High yields similarly continued to attract substantial sums into fixed-interest securities, particularly after mid-1973. Mortgage institutions tended to lose out in the competition for funds; but, at the same time, demand for mortgage credit was weakened by the removal of tax concessions and the appearance of excess supply in the housing market. The public sector's cash deficit was cut from DM 13.2 milliard in 1972 to DM 3.5 milliard in 1973, mainly because of the turn-round on anti-cyclical tax items from net repayments of DM 5.6 milliard to net receipts of DM 2 milliard. However, partly because the public sector (excluding the social security funds) had to place an additional DM 4.3 milliard of sterilised funds with the Bundesbank in 1973 as part of the stabilisation programme, the amount raised by that sector on the credit markets came to DM 14.5 milliard, or almost as much as in 1972. The social security funds sterilised an additional DM 4.5 milliard by increasing their holdings of Bundesbank money-market paper. The corporate sector's financial balance, on the other hand, deteriorated considerably, as accelerating costs and a slow-down in total sales coincided with increased tax payments on past profits. Companies did not step up their bank borrowings, but preferred to trim their investment outlays and draw on liquid assets. Altogether, non-financial sectors raised DM 122.8 milliard on the credit markets in 1973, equivalent to 13.3 per cent. of gross national product, compared with 14.9 per cent. in 1972.

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

Items	Years	Private households	Housing	Enterprises	Public sector	Foreign countries[1]	Credit institutions[2]	Other financial institutions[3]
		in milliards of Deutsche Mark						
Net saving plus capital transfers	1971	56.60	8.25	24.45	28.80		6.10	0.85
	1972	65.45	5.65	25.55	24.00		6.45	1.05
	1973	67.20	− 0.05	27.75	39.55		8.05	0.65
Net investment (—).	1971	.	−32.10	−61.80	−27.05		− 1.65	− 0.90
	1972	.	−40.10	−57.80	−25.65		− 1.75	− 1.05
	1973	.	−42.55	−60.95	−26.15		− 1.70	− 1.55
Financial surplus or deficit	1971	56.60	−23.85	−37.35	1.75	− 1.55[4]	4.45	− 0.05
	1972	65.45	−34.45	−32.25	− 1.65	− 1.85[4]	4.70	0.00
	1973	67.20	−42.60	−33.20	13.40	−10.30[4]	6.35	− 0.90
Corresponding changes in financial assets or liabilities[5]								
Money, time and savings deposits	1971	38.35	0.25	17.50	8.95	3.60	−72.70	4.15
	1972	46.80	0.30	24.15	6.00	1.60	−82.60	3.80
	1973	37.80	− 0.10	15.45	13.10	3.45	−71.95	2.25
Claims on non-bank financial institutions	1971	15.20		1.80	0.15	0.05	0.10	−17.35
	1972	18.40		2.25	0.20	0.05	0.10	−21.05
	1973	20.35		3.15	0.20	0.05	0.15	−23.95
Money-market paper	1971	—		0.55	− 0.55	− 0.50	0.50	—
	1972	—		− 0.55	− 0.20	0.15	0.60	—
	1973	0.50		1.25	4.90	− 1.05	− 5.75	0.15
Bonds and shares: Purchases	1971	8.80		3.10	2.70	2.75	6.80	3.40
	1972	8.35		2.05	1.75	12.70	8.15	4.35
	1973	12.20		3.20	1.65	6.55	4.35	3.95
Sales.	1971		− 0.05	− 8.45	− 1.95	− 0.85	−16.15	− 0.10
	1972		− 0.20	− 6.15	− 4.60	1.65	−27.95	− 0.20
	1973		− 0.10	− 4.10	− 2.05	− 1.95	−23.55	− 0.15
Bank credit	1971	− 5.25	−16.15	−36.65	−10.60	− 0.95	70.10	− 0.50
	1972	− 7.40	−24.25	−46.85	−10.35	− 1.15	90.60	− 0.60
	1973	− 2.95	−26.70	−27.80	−13.95	− 6.55	77.55	0.40
Other loans	1971	− 0.40	− 6.75	− 2.65	− 0.55			10.35
	1972	− 0.55	− 8.90	− 3.45	− 0.80			13.70
	1973	− 0.70	−14.00	− 1.00	− 0.75			16.45
Other claims and liabilities .	1971	− 0.10	− 1.15	−12.55	3.60	10.15		
	1972	− 0.15	− 1.40	− 3.70	6.35	− 1.05		
	1973	—	− 1.70	−23.35	10.30	14.75		
Gold and foreign exchange .	1971					−15.80	15.80	
	1972					−15.80	15.80	
	1973					−25.55	25.55	

[1] A negative figure signifies an increase in Germany's claims (or a decrease in Germany's liabilities) vis-à-vis foreign countries. [2] Including the central bank. [3] Building and loan associations and insurance sector. [4] Net foreign investment (i.e. balance of goods and services). [5] A minus sign represents a decrease in assets or an increase in liabilities.

Domestic components of demand other than public consumption declined in real terms after the first quarter of 1973, mildly in the case of private consumption and plant and equipment expenditures, steeply in the case of construction. Despite the upward trend of exports, real gross national product remained more or less level in the following twelve months, and the labour market gradually eased. Unemployment seasonally adjusted rose from 220,000 in the first quarter to 355,000

(1.6 per cent. of active employees) in the fourth, while vacancies declined from 610,000 to less than 500,000. The price/wage spiral, however, speeded up. By the end of 1973 consumer prices had risen by 7.8 per cent. in twelve months, compared with 6.3 per cent. the year before. Hourly wage rates were up by nearly 11 per cent., compared with 8 per cent. in 1972, and earnings by 12.8 per cent. against 10.2 per cent.

Although inflation remained strong, the easing of demand tensions in certain sectors led the authorities to relax some of their restrictive policies on a selective basis from November 1973 onwards. Earlier arrangements to postpone government outlays on community projects were wholly or partly cancelled. The 11 per cent. investment tax was lifted, and accelerated depreciation allowances on plant and equipment outlays restored, as were tax concessions on the construction of owner-occupied dwellings. In addition, the government announced that it would grant interest subsidies for the building of 50,000 public-assisted dwellings, and also activate expenditure programmes to help small and medium-sized businesses, especially in the clothing and construction sectors.

Otherwise, the surcharge on income tax remained in effect and monetary policy continued to be broadly restrictive despite some policy adjustments prompted mainly by external considerations. In late November the Bundesbank raised the utilisation ceiling on banks' rediscount quotas by 15 per cent.; and in January it released DM 4.5 milliard of bank reserves by abolishing the 60 per cent. minimum reserve on the growth of bank liabilities to non-residents and by reducing other reserve requirements. Subsequently, many of the controls on capital inflows were removed or relaxed; in particular, the Bardepot requirement on non-bank borrowing abroad was reduced.

In the early months of 1974 domestic orders revived and export orders continued to move ahead. For the time being, however, industrial production levelled off. On the labour market, adjusted unemployment rose above vacancies, and there was a steep increase in short-time working, notably in the car industry. Despite this, and despite the fact that there was no further acceleration of consumer prices, union pay demands were stepped up. Basic awards of 11 per cent. became the pattern for the new wage round. In this situation, and with the government budget expected to be more expansionary in the period ahead, the authorities decided to maintain the restrictive stance of credit policy. Long-term interest rates, which had eased somewhat in the latter part of 1973, began to move up once more and the yield on government bonds exceeded 10 per cent. from March onwards despite a pause in new issues. Towards the end of May the Bundesbank reduced the permissible utilisation ratio for rediscount quotas by 25 per cent. in order to help offset the liquidity effects of previous inflows of funds from abroad and to some extent also of recent support operations on the bond market.

France. Following a very mild slow-down the economy was again on an expansionary course from the summer of 1972 onwards, so that by the beginning of last year an acceleration of inflation was the chief preoccupation. The policies then in force included strict control over the rise in government spending and restraint of monetary expansion. In particular, credit institutions which increased their lending beyond certain specified limits — 19 and 17 per cent. for the twelve-month periods ending March and June 1973 respectively — were made subject to special supplementary reserve requirements. Moreover, the government had taken direct action on prices, including cuts in value added tax at the beginning of the year. In the spring it prolonged its contractual arrangements directed at limiting rises in the prices of industrial products.

Under the influence of these measures monetary expansion slackened and the rise in consumer prices temporarily slowed down. But with the economy highly liquid, consumer spending on durable goods and housing activity remained buoyant, while enterprises' equipment investment expanded markedly. With foreign demand for French exports also rising well, industrial production continued to expand vigorously until the summer, when bottlenecks and shortages of skilled labour began to impede its further advance. Hourly wage rates accelerated to show a rise of 16 per cent. during the year, compared with one of 12 per cent. in 1972. As, in addition, prices of food products and imported goods were rising rapidly, consumer prices soon resumed a steep upward course. The norms for credit expansion were tightened during the summer so as to bring the authorised twelve-month growth rate back to 13 per cent. by the end of the year. In addition, steps were taken in July to restrict consumer and mortgage credit. At the same time, the government announced the bringing-forward from December to October of the scheduled payment date for some Fr.fr. 3.5 milliard of company tax liabilities.

France: Uses and sources of credit.

Items	1968	1969	1970	1971	1972	1973
	in milliards of French francs					
Uses						
Official international reserves	− 15.7	− 9.4	13.7	17.8	6.5	− 7.4
Public sector[1]	5.8	5.9	7.2	8.3	11.8	12.5
Enterprises	39.5	35.6	58.7	66.3	81.5	83.2
Housing	17.3	21.1	21.1	27.4	39.2	42.5
Individuals	1.7	0.1	0.5	4.3	6.5	0.9
Other uses	9.5	6.8	− 2.5	0.9	10.9	24.8
Total	58.1	59.2	98.7	125.0	156.4	156.5
Sources						
Banking system	.	.	52.4	64.7	84.3	88.8
Specialised financial institutions and Treasury	.	.	31.6	40.5	50.7	46.1
Insurance companies	.	.	2.8	3.8	3.4	3.6
Capital market	.	.	11.9	16.0	18.0	18.0
Total	58.1	59.2	98.7	125.0	156.4	156.5
Corresponding changes in financial assets						
Money	15.8	0.8	23.5	27.8	39.3	29.7
Liquid saving	22.6	31.8	39.3	57.8	60.0	68.3
Securities[2]	3.7	7.7	10.5	16.4	11.4	14.0
Treasury claims[3]	− 2.8	2.0	10.1	2.2	12.5	9.7
Other claims	18.7	17.0	15.3	20.8	33.2	34.8
Total	58.1	59.2	98.7	125.0	156.4	156.5
Total, as percentage of GNP	*9.2*	*8.1*	*12.2*	*13.9*	*15.6*	*13.7*

[1] Excluding the Treasury. [2] Taken up by enterprises and individuals. [3] Equals Treasury surplus.
Source: Bank of France.

In the money market official intervention rates were kept fairly stable until late June. Thereafter, with the dollar recovering and interest rates abroad going up, the authorities encouraged a rise in domestic rates. Signalling the change of policy, the Bank of France's discount rate was raised from 7½ to 9½ per cent. in two stages in July and August. The advance in money-market rates steepened when the French franc came under pressure in September and to help protect the foreign exchange reserves the official discount rate was increased to 11 per cent. The Bank of France's money-market intervention rates, which for short-term operations stood in late June at 7⅛ per cent., reached 10¾ per cent. for outright purchases of paper in late December. Concurrently, bank liquidity was being increasingly squeezed by the outflows of funds, by the temporary freezing at the Bank of France of the proceeds of the Fr. fr. 6.5 milliard government loan issued in January, and by high ordinary reserve ratios which the banks had to meet, particularly the 33 per cent. requirement in respect of the increase in credit granted. The reference date used in calculating the increase in credit subject to this requirement was brought forward several times, but the easing of the burden on bank reserves which would normally have resulted was largely offset by concurrent increases, totalling 4 percentage points, in the requirements in respect of banks' sight liabilities to residents.

With the aim of encouraging the banks to adapt their credit-granting to foreseeable liquidity developments, the Bank of France ceased as a rule to supply the money market by day-to-day intervention. Instead, as from end-June, it met banks' liquidity needs mainly by intermittent outright purchases of paper or by loans at one month.

Monetary restraint was reflected in a sharp rise in interest rates on bank lending, the base rate going up from 7.1 per cent. in April to 11.4 per cent. in January 1974, and in a slow-down in the growth of money. For 1973 as a whole the rise in money and liquid savings came to 15.1 per cent., compared with 18.6 per cent. in 1972. With the government reducing its recourse to the banking system and the overall change in the system's external position very small, the entire counterpart of monetary expansion consisted of credit to the private sector. Credit subject to the official norm expanded by about 14½ per cent., the excess of 1½ percentage points reflecting largely the banks' difficulties in adhering to increasingly severe guide-lines as the liquidity of the economy tightened towards the end of the year. Allowing for exempted operations, including certain loans for exports or for use abroad, total credit to the private sector expanded by 17.9 per cent., compared with 23.5 per cent. in 1972, with long-term non-mobilisable credits for investment and housing showing the fastest rise. Credit restraint induced some shift of borrowing to the capital market, where total net issues increased to Fr.fr. 38.3 milliard (including the special Fr.fr. 6.5 milliard government loan floated in January 1973), compared with Fr.fr. 27.8 milliard in 1972.

By the autumn the economy was showing signs of cooling down, but the rise in prices was accelerating. The government's budget for 1974, presented in September, adhered to the principles of overall balance and of not permitting spending to increase faster than the growth of nominal gross national product — criteria which, in the event, were broadly met in 1973. In addition, various direct measures to slow down the price rise were taken, including a tightening of controls in November over trading margins for basic consumer goods and of the arrangements covering industrial product prices. Shortages of oil late in the year were less severe in France than in some other countries, but the atmosphere of crisis gave a boost to spending and led to renewed strains. In December the government introduced new restrictive measures, including a bringing-forward to February 1974 of the scheduled payment date for some Fr.fr. 4.3 milliard of personal income and company tax liabilities, a postponement of certain public-sector investment outlays until the second half of 1974, a freezing of rents and charges for most public-sector services and the imposition of a ceiling of 5 per cent. on increases in company dividends in 1974. As to monetary policy, the limits on the authorised year-to-year increase in bank lending were brought down to 11 per cent. for February and March.

In early 1974 a weakening of demand for motor vehicles had become apparent and in January hire-purchase restrictions on the sale of used vehicles were terminated. But generally activity continued at high levels, with housing and business investment activity particularly strong. Moreover, the authorities were by this time concerned over the prospect of a large oil-related balance-of-payments deficit. In January reserve requirements against banks' liabilities to residents were raised, from 14 to 16 per cent. in the case of sight liabilities. Both at that time, however, and again in April, the date for calculating the increase in credit subject to the 33 per cent. reserve requirement was changed so as to free some bank funds. Also with the object of moderating the domestic liquidity impact of outflows of funds, the credit-granting norms, though prolonged until June, were raised slightly. Certain credits for exports and energy-saving investments were exempted from these requirements in March in a move mainly designed to help improve the trade balance.

Italy. In the spring of 1973, following two years of stagnation and a third of hesitant recovery, economic activity entered a phase of advance. With monetary policy being kept expansionary, industrial production went on to rise by 9.3 per cent. over the year as a whole. Personal consumption strengthened and private fixed investment showed a strong recovery from its fall in 1972, but the long-heralded speeding-up of public investment once again failed to materialise and the housing sector remained depressed. Moreover, on account of the relatively low level of productive investment for many years and the industrial unrest early in 1973, the response of output was in some respects limited, imports bounded steeply upwards, private capital outflows continued and inflation took on ominous proportions.

The inflationary spiral had been given a sharp upward twist early in 1973 by the very large rise in wage costs resulting from the new national labour agreements. Moreover, industrial unrest around that time made a severe dent in production and exports. Hopes of obtaining greater monetary autonomy and of getting capital outflows under control had been pinned on the introduction of the two-tier exchange market in January and the floating of the commercial lira in February, but before long the depreciation of the currency, along with the rises in world commodity prices, compounded by the working of Italy's sliding wage-adjustment scale, further augmented the forces driving domestic prices upwards.

In a direct effort to combat inflation a freeze was imposed in July 1973 on the prices of many basic goods (mainly foodstuffs) and of industrial goods produced by large firms, as well as on rents. Initially introduced for three months, the price freeze was extended in October. However, with import and wage costs continuing to rise strongly, profit margins on domestic sales were further eroded and shortages of goods subject to the price freeze began to appear. By early 1974 permission for some fairly large increases in prices could no longer be withheld. By March the retail price index stood 16 per cent. higher than a year earlier, reflecting also the impact of higher oil prices.

While supporting the lira by public-sector borrowing abroad, the authorities wished to avoid restricting the overall expansion of credit to the economy. The action they took was designed rather to regulate bank lending selectively in favour of long-term finance for investment. In the first half of the year bank lending rose strongly, far outpacing deposits and causing a fall in the banks' demand for securities, particularly issues of the special credit institutions for medium-term lending to industry. In these circumstances the authorities instructed the banks in June to invest during 1973, in keeping with previous practice, an amount equivalent to not less than 6 per cent. of their total deposits outstanding at the end of 1972 in certain types of bonds, including at least 1 per cent. in government issues. Concurrently, the supplementary interest charges applied in cases of repeated recourse by banks to fixed-term advances from the Bank of Italy were doubled, going up to as much as 3 per cent. over and above the base rate. In July a ceiling of 12 per cent. was placed on the increase from April 1973 to March 1974 in banks' credits to individuals and to financial and trading enterprises and in loans, other than for the pre-financing of investment, to larger customers. The limit was intended not so much to exert an overall restrictive effect as to protect small enterprises' access to credit and to restrain lending for purely speculative purposes. Moreover, the limit did not prevent an increase in bank lending to the Treasury and the special credit institutions, which in turn expanded their credits to local authorities and the private economy.

For the year as a whole the central government's budget deficit came to Lit. 7,540 milliard, compared with Lit. 5,610 milliard in 1972, and was equivalent to nearly 9 per cent. of the gross national product. Lit. 5,100 milliard was financed by the Bank of Italy and most of the remainder by the banks and the postal savings system. With other influences contractionary on balance, liquidity creation by the Treasury in 1973 more than accounted for the increase in the monetary base, which went up by Lit. 5,080 milliard, compared with Lit. 3,600 milliard in 1972.

In these circumstances the authorities took action to absorb excess liquidity and were prepared to let short-term interest rates rise, though they still sought to stabilise bond prices with a view to encouraging savings in this form. In September a first issue of six-month Treasury bills bore a nominal interest rate of 9 per cent., compared with 7 per cent. on the preceding issue of twelve-month bills. At the same time the Bank of Italy's discount rate, previously 4 per cent., and its base rates for advances against security, previously 3½ and 5½ per cent. respectively for current-account and fixed-term advances, were raised to a uniform 6½ per cent. Further large issues of the new six-month Treasury bill between October and December were mainly placed with the credit institutions. Concurrently, the authorities encouraged the banks to replace outstanding credits to public-sector institutions and large private-sector borrowers by bond financing. Under these policies, total lending rose sharply while

Italy: Saving, investment and changes in financial assets and liabilities.

Items	Years	Public sector	Public and semi-public enterprises[1]	Private sector	Banks and financial institutions	Rest of the world[2]
		in milliards of lire				
Gross saving (including capital transfers)	1972	− 3,085	690	16,815	645	− 1,190
	1973	− 4,945	1,030	20,360	700	1,475
Gross domestic capital formation (—)	1972	− 2,380	− 3,100	− 8,095	− 300	
	1973	− 2,775	− 3,410	−12,105	− 330	
Financial surplus or deficit (—)	1972	− 5,465	− 2,410	8,720	345	− 1,190
	1973	− 7,720	− 2,380	8,255	370	1,475
Corresponding changes in:						
Financial assets						
Liquid assets	1972	− 255	390	10,975	665	− 5
	1973	750	− 105	16,400	3,250	180
Bonds, shares and participations	1972	760	140	2,790	3,165	400
	1973	975	385	3,095	4,085	140
Other net lending	1972	565	− 55	3,040	13,470	4,720
	1973	125	415	1,970	17,380	6,850
Financial liabilities (—)						
Short-term liabilities[3]	1972	− 4,810	− 735	− 3,045	−14,270	− 4,325
	1973	− 8,190	195	− 5,075	−20,335	− 3,920
Long-term liabilities						
Domestic	1972	− 1,085	− 720	− 2,785	− 825	− 1,435
	1973	− 1,230	− 890	− 5,385	− 565	− 1,255
Foreign	1972	− 80	30	− 155	− 425	—
	1973	− 95	− 595	− 400	− 1,905	—
Bonds, shares and participations	1972	− 1,495	− 1,455	− 1,075	− 1,435	− 520
	1973	− 595	− 1,780	− 1,445	− 1,750	− 590
Statistical discrepancy	1972	935	—	− 1,030	—	− 20
	1973	540	—	− 905	215	70

[1] Consists of firms with government equity-participation and also the National Electricity Agency. [2] A negative figure indicates an increase in Italian claims (or a decrease in Italian liabilities) vis-à-vis the rest of the world. [3] Includes purchases *by the Bank of Italy and the Italian Exchange Office of long-term securities issued by the* public sector.

bond yields rose but little. In December it was announced that the banks' obligation to invest in securities would be extended to cover the first half of 1974.

Over the year as a whole the broadly defined money supply increased by 23.3 per cent., compared with 18 per cent. in 1972. The growth in commercial-bank loans to the domestic economy came to 19 per cent., or about the same as in 1972, but the banks increased their security holdings by Lit. 6,690 milliard, or 35 per cent., mainly late in the year with a view to meeting their investment obligations in January–June 1974. The banks' security acquisitions benefited particularly the special institutions, enabling them, together with more resources from the Treasury, to expand their lending by 24 per cent. Total new issues on the domestic capital market went up from Lit. 5,970 milliard in 1972 to Lit. 10,420 milliard last year. Most of the increase was accounted for by issues by special credit institutions and the Treasury, with the Bank of Italy playing a large rôle as residual buyer. Total net credit from all sources is estimated to have expanded by Lit. 20,500 milliard, compared with Lit. 14,980 milliard in 1972.

A shift in policy came in 1974. Following a tightening in January of the penalties applying to excess borrowing from the Bank of Italy, the basic discount rate and the base rate for advances against security were raised to 9 per cent. in mid-March. When arranging an IMF credit in March, the government undertook to limit the expansion in total credit between April 1974 and March 1975 to Lit. 22,400 milliard. In April a ceiling of 15 per cent. was placed on the expansion during the year ending March 1975 in most categories of direct bank lending. In early 1974 it was estimated that the government's budget deficit in 1974, originally put at Lit. 7,400 milliard, could rise to Lit. 9,200 milliard. The letter of intent to the IMF provides that it should on no account exceed this level. In late April the government announced an import deposit scheme, to apply to goods other than basic materials and capital equipment, requiring that deposits equivalent to 50 per cent. of import values be placed for six months on non-interest-bearing accounts with the Bank of Italy. The scheme may well help to stem the haemorrhage on external account, and it will help to absorb domestic liquidity, but it also means higher costs for imported goods. In May, for the second quarter running, wages received a particularly large boost from the automatic adjustment to the rise in the cost of living. In the same month the banks' prime lending rates were nearly 15 per cent., and long-term interest rates were edging upwards.

Belgium. The economic upswing that commenced in early 1972 continued during the first half of 1973, thanks to a keen stimulus from both foreign and domestic demand. The improvement in profits and the high degree of capacity utilisation led to a vigorous expansion of industrial investment and the various incentives to residential construction introduced by the government since 1971 ensured that building progressed apace. On the other hand, public expenditure, which had been highly expansionary in the previous year, rose more slowly in early 1973. The government further tightened budget policy in May by cutting back current expenditure — including work-creating programmes — and reducing public investment so as to dampen building activity; later in the summer it also put curbs on subsidised housing construction. Private consumption, although influenced by a tightening of instalment credit, increased at the same rate as in 1972. By the spring capacity utilisation was at its highest since the 1969–70 boom. Despite this and a faster increase in wages and import prices, consumer prices accelerated relatively little, thanks partly to a freezing of certain prices in late 1972 and the stricter requirements introduced in February 1973 with regard to the advance notification of price increases.

Monetary policy, which in early 1973 had been aimed primarily at neutralising inflows of funds, was directed increasingly at slowing down domestic credit expansion. In March the National Bank requested the banks voluntarily to keep the growth of their total lending to the private sector in 1973 to not more than 14 per cent. In May the system of reserve requirements on deposit liabilities, which had been introduced in 1972 and had been tightened in February, was extended to include life assurance companies in addition to banks, savings banks and public credit institutions. Then in three steps, between May and August, the National Bank raised the discount rate from 5 to 6½ per cent. and reduced the banks' rediscount quotas from 7½ to 6½ per cent. of prescribed liabilities.

By summer the growth of production was slowing down owing to strikes in major industries and a general lack of spare capacity. Moreover, although some absorption of the credit institutions' growing resources had occurred — compulsory reserves had risen from B.fr. 12 to 25 milliard between January and August and the banks had been obliged to place the customary 50 per cent. of their additional resources in public-sector paper from the middle of 1972 onwards — domestic credit expansion was substantially in excess of the 14 per cent. guide-line. At the end of September, therefore, the authorities introduced reserve requirements on bank lending for the first time, subjecting increases in lending over specified base periods to reserve ratios graduated according to credit tranches. In addition, the reserve requirements on deposit liabilities were raised progressively between October and December, bringing the total of non-interest-bearing reserves at the National Bank to nearly B.fr. 35 milliard at the end of the year. In the autumn the banks' rediscount quotas were further reduced to 5.5 per cent. and the official discount rate was twice raised, to stand at 7¾ per cent. in late November.

The pace of monetary expansion eased progressively during 1973, particularly in the later months of the year. A principal reason was a marked slowing-down in lending to the public sector after mid-year, reflecting in the main a reduction in the central government's borrowing requirement, which came for the year as a whole to B.fr. 48 milliard, compared with B.fr. 64 milliard in 1972. With its borrowing on the domestic capital market at about the same level as in 1972, the government was able to sterilise funds with the National Bank and also to repay the rest of its short-term debt. On the other hand, the growth rate of lending to the private sector came to about 17 per cent., the fastest rise being in mortgage and business investment credit in the first half of the year and in short-term lending thereafter. In addition, the balance-of-payments surplus contributed to monetary expansion, especially in the later months of the year. During the year as a whole the money supply broadly defined went up by 14 per cent., compared with 16 per cent. in 1972.

After a short-lived slackening of economic activity in the winter, signs of renewed advance were evident by the spring of 1974. Higher oil prices, it was estimated, would sharply reduce the external surplus but not eliminate it. Moreover, with the demand for durable goods, housing and industrial investment again showing strength, and with rising costs being translated into faster wages growth through indexation arrangements, the authorities were determined to maintain their anti-inflationary stance. In early 1974 reserve requirements were reduced so as to avoid liquidity strains, but on both domestic and external grounds interest rates were adjusted further upwards. In this context the percentage of additional resources that the banks had to place in government paper was reduced in January from 50 to 43 per cent., and in February the official discount rate was raised from 7¾ to 8¾ per cent. In the same month, and again in April, the banks' rediscount quotas were further reduced, bringing them down to 4½ per cent. Higher interest rates are aimed, among other things, at helping the Treasury to meet its financial requirements, which are expected to grow in 1974 despite continued efforts to restrain expenditure. In a renewal of the monetary agreement with the banks, the credit ceiling of 14 per cent. per annum was extended up to the second quarter, with any excess lending to be subject to penalty deposits at graduated rates.

Netherlands. For both structural and cyclical reasons the growth of domestic demand remained sluggish in 1973. Industrial investment, although recovering well from its previous cyclical decline, was still under the shadow of large-scale increases in plant and equipment during the sixties. Moreover, with a view to curbing public-sector growth, the authorities kept to their maxim of cutting back on the volume of public fixed investment as an offset to higher costs, and residential construction activity slowed down as a result of a reduction in subsidies for house construction. Consumer spending, which had increased more moderately since 1970, again rose little in real terms last year. Even though the wage bill showed a stronger rise than in 1972, an increased burden of tax and social insurance payments, together with higher prices, caused the rise in real disposable income to drop back from 3 per cent. in 1972 to 1½–2 per cent. in 1973. Much of the slack in domestic demand was again taken up by external demand, which expanded rapidly up to mid-1973 but then tapered off at a high level, so that the gross national product continued to rise at a rate of about 5 per cent.

Faced with the dilemma of rapid price inflation together with persisting sectoral unemployment, the authorities relied on a combination of selective and general policy measures. Work procurement programmes involving public expenditure of Fl. 1 milliard were launched and the price surveillance system, which had been introduced in 1972, was reinforced in May. In addition, the guilder was revalued in September by 5 per cent., particularly with a view to mitigating sharp rises in import prices. In its overall budget policy, moreover, the government held to the restrictive course on which it had embarked in 1971. Besides keeping a tight rein on expenditure, it increased the rates of value added tax, corporation tax and property tax, thereby more than offsetting the revenue losses resulting from the abolition of the counter-cyclical tax surcharge. On a cash basis, the central government realised a surplus of Fl. 585 million, representing an improvement of about Fl. 2,250 million over a two-year period.

In 1973 the authorities continued to pursue an active debt-management policy aimed at offsetting the liquidity increases caused by the inflow of foreign exchange. The central government borrowed Fl. 1.8 milliard on the capital market, somewhat less than in the previous year, and used the proceeds mostly to repay floating debt and to increase its deposits with the central bank. On the other hand, the local authorities, though having a slightly larger financial deficit than in 1972, reduced their capital-market borrowing from Fl. 4.3 milliard to Fl. 2.0 milliard and met their additional needs by recourse to bank credit. For the public sector as a whole, therefore, liquidity absorption was not as severe as in the previous year.

Since 1972, when the guide-line limitations on bank credit expansion were lifted, the authorities have relied on indirect measures of credit control. Early in the year cash reserve requirements were used to help absorb inflows of funds from abroad, but in July emphasis shifted to new liquidity reserve requirements agreed between the central bank and the banks. The liquidity ratio with respect to short-term funds was originally set at 8 but was progressively raised to stand at 10 during the autumn, whereas that for long-term liabilities remained at 7. Furthermore, as from September the Nederlandsche Bank imposed a limit on the banks' recourse to central-bank

Netherlands: Changes in financial assets and liabilities.

Items		Govern-ment	Local authorities	Banking	Institu-tional investors[1]	Personal and business sector	Rest of the world[2]
		in millions of guilders					
Financial surplus or deficit (—) (cash basis)	1971	— 1,665	— 2,860	4,920	8,970	— 9,025	— 340
	1972	205	— 2,585	4,435	11,210	— 8,945	— 4,315
	1973	585	— 2,775	2,520	13,250	— 8,350	— 5,235
Corresponding changes in financial assets and liabilities[3]							
Primary liquidity	1971		30		215	3,660	
	1972		130		— 25	5,170	
	1973		40		— 35	15	
Secondary liquidity	1971		— 190		340	— 605	—2,680
	1972		250		— 595	75	—3,225
	1973		—		1,620	8,655	—2,270
Bank credit	1971	540	— 140	755	— 215	— 1,715	
	1972	2,110	1,290	— 2,785	— 250	— 2,145	
	1973	2,250	— 830	— 3,075	220	— 6,605	
Net recourse to capital market.	1971	— 2,215	— 2,510	4,165	8,630	— 8,245	175
	1972	— 2,215	— 4,270	7,220	12,080	—11,430	— 1,385
	1973	— 1,805	— 2,005	5,595	11,445	—10,155	— 3,065
Direct external capital transactions. . . .	1971	10	— 55			— 2,120	2,165
	1972	310	15			— 615	290
	1973	140	20			— 260	100

[1] Includes life assurance companies, pension funds, social insurance funds and savings banks. [2] A negative figure indicates an increase in the Netherlands' claims (or a decrease in its liabilities) vis-à-vis the rest of the world. [3] A minus sign represents a decrease in assets or an increase in liabilities.

funds, which had increased substantially in the summer, and introduced a surcharge for excess borrowing.

In view of the domestic economic situation, the Nederlandsche Bank refrained from adjusting its discount rate fully in line with the sharp rise in money-market rates at home and abroad. However, starting in June from a level of 4 per cent., a series of adjustments carried the rate to 6½ per cent. by August. Subsequently, strained money-market conditions resulting from the weakness of the guilder on the exchange markets obliged the Bank to raise the rate further to 8 per cent. from October to December and to increase temporarily the surcharge on banks' excess borrowing. In the second half of the year a gap opened between money-market rates and customer loan rates, which are linked to the official discount rate, with the result that funds which had been obtained as short-term credit, mainly in the form of overdrafts, were reinvested as time deposits. Working capital requirements, reflecting heavy stock-building and rising costs, also contributed to a sharp increase in the demand for bank credit. The total increase in domestic liquid assets came to nearly 22 per cent., well above the 13½ per cent. rise in net national income. Liquid assets as a proportion of net national income went up by 2½ percentage points, the largest rise in the past decade, to stand at 35.1 per cent. at the end of the year.

The expansion of short-term lending and borrowing transactions was paralleled by an actual decline in capital-market activity. Borrowing by residents decreased from Fl. 20.0 milliard in 1972 to Fl. 18.6 milliard in 1973, reflecting a sharp fall in placements of bonds and private loans which was only partly offset by an increase in mortgage financing. For the year as a whole, but mainly because of the weakness of the guilder in the autumn, foreigners drew away from the Dutch capital market while residents increased their acquisitions of foreign assets; these changes resulted in a net capital outflow of Fl. 3.0 milliard, compared with Fl. 1.4 milliard in 1972. During the year the yield on long-term government securities gained 1–1½ percentage points to stand at 8½–9 per cent. in December.

In early 1974 the authorities took measures to protect production and real income from the effects of energy supply shortages and the anticipated deterioration in the terms of trade. Priority was given to measures which would stimulate demand but at the same time a tighter rein was to be kept on prices. A special powers act was passed into law in January, empowering the government to regulate wages and incomes in 1974 and to step up the creation of new jobs. Also, the terms for prior notification of price increases were tightened. In February Fl. 750 million of government expenditure which had been frozen was released, the job-creation programme was speeded up and the imposition of a special levy on business investment in the western region was postponed so as to encourage investment. The Nederlandsche Bank eased the banks' recourse to central-bank funds by raising the borrowing ceilings and reducing the surcharge on excess borrowing.

In March 1974, in the context of its efforts to achieve an understanding on incomes behaviour, the government announced proposals for a new set of counter-recessionary measures which in a full year would boost spending by Fl. 2–2½ milliard. These included reductions in wage and income taxes, new fiscal facilities to stimulate private investment and a rise in government spending. Despite the new measures it was envisaged that fixed investment would level off and that unemployment might rise somewhat.

Switzerland. The Swiss economy was again characterised by overheating last year. Exports were buoyant, public expenditure was strong and over most of the year residential building activity remained high. The growth of private consumption and industrial investment, on the other hand, was comparatively modest. Increases in wage rates came to around 9 per cent., compared with a rise in consumer prices at an annual rate of about 8 per cent. in September before the oil crisis and nearly 12 per cent. in December. Although plant-capacity and labour-market strains testified to excess demand pressures, higher import prices contributed significantly to inflation from the cost side.

Anticipating an intensification of inflationary strains, the authorities had already reinforced their restrictive policies around the turn of 1972–73. Building restrictions were tightened and barriers against inflows of funds were maintained, but the main emphasis was laid on the quantitative limitation of credit expansion. In view of the banks' high liquidity, the growth of bank credit until 31st July 1973 was limited to 6 per cent. of the level recorded a year earlier, and lending in excess of the limitation was made subject to penalty deposits with the central bank. Net placements of domestic bonds were to be kept within specified limits. In addition, the discount rate was raised from 3¾ to 4½ per cent.

In late January 1973 the floating of the Swiss franc marked the beginning of a new policy phase, as it provided some insulation against the speculative capital inflows that had hampered restraint policy over many years. In the following months, moreover, the authorities continued to encourage outflows of funds as before. At mid-year the 6 per cent. growth ceiling on bank credit was prolonged for one year, although with greater allowance for exceptional needs, and penal deposits were subsequently raised to 100 per cent. of the excess credit-granting.

Excess bank liquidity was reduced during the year by the substantial penalty payments required as a result of excess credit-granting. The strengthening of the dollar later in the year brought about a further reduction in liquidity. In the autumn money-market rates rose — in line with a hardening of conditions on the Euro-franc market — and medium and long-term rates turned perceptibly upwards. At the end of the year the banks came under strong liquidity pressure, and the National Bank reduced minimum reserve requirements by 20 per cent. in addition to providing support mainly through foreign currency swaps.

For the year as a whole the banks' domestic lending increased by 8.5 per cent., compared with 11.2 per cent. in 1972. The volume of money and quasi-money went up by no more than 3.9 per cent. following a rise of only 2.2 per cent. the year before. Total net placements on the capital market amounted to Sw.fr. 6.5 milliard, or some 12 per cent. less than in 1972, with both domestic and non-resident issues showing about the same proportionate decline. Placements of medium-term foreign notes, on the other hand, increased marginally to Sw.fr. 3.4 milliard.

In early 1974 the persistence of liquidity pressures led the authorities to reduce minimum reserves by a further 20 per cent. At the same time, however, the discount rate was raised from 4½ to 5½ per cent. In these weeks official attitudes concerning capital movements began to change. The strengthening of the dollar and the foreseeable impact of the rise in oil prices were contributing factors, but more important, perhaps, was the increasing tightness of the domestic capital market. This development reflected, on the one hand, substantial interest-induced outflows to the Euro-franc market and, on the other, a strong domestic demand for funds, particularly on the part of the public authorities and the electricity sector. In February the authorities introduced exchange measures aimed at relaxing barriers to capital inflows and restraining foreign borrowing in Switzerland. Nonetheless, long-term bond yields went up further in the spring of 1974 to reach almost 7¾ per cent. for first-class borrowers, in comparison with less than 5½ per cent. a year earlier. At this level the supply of funds improved, but Euro-franc rates remained attractive, partly as a result of borrowing by Swiss banks attempting to replenish their liquidity. The National Bank relieved liquidity strains in April and May by offering currency swaps of up to three months and by reducing minimum reserve requirements again, this time by 15 per cent. of their October level. In addition, the growth limit on bank lending was increased from 6 to 7 per cent. for the period up to the end of July, which effectively reduced the banks' obligations in respect of penalty deposits for excess lending. Moreover, the ratio for such deposits, which had already been effectively relaxed from its 100 per cent. peak, was reduced to 30 per cent.

In recent months aggregate demand has continued to be quite strong, although signs of a better equilibrium in the housing market have begun to emerge. Up to now budget policy has not played a positive stabilisation rôle, as both the Confederation and most cantons had larger deficits last year than previously. Moreover, efforts to lay down guide-lines for wages growth did not succeed, and the price surveillance system has been effective to a limited extent only. Since the floating of the Swiss franc, monetary policy has enjoyed greater autonomy and private liquidity has been brought under tight control for the first time in years. As a by-product, however, interest rates have been moving upwards, partly in response to developments abroad, imparting through the heavily-mortgaged agricultural and housing sectors a "cost-push" element of significant force. In late May, following the poor reception of a government loan issue, the authorities temporarily closed the Swiss market to issues of foreign bonds and notes and announced their intention to intervene on behalf of government issues. Shortly after, the 7 per cent. growth ceiling on bank lending was extended for the year ending July 1975.

Austria. Over the past five years the Austrian economy has kept on a path of virtually uninterrupted growth. After a momentary weakening in early 1973, ascribable to the introduction of value added tax, aggregate demand soon strengthened again and remained fairly buoyant until the autumn. In real terms investment in fixed assets slowed down considerably, particularly in the enterprise sector, and exports and private consumption, although advancing less rapidly than in 1972, became the most expansionary demand forces. Productive capacity was fully employed and tight labour-market conditions led to a new influx of foreign workers. However, wages rose somewhat less than in 1972, and the rise in consumer prices, although moderately faster than before, was below that in most other countries.

On the whole, therefore, the authorities appear to have been relatively successful in alleviating economic tensions. This was attributable in part to the timely adoption around the turn of 1972–73 of a broad set of restraint measures. These included curbs on government expenditure, ceilings on lending by credit institutions, an increase in minimum reserve requirements and higher interest rates. Moreover, recourse to central-bank credit was made conditional upon observance of the lending guide-lines. Finally, exchange measures and other arrangements designed to ward off or sterilise inflows of funds were kept in place.

In March 1973 the schilling was allowed to float upwards, and in early July it was revalued again in the company of a similar adjustment of the Deutsche Mark. These changes were viewed as helpful in mitigating the domestic impact of world-wide inflation and in forestalling an outflow of labour to Germany. Moreover, in May it was decided to prolong until the end of the year the monetary and fiscal measures introduced in late 1972. At the same time provincial and local authorities adopted budgetary restraint objectives similar to those of the central government and agreed to sterilise parts of their revenue during the summer.

With inflows of funds under control and the balance-of-payments deficit contributing to monetary strain, bank liquidity tightened in the spring and money-market rates began to rise above capital-market yields. To avoid market distortions the National Bank slackened its grip on the banks in April 1973 by lowering reserve requirements and engaging in limited open-market operations. In subsequent months bank liquidity was flexibly managed but restraint remained the primary aim. Bank credit expansion generally remained below the ceiling limits, being held down to 11 per cent., as against 21 per cent. in 1972. At the same time, however, the banks' purchases of securities (including short-term government paper) went up from Sch. 3 milliard in 1972 to Sch. 10.4 milliard last year. Total bank lending to the non-bank sector thus came to Sch. 38.1 milliard, against Sch. 47.3 milliard in 1972. Thanks also to a substantially lower increase in the banking system's net foreign claims, the expansion of the money supply (M_1) was reduced from 23 per cent. in 1972 to 6 per cent. in 1973.

On the bond market net issues fell from Sch. 15.7 to 12.3 milliard. The main reason was a decline in private demand for securities, partly because certain new regulations – including tax measures – had made other placements more profitable. The increase in bond yields of one percentage point to an average of 8.5 per cent. in December was apparently not attractive enough.

Demand conditions eased somewhat in late 1973, but in recent months economic activity has continued at a high level. With further price rises in prospect, fiscal and monetary restraint measures have again been prolonged, the only relaxations being a modest raising of the base for permitted credit growth and a lowering of reserve requirements for certain periods so as to ease somewhat the tightness of bank liquidity. In mid-May, after market pressures had pushed average bond yields up to 9.1 per cent., the authorities reached agreement with the credit institutions on a general adjustment of administered rates. The official discount rate was raised from 5½ to 6½ per cent., while by June savings deposit and coupon rates were to be increased generally by 1½ percentage points to 5 and 8½ per cent. respectively. Furthermore, to help keep price rises in check, the National Bank modified its foreign exchange intervention practices and the schilling moved up vis-à-vis the Deutsche Mark by about 3 per cent.

Denmark. Aggregate demand rose strongly in 1973 following Denmark's accession to the European Community at the beginning of the year. Export earnings were quite buoyant, particularly from the EEC countries, although domestic demand pressures and an industrial conflict in the spring precluded a better performance in terms of volume. Business fixed investment rose in real terms by 15 per cent., and spending on consumer durable goods speeded up. During the year average hourly wage costs in manufacturing industry went up by 25 per cent., against just over 11 per cent. in 1972, while the rise in consumer prices jumped to 12.6 per cent. from about 7 per cent. in the previous year. Pressures of demand on productive capacity, together with heavy stock-building, led to a sharp increase in imports, which was accentuated by the removal of the temporary import surcharge early in the year.

In the course of 1973 budget policy was considerably tightened. In March the new budget provided, among other things, for increases in company taxation, the imposition of value added tax on new housing and curbs on public investment. In October the quota for new housing starts was cut by 14 per cent., and indirect taxes were increased on less essential goods. In 1973 as a whole public expenditure rose in real terms by an estimated 3.5 per cent., or about half as much as in 1972. Estimates in November pointed to a central-government cash surplus for the fiscal year to March 1974 of about D.kr. 3.7 milliard, against D.kr. 1.8 milliard in the previous year. As a result of its strengthening budget, together with further — but reduced — recourse to borrowing abroad, the central government was able to improve its net position vis-à-vis the Nationalbank by D.kr. 3.3 milliard in the calendar year 1973.

Monetary policy remained restrictive throughout the year. The ceiling on total commercial and savings-bank credit, which had been raised in December 1972 by 4 per cent., was left unchanged until the autumn of 1973, but lending continued to expand rapidly on the basis of existing credit lines. In October Parliament passed a new credit regulation act with a view to strengthening monetary control powers and facilitating selective credit management. On the basis of the new act the Nationalbank and the financial institutions agreed to continue with the credit ceiling, which was raised by a further 2 per cent. in November, and with restrictions on consumption loans. The credit ceiling was broadened to include the savings banks' longer-term loans, and lending in excess of the ceiling was made subject to the placing of an equivalent amount on non-interest-bearing deposit with the Nationalbank. The act also provided for the introduction of cash reserve ratios, but consideration of these was postponed in view of the tight liquidity situation. The official discount rate, which had been raised from 7 to 8 per cent. in July mainly for external reasons, was increased to 10 per cent. in two steps around the turn of the year, largely to help counteract inflation.

Total lending by the commercial and major savings banks rose during 1973 by 15.5 per cent., compared with 12.3 per cent. in 1972. In addition, with domestic credit lines shrinking, private business greatly increased its recourse to borrowing abroad, so that despite the larger current-account deficit the Nationalbank added to its foreign exchange reserves. However, thanks to the central government's sterilisation of funds with the Nationalbank, the growth of the money supply broadly defined, at 12.5 per cent., was slightly less than in 1972.

Total net capital issues, consisting mainly of mortgage bonds, rose from D.kr. 13.4 milliard in 1972 to D.kr. 17.2 milliard last year. By mid-February 1974 yields on some bonds had reached 15 per cent., against about 12 per cent. in late 1972.

In early 1974 the economic outlook was disquieting. Even before the oil crisis the current-account deficit had become large and price inflation had been accelerating; Denmark's heavy dependence on imported fuel supplies greatly intensified these problems. In January the government imposed a two-month prices and profits freeze, which was subsequently prolonged on the basis of a more limited coverage of goods and services. In February it introduced an anti-inflationary programme providing for cuts in its own expenditure, a compulsory savings plan for income-tax payers and budget subsidies to industry designed to compensate for higher wage costs and thus to help hold down prices. In the monetary field the Nationalbank, while acting to ease strains on bank liquidity in the early months of 1974, remained determined to apply a restrictive monetary policy, in order both to combat inflation and to ensure the financing of the external deficit. In May the government announced substantial increases in sales taxes on durable and certain other consumer goods.

Norway. Throughout most of 1973, as in the previous year, a buoyant uptrend in exports helped to keep the economy on a satisfactory growth path. Industrial investment, after a decline in 1972, strengthened considerably during the year — partly reflecting larger imports of ships and outlays related to oil exploitation — but public investment and dwelling construction rose more slowly than before. In real terms gross national product went up by 3.6 per cent. and private consumption by only about half as much. As in other countries, however, capacity limitations and shortages of skilled labour were felt in manufacturing industry, particularly in the export sector.

The government sought to restrain both demand and cost pressures. In its 1973 budget the aim was to hold the rise in expenditure down to the growth of the nominal gross national product. Together with the social security funds, the government accounts showed a surplus of about 4.3 per cent. of the gross domestic product, compared with 3.5 per cent. in 1972. In the price field a system of surveillance was introduced early in the year to replace the general price freeze in effect since September 1972. This arrangement, together with the government's promise to grant temporary food subsidies and to maintain a general policy of restraint, helped to moderate demands during the spring wage negotiations. In particular, indexation provisions were formulated on a more limited basis than previously.

The credit guide-lines for 1973, as revised during the year, allowed for a total increase of about 7 per cent. in credit from domestic sources. In addition, however, the authorities envisaged a sharp rise in capital imports, mainly for the shipping sector and for oil production and off-shore services, so that the overall supply of credit was to rise by well over one-third. However, in the first half of 1973 currency disturbances abroad led to sizable inflows of funds and necessitated action to prevent domestic bank lending from exceeding the guide-line limits. In April Norges Bank activated the supplementary reserve requirements of 50 per cent. on the commercial banks' excess lending. In two stages, in June and September, it also increased the primary reserve requirement for savings banks in the south of the country. These measures, together with rising interest rates abroad, led to a tightening of bank liquidity. In December, by which time the growth of savings-bank lending was on target and commercial-bank advances had even fallen below the permitted maximum, the supplementary reserve requirement was terminated. Money and quasi-money increased during the year by 12 per cent., which was practically the same as the growth rate in 1972.

In late 1973 the authorities looked ahead to a need for continued restraint. In mid-November, with export and import prices rising sharply and a new collective bargaining session forthcoming in the spring of 1974, the Norwegian krone was revalued by 5 per cent. for anti-inflationary reasons. The central government's budget for 1974 called for slower expenditure growth in relation to gross domestic product.

At the end of March 1974 Norges Bank raised its discount rate from 4½ to 5½ per cent., the first change since late 1969. With fixed investment rising buoyantly, policy was adapted so that credit growth from domestic sources would approximate to 6 per cent. and capital imports would again be nearly as high as in 1973. In this context the primary reserve requirement for savings banks in the south was lowered from 5 to 4 per cent.

Sweden. The economic trend last year was rather different from that in most other countries. Following a slow recovery from the recession of 1971 the upswing actually lost momentum early in 1973 and did not pick up again until around mid-year. Exports benefited greatly from the high levels of activity abroad and, in contrast to public investment, business fixed investment advanced fairly well under the influence of stimulatory policies. But the expected quickening in personal consumption and in stock-building failed to materialise, while saturation in the dwelling market caused house-building activity and related local-authority investment to fall. As a result, the growth of real gross domestic product for the year as a whole came to only 2.9 per cent., little more than the rise recorded in 1972.

While maintaining the various fiscal stimulants introduced during 1971 and 1972, the government took direct action to moderate price rises. This included a freeze on milk and meat prices at the beginning of the year and a ceiling on domestic prices of wood products in September. An advance notification requirement for price increases introduced at that time for pulp and paper products was later extended to cover petrol as well.

By the autumn it seemed likely that the upswing abroad would pass without causing generalised overheating in Sweden. After some delay caused by uncertainty about the likely impact of oil shortages, measures designed to sustain economic expansion were enacted in December. Firstly, companies were permitted until the end of 1974 to continue using funds previously blocked at the Riksbank — not only for buildings but also for investment in machinery in the development areas. Secondly, increased government subsidies were provided for investments in environmental improvements undertaken between end-October 1973 and end-May 1974. Thirdly, child allowances were raised and more funds were made available for public investment and for social programmes designed to reduce structural unemployment. At the same time, the price freeze on food products was extended to end-1974, with a compensatory increase in farm subsidies. The total budgetary cost of these measures was put at about S.kr. 1.5 milliard.

Monetary policy was also kept on an expansionary tack, with no significant changes either in bank reserve requirements or in interest rates. Under the influence of the growing external surplus and the still sizable budget deficit, bank liquidity continued to expand strongly. The money supply, broadly defined, rose by about 12½ per cent., roughly the same rate of growth as had been recorded in 1972 and also during the previous recession period in 1967–68.

Conditions on the credit market remained easy and borrowers met with no difficulties in satisfying their financing needs. The increase in total net credit, at S.kr. 30.2 milliard in 1973 and S.kr. 27.0 milliard in 1972, was equivalent to about

Sweden: Net credit flows.

Lenders	Years	Borrowers				
		Govern-ment	Local authorities	Housing sector	Business sector	Total
		in millions of Swedish kronor				
Riksbank	1971	1,524	–	– 30	30	1,524
	1972	– 183	6	–	3	– 174
	1973	–1,538	5	–	22	–1,511
Commercial banks	1971	1,220	203	596	3,193	5,212
	1972	1,949	125	1,946	4,053	8,073
	1973	3,252	286	2,411	5,262	11,211
Other banks	1971	– 698	665	1,593	949	2,509
	1972	1,831	673	2,685	1,330	6,519
	1973	– 294	125	3,334	2,044	5,209
Public insurance institutions	1971	953	822	4,139	3,269	9,183
	1972	1,936	766	2,676	2,797	8,175
	1973	1,868	686	3,598	3,130	9,282
Private insurance institutions	1971	– 90	141	1,736	911	2,698
	1972	460	291	1,401	1,092	3,244
	1973	832	147	1,699	1,370	4,048
Others	1971	– 273	5	45	372	149
	1972	352	39	18	745	1,154
	1973	2,030	88	– 254	128	1,992
Total	1971	2,636	1,836	8,079	8,724	21,275
	1972	6,345	1,900	8,726	10,020	26,991
	1973	6,150	1,337	10,788	11,956	30,231

Source: Sveriges Riksbank.

13½ per cent. of the current gross domestic product in both years. In the summer the agreements concluded between the authorities and the credit institutions were revised to facilitate the conversion of construction credits into mortgage loans. Although rising profits aided the self-financing of investment in the business sector, credit to this sector also rose, with enterprises using the proceeds of borrowing partly to build up liquidity.

In view of the sluggishness of domestic economic activity, strains on capacity were experienced only in export industries. Adjusted unemployment remained fairly high until the autumn but thereafter it declined progressively. Before the acceleration due to increases in oil prices, the rise in consumer prices was less than in most other countries. Labour costs were increased by legislation enacted in December, which transferred to employers the liability for pension contributions formerly paid by employees. However, the new national labour agreement concluded in January and negotiated before the full effects of oil developments had become clear provided for fairly moderate wage rises.

In the event, the oil situation seems to have had little impact on output. In early 1974, although housing was still weak, unemployment declined further. The government's 1974–75 budget, presented in January, tentatively envisaged a deficit of S.kr. 6½ milliard. Shortly afterwards new measures were introduced, designed to counter the possible dampening influence of the oil price rises while offsetting some of their inflationary effects. These measures included special supplements to be paid in April on old-age pensions and child allowances, an exemption from value added tax for houses commenced during 1974 and increased subsidies for foods and energy-saving investments. To these was added in February a general cut in value added tax, from 17.65 to 13.64 per cent. for the standard rate, to apply in the April–September period of 1974. The total cost of these new measures was put at S.kr. 4 milliard, or about 1½ per cent. of gross domestic product. It was subsequently estimated that the government's budget deficit could reach S.kr. 10–11 milliard in both the current and the next fiscal year, compared with S.kr. 6.2 milliard in 1972–73. Concurrently the price freeze on meat, milk and wood products was prolonged beyond the end of June 1974; later, in March, it was broadened to include bread and most building materials and newsprint.

In April 1974 the official discount rate, unchanged since November 1971, was raised from 5 to 6 per cent. and steps were taken to shade up long-term rates, which had remained level during 1972 and 1973. At the same time, the coefficient for the commercial banks' compulsory cash reserve requirement was raised from 1 to 5 per cent. so as to freeze some S.kr. 2.9 milliard of their funds and the banks were asked to moderate the growth of their lending for purposes other than housing. These steps were taken following the emergence of large outflows of funds, but, with economic activity by now expanding faster, a less easy monetary policy also seemed appropriate on domestic grounds.

Finland. Under the influence of expansionary monetary and fiscal policies economic activity had increased very rapidly since the summer of 1972. Although unemployment remained high in the north of the country, shortages of skilled labour and plant capacity began to restrain the overall growth of output quite early in 1973. With a rebound in industrial investment adding to the continued boom in housing and a rapid rise in consumer spending on durable goods, severe demand pressures emerged. Moreover, higher prices of imports and rises in wages which far outstripped productivity gains contributed to a 15.6 per cent. rise in consumer prices during the year. The growth of exports was slowed down by capacity limitations, imports accelerated sharply and an external deficit developed early in the year.

The external drain on liquidity was reinforced by progressively more restrictive economic policy. In February the Bank of Finland cut its participation in the financing of domestic producer credits from 30 to 15 per cent. Beginning in the spring the government curtailed its public works and employment-creating programmes and also increased its deposits at the Bank of Finland. Furthermore, besides slowing down the growth of its own spending, the government imposed a tax of 40 per cent. on non-priority construction in southern Finland commenced between June 1973 and September 1974.

Under a set of monetary restraint measures announced in June the Bank of Finland's discount rate was raised from 7¾ to 9¼ per cent. as from July and banks' deposit and lending rates were increased. In addition, the banks were requested to restrict credits for consumption, stock-building and non-priority construction, and generally to postpone the opening of new credits for less essential projects. Moreover, the prohibition introduced at the same time on the use of credit for certain imports, mainly consumer goods, and the requirement that cash deposits be lodged with the

Bank of Finland in respect of medium and long-term borrowing abroad, were expected to restrict domestic liquidity. To avoid excessive strain on the commercial banks, their credit quotas at the central bank were raised in August, and thereafter the penal interest rate, 4 per cent. above discount rate, was applied to the total central-bank indebtedness of credit institutions in excess of their quotas by more than 40 per cent. (previously 20 per cent.). With its budget in strong surplus, the government froze F.mk. 500 million in an anti-cyclical fund in November. In addition, funds lodged in deposit certificates with the Bank of Finland increased in 1973 by F.mk. 660 million.

Over the year as a whole money and quasi-money grew by 15½ per cent., compared with 17 per cent. in 1972. Lending by the credit institutions to the economy rose by 23 per cent. With their deposits rising by only 11 per cent., the commercial banks increased their recourse to central-bank credit during the year by F.mk. 1,860 million. At F.mk. 2,615 million at the end of the year, their central-bank indebtedness exceeded the total of their quotas by 69 per cent.

Although investment had strengthened following the conclusion of the trade agreement with the EEC in October 1973, by early 1974 the consumption boom seemed to be cooling off and the oil crisis was expected to cause some unemployment. In February the Bank of Finland's participation in domestic producer credits was increased to 30 per cent. and steps were taken to promote export credit. In addition, the commercial banks' borrowing quotas at the central bank were raised by about 50 per cent. in two stages in February and April. Meanwhile, indirect taxes on oil products were lowered by about 15 per cent. on average. The government's 1974 budget as revised in March envisaged a net borrowing requirement of F.mk. 165 million, compared with a surplus of F.mk. 1,700 million in 1973. It provided for a 25 per cent. increase in expenditure and, at a cost to the budget of F.mk. 950 million, income-tax concessions forming part of a two-year incomes policy settlement which came into effect in April. This settlement was based, among other things, on increases in social benefits and food subsidies as well as a broadening of price controls. It has been estimated that the settlement, together with wage drift, will involve an increase in wages and salaries of some 14½ per cent. on average between 1973 and 1974.

Spain. The vigorous economic upswing which began late in 1971 continued until last summer but then slowed down as productive resources became fully utilised. The strongest components of demand were exports and investment, but private consumption also continued to advance at a good rate and over the year as a whole real gross national product rose by 8 per cent., or much the same as in 1972. A high level of employment was achieved but imports rose steeply and severe cost/price pressures built up, with the cost-of-living index increasing by 14 per cent. during the year. In these circumstances monetary policy was made more restrictive, price controls were tightened and towards the end of the year an incomes policy was introduced.

In the monetary field, partly to counteract the liquidity effect of earlier inflows of funds, the banks were required to meet their cash reserve coefficient on a daily basis from March 1973 onwards, and in April their ordinary rediscount quotas at the

Bank of Spain were cut by Pts. 5 milliard. In July the official rediscount rate was raised from 5 to 6 per cent. Moreover, the government began to issue three-month Treasury bills on a flexible basis and, for the first time, the Bank of Spain undertook regular open-market operations designed to influence the banks' liquidity.

Government expenditure rose less than the nominal gross national product last year and the budget excluding financial transactions moved into surplus. However, as Treasury grants to official lending institutions rose and as issues of government securities were much smaller than in 1972, the Treasury's net position vis-à-vis the Bank of Spain deteriorated, following a strong improvement in 1972. The 1974 budget proposals allowed for a fairly moderate growth in spending, but for the first time provided for a contingency fund to be used if necessary to sustain economic activity.

In September the prices of a range of goods and services were frozen until the end of the year. Supporting action included a liberalisation of import restrictions and bans on the export of certain goods. A more comprehensive prices and incomes programme for 1974 was announced in late November, subjecting the prices of items with a combined weight of two-thirds in the cost-of-living index to controls or official influence. Increases in wages under collective agreements were in general restricted to the rise in the cost of living. Distributions of dividends by companies were limited to the 1972–73 average and steps were taken to keep the increase in public expenditure in the first half of 1974 strictly in line with the budget proposals.

Around the same time, however, concern that the boom in exports and investment might soon taper off had been increased by the eruption of the oil crisis. Hence the November programme also provided for selective incentives to investment to be used if required and the tax on wage incomes was lowered from 14 to 12 per cent. Moreover, no new issues of Treasury bills were made; and in December the commercial banks' compulsory cash coefficient was lowered from 7½ to 6¾ per cent. and the range of liabilities subject to it was narrowed.

The reliance placed on prices and incomes measures led to a further easing of monetary policy in early 1974. Although in January the compulsory coefficient for the banks' security investments was raised from 21 to 22 per cent., the Bank of Spain refrained from offsetting the normal seasonal rise in bank liquidity and increased the banks' ordinary rediscount quotas by Pts. 21 milliard in four stages between January and March. In March, moreover, the government decided to limit increases in oil prices, which implied a public revenue loss of Pts. 30 milliard. In addition, it postponed increases in social security contributions at a cost of Pts. 15 milliard and announced a substantial increase in its investment expenditure.

Portugal. Following some recovery in output in 1972 the advance continued at a moderate pace last year thanks to rising exports and foreign tourism. Fixed investment appears to have expanded again and consumption kept on an upward course. Imports registered a fall early in the year but thereafter rose considerably. The pace of inflation speeded up further, with the consumer price indexes showing a rise of about 20 per cent. during the year.

Money and quasi-money of the private sector rose by about 28 per cent., compared with 22 per cent. in 1972. The authorities' net purchases of foreign exchange had a smaller impact on the economy's liquidity last year than in 1972, but partly counteracting this the Bank of Portugal's domestic lending, largely privileged credit for exports and investment, rose more rapidly. Although the commercial banks' compulsory reserve requirements had been raised slightly at the beginning of 1973, the credit system was able to increase its total lending to the private sector by 33 per cent., compared with 23 per cent. in 1972. Most of the increase again took the form of bill financing and, under the influence of selective measures taken early in the year to restrict commercial-bank lending for consumption and imports, a higher proportion went to finance exports and domestic productive activity.

Besides taking direct measures to regulate the prices of various goods and services, the government established a National Price Council in October with a view to negotiating agreements for limiting price increases in particular industries. With a faster rise of government spending approximately balanced by increased tax revenues, the Treasury accounts for the year were again in overall surplus.

In December the Bank of Portugal's discount rate was raised from 4 to 5 per cent. and its rate on advances on current account to 5½ per cent. Concurrently most of the credit institutions' deposit and lending rates were increased and action was taken to widen the interest rate differential in favour of longer-term deposits. At the same time, the public credit institutions and long-term credit banks were given authorisation to issue negotiable certificates of deposit. In early 1974 recourse by the banks beyond certain limits to current-account advances from the Bank of Portugal was made subject to a penal rate of 6.5 per cent. and provision was made for these facilities to be curtailed in cases where they had been used other than for temporary liquidity adjustments. Moreover, more selective criteria were applied in appraising the banks' requests for all types of accommodation.

In May the new government indicated that it would give priority to bringing down the high rate of inflation and to improving the structure of industry.

Yugoslavia. The broad anti-inflationary measures introduced in the two previous years were further reinforced in the early months of 1973. The new initiatives included not only fiscal and monetary restraint but also selective curbs on wages, prices and investment as well as a significant liberalisation of imports. These policies contributed to a slowing-down in domestic demand, and particularly in fixed investment. In consequence, industrial production and employment levelled off and inventories of finished goods increased sharply. Nevertheless, prices continued to rise, partly owing to the need for further administrative price adjustments, but also because of rising import prices and the devaluation of the dinar in line with that of the dollar.

Policy was reversed in the summer. Fiscal, administrative and financial measures impeding productive investment were relaxed and projects in agriculture, energy and raw materials were stimulated. Real wages were raised and consumer credit was made easier to obtain. At the same time steps were taken to improve agricultural output and the supply of imported consumer and investment goods. The second half of the year saw a reversal of the depreciation of the dinar that had occurred up to July. However, despite this development and the easier domestic demand situation, inflationary forces remained strong and for the year as a whole most price indexes rose by about 20 per cent., or more than in 1972.

It had originally been envisaged that the money supply should increase by less than the nominal social product and the target for bank lending had been fixed accordingly. However, the actual growth exceeded both the planned increase and the growth recorded in 1972, itself unusually high. In the twelve months up to November last year bank credit rose by about 20 per cent., against 17.5 per cent. the year before, and the money supply increased in the same period by nearly 42 per cent., as against 36 per cent. The resumption of an expansionary policy was partly responsible for this result, but the main reason was a new, unexpectedly large, surplus in the balance of payments associated mainly with medium and long-term borrowing abroad. In view of central-bank lending commitments for fixed priority purposes and on predetermined conditions, it proved difficult to control overall liquidity creation in the face of the external surplus.

In 1973 as a whole total domestic expenditure went up by 8 per cent. in volume, as against 5 per cent. in 1972. To help growth in 1974, private consumption is to be stimulated, partly by a reduction in indirect taxes, and more scope is to be provided for the self-financing of enterprise investment. To avoid an acceleration of price increases the government envisages a substantial rise in imports, even at the cost of a decline in the foreign exchange reserves.

Hungary. In recent years the authorities have aimed at restructuring the economy so as to achieve a better balance between supply and demand. To this end they have sought to exercise tighter centralised control over decision-making at enterprise level. In 1973 this policy produced satisfactory results. Output growth in industry, agriculture and construction speeded up again after the dip in 1972, although fixed investment — the principal source of strain in preceding years — remained constant and was slightly below plan targets. A main objective of monetary policy was to ensure a better utilisation of existing capacity and to speed up the marketing of products while holding down stock accumulation. Investment credit was granted on a substantially larger scale but with the impact still to be felt. A number of large — mostly less profitable — enterprises were extensively reorganised. In addition, the industrial labour force increased by 1.3 per cent. after two years of decline, and there was a further 5.8 per cent. gain in productivity. These developments helped to raise production in almost all branches of industry. Total money incomes went up by about 10 per cent., partly as a result of measures to even out income disparities between sectors and to improve social security pensions. Retail prices rose on average by 3.5 per cent., with those for foodstuffs going up by 5.2 per cent. These increases served to adjust price levels to existing cost structures. Personal consumption went up by 4½–5 per cent. in 1973, against 3.7 per cent. the previous year. Purchases of non-food consumer goods showed the highest gains, possibly because of the larger supply of durables partly associated with an increase in imports. A considerable growth in investment is planned for 1974, with particular emphasis on improving the utilisation of local energy resources, mainly coal, and reducing the dependence on imported oil. Plan targets for overall output, however, suggest a slower expansion than that achieved in 1973. In May 1974 restrictions were introduced, together with higher taxes, aimed at keeping the accumulation of private property within bounds.

Czechoslovakia. Economic expansion slowed down in 1973, but growth rates continued to compare very favourably with those in other industrialised countries. Since labour resources were fully utilised, productivity gains (about 5½ per cent. in industry) played a decisive rôle. These gains have tended to decline in recent years, partly because of delays in the completion of investment projects, the low efficiency level of certain new plants and the under-utilisation of existing capacity. A main aim has therefore been to modernise and rationalise production patterns and to shift labour to more productive sectors, partly by closing older factories. Gross investment increased by about 8½ per cent. in 1973, and its growth is expected to be somewhat higher still in 1974. At the same time, high priority will again be given to the energy sector, which has been a bottleneck for a number of years. Industrial production increased at approximately the same rate as in 1972, with producer goods rising faster than before while consumer goods levelled out. Construction slowed down considerably but agricultural output showed some advance. At 6.2 per cent., the increase in households' money income was slightly greater than in 1972. Personal consumption grew by 5.8 per cent., against 4.8 per cent. the year before. Domestic and foreign goods were in adequate supply at almost constant prices; stocks of certain durables increased, including a considerable number of unsold cars. Except for the higher growth rate planned for construction, targets for 1974 have been fixed roughly in line with actual results for 1973.

Eastern European economies:
Sectoral output and national income produced.

Countries	Gross output						National income produced[1]	
	Industry		Agriculture		Construction			
	1972	1973	1972	1973	1972	1973	1972	1973
	real annual increases, in percentages							
Bulgaria	8.3	10.6	4.8	3.0	9.3	7.0	7.0	8.7
Czechoslovakia	6.4	6.3	3.9	4.2	9.8	6.5	5.9	5.2
German Democratic Republic	6.3	6.8	10.7	.	2.8	6.1	5.7	5.5
Hungary	5.0	7.2	2.7	5.0	2.0	3.0	5.1	6.8[2]
Poland	10.7	11.6	8.4	7.8	16.4	20.8	10.1	10.0[2]
Rumania	11.7	14.7	9.2	0.2	7.5	7.3	10.0	10.8
USSR	6.5	7.4	−4.1	14.0	6.8	.	3.9	6.8

[1] Net material product. [2] Estimate.
Source: UN Economic Commission for Europe, *Economic Survey of Europe in 1973.*

German Democratic Republic. The growth of national income was much the same as in 1972 and slightly higher than the average in earlier years, although the increase in total agricultural output seems to have slowed down. The largest proportionate advance was recorded in the construction sector, where production went up by 6.1 per cent. against 2.8 per cent. in 1972. This outcome was mainly due to a 16 per cent. increase in the number of dwellings constructed, which contrasts with a 7 per cent. rise in 1972 and still lower rates previously. Industrial production accelerated moderately for the second year in succession, bringing the growth rate to above the average of the later sixties. Moreover, this was achieved despite a shortage of labour and plant capacity, thanks to a 5.8 per cent. advance in labour productivity and extensive overtime work. Consequently, modernisation and rationalisation remained the chief concern, while job-creating investment projects were made subject to scrutiny. Gross fixed capital formation rose by 9.7 per cent. in 1973, against 2.7 per cent. the year before. As this acceleration exceeded that in construction output, it would appear that investment in machinery and equipment increased quite strongly, with some priority being given to expanding capacity for the production of consumer goods. As bottlenecks in the supply of energy had long been a problem, investment in this sector showed a further gain of roughly 10 per cent. after a sharp rise of about 30 per cent. in 1972. Thanks partly to a 15 per cent. increase in social security pensions, private consumption continued to grow at about the same rate; total retail sales increased by approximately 6 per cent. last year, with non-food turnover going up by some 9 per cent. The plan for 1974 aims at maintaining approximately the same growth rates as those achieved last year. Emphasis will be laid on the promotion of exports and on rationalisation, with imports of advanced technology and know-how playing a greater rôle than hitherto.

Poland. The policy of improving the flexibility of the economy and raising real incomes, which was initiated in 1971, led to continued rapid growth last year. National income expanded by about 10 per cent. for the second year in succession, compared with 8 per cent. in 1971 and 6 per cent. between 1966 and 1970. Agricultural results were again very good, industrial production speeded up further and construction, including house-building, reached a new record level. This progress was largely attributable to a high rate of productive investment in earlier years, which in 1973 helped labour productivity to rise by more than 8 per cent. in industry and by 12 per cent. in construction. In addition, as there were still labour resources to be tapped, employment went up by more than 3 per cent. in industry and by as much as 7.9 per cent. in construction. However, with manpower gradually becoming scarcer, policy has aimed increasingly at stimulating further productivity gains, for instance by linking wages to the performance of enterprises. In addition, efforts were made last year to improve the organisational structure and the utilisation of raw materials. The oil crisis caused additional problems, although the supply of energy was generally sufficient. Gross fixed capital formation increased by 23 per cent. in 1973, the same as in the preceding year. Money incomes went up by about 13 per cent., while private consumption appears to have risen at roughly the same rate as in 1972, namely by about 9 per cent. Aggregate demand exceeded domestic output and led to substantially higher net imports. At the same time, private savings deposits rose steeply, going up by nearly a quarter in 1973. These developments suggest that consumer goods were to some extent in short supply, and the appreciable upward adjustments in the prices of certain products early in 1974 must be seen in this context. The plan for 1974, which again envisages substantial growth, gives particular emphasis to increasing exports. Imports are to remain high and will again be financed to a large extent by borrowing abroad.

Rumania. A principal aim in 1973 was the mobilisation of spare resources. To increase the labour force wages were raised by 4.3 per cent., as against 1.8 per cent. in 1972, and special measures were adopted for the recruitment of additional workers. To improve productivity a number of organisational changes were introduced (mainly involving re-centralisation) and more emphasis was laid on the completion of investment projects. In addition, considerable attention was given to the production of raw materials and the development of energy sources. The growth of industrial output went up from 11.7 per cent. in the previous two years to 14.7 per cent. in 1973. This was attributable mainly to a marked improvement in productivity, which rose by 9.1 per cent., against an average gain of about 5.3 per cent. in the two preceding years. Employment, on the other hand, increased by about 5 per cent., or less than in 1972 and 1971. The largest rises in output occurred in the engineering and metal-processing industries (+20.7 per cent.) and the chemical industry (+18.3 per cent.), while increases in the generation of electricity and in the production of building materials continued at more moderate rates. A shortfall in the production of fertiliser contributed to meagre grain and vegetable crops, but livestock farming made some progress. Despite the limited growth of total farm output, agricultural income rose by 11.2 per cent., thereby exceeding the growth in total money income, which went up by 9.3 per cent. Retail sales expanded by 7.8 per cent. and real income per head by 4.4 per cent. As national income went up by 10.8 per cent. and investment remained practically stable, there was room left for a considerable increase in exports, which brought the trade balance from deficit into surplus. The plan for 1974 envisages growth in excess of that recorded in 1973.

Bulgaria. The overall growth rate increased in 1973 after remaining stable for three years. The improvement was due to a faster advance in industrial production, which in 1972 had fallen somewhat below the long-term average. Output of producer goods grew most rapidly, with that of the engineering and metal-processing industries going up by 16.6 per cent., but the production of consumer goods also showed some improvement in relation to previous years. A weak spot was the supply of energy, where growth was much below that recorded in the previous three years. The production of building materials was again hampered by bottlenecks. As there was also a shortage of building workers — partly as a result of Bulgarian participation in projects abroad — the output of the construction industry grew more slowly. Although gross fixed capital formation rose less than in 1972, investment in the electricity sector proceeded on a large scale. In spite of a far-reaching reorganisation of agriculture initiated in 1970, farm output fell somewhat below expectations. In particular, shortages of fodder held down livestock production. An increase in industrial employment and selective rises in wages contributed to a considerable rise in total income, which in turn led to an expansion of 8.6 per cent. in retail sales, as against about 6½ per cent. in the preceding two years. With consumer prices fairly stable, real per-capita income went up by 7.9 per cent., or almost twice as much as in 1971 and 1972. At times various consumer goods and agricultural products were in short supply. Plans for 1974 again call for considerable growth, particularly in industrial output.

Soviet Union. The year 1973 was a year of consolidation. After an extended period of decelerating growth, which caused 1973 plan figures to be adjusted downwards early in the year, overall production picked up again. For the year as a whole the increase in national income came to 6.8 per cent., against only 3.9 per cent. in 1972 when a poor harvest had depressed overall output. In 1973 agricultural results were outstanding, with larger grain crops than ever before. Industrial output grew somewhat faster than in 1972, although it did not match the performance of earlier years. The principal gains were again in the chemical, car, electronics and general engineering industries, whereas the production of agricultural machinery, oil and natural gas fell short of plans. With regard to energy supplies, domestic needs were generally satisfied, but export contracts could not always be fully met. The output of producer goods advanced by 8.2 per cent., compared with 6.8 per cent. in 1972, but the 5.9 per cent. rise in the production of consumer goods was only marginally higher than the year before. With labour scarce, industrial output benefited from a 6 per cent. increase in labour productivity resulting primarily from emphasis on rationalisation investment. The far-reaching reorganisation of industry's administrative structure initiated in 1973 is expected to promote efficiency. In 1973 gross fixed capital formation went up by 3.9 per cent., against 7.2 per cent. in 1972, but a greater proportion than before was directed towards project completion. Nominal wages increased by 3.7 per cent., but, thanks to a rise of 2.3 per cent. in the working force and one of 5.9 per cent. in income from agriculture, total money income went up by 6.1 per cent. With prices almost stable, retail sales expanded by 5.3 per cent. and real income per head by 5 per cent. The difference between income and expenditure, which is reflected in a 13 per cent. rise in savings deposits, suggests that the supply of consumer goods was not always consistent with demand. The emphasis of the 1974 plan has therefore been laid on the production of consumer goods, and manufacturers have been given a certain degree of latitude to adjust their range of products according to market demand. The plan aims at increasing total investment by 6.3 per cent. and promoting productivity gains rather than expanding capacity. Overall growth is expected to accelerate slightly.

South Africa. A recovery of the economy had begun towards the end of 1972 with an upturn in private consumption, housing and public investment, but until late in 1973 its pace was retarded by the sluggishness of industrial fixed investment. With agricultural and gold output declining, the gross domestic product expanded by about 4 per cent. in 1973 as a whole, compared with 3 per cent. in 1972. Since productive resources were still not fully utilised, fiscal and monetary policies were basically designed to foster the recovery, but a 10 per cent. rise in consumer prices during the year and an emerging external deficit began to pose a policy dilemma.

Benefiting from the sharp rise in the value of commodity exports and of gold production, the current account recorded a surplus of nearly R. 200 million in 1973 as a whole. However, it moved into deficit late in the year when a strengthening of the economic recovery prompted a rebuilding of stocks. Moreover, the external capital account turned round from a surplus of R. 400 million in 1972 to a deficit of R. 210 million last year. This was due partly to steps taken by the United Kingdom in June 1972 to restrain outward portfolio investment, but to a larger extent to the easy credit conditions prevailing in South Africa and, in the latter part of the year, to speculation on a devaluation of the rand. Still linked to the dollar, the rand had not followed the devaluation of that currency in February and was revalued by 4.98 per cent. against it in June.

The government's budget proposals for the year ending March 1974 had provided for various cuts in taxation, together with increased incentives for fixed investment and exports. As for monetary policy, in late 1972 the long-standing ceilings on bank credit had been lifted and new cash and liquidity requirements had been set so as to leave the banks with ample liquidity. Following a lowering of Bank rate from 6 to 5½ per cent. in March 1973, the rates on bank lending and those quoted by the Reserve Bank for transactions in government stocks were reduced. Certain steps were, however, taken with the aim of moderating inflation, including a progressive liberalisation of imports, the revaluation of the rand and a cut, announced in August, in sales taxes on household goods and foodstuffs.

In the event the government's budget proved to be less expansionary than had been expected. With tax revenues rising rapidly, the government's borrowing requirement came to only R. 246 million in the calendar year 1973, compared with R. 748 million in 1972. Moreover, monetary policy had increasingly to take account of balance-of-payments considerations. The emerging external deficit squeezed bank liquidity directly and also raised the demand for bank loans, as borrowers turned from foreign to domestic sources of credit. Still wishing to foster domestic recovery, the authorities took steps to reduce the pressure on discount houses and offered liberal assistance to the credit system, although generally at penal rates frequently well above Bank rate. Money-market rates rose and between September and November the credit institutions increased their borrowing and lending rates by ½ percentage point. For the year as a whole the increase in bank lending to the private sector came to 36 per cent., compared with 12 per cent. in the previous year, while money and quasi-money rose by 23 per cent., as against 14 per cent. in 1972.

With outflows of funds accelerating around the turn of the year, Bank rate was increased to 6½ per cent. in January 1974 and most borrowing and lending rates of the credit institutions were also raised by one percentage point. However, the economy was still not expanding in line with productive potential. In February, to offset a part of the effect of the unexpectedly strong rise in its budget revenue, the government announced a bringing-forward of the date scheduled for its repayment of tax surcharges ("loan levies") imposed earlier, together with increases in social benefits and further cuts in sales duties. On 1st June Bank rate was put up to 7½ per cent. and the interest ceilings for bank deposits were raised by 1½ percentage points.

Australia. After turning upwards around the middle of 1972, economic activity gained strong momentum from the beginning of 1973. At first the upswing was based mainly on rising exports, a housing boom and a sharp rise in personal consumption, but later in 1973 private productive investment began to recover from a two-year slump. In the context of a decline in immigration and a marked deterioration of industrial relations, shortages of labour and materials soon began to restrain output and inflationary pressures became very severe.

The balance of payments turned from a surplus of A$2,180 million in 1972 to a deficit of A$320 million last year. The current-account surplus increased from A$270 to 400 million, but under the influence of restrictive exchange measures the capital account (including errors and omissions) swung round from a net inflow of A$1,910 million in 1972 to an outflow of A$720 million last year. The results on current account owed much to the boom in world prices of Australia's basic commodity exports. In volume terms, imports accelerated sharply during the year, increasingly outpacing exports. While this was mainly due to domestic overheating, imports were encouraged by a wide-ranging 25 per cent. cut in import tariffs in July and by currency revaluation. After a 7 per cent. revaluation against other currencies in December 1972, the Australian dollar, though otherwise kept in fixed relationship to the US dollar, did not follow the devaluation of that currency in February 1973 and was revalued against it by a further 5 per cent. in September.

Consumer prices, which had gone up by only 4.7 per cent. in 1972, accelerated sharply and by the last quarter of 1973 stood some 13 per cent. higher than a year earlier. Australia is almost self-sufficient in oil and prices for domestic crude had been fixed under long-term contracts between the government and concessionary companies. But for other commodities rises in export prices quickly influenced domestic prices and boosted incomes particularly in the farm sector. By the end of the year escalating wage increases were also a cause for concern. To help check inflation the government established a Prices Justification Tribunal which, in view of its limited constitutional powers in this field, relied principally on moral suasion.

With the scope for tightening fiscal policy limited by various expenditure and taxation commitments, the government's budget for the year ending June 1974 envisaged a domestically-effective deficit of A$162 million. In the calendar year 1973 the Treasury had a domestic financing requirement of A$1,200 million and met it mainly by drawing on its cash balances.

However, monetary policy was adapted to reinforce the restrictive liquidity effect which came from the turn-round in the external capital account. In particular, the commercial banks' cash reserve requirement was increased from 6.6 to 7.6 per cent. in April and then to 9 per cent. in August, the banks were requested to restrain their lending for housing and, beginning in September, restrictive open-market operations were pursued vigorously. Steps were taken to increase domestic interest rates and, in order to prevent a renewed inflow of funds, the special cash deposit requirement was raised in October from 25 to 33⅓ per cent. in respect of loans taken up abroad by residents at over two years, while the prohibition on borrowing abroad at shorter terms remained in force.

Money and quasi-money expanded during 1973 by 21 per cent., or about the same as in 1972. With the demand for credit boosted by the restrictions on borrowing abroad as well as by the economic upswing, the banks expanded their lending to the private sector by nearly 33 per cent., compared with 16 per cent. in 1972. During the year their holdings of liquid assets and government securities, taken together as a percentage of deposits, fell from 31.8 to 24.9 per cent. In the early months of 1974, with activity still at very high capacity levels, monetary policy was kept on a severely restrictive course.

New Zealand. Economic recovery from the earlier recessionary phase proceeded rapidly last year. Expansionary monetary and fiscal policies, together with rising prices of agricultural exports which brought the external accounts into surplus, boosted domestic incomes and liquidity. A speeding-up of consumption and housing demand from late 1972 onwards was followed by a strengthening of investment later in 1973. By early 1974 the expansion had become generalised and productive capacity was coming under strain.

Imports began to outpace exports late in 1973, but for the year as a whole the current account on a cash basis recorded a surplus of NZ\$152 million, compared with NZ\$ 208 million in 1972. The capital account swung over to net outflows of NZ\$ 21 million in 1973 from net inflows of NZ\$92 million in 1972. There was a larger net repayment of government indebtedness abroad and private capital inflows fell as borrowers shifted to domestic sources of credit. In July the New Zealand dollar was revalued by about 3 per cent. against the US dollar, to which it had previously been pegged, and in September it was revalued by a further 10 per cent.

Consumer prices rose during 1973 by 10.2 per cent., compared with 5.5 per cent. in 1972. Early in the year, with wages and dividends freed from former restraints, anti-inflationary policies relied mainly on price controls, which were extended to certain farm products and supported by subsidies, export restrictions and liberalisation of imports. However, in addition, wool and meat farmers were given inducements to place some NZ\$90 million of the increase in their incomes in blocked deposits at the Reserve Bank during the year. In June the government announced a guide-line for wages, but in August allowed an immediate general wage increase of 8.5 per cent. Then, following a 30-day price freeze, it made rises in wages, prices and profit margins subject to a strict limit designed to remain in effect until June 1974.

The government's budget for the year ending March 1974 provided for a considerable rise in expenditure, as well as for increased subsidies for exports, industrial investment and regional development and for the continuance of certain temporary income-tax concessions granted in 1972. As for monetary policy, long-standing ceilings on bank lending were terminated at the end of 1972 and in June 1973 a variable coefficient for banks' compulsory holdings of cash and government securities was introduced, initially being set at 42 per cent. of sight and 17 per cent. of time deposit liabilities. In August, with the economic recovery strengthening, the authorities announced increases of 2 percentage points in these ratios and also in the compulsory coefficients for finance companies' investments in government securities, to take effect in December. In November, moreover, the banks were asked not to increase the total of their credit limits for other financial institutions and for persons, other than for housing finance.

Over the year as a whole the public's deposits with the commercial banks rose by over 30 per cent., following a rise of nearly 40 per cent. in 1972. By cutting back on their investments the commercial banks were able to expand their lending by some 55 per cent. last year, as compared with only 7 per cent. in 1972. Only a small part of the rise went to manufacturing industry. In February 1974 the authorities announced a decrease in the compulsory coefficients for finance-company and savings-bank investments in government securities in order to make more finance available for industry and to help relieve strains in the mortgage market.

III. INTERNATIONAL TRADE AND PAYMENTS.

World trade.

International trade surged ahead in 1973, turnover reaching $508 milliard, or 35 per cent. more than in 1972. The rise was three and a half times the average growth rate over the past twenty years and twice as high as that recorded in 1972. The volume of trade increased by 11½ per cent., or some 2½ percentage points more than in the previous year, while average unit values of internationally traded goods, partly reflecting the further devaluation of the dollar, shot up by 21 per cent., against 7½ per cent. in 1972.

In volume terms the faster growth in trade last year was accounted for by the developed countries, which showed a gain of around 14 per cent., compared with 9 per cent. in 1972. In the case of developing countries there was a sharp deceleration: the rise in both exports and imports came to 1½ per cent., against 14 and 5½ per cent. respectively the year before.

Significant shifts occurred in the trade flows of industrial countries. While exports of the enlarged EEC went up by 37 per cent., their imports expanded by over

International trade.[1]

Areas	Exports (f.o.b.)		Imports (c.i.f.)		Rates of increase in exports		Rates of increase in imports	
	1972	1973	1972	1973	1972	1973	1972	1973
	in milliards of US dollars				in percentages			
Developed areas								
Europe:								
EEC[2]	153.1	209.8	152.4	213.8	+ 20	+ 37	+ 18	+ 40½
Other countries	34.2	47.0	44.4	61.5	+ 22	+ 37½	+ 17	+ 38½
Total	187.3	256.8	196.8	275.3	+ 20	+ 37	+ 18	+ 40
United States	49.0	70.2	58.9	73.2	+ 12½	+ 43½	+ 22	+ 24½
Canada	20.3	25.2	20.2	24.9	+ 15	+ 24½	+ 21½	+ 23½
Japan	28.6	37.0	23.5	38.3	+ 19	+ 29½	+ 19	+ 63½
Other countries[3]	11.6	17.0	12.0	17.6	+ 24	+ 47	— 1½	+ 46½
Total[4]	297.3	407.0	311.3	429.0	+ 18½	+ 37	+ 18	+ 38
(Volume index 1971 = 100)	*(108.5)*	*(123.7)*	*(109.7)*	*(124.6)*	*(+ 8½)*	*(+ 14)*	*(+ 9½)*	*(+ 13½)*
Other areas	73.0	90.0	70.9	89.5	+ 19	+ 23½	+ 12	+ 26
(Volume index 1971 = 100)	*(114.0)*	*(115.7)*	*(105.7)*	*(107.4)*	*(+ 14)*	*(+ 1½)*	*(+ 5½)*	*(+ 1½)*
Grand total	370.3	497.0	382.2	518.5	+ 18½	+ 34	+ 17	+ 35½
(Volume index 1971 = 100)	*(110.2)*	*(123.0)*	*(108.5)*	*(121.2)*	*(+ 10)*	*(+ 11½)*	*(+ 8½)*	*(+ 11½)*

[1] Represents roughly 90 per cent. of world trade, as the exports and imports of centrally-planned economies are included only to the extent that they are reflected in trade with the rest of the world. [2] Nine countries. [3] Australia, Israel, New Zealand, South Africa. [4] *Totals may not correspond to the sum of the individual items.*

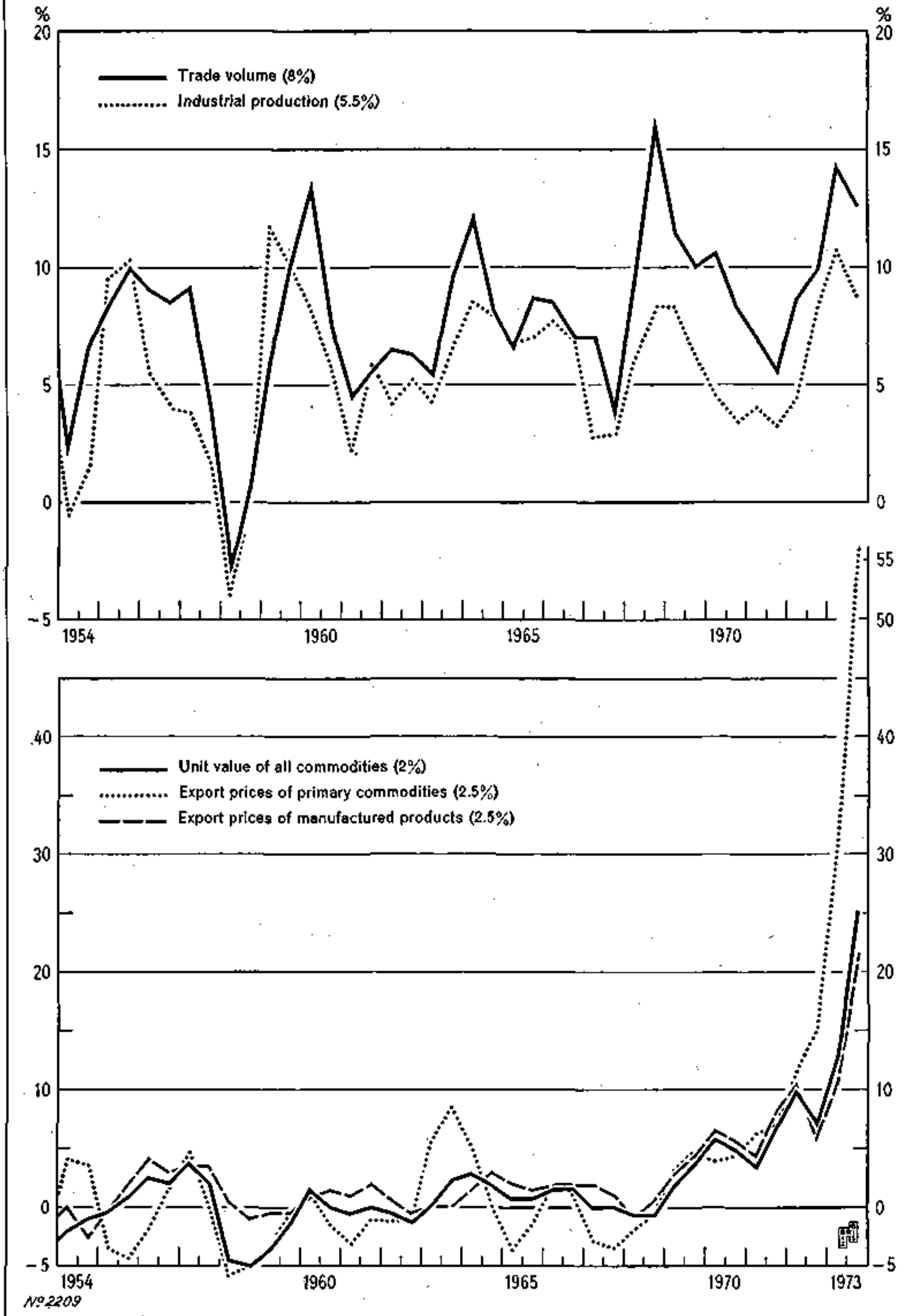
40 per cent., so that the small surplus recorded in 1972 gave way to a deficit of $4 milliard in 1973. The sharp acceleration in imports was spread fairly evenly over all countries, while in the case of exports Germany and the Netherlands experienced particularly large gains. EEC sales to Japan expanded very strongly, by over 70 per cent., while intra-area exports went up by more than 35 per cent. and those to North America by over 20 per cent. With both imports and exports showing gains of nearly 40 per cent., the $10 milliard deficit recorded in 1972 by other western European countries grew by over $4 milliard. With the exception of Sweden, whose trade surplus more than doubled to $1.7 milliard, all countries in this group showed a widening of their deficits. Exports from North America continued to gather momentum, rising by almost two-fifths last year, while imports showed a gain of about one-quarter. Canada's trade surplus increased and the US deficit contracted sharply from $9.9 milliard in 1972 to $3 milliard in 1973. North American exports to Japan rose by more than 70 per cent., and a strong expansion in agricultural sales to centrally-planned economies was recorded. The Japanese trade balance swung round by $6.4 milliard from a surplus in 1972 to a deficit last year. Exports rose by 30 per cent., but imports leapt up twice as much. Exports to Europe expanded by one-third, while those to North America showed a gain of under 5 per cent. Both imports and exports of other developed countries as a group expanded by more than one-half. The strength of the upswing in Australia, South Africa, New Zealand and Israel largely accounts for the pick-up in imports, while exports benefited from the rise in prices of primary commodities and (in the case of South Africa) gold.

As the accompanying graph shows, there has been in the past twenty years a close relationship between changes in the volume of world trade and industrial production. In long-term perspective the increase in trade volume last year was by no means exceptional, although its average rate of growth since 1968 has been appreciably higher than in the years 1954–67. What was so striking in 1973 was the rise in trade prices in comparison with recent years, and even more with the years since 1953. Over the period 1953–67 unit values in internationally traded goods had shown an average annual increase of only 0.1 per cent. This was followed between 1968 and 1972 by an increase of 4 per cent., while in 1973 the rise came to 21 per cent. Of particular significance in this context has been the boom in primary commodity prices. After the Korean war and up to the end of 1971 there was no very noteworthy divergence between the trends of export prices of primary commodities and those of manufactured products; between the last quarters of 1971 and 1973, however, export prices of primary commodities nearly doubled, while those of manufactured goods rose by only one-quarter. As discussed in Chapter I, these increases reflected not only the strength of world demand in the face of limited supplies but also hedging and speculative demands stemming from rapid monetary expansion, deeply ingrained inflationary expectations and widespread currency adjustments and uncertainties.

The graph also shows that the elasticity of the volume of world trade to industrial production is well above unity. On average over the period 1953–73 each percentage point change in industrial output was accompanied by a change one and a half times as large in the volume of trade.

The price and exchange rate upheavals of the past year clearly influenced the trade balances of the major industrial countries. Previously, sizable changes in the

World production, foreign trade and prices.
Percentage changes.*



* Half-yearly averages over same period of previous year. Prices are in terms of US dollars. Figures in brackets are average growth rates for the period 1953–73.

Changes in foreign trade average unit values* and in terms of trade.

Countries	Unit value of exports			Unit value of imports			Terms of trade		
	1972	1973		1972	1973		1972	1973	
		Year	4th quarter		Year	4th quarter		Year	4th quarter
	percentage changes from previous year or corresponding period of previous year								
Belgium	− 2½	+ 11½	+ 17	+ ½	+ 16½	+ 22½	− 3	− 4½	− 4½
Canada	+ 3	+ 17	+ 24	+ 3	+ 10½	+ 14½	0	+ 6	+ 8
France	+ 1	+ 10	+ 14½	+ 1	+ 8	+ 14	0	+ 1	+ ½
Germany	+ 1	+ 1½	+ 4½	− 2	+ 5	+ 9	+ 3	− 3	− 4
Italy	+ 1	+ 14½	+ 23½	+ 1½	+ 27	+ 43	− ½	− 10	− 14
Japan	− 2	+ 8½	+ 15½	− 7½	+ 12½	+ 22	+ 6	− 3½	− 5
Netherlands	+ 1	+ 7	+ 10½	− 1	+ 7½	+ 12	+ 2	− 1½	− 1½
Sweden	+ 4	+ 10	+ 16½	+ 1½	+ 13	+ 19½	+ 2	− 2	− 2
Switzerland	+ 2	+ 2½	+ 2½	+ ½	+ 5½	+ 12½	+ 1	− 3	− 9
United Kingdom	+ 5	+ 12½	+ 17	+ 4	+ 28½	+ 39½	+ 1	− 12½	− 16
United States	+ 3	+ 17	+ 24	+ 7½	+ 18½	+ 27½	− 4	− 1½	− 2½

* In terms of domestic currency.

terms of trade generally reflected effective exchange rate changes, but in 1973 this influence was often overshadowed by the importance of primary products relative to manufactures in individual countries' imports and exports. Thus at one extreme the Canadian dollar showed an effective depreciation of 1½ per cent. and yet Canada benefited from an 8 per cent. improvement in the terms of trade owing to the large share of basic materials in its exports. (These and the following figures in this section are based on end-1973 over end-1972 comparisons, as can be seen from the accompanying tables.) The effective depreciation of the US dollar amounted to 6 per cent., yet the US terms-of-trade deterioration was only 2½ per cent. The worsening of Japan's terms of trade, on the other hand, came to 5 per cent., despite an effective currency appreciation of 2½ per cent. Japan, Switzerland, the United Kingdom and Italy were in fact the worst hit by the rise in commodity prices. In the latter two countries, moreover, the deterioration in the terms of trade of about 15 per cent. partly resulted from the effective depreciation of the exchange rate.

The 23 per cent. expansion in export volume achieved by the United States last year and the deceleration in Japanese exports are practically the only examples lending support to theories of trade adjustments emphasising mainly price elasticities. After the United States the strongest export volume increases were recorded by Germany and Switzerland, i.e. the countries with the highest effective exchange rate appreciations, except for Japan, over the past three years (16½ and 12 per cent. respectively). These two countries, moreover, recorded what were among the lowest increases in import volume. On the other hand, the United Kingdom and Italy, in spite of the large depreciations, recorded unsatisfactory gains in their export volume. These various experiences tend to confirm that exchange rate movements are often outweighed by cyclical developments, supply conditions and, more generally, relative monetary factors.

Changes in the volume of exports and imports and in effective exchange rates.

Countries	Volume of exports			Volume of imports			Effective exchange rates		
	1972	1973 Year	1973 4th quarter	1972	1973 Year	1973 4th quarter	1971 Dec.	1972 Dec.	1973 Dec.
	percentage changes from previous year or corresponding period of previous year								
Belgium	+ 17½	+ 10	+ 4½	+ 8	+ 7½	+ 4½	+ 2	+ 1	− 2½
Canada	+ 10	+ 8	+ ½	+ 16½	+ 14	+ 12	0	0	− 1½
France	+ 13½	+ 11	+ 5½	+ 13½	+ 14	+ 8	− 5	+ 4½	+ 1
Germany	+ 8½	+ 18	+ 13	+ 9	+ 7½	+ 4	+ 5½	0	+ 11
Italy	+ 14½	+ 4	+ 5	+ 12	+ 13½	+ 6½	− 3	− 1½	− 16
Japan.	+ 7	+ 5	+ 2	+ 13	+ 28	+ 26½	+ 8½	+ 5	+ 2½
Netherlands . . .	+ 11	+ 14	+ 9	+ 5	+ 14	+ 5	+ 2	− ½	+ 3½
Sweden	+ 5½	+ 16	+ 9	+ 4	+ 7½	+ 10	− 1	+ 2½	− 4½
Switzerland . . .	+ 9	+ 12	+ 12	+ 8½	+ 7	+ 4	+ 3½	+ 1½	+ 7
United Kingdom .	+ 2	+ 14	+ 4½	+ 11	+ 16	+ 11	0	− 10	− 11½
United States . .	+ 9½	+ 23	+ 23	+ 13½	+ 5	− ½	− 6	− 2	− 6
Total . . .	+ 9½	+ 13½	+ 9½	+ 11	+ 12	+ 8	+ ½	− ½	− 1

In view of the commodity price boom, global indexes for unit values of exports are no longer useful indicators of changes in underlying competitiveness in the various industrial countries. For this purpose it is more helpful to look directly at export unit values for manufactured products and also at changes in unit labour costs. The movement of these indexes provides some striking evidence of the extent of the adjustments in relative prices over recent years and is also indicative of the extent of the disequilibrium that existed previously. For instance, German unit labour costs, expressed in US dollars, rose over the past four years at an average annual rate of 18½ per cent., or some 16 percentage points more each year than those in the United States, which would indicate an overall adjustment in terms of relative competitiveness of well over 60 per cent.

International payments.

One of the consequences of exchange rate movements over the past three years, and especially in 1973, has been a deterioration in the underlying quality of balance-of-payments data. Wherever possible, an attempt has been made to eliminate valuation changes from the figures given below so as to secure a more reliable picture of actual transactions. Comparative trends in international payments are examined in terms of US dollars, while the following survey of country developments is generally based on domestic currency data.

The overall balances of payments of the main industrial areas in 1973 showed significant but largely offsetting changes. The combined balance of western European countries recorded a surplus of $16 milliard, compared with $9.4 milliard a year earlier.

A near-doubling of the EEC surplus to $10.4 milliard reflected mainly the further strengthening in the German payments position, with other EEC countries showing much smaller and to a great extent compensating changes. The increase in the overall western European surplus was accompanied by a narrowing of the US deficit, which, at $4.7 milliard, was $8.9 milliard less than in 1972. As a counterpart to these changes there was a very large adverse shift from a $4.6 milliard surplus to a deficit of $10.2 milliard in Japan's balance of payments and a $3.3 milliard contraction of the overall surplus of developed countries of the southern hemisphere (Australia, New Zealand and South Africa) to approximate balance. All in all, therefore, the combined surplus of the developed areas dwindled last year to $0.9 milliard, from $3.3 milliard in 1972.

Developed areas: Balances of payments.

Balances and periods	EEC[1]	Other northern and central Europe[2]	Other southern Europe[3]	Total western Europe	United States	Canada	Japan	Southern hemisphere countries[4]	Total developed areas
	In milliards of US dollars								
Trade balance[5]									
1972	+ 8.5	− 2.1	− 5.4	+ 1.0	− 6.9	+ 1.6	+ 9.0	+ 3.2	+ 7.9
1973	+ 7.2	− 2.5	− 8.4	− 3.7	+ 0.7	+ 2.1	+ 3.7	+ 4.7	+ 7.5
Change	*− 1.3*	*− 0.4*	*− 3.0*	*− 4.7*	*+ 7.6*	*+ 0.5*	*− 5.3*	*+ 1.5*	*− 0.4*
Services and transfers									
1972	− 2.9	+ 2.2	+ 6.6	+ 5.9	− 1.5	− 2.2	− 2.4	− 2.6	− 2.8
1973	− 6.4	+ 2.8	+ 9.2	+ 5.6	+ 2.3	− 2.4	− 3.8	− 3.6	− 1.9
Change	*− 3.5*	*+ 0.6*	*+ 2.6*	*− 0.3*	*+ 3.8*	*− 0.2*	*− 1.4*	*− 1.0*	*+ 0.9*
Current balance									
1972	+ 5.6	+ 0.1	+ 1.2	+ 6.9	− 8.4	− 0.6	+ 6.6	+ 0.6	+ 5.1
1973	+ 0.8	+ 0.3	+ 0.8	+ 1.9	+ 3.0	− 0.3	− 0.1	+ 1.1	+ 5.6
Change	*− 4.8*	*+ 0.2*	*− 0.4*	*− 5.0*	*+ 11.4*	*+ 0.3*	*− 6.7*	*+ 0.5*	*+ 0.5*
Capital balance									
1972	− 0.1	+ 1.0	+ 1.6	+ 2.5	− 5.2	+ 0.2	− 2.0	+ 2.7	− 1.8
1973	+ 9.6	+ 2.2	+ 2.3	+ 14.1	− 7.7	+ 0.1	− 10.1	− 1.1	− 4.7
Change	*+ 9.7*	*+ 1.2*	*+ 0.7*	*+ 11.6*	*− 2.5*	*− 0.1*	*− 8.1*	*− 3.8*	*− 2.9*
Overall balance[6]									
1972	+ 5.5	+ 1.1	+ 2.8	+ 9.4	− 13.6	− 0.4	+ 4.6	+ 3.3	+ 3.3
1973	+ 10.4	+ 2.5	+ 3.1	+ 16.0	− 4.7	− 0.2	− 10.2	—	+ 0.9
Change	*+ 4.9*	*+ 1.4*	*+ 0.3*	*+ 6.6*	*+ 8.9*	*+ 0.2*	*− 14.8*	*− 3.3*	*− 2.4*

[1] Nine countries. [2] Austria, Finland, Iceland, Norway, Sweden, Switzerland. [3] Greece, Portugal, Spain, Turkey, Yugoslavia. [4] Australia, New Zealand, South Africa. [5] On an f.o.b. basis, partly estimated. [6] Equal to changes *in monetary items (net official assets and net short-term position of the banks), excluding, wherever possible,* valuation gains or losses on stocks.

If Japan showed the most drastic change in the overall balance, the United States accounted for the biggest shift on current account, with its 1972 deficit of $8.4 milliard giving way to a surplus of $3 milliard. The Canadian current-account deficit halved last year to $0.3 milliard, while the surplus of the developed southern-hemisphere countries increased by $0.5 to 1.1 milliard. Movements in the opposite direction were recorded in Japan, where the current account was in near-balance after the $6.6 milliard surplus recorded in 1972, and in western Europe, whose surplus contracted by $5 to 1.9 milliard. This latter change was mainly accounted for by the EEC: the increased surpluses of Germany and the Netherlands went only a small way towards compensating the declines recorded by other countries, notably Italy and the United

Kingdom, which together produced a shift of more than $8 milliard. As a result of all these movements, the combined current-account surplus of the developed areas showed little change, increasing by $0.5 to 5.6 milliard.

As regards capital movements, net inflows into western Europe shot up by $11.6 milliard to reach $14.1 milliard last year. This shift was attributable to a large extent to developments in the EEC; the biggest change — a swing of $5.4 milliard from deficit into surplus — was recorded by Italy, with a large part of this coming from the sharply increased recourse to official compensatory Euro-dollar borrowing. This type of borrowing also played an important rôle in making the United Kingdom a net importer of capital last year. Net inflows into Germany continued to swell, reaching $6.8 milliard, or $2.8 milliard more than in 1972. The increased net capital receipts recorded by western Europe were accompanied by negative shifts in the capital balances of all other areas. Japan's net outflows went up by $8.1 to 10.1 milliard. There was a turn-round from net receipts of $2.7 milliard to net outpayments of $1.1 milliard in the combined balance of the three southern-hemisphere countries, mostly on account of a shift in the Australian capital account. Finally, the US balance showed a $2.5 milliard increase in net outflows, which totalled $7.7 milliard. Summing up, capital outflows for all the developed areas came to $4.7 milliard, compared with $1.8 milliard in 1972.

A significant feature of international payments in recent years has been the growing importance of balances in respect of travel and workers' remittances, particularly in the case of some European countries. At the one extreme is Germany, with sizable and growing deficits on both accounts. Last year net travel outpayments by Germany amounted to $4.3 milliard and those stemming from workers' remittances to $3.7 milliard; the bulk of these remittances came from workers from Mediterranean countries, with the largest share — $1 milliard — going to Turkey. On these two items together net outpayments totalled $8 milliard. France also has an overall debit position ($1.2 milliard last year) representing the balance between net receipts on travel

Balances on travel and workers' remittances.

Countries	Foreign travel (net)			Emigrant workers' remittances (net)			Total		
	1971	1972	1973	1971	1972	1973	1971	1972	1973
	in milliards of US dollars								
Austria	+ 0.9	+ 1.2	+ 1.4	0	0	0	+ 0.9	+ 1.2	+ 1.4
France	+ 0.3	+ 0.3	+ 0.2	− 0.9	− 1.1	− 1.4	− 0.6	− 0.8	− 1.2
Germany	− 2.0	− 2.7	− 4.3	− 2.2	− 2.8	− 3.7	− 4.2	− 5.5	− 8.0
Greece	+ 0.2	+ 0.3	+ 0.4	+ 0.5	+ 0.6	+ 0.7	+ 0.7	+ 0.9	+ 1.1
Italy	+ 1.3	+ 1.5	+ 1.8	+ 1.3	+ 1.4	+ 1.5	+ 2.6	+ 2.9	+ 3.3
Portugal	+ 0.2	+ 0.2	+ 0.3	+ 0.7	+ 0.9	+ 1.1	+ 0.9	+ 1.1	+ 1.4
Spain	+ 1.9	+ 2.3	+ 2.9	+ 0.5	+ 0.6	+ 0.9	+ 2.4	+ 2.9	+ 3.8
Switzerland . . .	+ 0.6	+ 0.7	+ 0.9	− 0.4	− 0.5	− 0.6	+ 0.2	+ 0.2	+ 0.3
Turkey	0	0	+ 0.1	+ 0.5	+ 0.8	+ 1.2	+ 0.5	+ 0.8	+ 1.3
Yugoslavia . . .	+ 0.1	+ 0.2	+ 0.3	+ 0.7	+ 0.9	+ 1.3	+ 0.8	+ 1.1	+ 1.6

account and net outpayments due to remittances, the largest portion of which goes to Portugal. Switzerland shows an overall credit position; net receipts from travel last year amounted to $0.9 milliard, while remittances totalled $0.6 milliard. Austria enjoys a sizable surplus deriving almost entirely from tourist receipts. Among southern European countries Italy used to have the largest net receipts, but last year it was overtaken by Spain, whose surplus amounted to $3.8 milliard compared with Italy's $3.3 milliard. Spain's $2.9 milliard in net tourist receipts last year matched the combined total of all the other southern European countries shown in the table. As far as emigrants' remittances are concerned, Italy's net receipts totalled $1.5 milliard. Next came Yugoslavia with $1.3 milliard, which is nearly twice the amount received in 1971. Turkey's receipts reached $1.2 milliard, or two and a half times the 1971 surplus. Portugal earned $1.1 milliard, followed by Spain and Greece with surpluses of $0.9 and 0.7 milliard respectively.

Developments in individual countries.

United States. The recovery in the US balance of payments in 1973 was led by the long-awaited adjustment in the current account, which gathered momentum as the year wore on. The $3.6 milliard deficit on current transactions recorded in the second half of 1972 contracted to $1 milliard in the first half of 1973 and became a surplus of $4 milliard in the second half. For the year as a whole there was a surplus of $3 milliard, representing a swing of $11.4 milliard from the deficit in 1972.

The substantial effective depreciation of the dollar undoubtedly played a major rôle in this rapid turn-round. Nevertheless, other factors also exerted a strong influence. World-wide shortages of agricultural products accounted for a surge in US agricultural exports, while price controls at home gave some incentive for US producers to shift supplies to foreign markets.

Two-thirds of the recovery in the current balance was accounted for by merchandise transactions. Last year there was a surplus of $0.7 milliard, against a deficit of $6.9 milliard in 1972. Exports went up by nearly one-half, while imports rose by one-quarter. In volume terms the improvement is even clearer, since exports showed a gain of 23 per cent. and imports one of only 5 per cent. Exports of agricultural goods went up in value terms by approximately $8.4 milliard, or 90 per cent., and accounted for nearly 40 per cent. of the overall $21.5 milliard rise in exports. Among other exports the most rapid expansion (over 40 per cent.) was recorded in industrial supplies and basic materials. Exports of capital goods and manufactured consumer products went up by only about one-quarter.

On the import side, the most significant growth was recorded in industrial supplies and basic materials; they expanded by over 30 per cent., and accounted for nearly one-half of the total rise in imports. Imports of oil products rose by 75 per cent. to total $7.5 milliard. The increase in imports of manufactured goods was broadly in line with the development of domestic components of demand; capital goods rose by 35 per cent., while consumer goods increased by 14 per cent. Incomplete data on the US trade balance vis-à-vis major world areas indicate that the improvement occurred mainly in trade with Japan and the six original EEC countries and, largely as a result of a further sharp rise in exports of cereals and grains, with eastern Europe.

The balance on other current transactions also showed a substantial improvement, turning round from a deficit of $1.4 milliard to a surplus of $2.4 milliard. Half of this change was the result of an increase in net receipts of investment income: income from US investment abroad rose by $4.6 milliard, of which about half came from petroleum operations. Although outpayments also rose, mainly as a result of increased liabilities and higher interest rates, the increase amounted to only $2.8 milliard, thus leaving a net gain of $1.8 milliard. There was also an important improvement on military transactions, which recorded a deficit of $2.2 milliard, i.e. $1.4 milliard less than in 1972. This was mainly the result of increased aircraft deliveries to Australia, Germany and Iran and special transfers of military equipment to Israel in the fourth

United States: Balance of payments.[1]

Items	1972	1973 Year	1973 1st quarter	1973 2nd quarter	1973 3rd quarter	1973 4th quarter	1974 1st quarter
	in millions of dollars						
Merchandise trade (f.o.b.)							
Exports	48,770	70,255	15,230	16,675	18,140	20,210	22,380
Imports	55,685	69,565	16,175	17,010	17,530	18,850	22,090
Trade balance	− 6,915	+ 690	− 945	− 335	+ 610	+ 1,360	+ 290
Other current items							
Military transactions	− 3,560	− 2,170	− 825	− 730	− 540	− 75	.
Travel and transportation	− 2,850	− 2,310	− 605	− 705	− 475	− 525	.
Investment income	+ 7,865	+ 9,725	+ 2,330	+ 2,135	+ 2,335	+ 2,925	.
Other services	+ 850	+ 970	+ 230	+ 240	+ 220	+ 280	.
Remittances	− 1,570	− 1,915	− 395	− 390	− 405	− 725	.
Government grants	− 2,175	− 1,950	− 345	− 655	− 500	− 450	.
Total	− 1,440	+ 2,350	+ 390	− 105	+ 635	+ 1,430	.
Current balance	− 8,355	+ 3,040	− 555	− 440	+ 1,245	+ 2,790	.
Long-term capital							
US Government	− 1,340	− 1,470	− 335	+ 75	− 365	− 845	.
Direct investment	− 3,245	− 2,785	− 1,750	− 410	+ 275	− 900	.
Securities	+ 3,720	+ 3,300	+ 1,795	+ 370	+ 985	+ 150	.
Other	− 625	− 870	− 40	− 260	+ 410	− 980	.
Total	− 1,490	− 1,825	− 330	− 225	+ 1,305	− 2,575	.
Basic balance	− 9,845	+ 1,215	− 885	− 665	+ 2,550	+ 215	.
Short-term non-bank capital	− 635	− 1,090	− 655	− 85	− 190	− 160	.
Errors and omissions	− 3,110	− 4,795	− 3,895	+ 475	− 1,100	− 275	.
Overall balance[2]	−13,590	− 4,670	− 5,435	− 275	+ 1,260	− 220	+ 1,035
of which:							
Official reserve transactions[2]	−11,050	− 5,290	−10,475	+ 355	+ 2,130	+ 2,700	+ 865
Banks' short-term capital	− 2,540	+ 620	+ 5,040	− 630	− 870	− 2,920	+ 170

[1] Seasonally adjusted. [2] For ease of comparison, the SDR allocation of $710 million in 1972 is excluded, as are valuation adjustments of the net official position.

quarter. Another improvement was the decline of $0.5 milliard in the deficit on travel and transportation.

On balance net outpayments on long-term capital account showed a modest rise in relation to 1972. The most significant changes took place in direct investment transactions: outflows rose by $1.5 milliard, with all the deterioration concentrated in the first half of the year, which suggests that exchange rate expectations were at the root of it. Inflows, however, shot up to $2.1 milliard, from $0.2 milliard in 1972. This seems to reflect the great improvement in US unit labour costs in relation to the country's main competitors over the past few years. The gain in the direct investment balance was, however, offset by a fall in the net surplus on security transactions, due both to a stepping-up of US purchases and a slowing-down in foreign acquisitions. The combined balances on current and long-term capital accounts showed a surplus of $1.2 milliard, against a deficit of $9.8 milliard in 1972. It was in fact the first time since the war that the basic balance had been in surplus.

Short-term capital movements (other than banks' transactions, but including errors and omissions) resulted in net outpayments of $5.9 milliard in 1973; this was $2.1 milliard more than in 1972, but $8.1 milliard less than in 1971; nearly all of the outflow took place in the first quarter of 1973. The flight from the dollar early in the year also took place via the banking system, mainly in February before the devaluation and in early March in anticipation of the currency realignment, so that while the overall balance recorded a deficit of $5.4 milliard in the first quarter of 1973, the official reserve transactions balance showed one of $10.5 milliard. During the rest of the year short-term capital movements resulted in a net outflow of $1.3 milliard, but this was more than offset by net return flows of short-term funds via the banks amounting to $4.4 milliard; the bulk of these funds was brought into the country in the final quarter, probably in the expectation that the United States would be affected less severely by the rise in oil prices than some other key industrial countries. As a result of these divergent trends the overall balance—which excludes short-term bank movements—showed net receipts of $0.8 milliard over the period from April to December, made up of a surplus of $2.1 milliard in the basic balance and the deficit of $1.3 milliard on short-term capital. Adding the $4.4 milliard net banking inflows, the balance on official reserve transactions showed net receipts of $5.2 milliard. For the year as a whole, short-term banking inflows and outflows were nearly in balance, so that the deficits on the overall and official reserve transactions balances were very similar: $4.7 and 5.3 milliard respectively. The corresponding figures for 1972 had been $13.6 and 11.1 milliard, the difference of $2.5 milliard reflecting net inflows of short-term funds via the banking system.

The official settlements surplus declined sharply during the first quarter of 1974, from $2.7 milliard in the final quarter of 1973 to $0.9 milliard. According to incomplete data, this deterioration was attributable partly to a decline in the trade surplus — largely on account of higher oil prices — but mainly to a $3.1 milliard turn-round from substantial net inflows to small outflows of short-term bank funds, following the removal of US controls on outward capital movements at the end of January and relaxations in several other countries' restrictions on capital inflows. The overall balance in fact showed an improvement compared with the previous three months, shifting from a deficit of $0.2 milliard to a surplus of $1 milliard. Net visible receipts declined to $0.3 milliard from $1.4 milliard in October–December last year. In terms of volume exports and imports both rose by only about 2½ per cent., but in value exports increased by $2.2 milliard (or 11 per cent.), while imports rose by as much as $3.2 milliard (17 per cent.). Imports of crude oil and refined products declined by nearly one-fifth in volume, but there was a rise in value of about $1.9 milliard, accounting for nearly 60 per cent. of the total import expansion.

Canada. In spite of the rapid tempo of economic activity and growing capacity strains, the current-account deficit was nearly halved in 1973. This was the result of an increase of $0.5 milliard in the trade surplus, which amounted to $2.1 milliard. World demand for Canadian export products was very strong throughout the year, and the volume of exports would have been higher had it not been for supply constraints. At all events, merchandise exports went up by 26 per cent. in value and 8 per cent. in volume. The expansion was particularly marked (over one-third) for farm and fish products and metals and minerals. Imports increased by 25 per cent. in value; in volume the rise was 14 per cent. — less than in 1972 even though economic growth accelerated. The overall rise in net receipts from trade occurred despite a $0.5 milliard reduction in the surplus vis-à-vis the United States, caused by a turn-round in automotive trade. Thus the improvement in trade with other countries reached $1 milliard and was largely due to a near-doubling of exports to Japan.

The increase in the surplus on visible transactions was partly offset by a $0.3 milliard rise in net outpayments on service transactions, which came to $2.8 milliard. Over two-thirds of the deterioration was due to the growth in payments of interest and dividends. The surplus from net transfers rose slightly, mainly owing to increased immigrant receipts and inheritances.

Capital movements were characterised in 1973 by sharp reductions in net long-term inflows and short-term outflows (including errors and omissions) which virtually

Canada: Balance of payments.

Items	1970	1971	1972	1973 Year	1973 1st half	1973 2nd half
	in millions of US dollars					
Merchandise trade (f.o.b.)						
Exports	16,215	17,765	20,375	25,405	12,305	13,100
Imports	13,280	15,360	18,750	23,275	11,345	11,930
Trade balance	+ 2,935	+ 2,405	+ 1,625	+ 2,130	+ 960	+ 1,170
Services and transfers	— 1,855	— 2,105	— 2,250	— 2,465	— 1,450	— 1,015
Current balance	+ 1,080	+ 300	— 625	— 335	— 490	+ 155
Long-term capital	+ 705	+ 480	+ 1,780	+ 665	+ 475	+ 190
Basic balance	+ 1,785	+ 780	+ 1,155	+ 330	— 15	+ 345
Short-term capital and errors and omissions	— 200	— 1,400	— 1,575	— 510	— 330	— 180
Overall balance*	+ 1,585	— 620	— 420	— 180	— 345	+ 165

* For ease of comparison, SDR allocations of US $124, 118 and 117 million in 1970, 1971 and 1972 respectively are excluded, as are valuation adjustments of the net official position.

offset each other. The surplus on long-term capital fell by $1.1 to 0.7 milliard. The items accounting for this change were portfolio transactions and direct investment, net receipts from which were down by $1 and 0.2 milliard respectively. Inflows for direct investment were about the same as in 1972, but there was a strong increase in outflows, due mainly to a large special transaction in the fourth quarter reflecting the acquisition by the Canada Development Corporation of a substantial interest in a US company involved in the development of mineral resources in Canada. Reduced net inflows from security transactions probably resulted to some extent from a relative narrowing of interest rate differentials vis-à-vis the United States and, in the second half of the year, vis-à-vis Europe; there was a marked decline in the recourse to international markets by provinces and municipalities, which may have been partly a reaction to the financial asset build-up in 1972.

Net short-term capital outflows amounted to $0.5 milliard. The $1.1 milliard contraction from 1972 was primarily due to the substantial covered interest rate differential that persisted through much of the year in favour of Canadian vis-à-vis US short-term rates. In addition, in the fourth quarter, when world foreign exchange markets were beginning to feel the effects of the oil crisis, unhedged funds were placed in Canada.

In the first quarter of 1974 exports and imports on a seasonally adjusted basis were over 7 and 12 per cent. higher respectively than in the last three months of the previous year. The trade surplus thus declined sharply to stand at $0.1 milliard, compared with $0.4 milliard in October–December 1973. The reduction in the surplus was wholly in trade with countries other than the United States and largely reflected increased payments for oil.

Japan. A combination of cyclical factors, exchange rate realignment and selective adjustment policies produced a transformation of huge proportions in Japan's external payments balance. After a surplus of $4.6 milliard in 1972, the overall balance swung into a deficit of $10.2 milliard. There was even a small deficit on current transactions, against the record $6.6 milliard surplus in 1972, and net long-term capital outflows amounted to $9.8 milliard, which was more than twice the figure for the preceding year. Finally, unidentified transactions swung over to a deficit of $2.6 milliard.

The trade surplus shrank from $9 milliard in 1972 to $3.7 milliard last year. Exports rose in value by $8.2 milliard, or nearly 30 per cent., but by only 5 per cent. in volume; this was the result both of the yen appreciation and of tight domestic demand conditions, which caused goods to be diverted from foreign to domestic uses. The same factors operated in the opposite direction on the import side, particularly in the second half of 1973 as importers secured supplies of primary products in world markets in anticipation both of shortages and of a weakening of the yen. In consequence the volume of imports increased by over one-quarter. As Japanese imports comprise mainly food products, basic materials and fuels, the higher prices of such goods led to an increase of about one-third in the unit value of imports. Thus the overall rise in imports came to $13.5 milliard, or 70 per cent. The $5.3 milliard contraction in the trade surplus was accompanied by a $1.5 milliard increase in net expenditure on invisibles, mainly as a result of greater outlays on transport and travel accounts.

The deficit on long-term capital transactions stemmed chiefly from two sources: net external credits totalling $3.4 milliard extended by Japanese banks and net direct investment overseas amounting to $1.9 milliard. The increases on 1972 were $1.5 and 1.4 milliard respectively. A sizable deficit was also recorded in security transactions, since in the second half of the year foreigners liquidated some of their previous investments in view of the uncertain prospects for the yen. Compared with 1972 the deterioration on this account was $1.8 milliard.

Recorded short-term capital movements showed inflows of $2.4 milliard, or $0.4 milliard more than in 1972. This was essentially the result of increased receipts of trade credits accompanying the swelling import bill. On the other hand, there was a net outflow in the errors and omissions item (resulting mainly from the unwinding of leads and lags) amounting to $2.8 milliard, against a surplus of $0.5 milliard in 1972.

In view of the rapid deterioration of the balance-of-payments position, at the turn of 1973–74 the authorities took a series of measures (examined in detail in the following chapter of this Report) aimed chiefly at encouraging inflows of funds while restricting outflows. The measures met with some success and total net capital outflows declined sharply to $0.9 milliard in the first four months of 1974. The improvement is mainly ascribable to a slow-down in Japan's long-term capital exports. There were, on the other hand, sizable outflows resulting from non-residents' net sales of Japanese securities. Short-term capital movements (including errors and omissions) turned into net inflows as from the beginning of the year, so that for the whole period January–April net receipts amounted to $0.9 milliard. This was to some extent the result of increased corporate borrowing abroad in conjunction with liquidations of foreign currency deposits, as requested by the authorities.

The narrowing of net capital outflows was, however, accompanied by a sharp widening of the current deficit, which reached $4.1 milliard in the first four months of

Japan: Balance of payments.

Items	1970	1971	1972	1973	1973	1974
					January to April	
	in millions of US dollars					
Merchandise trade (f.o.b.)						
Exports	18,970	23,565	28,030	36,265	10,205	14,280
Imports	15,005	15,780	19,060	32,575	8,730	16,510
Trade balance	+ 3,965	+ 7,785	+ 8,970	+ 3,690	+ 1,475	− 2,230
Services and transfers	− 1,995	− 1,990	− 2,345	− 3,825	− 825	− 1,870
Current balance	+ 1,970	+ 5,795	+ 6,625	− 135	+ 650	− 4,100
Long-term capital	− 1,590	− 1,080	− 4,490	− 9,750	− 2,960	− 1,780
Basic balance	+ 380	+ 4,715	+ 2,135	− 9,885	− 2,310	− 5,880
Short-term capital and errors and omissions	+ 995	+ 2,960	+ 2,495	− 355	+ 185	+ 920
Overall balance*	+ 1,375	+ 7,675	+ 4,630	−10,240	− 2,125	− 4,960

* For ease of comparison, SDR allocations of $122, 128 and 160 million in 1970, 1971 and 1972 respectively are excluded, as are valuation adjustments of the net official position.

1974, reflecting deteriorations on both trade and invisibles. Largely as a result of the oil price increase, imports were 90 per cent. higher than a year earlier, while exports showed a rise of 40 per cent. The trade balance thus turned round from a surplus of $1.5 milliard in January–April 1973 to a deficit of $2.2 milliard in the corresponding period of this year. The deficit on invisibles registered a further advance, reaching $1.9 milliard, or $1 milliard more than in January–April 1973. The overall balance thus resulted in a $5 milliard deficit, about half that recorded for the whole of 1973.

United Kingdom. The current account continued to worsen sharply in 1973. After the surplus of £1,070 million recorded in 1971 had practically disappeared in 1972, current transactions last year yielded a record deficit of £1,470 million, the whole of the deterioration being due to trade, since the surplus on invisibles actually rose by £160 million to £905 million.

The widening of the trade deficit can be attributed to a number of concurrent factors. Firstly, the 12 per cent. deterioration in the terms of trade resulting from the depreciation of the pound at a time of upsurge in world commodity prices affected the United Kingdom severely; secondly, after a decline in 1972, there was a marked increase in the accumulation of stocks, which have a high import content; and thirdly, capacity limits were reached in many sectors in the second half of the year. This kept import demand very brisk, as indicated by the fact that the income elasticity of imports jumped from nearly 2 in the first half of the year to 5 in the second half. Exports also suffered; after rising rapidly in volume in the first nine months of the year they declined in the fourth quarter at a time when world demand, though decelerating, was still exerting a strong pull and the improved competitiveness of British goods should have enabled them to increase their share of world markets.

The value of exports in 1973, was one-quarter higher than the year before; the most rapid expansion, nearly 40 per cent., was vis-à-vis the new EEC partners. Imports rose in value by over 40 per cent., with both finished manufactures and basic materials expanding particularly rapidly.

The surplus on invisibles rose in 1973, essentially as a result of the £285 million increase in net receipts on interest, profits and dividends. The small surplus on transport and travel showed little change. The net credit balance on other private services totalled nearly £1,000 million, or £120 million more than in 1972, in spite of a fall in net receipts from insurance reflecting increased competition and higher claims. These gains were partly offset by an increase of £210 million to £770 million in the deficit on government services and transfers. Nearly half of this rise was accounted for by net payments to the EEC.

Capital transfers arising from the guarantee clauses of the Sterling Agreements amounted to £60 million in 1973.

The deterioration on current account was more than counterbalanced by the swing on capital flows, which showed net receipts totalling £1,840 million, compared with net outflows of £875 million in 1972. A major contribution to this massive shift came from the recourse by the UK public sector to foreign loans under the government

United Kingdom: Balance of payments.[1]

Items	1971	1972	1973	1972 1st half	1972 2nd half	1973 1st half	1973 2nd half
	in millions of pounds sterling						
Merchandise trade (f.o.b.)							
Exports	8,795	9,135	11,435	4,470	4,665	5,425	6,010
Imports	8,510	9,810	13,810	4,655	5,155	6,175	7,635
Trade balance	+ 285	− 675	− 2,375	− 185	− 490	− 750	− 1,625
Services and transfers	+ 785	+ 745	+ 905	+ 370	+ 375	+ 365	+ 540
Current balance	+ 1,070	+ 70	− 1,470	+ 185	− 115	− 385	− 1,085
Current balance unadjusted	+ 1,070	+ 70	− 1,470	+ 155	− 85	− 550	− 920
Capital transfers	—	—	− 60	—	—	− 55	− 5
Capital movements							
Structural capital flows:							
Official long-term capital	− 270	− 255	− 255	− 80	− 175	− 85	− 170
Foreign investment in the United Kingdom	+ 1,185	+ 840	+ 1,495	+ 395	+ 445	+ 695	+ 800
UK private investment abroad	− 875	− 1,450	− 1,250	− 700	− 750	− 620	− 630
UK banks' net foreign currency borrowing to finance UK private investment abroad	+ 280	+ 720	+ 470	+ 350	+ 370	+ 240	+ 230
Long-term trade credit	− 280	− 165	− 155	− 95	− 70	− 75	− 80
Total	+ 40	− 310	+ 305	− 130	− 180	+ 155	+ 150
Other capital movements:							
UK public-sector borrowing under the exchange cover scheme	—	—	+ 1,000	—	—	+ 325	+ 675
Identified short-term capital	+ 250	+ 10	+ 60	− 5	+ 15	+ 80	− 20
Balancing item	+ 300	− 575	+ 475	− 305	− 270	+ 300	+ 175
Total	+ 550	− 565	+ 1,535	− 310	− 255	+ 705	+ 830
Total capital movements	+ 590	− 875	+ 1,840	− 440	− 435	+ 860	+ 980
Overall balance[2]	+ 1,660	− 805	+ 310	− 285	− 520	+ 255	+ 55

[1] Data in respect of the current balance are seasonally adjusted. [2] For ease of comparison, SDR allocations of £125 and 124 million in 1971 and 1972 respectively are excluded.

exchange cover scheme reintroduced in March 1973; total borrowing amounted to £1,000 million. Another important factor was the £655 million increase in foreign investment inflows, largely to the private sector. Nearly 40 per cent. of the rise was accounted for by higher overseas direct investment (in sectors other than oil and insurance), which may have reflected the United Kingdom's improved competitive position. Investment in the oil sector also showed a sharp rise. On the other hand, there was a slight increase in net UK private investment abroad, after allowing for the banks' foreign currency borrowing abroad to finance such investment.

A substantial change also occurred in short-term capital movements (mainly unidentified transactions), with net outflows of £565 million in 1972 giving way last year to net inflows of £535 million, a large part of which took place in the first quarter. Since covered interest rate differentials were against sterling throughout the year owing to the high cost of forward cover, the inflows must be largely associated with uncovered transactions and the sharp expansion in the import bill.

The trade balance worsened in the first four months of 1974. The year-on-year rise in exports was 30 per cent., but that in imports came to 60 per cent. On a seasonally adjusted basis the deficit was running at an annual rate of £5,000 million, of which £3,000 million represented the oil deficit. There was in fact some improvement in the non-oil balance, in spite of the impact of the three-day working week, with net outpayments declining from an annual rate of about £2,500 million in the last four months of 1973 to £1,900 million in January–April 1974. The surplus on invisibles worked out at £1,000 million at an annual rate, slightly higher than that recorded in the first four months of 1973, so that the current-account deficit on an annual basis was £4,000 million.

Germany. Again in 1973 the pattern of foreign trade seemingly failed to respond in the desired direction to the successive DM revaluations. The visible surplus in fact jumped to DM 40.3 milliard, from DM 26.5 milliard in 1972. Thus, despite a DM 4.7 milliard rise in net outpayments on services and transfers, the current balance showed the highest surplus ever: DM 12.4 milliard, nearly four times as much as in the previous year. Net long-term capital inflows declined sharply, but identified short-term transactions turned round from deficit to surplus, with a DM 11.8 milliard swing. The overall balance thus closed with a surplus of DM 31.6 milliard, compared with DM 16.1 milliard in 1972.

Nearly half of the overall surplus was recorded in the first quarter of the year. Current transactions accounted for only slightly more than one-tenth of it. The bulk consisted of short-term capital inflows, including the errors and omissions item. In the rest of the year the situation was reversed in the sense that nearly two-thirds of the overall surplus resulted from current transactions.

Whereas in 1972 the increase in the trade surplus had been concentrated on transactions with a small number of countries, in particular the United States, in 1973 the improvement was more broadly based. The surplus with EEC partners rose by DM 7.8 to 8.6 milliard, with the biggest gains taking place vis-à-vis France (+ DM 3 milliard) and Italy (+ DM 2.3 milliard). Further increases (+DM 0.9 and 0.7 milliard respectively) were recorded in the surpluses with Switzerland and Austria, which came last year to a combined total of DM 11.4 milliard, or more than one-third of the German overall trade surplus. Another sharp rise (+ DM 1.9 milliard) was achieved in the trade surplus with centrally-planned economies, which over the past two years has quadrupled to reach DM 4.2 milliard.

Looking at the commodity composition of trade, it is interesting to note that exports of capital goods grew by only one-sixth, while those of agricultural and manufactured food products and those of basic materials and producers' goods expanded by over one-quarter and one-third respectively.

The deficits on services and on transfer payments continued to rise last year, reaching DM 11.8 and 16.1 milliard respectively, compared with DM 9.2 and 14 milliard in 1972. The growth in net outpayments on services was due to an increase of DM 2.9 milliard, to DM 11.5 milliard, in the deficit on travel account. Receipts declined slightly for the first time in over ten years, while expenditure accelerated. This supports the general impression that travel expenditure shows a higher short-run price elasticity than trade. The DM 2 milliard rise in net transfer payments was essentially due to larger remittances by foreign workers (DM 1 milliard) and to higher net contributions to the EEC (DM 0.7 milliard).

Net receipts from long-term capital transactions came in 1973 to DM 8.1 milliard — DM 6.8 milliard less than in 1972 but DM 1.8 milliard more than in 1971. Inflows were checked by administrative measures introduced in 1972 and tightened in February and June 1973. These measures were especially directed at stemming speculative movements via security transactions. Net receipts through this channel — concentrated mostly in the first three quarters — declined to DM 2.9 milliard, compared with DM 14.8 milliard in 1972. The main source of recorded inflows last year was therefore direct loans and advances, which, at DM 7.7 milliard, were DM 5.7 milliard higher than in 1972. No doubt a combination of availability, straight yield and prospective exchange rate developments accounted for this. The same factors, but with exchange considerations preponderant, underlay the very substantial short-term capital inflows (including errors and omissions) recorded in the first three quarters of 1973, especially in January–March. The principal avenue for such inflows was trade credit, largely showing up in the errors and omissions item.

After the sizable but declining quarterly surpluses in 1973 the overall balance was practically in equilibrium in the first three months of this year. This was the result of a massive turn-round in the capital balance. The speculative inflows of 1973 were

Germany: Balance of payments.

Items	1970	1971	1972	1973	1973 1st quarter	1974 1st quarter
	in millions of Deutsche Mark					
Merchandise trade (f.o.b.)						
Exports	124,850	136,555	149,535	178,995	41,600	55,205
Imports	103,630	113,260	122,995	138,680	33,685	41,005
Trade balance	+21,220	+23,295	+26,540	+40,315	+ 7,915	+14,200
Services and transfers	−17,635	−20,180	−23,190	−27,910	− 6,115	− 7,360
Current balance	+ 3,585	+ 3,115	+ 3,350	+12,405	+ 1,800	+ 6,840
Long-term capital	− 935	+ 6,295	+14,840	+ 8,090	+ 2,720	− 700
Basic balance	+ 2,650	+ 9,410	+18,190	+20,495	+ 4,520	+ 6,140
Short-term capital	+ 8,025	+ 3,055	− 3,235	+ 8,540	+ 5,305	+ 270
Errors and omissions	+ 3,310	+ 2,720	+ 1,155	+ 2,540	+ 4,465	− 6,425
Overall balance*	+13,985	+15,185	+16,110	+31,575	+14,290	− 15

* For ease of comparison, SDR allocations of DM 738, 627 and 620 million in 1970, 1971 and 1972 respectively are excluded, as are valuation adjustments of the net official position.

to some extent reversed in early 1974 as leads and lags were unwound. Short-term capital outflows (including errors and omissions) amounted to DM 6.2 milliard, and there was also a deficit of DM 0.7 milliard on long-term capital transactions; these movements occurred despite the easing of controls on capital imports and the US measure liberalising outflows at the end of January.

The current balance, on the other hand, continued to show a mounting surplus, which reached DM 6.8 milliard. The strength again lay in trade transactions, with exports expanding by one-third over the preceding year, compared with over 20 per cent. in the case of imports, despite the impact of the rise in oil prices. Imports from Italy and the United Kingdom were hampered by supply constraints due mainly to strikes. The trade surplus amounted to DM 14.2 milliard, or DM 6.3 milliard more than that recorded in the corresponding period of 1973 and, on seasonally adjusted data, over one-half higher than that of the previous quarter. The deficit on invisibles, on the other hand, continued to widen, reaching DM 7.4 milliard, some DM 1.2 milliard more than in the first quarter of 1973. The favourable trade results soon led to net inflows on the capital account and new upward pressure on the Deutsche Mark as from April.

France. With the current balance shifting into a small deficit and a sharp rise in net outpayments on long-term capital transactions, the overall balance closed last year with a deficit of Fr.fr. 3.6 milliard, against surpluses of Fr.fr. 1.2 and 10.3 milliard in 1972 and 1971 respectively.

The turn-round on current account was entirely due to the shrinking of net receipts from services, which fell from Fr.fr. 2.8 milliard in 1972 to Fr.fr. 0.9 milliard. In particular, the net surplus from tourism was nearly halved to Fr.fr. 1 milliard, while the deficit on transportation and ancillary freight charges reached Fr.fr. 2.1 milliard, a rise of over 50 per cent. The fall in tourism receipts may have been due in part to the appreciation of the franc in relation to the currencies of other countries competing in this sector. The rise in the cost of transportation and ancillary services was the result of both a sharp increase in rates and the volume expansion of merchandise trade. Trade continued to develop quite satisfactorily, showing a surplus of Fr.fr. 6.5 milliard, about the same as in 1972. Both imports and exports rose by about 20 per cent., more than one-half of the rise being in volume. On both the export and the import side agricultural goods, primary products and semi-manufactures showed relatively rapid growth. With regard to the geographical distribution of trade, the tendency towards diversification, a policy objective, resulted in a slight fall in the share of trade with other EEC member countries.

A dominant feature last year was the near-trebling of the net long-term capital outflow, which reached Fr.fr. 9.5 milliard. Four concomitant factors accounted for this: actual and prospective exchange rate movements, relative interest rate levels, a policy of strict limitation of French companies' long-term borrowing in the Euro-market and, in particular, maturity conversions undertaken by the banks. The latter's operations in fact resulted in a net outflow of Fr.fr. 7.1 milliard, nearly twice as much as in 1972, reflecting long-term lending abroad financed by short-term borrowing in the Euro-market. The turn-round in the balance on the private non-

France: Balance of payments.

Items	1971	1972	1973	1972 1st half	1972 2nd half	1973 1st half	1973 2nd half
	in millions of French francs						
Merchandise trade (f.o.b.)							
Exports	114,460	131,885	159,985	65,100	66,785	78,510	81,475
Imports	108,325	125,365	153,445	62,860	62,505	74,985	78,460
Trade balance	+ 6,135	+ 6,520	+ 6,540	+ 2,240	+ 4,280	+ 3,525	+ 3,015
Services and transfers							
Services	+ 3,690	+ 2,790	+ 930	+ 1,600	+ 1,190	+ 785	+ 145
Transfers	− 6,905	− 7,855	− 7,645	− 3,225	− 4,630	− 3,655	− 3,990
Total	− 3,215	− 5,065	− 6,715	− 1,625	− 3,440	− 2,870	− 3,845
Current balance	+ 2,920	+ 1,455	− 175	+ 615	+ 840	+ 655	− 830
Long-term capital							
Official	− 975	− 235	− 1,130	− 835	+ 600	− 755	− 375
Private non-bank	+ 1,065	+ 540	− 1,350	+ 1,140	− 600	+ 345	− 1,695
Banks	− 75	− 3,660	− 7,065	− 1,980	− 1,680	− 2,185	− 4,880
Total	+ 15	− 3,355	− 9,545	− 1,675	− 1,680	− 2,595	− 6,950
Basic balance	+ 2,935	− 1,900	− 9,720	− 1,060	− 840	− 1,940	− 7,780
Short-term capital and errors and omissions	+ 7,405	+ 3,105	+ 6,145	+ 1,170	+ 1,935	+ 4,225	+ 1,920
Overall balance*	+ 10,340	+ 1,205	− 3,575	+ 110	+ 1,095	+ 2,285	− 5,860

* For ease of comparison, SDR allocations of Fr.fr. 891 and 883 million in 1971 and 1972 respectively are excluded.

bank sector's transactions, which showed a deficit of Fr.fr. 1.4 milliard compared with a surplus of Fr.fr. 0.5 milliard in 1972, was essentially attributable to portfolio operations of both residents and non-residents, especially the latter. Residents stepped up their purchases, notably in the third quarter. Non-residents' purchases of French securities, on the other hand, were greatly reduced. The accounts also indicate a sharp rise in net outpayments on official long-term capital transactions. This, however, is entirely due to the writing-off in 1972 of Fr.fr. 1.1 milliard in respect of debts of certain African countries.

Net short-term capital inflows (including errors and omissions) amounted to Fr.fr. 6.1 milliard for the year as a whole. The surplus continued through the first nine months of the year in spite of stringent measures taken in March to stem inflows. As from 15th September the situation changed following the revaluation of the Dutch guilder, which was accompanied by speculation in favour of the Belgian franc and the Deutsche Mark at the expense of the French franc. At this time the restrictive measures introduced earlier in the year were withdrawn.

In the first quarter of 1974 exports on a seasonally adjusted basis were more than 20 per cent. higher than in October-December 1973 and imports were up by over 30 per cent. The trade balance thus recorded a deficit of Fr.fr. 3.3 milliard, compared with a surplus of Fr.fr. 0.9 milliard in the preceding three months.

Italy. Despite a severe underlying deterioration in the Italian balance of payments, the overall deficit dropped from Lit. 745 milliard in 1972 to Lit. 175 milliard last year. The difference is to be explained by the very sharp rise in the public sector's compensatory borrowing abroad, which on a net basis came to Lit. 2,570 milliard, compared with Lit. 350 milliard in the preceding year. This borrowing was undertaken in the face of a Lit. 2,575 milliard swing from surplus into deficit in the current balance, offset to some extent by a contraction in private capital outflows.

The deterioration on current account centred on merchandise transactions. According to balance-of-payments figures, the small surplus of 1972 gave way to a deficit of Lit. 2,275 milliard. With the expansion of domestic demand, imports rose by over 40 per cent., while exports went up by 20 per cent., the rise being concentrated largely in July–December as a consequence of strikes earlier in the year. These rates compare with around 15 per cent. for both exports and imports in 1972. In volume terms the import expansion (13 per cent.) was slightly higher than in 1972, but the export growth, at about 4 per cent., was less than one-third that of the previous year. The terms-of-trade deterioration resulting from the combined impact of the raw-materials price boom and the depreciation of the lira came to 10 per cent.

According to customs figures, the deterioration on merchandise account affected all major sectors: the structural deficit on primary products and energy sources increased by Lit. 1,085 milliard to Lit. 3,610 milliard, the surplus on manufactured and semi-manufactured products other than food contracted by Lit. 820 milliard to Lit. 2,645 milliard and net outpayments for foodstuffs widened by Lit. 935 milliard to Lit. 2,290 milliard. These figures clearly indicated the need to reduce the trade imbalance, especially in view of the impact of the higher prices of energy supplies. With the traditional deficit on primary products and energy bound to widen further, some offset must come from a shift of manufactured products from domestic absorption to export markets, and from a reduction of the food deficit which may be achieved by stepping up domestic output of substitutes for foreign products.

These developments set the stage for the introduction of a 50 per cent. deposit requirement on imports of food and consumer products in May 1974. By that time the deficit on merchandise transactions had reached alarming proportions; preliminary customs figures suggest that for the first four months of the current year it amounted to over Lit. 2,500 milliard — about half being due to oil — as against Lit. 900 milliard in January–April 1973.

The continuing ban on the crediting of Italian bank-notes coming from abroad to non-resident accounts led last year to a contraction, after the stagnation in 1972, of identified foreign exchange receipts from tourism and workers' remittances. To compensate for this distortion, the balance of payments on a transactions basis now gives estimates of actual invisible receipts and capital outpayments. These estimates, which have been extended to earlier years for purposes of comparison, show that the surpluses on tourism and workers' remittances amounted in 1973 to Lit. 1,050 and 860 milliard respectively, or somewhat more than in 1972. In spite of this, the overall surplus on invisibles in 1973 totalled only Lit. 870 milliard, or Lit. 270 milliard less than a year earlier. There was in fact a sharp expansion of net outpayments on

Italy: Balance of payments.

Items	1971	1972	1973	1972 1st half	1972 2nd half	1973 1st half	1973 2nd half
	in milliards of lire						
Merchandise trade (f.o.b.)							
Exports	9,275	10,755	12,870	5,220	5,535	5,560	7,310
Imports.	9,205	10,725	15,145	5,055	5,670	6,635	8,510
Trade balance . . .	+ 70	+ 30	− 2,275	+ 165	− 135	− 1,075	− 1,200
Services and transfers	+ 910	+ 1,140	+ 870	+ 590	+ 550	+ 220	+ 650
Current balance. . .	+ 980	+ 1,170	− 1,405	+ 755	+ 415	− 855	− 550
Identified capital movements							
Compensatory public-sector borrowing	− 140	+ 350	+ 2,570	− 260	+ 610	+ 555	+ 2,015
Other.	− 235	− 1,920	− 980	− 670	− 1,250	− 670	− 310
Total	− 375	− 1,570	+ 1,590	− 930	− 640	− 115	+ 1,705
Errors and omissions .	− 115	− 345	− 360	− 150	− 195	+ 55	− 415
Capital balance . . .	− 490	− 1,915	+ 1,230	− 1,080	− 835	− 60	+ 1,290
Overall balance* . .	+ 490	− 745	− 175	− 325	− 420	− 915	+ 740

* For ease of comparison, SDR allocations of Lit. 67 and 66 milliard in 1971 and 1972 respectively are excluded, as are valuation adjustments of the overall net external monetary position.

investment income, on transportation and on official transfers, the latter mainly in the form of higher contributions to the European Agricultural Guidance and Guarantee Fund.

In addition to the above-mentioned compensatory borrowing by public agencies, net autonomous outflows (including errors and omissions) contracted last year by Lit. 925 milliard, amounting to Lit. 1,340 milliard, largely as a result of an improved balance on trade credits. The balance on total capital transactions thus turned round from a net outflow of Lit. 1,915 milliard in 1972 to a net inflow of Lit. 1,230 milliard in 1973.

With the further substantial compensatory borrowing undertaken in the first five months of 1974, total indebtedness of this type now amounts to about Lit. 5,500 milliard, which implies a considerable servicing burden for future years.

Belgium-Luxemburg Economic Union. Balance-of-payments developments were dominated last year by sharp reductions in net capital outflows. Thus, despite a decline in net current-account receipts, the overall balance showed a surplus of B.fr. 37.5 milliard, B.fr. 17 milliard more than in 1972.

The current-account surplus contracted by B.fr. 8.3 to 42.9 milliard, essentially as a result of a swing into deficit on invisible transactions. Balance-of-payments data, which are presented on a partly cash basis, show a B.fr. 0.7 milliard contraction in net receipts from trade, which totalled B.fr. 45.7 milliard. Customs data on an adjusted f.o.b. basis show a similar trend, but with the surplus falling by B.fr. 4.4 to 55.5 milliard. Imports rose by one-quarter in value terms owing to the upswing in domestic demand, and exports increased by over 20 per cent. in spite of the effects of strikes and production bottlenecks in the second half of the year. There was a deterioration in the terms of trade amounting to about 4 per cent. In trade with other EEC countries net exports to weak-currency countries increased considerably, while the converse was true of trade with the strong-currency countries. The balance on invisibles turned into a B.fr. 2.8 milliard deficit, the substantial swing being mainly due to the sharp increase in net outpayments on government transactions.

Net capital outflows (including errors and omissions) declined from B.fr. 30.7 milliard in 1972 to B.fr. 5.4 milliard, mainly, it seems, reflecting growing confidence in the Belgian franc. Net outpayments were concentrated in the first half of the year, when they totalled B.fr. 18.9 milliard; in the second half the situation was reversed, with net receipts amounting to B.fr. 13.5 milliard. Private identified capital transactions resulted in net outflows of B.fr. 8.1 milliard, compared with the peak of B.fr. 17.3 milliard in 1972. This contraction was chiefly accounted for by a B.fr. 7.8 milliard increase in net inflows on direct investment and a reduction of B.fr. 7.6 milliard in net outflows on security transactions. Foreign direct investment increased sharply after the decline in 1972, while Belgian investment abroad showed only a small increase. Furthermore, non-residents stepped up their acquisition of Belgian securities and, even more significant, BLEU residents showed less interest in foreign securities. In addition, net public authorities' outpayments were reduced by B.fr. 5.6 to 7.3 milliard. This was more than accounted for by the Treasury, which completed the redemption of short-term indebtedness denominated in foreign currency and gold by early 1973.

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

Items	1970	1971	1972	1973	1973	1974
					1st quarter	
	in milliards of Belgian francs					
Merchandise trade[2]						
Exports	485.5	527.9	586.5	730.3	166.7	239.2
Imports	446.9	486.7	540.1	684.6	155.1	230.4
Trade balance	+ 38.6	+ 41.2	+ 46.4	+ 45.7	+ 11.6	+ 8.8
Services and transfers	− 2.9	+ 0.1	+ 4.8	− 2.8	+ 3.0	+ 2.5
Current balance	+ 35.7	+ 41.3	+ 51.2	+ 42.9	+ 14.6	+ 11.3
Identified capital movements						
Public sector	− 2.8	− 12.7	− 12.9	− 7.3	− 1.6	− 2.2
Direct investment	+ 8.1	+ 13.0	+ 11.2	+ 19.0	+ 5.3	+ 7.4
Securities	− 14.4	− 18.5	− 31.9	− 24.3	− 10.3	− 5.2
Other	− 10.2	+ 0.9	+ 3.4	− 2.8	− 7.3	− 2.7
Total	− 19.3	− 17.3	− 30.2	− 15.4	− 13.9	− 2.7
Errors and omissions	− 1.2	− 0.6	− 0.5	+ 10.0	+ 4.0	− 4.4
Capital balance	− 20.5	− 17.9	− 30.7	− 5.4	− 9.9	− 7.1
Overall balance[3]	+ 15.2	+ 23.4	+ 20.5	+ 37.5	+ 4.7	+ 4.2

[1] On a partly cash basis. [2] Exports and imports are partly c.i.f. [3] For ease of comparison, SDR allocations of B.fr. 3.5 milliard in each of the years 1970, 1971 and 1972 are excluded.

Other capital flows, mostly unidentified transactions of a speculative nature, led to a net inflow of B.fr. 7.2 milliard, compared with B.fr. 2.9 milliard in the preceding year. Substantial inflows were recorded early in 1973, before and immediately after the dollar devaluation. These gave way to net outflows, but from the summer onwards inflows occurred again, gathering momentum especially towards the end of the year.

In the first quarter of 1974 the trade surplus showed a small contraction compared with the same quarter last year and there were also somewhat smaller net receipts from invisibles. The current surplus was, however, still sizable, taking into account the oil price rises; it amounted to B.fr. 11.3 milliard, B.fr. 3.3 milliard less than in the first quarter of 1973. Net capital outflows, chiefly unidentified transactions, totalled B.fr. 7.1 milliard, so that there was an overall surplus of B.fr. 4.2 milliard.

Netherlands. After three years of increase, the overall surplus fell in 1973 to Fl. 1.1 milliard. The change was due to net capital outflows, which rose by Fl. 2.4 milliard (including unidentified movements) because of the more favourable yields obtainable abroad. Net receipts from current transactions went up by Fl. 1.3 to 5 milliard.

In spite of a slight deterioration in the terms of trade, the surplus on merchandise transactions widened by Fl. 0.7 to 2 milliard, thus accounting for three-fifths of the rise in the current-account surplus. Exports grew by about 20 per cent., with those to non-traditional markets — for the most part developing countries — being particularly buoyant. Imports, after sluggish growth in the preceding two years, also increased by about one-fifth, mainly in response to the recovery in industrial investment and stockpiling.

Net receipts from invisible transactions rose further last year, to Fl. 3 milliard. This was largely due to a substantial increase in net earnings from investment income—

Netherlands: Balance of payments.

Items	1971	1972	1973	1972 1st half	1972 2nd half	1973 1st half	1973 2nd half
	in millions of guilders						
Merchandise trade (f.o.b.)							
Exports	44,215	50,225	61,500	24,315	25,910	30,090	31,410
Imports	46,380	48,950	59,500	24,145	24,805	28,910	30,590
Trade balance	− 2,165	+ 1,275	+ 2,000	+ 170	+ 1,105	+ 1,180	+ 820
Services and transfers	+ 1,570	+ 2,425	+ 2,955	+ 915	+ 1,510	+ 1,690	+ 1,265
Current balance	− 595	+ 3,700	+ 4,955	+ 1,085	+ 2,615	+ 2,870	+ 2,085
Long-term capital	+ 1,400	− 2,595	− 4,515	− 900	− 1,695	− 2,025	− 2,490
Basic balance	+ 805	+ 1,105	+ 440	+ 185	+ 920	+ 845	− 405
Short-term capital and errors and omissions	+ 1,210	+ 1,105	+ 630	+ 815	+ 290	+ 380	+ 250
Overall balance*	+ 2,015	+ 2,210	+ 1,070	+ 1,000	+ 1,210	+ 1,225	− 155

* For ease of comparison, SDR allocations of Fl. 271 and 269 million in 1971 and 1972 respectively are excluded.

and in particular from funds employed on money markets abroad—for, on the other side, the deficit on tourism grew larger and net receipts from transportation and merchandise insurance declined.

Long-term capital movements resulted in a net outflow of Fl. 4.5 milliard, or Fl. 1.9 milliard more than in 1972. Three-quarters of this increase was accounted for by security transactions. A rise in residents' purchases of foreign shares was accompanied by a sizable turn-round into net sales of Dutch shares by non-residents, so that the net outflow on share transactions came to Fl. 2.3 milliard, against Fl. 1 milliard in 1972. In addition, residents' purchases of foreign bonds increased and there was even a small net repatriation of Dutch bonds, after the sharp contraction of sales to non-residents in 1972 resulting from the "closed bond circuit" introduced in September of the previous year. The latter scheme was in fact abolished in February 1974 in step with similar action taken by certain other countries. Net outflows in respect of long-term loans and credits showed a Fl. 0.6 milliard rise due to net repayments of foreign debt. Direct investment, by contrast, underwent a Fl. 0.4 milliard swing into net surplus, as foreign investment increased after a decline in 1972 while Dutch investment abroad levelled off.

Total short-term capital transactions, mainly unrecorded movements relating to leads and lags, showed a surplus of Fl. 0.6 milliard; this was only about half that of 1972 because of higher interest rates abroad and some speculative pressure on the guilder in the spring and in the late autumn following the oil embargo.

Denmark. In contrast to what had occurred in 1972, last year the deficit on current account widened appreciably, while the previous sharp reduction in net capital inflows gave way to a renewed and substantial increase, so that the overall surplus expanded by D.kr. 0.9 to 2 milliard.

Although the rise in merchandise exports in value terms came to 22 per cent., against 13 per cent. in 1972, the trade deficit more than doubled to D.kr. 7.1 milliard, as imports soared by 33 per cent. after growing by only 3 per cent. the year before. About one-third of the export rise represented an increase in volume, whereas in the case of imports the proportion was three-fifths. There was a slight improvement in the terms of trade, owing to the relative importance of agricultural products in Danish exports. The sharp rise in the value of imports and the relatively lower increase in exports mainly reflected the very high level of domestic economic activity and strong demand pressures; in addition, imports were influenced by a high rate of stock-building, whereas stocks had been run down in 1972. A further stimulus to imports came in the latter part of the year from the phasing-out of the temporary import surcharge in the spring of 1973. As to exports, the effects of labour conflicts on industrial output in the spring of 1973 were felt for some considerable time, with export industries experiencing difficulties in meeting demand. With its accession to the EEC Denmark's foreign trade was increasingly concentrated on its European partners. The total value of exports to this area rose by some 30 per cent. last year, while those of agricultural goods alone increased by some 40 per cent.

With net receipts from shipping showing little change over the previous year's level and those from tourism contracting by D.kr. 0.3 milliard, the rise of

D.kr. 1.7 milliard in the surplus on invisibles account was largely due to net payments of D.kr. 2 milliard received from the EEC under the agricultural support arrangements.

The total net capital inflow came to D.kr. 5 milliard in 1973, D.kr. 3.4 milliard more than a year earlier. Public-sector borrowing abroad continued to decline last year, totalling D.kr. 1 milliard less than in 1972, but net private capital imports (including errors and omissions) widened from near-balance to D.kr. 4.5 milliard. This was due in large part to the restrictive monetary policy which prevented credit demand from being fully satisfied by domestic borrowing.

The deficit on visible trade increased sharply in the first quarter of 1974, reaching D.kr. 4.5 milliard, about double the figure recorded in the corresponding period of last year. Exports were about 30 per cent. up while imports showed a rise of nearly one-half; imports of oil products grew most rapidly, as expected, but those of consumer goods, too, registered a very strong expansion. Also reflecting reduced net receipts from shipping, the current-account deficit widened to D.kr. 3.2 milliard, or some D.kr. 0.2 milliard more than in the whole of 1973.

Other EEC countries: Balances of payments.

Countries and years	Merchandise trade (f.o.b.)			Services and transfers	Current balance	Net capital move-ments[1]	Overall balance[2]
	Exports	Imports	Balance				
Denmark (millions of kroner)							
1971	26,995	32,310	− 5,315	+ 2,145	− 3,170	+ 4,000	+ 830
1972	30,440	33,440	− 3,000	+ 2,535	− 465	+ 1,615	+ 1,150
1973	37,210	44,355	− 7,145	+ 4,200	− 2,945	+ 4,980	+ 2,035
Ireland (millions of pounds)							
1971	525	740[3]	− 215	+ 130	− 85	.[4]	.[4]
1972	635	825[3]	− 190	+ 125	− 65	+ 25	− 40
1973	855	1,125[3]	− 270	+ 175	− 95	+ 125	+ 30

[1] Including errors and omissions. [2] Excluding SDR allocations. [3] Imports c.i.f. [4] Not available owing to the Irish bank strike.

Ireland. With both domestic and foreign demand buoyant throughout the year, exports and imports of merchandise expanded by about one-third, i.e. far faster than in 1972 and approximately three times as fast as the long-term average growth rates. The trade deficit widened from £190 million in 1972 to £270 million in 1973, but not because of changes in the terms of trade. Both export and import prices rose by about 20 per cent., which allowed the 8½ per cent. improvement in the terms of trade recorded in 1972 to be maintained. As in the previous year, industrial exports showed a significantly larger gain than exports of agricultural products. The increase in imports, on the other hand, was quite general. The £80 million deterioration in visible trade was largely offset by a £50 million rise in the surplus on invisibles which was attributable mainly to the first EEC transfer payments, amounting to £30 million, and to a partial recovery in tourism.

Total net capital inflows rose last year, mainly in connection with the financing of new industrial projects: net receipts amounted to £125 million, compared with

£25 million in 1972. The overall balance thus showed a surplus of £30 million, after the £40 million deficit recorded in 1972.

In the first four months of 1974 exports were over 80 per cent. higher than in January–April 1973, but imports rose almost twice as fast as exports. The trade gap came to £190 million, compared with £105 million in the corresponding period of last year.

Other European countries.

Austria. The overall surplus of Sch. 2.5 milliard in 1972 gave way last year to a deficit of Sch. 4.7 milliard. The swing was mainly due to a turn-round in long-term capital transactions, which gave rise to a deficit of Sch. 3.8 milliard, compared with a surplus of Sch. 1.9 milliard in 1972. The figures also show that the current deficit increased by Sch. 3 milliard to reach Sch. 6.9 milliard last year. However, since the errors and omissions are thought mainly to represent unrecorded current transactions, official estimates are that the current account showed a deficit of only about Sch. 2 milliard last year, compared with approximate balance in 1972.

With foreign and domestic demand both strong, exports and imports rose at similar rates of around 14 per cent. in value and 10 per cent. in volume. In absolute terms, however, the respective increases amounted to Sch. 12.2 and 16.6 milliard. This made for a Sch. 4.4 milliard widening of the Sch. 31.9 milliard trade deficit recorded in 1972. Net receipts from tourism increased last year by only Sch. 0.8 milliard, compared with Sch. 4 milliard in 1972. In real terms, as measured by foreigners' overnight stays, there was in fact a small decline.

The swing into deficit of long-term capital movements was the result partly of the comparatively low level of Austrian interest rates, which induced residents to increase sharply their investments in foreign bonds, and partly of the curb on foreigners' purchases of real estate and Austrian securities. Identified short-term capital transactions showed a movement in the opposite direction, turning round from a small net outflow in 1972 to a Sch. 0.7 milliard inflow in 1973.

Austria and Switzerland: Balances of payments.

Countries and years	Merchandise trade			Services and transfers	Current balance	Identified capital movements	Errors and omissions	Overall balance
	Exports (f.o.b.)	Imports (c.i.f.)	Balance					
Austria (millions of schillings)								
1971 . . .	79,080	105,780	−26,700	+24,450	− 2,250	+ 15	+ 5,165	+ 2,930*
1972 . . .	89,850	121,765	−31,915	+28,025	− 3,890	+ 1,825	+ 4,570	+ 2,505*
1973 . . .	102,065	138,335	−36,270	+29,340	− 6,930	− 3,055	+ 5,320	− 4,665*
Switzerland (millions of francs)								
1971 . . .	23,620	29,640	− 6,020	+ 6,360	+ 340	− 8,615	+17,480	+ 9,205
1972 . . .	26,190	32,370	− 6,180	+ 7,020	+ 840	−10,990	+10,055	− 95
1973 . . .	29,950	36,590	− 6,640	+ 7,640	+ 1,000	− 8,725	+ 9,765	+ 2,040

* For ease of comparison, SDR allocations of Sch. 487 and 708 million in 1971 and 1972 respectively are excluded, as are valuation adjustments of the net official position.

Partly as a result of the tariff cuts between Austria and the EEC countries in effect from the beginning of the year, both exports and imports picked up sharply in the first quarter of 1974, after the near-stagnation in the closing months of 1973. Exports were 45 per cent. higher than in the corresponding period of last year, and imports over 30 per cent., so that the trade deficit came to Sch. 10.6 milliard, about the same as in the first quarter of 1973.

Switzerland. With the growth of domestic demand beginning to slow down after a period of sustained boom, exports in volume terms expanded more rapidly than imports, notwithstanding the considerable effective appreciation of the Swiss franc. Thus, the deficit on merchandise transactions rose by only Sw.fr. 0.5 milliard, most of the deterioration occurring in the fourth quarter as a result of the oil price rises. This was more than offset by a gain on invisibles — mainly net earnings from investment income, but also from tourism — so that the current surplus last year is estimated at Sw.fr. 1 milliard, or Sw.fr. 0.2 milliard more than in 1972. The salient feature of the balance of payments, however, was the swing in the capital account (including errors and omissions) from a deficit of Sw.fr. 0.9 milliard in 1972 to a surplus of Sw.fr. 1 milliard in 1973. The overall balance therefore recorded a surplus of Sw.fr. 2 milliard, compared with near-equilibrium in 1972.

The restrictive measures applied since the summer of 1972 to stem speculative inflows of funds into Switzerland and to recycle funds abroad did not prevent substantial net receipts in the first half of 1973. The inflows were clearly in anticipation of exchange rate changes, as they were concentrated in the periods of exchange unrest, in particular late January and the middle of February. In the second half of the year the situation changed and the capital account turned into deficit. The Sw.fr. 1 milliard net receipts for the year as a whole imply gross inflows of at least Sw.fr. 9.7 milliard, since recorded outflows amounted to Sw.fr. 8.7 milliard, compared with Sw.fr. 11 milliard in 1972. This reduction was mainly the consequence of a fall in placements abroad by investment trusts.

With both imports and exports showing advances on a twelve-month basis of about 25 per cent., the trade deficit reached Sw.fr. 3.1 milliard in the first four months of 1974, compared with Sw.fr. 2.4 milliard in January–April 1973.

Finland. The swing in Finland's overall balance of payments from a surplus of F.mk. 0.5 milliard in 1972 to a deficit of F.mk. 0.8 milliard last year was mainly due to a near-doubling of net outpayments on trade account.

The F.mk. 1 milliard increase in the trade deficit reflected, on the one hand, conditions of excessive domestic demand and significant stock-building and, on the other, capacity constraints in the wood-processing industries and shortages of skilled labour in the metal and engineering industry, which hampered exports. Thus, last year the rise in imports accelerated from 11 to 26 per cent. in terms of value; about half of the increase was in volume. The growth of exports came to about 20 per cent. in terms of value but slowed down from 15 to 3 per cent. in volume. There was an improvement in the terms of trade of some 6 per cent., reflecting in particular the sharp rise in export prices of wood products and metals.

In order to stem the increase in imports of consumer goods, which went up last year by almost 30 per cent., a cash-payment system was adopted in June 1973. Subsequently, as a temporary measure, import licensing was introduced on a wide range of consumer durables to prevent further speculative stock-building.

The fall in net long-term capital receipts from F.mk 1.3 to 0.4 milliard was due to a decrease of F.mk. 1.3 milliard in borrowing abroad, which was only partly offset by a F.mk. 0.4 milliard changeover to net inflows in respect of long-term export credits. The reduction in borrowing abroad was the consequence of relatively easy conditions in the domestic capital market. In the second half of the year an additional restraining factor was the introduction in June of a special central-bank deposit requirement on imports of medium and long-term capital.

Overall capital receipts, however, were about the same as in 1972 as the balance on short-term transactions (including errors and omissions) moved from a net outflow of F.mk. 0.3 milliard to a net inflow of F.mk. 0.5 milliard. This shift was particularly pronounced towards the end of 1973, when short-term borrowing abroad replaced to some extent long-term foreign loans.

During the first four months of 1974 the trade deficit totalled F.mk. 1.4 milliard, F.mk. 0.5 milliard more than in the same period last year, with both exports and imports about 50 per cent. higher. Imports of fuels rose from F.mk. 0.4 to 1.1 milliard.

Iceland. In 1973 both imports and exports rose in value by about 50 per cent., with the trade deficit increasing by $10 million. Exports benefited especially from the increase in world prices for fish and aluminium. The large growth in imports was due both to a very rapid expansion in domestic demand and to special purchases of fishing vessels. There was, however, a sharp rise in net transfer receipts, mainly from other Nordic countries as aid for the resettlement of inhabitants of Vestmannaeyjar after the volcanic eruptions in January 1973. This more than offset the deterioration on trade account, so that the current deficit was reduced by $5 million to $15 million in 1973. Net capital inflows, at $25 million, were about the same as in 1972; they were mainly in the form of long-term loans, largely arranged by the public sector. The overall surplus therefore rose from $5 to 10 million.

Norway. The current-account deficit increased sharply last year, after having fallen substantially in 1972. This increase was due to the rapid expansion in imports connected with the exploitation of oil and gas fields in the North Sea. In fact, if the transactions of the oil sector are excluded the current account recorded a surplus of N.kr. 0.8 milliard in 1973, compared with one of N.kr. 0.6 milliard in 1972.

Both exports and imports, including ships, rose by about one-quarter in percentage terms, but the respective increases in value were N.kr. 5.5 and 8.1 milliard, so that the trade deficit rose by N.kr. 2.6 milliard to N.kr. 10 milliard. Net imports of ships totalled N.kr. 0.7 milliard, against net exports of N.kr. 0.1 milliard in 1972. Even excluding imports of ships and those related to oil activities — which showed the most rapid expansion — the import elasticity to income was as high as 3 last year, compared with 0.2 in 1972. This was partly the result of a rapid acceleration in demand in the second half of the year and partly due to the increasing need for

Nordic countries: Balances of payments.

Countries and years	Merchandise trade			Services and transfers	Current balance	Net capital movements[1]	Overall balance[2]
	Exports (f.o.b.)	Imports (c.i.f.)	Balance				
Finland (millions of markkas)							
1971	9,845	11,760	− 1,915	+ 495	− 1,420	+ 2,140	+ 720
1972	12,010	13,085	− 1,075	+ 595	− 480	+ 985	+ 505
1973	14,525	16,565	− 2,040	+ 355	− 1,685	+ 900	− 785
Iceland (millions of US dollars)							
1971	150	200[3]	− 50	+ 5	− 45	+ 60	+ 15
1972	190	215[3]	− 25	+ 5	− 20	+ 25	+ 5
1973	290	325[3]	− 35	+ 20	− 15	+ 25	+ 10
Norway (millions of kroner)							
1971	18,180	29,115	−10,935	+ 7,255	− 3,680	+ 4,585	+ 905
1972	21,795	29,230	− 7,435	+ 7,020	− 415	+ 1,200	+ 785
1973	27,280	37,280	−10,000	+ 8,020	− 1,980	+ 3,735	+ 1,755
Sweden (millions of kronor)							
1971	38,240	36,190	+ 2,050	− 960	+ 1,090	+ 130	+ 1,220
1972	41,700	38,620	+ 3,080	− 1,800	+ 1,280	+ 1,470	+ 2,750
1973	52,860	46,305	+ 6,555	− 1,610	+ 4,945	+ 695	+ 5,640

[1] Including errors and omissions. [2] Excluding SDR allocations. [3] Imports f.o.b.

imported inputs in Norway's export industries. The increase in exports was broadly based, but the break-down into volume and price changes was uneven. However, a significant proportion of Norwegian exports consists of primary and food products, which benefited from the world price rises. There was a 3 per cent. improvement in the terms of trade, essentially deriving from an effective appreciation of the Norwegian krone by about the same amount.

Net receipts from invisibles totalled N.kr. 8 milliard, against N.kr. 7 milliard in 1972. Net foreign exchange earnings from shipping went up by N.kr. 1.8 milliard, while on the debit side there was a rise of about N.kr. 0.4 milliard in the deficit on interest and transfer payments owing to the increased outstanding long-term foreign indebtedness of the private sector and an expansion in government transfers.

Net long-term capital inflows rose sharply, as funds were raised to finance the shipping sector and the exploitation of oil; they totalled N.kr. 4.8 milliard, compared with N.kr. 1.9 milliard in 1972, and as a result the basic surplus came to N.kr. 2.9 milliard, compared with N.kr. 1.5 milliard in 1972. There was, on the other hand, an increase in net short-term capital outflows (including errors and omissions), which totalled N.kr. 1.1 milliard, so that the overall surplus came to N.kr. 1.8 milliard, or N.kr. 1 milliard more than the year before.

In the first four months of 1974 the trade deficit continued to grow, reaching N.kr. 4.3 milliard, compared with N.kr. 2.5 milliard during the corresponding period of 1973; imports were nearly one-half higher, while exports showed an increase of about one-third.

Sweden. The dominant factor behind the large surplus in the overall balance of payments last year was the strengthening of the trade account, on which net receipts amounted to S.kr. 6.6 milliard, or more than twice as much as in 1972. This was due to the very rapid expansion of exports, which increased by 16 per cent. in volume and by 27 per cent. in value—three times the rates recorded in 1972. The existence of spare capacity over much of 1973, the moderate expansion of domestic demand and the willingness to allow stocks to be run down enabled net exports to account for two-thirds of the total GNP growth last year.

The rise in exports was especially strong in volume in the first half of the year and in unit value in the second half. In terms of value, exports of ships and wood products showed the largest increase, going up by nearly one-half. Imports grew by 21 per cent. in value and by 7½ per cent. in volume. In the case of consumer goods the expansion was moderated by the slow growth of demand and by the running-down of stocks accumulated in 1972. As with exports, the category to show the most rapid increase was ships, imports of which rose by nearly one-half in value.

In spite of a rise in net transfer outpayments, the deficit on invisibles shrank by S.kr. 0.2 milliard owing to a further increase in net receipts from shipping and a reduction in the net outflow on travel account. The current surplus thus amounted to S.kr. 4.9 milliard, compared with S.kr. 1.3 milliard in 1972.

The balance on identified capital transactions was in approximate equilibrium last year, following net inflows of S.kr. 1.2 milliard in 1972. Net long-term receipts dropped by half to S.kr. 0.4 milliard, while there was a swing into deficit of S.kr. 0.8 milliard in respect of short-term flows. These developments seem to reflect the easy credit conditions in Sweden last year, at a time when there was a significant tightening in the main foreign and international markets.

The overall surplus, which includes valuation adjustments, amounted to S.kr. 5.6 milliard, or S.kr. 2.9 milliard more than in 1972.

Portugal. The Esc. 0.8 milliard increase in the overall surplus was mainly due to a contraction in net identified short-term capital outflows, only partly offset by a turn-round into deficit in the errors and omissions item.

The current-account surplus, at Esc. 13.3 milliard, was about the same as in 1972, a widening of the trade deficit being offset by an increased surplus on invisibles. Exports went up by Esc. 10.5 milliard, but imports rose by Esc. 12.1 milliard. The rise in exports was broadly based; machinery and transport equipment showed the most rapid gain (nearly 50 per cent.), followed by wood products (over 30 per cent.). As to imports, the most significant rises were in agricultural, textile and chemical products, all with increases of over 30 per cent. Imports of machinery and transport equipment, on the other hand, grew by only about 15 per cent. The increase in the trade deficit was more than accounted for by transactions with countries outside the escudo area, as the surplus with the overseas provinces nearly doubled to reach Esc. 4.1 milliard.

Portugal and Spain: Balances of payments.

Countries and years	Merchandise trade (f.o.b.) Exports	Imports	Balance	Services and transfers	Current balance	Net capital move-ments[1]	Overall balance[2]
Portugal[3] (milliards of escudos)							
1971	28.2	46.3	− 18.1	+ 23.1	+ 5.0	+ 2.7	+ 7.7
1972	36.9	53.1	− 16.2	+ 29.4	+ 13.2	− 5.6	+ 7.6
1973	47.4	65.2	− 17.8	+ 31.1	+ 13.3	− 4.9	+ 8.4
Spain (milliards of pesetas)							
1971	208.5	320.4	− 111.9	+ 171.8	+ 59.9	+ 28.2	+ 88.1
1972	245.8	391.1	− 145.3	+ 188.1	+ 42.8	+ 53.5	+ 96.3
1973	313.5	519.2	− 205.7	+ 238.0	+ 32.3	+ 58.2	+ 90.5

[1] Including errors and omissions. [2] Excluding SDR allocations. [3] Metropolitan Portugal vis-à-vis the rest of the world; transactions with the escudo area are on a cash basis.

Net receipts from private transfers, chiefly emigrants' remittances, increased by Esc. 3.3 milliard. On the other hand, official transactions with the provinces resulted in an Esc. 2 milliard rise in net outpayments. On balance net invisible receipts recorded a gain of Esc. 1.7 milliard. As the long-term capital deficit showed little change over the year, the basic surplus of Esc. 9.8 milliard was about the same as in 1972.

Spain. The continuing rapid domestic expansion led to a Pts. 10.5 milliard fall in the current surplus, which totalled Pts. 32.3 milliard last year. There was in fact a marked deterioration on merchandise trade, but this was partly offset by the strong growth of net receipts from invisible transactions.

The trade deficit rose in 1973 by Pts. 60.4 milliard to Pts. 205.7 milliard. Imports went up by one-third, accelerating strongly in the second half of the year, when the economy showed signs of overheating; their growth was broadly based. In percentage terms exports also increased at a faster pace, rising by more than one-quarter. The most significant percentage gains were recorded by transport equipment (excluding ships) and iron and steel. Exports of ships and of footwear, which had both gone up by nearly one-half in 1972, decreased slightly last year.

Net receipts from services amounted to Pts. 156 milliard, compared with Pts. 132 milliard in 1972. The gain was wholly due to tourism: although the number of foreign tourists rose less than in 1972, there was an increase in spending per head. A similar phenomenon accounted for the Pts. 26.1 milliard rise in the net surplus from transfers. In fact, despite a net reduction in the number of emigrants, remittances went up by Pts. 14.3 milliard. This was due both to wage increases in the host countries and to their currencies' appreciation vis-à-vis the peseta (it may be recalled that over four-fifths of Spanish emigrants work in France, Germany and Switzerland).

Net long-term capital inflows brought in Pts. 44.5 milliard, or Pts. 14.7 milliard less than in 1972. In both years, but especially in 1973, the bulk of the surplus was accounted for by direct and real-estate investment. The contraction of net long-term capital receipts was more than offset by a Pts. 19.4 milliard swing into surplus on short-term capital account (including errors and omissions). The overall balance thus closed with a surplus of Pts. 90.5 milliard, compared with one of Pts. 96.3 milliard in 1972.

In the first quarter of 1974 Spanish foreign trade closed with a deficit of Pts. 95 milliard, nearly twice that recorded in the corresponding period a year earlier: exports were higher by about 20 per cent., but imports showed an increase of nearly 50 per cent.

Greece. The 1972 overall surplus, which had amounted to $0.5 milliard, gave way to approximate balance last year. The balance-of-payments statistics, which are on a cash basis, show this to be the result of a $1.2 milliard widening of the trade deficit which was only partly offset by increased net receipts from invisibles (+ $0.4 milliard) and from capital transactions (+ $0.3 milliard).

The strong increase in domestic demand during the greater part of 1973, following a long period of sustained expansion, brought the economy to capacity limits in many sectors. This and the sharp acceleration of domestic and world inflation—which led to a higher propensity to spend and to significant stock-building—explains why there was a rise of nearly 70 per cent. in payments for merchandise imports last year, a large part of which was accounted for by an increase in volume. The available payments figures indicate that imports of foodstuffs jumped by $0.5 to 0.8 milliard, reflecting a liberalisation of imports of food products and a stagnation of domestic agricultural output. Imports of capital goods also soared—from $0.6 to 1.1 milliard. Merchandise exports rose by about 50 per cent., with exports of raw cotton and textiles, in particular, nearly doubling. The expansion was especially marked in the latter part of the year, when the impact of the restrictive policy on domestic demand was beginning to make itself felt and it was possible for resources to be shifted to production for foreign markets.

Approximately half of the increase in net invisible receipts was accounted for by a $0.2 milliard rise in emigrants' remittances, which in 1973 totalled $0.7 milliard. The other half stemmed in about equal proportions from the larger surpluses on transportation and tourism.

Net capital inflows amounted to $1.2 milliard, compared with $0.9 milliard in 1972. The rise mainly reflects increased recourse to foreign borrowing by the public sector and by public enterprises.

Turkey. As a result of a near-doubling of invisible receipts, principally workers' remittances, the current-account balance moved into a surplus of $500 million from the small deficit recorded in 1972. This was accompanied, however, by a $365 million decline in net capital inflows to a total of $190 million. The overall surplus (as measured by the change in official reserves) thus came to $690 million, or $145 million more than in 1972.

The trade deficit amounted to $780 million, compared with $680 million in the previous year, although in proportional terms exports rose by one-half and imports by one-third. Exports of industrial products showed the most rapid advance (about two-thirds), those of agricultural products being to some extent affected by restrictions

Mediterranean countries: Balances of payments.

Countries	Years	Merchandise trade: Exports (f.o.b.)	Merchandise trade: Imports (c.i.f.)	Merchandise trade: Balance	Services and transfers	Current balance	Net capital move-ments[1]	Overall balance[2]
		in millions of US dollars						
Greece[3]	1971	625	1,945	− 1,320	+ 980	− 340	+ 525	+ 185
	1972	835	2,440	− 1,605	+ 1,200	− 405	+ 905	+ 500
	1973	1,230	4,045	− 2,815	+ 1,625	− 1,190	+ 1,180	− 10
Turkey	1971	675	1,170	− 495	+ 385	− 110	+ 435	+ 325[4]
	1972	885	1,565	− 680	+ 670	− 10	+ 555	+ 545[4]
	1973	1,320	2,100	− 780	+ 1,280	+ 500	+ 190	+ 690[4]
Yugoslavia . . .	1971	1,815	3,250	− 1,435	+ 1,080	− 355	+ 130	− 225
	1972	2,240	3,230	− 990	+ 1,410	+ 420	− 10	+ 410
	1973	2,825	4,400	− 1,575	+ 2,010	+ 435	+ 325	+ 760

[1] Including errors and omissions. [2] Excluding SDR allocations. [3] Balance of payments on a cash basis. [4] Equal to the change in official reserves.

imposed in September 1973 to alleviate domestic price inflation. Earlier, in March 1973, temporary restraining measures had been applied to imports. As to invisibles, the surplus on workers' remittances, at $1,180 million, was $440 million higher than in 1972. Net receipts from tourism also continued to rise, but they still totalled only $80 million.

In the first quarter of 1974 both exports and imports were over 50 per cent. higher than in the corresponding period of 1973. The increased trade deficit continued, however, to be offset by the sustained growth in remittances.

Yugoslavia. The current-account surplus increased slightly in 1973 to $435 million. This reflected a sharp rise in net receipts on invisibles, which more than compensated for the widening of the trade deficit. As a result of substantial long-term loans which were only partly offset by short-term outflows, there was also a net capital inflow amounting to $325 million, compared with small net outpayments in 1972. The overall balance therefore showed a surplus of $760 million, against $410 million in 1972.

Imports rose by $1,165 million, or over one-third, as a consequence of the policy of import liberalisation and the increased availability of foreign exchange, even though domestic demand was fairly slack and the dinar had depreciated substantially since 1971. All major sectors were evenly affected. A particularly large rise was recorded in imports from developing countries and from the USSR. The increase in exports amounted to $585 million, or about 25 per cent. The most dynamic items were raw materials and semi-manufactures, the biggest gains being in transactions with developing countries, Italy and the United States. Owing to the importance of agricultural products and primary commodities in Yugoslavia's exports, the terms of trade held up well last year, with import prices rising by about 15 per cent. and export prices by slightly more. Overall, the trade deficit totalled $1,575 million last year, compared with $990 million in 1972.

In the first quarter of 1974 both exports and imports were running at extremely high rates, about two-thirds above the level of the same quarter of 1973; in value the respective rises were $360 and 690 million. The trade deficit came to $730 million, compared with $400 and 210 million in the same periods of 1973 and 1972 respectively.

The surplus on invisibles in 1973 amounted to $2,010 million, or $600 million more than in 1972. Over two-thirds of the gain was due to an increase in emigrants' remittances, which totalled $1,310 million. Net receipts from tourism increased by $130 million, mainly owing to the rise in the number of foreign tourists.

Eastern European countries. In 1973 imports in value terms increased well in excess of 15 per cent. in most Comecon countries. Only in the Soviet Union was the rise of imports somewhat lower than in 1972, when a bad harvest had caused an exceptional increase in grain purchases abroad. In the majority of countries the percentage growth in exports was roughly the same as in 1972, while in the Soviet Union and Rumania exports rose much more rapidly. In consequence of these changes trade balances deteriorated in Bulgaria, Czechoslovakia, the German Democratic Republic and Poland, but improved in the Soviet Union, Rumania and Hungary.

Eastern Europe: Merchandise trade.

Countries	Exports		Imports		Trade balance	
	1972	1973	1972	1973	1972	1973
	annual percentage changes in value, in national currency terms*				in millions of national currency units*	
Bulgaria	11.1	12.7	11.8	13.9	65	40
Czechoslovakia	8.3	12.9	7.1	15.8	1,676	997
German Democratic Republic	12.2	9.4	9.7	19.6	1,080	— 1,159
Hungary	21.2	18.1	— 2.9	9.4	1,490	4,740
Poland	17.1	17.2	21.4	31.1	— 1,480	— 4,464
Rumania	14.0	29.2	14.7	20.4	— 92	1,155
USSR	2.5	24.5	18.4	16.5	— 569	350

* In the German Democratic Republic, Hungary and Poland in foreign trade accounting units.

Intra-area trade among the centrally-planned economies appears to have expanded by rather less than in 1972. Within the total, the Soviet Union's exports to Comecon countries seem to have recovered and its imports to have slowed down. Nevertheless, the Soviet Union apparently remained the main net importer in intra-area trade, while the German Democratic Republic, Hungary and Czechoslovakia were again the principal net exporters. Joint ventures among Comecon countries to develop sources of raw materials and energy in the Soviet Union may partly explain these net trade positions.

The International Investment Bank, an institution relying mainly on government resources from the Comecon countries, played an increasing rôle in the financing of such joint investment projects in the whole area. After three years of activity its outstanding loans rose to almost Roubles 0.6 milliard, of which more than half was granted last year. The activities of the International Bank for Economic Co-operation, which serves mainly to facilitate settlements between member countries, have also increased rapidly. In 1973 the volume of settlements effected through this institution came to Roubles 47.5 milliard, and the Bank's "settlement credits" for covering short-term payment swings together with its "term credits" for up to three years reached a level of Roubles 3.8 milliard.

Eastern European countries' transactions with the rest of the world, particularly with industrial market economies, expanded faster last year than trade among themselves. Growth rates for both export and import trade with other countries were generally in excess of 20 per cent. and in most cases imports rose more than exports. Imports from industrialised countries increased fastest, especially those of capital equipment and consumer goods with a high technical content. Foodstuff imports, though still large, were comparatively less important than in 1972, when serious domestic shortages had had to be covered abroad. All the countries again recorded trade deficits, usually larger than the previous year, vis-à-vis industrial market economies.

The trade balance for the Comecon members as a group, after shifting from a surplus of about $1 milliard in 1971 to a deficit of more than $350 million in 1972, remained in deficit last year. Incomplete data suggest that the net imports of the area from the rest of the world rose to more than $1 milliard. This change, which occurred despite the Soviet Union's swing into overall surplus, largely reflected increasing reliance on external resources for promoting domestic growth. However, price rises abroad were also a factor. The persistent deficit vis-à-vis industrial market economies was much larger than the overall deficit vis-à-vis the rest of the world: net imports from industrialised countries amounted to more than $2 milliard in 1972 and went on to exceed that amount already in January–September 1973. These figures imply that eastern European countries have become large net exporters to non-industrial countries. These surpluses would appear to have totalled over $1½ milliard in 1972 and still more in 1973 and probably entailed an appreciable amount of credit-granting.

In meeting deficits with the industrial market economies, some of the financing required was obtained through co-operation agreements, which were used more widely in 1973 than in the past. More important, however, the Comecon countries had greater recourse to western financial markets and to the export-financing institutions or governments of market economies. Last year net borrowing on the Euro-currency market alone may be put at about $1.7 milliard, against $0.7 milliard in 1972. As debt-servicing obligations in some countries have become increasingly burdensome, governments have sought to link a larger proportion of project borrowing to agreements for the purchase of the goods to be produced.

IV. GOLD, RESERVES AND FOREIGN EXCHANGE.

Gold production, markets and reserves.

World gold production (excluding that of the USSR, other eastern European countries, mainland China and North Korea) contracted from 1,175 tons in 1972 to 1,095 tons in 1973. This was the third consecutive yearly decline, bringing output down to 15 per cent. below its 1970 peak.

World gold production.

Countries	1929	1940	1946	1953	1969	1970	1971	1972	1973
	in metric tons								
South Africa . . .	323.9	436.9	371.0	371.4	973.0	1,000.4	976.3	908.7	852.3
Canada	60.0	165.9	88.5	126.1	79.2	74.9	70.3	64.7	59.9
United States . . .	64.0	151.4	49.0	60.9	53.9	54.2	46.5	44.4	36.7
Ghana	6.4	27.6	18.2	22.7	22.0	21.9	21.7	22.5	22.7
Philippines	5.1	34.9	—	14.9	17.8	18.7	19.8	18.7	18.2
Australia	13.3	51.1	25.6	33.4	21.7	19.4	20.9	23.4	18.0
Rhodesia	17.4	25.7	16.9	15.6	14.9	15.6	15.6	15.6	15.6
Japan.	9.3	12.6	1.3	7.1	7.7	8.0	7.9	7.4	7.8
Colombia	4.3	19.7	13.6	13.6	6.8	6.3	5.9	5.9	6.5
Mexico	20.4	27.4	13.1	15.0	5.6	6.2	4.7	4.5	4.7
Zaire	4.9	17.4	10.3	11.5	5.5	5.5	5.4	4.3	3.6
Total listed .	529.0	970.6	607.5	692.2	1,208.1	1,231.1	1,195.0	1,120.1	1,046.0
Other countries . .	41.5	194.4	59.0	62.0	52.9	56.8	55.1	52.8	48.0
Estimated world total*	570.5	1,165.0	666.5	754.2	1,261.0	1,287.9	1,250.1	1,172.9	1,094.0

* Excluding the USSR, eastern Europe, mainland China and North Korea.

Of the total decrease of 80 tons last year, 57 was due to a decline from 909 to 852 tons in the output of South Africa. The amount of ore processed was 4 per cent. higher in 1973 than it had been the year before but this was more than offset by a further 10 per cent. decline in the average gold content of the ores following the rise in the gold price. The average price per ounce of gold received by the South African gold-mining industry rose between 1972 and 1973 by R. 25.32 to 65.16 while costs went up by R. 7.09 to 28.63. As a result profits per ounce practically doubled from R. 18.23 to 36.53. The increase of about one-third in average costs was itself related to the higher gold price. Apart from the lower gold content of the ores it was due to the granting of large wage increases.

In South Africa the negative impact of the higher price of gold on the average gold content of the ores mined is reinforced by the government's policy of seeking to ensure that the country's ore reserves are exploited to the full, as well as by the progressive scale of taxes levied on mining profits. The higher price of gold will encourage both the development of new mines and an increase in the milling capacity of existing ones, so that in the longer run the increase in the amount of ore mined may offset the fall in the average gold content of the ores. However, in view of the magnitude of the recent increase in the gold price and of the time required to open up new mines, the decline in South African gold production may perhaps be expected to continue for some time. In fact, output in the first four months of 1974 was running 10 per cent. below the level of a year earlier.

Three other gold-producing countries, the United States, Canada and Australia, recorded declines in output during 1973 of 8, 5 and 5 tons respectively. Elsewhere in the western world there was little change in the level of production.

As in 1972, the decline in western gold production was more than offset by an increase in the amount of gold marketed by communist countries. Sales by the USSR during 1973 may be estimated at 330 tons, by far the largest figure since 1965. The total amount of new gold becoming available last year may therefore be put at 1,425 tons, some 4 per cent. more than in 1972. The increase in the amount of gold actually offered on the market was much higher, amounting to some 185 tons or 14 per cent. This was because western official gold stocks are estimated to have declined by 40 tons during 1973 following a 95-ton increase the year before. South Africa added only 35 tons to its gold reserves last year, as compared with 195 tons in 1972, and this appears to have been more than offset by other countries' sales of gold to the market out of reserves.

Estimated sources and uses of gold.

Items	1969	1970	1971	1972	1973
	in metric tons				
Production	1,260	1,290	1,250	1,175	1,095
Estimated sales by communist countries	5	50	90	200	330
Total	1,265	1,340	1,340	1,375	1,425
Change in western official gold stocks	110	290	−130	95	− 40
Sales on the free market*	1,155	1,050	1,470	1,280	1,465

* Residual figures.

The increase in market supplies was not enough to accommodate a sharp increase in investment demand for gold without a record increase in prices, from $65 to $113 per ounce during the course of the year. The rise in prices does, however, seem to have checked the use of gold for jewellery and other industrial purposes in the developed countries, as well as to have reduced the net flow of gold to the traditional hoarding areas in the Middle and Far East. On the other hand, there was a sharp increase in Japanese non-monetary purchases of gold, following liberalisation of gold imports into that country in April 1973. In the United States, demands that US citizens be allowed freely to own gold again led to a clause being included in the Par Value Modification Act of September 1973 which would permit this if and when the President should decide that it was not contrary to the national interest.

In addition, the sharp rise in the gold price prompted certain changes in arrangements concerning monetary gold. On 13th November 1973 the Chairman of the

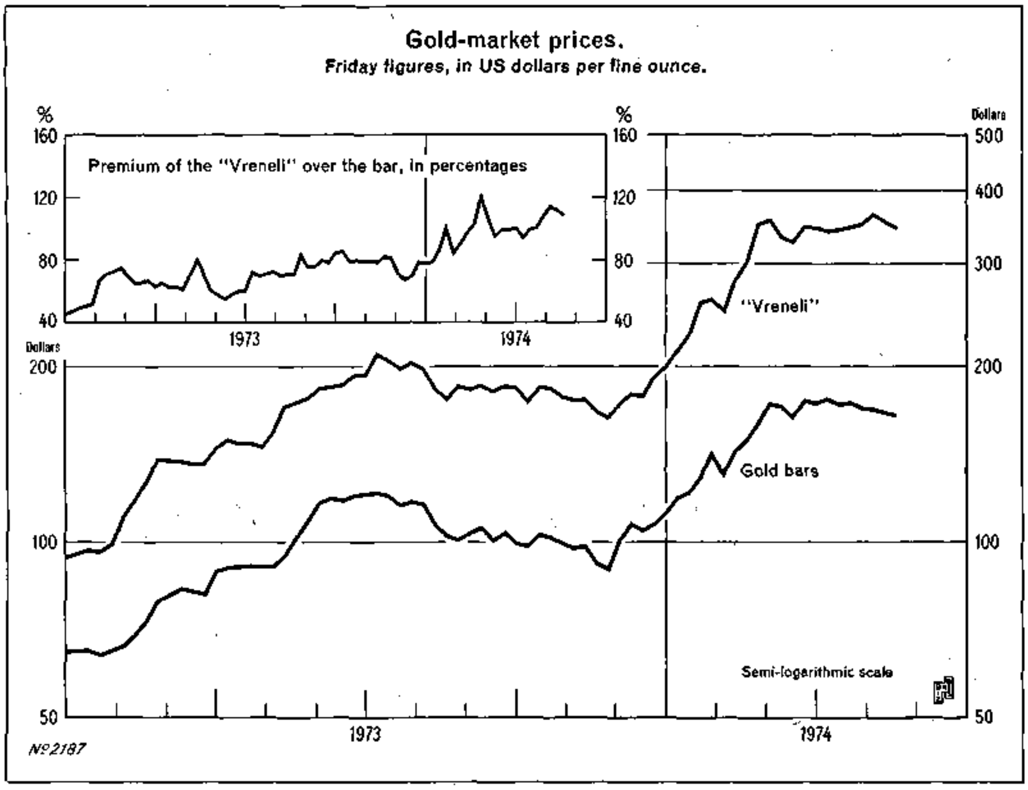
Federal Reserve Board announced that the central-bank Governors of Belgium, Germany, Italy, the Netherlands, Switzerland, the United Kingdom and the United States had terminated their agreement of 17th March 1968 to refrain from selling gold on the market. He added that, in the view of the US authorities, IMF members continued to be bound by Article IV of the Fund Agreement, which prohibits monetary authorities from buying gold at prices above par. On 7th December, at the request of South Africa, the IMF terminated the agreement of 30th December 1969 (see 40th Annual Report of the BIS, page 112) under which South Africa could sell gold to the Fund to meet current foreign exchange needs whenever the market price fell to or below the equivalent of the parity price, while in return accepting certain obligations concerning the marketing of its gold production.

On 23rd April 1974 the Finance Ministers of the nine EEC member countries favoured the idea of reactivating the use of their gold reserves. They envisaged gold settlements between central banks at market-related prices and, within certain limits, official purchases and sales on the free market.

In the period under review the free-market price of gold fully lived up to its rôle as a thermometer of international economic disturbances. The unprecedented degree of currency unrest and inflation, together with the uncertainties associated with the price of oil, pushed quotations by February 1974 to levels which could hardly have been predicted at the beginning of 1973.

In fact the year 1973 opened calmly enough, with the London fixing price close to $65 an ounce during most of January. In the February currency crisis, however, quotations rose rapidly to a peak of nearly $90 per ounce. After falling to about $80 per ounce in mid-March, the price went up again under the influence of Japanese purchases, to reach the $90 level at the end of that month. The strength of demand during these two months is apparent if it is considered that the price increase took place at a time when market supplies of new gold, from both South Africa and the USSR, were running at high levels. This continued to be the case during the second quarter, and in April and early May prices were rather stable at around $90 per ounce. However, the period of relative calm on the exchange markets, which had also contributed to this stabilisation, was short-lived. Towards mid-May the dollar began to be buffeted by renewed waves of speculation which lasted, on and off, until the second week of July. During these two months the market price of gold rose sharply again, reaching a peak of $127 per ounce, i.e. just on double its level at the beginning of the year, in early June and again in early July.

The subsequent improvement in the exchange-market climate and the gradual recovery of the dollar led to an easing of quotations. By the end of September the price had fallen back to around $100 an ounce and during October and early November it was mostly a little below that level. The announcement on 13th November that the 1968 gold agreement between the members of the former gold pool had been terminated was apparently at first interpreted by the market as a sign of impending free-market sales from official reserves and the gold price dipped below $90 at one point in the second half of November. At that point both the market price of gold and the effective exchange rate for the dollar were roughly back where they had been before the May–July crisis.



From then on, however, although the dollar strengthened considerably for a further two months the gold price began to rise again almost at once. The main factor behind the increased demand for gold was the intensification of the general inflationary climate, which increasingly provided an incentive for investors to move out of nominal values into real assets — and this at a time when share markets were suffering from the uncertainties related to the oil situation and from the general political unease. The relatively low gold price in the second half of November quickly attracted buyers and by the end of the month the price had risen again to about \$100; speculation about changes in official gold policies sustained a further rise in December to over \$110 per ounce. Near the end of that month, the massive further increases in posted oil prices added to inflationary expectations and gave rise to conjectures about future official gold purchases by oil-exporting countries. As a result, the price of gold began to rise more steeply. Following the floating of the commercial French franc and calls from some official quarters for a higher gold price in official settlements, the fixing price reached \$141 in hectic trading on 24th January. The price then fell for a short while but rose steeply again in early February and on the 26th of that month market quotations touched a new high of \$185. At that point they had more than doubled in the space of three months. The movement into gold seems to have been very broadly based, coin prices rising even faster than bar prices, which suggests that "small" investors were also very active in the market. Perhaps more significant still, although the rise in the price came to a halt at the end of February, there has since then been no very marked decline in the level of quotations. Towards the end of May the price was a little over \$160 per ounce.

Valued in current dollars, western official gold stocks increased by $4.9 milliard during 1973, from $44.9 to 49.8 milliard. The whole of this rise is accounted for by the 11.1 per cent. revaluation of gold in dollar terms. Valued at $42.22 an ounce, total western official gold stocks are estimated to have declined fractionally during 1973 from $49,840 to 49,795 million. The $45 million transfer by South Africa out of current production into its official reserves was roughly offset by other countries' gold sales out of official reserves on the free market. The gold holdings of international monetary institutions declined by $55 million, largely as a result of the liquidation of the European Fund and the repayment of its gold stock to the former member countries. A $40 million decline in the official gold holdings of Belgium mainly reflected repayment to the BIS of a gold loan.

Global reserves.

In 1973, for the fourth year in succession, global reserves measured in US dollar terms expanded rapidly. Over the year, countries' total official holdings of gold, foreign exchange and special drawing rights, together with their IMF reserve positions, went up by $24.4 milliard, or about 15 per cent. This compared with a rise of $25.8 milliard, or just on 20 per cent., in 1972. Most of last year's increase in global reserves came in the first quarter, while in the last three months of the year there was a decline.

In contrast to 1972, when the increase in global reserves came entirely from additions to foreign exchange holdings and from the year's allocation of SDRs, a significant part of last year's expansion resulted from the changes that occurred in the dollar values of non-dollar reserve assets. Thus, virtually the whole of the increases in gold reserves, SDR holdings and Fund reserve positions, totalling altogether $6.1 milliard, resulted from the rise in the official dollar price of gold. In addition, the depreciation of the dollar in terms of other leading currencies explains some part of the $18.3 milliard rise in foreign exchange reserves. While the exact amount of this is not known, it may be estimated at about $1.5 milliard. Altogether, valuation changes may be estimated to have accounted for something like one-third of last year's increase in global reserves.

These changes apart, therefore, the increase in global reserves last year was significantly less than in 1972. And the reason for this was the improvement in the US balance of payments. Measured on the official settlements basis, the US payments deficit declined between 1972 and 1973 from $9.3 to 4 milliard, and the contribution of dollar reserves held in the United States to the growth of total foreign exchange reserves from $10.3 to 5.3 milliard. Sterling reserves held in the United Kingdom, after having risen quite rapidly during the first part of the year, showed a $0.3 milliard decline for the year as a whole. Reserves held in Deutsche Mark in Germany also declined in dollar terms during 1973, by nearly $0.5 milliard. Altogether, out of the total $18.3 milliard increase in exchange reserves last year, nearly $14 milliard cannot be specifically accounted for either by the currency or the country in which they were held. No doubt the greater part of this remainder — perhaps some $8–10 milliard — will, as in other recent years, have been added to official holdings of dollars and other currencies in the Euro-market. Furthermore, during 1973 there may have been additions to official holdings in national markets of currencies other than dollars, Changes in global reserves.*

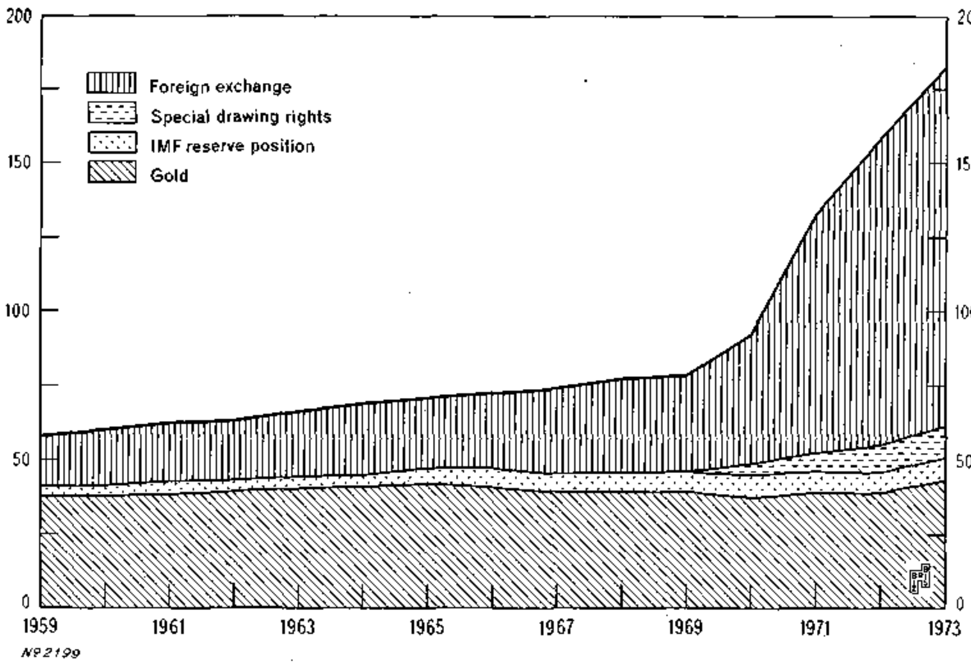
Areas and periods	Gold	Foreign exchange	IMF reserve positions	SDRs	Total
	in millions of US dollars				
Group of Ten					
1971	+ 1,670	+26,095	− 840	+ 2,470	+29,395
1972	− 675	+ 7,380	− 80	+ 2,065	+ 8,690
1973	+ 3,490	+ 4,090	+ 105	+ 740	+ 8,425
Amounts outstanding at end-1973	*34,900*	*61,720*	*5,020*	*7,610*	*109,250*
Other developed countries					
1971	+ 65	+ 5,395	+ 30	+ 270	+ 5,760
1972	+ 290	+ 7,650	+ 45	+ 400	+ 8,385
1973	+ 480	+ 3,645	+ 165	+ 155	+ 4,445
Amounts outstanding at end-1973	*4,390*	*23,530*	*1,115*	*1,125*	*30,160*
Developing countries					
1971	+ 215	+ 4,215	+ 10	+ 515	+ 4,955
1972	− 5	+ 8,210	− 45	+ 590	+ 8,750
1973	+ 345	+10,535	+ 355	+ 300	+11,535
Amounts outstanding at end-1973	*3,840*	*36,625*	*1,305*	*1,890*	*43,660*
All countries					
1971	+ 1,950	+35,705	− 800	+ 3,255	+40,110
1972	− 390	+23,240	− 80	+ 3,055	+25,825
1973	+ 4,315	+18,270	+ 625	+ 1,195	+24,405
Amounts outstanding at end-1973	*43,130*	*121,875*	*7,440*	*10,625*	*183,070*

* Including valuation changes.

Deutsche Mark and sterling, as well as some investment of balances classified as reserves in longer-term securities and, possibly, even in equities. These increases in what may be called non-traditional exchange reserve assets, particularly Euro-currency placements, took place essentially outside the Group of Ten countries.

As regards the distribution of last year's increase in global reserves between different groups of countries, the Group of Ten countries' share, at 35 per cent., was the same as it had been in 1972. Nearly half of this, however, came from revaluation in dollar terms of these countries' gold reserves and their claims on the IMF. Their exchange reserves, reflecting the decline in the US payments deficit, grew much more slowly than in 1972, by \$4.1 as against 7.4 milliard. Other developed countries' reserve gains in 1973, at \$4.4 milliard, were little more than half as much as they had been the year before. Here, too, the influence of the smaller US deficit was felt. In the developing countries, on the other hand, the rise in commodity prices brought total reserve gains of \$11.5 milliard, nearly one-third greater then in 1972. This development, of course, contributed to the greater share of official Euro-currency placements in last year's expansion of total exchange reserves. As regards reserve movements in individual countries, within the Group of Ten Germany and the Netherlands showed the largest gains — \$9.4 and 1.8 milliard respectively — followed by Belgium (\$1.2 milliard) and Sweden (\$1 milliard). Reserve increases of \$0.8 and 0.4 milliard were recorded by the United Kingdom and Italy. Japan's reserves, on the other hand, declined by \$6.1 milliard, a one-third reduction, and those of France by \$1.5 milliard. In the group of other developed countries, much the largest increase

Global reserve developments, 1959–73.
End-of-year figures, in milliards of US dollars.



was again registered by Spain, whose reserves rose for the second successive year by $1.8 milliard. Substantial gains also occurred in Turkey ($0.7 milliard), Yugoslavia ($0.6 milliard) and Portugal ($0.5 milliard).

The increase in the reserves of developing countries was not particularly concentrated on the oil-exporting countries. In fact, these countries accounted for $3.4 milliard of the total rise of $11.5 milliard in this group, compared with $2.5 milliard of a $8.8 milliard total increase in 1972. In the oil-producing areas, the largest reserve gain was again registered by Saudi Arabia ($1.4 milliard), followed by those of Iraq and Venezuela ($0.7 milliard each). Libya's reserves, on the other hand, fell by $0.8 milliard in 1973. Outside the oil group, over one-quarter of the combined reserve gains of other developing countries was received by Brazil, which added some $2.2 milliard to its reserves in the context of continuing strong capital inflows. The remaining $5.9 milliard reserve increase for developing countries was widely spread, with Argentina ($0.9 milliard) registering the largest increase, followed by Israel ($0.6 milliard), the Philippines ($0.5 milliard) and Malaysia ($0.4 milliard).

Looking at developments during the course of the year, the bulk of the global reserve increase occurred before the rather general adoption of floating exchange rates. Thus, during the first quarter global reserves went up by $20.5 milliard. The large US payments deficit was associated with a rise of almost $10 milliard in foreign official holdings of dollars in the United States; and in addition it was during that quarter that the effects of the devaluation of the dollar on gold and other non-dollar reserve assets were mainly felt. After continuing to rise, by $4 and 4.6 milliard respectively, in the second and third quarters, global reserves declined by $4.7 milliard in the final quarter. As a group, only the developing countries, with gains of $2 milliard, continued to add to their reserves during the quarter; in the developed world, total reserves went down by $6.7 milliard, of which the Group of Ten accounted for $6.2 milliard. The developed countries' total reserves declined further in the first quarter of 1974, by rather more than $2 milliard; this, however, was more than offset by reserve gains in developing countries of some $4.5 milliard, so that global reserves rose by $2.4 milliard.

International Monetary Fund.

In 1973 the operations of the Fund's General Account were again on a comparatively modest scale. Members' drawings amounted to $883 million and their repurchases to $733 million. On the drawings side three European countries — France (112), the Netherlands (253) and Rumania (115) — accounted for $480 million, or well over half of the total; a considerable portion of the remainder was drawn by three developing countries — Egypt, Pakistan and the Philippines. Repurchases were made predominantly by countries in Asia, Latin America and the Middle East. Thirteen different currencies were used in drawings and fourteen in repurchases. By far the most important currency drawn was the Deutsche Mark ($390 million), followed by the French franc (99), the Japanese yen (74) and the Danish krone (72). The currency most used for repurchases was also the Deutsche Mark ($225 million), followed by the yen (102), the Canadian dollar (71), the guilder (71) and the French franc (61). The US dollar and the pound sterling were not used either in drawings or in repurchases, in the case of the US dollar for the second year in succession. $54 million of SDRs were used in drawings and in repurchases.

No new allocation of SDRs was made at the beginning of 1973 and no decision has since been taken regarding further allocations. With effect from 23rd January 1974 the Fund's Board of Governors admitted the BIS as a holder of SDRs. This means that a Fund member participating in the SDR scheme can acquire currencies from the BIS against SDRs, provided that the transaction is reversed within six months.

In order to facilitate the use of SDRs in transactions entered into by agreement between the two parties concerned, the Fund's Executive Board decided in early November 1973 to allow such transfers to take place on the basis of the declared par values or central rates of the currencies concerned. Previously they had had to be based on the US dollar, using the parity for converting dollars into SDRs but market rates for conversions between dollars and other currencies. The latter procedure continues to apply to all other transactions in SDRs.

Total gross transfers of SDRs in 1973 amounted to $1,423 million. Easily the most important element was direct transfers between EEC countries, which amounted to $1,032 million. The SDR holdings of France and the Netherlands declined by $613 and 210 million respectively, while those of Germany and Belgium increased by $682 and 125 million respectively. The Fund's holdings of SDRs declined during the year by $146 million. Transfers from the Fund to participating countries totalled $242 million, including $210 million specifically in order to reconstitute a number of countries' holdings, while transfers to the Fund from participants were $96 million.

There was a further increase of $80 million in the net use of the Fund's resources during the first quarter of 1974. Member countries' drawings totalled $329 million, including $85, 75 and 54 million by the Netherlands, India and France respectively; repurchases were $249 million, of which the United States accounted for $133 million. In mid-April the Fund approved a stand-by arrangement for Italy of $1.2 milliard, the amount of the Italian quota.

Monetary movements.

United States. During the course of 1973 the deterioration of the United States' external monetary position finally came to a halt and began to be reversed. First-quarter developments were very adverse, with an overall deficit of $5.5 milliard and a decline of $10 milliard in the net reserve position. But in the fourth quarter a considerable overall surplus emerged, so that for the year as a whole the overall external deficit was reduced to $3.4 milliard, as against $12.6 milliard in 1972 and $21.4 milliard in 1971.

This deficit for 1973 was not very different from the net reserve loss, which amounted to $4 milliard. During the course of the year, however, non-official monetary movements strongly influenced the evolution of the net official position. Thus, nearly half of the very large first-quarter official settlements deficit had its origin in a net outflow of $4.5 milliard through the banking sector. The run on the dollar in February/March led to a $2.7 milliard increase in bank short-term lending to foreigners, of which Japan accounted for $1.4 milliard and Canada $0.6 milliard. In addition private foreign holders of dollars ran down their balances by $1.8 milliard, one-third of which was accounted for by overseas branches of US banks.

During the last three quarters of the year non-official monetary inflows through the banking sector strongly supported the recovery of the net reserve position. In the second quarter, when for much of the time the dollar was weakening on the exchange markets, the previous quarter's run-down of private foreign dollar balances had already been more than reversed; and when in the last quarter the dollar strengthened appreciably against nearly all other leading currencies, these balances rose by a further $3.5 milliard.

The $4 milliard deterioration of the net reserve position in 1973 was more than accounted for by a further $5.3 milliard increase in liabilities to foreign official agencies. Partly offsetting this, there was a $1.2 milliard increase in reserve assets, broadly corresponding to the effects of the 11.1 per cent. revaluation in October 1973 of the gold stock and gold-based claims on the IMF. Despite the strengthening of the dollar during the last four months of the year, little progress was made in reducing the Federal Reserve System's outstanding swap debts. These declined from $1.6 to 1.4 milliard, mainly through repayments to the National Bank of Belgium.

In the first quarter of 1974 the official settlements surplus declined to $1.5 milliard. This was no doubt associated with the weakening of the dollar. A principal cause of that weakening was the $4.9 milliard increase in short-term bank lending abroad, nearly all of which occurred in February and March following the removal

United States: External monetary movements.

Items	1972	1973					1974
		Year	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter
	in millions of dollars (+ = increase in assets, decrease in liabilities)						
Reserves	+ 985	+ 1,225	− 220	− 20	+ 15	+ 1,450	+ 210
of which							
Gold	*+ 280*	*+ 1,165*	—	—	—	*+ 1,165*	—
Foreign exchange	*− 35*	*− 235*	*− 235*	—	—	—	—
SDR allocations	*+ 910*	*+ 275*	—	—	—	*+ 275*	—
SDR transfers	*− 50*	*− 70*	—	*− 10*	—	*− 60*	—
IMF gold tranche position	*− 120*	*+ 90*	*+ 15*	*− 10*	*+ 15*	*+ 70*	*+ 210*
Liabilities to foreign official agencies	− 10,310	− 5,250	− 9,790	+ 630	+ 925	+ 2,985	+ 1,255
of which							
Liquid	*− 9,720*	*− 4,575*	*− 8,630*	*+ 1,085*	*+ 485*	*+ 2,485*	*+ 980*
Non-liquid	*− 590*	*− 675*	*− 1,160*	*− 455*	*+ 440*	*+ 500*	*+ 275*
Net official position	− 9,325	− 4,025	− 10,010	+ 610	+ 940	+ 4,435	+ 1,465
Short-term claims on foreigners	+ 2,235	+ 5,050	+ 2,710	+ 435	− 80	+ 1,985	+ 4,945
Liquid liabilities to foreign non-official institutions and persons	− 4,775	− 4,435	+ 1,810	− 1,935	− 810	− 3,500	− 4,150
Banks' net position	− 2,540	+ 615	+ 4,520	− 1,500	− 890	− 1,515	+ 795
Total including SDR allocations	− 11,865	− 3,410	− 5,490	− 890	+ 50	+ 2,920	+ 2,260
Total excluding SDR allocations	− 12,575	− 3,410	− 5,490	− 890	+ 50	+ 2,920	+ 2,260

Note: The figures include the effects on reserves and on official foreign currency obligations of the devaluation of the dollar.

of controls at the end of January. To a very large extent, however, the increase in bank lending was offset by a \$4.2 milliard rise in non-official foreigners' balances at US banks, so that on balance non-official monetary movements showed a net outflow of only \$0.8 milliard.

United Kingdom. Despite an underlying payments deficit of \$1.7 milliard, the external monetary position of the United Kingdom showed an improvement by \$1.1 milliard during 1973, of which \$0.8 milliard was added to reserves. The gap between these two developments was bridged mainly by various public-sector institutions borrowing a total of \$2.5 milliard at medium and long term in the Euro-dollar market, with the exchange risks being borne by the government. In addition, one-fifth of the reserve increase, measured in dollar terms, resulted from the revaluation of the gold reserve and of gold-based claims on the IMF.

There were quite large fluctuations in reserves during the year, a \$1.4 milliard increase (including the \$0.2 milliard revaluation effect) in the first six months being followed by a \$0.6 milliard decline in the third quarter. These reserve changes were partly related to monetary movements in the banking sector which, however, for the year as a whole showed only a small net outflow of \$0.3 milliard. In the first quarter a net banking inflow of \$0.2 milliard was equal to the whole of the reserve

United Kingdom: External monetary movements.

Items	1972	1973 Year[1]	1973 1st quarter[1]	1973 2nd quarter	1973 3rd quarter	1973 4th quarter
	In millions of US dollars (+ = increase in assets, decrease in liabilities)					
Official financing						
Gold and foreign exchange reserves	−1,080	+ 750	+ 305	+ 980	− 630	+ 95
SDR allocations	+ 325	+ 120	+ 120	—	—	—
SDR transfers	− 310	− 55	− 50	− 5	—	—
IMF	+ 690	+ 15	+ 15	—	—	—
Other monetary authorities	−2,330	—	—	—	—	—
Total	−2,705	+ 830	+ 390	+ 975	− 630	+ 95
Other monetary movements						
Sterling balances (gross) of overseas sterling holders						
official	− 820	+ 95	− 510	+ 65	+ 715	− 175
private	+ 395	+ 560	+ 95	+ 110	+ 100	+ 255
of other holders						
official[2]	+ 95	− 410	+ 20	− 290	+ 145	− 285
private	− 140	− 495	− 5	− 310	+ 85	− 265
Sterling claims of UK banks[3]	+ 810	+ 320	− 300	+ 305	+ 275	+ 40
Foreign currency transactions of UK banks[4]	+ 675	+ 205	+ 460	− 120	+ 130	− 265
Total	+1,015	+ 275	− 240	− 240	+1,450	− 695
Overall balance	−1,690	+1,105	+ 150	+ 735	+ 820	− 600
Overall balance excluding SDR allocations	−2,015	+1,105	+ 150	+ 735	+ 820	− 600

[1] Includes the effects on gold reserves, SDR holdings and the IMF position of the devaluation of the dollar.
[2] Includes sterling reserves of international institutions other than the IMF. [3] Excludes export credit.
[4] Excludes trade credit, UK residents' foreign currency borrowing in London to finance UK investment overseas and UK banks' foreign currency borrowing to finance lending to the public sector; includes UK banks' net transactions in currencies of the overseas sterling countries.

increase apart from the revaluation change, the sterling countries' sterling balances showing a partly seasonal rise of $0.4 milliard. In the second quarter, when most of the reserve gains came from $0.7 milliard longer-term Euro-dollar borrowing, there were also further banking inflows of $0.2 milliard. The weakness of the dollar and the high level of UK interest rates brought about a $0.6 milliard increase in the sterling balances of non-sterling countries, partly offset by a rise in the banks' foreign lending.

In the third quarter when the reserves, despite further public-sector Euro-borrowing totalling $0.9 milliard, fell by $0.6 milliard, a leading part was played by a sharp reversal of the previous banking inflows. In particular, there was a $1 milliard reduction in sterling balances, of which overseas sterling countries accounted for $0.8 milliard. This was the result partly of diminishing confidence as the balance of payments continued to deteriorate and partly of uncertainty about the future of the guarantees on the sterling reserves of most overseas sterling countries, due to expire in late September. On the 6th of that month it was announced that they were to be extended for a further six months, at an exchange rate of just over $2.42. The last quarter then saw a partial reversal of the previous withdrawal of funds, with net banking inflows of $0.7 milliard. Total sterling countries' balances did not rise during the quarter; but, with a sharp rise in UK interest rates in November and December, non-sterling countries' balances increased by $0.6 milliard.

During the first four months of 1974, when public-sector borrowing from the Euro-dollar market totalled $1.5 milliard, the reserves rose by $0.5 milliard.

Germany. Following three successive years of substantial increases, Germany's reserve growth accelerated sharply in 1973, essentially as a result of the huge inflows of funds during the February/March currency crisis. Net official monetary assets rose by $9.7 milliard, or over 40 per cent. Most of this took the form of a $7.8 milliard increase in foreign exchange reserves; in addition, holdings of SDRs expanded by $0.8 milliard and there was a $0.7 milliard revaluation gain, in dollar terms, on the gold reserve and gold-based claims on the IMF. At their peak, in July 1973, Germany's official external monetary assets totalled just over $35 milliard — having increased by 80 per cent. since the Smithsonian agreement and four and a half times since the end of 1969.

Last year's reserve gains were accompanied by a net outflow of $2.1 milliard through the banking system, so that the overall external monetary position improved by $11.8 milliard. During the course of the year, however, there were a number of large fluctuations in the banks' net external position.

After a $1.8 milliard seasonal outflow in January, there were net banking inflows of twice that size in February and March — mostly increases in non-residents' Deutsche Mark balances — so that for the first quarter as a whole the banking sector contributed about one-fourth of the $7.9 milliard rise in reserve assets. A further $1.4 milliard of this increase came from additions to foreign monetary authorities' holdings of Deutsche Mark at the Bundesbank. During the second quarter there were net outflows of $2.1 milliard through the banks, reversing rather more than half of the February–March inflows; while non-residents somewhat reduced their DM balances, the main factor in the outflow was a significant expansion in the banks' claims on the rest of the world. Furthermore, official DM balances held at the Bundesbank declined by $1.1 milliard.

The third quarter — which included both the July and September currency disturbances — saw little further change in the banks' foreign position, inflows during those two months being to a large extent offset by an outflow in August. Then in October and November there were very large banking outflows totalling $3.3 milliard, as the Deutsche Mark weakened and the dollar strengthened on the exchange markets. Such was the strength of the basic balance of payments, however, that net official assets declined by only $1.2 milliard during these two months. Thus, despite three periods of banking inflows during the year, and an end-year inflow of $1.1 milliard in December, for the year as a whole banking flows significantly reduced the expansion of reserves.

After a partial reversal in January of the end-1973 flows, the renewed strength of the Deutsche Mark brought further banking inflows of $0.9 milliard in March, with a corresponding rise in net official assets. Another increase of the same magnitude in April brought net official assets almost back to their July 1973 peak.

France. The overall external monetary position deteriorated in 1973 by $0.4 milliard. Net official monetary assets were reduced by $1.2 milliard, of which $0.8 milliard had a counterpart in a decline of the banks' net foreign liabilities. The decline in net official assets would have been larger but for a $0.6 milliard revaluation gain on the official gold stock and gold-based assets. Excluding this, the principal changes in the official monetary sector for the year 1973 were declines of $1.3 milliard in foreign exchange holdings and $0.6 milliard in SDR holdings.

The evolution of the official monetary position during the year divides broadly into two periods. During the first, which covered the period January–June, net official assets went up (excluding the revaluation gain) by $0.9 milliard, nearly all of which came from banking inflows. Non-residents added $0.9 milliard to their franc balances during those six months.

Net official assets fell by $0.6 milliard in July and again, much more sharply, by $2.2 milliard in September. By far the largest part of the September loss was due to outflows through the banks. In particular, the banks acquired a net amount of $1.8 milliard in spot foreign currency assets, presumably largely as the counterpart to forward purchases of exchange by their resident customers. Both the July and September outflows were in the first place financed by drawing on the central banks of other participants in the European snake so that gross reserves did not fall in either of those months. During the last quarter of the year there was a further $0.3 milliard outflow through the banks, but despite this net reserves recovered slightly. Official monetary assets went down by $2.3 milliard during the quarter, essentially as a result of repayment of debts incurred during July and September.

Renewed reserve losses in early January 1974 led to the commercial franc being set free to float in the middle of the month. For January as a whole net official monetary assets went down by $0.8 milliard, but this was more than offset by a $1.4 milliard decline in the banks' net foreign liabilities. Non-residents reduced their holdings of francs; in addition there was a substantial rise in the banks' net spot foreign currency assets, no doubt as a counterpart to customers' forward purchases of exchange. Subsequently there was little further change in France's official monetary assets, which at end-April stood at $7.6 milliard.

Belgium-Luxemburg. During 1973 the overall external monetary position of the BLEU showed an improvement of $0.3 milliard, about equal to the revaluation gains on Belgium's gold reserve and gold-based claims on the IMF following the February devaluation of the dollar. These gains apart, net official monetary assets showed an increase of $0.9 milliard, exactly equal to the growth during the year of the banks' net foreign liabilities.

The whole of the reserve gains were concentrated in the first half of the year, when there were net banking inflows totalling $1.3 milliard. About half of this represented additions to non-residents' Belgian franc balances, despite the imposition in March of a negative interest rate on any further increase in these accounts. After coming to a halt in the third quarter, these inflows gave way to net outflows of $0.5 milliard during the last three months of the year, with banks adding to their net holdings of dollars. As, however, the balance of payments had turned from deficit to surplus between the first and second halves of the year, the reserves were no lower at the end of 1973 than they had been in mid-year.

In the first quarter of 1974 there was a further outflow of $0.5 milliard through the banking system, most of which was offset by a $0.4 milliard decline in net official monetary assets.

Netherlands. The external monetary position of the Netherlands improved by $0.9 milliard in 1973, of which revaluation gains on gold and gold-based reserves accounted for $0.4 milliard. Excluding this special item, net official monetary assets went up by $0.8 milliard, exchange reserves increasing by $1.9 milliard, while claims on the IMF declined by $0.5 milliard, essentially as a result of transfers to other participants in the European snake. In addition debts of $0.6 milliard to those countries were outstanding at the end of the year. Nearly half of the net increase in official monetary assets (excluding valuation changes) was the counterpart of a reduction in the banks' net foreign assets.

As in other countries, there was a large reserve increase as a result of the February–March currency crisis. Apart from the valuation changes, net official assets rose by $0.9 milliard during the first quarter, of which $0.4 milliard had a counterpart in banking inflows, with a substantial increase in non-residents' guilder balances. The situation changed completely in the second quarter. Relatively low domestic interest rates and an unwinding of leads and lags led to a large rise in the banks' net dollar assets. In all there was a net banking outflow of $1 milliard, with a corresponding decline in net official assets. After little change during the third quarter taken as a whole, tight domestic liquidity conditions led to a $0.7 milliard reduction in the banks' net foreign assets during the fourth quarter, with reserves rising by $0.9 milliard. During the quarter the central bank took in $0.9 milliard from the commercial banks in US dollars under swaps against guilders.

In the first quarter of 1974 the net external monetary position improved by a further $0.3 milliard, two-thirds of which was in the banking sector.

Italy. As in the United Kingdom, changes in Italy's external monetary position during 1973 were far removed from the underlying balance-of-payments situation, with the reserve position continuing to be supported by officially inspired borrowing in the Euro-currency market. The total of such borrowing for the year 1973 came to $4.2 milliard. Net official monetary assets showed a small rise of $0.1 milliard during the year as a whole, which was more than accounted for by revaluation changes of $0.4 milliard in the gold stock and claims on the IMF. In addition to the effects of the very large official intervention in the market, the reserves were also drawn on for $0.7 milliard in 1973 to return to the banking system dollars taken in from it

Continental European countries, Canada and Japan: External monetary positions.[1]

Countries	End of year	Gold	Net foreign exchange	Claims on IMF	Total official assets (net)	Commercial banks (net)	Total foreign assets (net)	Changes (+ = increase in assets, decrease in liabilities): Official assets (net)	Changes: Commercial banks (net)
		In millions of US dollars							
Austria	1972	790	1,690	235	2,715	− 595	2,120	+ 405	− 250
	1973	880	1,730	255	2,865	− 740	2,125	+ 150	− 145
Belgium-Luxemburg	1972	1,635	1,060	1,130	3,825	−1,065	2,760	+ 440	− 280
	1973	1,780	1,860	1,350	4,990	−1,935	3,055	+ 1,165	− 870
Denmark	1972	70	580	145	795	40	835	+ 125	+ 100
	1973	80	915	285	1,280	− 45	1,235	+ 485	− 85
Finland	1972	55	560	140	755	35	790	+ 115	+ 85
	1973	35	510	155	700	15	715	− 55	− 20
France	1972	3,825	4,420	1,130	9,375	−4,145	5,230	+ 1,745	− 1,390
	1973	4,260	3,385	545	8,190	−3,330	4,860	− 1,185	+ 815
Germany	1972	4,460	17,055	2,130	23,645	−4,620	19,025	+ 5,125	+ 130[2]
	1973	4,965	25,275	3,130	33,370	−2,865	30,505	+ 9,725	+ 2,120[2]
Greece	1972	135	830	65	1,030	15	1,045	+ 525	+ 10
	1973	150	825	70	1,045	15	1,060	+ 15	—
Iceland	1972	—	55	15	70	− 15	55	+ 10	− 5
	1973	—	60	15	75	− 20	55	+ 5	− 5
Ireland	1972	20	1,020	85	1,125	− 70	1,055	+ 130	− 115
	1973	20	910	95	1,025	− 35	990	− 100	+ 35
Italy	1972	3,130	2,375	730	6,235	− 775	5,460	− 700	− 530
	1973	3,480	2,130	770	6,380	− 955	5,425	+ 145	− 180
Netherlands	1972	2,060	1,315	1,305	4,680	220	4,900	+ 925	+ 60
	1973	2,295	2,600	945	5,840	− 75	5,765	+ 1,160	− 295
Norway	1972	35	1,100	170	1,305	− 55	1,250	+ 160	+ 10
	1973	40	1,330	185	1,555	− 25	1,530	+ 250	+ 30
Portugal	1972	1,020	1,260	30	2,310	215	2,525	+ 445	+ 20
	1973	1,160	1,630	35	2,825	315	3,140	+ 515	+ 100
Spain	1972	540	4,210	255	5,005	− 195	4,810	+ 1,770	− 25
	1973	600	5,920	280	6,800	− 195	6,605	+ 1,795	—
Sweden	1972	215	1,095	210	1,520	290	1,810	+ 470	+ 135
	1973	245	1,985	235	2,465	625	3,090	+ 945	+ 335
Switzerland	1972	3,160	3,835	—	6,995	3,235	10,230	+ 65	+ 70
	1973	3,515	4,965	—	8,480	3,640	12,120	+ 1,485	+ 405
Turkey	1972	135	350	70	555	.	.	+ 145	.
	1973	150	775	80	1,005	.	.	+ 450	.
Canada	1972	835	4,270	845	5,950	− 570	5,380	+ 425	− 725
	1973	930	3,815	900	5,645	− 290	5,355	− 305	+ 280
Japan	1972	800	16,160	1,085	18,045	475	18,520	+ 2,915	+ 1,935
	1973	890	9,935	1,155	11,980	−3,485	8,495	− 6,065	− 3,960

[1] For most of the countries shown in the table the figures given do not correspond exactly to published figures. In addition, the methods used for converting non-dollar assets and liabilities into dollars are not all consistent. [2] Owing to the elimination of valuation and statistical adjustments, these figures do not correspond to the differences between the German banks' outstanding net foreign positions at the beginning and end of the years in question.

under swaps the year before. There was a small net inflow of \$0.2 milliard through the banks' foreign position in 1973.

Matters got much worse in the first four months of 1974. Official monetary assets declined by \$0.2 milliard during those months, despite further foreign borrowing of \$4.5 milliard, including \$1.9 milliard of short-term assistance from Italy's partners in the European Monetary Co-operation Fund, as well as a \$0.4 milliard increase in the banks' net foreign liabilities over the first quarter of the year. Altogether, between June 1972 and April 1974 the total amount borrowed abroad by Italy to support its reserves was \$10 milliard, while in addition net official assets fell by \$2.3 milliard. It was against this background that the import deposit scheme was introduced in early May.

Switzerland. The external monetary position showed a surplus of \$1.9 milliard in 1973. Most of this took the form of a \$1.5 milliard rise in official monetary assets. One-third of the reserve gain represented a change in the dollar valuation of the gold reserve and of official holdings of Swiss franc denominated US Government paper, and a further \$0.4 milliard came from an increase of that size, as compared with 1972, in the amount of dollars absorbed by the authorities from the banks under year-end swaps and placed with banks outside Switzerland. The remaining \$0.6 milliard increase in the exchange reserves was the net outcome of two opposite movements. On the one hand, the authorities purchased \$1 milliard of exchange in the market during the first two months of the year, \$0.3 milliard the day before it was decided to float the franc in January and the remainder in February in an attempt to moderate its appreciation. On the other hand, the National Bank's foreign exchange holdings were reduced by some \$0.4 milliard during the year as a result of non-market transactions.

Contrary to what happened in most other European countries, there was a net outflow of funds through the Swiss banking system in 1973. This amounted to \$0.4 milliard, but if the change in end-year swaps between the National Bank and banks is taken into account the figure is \$0.8 milliard. During the first seven months of the year, under the joint influence of low interest rates and administrative restrictions on inflows, the banks exported \$1.1 milliard (excluding swaps with the National Bank). Following a tightening of Swiss money-market conditions and the relaxation of restrictions on inward movements of non-resident funds, there was an inflow (excluding swaps) of \$0.3 milliard in the last two months of the year.

During the first four months of 1974 Switzerland's net official monetary assets declined by \$1.1 milliard, mostly as a result of a reduction in dollars held under swaps with the commercial banks.

Austria. Measured in US dollar terms, Austria's overall external monetary position showed no change for the year 1973, a \$0.2 milliard increase in net official assets being roughly offset by the growth of the banks' net foreign liabilities. There were quite large fluctuations in reserves during the year. Excluding valuation changes, net official assets rose during the first nine months by \$0.5 milliard — about one-third of which had a counterpart in banking inflows — and then fell by \$0.4 milliard in the final quarter. There was a small further decline during the first quarter of 1974 in net official monetary assets, with some offsetting reduction in the banks' foreign liabilities.

Sweden. Mainly as a result of a large current payments surplus, Sweden experienced a record $1.3 milliard improvement during 1973 in its external monetary position. In the official sector net external monetary assets went up by nearly $1 milliard, or about two-thirds, while in the banking sector they doubled, as a result of relatively low domestic interest rates, to $0.6 milliard. Almost all of the year's reserve increase took place in the first half of the year, whereas most of the increase in the banks' foreign position occurred from July onwards, in the form of an expansion of their foreign currency assets. The banks added a further $0.3 milliard to their foreign position in the first quarter of 1974, while net reserves fell rather more, as the balance of payments moved sharply into deficit in March. Net reserves fell further, by $0.2 milliard, in April.

Denmark. Despite a substantial current payments deficit, Denmark experienced a sizable $0.4 milliard improvement in its external monetary position — thanks to very large inflows of private capital. Net official monetary assets went up by $0.5 milliard during the year, as there was also a small inflow of funds through the banks. Following a $0.3 milliard reserve rise during the first half of the year, rumours of a devaluation of the krone contributed to a $0.3 milliard increase in the banks' foreign exchange assets in July, which temporarily brought reserves back to their end-1972 level. This was reversed in the final quarter, when the reserves put on $0.4 milliard. In the first quarter of 1974 the departure of the French franc from the European snake led to renewed pressure on the krone. The reserves declined by $0.4 milliard during the quarter, most of which had a counterpart in an increase of the banks' foreign position.

Norway. The external monetary position showed a further $0.3 milliard improvement during 1973, nearly all of which was added to reserves. Reserves rose rather steadily over the year, except in September and, following the revaluation of the krone, in December. While the banks' net position showed little change for the year as a whole, an inflow during the earlier part of the year was followed, as in other countries, by outflows from June to September. Following their December fall, reserves resumed their growth in the first months of 1974, partly reflecting an inflow of funds through the banks.

Finland. As a result of significantly lower capital imports, Finland's external monetary position deteriorated by $75 million in 1973, the first payments deficit since 1967. Reserves declined by $135 million in the first nine months of the year, but recovered more than half that loss in the final quarter. In the first three months of 1974 there were further small reserve losses.

Spain. Another substantial payments surplus, the largest in any European country apart from Germany, resulted in Spain's net external monetary assets increasing during 1973 by $1.8 milliard, for the second year in succession. For the year as a whole there was no change in the banks' foreign position, an inflow of $0.2 milliard during the first seven months being subsequently reversed. In the first quarter of 1974 Spain's external payments turned into deficit, with net reserves declining by $0.3 milliard despite a substantial inflow of money through the banking system.

Portugal. Portugal's reserves went up by $0.5 milliard in 1973, including $0.1 milliard due to revaluation of the gold stock. In addition, there was a $0.1 milliard rise in the net foreign assets of the banking system during the final quarter of the year. By the end of March 1974 the reserves had fallen $0.2 milliard below their end-1973 level.

Other European countries. In *Greece,* where the previous year's payments surplus disappeared, the external monetary position showed virtually no change in 1973. In *Turkey,* on the other hand, net official monetary assets (excluding holdings of non-convertible currencies) practically doubled during the year to $1.0 milliard. This was followed by a moderate decline in the first quarter of 1974. In *Ireland* an overall payments deficit, together with some outflow of funds through the banks, combined to reduce reserves by rather over $0.1 milliard during 1973. Since the beginning of this year, however, the reserves have risen very slightly.

Canada. In addition to a slight overall payments deficit during 1973 there was a net $0.3 milliard outflow of funds through the chartered banks. The revaluation of gold and gold-based reserve assets, following the devaluation of the US dollar, amounted to almost $0.2 milliard. Consequently Canada's net official monetary assets fell by $0.3 milliard in the course of the year. During the first five months of 1973 the run on the US dollar was reflected in a net banking inflow of $0.4 milliard. This was sharply reversed in the following three months when there were net outflows of $0.8 milliard, owing at first to increasingly tight monetary conditions in the United States, and later also to the incipient recovery of the US dollar on the exchange markets. Though there was on balance no further change in the banks' foreign position in the last four months of the year, the overall balance of payments moved into surplus, so that net official assets rose by $0.2 milliard during the final quarter. With the Canadian dollar continuing to be very strong into 1974, the reserves rose by a further $0.5 milliard in the first four months, while in addition there was a $0.3 milliard outflow through the banks during the first quarter.

Japan. Owing to the very sharp swing into deficit of the balance of payments early in the year, Japan recorded by far the largest reserve decline of any country for 1973. Net official assets fell by $6.1 milliard, despite short-term inflows of almost $4 milliard through the banks and a $0.2 milliard revaluation gain on the gold stock and claims on the IMF. Within the total decline of official assets, the first-line exchange reserves went down by $7.4 milliard while official holdings of marketable US Government and corporate bonds increased by $1.1 milliard.

During the first two months of 1973 net official assets increased by $0.8 milliard, mainly as a result of the revaluation gains and a $0.5 milliard short-term banking inflow, to a peak of $18.9 milliard. They then fell rather persistently over the following eleven months, by a cumulative amount of $7.5 milliard, to $11.4 milliard at the end of January 1974. During these eleven months there was, in addition to the large reserve losses, a $4.8 milliard reduction in the banks' short-term foreign position. Most of the inflow through the banks came after the middle of the year, as the domestic monetary situation tightened and administrative measures were taken to encourage inward movements of funds.

In February 1974 the downward trend of Japan's reserves was reversed, and by end-April net official assets were $1.2 milliard above their level of three months earlier. The balance of payments continued to be in deficit but there were very large reductions, amounting in February and March alone to $3.1 milliard, in the banks' short-term foreign positions. These were partly the result of withdrawals from the banks of foreign exchange previously held with them by the authorities.

Foreign exchange markets.

A general picture of developments in foreign exchange markets, so far as they affected the US dollar or the international monetary system, has already been given in Chapter I. More details on the movements of individual currencies are given in the following pages.

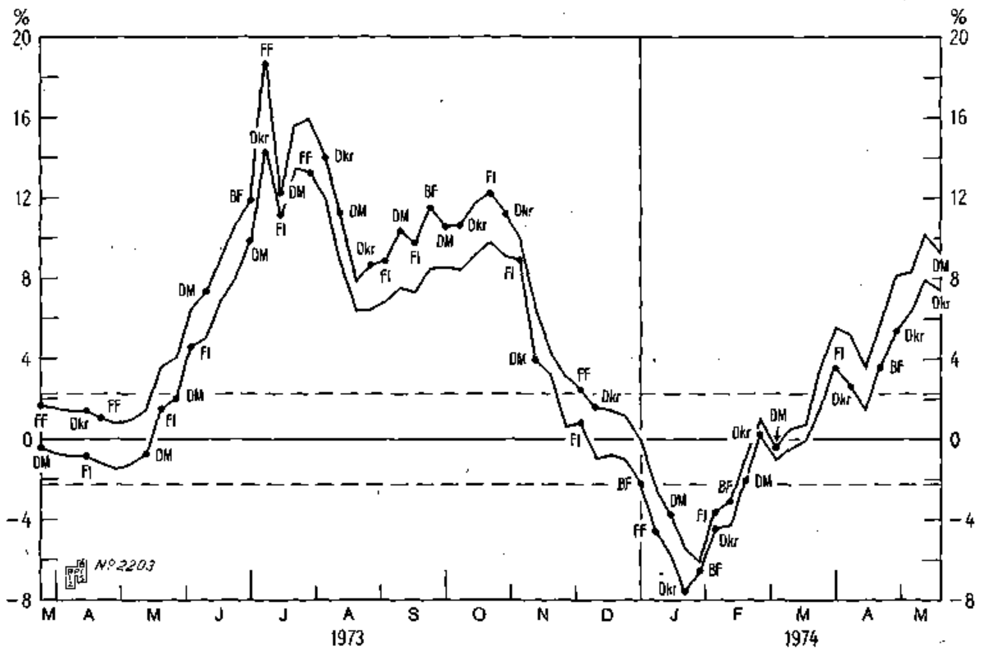
Joint float of certain European currencies. As described in the 43rd Annual Report (see pages 136–137), the joint float of the currencies of Belgium, Denmark, France, Germany, the Netherlands, Norway and Sweden against other currencies began on 19th March 1973. Participant countries were to intervene in each other's currencies in order to keep exchange rates within 2¼ per cent. on either side of cross parities, and within 1½ per cent. in the case of the relation between the guilder and the Belgian franc. Several adjustments have been made in the relationships between the participating currencies: the Deutsche Mark was revalued by 5½ per cent. on 29th June, the guilder by 5 per cent. on 17th September and the Norwegian krone by 5 per cent. on 16th November. On 21st January 1974 France withdrew from the joint float.

Since the joint float began the band of participant currencies has repeatedly been stretched to its maximum permitted width, with large-scale interventions being required on certain occasions. The periods of greatest pressure were during the substantial flow of funds into Deutsche Mark towards the end of June 1973, and in mid-September, after the guilder's revaluation, when considerable purchases of French francs were made by the German and Belgian authorities.

Against the dollar, in early July 1973 the snake currencies were arranged in a band extending from the Danish krone and Swedish krona, both up 14.1 per cent. against their 19th March nominal central dollar rates, to the French franc, which was 18.7 per cent. up. During the subsequent six-month reversal they were, as a group, for a few weeks at the end of 1973 within the range defined by the former tunnel of 2¼ per cent. on either side of their nominal central dollar rates. By late January 1974 the weakest participating currency, the Danish krone, was 7.8 per cent. below that point. By late May, however, the snake currencies had floated back to a range of

Joint float of European currencies against the US dollar.

Friday spot quotation for lowest and highest quoted currency as percentage above (+) or below (—) nominal central or middle rates as from 19th March 1973.



Note: The French franc was allowed to float independently beginning 21st January 1974.

6½–8½ per cent. above their nominal dollar central rates. During the period under review individual participants intervened from time to time in dollars on an ad hoc basis and after consultation with their partner countries.

Deutsche Mark. During the first two months of 1973 the Deutsche Mark bore the brunt of the pressure caused by the flight from the dollar, with massive intervention being needed to keep the spot rate within 2¼ per cent. of the Smithsonian parities. After the dollar was devalued in February and immediately prior to the beginning of the joint float on 19th March the Deutsche Mark was revalued by 3 per cent.

Since then the movements of the Deutsche Mark have corresponded broadly, but with the signs reversed, to those of the dollar, with the Deutsche Mark/dollar exchange rate being widely regarded as the key relationship in the market. When the markets reopened in mid-March there was some initial reaction of the Deutsche Mark, both vis-à-vis the dollar and within the joint float. In mid-May, however, it began to strengthen again rapidly. At first this was mainly a counterpart to the weakness of the dollar, but from end-May onwards drastic tightening of domestic monetary policy played an increasingly important rôle. The 5½ per cent. revaluation on 29th June, coming after DM 4.6 milliard of support operations for other snake currencies, eased the position inside the joint float; vis-à-vis the dollar, however, the Deutsche Mark continued to appreciate for another week. The peak was reached on 6th July with a market quotation vis-à-vis the dollar 25 per cent. higher than on 19th March. On a trade-weighted basis the appreciation vis-à-vis the currencies of Germany's main trading partners since mid-March was 15 per cent. at that time.

Following the Basle communiqué of 8th July the Deutsche Mark began to ease against the dollar, with some market intervention both by the Bundesbank and the Federal Reserve. The rate of decline was, however, generally slower than that experienced by other European currencies and following the revaluation of the guilder there was a considerable movement into Deutsche Mark out of French francs. As the market began to assess the balance-of-payments aspects of the oil crisis the Deutsche Mark fell heavily against the US dollar in the first part of November and again at the turn of the year, with significant dollar sales by the Bundesbank and supporting transactions by the Federal Reserve on the latter occasion. The low point was reached on 7th January, with the Deutsche Mark 22 per cent. below its July peak. On a trade-weighted basis, however, the decline was only 8 per cent.

Since then the Deutsche Mark has advanced rather steadily. By late May the spot rate had moved up 17 per cent. vis-à-vis the dollar from its January low point, while in the snake the German authorities were supporting some of the other currencies. Factors contributing to this development included, to begin with, some reassessment of the relative strength of the dollar in the context of higher oil prices, the liberalisation of controls on international capital movements and still further increases in Germany's trade surplus. In late April, when certain German economic research institutions proposed a further revaluation, the upward pressure on the Deutsche Mark intensified. In May the strength of the Deutsche Mark was reinforced by the weakness of the

Exchange rates for the US dollar, 1971-74.

Currencies[1]	Parity at 5th May 1971	Changes between 5th May 1971 and Smithsonian realignment	Smithsonian realignment and 19th March 1973[2]	19th March 1973[3] and 24th May 1974	Cumulative change 5th May 1971 to 24th May 1974	Closing market rate on 24th May 1974
	Currency units per US dollar	Percentage appreciation (+) or depreciation (—) against the US dollar				Currency units per US dollar
Deutsche Mark	3.66	+ 13.6	+ 14.4	+ 14.4	+ 48.0	2.4725
French franc	5.55419	+ 8.6	+ 11.1	— 6.5	+ 14.3	4.86
Belgian franc	50	+ 11.6	+ 11.1	+ 5.8	+ 33.8	37.36
Dutch guilder	3.62	+ 11.6	+ 11.1	+ 11.1	+ 38.8	2.6085
Danish krone	7.5	+ 7.4	+ 11.1	+ 6.4	+ 28.3	5.8450
Norwegian krone	7.14286	+ 7.5	+ 11.1	+ 11.5	+ 34.0	5.33
Swedish krona	5.17321	+ 7.5	+ 5.5	+ 4.9	+ 21.3	4.2655
Austrian schilling	26	+ 11.6	+ 13.6	+ 16.1	+ 46.6	17.73
Pound sterling	2.40[4]	+ 8.6	— 5.6	— 2.5	0	2.40[4]
Italian lira	625	+ 7.5	+ 1.7	— 9.5	— 1.1	632.15
Swiss franc	4.372825	+ 13.9	+ 18.1	+ 10.9	+ 49.2	2.93
Japanese yen	360	+ 16.9	+ 16.7	— 5.6	+ 28.8	279.60

[1] Commercial rates where two-tier markets exist. [2] Nominal central or middle rates for first eight currencies listed; closing market rates for last four. [3] Market rates. [4] US dollars per pound.

dollar which stemmed partly from a real deterioration in the US balance of payments and partly from political difficulties in the United States. Following the January turn-round the trade-weighted value of the Deutsche Mark had by late May risen 7 per cent.

Dutch guilder. As a result of the 5 per cent. revaluation in September 1973, the rise in the external value of the guilder during the period under review was, among the currencies participating in the joint float, second to that of the Deutsche Mark. Like other European currencies, the guilder was under heavy upward pressure in the early 1973 currency crisis. During the first four months of the joint float, however, while sharing in the general appreciation against the dollar, the guilder was, mainly for interest rate reasons, one of the weakest participating currencies. It required support from time to time, at first within the Benelux worm and later also in the snake, including $400 million's worth from the Bundesbank in late June. The German revaluation eased pressure within the snake, while against the dollar the guilder reached a peak of Fl. 2.52 on 6th July, having appreciated about 15 per cent. since mid-March.

In the subsequent downward movement of the snake, the guilder at first proved one of the weaker currencies owing to the tight monetary conditions in Germany. Towards the end of August, however, following a progressive tightening of the domestic monetary situation, it reached the top of the snake and stayed there almost uninterruptedly until its revaluation. Following that move — taken as part of an anti-inflationary programme and without there having been great pressure in the exchange market — domestic monetary stringency soon pushed it back to the top of the snake and well above its July peak on the dollar. From late October onwards, however, the oil crisis, aggravated in the Dutch case by the Arab embargo on oil supplies, produced a rather drastic decline against the dollar of almost 19 per cent. to a low point of Fl. 3.01 on 23rd January. In addition, the guilder needed support in the snake during November and December.

Since late January the situation of the guilder has reversed again, both vis-à-vis the dollar and in the joint float. In late May it was 15 per cent. above its January low on the dollar and 11 per cent. higher than when the joint float began; on a trade-weighted basis the appreciation amounted to about 3½ per cent. since January 1974 and 6½ per cent. since mid-March 1973.

Belgian franc. As a result of substantial inflows of funds the commercial Belgian franc was at its upper limit against the dollar during the currency crisis that led to the closing of the exchange markets at the beginning of March 1973. When the markets reopened the franc eased somewhat against the dollar, partly as a result of the ¼ per cent. per week commission that had been introduced on any further increases in non-residents' holdings of commercial francs. In the joint float, on the other hand, it was at first one of the strongest currencies, subsequently easing somewhat as a result of support for the guilder within the worm in late April. In late June the franc, like other snake currencies, was supported by the Bundesbank, but immediately following the revaluation of the Deutsche Mark it rose to the top of the snake.

Shortly afterwards, on 9th July, it reached a peak of B.fr. 34.50 against the dollar, having appreciated against that currency by 14½ per cent. since mid-March. On a trade-weighted basis, however, there was very little change in the exchange rate of the Belgian franc during that period.

The franc then eased, both against the dollar and, shortly afterwards, in the snake. There were occasional small sales of commercial francs by the Federal Reserve from 10th July. Following the guilder revaluation in mid-September market attention was immediately focused on the franc, partly because of its link to the guilder in the worm and partly because, like the Netherlands and Germany, Belgium's current balance of payments was strong. The franc went to the top of the snake and also strengthened against the dollar. The authorities then reintroduced the commission (abolished earlier that month) on increases in non-resident franc balances and also requested the banks to reduce their net spot foreign liabilities eligible for sale on the regulated exchange market. While the franc soon eased in the snake, against the dollar it remained higher than before the guilder revaluation until the beginning of November. The oil crisis then brought it down by 22nd January to 21 per cent. below its July 1973 peak on the dollar. At that time, following the withdrawal of the French franc, the commercial Belgian franc was also at the bottom of the snake.

The subsequent rise of the franc against the dollar had by late May 1974 brought it to a point where, since mid-March 1973, its cumulative appreciation vis-à-vis that currency since the joint float began was 6 per cent. At that point, however, it was at the bottom of the snake. On a trade-weighted basis the exchange rate of the commercial franc in late May 1974 was 1 per cent. higher than in mid-March 1973.

During 1973 and the first quarter of 1974 the financial franc usually moved together with the commercial franc, the gap between the two rates rarely exceeding 2 per cent. Subsequently, at first because of policial uncertainties in Belgium and later owing to expectations of a further revaluation of the Deutsche Mark, the financial franc went to a discount of over 5 per cent. in the second week of April and in late May the discount was still about 5 per cent.

French franc. The evolution of the French franc exchange rate during the period under review divides into two main phases. The first covers the period up to early July 1973. So long as the dollar was weak the commercial franc was firm, not only in the dollar market but also in the European snake. Sharing in the upward movement of the snake, at its highest point on 6th July the commercial franc had risen 17 per cent. against the dollar since 19th March and some 3½ per cent. on a trade-weighted basis vis-à-vis the currencies of its main trading partners. At that point there was even some talk of the franc being revalued.

As well as easing sharply against the dollar from 9th July onwards, the commercial franc also came down to the bottom of the snake near the end of that month. It remained there almost uninterruptedly until the guilder revaluation, with official support being given from time to time. To the effects of the recovery of the dollar were added, in the French case, a level of domestic interest rates that was low by international comparison and an acceleration of price increases. Following the revaluation of the guilder, pressure on the franc inside the snake became intense as funds moved into Deutsche Mark and Belgian francs. Massive intervention, backed up by an increase in interest rates, controls on the banks' foreign lending and the removal of restrictions on inflows of funds, soon brought some recovery inside the snake. This went further in November, when the market took the view that France would be relatively little affected by the new oil situation, and in early December the franc went briefly to the top of the snake.

Later that month, however, the situation reversed itself again and the franc went to the bottom of the snake. After some further intervention, on a much smaller scale than in September, it was set free to float as from 21st January. At once the commercial rate fell by 5 per cent. against the dollar, to about Fr.fr. 5.24. This brought its cumulative decline since July 1973 to 26 per cent. against the dollar and about 13 per cent. on a trade-weighted basis. By the end of March, soon after the commercial and financial exchange markets were merged, the franc had recovered some 10 per cent. against the dollar, to Fr.fr. 4.77½. Following the death of President Pompidou it eased to Fr.fr. 4.91½ and in late May stood at Fr.fr. 4.86. At that time the franc was 12 per cent. lower than in mid-March 1973 vis-à-vis the trade-weighted average of the currencies of its main trading partners — having depreciated over that period more than any leading currency except the lira.

Lira. Despite large-scale and persistent official support operations, the lira showed easily the largest depreciation, about 18½ per cent. on a trade-weighted basis, of any major currency during the period under review. Even vis-à-vis the dollar it went down between the end of 1972 and late May 1974 by about 8 per cent., from Lit. 583 to Lit. 632.

The lira was the first major currency to come under pressure in January 1973. A separate, floating rate for financial transactions was introduced on the 22nd of the month and in mid-February, immediately after the devaluation of the dollar, the commercial lira too was floated. Following the rather general adoption of floating the lira was particularly weak, reflecting partly economic and partly political factors. Despite measures taken in June to slow down domestic credit expansion, when the dollar reached its lowest ebb in early July the commercial lira stood at approximately the same rate against that currency as in mid-March, while on a trade-weighted basis it had depreciated by nearly 15 per cent.

With the formation of a new government in late July measures were taken to restrict outflows of capital and adverse leads and lags. These, together with the seasonal improvement in the balance of payments, caused a substantial recovery of the lira by the end of August. Against the general trend the spot rate against the dollar moved up from Lit. 584 to Lit. 566, while on the trade-weighted basis the rise was nearly 8 per cent. Between then and late January 1974, however, under the combined impact of a renewed balance-of-payments deterioration, the oil situation and the improved position of the dollar, the commercial lira weakened to Lit. 672 against the dollar. Over that period the depreciation of the lira on a trade-weighted basis was 6 per cent. The financial lira was regularly below the commercial rate in 1973, the discount reaching 7 per cent. in July but running off altogether at one point in December.

Despite the substantial further deterioration of Italy's balance of payments in early 1974, the commercial lira rose sharply against the dollar from its January low point to Lit. 623 on 22nd March, when the commercial and financial exchange markets were combined. The new unified rate fell by late April to Lit. 638 but recovered somewhat following the announcement of the import deposit scheme in early May. On a trade-weighted basis, the lira has depreciated by a further 3 per cent. since late January.

Sterling. Following sharp falls in June and October 1972, sterling began the year 1973 about 10 per cent. below the Smithsonian level vis-à-vis both the dollar and the trade-weighted average of its leading partner currencies. During the period under review it followed, very broadly, the three-phase pattern against the dollar that was recorded by most other European currencies. Since, however, over the whole period it appreciated against the dollar by only 2¼ per cent., on a trade-weighted basis sterling declined by 8½ per cent.

During the first five months of 1973, thanks to relatively high domestic interest rates and the beginnings of sizable public-sector foreign borrowing, sterling went up by over 9 per cent. against the dollar, the spot rate reaching a peak of $2.59 early in June. This was sufficient to counterbalance its decline against some other leading currencies, so that in mid-May the trade-weighted exchange rate was even showing a fractional appreciation as compared with the position at the beginning of the year.

In late May the United Kingdom's interest rate advantage began to run off. This was followed shortly afterwards by the end of the rise in the spot dollar rate. With other European currencies appreciating very sharply against the dollar during June and the first days of July, by the time that the dollar was at its weakest on 6th July sterling had depreciated by 8 per cent. on the trade-weighted basis since the third week of May and there was substantial official intervention. Following a rise in domestic interest rates, sterling improved a little in August on a trade-weighted basis, falling less against the dollar than most European currencies; but renewed pressures in September brought the trade-weighted exchange rate down lower than it had been in July. Interest rate differentials were again unfavourable, there was unease about the future of the guarantees on the sterling countries' official sterling balances until their extension was announced on 6th September and, more fundamentally, the balance of payments was continuing to deteriorate.

In October sterling recovered a little, against both the dollar and other currencies, but from early November to mid-January 1974 the spot dollar rate declined by nearly 30 cents, or 11 per cent., to a low point of $2.15. By that time the trade-weighted exchange rate was 10 per cent. lower than in mid-May 1973 and about 20 per cent. below the Smithsonian level. To the already unfavourable external payments situation were added during this period the effects of the oil situation and of industrial disputes, culminating in the introduction of a three-day working week in many sectors of industry at the beginning of 1974.

In late January and early February there was some definite improvement in the position. This was interrupted during the election period but resumed in late March with sterling in demand for oil payments. By late May the spot dollar rate stood at $2.40, having recovered the November–January loss, while the trade-weighted exchange rate was nearly 3 per cent. above its January low point.

In the forward market sterling was at a discount against the dollar throughout the period. At its widest, at the end of January 1974, the three-month forward discount touched 13½ per cent. per annum. In the investment currency market — where UK residents may purchase foreign currency for portfolio and, if access to the official market is not granted, other foreign investments as well and where they may dispose of 75 per cent. of the proceeds of the sale of such investments — sterling was quoted at a substantial discount below the official rate throughout the period, the extremes being 9 per cent. in February 1973 and 34 per cent. in early March 1974.

Swiss franc. Having been set free to float on 23rd January 1973, the Swiss franc had already appreciated against the dollar by 19 per cent., despite substantial official intervention, by the time that the exchange markets were closed on 1st March. After a pause until mid-May, the franc then shared in the rather general rise of European currencies against the dollar, the spot rate reaching Sw.fr. 2.68½ on 6th July. At that point it had appreciated 40 per cent. vis-à-vis the dollar since the beginning of the year and 21 per cent. on a trade-weighted basis — gains that were second only to those of the Deutsche Mark. Against the Deutsche Mark, in fact, the franc had during the first two months of the year appreciated some 7 per cent.; by late July, however, it had depreciated vis-à-vis the Mark by 10 per cent. from the end-February level.

In the period of recovery of the dollar from July 1973 to January 1974, the franc at first fell more sharply than any other leading currency. By the end of August it was 11.4 per cent. below its peak on the dollar and 8.4 per cent. on the trade-weighted basis. From November until January 1974, however, the further 9.6 per cent. decline of the franc against the dollar was less than that of most other leading currencies. At its lowest point on 7th January the spot rate for the dollar was Sw.fr. 3.42¾, nearly 22 per cent. below the July peak. On a trade-weighted basis the decline since July was just over 10 per cent.

Since then the franc has, with the Deutsche Mark, shown the greatest appreciation of any currency against the dollar. By mid-May, with speculative pressures building up again, the spot rate went to Sw.fr. 2.78, not far from the July 1973 peak and 23 per cent. above the early January 1974 level. Later in the month, however, it eased to Sw.fr. 2.93.

Yen. After being under strong upward pressure from late January, the yen was allowed to float in February 1973, following the devaluation of the dollar. The spot rate quickly rose by 14 per cent., from Yen 301 to around Yen 265. When general floating began, the Japanese authorities maintained this rate, although the balance of payments had turned into substantial deficit, until near the end of October by sales of dollars to the market. Between end-February and end-October 1973 Japan's official external monetary assets declined by $5 milliard. With the onset of the oil crisis the authorities adopted a kind of crawling peg exchange rate policy. The rate for the dollar was allowed to decline in steps to Yen 280 by mid-November and, after the second round of oil price increases, to Yen 300 — a cumulative depreciation of 12 per cent. Following measures to control outflows of funds from Japan and the lifting of all restrictions on outflows from the United States, the yen appreciated against the dollar by 3½ per cent. in February and a further 4½ per cent. in March. Since then there has been little further change and in late May the spot rate was Yen 280.

On a trade-weighted basis the yen drifted down during most of the May–July 1973 period, showed a small improvement in August and then resumed its downtrend until reaching a low in January. At that point it was some 11 per cent. lower on the trade-weighted basis than on 19th March 1973. By May 1974 the decline had been reduced to about 7 per cent.

Canadian dollar. The Canadian dollar continued to float trendlessly and narrowly around par with the US dollar throughout the first eleven months of 1973, with the authorities intervening from time to time to preserve orderly market conditions. Both the spot and forward rates were rarely outside the range US $0.99–1.01. This was a somewhat remarkable performance given the exceptional movements of the US dollar vis-à-vis a number of European currencies and, to a lesser extent, the yen over this period and considering the importance of Canadian merchandise trade with the countries of these currencies. The only movement of any note in the spot rate until the oil crisis began was a very slight decline below par in the third quarter, owing to higher short-term interest rates in the United States.

Reflecting the country's strong position with respect to petroleum, the Canadian dollar has appreciated markedly against the US dollar as a result of the new oil situation. By the end of 1973 the spot rate had gone back above par on the US dollar and this trend continued during the first months of 1974. In late May the spot rate stood at US $1.04, its highest level since the late 1950s. On a trade-weighted basis, of course, the movements of the Canadian dollar exchange rate were less marked than those of the US dollar, the range being from 1 per cent. below its 19th March 1973 position in September 1973 to nearly 5 per cent. above in May 1974.

Austrian schilling. At the end of March 1973 the Austrian authorities decided that, although Austria would not participate in the joint European float, they would intervene on an informal basis in the market as necessary to keep the schilling within 2¼ per cent. of its cross rates with the currencies in the snake. The dominant rôle of Germany in Austria's external position was, despite the fact that Austria's trade deficit was increasing substantially, the decisive factor in this choice of policy as it was also in the 2¼ per cent. revaluation of the schilling in March and the 4.8 per cent. revaluation in early July. In mid-May 1974, however, following quite strong upward pressure on the schilling, the informal link with the snake currencies was loosened by widening the margins of fluctuation to plus or minus 4.5 per cent. At the same time the level at which the schilling is informally pegged on a trade-weighted basis to the currencies in the snake and the Swiss franc was adjusted upwards by roughly 3 per cent.

During the three main phases of exchange-market developments since the joint float began, the schilling appreciated against the dollar by 22 per cent. from mid-March to early July 1973, fell by 20 per cent. from then until early January 1974, and in late

May 1974 was 19 per cent. above its January low point. By mid-May 1974 it had appreciated by 8 per cent. on a trade-weighted basis since mid-March 1973.

Other currencies. Having all been at their ceilings against the US dollar both immediately before the February 1973 devaluation and again at the end of that month, the currencies of Denmark, Norway and Sweden all took part in the joint float against the dollar from mid-March 1973. From then until early July they appreciated against the dollar by amounts varying from 12½ per cent. in the case of the Swedish krona to 15½ per cent. in that of the Norwegian krone. By late January 1974 the Danish and Swedish currencies had fallen between 8 and 9 per cent. below their mid-March 1973 levels against the dollar, but the Norwegian krone, thanks to the 5 per cent. revaluation in November, was hardly any lower. By late May 1974 the Norwegian krone was 3½ per cent. below its July peak against the dollar, whilst the Danish and Swedish currencies were about 7 per cent. below theirs.

On 4th June 1973 the Finnish authorities allowed the markka to float. After appreciating 5½ per cent. by the end of July, it then declined by 8½ per cent. up to the end of January 1974. Subsequently it has recovered the July–January loss.

The Spanish peseta continued to be linked to the US dollar throughout 1973. The authorities fixed narrow intervention points, which were changed from time to time, within the 2¼ per cent. band on either side of the dollar parity. Given the downward trend of the dollar up to July and the strength of Spain's balance of payments, this involved resisting strong upward pressures on the currency until the situation was changed by the oil crisis. The strength of the dollar in late 1973 led the authorities to allow the peseta to float as from 22nd January 1974, though without abandoning official intervention. Since then the peseta has remained within the former 2¼ per cent. margins on either side of its dollar parity.

The Portuguese escudo has been floating since 19th March 1973. It appreciated some 15 per cent. against the dollar by late July 1973, but then by January 1974 had gone down to 8 per cent. below its March 1973 level. By late May the escudo had risen to 3 per cent. above that level.

Other exchange developments.

Apart from the exchange rate developments described in the preceding section and in Chapter I of this Report, the period under review was one of important developments as regards administrative controls in the main industrial countries over international movements of funds. While the US dollar was weakening during the first half of 1973, some European countries extended further their controls on inflows of funds. Later, however, under the combined impact of the recovery of the dollar and the oil crisis these controls began to be dismantled and the process continued after the removal of US restrictions on capital outflows early in 1974. These developments represented a significant movement towards greater freedom. At the same time, however, new restrictions on outflows of funds were introduced in certain countries whose payments situation deteriorated during 1973 and the first part of 1974.

The most comprehensive single measure in this field was the removal by the *United States* at the end of January 1974 of the various restraints on resident capital outflows—the interest equalisation tax on American citizens' acquisitions of foreign portfolio assets, the restrictions on the transfer of funds abroad for foreign direct investment by US corporations and the guide-lines on voluntary restraint in lending abroad by US banks and financial institutions — imposed in 1963–68.

Immediately afterwards, *Canada* withdrew all guide-lines relating to the export of capital and aimed at preventing the "pass-through" of funds from the United States to the rest of the world. These included the request to residents not to buy securities subject to the US interest equalisation tax, the request to chartered banks and other financial institutions to avoid increasing beyond certain limits their net foreign currency asset positions vis-à-vis residents of countries other than Canada and the United States, and the guide-lines to Canadian non-financial corporations introduced in 1968 to ensure that their investments outside Canada and the United States would be compatible with the country's unrestricted access to the US capital market.

In *Germany* a number of measures to restrict inflows of funds were taken at the beginning of the period under review, in February 1973. These included controls over non-resident purchases of equities and direct investments, as well as over the taking-up of foreign loans and credits by residents. In June sales to non-residents of bills of exchange and other similar claims on German residents were made subject to official authorisation, i.e. in practice not allowed. Immediately following the revaluation of the Deutsche Mark on 29th June, the raising of foreign currency loans in connection with exports of goods and services was limited to the covering of exchange risks. At the same time, the base level above which marginal reserve requirements were applied to the banks' liabilities to non-residents was reduced by 25 per cent. At the beginning of October it was lowered by a further 15 per cent. Meanwhile, in late July the restrictions on non-resident purchases of German securities were further tightened.

At the beginning of 1974 the German authorities began to ease the restrictions on inflows of funds. As from 1st January, the reserve requirements on the growth of the banks' liabilities to non-residents were abolished, while those on liabilities outstanding were lowered by 5 percentage points each, to 35, 30 and 25 per cent. for sight, time and savings deposits respectively. At the same time foreign borrowing to finance imports was exempted from the Bardepot (cash-deposit) scheme. These measures were followed on 1st February, immediately after the removal of controls on capital outflows from the United States, by the cancellation of most restrictions on foreign borrowing by German residents as well as on foreign direct and portfolio investment in Germany. The withholding tax on non-resident income from fixed-interest securities was, however, maintained. At the same time the Bardepot ratio was reduced from 50 to 20 per cent.

In *Switzerland* a number of further measures designed to limit inflows of funds were introduced in the period immediately following the floating of the franc. At the beginning of March 1973 marginal reserve ratios on the banks' foreign liabilities were increased and in addition reserve requirements were imposed on the outstanding amounts of such liabilities. The ratios applied, which varied according to type of liability as well as between domestic and foreign currency liabilities, ranged from

1 to 3 per cent. on amounts outstanding and from 7 to 56 per cent. on increases above the end-February level. Later in March the quota of permitted non-resident subscriptions to foreign Swiss franc bond issues and private placements of medium-term Swiss franc notes was reduced from 40 to 35 per cent. Finally, in mid-April 1973 the maximum Swiss franc credit allowed to be taken up abroad by residents without official authorisation was reduced from Sw.fr. 1 million to Sw.fr. 500,000.

Beginning in October 1973 the authorities started to dismantle some of the restrictions on inflows, as well as to reduce the volume of capital exports. With effect from 1st October the 2 per cent. per quarter negative interest charge applied since June 1972 to increases in non-resident Swiss franc bank deposits, as well as the obligation (reintroduced in January 1973) on the banks to balance daily their combined spot and forward currency positions, was abolished. In December 1973, January 1974 and April 1974 the minimum reserves required to be held at the National Bank against liabilities to non-residents — which in October had been raised by 25 per cent. — were reduced by 55 per cent. in all. In November the maximum quarterly total of foreign loans permitted to be raised on the domestic capital market was reduced from Sw.fr. 900 to 480 million. In January 1974 the total for the first quarter of the year was reduced to Sw.fr. 360 million. At the same time the quarterly limits on the placement of non-resident medium-term notes and on authorised loans to non-residents were reduced to 75 per cent. of the quarterly average for 1973. With effect from 1st February the ban on foreign investment in domestic securities and mortgages on domestic real estate, the conversion obligation for approved capital exports and the 35 per cent. limit on non-resident subscriptions to foreign Swiss franc bond issues were abolished. In late May the raising of foreign loans on the Swiss market and the placement in Switzerland of non-resident medium-term Swiss franc notes were suspended.

In *Belgium-Luxemburg,* following the February–March 1973 currency crisis, a commission of ¼ per cent. per week was levied on all balances on non-residents' convertible Belgian franc accounts in excess of the average fourth-quarter 1972 level. This measure was suspended in August, reintroduced in mid-September and again suspended at the beginning of 1974. The payment of interest on non-residents' convertible Belgian franc balances was allowed again as from 1st February 1974. At the same time payments to non-residents of investment income and the granting of bank credits to non-residents in foreign exchange were permitted through the regulated exchange market. In September, and again in November 1973, the limits set in March 1972 for the banks' net spot foreign liabilities in convertible Belgian francs and in foreign currencies eligible for sale on the regulated foreign exchange market were reduced.

In the *Netherlands,* when the joint float began in March 1973, a 50 per cent. reserve requirement, raised in April to 80 per cent., was imposed on any net liability position in guilders of banks in the Netherlands to non-residents and a negative interest charge of ¼ per cent. per week applied to any further increase in non-residents' guilder deposits. Both measures were withdrawn in May 1973, when there were outflows of funds from the Netherlands. On 1st February 1974 the restrictions introduced in September 1971 on non-resident purchases of quoted guilder bonds from residents were lifted; this meant the abolition of the separate exchange market for guilders (the so-called "O"-guilder circuit) in which the proceeds of non-resident sales of such bonds were traded.

In *France,* following the decision to participate in the joint float, a whole series of measures designed to discourage non-resident spot and forward holdings of francs were introduced in March 1973 (see 43rd Annual Report, page 149). These had been followed in April by liberalisation of the regulations governing forward purchases of exchange and the granting of export credits by residents. Some further measures to discourage inflows and encourage outflows were taken during the summer, while the franc was still relatively strong. In late July the reserve requirement on the banks' total franc liabilities to non-residents was put up from 12 to 14 per cent. In August the residents' travel allowance, as well as permitted transfers for house purchases and for making gifts to relatives living abroad, were substantially increased. In addition exporters and importers were given greater freedom as regards making settlements and arranging for forward cover.

Following the September exchange crisis, however, this trend was reversed. In October all the March 1973 restrictions on inflows of funds were abolished; in early January 1974 domestic enterprises in the energy sector were encouraged to raise medium and long-term loans on foreign and international markets; and, following the departure of the franc from the joint float, a number of further changes in exchange control were introduced. These included a ban on French franc loans to non-residents, the removal of the reserve requirement on the banks' outstanding franc liabilities to non-residents, limitation of forward exchange purchases to covering import requirements not more than three months ahead and compulsory collection of export receipts within six months of delivery of the goods. At the same time the maximum which residents can borrow abroad without prior authorisation was raised from Fr.fr. 2 to 10 million and all restrictions on forward sales of foreign currency were removed.

In *Italy* measures were taken during the whole period under review both to limit capital outflows and to check the deterioration in the country's current payments deficit. In July 1973 Italian residents making new investments abroad were required to deposit on non-interest-bearing accounts at the Bank of Italy a sum equal to 50 per cent. of their investments and to maintain these balances until the investments were liquidated and the proceeds repatriated. At the same time advance payments for imports were limited to those made with foreign exchange acquired from Italian banks. In March 1974 imports and exports of Italian bank-notes by residents and non-residents were limited to Lit. 20,000 per person per trip; the limits were raised in May to Lit. 35,000. More importantly, in early May most merchandise imports other than those of raw materials and equipment goods were made subject to a six-month, non-interest-bearing, cash deposit requirement equal to 50 per cent. of the c.i.f. value of the goods. To reinforce the efficacy of this measure, Italian banks were no longer allowed to guarantee credit extended by foreign suppliers to Italian importers. Simultaneously the foreign currency travel allowance for Italian residents was reduced from Lit. 500,000 per trip to Lit. 500,000 a year.

In the *United Kingdom* the most important measures taken during the period under review were those designed to facilitate the financing of the current payments deficit. Their effect was to make the country a substantial net importer of capital at long term. With effect from March 1973 exchange-cover facilities (abolished a year earlier) were reintroduced for overseas borrowing in dollars by public-sector institutions for periods of five years or more. In October the scheme was extended to include, in appropriate cases, such borrowing in other foreign currencies too. At the same time the minimum period for which other UK residents are allowed to borrow foreign currency to meet domestic expenditures was reduced from five to two years. At the end of March 1974 these measures were reinforced by a further tightening of the regulations governing direct and portfolio investment overseas by UK residents. Firstly, investment in sterling countries and in countries of the European Economic Community could in general no longer be financed from the official exchange market but, as with investment in non-EEC, non-sterling countries, with currencies obtained either in the investment dollar market or through borrowing abroad. Secondly, the proceeds of the sale by UK residents of direct investments in non-sterling countries outside the European Economic Community have all to be sold on the official exchange market, instead of only to the extent of 25 per cent., while 25 per cent. of the proceeds of sales of overseas sterling-country securities denominated in the currencies of those countries have now in general to be disposed of on the official exchange market.

The sterling guarantee agreements, made originally in 1968 with individual overseas sterling countries and subsequently renewed with most of them for two years in 1971, expired on 24th September 1973. The UK Government, however, offered unilaterally to continue the guarantees for a further six months and most of the countries which had previously had an agreement accepted this offer. Implementation of the guarantee was to take place if, during the six-month period, the average of the daily rates for sterling, in terms of US dollars, was below $2.4213 (hitherto $2.3760). On 1st April 1974 a further offer was made, covering the period to the end of the year. As from that date, however, the guarantee is expressed in terms of the effective (trade-weighted) change in the exchange rate for sterling, measured against a basket of ten representative foreign currencies. The effective sterling rate, on which the new guarantee is based, was fixed at the average depreciation of sterling from Smithsonian parities or central rates of the ten currencies concerned during the period from 25th September 1973 to 31st March 1974, i.e. at 18.35 per cent. below the Smithsonian level. At the same time the minimum proportion of sterling required to be held in order to qualify for a guarantee was reduced by 10 per cent.

In *Japan,* following the massive shift in the balance of payments from surplus to deficit that began in March 1973, a considerable number of modifications have been made in exchange regulations, beginning in the autumn of that year, both to relax controls on inflows of non-resident funds and to limit outflows of resident money. As concerns inflows of non-resident funds, in October 1973 foreigners were again allowed to add to their holdings of Japanese equities and in December to those of fixed-interest securities; in November and December 1973 regulations were modified to liberalise the conversion of foreign currencies into yen for crediting to non-residents' free yen accounts; in December the reserve requirement on increases in free yen accounts was lowered from 50 to 10 per cent.; and in February 1974 Japanese enterprises, particularly in the energy sector, were allowed to borrow abroad more freely than before. In addition, from November non-residents were no longer obliged to convert at once into foreign currencies 90 per cent. of the proceeds of private yen bond issues in Japan, while between November and February the restrictions on the conversion into yen of advance export receipts from non-residents were progressively lifted.

As concerns outflows of resident funds and resident holdings of foreign exchange on current account, the foreign currency travel allowance, previously unlimited, was fixed at $3,000 per trip in December 1973. In April 1974 the limit was reduced to $1,500 and the allowance for the export of notes and coins for foreign travel lowered from Yen 100,000 to Yen 30,000. At the end of February 1974 the foreign currency balances allowed to be held with Japanese banks by residents were reduced.

In January 1974 the scope of the scheme for making loans to domestic firms in connection with foreign trade and investment, introduced in September 1972 and extended in May 1973, was limited to "essential" industries and the foreign exchange part of such loans, which is a direct charge on the country's monetary reserves, lowered from 90 to 50 per cent. Also as regards outward investments, in April 1974 steps were taken to restrict outflows for projects other than those involving the acquisition or development of vital natural resources. Earlier, in December 1973, residents had been prohibited from borrowing foreign exchange for the purpose of purchasing real estate abroad, while Japanese firms had been allowed to issue securities abroad to finance investments outside Japan. As concerns residents' investments in short-term foreign securities, restrictions were imposed in November 1973 and extended in January this year.

In *Austria* the gentleman's agreement of August 1971 between the banks and the Austrian National Bank, under which the banks were to place on non-interest-bearing accounts at the National Bank 75 per cent. of any increase in their schilling liabilities to non-residents and were not to increase their domestic liquidity by selling foreign exchange assets or foreclosing foreign loans, was extended at the end of 1973 for a further six months. It was slightly relaxed in March 1974 by changing the base date for calculating the increase in foreign liabilities from 13th August 1971 to 31st December 1973. Also extended until the end of June 1974 were the measures introduced in November 1972 limiting non-residents' purchases of Austrian securities and real estate, and residents' borrowing abroad for financing imports or domestic investment.

In *Norway* the very restrictive policy hitherto pursued with regard to non-residents' purchases of Norwegian shares was eased somewhat in July 1973. Since then such purchases (excluding those of insurance, oil and shipping shares) have normally been authorised, provided that the shares applied for are quoted on the stock exchange and that control over domestic companies does not pass to non-residents.

In *Finland,* following the floating of the markka, a cash payments system was introduced in June 1973 for imports of consumer goods (including cars) and long-term capital imports were made subject to a special deposit requirement with the central bank.

In *Portugal,* at the beginning of May 1974 the formerly unlimited travel allowance in domestic or foreign currency for residents going abroad was fixed at a maximum of

Esc. 25,000 per person per trip and residents were requested not to take jewellery or other valuables out of the country.

In *Turkey*, in mid-May 1974, the pound was adjusted upwards by 3.7 per cent. vis-à-vis the US dollar, the exchange rate of T£ 14 = US $ 1 in force since the December 1971 realignment being changed to T£ 13.50 = US $ 1.

Among the *sterling countries* there were a number of changes in exchange rates during the period under review. In *Australia* the dollar was revalued by 5 per cent. in September 1973, the new parity being fixed at A$ 1 = 1.09578 grammes of fine gold and the dollar rate at A$ 0.67 = US$ 1. In October the deposit requirement in respect of new overseas borrowing other than equity inflows and trade credit was raised from 25 to 33⅓ per cent.

In *New Zealand* the dollar was adjusted upwards against the US dollar by 3 per cent. in July and a further 10 per cent. in September 1973. Since then the dollar rate has been NZ$ 0.68 = US$ 1.

In *South Africa* the rand appreciated against the dollar by 11.1 per cent. as a result of the latter's devaluation in February 1973. In early June the authorities decided not to maintain the rate of exchange for the dollar within the permissible margins on either side of par. New buying and selling rates for the dollar were announced amounting to a further appreciation of the rand by some 5 per cent. In September 1973 South Africa accepted the obligations of Article VIII of the IMF Agreement.

In *Iceland* the króna, which devalued along with the dollar in February 1973, was subsequently revalued three times, in April, June and September 1973, to a rate of I.kr. 84 = US $ 1. After the turn of the year the exchange rate was allowed to move down to I.kr. 89.10 = US $ 1 by 17th May, when a further adjustment to I.kr. 92.80 = US $ 1 became effective.

Apart from these developments, *Singapore* and *Malaysia* unpegged their currencies from the dollar and began to float independently in June 1973. They were followed by *Cyprus* in July and *Malawi* in November. In February 1974 *Fiji* switched its currency from being pegged to sterling to being pegged to the dollar at a rate of Fiji $1.25 = US $1.

In the *French franc area* the West African Currency Union was prolonged in January 1974 with certain modifications. As from that date France guaranteed the French franc reserve assets of the members of the Union (Dahomey, Ivory Coast, Niger, Senegal, Togo and Upper Volta) in terms of gold at the official price, SDRs and the European unit of account. At the same time these countries are now obliged to keep only 60 per cent. of their currency reserves, instead of 100 per cent., at the French Treasury. Following the decision to withdraw the French franc from the joint European float against the dollar all the currencies of the French franc area remained pegged to the franc.

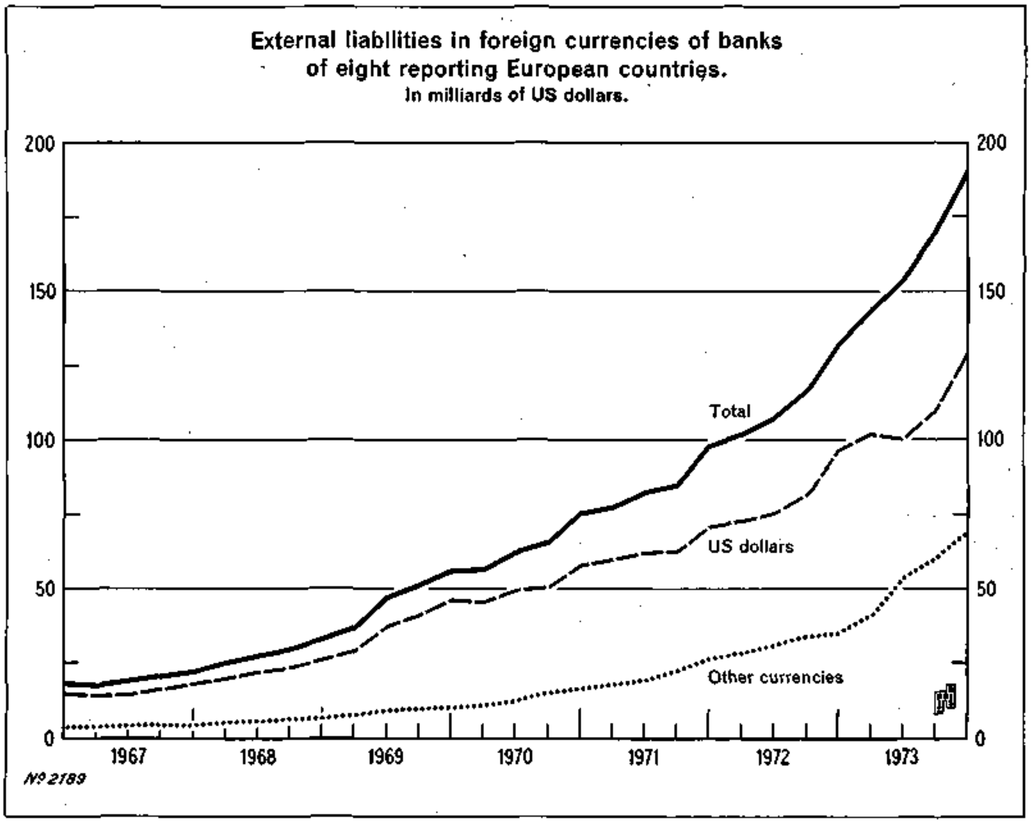
In *Argentina* the official exchange rate remained at Pesos 5 = US$ 1 and the financial rate at Pesos 9.98 during the period under review. The proportion of exchange transactions which must be settled through the financial market, however, continued to increase. Since July 1973 residents have been required to sell, within 30 days of receipt, foreign exchange earnings other than those from exports on the financial market; since August 1973 all payments for imports from countries belonging to the Latin American Free Trade Association have to be made with exchange purchased on the financial market. In *Brazil* the exchange rate has been adjusted downwards six times vis-à-vis the dollar since end-May 1973, giving a total devaluation of 7 per cent. In late May 1974 the rate for the dollar was Cruz. 6.55. In *Chile* the multiple exchange rate system, after being somewhat simplified in July, was reduced to a two-rate system. At the beginning of October 1973 a rate of Esc. 280 = US$ 1 was established for foreign trade and authorised financial transactions, and one of Esc. 850 = US $ 1 for tourism. Since then the main exchange rate has been devalued several times by a total of 58 per cent. to Esc. 660 = US$1 at end-May 1974; the tourist rate, on the other hand, has been revalued by altogether 18 per cent. to Esc. 720 = US$1.

In *Colombia* the currency depreciated by some 9 per cent. against the US dollar, from Pesos 23.4 to Pesos 25.6 during the period under review. In mid-1973 the 50 per cent. prior deposit requirement for purchases of foreign currency for travel purposes was abolished. In *Costa Rica* the dual exchange rate system was abolished in April 1974 when, by a devaluation of 23 per cent., the official market rate was brought into line with the free-market rate of Colones 8.6 = US $ 1. In *Uruguay* the peso was devalued against the dollar ten times between end-May 1973 and end-April 1974, by a total of 20 per cent., to Pesos 1,084 = US$ 1. In this way the official and free market rates of exchange were kept mostly rather close to each other.

V. THE EURO-CURRENCY AND EURO-BOND MARKETS.

The Euro-currency market.

The expansion of the Euro-currency market was once again very rapid in 1973. The external assets and liabilities in foreign currency of the banks of eight reporting European countries rose by 43 and 45 per cent. to $189 and 191 milliard respectively. These were the largest percentage gains since 1969 when the market had been boosted by heavy Euro-dollar borrowing by banks in the United States. The absolute increases



of $57 milliard for assets and $60 milliard for liabilities were by far the biggest yet recorded. Net of certain kinds of double-counting but including positions vis-à-vis residents, the amount of Euro-credit outstanding through the banks of the eight reporting European countries may be estimated to have gone up by about $40 milliard to $132 milliard and its dollar component by $26 milliard to $97 milliard. If allowance is made for "Euro-currency" centres outside Europe, such as the Bahamas where a growth rate of nearly 90 per cent. in the banks' foreign positions was recorded last year, the outstanding volume of foreign currency credit, net of double-counting, may be put at roughly $155 milliard at the end of 1973, as against something in the region of $105 milliard at the end of 1972.

In the first quarter of 1974 the market continued to expand vigorously. On the basis of preliminary evidence the volume of Euro-currency credit at the end of March may be estimated at $145 milliard for the reporting European banks and at $170 milliard if banks in the other centres are included.

Main expansionary influences. The rapid growth of the Euro-currency market in the period under review was due to a combination of various exogenous influences and the internal dynamics of the market itself. In recent years the increasing number of banks entering the Euro-currency market, together with the tightening of exchange controls on Euro-currency borrowing in several industrial countries, has intensified interbank competition and resulted in an active search for new customers and the development of new instruments of finance. One field in which these efforts have borne considerable fruit for the Euro-banks is lending to developing countries. On the basis of rough but rather conservative estimates, medium and long-term Euro-currency credits to these countries appear to have gone up from $1.8 and 4.5 milliard in 1971 and 1972 respectively to $10 milliard in 1973. Most of this lending was on a roll-over basis.

In fact roll-over credits, on which interest rates are adjusted periodically according to the movement of interbank rates, were a second field in which the Euro-banks turned out to be extremely successful in 1973. Although this device had been in use for many years, its application in 1973 benefited from the general climate of uncertainty and inflation. The roll-over technique made it possible for the banks to offer high interest yields on short-term deposits to investors who were unwilling to tie up their funds for long periods at fixed rates of interest. At the same time it enabled the banks to commit these funds at long term without the risk of being themselves squeezed in the event of a future rise in deposit rates. The borrowers enjoyed the advantage of being protected against the risk of being caught with over-high interest rate obligations in the event of a subsequent slow-down of inflation; moreover, since roll-over credits can in general be repaid without penalty before the end of the commitment period, borrowers remained free to refinance themselves at some later date in the bond markets or in another currency.

Another device that proved highly effective was the technique of loan syndication, i.e. the sharing-out of a loan between a fairly large number of banks. This served to remove virtually all limitations on the size of loans which could be handled by the market. Whereas in the Euro-bond market, for example, the largest issues floated have never gone beyond $100 million, the Euro-currency market has been able to cope with loans of $1,000 million or more. This absorptive capacity was of particular importance in 1973 because of increasing recourse to the Euro-currency market by semi-governmental and public agencies with very large borrowing requirements, together with the increasing volume of borrowing for the financing of large energy-related projects. Total new syndicated Euro-currency loan facilities, mainly of the roll-over type, may be estimated to have risen from about $11 milliard in 1972 to $22 milliard last year and to have amounted to roughly $14 milliard in the first quarter of 1974 alone.

Apart from these broad influences there were also several more specific factors which helped to account for the extremely rapid growth of the Euro-currency market in 1973. To take the uses side of the market first, there was at times substantial demand for dollar funds for speculative and hedging purposes, particularly during the first quarter of 1973. Another factor was the weakness of the equity and bond markets, and especially of the Euro-bond market, which boosted borrowers' recourse to the bank credit markets. Moreover, for balance-of-payments reasons public agencies in Italy and the United Kingdom were officially encouraged to cover their financial requirements through Euro-currency borrowing; the amount raised in this way by those two countries came to $6.7 milliard in 1973. Finally, as a result of the sharp acceleration of world trade and the rise in raw-material prices there was also increased Euro-borrowing for the financing of international trade.

On the sources side of the market, the steep rise in deposit rates was again quite successful in attracting new funds. This was enhanced by the further tightening of controls on inflows of foreign funds in various continental European countries and by the fact that in several countries interest rates on domestic currency deposits only partially reflected the acceleration of inflation because of institutional rigidities and official restrictions. As in preceding years, a further important expansionary influence on the supply side was deposits by official monetary authorities — totalling about $8–10 milliard. The main factor behind this increase was the fairly sharp expansion of the reserves of the developing countries, which itself stemmed in part from these countries' Euro-currency borrowing. And last but not least, the continued rapid growth in the domestic monetary aggregates in many industrial countries undoubtedly contributed to the further strong expansion of the market.

Contrary to what had frequently been expected, floating exchange rates and the shift of the US balance of payments from deficit to surplus do not seem to have exerted a major drag on the market. In fact, even after allowance is made for purely seasonal influences, its growth appears to have accelerated in the second half of 1973.

The first quarter of 1974 saw a further strengthening of the expansionary forces operating on the market. On the uses side a sharp increase occurred in public-sector borrowing in response to the need to finance the oil-induced balance-of-payments deficits in prospect. Loan facilities obtained from Euro-bank syndicates by the governments or public agencies of France, Italy and the United Kingdom alone amounted to $8.0 milliard, though rather less than half of this was actually drawn. Other borrowers secured about $6 milliard of new medium and long-term Euro-currency loan facilities, nearly $3 milliard of which was accounted for by developing countries. In the case of Japan it was the banks that were induced to borrow abroad; their gross external liabilities went up by $5 milliard in the first quarter of this year, and a substantial part of these funds seems to have been raised in the Euro-currency market. Another important expansionary influence, also partly associated with the balance-of-payments repercussions of the oil-price situation, was the lifting or easing of controls on capital inflows in continental European countries. This move may have some positive effects on the quality of Euro-currency credit, since it may tend to restore to the Euro-banks the hard core of first-class European corporate borrowers whose relative importance in the banks' balance sheets has declined in recent years.

On the sources side of the Euro-currency market there was already some evidence of larger inflows from the oil-exporting countries. A further development of significance was the dismantling of the US balance-of-payments restraint measures. This seems to have led to a substantial flow of US funds to the market, particularly into medium-term London dollar CDs, the UK banks showing an increase of $3.0 milliard, or nearly 30 per cent., in such liabilities in the three months up to the middle of April. More generally, the removal of US capital controls will lead to further integration of the Euro-currency market and the US financial markets. Euro-dollar rates will tend to be tied even more closely than hitherto to interest rate developments in the United States. This implies that any excess supply of or demand for Euro-dollar funds resulting, for example, from the placement of oil countries' surpluses or borrowing by the deficit countries is likely to be counterbalanced by flows to or from the United States without very large movements occurring in Euro-dollar rates in relation to US interest rates.

Quarterly developments in 1973. In view of the pronounced changes in the structure of the market's growth that took place in the course of 1973 it is of considerable interest to follow the development of the market quarter by quarter.

In the first quarter of 1973 the Euro-currency market was dominated by events in the exchange markets. The collapse of confidence in the dollar led to a strong demand for Euro-dollar funds, especially by the banks themselves, for conversion into domestic or third currencies. At the same time, holders of dollar deposits tended to withdraw their funds or to switch them into other currencies. This simultaneous increase in the demand for Euro-dollar funds and reduction in the supply brought about a sharp rise in Euro-dollar interest rates which in itself tended to keep down Euro-dollar borrowing for speculative and hedging purposes and net withdrawals by depositors. In fact, had the rise in interest rates done no more than that, the market would not have contributed very much to the overall downward exchange-market pressure on the dollar. But the rise in Euro-dollar interest rates entailed a widening of their premium over comparable rates in the United States. In consequence, there tended to be a shift in dollar borrowing away from the Euro-market to the United States, while at the same time US residents and also non-US private and official holders of dollars tended to transfer their dollar balances from the United States to the Euro-dollar market. Although these interest-rate-induced net money outflows from the United States helped to restore equilibrium in the Euro-dollar market, they added to the weakness of the dollar on the exchanges.

The developments just described were in part reflected in the Euro-currency statistics. The most striking movement was a $5.2 milliard shift from assets to liabilities in the reporting European banks' external net position in dollars. Since at the same time the banks' dollar claims on residents may be estimated to have gone up by $0.7 milliard, the banks must have switched about $4.5 milliard out of dollars into other currencies; the whole of this movement seems to have occurred during February and March. Part of the transfer out of dollars was probably due to the banks, which may themselves have developed a short position in dollars or, in view of the large forward discount of the dollar, may have switched into other currencies on a covered basis for interest arbitrage reasons. But possibly a more important factor was that the banks were

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

End of	Dollars		Other foreign currencies						
	Total	of which vis-à-vis Non-banks	Total	of which vis-à-vis Non-banks	Deutsche Mark	Swiss francs	Sterling	Guilders	French francs
	in millions of US dollars								
	Liabilities								
1967 Dec. . .	18,120	4,680	4,330	470	1,670	1,400	800	100	150
1968 Dec. . .	26,870	6,240	6,890	1,040	3,010	2,290	800	250	230
1969 Dec. . .	46,200	10,460	10,640	1,320	4,640	4,030	810	350	210
1970 Dec. . .	58,700	11,240	16,590	2,450	8,080	5,720	940	550	420
1971 Dec. . .	70,750	9,980	26,980	2,750	14,630	7,760	2,110	860	440
1972 March . .	73,100	10,050	28,490	2,760	14,640	7,560	2,640	880	820
June . .	75,930	11,340	31,390	3,670	16,130	8,540	3,030	980	980
Sept. . .	82,130	11,700	34,240	3,940	18,770	8,650	2,420	1,230	1,260
Dec. . .	96,730	11,810	35,200	3,620	19,540	8,810	2,210	1,360	1,080
1973 March . .	102,070	12,940	41,860	4,740	21,930	11,280	2,940	1,230	1,740
June . .	100,110	13,680	53,620	5,560	29,650	12,940	4,040	2,210	2,260
Sept. . .	109,740	14,480	60,060	5,810	32,480	15,980	4,050	2,510	2,570
Dec. . .	130,470	16,370	60,960	5,610	32,140	17,060	4,790	2,260	2,160
Memorandum item									
*Position vis-à-vis residents**									
1971 Dec. . . .		*2,450*		*1,150*					
1972 Dec. . . .		*3,260*		*1,720*					
1973 Dec. . . .		*5,020*		*2,560*					
	Assets								
1967 Dec. . .	19,890	3,430	4,960	850	2,060	1,110	870	230	240
1968 Dec. . .	30,430	5,150	7,400	1,500	3,920	1,820	610	290	240
1969 Dec. . .	47,630	6,090	10,700	2,160	5,990	2,980	580	370	150
1970 Dec. . .	60,370	11,850	17,880	4,670	10,110	5,080	610	560	400
1971 Dec. . .	71,500	14,360	28,630	6,750	16,220	8,180	1,620	700	490
1972 March . .	73,750	13,650	29,500	6,770	16,480	8,150	1,620	630	630
June . .	77,190	15,030	31,910	7,410	18,130	9,040	1,790	640	720
Sept. . .	84,080	16,290	33,610	8,350	20,240	8,200	1,920	660	880
Dec. . .	98,000	18,340	33,840	8,000	20,390	7,780	2,180	720	700
1973 March . .	98,100	19,450	43,100	9,230	27,030	8,910	2,420	1,090	1,190
June . .	101,270	20,290	51,330	10,710	32,460	10,180	3,050	1,320	1,470
Sept. . .	111,880	21,160	55,740	12,420	34,140	13,020	2,740	1,300	1,560
Dec. . .	133,760	23,870	54,840	12,000	31,400	14,590	3,150	1,320	1,750
Memorandum item									
*Position vis-à-vis residents**									
1971 Dec. . . .		*5,850*		*1,770*					
1972 Dec. . . .		*5,120*		*3,530*					
1973 Dec. . . .		*8,830*		*5,150*					
	Net position								
1967 Dec. . .	1,770	—1,250	630	380	390	— 290	70	130	90
1968 Dec. . .	3,560	—1,090	510	460	910	— 470	— 190	40	10
1969 Dec. . .	1,430	—4,370	60	840	1,350	—1,050	— 230	20	— 60
1970 Dec. . .	1,670	610	1,290	2,220	2,030	— 640	— 330	10	— 20
1971 Dec. . .	750	4,380	1,650	4,000	1,590	420	— 490	— 160	50
1972 March . .	650	3,600	1,010	4,010	1,840	590	—1,020	— 250	— 190
June . .	1,260	3,690	520	3,740	2,000	500	—1,240	— 340	— 260
Sept. . .	1,950	4,590	— 630	4,410	1,470	— 450	— 500	— 570	— 380
Dec. . .	1,270	6,530	—1,360	4,380	850	—1,030	— 30	— 640	— 380
1973 March . .	— 3,970	6,510	1,240	4,490	5,100	—2,370	— 520	— 140	— 550
June . .	1,160	6,610	—2,290	5,150	2,810	—2,760	— 990	— 890	— 790
Sept. . .	2,140	6,680	—4,320	6,610	1,660	—2,960	—1,310	—1,210	—1,010
Dec. . .	3,290	7,500	—6,120	5,390	— 740	—2,470	—1,640	— 940	— 410
Memorandum item									
*Position vis-à-vis residents**									
1971 Dec. . . .		*3,400*		*620*					
1972 Dec. . . .		*1,860*		*1,810*					
1973 Dec. . . .		*3,810*		*2,590*					

* Excluding Germany.

faced with a large supply of forward dollars from their customers and they covered these purchases by borrowing dollars and selling them spot.

On the other hand, owing probably to the sharp rise in interest rates and to the banks' lending policies, there was not much evidence in the statistics of an acceleration of Euro-dollar borrowing by non-banks. The overall figures may conceal, however, a contraction of non-bank Euro-dollar borrowing for other purposes which was offset by Euro-dollar borrowing for hedging or speculative purposes. Similarly, the continued increase in Euro-dollar deposits by non-banks was undoubtedly due to the fact that dollar funds withdrawn from the banks because of exchange rate fears were more than offset by new funds attracted to the market by the high interest rate level. In fact, there was clear evidence of flows of funds from the United States to the Euro-dollar market, the Euro-banks' liabilities towards that country increasing by $2 milliard, or about 25 per cent. Moreover, this figure does not represent the total flow, as it does not include US funds that may have entered the market via third countries or funds transferred from the United States to the Euro-dollar market by non-US official and private holders of dollars.

Conditions on the exchange markets were also reflected in the currency structure of the growth in the Euro-currency market. Whereas the reporting banks' external dollar assets showed virtually no increase in the first quarter, their assets in other foreign currencies rose by $9.3 milliard. On the sources side the picture was somewhat different, with liabilities in dollars going up by $5.3 milliard and those in other foreign currencies by $6.7 milliard. However, about $3–4 milliard of the expansion in non-dollar assets and liabilities was due to exchange rate effects.

The non-dollar component continued to play a large part in the market's growth during the second quarter, when non-dollar liabilities and assets showed rises of $11.8 and 8.2 milliard respectively. In that period the reporting banks' liabilities in dollars declined by $2 milliard whereas, somewhat surprisingly, their dollar assets increased by $3.2 milliard. Taken together with an estimated rise of $0.6 milliard in net dollar claims on residents, these figures imply that after moving $4.5 milliard out of dollars in the first quarter the reporting banks switched back $5.8 milliard into dollars in the following quarter. While the Euro-banks tended to add to the weakness of the dollar in the first quarter, in the second quarter they tended to lend that currency a large measure of support. What seems to have happened is that the floating of the other principal currencies shifted the downward pressure on the dollar away from the forward markets to the spot markets. There was a sharp fall in the volume of forward dollars sold to the Euro-banks by their customers and the banks balanced their positions by buying the dollars spot. In addition, of course, the banks may have undone their own short positions in dollars. On the basis of incomplete evidence it would appear that most of the flow back into dollars occurred during April and June, while in May little movement seems to have taken place.

In the first quarter of 1973 the Euro-banks had registered a net flow of $2.2 milliard to Germany, but in the second quarter there was a $2.0 milliard movement in the other direction. In addition, during the second quarter there were large inflows to the market from Switzerland and the Netherlands, and the banks' net claims on the United States showed a slight increase.

This raises the question why the dollar continued to decline against other currencies in the course of the second quarter in spite of the large movement back into dollars by the Euro-banks. Part of the explanation may be found in the large official dollar sales by Japan in support of the yen; moreover, there seems to have been some diversification of central-bank reserves out of dollars into non-dollar Euro-currency deposits. Since these dollar sales did not have a US payments surplus as counterpart and since the principal currencies were floating against the dollar, they would have exerted downward pressure on that currency. Moreover, with confidence weak and the exchange markets correspondingly thin and volatile, even a small excess supply of dollars would have been sufficient to produce a relatively large depreciation of the dollar.

Although the summer is usually a period of slow growth, the market's expansion accelerated during the third quarter of 1973. The banks' net movement back into dollars continued, though on a less extensive scale. In fact, the monthly evidence available suggests that there were major flows into dollars in July and August, followed in September by a large movement out of dollars. At the same time, the dollar regained its predominance in the expansion of the market, accounting for about 70 per cent. of the growth in assets and 60 per cent. of the growth in liabilities. With the weakening of the French franc, there was a $3.1 milliard gross flow from France into the market. For the first time since the 1969 US credit squeeze, a large increase of $1.5 milliard occurred in the Euro-banks' claims on the United States; this to some extent reflected precautionary borrowing by US corporations out of fear of a renewed credit squeeze. Owing partly to the sharp contraction of issue activity in the Euro-bond market the volume of new syndicated Euro-currency loans reached a new high of about $8 milliard, as compared with only some $3 milliard in the first quarter.

Although there was a slight slow-down in new syndicated loan business, the growth of the Euro-currency market showed its usual seasonal acceleration during the fourth quarter. Reflecting the strengthening of the dollar on the exchanges, the Euro-banks' dollar assets went up by $21.9 milliard, which is nearly 60 per cent. more than during the whole of the preceding nine months. Assets in other foreign currencies declined by $0.9 milliard, although but for exchange rate effects there would have been an increase of about $3 milliard. On a net basis there was a movement out of other currencies into the dollar, as had already occurred in the second and third quarters.

Changes in the composition of the market. Taking 1973 as a whole, the total external assets and liabilities of the banks of the eight reporting European countries rose by $62.2 and 63.9 milliard respectively. The overwhelming part of this expansion was in foreign currency. External assets and liabilities in domestic currency increased by only $5.4 and 4.4 milliard respectively. Nearly 90 per cent. of the growth in domestic currency assets and two-thirds of that in liabilities was accounted for by the German, Swiss and French banks alone. The external sterling assets and liabilities of the UK banks, on the other hand, showed virtually no change over the year.

Assets and liabilities in dollars went up by $35.8 and 33.8 milliard, or by an average of 36 per cent., while assets and liabilities in other foreign currencies expanded by $21.0 and 25.8 milliard, or 68 per cent. However, nearly one-quarter of the

External liabilities and assets of banks in individual reporting countries in domestic and foreign currencies.

Countries	End of month	Liabilities: Domestic currency	Liabilities: Foreign currencies	Assets: Domestic currency	Assets: Foreign currencies	Net position: Domestic currency	Net position: Foreign currencies	Net position: Total
		in millions of US dollars						
Belgium-Luxemburg	1972 December	1,180	14,760	610	14,150	— 570	— 610	— 1,180
	1973 March	1,520	17,570	910	16,370	— 610	— 1,200	— 1,810
	June	1,630	20,010	1,030	18,480	— 600	— 1,530	— 2,130
	September	1,830	22,160	1,040	20,580	— 790	— 1,580	— 2,370
	December	1,850	24,010	1,140	22,640	— 710	— 1,370	— 2,080
France . . .	1972 December	3,180	19,170	1,210	16,340	— 1,970	— 2,830	— 4,800
	1973 March	3,370	20,660	1,390	16,950	— 1,980	— 3,710	— 5,690
	June	3,620	21,070	1,390	18,150	— 2,230	— 2,920	— 5,150
	September	3,480	22,560	1,410	20,600	— 2,070	— 1,960	— 4,030
	December	4,520	27,180	1,850	25,700	— 2,670	— 1,480	— 4,150
Germany . .	1972 December	5,830	3,950	1,870	3,180	— 3,960	— 770	— 4,730
	1973 March	8,350	4,900	3,170	3,500	— 5,180	— 1,400	— 6,580
	June	7,280	4,630	4,520	3,850	— 2,760	— 780	— 3,540
	September	8,250	5,930	5,080	4,910	— 3,170	— 1,020	— 4,190
	December	6,750	5,780	4,140	5,400	— 2,610	— 380	— 2,990
Italy	1972 December	1,540	18,780	840	18,510	— 700	— 270	— 970
	1973 March	1,340	16,350	480	16,120	— 860	— 230	— 1,090
	June	1,940	17,630	790	17,170	— 1,150	— 460	— 1,610
	September	1,740	18,550	760	18,580	— 980	30	— 950
	December	1,910	24,080	830	24,000	— 1,080	— 80	— 1,160
Netherlands .	1972 December	910	6,360	870	6,550	— 40	190	150
	1973 March	1,090	6,990	740	6,650	— 350	— 340	— 690
	June	1,200	7,640	1,140	8,080	— 60	440	380
	September	1,200	8,920	1,040	9,320	— 160	400	240
	December	1,180	9,620	910	9,410	— 270	— 210	— 480
Sweden . .	1972 December	360	650	170	1,120	— 190	470	280
	1973 March	370	880	160	1,380	— 210	500	290
	June	340	830	160	1,360	— 180	530	350
	September	410	980	170	1,640	— 240	660	420
	December	460	900	220	1,710	— 240	810	570
Switzerland*	1972 December	5,870	8,480	6,030	15,590	160	7,110	7,270
	1973 March	6,880	8,450	7,020	15,600	140	7,150	7,290
	June	7,670	8,530	7,820	16,520	150	7,990	8,140
	September	7,120	8,620	8,620	15,150	1,500	6,530	8,030
	December	6,560	9,200	7,880	15,460	1,320	6,260	7,580
United Kingdom .	1972 December	6,100	59,780	1,410	56,400	— 4,690	— 3,380	— 8,070
	1973 March	6,330	68,130	1,230	64,630	— 5,100	— 3,500	— 8,600
	June	7,050	73,390	1,450	68,990	— 5,600	— 4,400	— 10,000
	September	6,350	82,080	1,490	76,840	— 4,860	— 5,240	— 10,100
	December	6,150	90,660	1,440	84,280	— 4,710	— 6,380	— 11,090
Total .	1972 December	24,970	131,930	13,010	131,840	— 11,960	— 90	— 12,050
	1973 March	29,250	143,930	15,100	141,200	— 14,150	— 2,730	— 16,880
	June	30,730	153,730	18,300	152,600	— 12,430	— 1,130	— 13,560
	September	30,380	169,800	19,610	167,620	— 10,770	— 2,180	— 12,950
	December	29,380	191,430	18,410	188,600	— 10,970	— 2,830	— 13,800
Canada . . .	1972 December	950	8,140	310	8,210	— 640	70	— 570
	1973 March	960	8,370	300	8,120	— 660	— 250	— 910
	June	960	9,320	300	9,240	— 660	— 80	— 740
	September	1,040	10,040	350	10,270	— 690	230	— 460
	December	1,090	11,530	400	11,940	— 690	410	— 280
Japan . . .	1972 December	900	7,460	130	9,880	— 770	2,420	1,650
	1973 March	860	8,980	150	11,000	— 710	2,020	1,310
	June	830	8,460	210	10,050	— 620	1,590	970
	September	820	11,040	260	11,000	— 560	— 40	— 600
	December	630	12,840	400	11,180	— 230	— 1,660	— 1,890

*Including Euro-currency assets and liabilities of the BIS.

expansion in non-dollar assets and liabilities was due simply to the valuation effects stemming from the appreciation of those currencies against the dollar.

The $2.0 milliard rise in the banks' net assets in dollars was the outcome of a $5.2 milliard decline in the first quarter and a $7.2 milliard movement back into dollars during the rest of the year. If assets and liabilities are added together, the dollar's share in outstanding foreign currency positions dropped from 74 per cent. at the end of 1972 to 66 per cent. in September 1973, but with the dollar's recovery in the exchange markets it had risen again to 70 per cent. by the end of the year.

The Deutsche Mark alone accounted for about half of the growth in non-dollar assets and liabilities. Partly as a result of exchange rate movements its share in total positions jumped from 15 to nearly 20 per cent. in the first nine months of the year before falling back to below 17 per cent. in the last quarter. In absolute terms Deutsche Mark assets and liabilities increased by $11.0 and 12.6 milliard, or by an average of 59 per cent. The banks' net asset position in Deutsche Mark soared from $0.9 to 5.1 milliard in the first quarter, but during the remainder of the year there was a $5.8 milliard movement out of the Mark.

The banks' position in Swiss francs behaved quite differently in several respects from that in Deutsche Mark. On a net basis there was no movement by the reporting banks into Swiss francs during the first quarter; on the contrary, their net liabilities in that currency rose by $1.3 milliard, a development which was probably due to the fact that the Swiss franc was already floating by the end of January. Moreover, the banks' gross assets and liabilities in Swiss francs went up fairly steadily throughout the year and, at 91 per cent., the recorded average rate of growth was much higher than in the case of the Deutsche Mark. The market share accounted for by the Swiss franc expanded from 6 to 8 per cent.

The banks' external liabilities in sterling more than doubled, whereas assets showed a far smaller increase. In consequence, the banks' net position in that currency changed from approximate balance to liabilities of $1.6 milliard. The building-up of this short spot position probably reflected forward sales of sterling to the banks by their customers. Large increases were recorded by the banks' assets and liabilities in French francs and Dutch guilders, but the share of these currencies in total Euro-currency business remained relatively minor.

With regard to the division between banks and non-banks, the reporting banks' direct credits to foreign non-bank borrowers went up by 36 per cent., as against a 45 per cent. rise in their interbank claims. In absolute terms the increase in claims on non-banks came to $9.5 milliard, or, if the incomplete figures for claims on residents are included, $14.9 milliard. Even so, this is still a long way short of the estimated $22 milliard increase in syndicated Euro-currency loans. There are several factors which help to explain the difference between these two figures. Firstly, the sum of $22 milliard refers to the Euro-currency transactions of banks throughout the whole world and not only to those in the eight reporting countries. Secondly, a large part of the syndicated loans to public agencies shows up as loans to banks in the statistics, and private financial institutions are also important as borrowers in the medium and long-term Euro-currency market. Thirdly, the $22 milliard is a

External liabilities and assets of banks in individual reporting countries in dollars and other foreign currencies.

Countries	End of month		US dollars			All other foreign currencies		
			Liabilities	Assets	Net	Liabilities	Assets	Net
			in millions of US dollars					
Belgium-Luxemburg	1972	December	7,430	7,190	−240	7,330	6,960	−370
	1973	March	8,680	7,250	−1,430	8,890	9,120	230
		June	8,280	7,830	−450	11,730	10,650	−1,080
		September	9,300	9,180	−120	12,860	11,400	−1,460
		December	10,490	10,870	380	13,520	11,770	−1,750
France	1972	December	13,660	11,910	−1,750	5,510	4,430	−1,080
	1973	March	13,910	11,800	−2,110	6,750	5,150	−1,600
		June	12,900	11,790	−1,110	8,170	6,360	−1,810
		September	13,600	13,880	280	8,960	6,720	−2,240
		December	18,040	18,840	800	9,140	6,860	−2,280
Germany	1972	December	3,560	2,750	−810	390	430	40
	1973	March	4,260	2,820	−1,440	640	680	40
		June	4,010	3,260	−750	620	590	−30
		September	4,920	4,140	−780	1,010	770	−240
		December	4,830	4,500	−330	950	900	−50
Italy	1972	December	13,950	13,970	20	4,830	4,540	−290
	1973	March	11,080	11,050	−30	5,270	5,070	−200
		June	10,690	10,710	20	6,940	6,460	−480
		September	10,660	11,800	1,140	7,890	6,780	−1,110
		December	16,280	16,570	290	7,800	7,430	−370
Netherlands	1972	December	3,620	4,220	600	2,740	2,330	−410
	1973	March	3,800	3,940	140	3,190	2,710	−480
		June	3,540	4,550	1,010	4,100	3,530	−570
		September	3,940	5,030	1,090	4,980	4,290	−690
		December	4,690	5,710	1,020	4,930	3,700	−1,230
Sweden	1972	December	420	800	380	230	320	90
	1973	March	480	970	490	400	410	10
		June	400	820	420	430	540	110
		September	450	990	540	530	650	120
		December	500	1,090	590	400	620	220
Switzerland*	1972	December	5,860	11,550	5,690	2,620	4,040	1,420
	1973	March	5,760	10,510	4,750	2,690	5,090	2,400
		June	5,140	10,900	5,760	3,390	5,620	2,230
		September	5,420	10,010	4,590	3,200	5,140	1,940
		December	6,470	10,720	4,250	2,730	4,740	2,010
United Kingdom	1972	December	48,230	45,610	−2,620	11,550	10,790	−760
	1973	March	54,100	49,760	−4,340	14,030	14,870	840
		June	55,150	51,410	−3,740	18,240	17,580	−660
		September	61,450	56,850	−4,600	20,630	19,990	−640
		December	69,170	65,460	−3,710	21,490	18,820	−2,670
Total	1972	December	96,730	98,000	1,270	35,200	33,840	−1,360
	1973	March	102,070	98,100	−3,970	41,860	43,100	1,240
		June	100,110	101,270	1,160	53,620	51,330	−2,290
		September	109,740	111,880	2,140	60,060	55,740	−4,320
		December	130,470	133,760	3,290	60,960	54,840	−6,120
Canada	1972	December	7,820	7,830	10	320	380	60
	1973	March	7,950	7,620	−330	420	500	80
		June	8,710	8,580	−130	610	660	50
		September	9,400	9,560	160	640	710	70
		December	10,840	11,170	330	690	770	80
Japan	1972	December	7,210	9,110	1,900	250	770	520
	1973	March	8,700	10,170	1,470	280	830	550
		June	8,100	9,170	1,070	360	880	520
		September	10,670	10,120	−550	370	880	510
		December	12,350	10,270	−2,080	490	910	420

* Including Euro-currency assets and liabilities of the BIS.

gross figure, i.e. it does not make allowance for the redemption of old loans. Fourthly, syndicated loans partly take the form of stand-by credits and may not be fully drawn upon. On the other hand, the $14.9 milliard figure is in some respects more comprehensive since it also includes non-syndicated loans to non-banks.

On the sources side, the banks' positions vis-à-vis non-banks rose by $6.6 milliard, or by nearly 150 per cent. more than in 1972. Including the available figures for residents, the rise in liabilities to non-banks amounted to $9.2 milliard.

Developments in individual countries. The UK banks alone accounted for half of the growth in the reporting banks' gross foreign currency positions. As a result their share in outstanding positions, which had been declining in the preceding years, expanded from 44 to 46 per cent. In absolute terms assets and liabilities expanded by $27.9 and 30.9 milliard, or by an average of 51 per cent. The increase of $3 milliard in the banks' net external liabilities had as a counterpart a $3.1 milliard rise in net claims on residents and was in large part bound up with the Euro-currency borrowing of the public sector. It may be noted in this context that in the first quarter of 1973 there was a $3.5 milliard net flow through the UK banks to the seven reporting continental European countries from the United States and the rest of the outside area. In the last three quarters of the year, in contrast, there was a $9.3 milliard net flow from the reporting continental European countries to the UK banks, $6.4 milliard of which was rechannelled to the outside area. The share of the London branches of US banks in the UK banks' external positions in foreign currency, which had amounted to 60 per cent. at the end of 1969, declined further from 44 to 40 per cent. The other foreign banks in London, which include the affiliates of Japanese banks, recorded growth rates nearly two and a half times as large as those of the US branches and their share of the market widened from 21 to 27 per cent.

Foreign currency positions of UK banks.

Items	1971	1972	1973 March	1973 June	1973 September	1973 December
	in milliards of US dollars					
Assets vis-à-vis						
Non-bank residents	3.7	5.5	6.5	7.5	8.7	9.8
Rest of reporting area	17.9	21.6	27.1	28.0	30.3	31.7
United States	5.2	5.4	5.5	4.8	6.0	7.0
Rest of the world	20.2	29.4	32.0	36.2	40.5	45.6
Liabilities vis-à-vis						
Non-bank residents	1.5	2.3	2.9	2.9	3.3	3.4
Rest of reporting area	22.9	27.0	29.0	31.3	37.7	42.9
United States	3.4	3.6	4.8	4.7	4.8	4.9
Rest of the world	19.4	29.2	34.3	37.4	39.6	42.9
Net position vis-à-vis						
Non-bank residents	2.2	3.2	3.6	4.6	5.4	6.4
Rest of reporting area	− 5.0	− 5.4	− 1.9	− 3.3	− 7.4	− 11.2
United States	1.8	1.8	0.7	0.1	1.2	2.1
Rest of the world	0.8	0.2	− 2.3	− 1.2	0.9	2.7

In relative terms the largest growth in external positions in foreign currency was recorded by the Belgium-Luxemburg banks; their assets and liabilities went up by an average of 61 per cent. The expansion was particularly marked in the non-dollar component, and the Belgium-Luxemburg banks are now the only reporting banks whose non-dollar foreign currency assets and liabilities are larger than those in dollars. This reflects the large volume of Deutsche Mark business conducted by banks in Luxemburg. The special rôle of the Belgium-Luxemburg banks in the market is also reflected in the fact that, together with the UK banks, they are the only reporting banks whose claims on foreign non-banks account for a large proportion of their total external assets in foreign currency. At the end of 1973 this share amounted to 33 per cent., as compared with 28 per cent. for the UK banks; in the case of the French banks, which after the UK banks show the largest foreign currency totals, the figure was 5 per cent. and that for the Italian banks only 1 per cent. On a net basis the Belgian-Luxemburg banks' liabilities in dollars expanded from $0.2 to 1.4 milliard in the first quarter, while over the remainder of the year a turn-round occurred to a net asset position of $0.4 milliard.

The French banks' external assets and liabilities in foreign currency rose by an average of 49 per cent. After their net liabilities had gone up by $0.9 to 3.7 milliard in the first quarter, they declined by $2.2 milliard during the rest of the year, mainly as a result of the weakening of the French franc in the exchange market.

Only in Switzerland did the banks show no increase in their external assets in foreign currency (excluding their trustee funds) during 1973; this was probably due to the general exchange rate uncertainties. Since liabilities continued to go up, their net assets declined by $0.9 milliard, but this decline was more than offset by a $1.2 milliard expansion in their net foreign assets in domestic currency.

Germany is the only country within the reporting group in which the banks' external positions in domestic currency are in general larger than those in foreign currency. This is mainly attributable to the regulations in force in Germany, which differ from those applied in most other countries in making no distinction between the banks' business in domestic currency and that in foreign currency; instead they differentiate only between resident and non-resident accounts. The German banks' net external liabilities in all currencies rose by $1.9 milliard in the first quarter of 1973, but declined by $3.6 milliard during the rest of the year.

The totals given throughout this chapter do not include the figures for the Canadian and Japanese banks. The Canadian banks' external assets and liabilities in foreign currencies rose on average by 44 per cent. In the first quarter a $0.6 milliard net inflow occurred from the United States to the Canadian banks and a $0.4 milliard outflow to the reporting European area. This was followed during the rest of the year by a $0.8 milliard flow from the reporting European area to the Canadian banks, the whole of which they placed in the United States.

The Japanese banks' external foreign currency liabilities recorded an expansion of 72 per cent., whereas their assets went up by only 13 per cent., as domestic monetary conditions tightened and the restrictions on capital inflows were gradually relaxed. As a result, the banks' net position shifted from assets of $2.4 milliard to liabilities of $1.7 milliard. $1.7 milliard of this inflow came from the United States and $2.4 milliard from the reporting European area.

Foreign currency positions of reporting European banks vis-à-vis non-residents.

Positions vis-à-vis	December 1972			June 1973			December 1973		
	Dollars	All other currencies	Total	Dollars	All other currencies	Total	Dollars	All other currencies	Total
	in millions of US dollars								
				Liabilities					
Outside area									
Other western Europe	7,340	4,530	11,870	7,920	5,880	13,800	9,680	6,550	16,230
Eastern Europe .	1,860	1,540	3,400	1,310	2,230	3,540	1,860	2,410	4,270
Canada	4,780	270	5,050	4,730	480	5,210	5,700	540	6,240
Japan	1,440	40	1,480	2,690	70	2,760	3,370	140	3,510
Latin America .	6,860	880	7,740	8,310	1,440	9,750	10,250	1,490	11,740
Middle East . . .	5,900	2,070	7,970	5,730	4,060	9,790	6,030	3,870	9,900
Other.	7,360	3,070	10,430	8,550	3,860	12,410	11,400	4,680	16,080
Total	35,540	12,400	47,940	39,240	18,020	57,260	48,290	19,680	67,970
United States . .	7,050	550	7,600	8,980	630	9,610	10,130	460	10,590
Total outside area	42,590	12,950	55,540	48,220	18,650	66,870	58,420	20,140	78,560
Inside area									
Belgium	3,640	2,190	5,830	3,890	3,700	7,590	6,470	4,070	10,540
France	8,060	2,750	10,810	6,750	4,200	10,950	11,230	5,200	16,430
Germany	1,740	1,750	3,490	2,020	3,280	5,300	3,610	4,350	7,960
Italy	9,870	2,960	12,830	7,310	4,060	11,370	11,340	5,120	16,460
Netherlands. . .	3,350	1,850	5,200	3,480	2,870	6,350	4,930	3,080	8,010
Sweden	580	160	740	550	390	940	750	360	1,110
Switzerland . . .	13,560	6,810	20,370	13,330	9,750	23,080	16,080	11,610	27,690
United Kingdom.	11,870	3,190	15,060	12,280	6,050	18,330	15,020	6,280	21,300
Total inside area	52,670	21,660	74,330	49,610	34,300	83,910	69,430	40,070	109,500
Unallocated . .	1,470	590	2,060	2,280	670	2,950	2,620	750	3,370
Grand total . .	96,730	35,200	131,930	100,110	53,620	153,730	130,470	60,960	191,430
				Assets					
Outside area									
Other western Europe	5,100	2,650	7,750	6,250	4,210	10,460	6,600	4,810	11,410
Eastern Europe .	3,890	1,340	5,230	4,320	2,370	6,690	4,910	2,870	7,780
Canada	2,920	330	3,250	3,400	610	4,010	4,360	710	5,070
Japan	4,510	250	4,760	5,170	500	5,670	7,510	600	8,110
Latin America. .	6,260	680	6,940	8,300	940	9,240	10,280	1,010	11,290
Middle East . . .	1,440	200	1,640	1,420	590	2,010	2,030	490	2,520
Other	11,730	1,820	13,550	12,800	2,750	15,550	16,950	3,660	20,610
Total	35,850	7,270	43,120	41,660	11,970	53,630	52,640	14,150	66,790
United States . .	10,440	480	10,920	10,560	580	11,140	13,830	690	14,520
Total outside area	46,290	7,750	54,040	52,220	12,550	64,770	66,470	14,840	81,310
Inside area									
Belgium	4,380	3,320	7,700	4,870	5,630	10,500	5,740	5,410	11,150
France	9,000	2,790	11,790	8,260	4,670	12,930	11,090	5,310	16,400
Germany	2,970	8,130	11,100	3,100	10,080	13,180	3,350	9,360	12,710
Italy	10,660	2,860	13,520	8,680	4,550	13,230	14,490	4,860	19,350
Netherlands. . .	2,660	1,750	4,410	2,520	2,550	5,070	3,800	2,910	6,710
Sweden.	470	550	1,020	630	720	1,350	520	710	1,230
Switzerland . . .	4,190	1,700	5,890	4,340	2,720	7,060	4,560	2,870	7,430
United Kingdom.	17,380	4,540	21,920	16,650	7,150	23,800	23,740	7,870	31,610
Total inside area	51,710	25,640	77,350	49,050	38,070	87,120	67,290	39,300	106,590
Unallocated . . .	—	450	450	—	710	710	—	700	700
Grand total . .	98,000	33,840	131,840	101,270	51,330	152,600	133,760	54,840	188,600

Sources and uses. In 1973 the geographical pattern of the flows of Euro-currency funds was quite different from the previous year's. On the sources side the reporting European area was itself by far the largest supplier of new funds. The reporting banks' foreign currency liabilities vis-à-vis their own area rose by $35.2 milliard, or by $19.1 milliard more than in 1972, though these figures are of course inflated by a substantial amount of double-counting due to redepositing between the reporting banks. A large part of the acceleration was due to bigger inflows from Switzerland and Germany. Whereas in 1972 the reporting banks' foreign currency liabilities to Switzerland had shown an increase of only $1.0 milliard, last year they rose by $7.3 milliard. Since, on the other hand, the Swiss banks seem to have recorded only a slight increase in claims on the other reporting banks, it would appear that most of this rise was accounted for by trustee funds (i.e. funds managed by the Swiss banks on behalf and at the risk of their customers) and other non-bank funds. The reporting banks' liabilities to Germany, which had remained virtually unchanged in 1972, rose by $4.5 milliard. This inflow, a major part of which occurred in Deutsche Mark, was spread over the whole of the year but was particularly large during the fourth quarter.

There were also large flows to the market from France ($5.6 milliard), Belgium-Luxemburg ($4.7 milliard) and the Netherlands ($2.8 milliard). In these cases, however, the acceleration in comparison with 1972 was less pronounced and the inflows were to a large extent offset by outflows. The only country towards which the reporting banks showed a smaller increase in liabilities than in 1972, $3.6 against 4.4 milliard, was Italy. Part of the reason for this was the tightening of Italian exchange controls. There may, however, also have been an acceleration in inflows to the market from Italy via trustee accounts with Swiss banks. A $6.2 milliard increase in the reporting banks' liabilities vis-à-vis the United Kingdom mainly reflected the rôle of the UK banks as Euro-currency intermediaries and was to a large extent due to the first-quarter flows from the outside area via London to the Continent mentioned on page 168 above.

On the uses side the increase in positions vis-à-vis the reporting area was $29.2 milliard, somewhat less than the expansion on the sources side. At $9.7 milliard, the largest increase in assets was vis-à-vis the United Kingdom. This occurred solely in the last three quarters of the year and mainly reflected the flows from the continental European area via London to both the United Kingdom and the outside area. The $5.8 milliard rise in claims on Italy was largely accounted for by Euro-currency borrowing by the Italian public sector.

As regards the outside area, the increase in the claims and liabilities of the reporting banks vis-à-vis the United States was much greater than that recorded in 1972, but fairly modest in relation to the total growth of the market. Two-thirds of the $3.0 milliard growth in liabilities to the United States occurred in the first quarter, whereas nearly the whole of the $3.6 milliard expansion in assets took place in the second half of the year when Euro-dollar rates had come down relative to US rates.

Assets vis-à-vis the rest of the outside area rose by $23.7 milliard, or by $9.5 milliard more than in 1972; liabilities went up by $20 milliard, which was only $3.6 milliard above the 1972 increase. As has quite frequently been the case in recent years, the largest rises were recorded by the residual item "Other" ($7.1 milliard for assets and $5.7 milliard for liabilities), for which a more detailed geographical break-down is not available and which includes, for example, the Bahamas. The other main net users of Euro-currency funds were eastern Europe, with the reporting banks' assets and liabilities vis-à-vis that area going up by $2.6 and 0.9 milliard respectively, and Japan, with assets and liabilities vis-à-vis that country rising by $3.4 and 2.0 milliard. Of the growth in liabilities towards Japan, $1.6 milliard occurred in the first quarter when the interest rate attraction of the Euro-dollar market in comparison with US interest rates was particularly strong. On a gross basis there was also a large volume, $4.4 milliard, of new lending to Latin American countries, but on a net basis the flow to this area amounted to only $0.4 milliard.

The Middle East and "Other western Europe" continued to be net suppliers of funds to the reporting banks although, at $1.1 and 0.7 milliard respectively, the inflows from these areas were on a much smaller scale than in previous years. The bulk of the $1.9 milliard increase in the banks' gross liabilities to the Middle East occurred in the first quarter of 1973. In the second quarter Middle Eastern countries drew down their dollar deposits by $1.1 milliard while building up their other currency deposits by a similar amount. In the third quarter they reduced their dollar and other currency deposits by $0.9 milliard, but then rebuilt them by $1.0 milliard in the last quarter of the year. For the first time the Middle East was also of some

Estimated size of the Euro-currency market
(outstanding amount of foreign currency credits channelled through the reporting European banks).

End of period	Reporting European area: Total	of which: Banks[1]	of which: Non-banks	United States	Rest of the world	Un-allocated	Total
	in milliards of US dollars						
Uses							
1969	15.0	7.0	8.0	16.8	12.0	0.2	44.0
1970	24.0	9.0	15.0	13.1	19.0	0.9	57.0
1971	32.8	13.7	19.1	8.3	28.9	1.0	71.0
1972	38.9	18.1	20.8	9.6	43.1	0.4	92.0
1973	51.3	21.8	29.5	13.2	66.8	0.7	132.0
Sources							
1969	21.7	9.5	12.2[2]	4.1	17.6	0.6	44.0
1970	27.7	13.5	14.2[2]	4.5	24.0	0.8	57.0
1971	32.4	16.4	16.0[2]	6.1	31.4	1.1	71.0
1972	35.2	17.4	17.8[2]	6.9	47.9	2.0	92.0
1973	51.5	24.0	27.5[2]	9.5	68.0	3.0	132.0
Net position[3]							
1969	− 6.7	− 2.5	− 4.2	+ 12.7	− 5.6	− 0.4	—
1970	− 3.7	− 4.5	+ 0.8	+ 8.6	− 5.0	+ 0.1	—
1971	+ 0.4	− 2.7	+ 3.1	+ 2.2	− 2.5	− 0.1	—
1972	+ 3.7	+ 0.7	+ 3.0	+ 2.7	− 4.8	− 1.6	—
1973	− 0.2	− 2.2	+ 2.0	+ 3.7	− 1.2	− 2.3	—

[1] Includes: (a) under "Uses", the banks' conversions from foreign currency into domestic currency and foreign currency funds supplied by the reporting banks to the commercial banks of the country of issue of the currency in question (such as DM funds deposited with German banks); (b) under "Sources", deposits by official monetary institutions of the reporting area, the banks' conversions from domestic into foreign currency and foreign currency funds obtained by the reporting banks from the banks in the country of issue of the currency in question (such as funds received in Deutsche Mark from German banks). [2] Including trustee funds to the extent that they are transmitted by the Swiss banks to the other banks within the reporting area and to the extent that they are not reported as liabilities vis-à-vis non-banks outside the reporting area by the Swiss banks themselves. [3] A minus sign indicates that the country or area in question is a net supplier of Euro-currency funds, whereas a plus sign indicates that it is a net user.

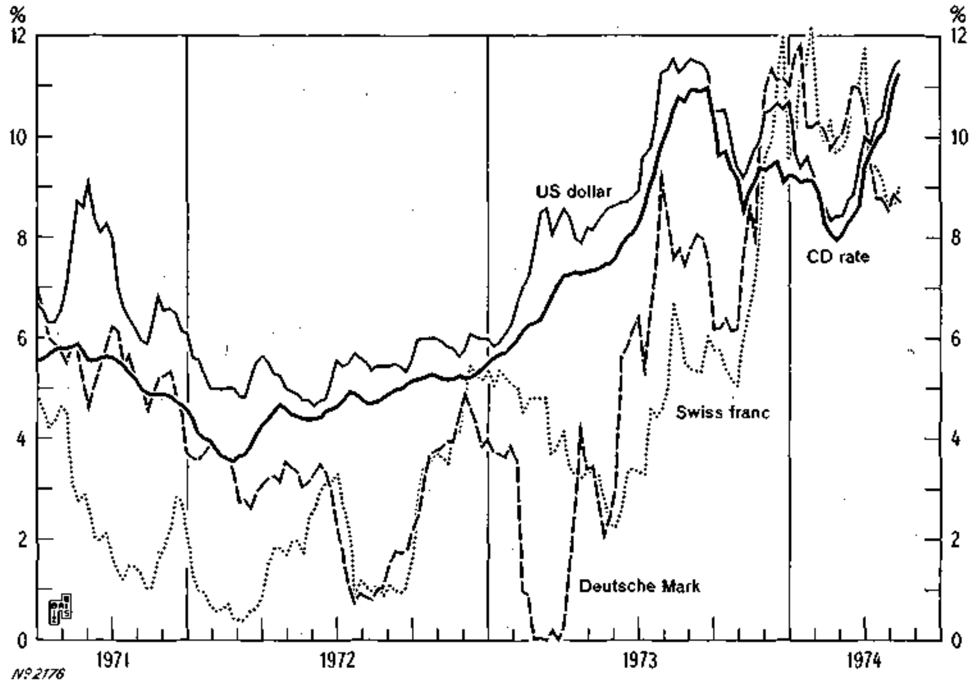
importance as a borrower of Euro-funds in 1973, the Euro-banks' claims on that area showing an increase of \$0.9 milliard.

The table above seeks to give a summarised picture of the pattern of the sources and uses of Euro-currency funds. The totals in this table differ from those in the other tables in this chapter because an attempt has been made to eliminate double-counting arising from redeposits between the banks of the reporting European area; at the same time estimates for the banks' positions vis-à-vis residents and for certain other missing statistical links are included. The table indicates that in 1973 there was a net flow of roughly \$4 milliard from the reporting European area to the United States and the "Rest of the world".

Interest rates. As a result of the upheavals on the exchange markets and the strong movements of interest rates in the United States, Euro-dollar interest rates were subject to sharp fluctuations during 1973 and the first few months of 1974.

At the start of 1973 the three-month London Euro-dollar interbank rate stood at just under 5⅞ per cent., but it was soon affected by the upward trend of US interest rates. From the end of January onwards the increasing turmoil on the exchange markets gave further momentum to the rise in Euro-dollar rates. Hectic demand for dollar funds for hedging and speculative purposes pushed quotations up to a peak of 9¼ per cent. on 2nd March. The average level of three-month deposit rates in early March amounted to about 8¾ per cent., which was some 1¾ percentage

Interbank rates on three-month Euro-currency deposits and CD rate in the United States.
Weekly averages, in percentages per annum.



points above yields on three-month certificates of deposit in the United States; in early January this premium had been no more than about ¼ per cent.

In April the slight calming of the exchange markets contributed also to somewhat easier conditions on the Euro-dollar market. As a result of return flows into the dollar, rates receded to about 7⅞ per cent. around the middle of the month. However, under the influence of the continuing rise of interest rates in the United States, Euro-dollar rates soon resumed their upward path and reached a peak of 11⅝ per cent. in the first half of August. Within the space of seven months Euro-dollar rates had thus risen by 6 percentage points to their highest level since the 1969 US credit squeeze.

Comparing the period from June to early August 1973 with the exchange crisis in the first quarter of the year, it is apparent, however, that in the summer exchange-market conditions exerted a much less pronounced influence on the state of the Euro-currency market. This is to be seen not only from the statistics on the growth and currency composition of the market but also from the behaviour of the premium of three-month Euro-dollar rates over comparable CD rates in the United States. This premium had declined to below 1 percentage point in the course of April and May, and it was only in July at the height of the renewed exchange crisis that it showed some slight upward reaction; even then, it did not come anywhere near the peaks it had reached in the first quarter. The reason for this is that, in contrast to the first quarter, the major currencies were now floating against the dollar; with confidence at a low ebb, even small sales of dollar funds were reflected in large exchange rate movements which dampened the incentive for further conversions. Consequently, the actual amount of Euro-dollar borrowing for speculative and hedging purposes seems to have remained quite small and the lack of confidence in the dollar was reflected in spot exchange rates rather than in Euro-dollar interest rates.

From the second half of September onwards, the turn-round in US interest rates and, in smaller measure, the recovery of the dollar in the exchange markets contributed to a substantial easing of Euro-dollar rates and at the end of October three-month interbank quotations were down to 9 per cent. Subsequently a temporary tightening of monetary conditions in the United States and the usual year-end influences led to a firming of quotations and rates went back up to 11 per cent. in late December.

In January 1974 the impact of the reversal of end-year operations was reinforced by a fresh downturn in short-term interest rates in the United States and by the lifting of the US restraints on capital outflows, so that Euro-dollar rates eased to 8⅜ per cent. In the second half of February, however, the renewed tightening of monetary conditions in the United States again initiated a strong upward movement which carried three-month quotations to a peak of 12 per cent. in the second half of May, their highest level since June 1969. Judging from the behaviour of the premium of Euro-dollar over US CD rates, which most of the time stood well below its normal level of about ½ percentage point, the decline of the dollar in the exchange market was not a major factor in this climb. In fact, the low level of Euro-dollar rates relative to US interest rates acted at times as an incentive for the shifting of funds from the Euro-market to the United States.

At times of exchange uncertainties the extent to which the Euro-Deutsche Mark, the Euro-Swiss franc and other Euro-currency rates diverge from those for Euro-dollar funds tends to depend basically on the forward quotations of these currencies vis-à-vis the dollar. Since as a result of the unsettled state of the exchange markets these forward premiums or discounts were subject to wide shifts, the movements in non-dollar rates, particularly that of the Euro-Deutsche Mark, almost dwarfed in the period under review that in Euro-dollar rates, large though this already was.

In the early months of 1973, with the exchange rate still fixed, the movement of the Euro-DM deposit rate was the inverse of that for the dollar. The collapse of confidence in the dollar widened the forward premium of the Deutsche Mark to nearly 10 per cent. in March, i.e. to more than the uncovered yield of Euro-dollar deposits. As a result the funds flowing into the Euro-DM market both for interest rate arbitrage reasons and for speculative or hedging purposes were able to push down Euro-DM rates from about 4 per cent. at the end of January to nearly zero. The subsequent floating of the Deutsche Mark vis-à-vis the dollar shifted exchange rate pressures from the forward to the spot market. The forward premium of the Deutsche Mark declined to about 4½ per cent. in the second half of April while the Euro-DM deposit rate went up to around 3½ per cent. In June the Euro-DM rate came under the influence of the rise in Euro-dollar rates, a sharp tightening of German domestic money-market conditions and a further narrowing of the Deutsche Mark's forward premium. It reached a peak of over 9½ per cent. in the second half of July, but subsequently eased to about 6 per cent. by the end of September.

With the recovery of the dollar in the exchange market the forward quotations of the Deutsche Mark against the dollar during the last two months of 1973 moved from premium to discount. As a result Euro-DM rates went up sharply to a peak of 12⅝ per cent. in early January and in the period from mid-December 1973 to the end of March 1974 were quoted well above Euro-dollar rates. However, from March onwards the renewed weakening of the dollar in the exchanges began to be reflected in forward quotations. The Deutsche Mark's forward discount gradually disappeared and turned again into a premium; despite the upward movement in Euro-dollar rates Euro-DM rates fell back to under 9 per cent. by early April.

Since the Swiss authorities had already floated the franc in late January 1973, the February-March exchange crisis had a less marked impact on the Euro-Swiss franc rate. Nevertheless, the latter declined from about 5¼ per cent. in January to a low of 2¼ per cent. in June. Subsequently it followed fairly closely the movement of the Euro-DM deposit rate and reached a peak of over 13 per cent. in January 1974.

The Euro-bond market.

Despite the world-wide strength of the demand for investment funds by the public sectors and by private industry, issues on the Euro-bond market fell back sharply in 1973. Their total volume contracted from $6,490 million in 1972 to $4,090 million. Even these figures understate the decline, since January 1973 was in several respects an exceptionally good month. Leaving January aside, the average monthly volume of new issues was about half the 1972 average, and in the first four months of 1974 it shrank further to less than one-third. During parts of the period under review private non-bank investors were virtually absent from the market and the bulk of new issues was taken up by banks. In addition, there was a sharp contraction in turnover in the secondary market, with many dealers withdrawing altogether.

Foreign issues in national markets fared better than international issues and the volume of new flotations edged up by $230 million to $4,460 million. Foreign dollar issues in the United States declined by $600 million to $980 million, but Swiss franc issues in Switzerland rose by $510 million to $1,530 million. Most of this expansion was due to private placements of loans secured by certificates of indebtedness. At $560 million, Deutsche Mark issues, which in view of the much higher yield on German domestic bonds were taken up almost exclusively by non-residents, showed very little change.

The malaise of the Euro-bond market in the period under review was largely due to four partly interrelated factors: the exchange rate uncertainties, the increasing concern

International and foreign bond issues: Public offerings and private placements.[1]

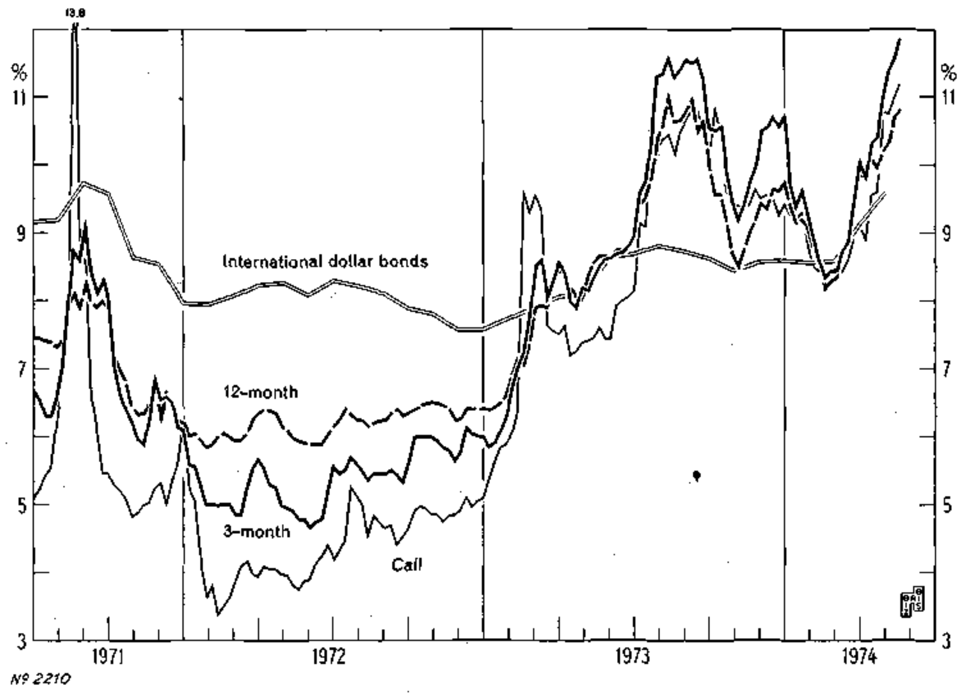
Borrowing countries or areas	Years	International issues, by currencies							Foreign issues in national markets[2]
		US dollars	Other currencies				Total	of which	
			Total	of which Deutsche Mark[2]	Guilders	Others		Convertible bonds[3]	
		in millions of US dollars							
Western Europe	1971	850	870	400	170	300	1,720	40	600
	1972	1,180	1,310	520	240	550	2,490	130	590
	1973	1,110	950	540	160	250	2,060	180	850
Canada	1971	100	110	110	—	—	210	—	640
	1972	20	350	270	—	80	370	—	1,140
	1973	30	170	170	—	—	200	—	960
United States	1971	1,000	110	90	20	—	1,110	200	280
	1972	1,770	260	90	80	90	2,030	1,070	240
	1973	710	110	50	10	50	820	360	480
Other developed countries[4]	1971	170	340	230	50	60	510	50	50
	1972	220	380	260	70	50	600	—	60
	1973	—	140	140	—	—	140	—	40
Rest of the world[5]	1971	50	30	30	—	—	80	10	300
	1972	420	120	90	—	30	540	20	340
	1973	370	90	70	20	—	460	80	410
International institutions	1971	70	60	—	30	30	130	—	1,480
	1972	250	210	10	90	110	460	—	1,860
	1973	170	240	20	—	220	410	—	1,720
Total issues placed	1971	2,240	1,520	860	270	390	3,760	300	3,350
	1972	3,860	2,630	1,240	480	910	6,490	1,220	4,230
	1973	2,390	1,700	990	190	520	4,090	620	4,460

[1] Includes bonds and notes with nominal maturities of five years or more, but not bank loans, stand-by and investment facilities. [2] Includes non-negotiable "Schuldscheindarlehen" (loans secured by certificates of indebtedness) placed privately. [3] Includes bonds with detachable warrants entitling holders to subscribe for shares. [4] Australia, Japan, New Zealand, South Africa. [5] Including small amounts placed by eastern European countries.

about inflation, the steep rise in short-term interest rates and the attractions of the Euro-currency market. Exchange-market instability made its influence felt particularly in the period up to the summer of 1973 when the lack of confidence in the dollar dried up the demand for Euro-dollar bonds. The average monthly volume of issues during that period was only a quarter of that recorded between October 1972 and January 1973, when the market had been optimistic about the dollar and US anti-inflation policies. The situation was aggravated by the particularly sharp rise in Euro-dollar deposit rates which caused them, for the first time since early 1970, to exceed Euro-bond yields. This was a further incentive for investors to shift their funds to the short-term markets. The somewhat unusual situation of Euro-bond yields rising but at the same time falling short of short-term interest rates was particularly damaging to the secondary market. Traders that finance their stocks of bonds mainly from the Euro-currency market were not only confronted with capital losses on their holdings but could maintain them only at the cost of substantial interest rate losses. The resultant weakness of the secondary market was an additional influence reducing investors' interest in new issues.

It might have been expected that what was bad for the dollar would be good for other currencies, notably the Deutsche Mark, and that the funds held back from dollar bonds would be placed in the non-dollar component of the Euro-bond market. However, very little of that actually happened. Although between February and June the average monthly volume of non-dollar issues was well maintained, it amounted

Euro-dollar bond yield and Euro-dollar deposit rates.
End-of-month rate and weekly averages.



to only 80 per cent. of the 1972 average and thus did not make up for the sharp contraction of dollar issues. One of the main reasons for this was the hesitancy of borrowers to incur indebtedness in strong currencies. Moreover, after some decline in the preceding months non-dollar bond yields, especially those on DM bonds, began to go up very sharply in May, mainly on account of the rise in domestic interest rates brought about by the tightening of anti-inflation policies. As a result, not only the currency risk but also the very high interest cost served to deter potential borrowers and in the period from July to August the monthly average of non-dollar issues fell back to less than 30 per cent. of the 1972 average.

In July a tightening of Italian controls on capital outflows largely cut Italian investors out of the market; up to that point they had been one of the principal remaining sources of non-bank funds. On the other hand, from September onwards the Euro-bond market, especially its dollar segment, benefited from the slightly improved exchange-market climate and a temporary easing of domestic interest rates. The average monthly volume of issues advanced from only $130 million in July and August to $340 million in the three-month period from September to November. The fact that this issue volume was nevertheless much smaller than that recorded during the closing months of 1972 and in January 1973 — a period of similar dollar strength — was largely due to the outlook on inflation, which had worsened progressively since the beginning of 1973. In view of the uncertainties about future price trends lenders were reluctant to commit their funds at interest rates which, although high in nominal terms, were quite low or even negative in real terms, and preferred to keep their funds in liquid forms in the even higher-yielding Euro-deposit market. At the same time borrowers were hesitant to incur indebtedness at interest rates which, if the fight against inflation were successful, would turn out to be too high in real terms, and therefore preferred to borrow at higher but adjustable interest rates in the Euro-currency market. The high rates of interest and uncertainties associated with inflation also contributed to a weak performance on the part of the share markets. As a result convertible issues, which otherwise would have provided investors with some hedge against inflation while at the same time enabling borrowers to get round the high interest rates, did not afford any great relief to the Euro-bond market. On the contrary, their share in total issues contracted from 19 per cent. in 1972 to 15 per cent.

In the autumn of 1973 the new oil-price situation led to a further worsening of the inflation outlook and gave rise to fresh exchange rate uncertainties. The issue volume dropped to $70 million in December and averaged only $210 million in the first three months of 1974. In contrast to the first half of 1973, it was this time the non-dollar component of the market which was particularly hard hit owing to the strength of the dollar in the latter part of 1973 and the sharp rise in domestic bond yields. There was some revival in issues expressed in composite units of account but very little issuing activity in individual non-dollar currencies, so that the share of dollar issues amounted to 75 per cent. during this four-month period. However, the removal of the US interest equalisation tax, the renewed weakening of the dollar in the exchanges and, above all, the renewed escalation of Euro-dollar deposit rates dealt additional blows to the market for dollar bonds and in April new issues dropped to $40 million.

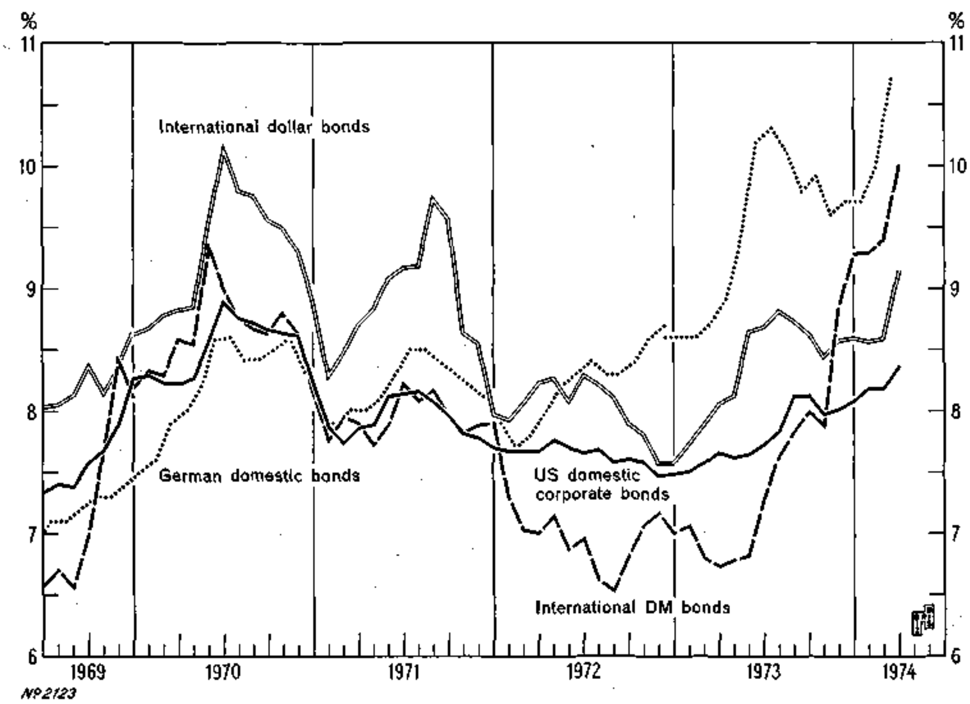
Taking the year 1973 as a whole, dollar issues declined by $1,470 million to $2,390 million, those in Deutsche Mark by $250 million to $990 million and those in other currencies and various units of account by $680 million to $710 million. The weak showing of non-dollar issues other than those in Deutsche Mark in 1973 — their share in the total contracted from 21 to 17 per cent. — was mainly attributable to a decline in Dutch guilder and French franc issues. As in the case of the Deutsche Mark, issues in these currencies were well maintained in the period from March to June but dropped off sharply in the second half of the year. On the other hand, issues in composite units of account staged some recovery from only $30 million in 1972 to $170 million last year. Part of this increase was due to the introduction of a new unit, the Eurco, whose exchange value is based on a weighted basket of all EEC currencies.

More dramatic than the changes in the currency structure of the market were the shifts in the relative importance of individual groups of borrowers. The outstanding feature of 1973 was the contraction from $2,030 to 830 million in the volume of issues made by US borrowers. Three main factors account for this steep decline: the increase in the interest cost of Euro-bond finance relative to the cost of US domestic bond finance; the disappointing performance of the US share market, which contributed to a contraction in convertible Euro-bond issues by US borrowers from $1,070 million to $360 million; and the official announcement in February 1973 of the phasing-out of the interest equalisation tax and the foreign credit restraint programme by the end of 1974. So far in 1974 there has only been one issue by American borrowers and this was made before the US measures to restrict capital outflows were in fact finally lifted at the end of January.

Issues by western European borrowers declined by only $430 million to $2,060 million, which meant that their share in the total rose from 38 to 50 per cent. European international institutions accounted for another 10 per cent. At $970 million, or $180 million more than in 1972, the largest single amount was taken up by the United Kingdom, where borrowing abroad was encouraged for balance-of-payments reasons. Recourse to Euro-bond finance by Scandinavian countries, on the other hand, fell back from $790 to 310 million. Issues by "Other developed countries" shrank from $600 to 140 million and those by developing countries from $540 to 430 million.

With regard to interest rate developments, after their decline in the second half of 1972 Euro-dollar bond yields opened 1973 at slightly above 7¾ per cent. In February, however, the collapse of confidence in the dollar sent interest rates moving upwards and in July yields reached a peak of about 8¾ per cent. At the same time the premium over US corporate domestic bond yields, which had narrowed to ⅛ percentage point at the end of 1972, widened to nearly 1 per cent. Over the same period, however, Euro-dollar bond yields moved from about 2 percentage points above three-month Euro-dollar deposit rates to an average 2 percentage points below them. The recovery of the dollar led to some downward reaction of Euro-dollar bond yields in the second half of 1973, but with the worsened outlook on inflation, renewed exchange rate uncertainties and the weakness of the secondary markets, yields went up from 8½ per cent. in January 1974 to over 9 per cent. in April and May.

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



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

Reflecting the flight from the dollar, yields on Euro-DM bonds eased from about 7 per cent. at the beginning of 1973 to 6¾ per cent. in March. At this level they were some 2 percentage points lower than yields obtainable on German domestic bonds. The very sharp rise in German interest rates in the period from March to July then pushed up Euro-DM bond yields, though the extent to which they fell short of German domestic bond yields widened at times to 3 per cent. From August onwards German domestic bond yields began to ease, but under the impact of a strengthening of the dollar and of conjectures about an easing of the German controls on capital inflows Euro-DM bond yields continued to advance steeply to reach 9¼ per cent. at the end of the year. At this level they exceeded Euro-dollar bond yields for the first time since early 1967, while their differential below German domestic bond yields had narrowed to less than ½ per cent. In early 1974 the renewed upturn of long-term interest rates in Germany contributed to a further rise in Euro-DM bond yields; they exceeded 10 per cent. in March to stand 3½ percentage points above their level of a year earlier — an exceptionally sharp increase for a long-term bond market.

VI. ACTIVITIES OF THE BANK.

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

Last year the Bank again played an active rôle in facilitating co-operation among central banks. 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, it organised periodic meetings of central-bank officials to examine matters such as the development of the gold and foreign exchange markets and the Euro-currency market and to study and exchange information on other economic, monetary, technical and legal questions of interest to central banks. Meetings on technical questions have included work on a wide range of subjects affecting the development of computer operations by central banks. They have not only permitted an exchange of information and experience among central banks on the use of computer hardware and software but have also covered such diverse matters as the development of common standards, the formation of a data bank for the storage of monetary and economic information of value to central banks and the operation of message-switching and other electronic systems for international transfers of funds.

The Bank has also been participating as an observer in the work of the Committee of the Board of Governors of the International Monetary Fund on Reform of the International Monetary System and Related Issues, usually known as the Committee of Twenty, which was established in September 1972. It has been represented at the meetings of this Committee at both Ministerial and Deputy level and has taken part in the work of a Technical Group on Intervention and Settlement which was set up by the Committee. On 21st January 1974 the Bank was prescribed by the IMF as a holder of special drawing rights, thus becoming the first non-member institution to be permitted to accept, hold and use SDRs.

The Bank continued to provide the Secretariat for the Committee of Governors of the central banks of the member countries of the European Economic Community and for the Board of Governors of the European Monetary Co-operation Fund, as well as for their sub-committees and groups of experts, among which mention may be made of: the Committee of Governors' Deputies, a group specialising in the technical problems raised by monetary integration (Community exchange system, pooling of reserves, etc.), a group commissioned to carry out periodic examinations of the development of the money supply in member countries, and a group entrusted with drawing up regulations for the future staff of the European Monetary Co-operation Fund.

These bodies, most of which generally meet in Basle, held a large number of meetings at regular intervals during 1973–74; their work was concerned in particular with the operation of the system of fixed margins of fluctuation maintained between the currencies of EEC countries, the adjustment of the existing short-term monetary support arrangements between EEC central banks, the conditions for a progressive pooling of reserves, the question of gold and the fight against inflation.

Furthermore, the Bank continued last year to perform the functions entrusted to it in August 1964 by the Ministers of the Group of Ten of collecting and distributing to all the participants of the Group and to Working Party No. 3 of the Organisation for Economic Co-operation and Development statistical data concerning the financing of external surpluses and deficits of the Group of Ten countries. In addition, the Bank still acts as Agent of the OECD in connection with the application of the Exchange Guarantee Agreement concluded by eighteen European central banks on 1st January 1973, immediately after the termination of the European Monetary Agreement. It also continued last year to assemble, survey and distribute statistical data on the Euro-currency market and to be associated with other work of the Group of Ten and of the OECD.

2. Operations of the Banking Department.

The Balance Sheet of the Bank and the Profit and Loss Account at 31st March 1974, certified by the auditors, are reproduced at the end of this Report; both are expressed in gold francs.*

* * *

The balance-sheet total at 31st March 1974 amounted to the record end-year figure of	F 31,615,466,191
against, on 31st March 1973,	F 25,249,615,031
It thus registered an increase of	F 6,365,851,160

or 25 per cent., more than offsetting the fall of 14 per cent. recorded in the previous financial year.

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
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
1971	23,856	+ 3,157	+ 15
1972	29,362	+ 5,506	+ 23
1973	25,250	— 4,112	— 14
1974	31,615	+ 6,365	+ 25

* In this chapter the term "francs" (abbreviated to F) signifies *gold* francs, except where otherwise indicated. The conversion into gold francs (units of 0.290 322 58... grammes of fine gold—Article 4 of the Statutes) of the various currencies included in the Balance Sheet has been made on the following bases: in the case of the US dollar, the official parity, i.e. US $ 42.22 per ounce of fine gold; in the case of those currencies floating jointly, the central rate; for all other currencies, the middle market rate against the US dollar on 28th March 1974.

It should be noted, however, that part of this increase — almost 500 million francs — reflected the 5½ per cent. revaluation of the Deutsche Mark in June 1973 and the effective appreciation of other currencies, in particular the Swiss franc.

The following items are not included in the Balance Sheet:

(i) bills and other securities held in custody for the account of central banks and other depositors;

(ii) the assets (bank balances, bills and other securities) held by the Bank as Depositary under the Act of Pledge concluded with the European Coal and Steel Community and as Trustee for international government loans;

(iii) gold under earmark held by the BIS; this item amounted to 1,014 million francs on 31st March 1974, against 931 million on 31st March 1973.

LIABILITIES (COMPOSITION OF RESOURCES).

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	Sundry liabilities	Balance-sheet total
	in millions of francs			
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
1971	539	23,086	231	23,856
1972*	754	28,401	207	29,362
1973*	849	24,179	222	25,250
1974*	967	30,378	270	31,615

*After allocation of the net profit for the year.

A. Capital, reserves, provisions and miscellaneous liabilities.

(a) Paid-up capital F 300,703,125

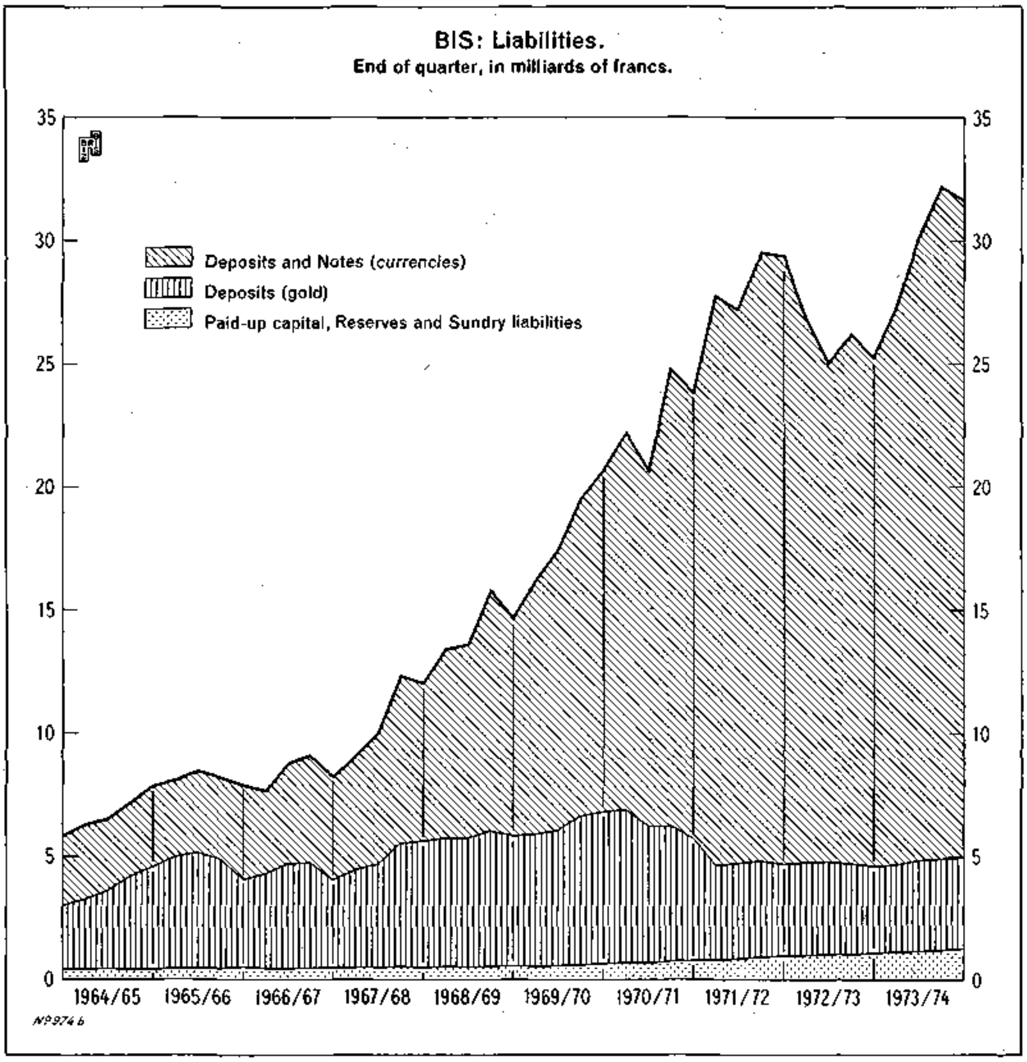
The Bank's authorised capital remained unchanged; so also did the issued capital, which is made up of 481,125 shares paid up to the extent of 25 per cent.

(b) Reserves

(1) *Legal Reserve Fund* F 30,070,313

This amount showed no change over 31st March 1973, at which date it had already reached 10 per cent. of the paid-up capital, which is the maximum laid down in Article 51 (1) of the Statutes.

(2) *General Reserve Fund*
after allocation of the net profit for 1973–74 F 309,447,193



This compares with 252.6 million francs on 31st March 1973, the difference of 56.8 million francs representing the amount it is proposed to transfer to the Fund from this profit; since the appropriation of net profits to this Fund as provided for in the Statutes raises the Fund this year to an amount exceeding the paid-up capital, the sum to be transferred has been reduced in conformity with the provisions of Article 51 (4) of the Statutes.

(3) *Special Dividend Reserve Fund* F 75,175,781

This Reserve Fund remained unchanged, having in 1973 already reached one-quarter of the paid-up capital, which is the maximum laid down in Article 51 (5) of the Statutes.

(4) *Free Reserve Fund*
after allocation of the net profit for 1973–74 F 251,518,200

This compares with 190.3 million francs on 31st March 1973, the amount it is proposed to transfer to the Fund from this profit being 61.2 million francs.

The Bank's overall reserves after allocation of the net profit for 1973–74 thus stand at F 666,211,487

This compares with 548.2 million francs at the beginning of the financial year, giving an increase of 118 million.

(c) The item "Miscellaneous" rose to F 140,464,707

This compares with 101.7 million francs, giving an increase of 38.8 million.

(d) Provision for Building Purposes F 103,251,698

This compares with 92.9 million francs; the increase of 10.4 million francs is the net result of, on the one hand, the appropriation of an additional sum of 15 million francs decided on by the Board of Directors and an exchange gain of 6.8 million and, on the other hand, the settlement of incurred expenditure of 11.4 million francs.

(e) Profit and Loss Account, before allocation F 145,063,281

This figure represents the net profit for the financial year 1973–74; it shows an increase of 23 million francs compared with the net profit for the preceding financial year of 122.1 million francs, but is slightly lower than the 148.8 million recorded in 1971–72. Details of the proposed allocation of the profit for 1973–74 are given in Section 7 below; these proposals, to which a number of references have already been made in connection with the development of the reserves, provide in particular for a sum of 27,063,281 francs to be set aside in respect of the dividend to be paid on 1st July 1974.

B. Borrowed funds.

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

BIS: Borrowed funds, by origin.

Origin	Financial years ended 31st March 1973	1974	Movement
	in millions of francs		
Deposits of central banks	23,086	28,809	+ 5,723
Deposits of other depositors	578	1,017	+ 439
Notes	515	552	+ 37
Total	24,179	30,378	+ 6,199

All three categories of borrowed funds recorded increases; that in "Deposits of central banks", most of which was in US dollars, was a very sharp one both in absolute and in relative terms (+25 per cent.) and accounted for the major part of the rise in the balance-sheet total; the growth of "Deposits of other depositors" was particularly pronounced in percentage terms (+76 per cent.); the slight rise in "Notes", all of which were denominated in Swiss francs, was due entirely to the appreciation of that currency in terms of gold francs during the course of the financial year.

The individual shares of these three items in the total of borrowed resources remained virtually unchanged over the financial year, the first still accounting for the bulk of the total (95 per cent.).

BIS: Borrowed funds, by nature and term.

Term	Deposits in gold			Deposits in currencies			Notes		
	Financial years ended 31st March		Movement	Financial years ended 31st March		Movement	Financial years ended 31st March		Movement
	1973	1974		1973	1974		1973	1974	
	in millions of francs								
Sight	3,270	2,851	− 419	384	147	− 237	—	—	—
Not exceeding 3 months	239	244	+ 5	17,202	22,691	+5,489	—	—	—
Over 3 months	17	614	+ 597	2,552	3,279	+ 727	515	552	+ 37
Total	3,526	3,709	+ 183	20,138	26,117	+5,979	515	552	+ 37

(a) Deposits in gold F 3,709,052,503

This figure compares with that of 3,526 million francs at 31st March 1973. The increase of 183 million, or 5 per cent., which offset the decline of 174 million recorded in the previous financial year, was attributable to the receipt of deposits at over three months; this was associated with the fact that there were fresh possibilities for the Bank to utilise gold remuneratively. For the same reason there were also conversions of sight deposits into time deposits, which accounts for the remainder of the sharp increase in funds at over three months and for the contraction in sight deposits. There was thus a reversal of the trend witnessed over the last few years which had led the Bank to progressively reduce its holdings of time deposits in gold.

(b) Deposits in currencies F 26,117,228,422

This figure compares with 20,138 million at 31st March 1973, representing an increase of 5,979 million (+30 per cent.). Almost the whole of this sharp expansion — which more than offset the decrease of 4,079 million registered in the previous financial year — was accounted for by funds at not exceeding three months. Attention may, however, also be drawn to a decline in sight deposits and a rise in those at over three months, both of which were appreciable in relative terms (−62 per cent. and +28 per cent. respectively).

(c) Notes F 551,490,968

This figure compares with that of 515 million francs at 31st March 1973.

At the beginning of the financial year "Deposits in gold" represented 15 per cent. of total borrowed resources, "Deposits in currencies" 83 per cent. and "Notes" 2 per cent.; on 31st March 1974 the proportions were 12, 86 and 2 per cent. respectively, showing an increase in the predominance of currency funds.

ASSETS (EMPLOYMENT OF RESOURCES).

The following table gives a break-down of the main items of the assets according to their *nature*.

BIS: Distribution, by nature, of sight assets and other investments.

Nature	Financial years ended 31st March 1973		1974		Movement	
	in millions of francs					
Sight assets						
Gold	4,126		4,332		+ 206	
Currencies	84	4,210	47	4,379	− 37	+ 169
Treasury bills						
Currencies		596		8		− 588
Time deposits and advances						
Gold	2		71		+ 69	
Currencies	15,742	15,744	22,242	22,313	+ 6,500	+ 6,569
Securities at term						
Currencies		4,638		4,889		+ 251
Total						
Gold	4,128		4,403		+ 275	
Currencies	21,060	25,188	27,186	31,589	+ 6,126	+ 6,401

The distribution of these assets calls for the following comments:

(a) Gold F 4,331,647,919

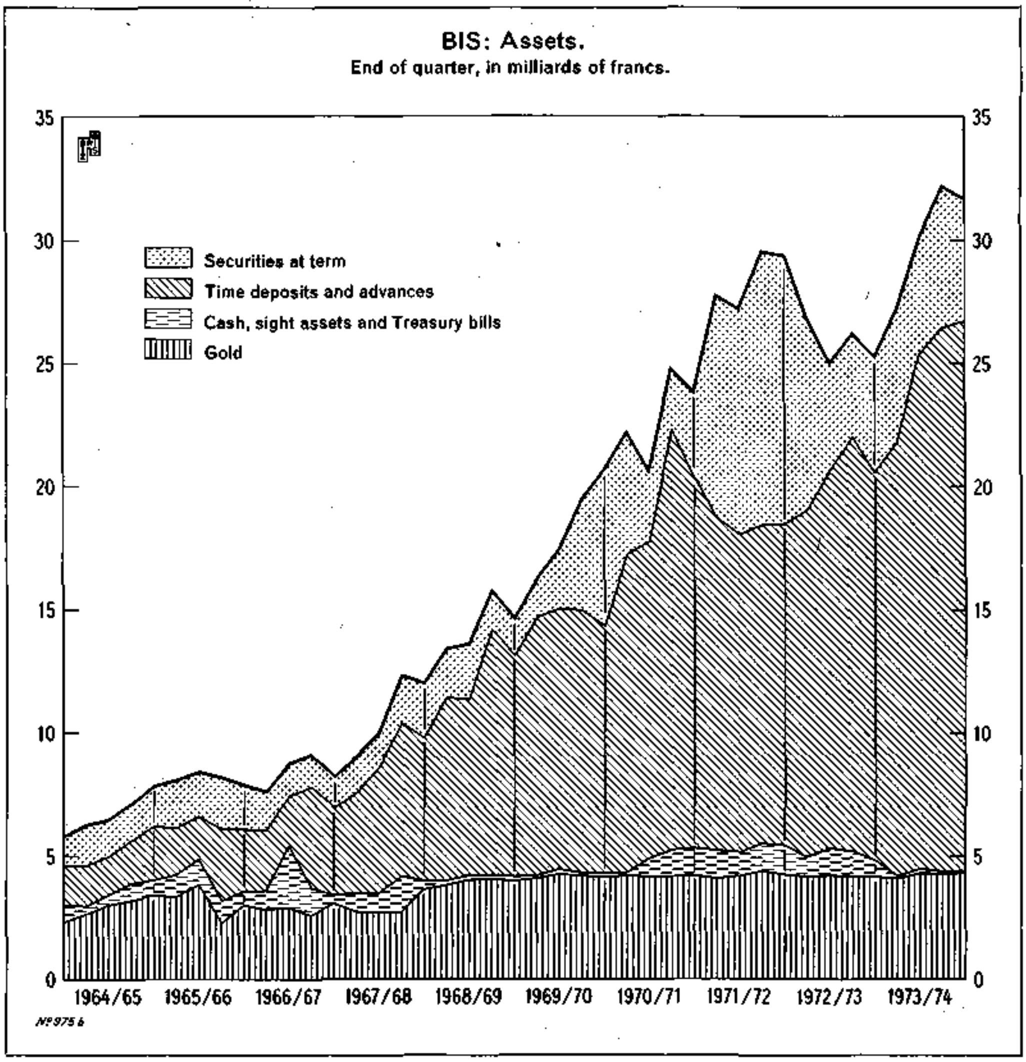
This item, consisting entirely of gold in bars, amounted to 4,126 million francs on 31st March 1973. The increase of 206 million during the last financial year corresponds to fresh deposits in gold received by the Bank and a portion of the gold released as a result of the maturing of swaps of gold against currencies. It should also be noted that, as indicated in note 3 to the Balance Sheet, a part of the gold holdings, viz. 761 million, was pledged.

(b) Cash on hand and on sight account with banks F 47,239,352

This compares with 84 million francs at 31st March 1973, a decline thus being shown of 37 million; the decrease reflected in part the fall in sight deposits received in currencies.

(c) Treasury bills F 8,443,903

The total for this item, which had stood at 596 million francs on 31st March 1973, fell to an insignificant figure as a result of the maturing of investments not renewable in this form.



(d) Time deposits and advances F 22,312,572,729

This figure compares with one of 15,744 million francs at 31st March 1973, representing an increase of 6,569 million. The gold component of this item went up from 2 million to 71 million francs as a result of the reinvestment by the Bank, in the form of time deposits, of part of the gold released from the maturing of swaps against currencies referred to above. Time deposits and advances in currencies rose from 15,742 million to 22,242 million francs, thus recording a marked increase of 6,500 million. This rise represented an expansion, in some cases appreciable, of the Bank's investments on various markets, in particular that of the United States.

(e) Securities at term F 4,889,378,554

This figure compares with one of 4,638 million francs a year earlier. The increase of 251 million in this item broadly represents the difference between, on the one hand, purchases of certificates of deposit and bankers' acceptances on the US market and, on the other, the maturing of paper denominated in European currencies.

(f) Miscellaneous F 26,183,733

This figure compares with 62 million francs at 31st March 1973, representing a contraction of 36 million.

The table below shows the distribution of time deposits and advances and securities at term by *maturity*.

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

Term	Financial years ended 31st March 1973	Financial years ended 31st March 1974	Movement
	in millions of francs		
Not exceeding 3 months	15,063	21,967	+ 6,904
Over 3 months	5,319	5,235	— 84
Total	20,382	27,202	+ 6,820

Forward gold operations.

These operations, which appear under note 2 to the Balance Sheet, resulted in a positive net balance (gold receivable) of F 2,979,720 compared with one of 95 million francs at the end of March 1973, which represents a decrease of 92 million during the course of the financial year. This movement was attributable to the maturing of swaps of gold (repurchased forward) against currencies already mentioned above.

* * *

In the financial year 1973–74 the volume of the Bank's operations followed a parallel development to that of the Balance Sheet and the profits and stood at a very high level.

3. The Bank as Trustee for international government loans.

In conformity with the agreements in force, the Bank continued in the year under review to perform the functions of Trustee for the new bonds which were issued by the Government of the Federal Republic of Germany, in accordance with the London Agreement on German External Debts of 27th February 1953, in respect of the German External Loan 1924 (Dawes Loan) — all of which have now matured — and of the German Government International Loan 1930 (Young Loan).

The financial year 1973–74 for the Young Loan ended on 1st June 1974. The interest in respect of the financial year amounted to the equivalent of about 26.8 million francs and was duly paid to the Bank and distributed by the latter among the Paying Agents. Redemption of conversion bonds in respect of the financial year 1973–74 was fully effected by purchases of bonds on the market. All the outstanding funding bonds were redeemed on 1st December 1972, whereas the final maturity date for the conversion bonds is fixed at 1st June 1980.

The question whether the exchange guarantee attached to the Young Loan under the terms of the London Agreement was applicable in the case of the revaluations of the Deutsche Mark in 1961 and in 1969 was submitted in May 1971 to the court of arbitration provided for in the Agreement; the arbitral proceedings are in progress. The more recent questions regarding the application of the exchange guarantee which have been raised by the floating of the exchange rates for various currencies of issue and by the introduction — and in a number of cases the subsequent variation — of central rates for certain of those currencies have been submitted by the Bank to the governments of the countries in which issues of the Loan were made.

German Government International Loan 1930 (Young Loan).
Conversion bonds.

Issue	Currency	Redemption value*			
		Bonds issued	Bonds purchased or drawn for redemption in respect of the financial years 1958–59 to 1972–73	1973–74	Balance after redemption
American . . .	$	67,003,000	14,656,000	1,583,000	50,764,000
Belgian	B.fr.	202,869,000	43,287,000	4,160,000	155,422,000
British	£	20,665,500	4,393,400	406,000	15,866,100
Dutch	Fl.	52,578,000	10,994,000	1,071,000	40,513,000
French	Fr.fr.	501,834,000	107,238,000	10,574,000	384,022,000
German	DM	14,509,000	3,027,000	282,000	11,200,000
Swedish . . .	S.kr.	92,780,000	19,746,000	2,017,000	71,017,000
Swiss	Sw.fr.	58,392,000	12,316,000	1,147,000	44,929,000

* Redemption value on 1st May 1974 established in accordance with the provisions of the London Agreement on German External Debts of 27th February 1953 but without taking into account the revaluations of the Deutsche Mark in 1961 and 1969, the floating of exchange rates and the introduction—and in certain cases the subsequent alteration—of central rates for various currencies of issue.

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 1959 to 1972	1973	Balance after redemption
American . . .	$	1,667,000	1,095,000	97,000	475,000
Anglo-Dutch .	£	856,600	543,900	47,500	265,200
Swiss	Sw.fr.	7,102,000	3,943,000	376,000	2,783,000

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

The following table shows the amounts outstanding on the secured loans issued by the European Coal and Steel Community between 1954 and 1961 for which the Bank performs the functions of Depositary in accordance with the provisions of the Act of Pledge concluded between itself and the Community on 28th November 1954.

During the financial year 1973–74 the amounts received by the Bank for the service of the secured loans came to the equivalent of about 12 million francs in respect of interest and about 38 million francs in respect of redemption. By the end of the financial year the total amount outstanding had been reduced to the equivalent of approximately 218 million francs.

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 1974	Rates of interest %	Year of final maturity or redemption
1st	1954	United States	US Government	$	100,000,000	36,100,000	3⅞	1979
2nd	1955	Belgium	Caisse Générale d'Epargne et de Retraite, Brussels	B.fr.	200,000,000	93,600,000	3½	1982
3rd	1955	Germany	Westdeutsche Landesbank Girozentrale, Düsseldorf and Münster[1]	DM	50,000,000	17,345,600	3¾	1981
4th	1955	Luxemburg	Caisse d'Epargne de l'Etat, Luxemburg	B.fr.	20,000,000	9,360,000	3⅛	1982
				L.fr.	5,000,000	—	3½	1961
5th	1956	Saar	Landesbank und Girozentrale Saar, Saarbrücken	DM	2,977,450[2]	786,047	4¼	1977
6th	1956	Switzerland	Public Issue	Sw.fr.	50,000,000	5,000,000	4¼	1974
7th	1957	United States	Public issue	$	25,000,000	2,200,000	5½	1975
8th	1957	United States	Public issue	$	7,000,000	—	5	1962
9th	1957	United States	Bank loans	$	3,000,000	—	5	1962
10th	1957	Luxemburg	Etablissement d'Assurance contre la Vieillesse et l'Invalidité, Luxemburg	L.fr.	100,000,000	56,337,957	5⅜	1982
11th	1958	United States	Public issue	$	35,000,000	12,000,000	5	1978
12th	1958	United States	Public issue	$	15,000,000	—	4½	1963
13th	1960	United States	Public issue	$	25,000,000	11,800,000	5⅜	1980
14th	1960	United States	Public issue	$	3,300,000	—	4¾	1963
				$	3,300,000	—	4⅞	1964
				$	3,400,000	—	5	1965
15th	1961	Luxemburg	Etablissement d'Assurance contre la Vieillesse et l'Invalidité, Luxemburg	L.fr.	100,000,000	69,673,305	5¼	1986
16th	1961	Netherlands	Public issue	Fl.	50,000,000	26,550,000	4½	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.

5. The Bank as Agent for the European Monetary Co-operation Fund.

Since 1st June 1973 the Bank has been acting as Agent for the European Monetary Co-operation Fund which was set up on 6th April 1973 by the member countries of the European Economic Community. As the Fund is only in the initial stage of its operation, the Bank's functions in this connection are essentially of an accounting nature; they consist in keeping the Fund's accounts for purposes of recording:

- the debts and claims of EEC central banks vis-à-vis the Fund arising from interventions carried out in member countries' currencies so as to maintain the fixed margin of 2.25 per cent. or from financing provided under the short-term monetary support arrangements;
- the periodic settlement of these debts and claims.

Owing to the strained conditions on the exchange markets in 1973–74 the EEC central banks found it necessary to intervene frequently, and sometimes on a large scale, in order to keep their currencies within the band of fluctuation generally known as the "snake".

Over the past year the five central banks concerned — their number was reduced to four on 20th January 1974 when the Bank of France ceased defending exchange limits on its market — have alternated in being debtors and creditors; their positions turned round several times completely, often within a very short space of time. These movements in opposite directions were not, however, equal in size so that, overall, the net balances showed substantial debts and claims which were, moreover, only to a small extent reduced by the automatic or voluntary offsetting of debits and credits with identical or different maturities.

For the Agent of the Fund this development of the "snake" has led to an increase in the number of operations to be entered in the books and of calculations to be made (interest rates, conversion rates, etc.) and in the amount of information to be collected, collated and distributed.

6. Amendment of Article 30 of the Bank's Statutes.

The Board of Directors decided at its meeting on 9th April 1974 to convene an Extraordinary General Meeting for 10th June 1974 in order to make a minor amendment to the text of Article 30 of the Bank's Statutes. It was felt by the Board that the limitation contained in Article 30, which prevents an ex-officio Director from appointing as a Director of the Bank pursuant to Article 27(2) a former Governor of a central bank if he has been elected or appointed as a member of a legislative body, could, at times, not be in the best interests of the Bank. The Board of Directors has, therefore, decided to propose to the Extraordinary General Meeting that the text of Article 30 of the Statutes of the Bank be amended to read as follows:

> "No person shall be appointed or hold office as a Director who is a member or an official of a Government unless he is the Governor of a central bank and no person shall be so appointed or hold office who is a member of a legislative body unless he is the Governor or a former Governor of a central bank."

7. Net profits and their distribution.

The accounts for the forty-fourth financial year ended 31st March 1974 show a net operating surplus of 168,212,066 francs, as compared with 136,048,276 francs for the preceding financial year and with 156,364,072 francs for the financial year 1971–72. The main reason for this considerable increase is the substantially higher volume of funds which the Bank has been handling during the past financial year.

The Board of Directors has decided to transfer to the Provision for Exceptional Costs of Administration an amount of 8,148,785 francs and to the Provision for Building Purposes a sum of 15,000,000 francs. As a result of these decisions the net profit amounts to 145,063,281 francs, against 122,063,281 francs for the previous financial year and 148,832,656 francs for the financial year 1971–72. The allocation of this amount is governed by Article 51 of the Statutes.

On the basis of this provision, the Board of Directors recommends that the net profit of 145,063,281 francs be applied by the General Meeting in the following manner:

(i) an amount of 18,042,187 francs in payment of the preferential dividend of 6 per cent. per annum, this dividend being fixed at 37.50 francs per share;

(ii) an amount of 9,021,094 francs — a sum falling within the statutory limit of 20 per cent. of the remainder of the net profit — to be appropriated in payment of the maximum further dividend of 3 per cent. per annum, this dividend being fixed at 18.75 francs per share;

(iii) an amount of 56,813,983 francs to be transferred to the General Reserve Fund; and finally

(iv) an amount of 61,186,017 francs, representing 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 for any purpose which is in conformity with the Statutes.

If these proposals are accepted, the total dividend will amount to 56.25 francs per share and will be paid in Swiss francs on 1st July 1974 to the shareholders whose names are entered in the Bank's share register on 20th June 1974.

In the interest of the shareholders the Board of Directors decided at its meeting in May 1974 that, in the event of the exchange-market situation which existed at that time with regard to the Swiss franc continuing until the date of the Annual General Meeting, the conversion of the dividend into Swiss francs would be made on the basis of the official gold parity of the Swiss franc, namely, Sw.fr. 1 = 0.217 592 5926 grammes of fine gold. On this basis the dividend would be paid in the amount of 75.05 Swiss francs per share, and because of the exchange difference the total cost of the dividend would increase by some 4 million francs over and above the amount already set aside for the dividend in the Balance Sheet at 31st March 1974. This additional amount would be set against the Bank's earnings for the financial year 1974–75.

The Balance Sheet, the Profit and Loss Account and the movement during the financial year on the Provision for Building Purposes 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 1974 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 and in the Management.

The mandate of Dr. Jelle Zijlstra as Chairman of the Board and President of the Bank being due to expire on 30th June 1973, he was re-elected to these offices under Article 38 of the Statutes at the meeting of the Board held on 18th June 1973 for a period of three years ending on 30th June 1976.

On 1st July 1973 Mr. Gordon W. H. Richardson succeeded Lord O'Brien of Lothbury as Governor of the Bank of England and became an ex-officio member of the Board in place of Lord O'Brien. At the meeting of the Board held on 18th June 1973 the Chairman expressed to Lord O'Brien the sincere and deep gratitude of all members of the Board for his important and outstanding contribution to the work of the Bank during his seven-year term of office.

At the end of October 1973 Mr. Per Åsbrink relinquished his post as Governor of Sveriges Riksbank and at the same time gave up his seat on the Board of Directors of the BIS. At the Board meeting held on 11th September 1973 the Chairman thanked Mr. Åsbrink for the eminent services he had rendered to the Bank during his term of office extending over nearly eighteen years.

M. Henri Deroy, whose mandate as a member of the Board was due to expire on 31st October 1973, was re-appointed under Article 27(2) of the Statutes by M. Olivier Wormser, Governor of the Bank of France, in October 1973 for a further period of three years. The mandate of M. Deroy as Vice-Chairman of the Board was also due to expire on 31st October 1973. At its meeting on 13th November 1973 the Board re-elected him under Article 38 of the Statutes for a further period of three years ending on 31st October 1976.

At the meeting of the Board held on 11th December 1973 the Governor of Sveriges Riksbank, Mr. Krister Wickman, was elected under Article 27(3) of the Statutes to be a member of the Board for a period of office expiring on 31st March 1975.

The Chairman informed the Board at its meeting on 11th December 1973 that M. Wormser had appointed M. Henri Koch to act as his Alternate in place of M. Marcel Théron. He expressed the Bank's gratitude to M. Théron for his valuable services during a period of more than six years.

At its meeting on 12th March 1974 the Board received with very great regret the Chairman's announcement that Mr. Michael J. Babington Smith had decided to relinquish his seat on the Board as from 20th February 1974. The Chairman paid tribute to the very valuable services which Mr. Babington Smith had rendered to the Bank during a period of nearly nine years.

The mandate of Dr. Edwin Stopper as a member of the Board being due to expire on 31st March 1974, he was re-elected under Article 27(3) of the Statutes at the meeting of the Board held on 12th March 1974 for a further period of three years ending on 31st March 1977. At the end of the following month Dr. Stopper relinquished his appointment as President of the Direktorium of the Swiss National Bank and at the same time gave up his seat on the Board of Directors of the BIS. At the Board meeting on 9th April 1974 the Chairman thanked Dr. Stopper for his eminent services to the Bank during a period of nearly eight years. At the same meeting Dr. Fritz Leutwiler, who had been appointed to succeed Dr. Stopper as President of the Direktorium of the Swiss National Bank, was elected under Article 27(3) of the Statutes to be a member of the Board for a period of office expiring on 31st March 1977.

Mr. Donald H. Macdonald, who had joined the Bank from the Bank of England in 1954 and had been a member of the management since 1962, relinquished his appointment as Head of the Banking Department at the end of 1973. At the meeting of the Board held on 11th December 1973 the Chairman expressed to Mr. Macdonald the sincere appreciation and thanks of all members of the Board for the great skill and outstanding professional qualities which he had always shown in carrying out his important functions. At the same meeting the Board appointed Mr. R. T. P. Hall Head of the Banking Department as from 1st January 1974. On 31st October 1973 Mr. A. Norman Barltrop, Assistant Manager, who had been in charge of the Bank's Accounting Section for nearly twenty years, retired after more than twenty-two years' valuable and devoted service.

The Chairman announced at the Board meeting held on 8th January 1974 that the Bank had decided to promote M. Robert Chaptinel to the rank of Deputy Manager and Dr. Karl Schmid to the rank of Assistant Manager. Both appointments took effect as from 1st January 1974.

At the Board meeting on 12th March 1974 the Chairman also announced the promotion of Mr. Roger G. Stevenson and M. Rémi Gros to the rank of Assistant Manager as from 1st April 1974.

* * *

The Bank learned with deep regret of the death of Dr. Wilhelm Vocke on 19th September 1973 and of Dr. Rudolf Brinckmann on 2nd January 1974. Dr. Vocke had been a member of the German delegation at the 1929 Conference at Baden-Baden where the Bank's Charter and Statutes were drafted. Between 1930 and 1939 he was an Alternate member of the Board of Directors and, as President of the Bank deutscher Länder, he had a seat on the Board from 1950 until the end of 1957. Dr. Brinckmann also became a member of the Bank's Board of Directors in 1950. He relinquished his seat at the end of July 1970.

CONCLUSION.

About a year ago the economic prospect for the industrial countries was that a period of adjustment lay ahead. Output was generally expanding at an unsustainable rate, policy in most countries had been shifted to restraint in order to combat inflation, and the exchange rate structure had broken down under the weight of large imbalances in international payments. In the event, however, the fourfold increase in the price of crude oil by the oil-exporting countries late in the year imposed its own imprint on economic developments.

The rapid expansion of output in 1972 was continued in the first half of 1973. In the second half, however, there was a tapering-off of the increase and industrial production turned flat in most countries. The slow-down initially reflected supply more than demand conditions. The intensity of the boom had pushed the utilisation of plant capacity to the limit in many industries and, besides, materials and labour shortages were also limiting factors. The Netherlands and Sweden were about the only countries where there was room for a further advance after the mid-year.

But soon after, the impact of restrictive policies also began to make itself felt. Monetary policy in particular was increasingly tightened from early in the year, supported in many cases by budgetary restraint. Demand for consumer durables weakened and housing construction contracted. Thus, it appeared that the objective of reducing the growth of aggregate demand to a more sustainable level was in process of being fulfilled.

Into this rather usual post-boom adjustment the oil crisis burst in mid-October. Action by the oil-exporting countries was at first concentrated on curtailing output and a severe shortage of oil supplies seemed in prospect. But subsequently the emphasis was put on raising the price of oil and the restrictions on output were relaxed. In either case, however, the effect was to increase the recessionary tendencies in the economic situation. This happened primarily because the demand for motor-cars, and some categories of goods and services related to the use of cars, dropped significantly. The effects on production were noticeable in the fourth quarter of 1973 but even more so in the first quarter of this year. In the United States, for example, the real gross national product still rose slightly in the fourth quarter, though only with the help of large inventory accumulation; in the first quarter there was a definite fall, at an annual rate, of over 6 per cent.

As the oil impact was being felt, there seemed to be some danger that output might drift further downwards in the months ahead. The much higher expenditures required for oil products, even with reduced quantities, could drain purchasing power away from other categories of spending. This prospect was considered real enough to induce a few countries to take moderate measures to stimulate demand.

With the advance of spring, however, the data becoming available have not pointed to a deepening recession. Activity in the second quarter seems not much changed from the first: unemployment has not been increasing, new orders in most countries have been favourable and investment plans in such sectors as energy production have increased notably. On the other hand, there are no indications of a general rebound in economic growth.

Despite the change in the cyclical position, the upward sweep of prices has continued, with the lead being given by the advance of commodity prices. While this movement started because of a combination of demand pressures and supply difficulties, it was affected also by the inflationary psychology that was generated by the breakdown of exchange rates. Late in the year the large increase in oil costs accelerated the upward price trend. In the first months of 1974 the largest price increases have been in industrial materials, particularly non-ferrous metals, with the price of oil rising most of all.

This feverish behaviour of commodity prices has directly boosted wholesale price indexes and is still working its way through to the retail level. Wholesale prices in many countries stand 20–25 per cent. above a year ago and consumer prices are up 10 per cent. or more. Only in a few countries where the appreciation of the currency has benefited prices of imports has the inflation rate been somewhat less sharp.

While wage increases have been large over the past year, they have not been the leading factor in the growing inflation. However, wage settlements have generally at least compensated for the rise in the cost of living and, thus, have been an essential element in the price/wage spiral. It has been seen time after time that a wage bargain much in excess of the potential gain in productivity has been followed by a compensatory price increase.

The authorities in many countries have tried to limit this inflationary spiral by prices and incomes policy involving controls, guide-lines and authorisation procedures. As such measures have not been applicable to prices of imported oil and other basic materials, they have not been able to prevent the acceleration of inflation. Furthermore, they demand a degree of government authority and public support which often have not been attainable. On many occasions where excess demand was not the problem, however, restraints on prices and incomes have helped to hold down the rate of inflation; hence, they cannot safely be passed over as a policy instrument.

While it is evident that the inflationary forces now at work cannot be overcome from one month to the next, the extreme pessimism of some observers does not seem justified. Policy measures are being aimed at keeping overall demand from heating up again and in important sectors such as foodstuffs the supply situation has improved. Consequently, the rise of commodity prices can reasonably be expected to taper off and some weakening has in fact begun to appear; also, the price adjustments required for the higher costs of energy should diminish. Indeed, it may be that differences in wage increases will become the main factor behind relative increases of prices among countries as the months go by.

The main uncertainty in the outlook stems from the repercussions that the higher price of oil will have on international payments. The oil-exporting countries will be having a huge increase in their export earnings while the oil-importing countries will be faced with a corresponding rise in their import costs. Estimates of the amount involved for 1974 range as high as $60 milliard, though the approximate magnitude is still much in doubt. The peculiarity of the situation is that, for several years at least, the oil countries can take only a small part of their increased earnings in imports or long-term foreign investments; the larger part will go to swell their reserves.

Thus, the oil-importing countries as a group are faced with financing a huge deficit in their external payments. A number of countries are in a favourable position to meet this problem for some time to come because they start from a current-account surplus, they have large reserves, they can expect an inflow of funds from placements of reserves by the oil countries, or they can raise large amounts on international money and capital markets.

For other countries, however, difficulties are arising or can be expected to arise as the oil burden mounts. Those which were already in payments deficit or which maintain a precarious balance only by means of tight controls and have limited access to private international lending face such difficulties. They may have no alternative but to seek a balance-of-payments adjustment either by demand restraint, by exchange depreciation or by direct limitation of imports. Such adjustments would in the main shift the deficits to other countries and risk having an adverse effect on world trade and economic activity.

While the oil countries' surplus could in principle be recycled to deficit countries by private financial intermediation, the need for prudence by both financial institutions and the borrowing countries will present obstacles. Financial institutions may also be reluctant to see their balance sheets over-inflated by the deposits from a small number of very large depositors — particularly as the ready outlet for the funds may be at longer term than the deposits. Of course, some help with the financing problem will be available from official sources. Drawings can be made on the IMF General Account and a proposed special oil facility in the IMF is under discussion. Also, the oil-producing countries are themselves arranging to provide some financial assistance. Nonetheless, problems loom ahead which may pose a real threat to the world economy and test the strength of inter-governmental co-operation.

By the second half of 1972 it had become apparent that the Smithsonian realignment of currencies would not be adequate to accomplish its aim of correcting the extreme imbalances of trade and payments. The imbalances had, in fact, worsened. Yet, because of political and technical difficulties, there seemed to be no way of having the problem reconsidered in international discussions. Hence, it was left to an upset by market forces to break the deadlock in February 1973, when it became necessary to close the exchange markets. Against this background, the second devaluation of the dollar failed to restore confidence in fixed exchange rates, particularly as the dollar remained inconvertible and the US authorities were not committed to support it in the market. As a result all the major currencies were left to float against the dollar.

The main feature of the experience with floating so far has been wide and erratic changes in exchange rates. The dollar at first fell much below the 10 per cent.

devaluation against European currencies; then it strengthened for about six months to the point of erasing not only the previous decline but most of the devaluation; then came a new phase of weakening in which the dollar fell close to its previous lows. These movements were at times influenced by trade developments, but it has seemed rather that capital movements and confidence factors have been dominant. The market has not been able to form a longer-range view of the equilibrium rates of exchange or to prevent fluctuations of excessive size. Indeed, as selling or buying pressure has developed with respect to particular currencies, the opposing forces which might have had a counteracting influence have seemed to dry up. It has been risky, therefore, to take short-term positions in currencies.

In these circumstances only a few central banks of smaller countries have been able to rely on free floating to produce a reasonable result in the exchange market. While it has been an advantage that the exchange rate has not presented a fixed target for attack, most central banks have found it necessary to combine allowing some movements in the rate with intervention in the market to limit the swings. Deficit countries have supported their currencies to prevent excessive depreciation from adding to the price/wage spiral through higher import prices. Surplus countries have intervened to resist excessive appreciation so as not to lose their competitive position. In addition, intervention has been required to keep the currencies of the European snake within the fixed margins of 2¼ per cent. Taken together, gross interventions have been on a very large scale. What was once called "dirty" floating has come to be accepted as a necessary policy instrument.

As the problem of financing oil deficits emerged, it became even more evident that exchange markets could not simply be left to free floating. In the nature of the case there could not be a real adjustment between the oil-importing and the oil-exporting countries, so that free floating would result in competitive depreciations, restrictive trade measures and a downward spiral of trade among the oil-importing countries. This prospect has obliged countries to consider the equilibrium zone of the exchange rate, apart from the oil deficit, and to be guided by it to the extent feasible.

When the dimensions of the oil financing problem became apparent, the Committee of Twenty decided in January 1974 that there was no prospect at present of implementing a reform of the international monetary system based on stable but adjustable par values of currencies. The universal view was that floating rates would be required for the indefinite future.

Even before its formal postponement, however, the reform discussions had taken on an air of unreality and seemed stalled on disagreements about the basic elements of the system and how it ought to function. On one side, the stress was put on objective indicators to signal disequilibrium and on changes in exchange rates to assure the adjustment process. On the other side, what was emphasised was an obligatory asset settlement system and strict limits on the growth of reserve currencies. Besides the reluctance that many sovereign states might have to binding themselves beforehand to such restrictive rules, it is doubtful whether pursuing either of those paths would in practice support the maintenance of stable exchange rates.

The key to restoring a stable rate system was always a dollar that commanded confidence — by its convertibility and by the stable monetary conditions which lay behind it. This objective needed constructive action on the gold problem and acceptance of some degree of balance-of-payments discipline. But with the international payments situation in its present state of flux, a par value system is probably not within reach. Acceptance of some rules for floating currencies may, however, provide a modest first step towards restoring international monetary order.

RENÉ LARRE

General Manager

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

AT 31st MARCH 1974

BALANCE SHEET

ASSETS

(Before and after

		Gold francs
Gold		4,331,647,919
Cash on hand and on sight account with banks		47,239,352
Treasury bills		8,443,903
Time deposits and advances		
Gold		
Not exceeding 3 months	69,255,234	
Over 3 months	1,723,079	
Currencies		
Not exceeding 3 months	18,549,776,293	
Over 3 months	3,691,818,123	
		22,312,572,729
Securities at *term*		
Not exceeding 3 months	3,348,167,752	
Over 3 months	1,541,210,802	
		4,889,378,554
Miscellaneous		26,183,733
Land, *buildings and equipment*		1
		31,615,466,191

Note 1: The gold franc is the equivalent of 0.290 322 58... grammes fine gold — Art. 4 of the Statutes.

Note 2: At 31st March 1974, gold receivable against currencies on forward contracts amounted to 2,979,720 gold francs.

Note 3: The equivalent of 761,221,009 gold francs' worth of gold was pledged at 31st March 1974 in connection with deposits received.

AT 31st MARCH 1974

allocation of the year's Net Profit)

LIABILITIES

		Before allocation Gold francs	After allocation Gold francs
Capital			
Authorised: 600,000 shares, each of 2,500 gold francs ...	1,500,000,000		
Issued: 481,125 shares ...	1,202,812,500		
of which 25% paid up ...		300,703,125	*300,703,125*
Reserves			
Legal Reserve Fund ...	30,070,313		*30,070,313*
General Reserve Fund ...	252,633,210		*309,447,193*
Special Dividend Reserve Fund ...	75,175,781		*75,175,781*
Free Reserve Fund ...	190,332,183		*251,518,200*
		548,211,487	*666,211,487*
Deposits (gold)			
Central banks			
Sight ...	2,818,109,222		
Not exceeding 3 months ...	244,396,585		
Over 3 months ...	613,455,789		
Other depositors			
Sight ...	33,090,907		
		3,709,052,503	3,709,052,503
Deposits (currencies)			
Central banks			
Sight ...	136,235,347		
Not exceeding 3 months ...	22,020,905,696		
Over 3 months ...	2,976,168,264		
Other depositors			
Sight ...	11,364,911		
Not exceeding 3 months ...	670,042,266		
Over 3 months ...	302,511,938		
		26,117,228,422	*26,117,228,422*
Notes			
Over 3 months ...		551,490,968	*551,490,968*
Miscellaneous ...		140,464,707	*140,464,707*
Provision for Building Purposes ...		103,251,698	*103,251,698*
Profit and Loss Account ...		145,063,281	—
Dividend payable on 1st July 1974 ...		—	*27,063,281*
		31,615,466,191	*31,615,466,191*

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 1974 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, 26th April 1974.

PRICE WATERHOUSE & CO.

PROFIT AND LOSS ACCOUNT
for the financial year ended 31st March 1974

		Gold francs
Net interest and other income		191,327,974
Less: Costs of administration:		
Board of Directors	367,892	
Management and Staff	17,401,773	
Office and other expenses	5,346,243	23,115,908
Net operating surplus		168,212,066
Less: Amounts transferred to:		
Provision for Exceptional Costs of Administration	8,148,785	
Provision for Building Purposes	15,000,000	23,148,785
Net Profit for the financial year ended 31st March 1974		145,063,281
The Board of Directors recommends to the Annual General Meeting that the Net Profit should be allocated in accordance with Article 51 of the Statutes as follows:		
Dividend of 6% p.a. on paid-up capital 37.50 gold francs per share		18,042,187
		127,021,094
Additional dividend (statutory maximum) of 3% p.a. on paid-up capital 18.75 gold francs per share		9,021,094
		118,000,000
Transfer to General Reserve Fund		56,813,983
		61,186,017
Transfer to Free Reserve Fund		61,186,017
		—

Movement on the Provision for Building Purposes during the financial year ended 31st March 1974

	Gold francs
Balance at 1st April 1973	92,939,483
Add: Exchange difference	6,772,326
Transfer from Profit and Loss Account	15,000,000
	114,711,809
Less: Amortisation of expenditure incurred	11,460,111
Balance at 31st March 1974 per Balance Sheet	103,251,698

BOARD OF DIRECTORS

Dr. J. Zijlstra, Amsterdam	Chairman of the Board of Directors, President of the Bank
Henri Deroy, Paris	Vice-Chairman

Baron Ansiaux, Brussels
Dr. Guido Carli, Rome
Dr. Leonhard Gleske, Bremen
Dr. Karl Klasen, Frankfurt a/M.
Dr. Fritz Leutwiler, Zurich
Dr. Donato Menichella, Rome
Gordon W. H. Richardson, London
Robert Vandeputte, Brussels
Krister Wickman, Stockholm
Olivier Wormser, Paris

Alternates

Dr. Paolo Baffi, Rome, or
Prof. Francesco Masera, Rome
Dr. Otmar Emminger, Frankfurt a/M., or
Johannes Tüngeler, Frankfurt a/M.
Georges Janson, Brussels
André de Lattre, Paris, or
Henri Koch, Paris
Christopher W. McMahon, London, or
M. J. Balfour, London

MANAGEMENT

René Larre	General Manager
Dr. Milton Gilbert	Economic Adviser, Head of the Monetary and Economic Department
Dr. Antonio d'Aroma	Secretary General, Head of Department
R. T. P. Hall	Head of the Banking Department
Henri Guisan	Legal Adviser
Dr. Antonio Rainoni	Manager
Maurice Toussaint	Manager

D. H. Stapleton	Deputy Secretary General
Prof. Dr. F. E. Klein	Deputy Legal Adviser
Robert Chaptinel	Deputy Manager
Dr. Warren D. McClam	Assistant Manager
M. G. Dealtry	Assistant Manager
Dr. Karl Schmid	Assistant Manager
R. G. Stevenson	Assistant Manager
Rémi Gros	Assistant Manager