ANNUAL REPORT
1956

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INTERNATIONAL MONETARY FUND
WASHINGTON, D. C.

ANNUAL REPORT
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INTERNATIONAL MONETARY FUND

ANNUAL REPORT OF THE EXECUTIVE DIRECTORS FOR THE FISCAL YEAR ENDED APRIL 30, 1956

WASHINGTON, D.C.

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INTERNATIONAL MONETARY FUND

Ivar Rooth
Managing Director and Chairman of the Executive Board

H. Merle Cochran
Deputy Managing Director

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John M. Stevens	Director, European Department
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Y. C. Koo	Treasurer
Jorge Del Canto	Acting Director, Western Hemisphere Department
Phillip Thorson	Director, Office of Administration
Roman L. Horne	Acting Secretary
J. V. Mladek	Director, European Office (Paris)

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LETTER OF TRANSMITTAL
TO THE BOARD OF GOVERNORS

June 29, 1956

My dear Mr. Chairman:

In accordance with Section 10 of the By-Laws of the International Monetary Fund, I have the honor to present to the Board of Governors the Annual Report of the Executive Directors for the fiscal year ended April 30, 1956. As in previous years, the Report also includes references to developments that occurred and information that has become available between the end of the fiscal year and the date of this letter of transmittal.

Yours sincerely,

/s/

IVAR ROOTH

Chairman of the Executive Board

Chairman of the Board of Governors

International Monetary Fund

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I

The Current Perspective in International Finance

LAST year's Annual Report stated that the prospects at that time were favorable for further continued improvement in the international payments situation. Events during the year covered in this Report have on the whole confirmed that expectation. The world payments situation has in fact improved, restrictions have been further relaxed, the transferability of important currencies has been extended, and discrimination, especially that resulting from bilateral arrangements, has had less influence on the direction of trade. Progress in extending multilateral trade and payments has thus been maintained, although during the year there was no addition to the list of Fund members which have established formal convertibility of their currencies.

The basis for the favorable developments of recent years has been the recovery of production from the dislocation caused by World War II. The intensive postwar investment programs have brought good returns. Nearly everywhere there have been large increases in industrial production; some countries whose industrial producers had formerly been at a disadvantage in export markets have shown increased competitive strength; and the movement toward the diversification of the less developed economies has made further progress. Agricultural production also has expanded, though in some countries, where food production has scarcely kept pace with the increase of population, further improvements are desirable. The policy of protecting or expanding agricultural production in many of the more highly developed countries has, however, created marketing difficulties for efficient producers elsewhere, and for many agricultural products the problem in 1955-56 was one of surpluses rather than of shortages.

On the other hand, inflationary pressures are still strong in a number of countries; in some they have been kept under effective control, in others they have not. Continuous care is necessary everywhere to curb the influences by which inflationary pressures are easily generated in the modern world. Their strength is increased if public expenditure is not covered by receipts from noninflationary sources, and in many countries special problems are presented by pressure for wage increases which are not matched by corresponding increases in productivity. However, in recent years there has been much more general understanding of the importance of monetary stability. There can be no certainty that instability may not recur in the major economies, but the responsible authorities are in general sensitive to these risks. There is a greater readiness to take corrective or preventive measures, and the value of flexible monetary and fiscal policies as a major means of achieving and maintaining stability is increasingly recognized. The authorities everywhere also regard the maintenance of satisfactory levels of productive employment as a major objective of economic policy. Deflation and the unemployment which comes with it have to be avoided with as much care as the distortions and injustices of inflation.

It is always a matter of some difficulty at any point of time to determine with confidence whether current changes in business conditions are superficial and transitory, and therefore do not call for action, or whether they indicate that the prompt application of either stimulant or restraint is desirable. It may be equally difficult in any given situation to determine how far it is desirable to combine fiscal measures with monetary measures, or to what sectors of the economy adjustments in policy should be applied. The differences of opinion which are inevitable about these questions are, however, quite consistent with a general acceptance of the value of flexible monetary policies. Conditions during the last year or two have made it possible to maintain cautious credit policies without unduly hampering the expansion of production or creating any serious problems of unemployment. So far, it has not been necessary to test the effectiveness of economic policy for maintaining stability when strong depressive forces are at work. However, the experience of recent years suggests a cautious optimism about the possibility of keeping within reasonable limits the influences that produce severe depression, and hence of keeping in check the fluctuations in world economic activity that are to be expected. Fears of depression in the United States, which the experience of the interwar period suggested would have disruptive effects upon the economy of the rest of the world, have not been borne out during the postwar years; and the degree of stability achieved in the U. S. economy has made it easier to gain widespread support for freer and more fully multilateral payments arrangements.

There are, however, certain factors which also need to be borne in mind in any assessment of the future development of this generally encouraging world payments situation.

The first of these is the important part played in the international balance of payments in recent years by the expenditures abroad of the U. S. Government. These expenditures have made it possible for many other countries at the same time to increase their dollar purchases, and to strengthen their international reserve positions. About one quarter of the supply of U. S. dollars available to the rest of the world since 1950 has been provided by the U. S. Government. In 1955, the total of U. S. Government net expenditures abroad was about $4.8 billion, including $2.8 billion for military expenditure and more than $1.8 billion for nonmilitary grant aid, an amount which considerably exceeded the $1.1 billion in gold and dollars which in that year were added to official reserves outside the United States as a result of transactions with the United States. U. S. Government expenditures abroad have been much more stable in recent years than either the flow of international private capital or the export earnings of some raw material exporters. But, while drastic changes in the U. S. aid program may be unlikely in the near future, allocations to individual countries will no doubt vary widely, and governments may hesitate to base important decisions on the assumption that receipts from U. S. aid will not decrease.

Another factor is that countries whose export trade consists predominantly of primary products are especially subject to variations in export earnings. As shown in detail later in this Report, some of them have derived only limited benefits from the general expansion of trade and the strengthening of balances of payments during recent years. In fact, most of the countries which during the past year had serious payments problems are to be found in this group. For these countries, the case for building up reserves in times of high prices and strong export markets, substantial enough to withstand normal balance of payments fluctuations, has to be weighed against the case for speeding up economic development by using a larger proportion of foreign earnings for that purpose.

A third factor is the problem, with which many countries are faced, of disposing of surpluses of agricultural products, partly as the result of policies widely adopted for the support of farm prices and incomes. The policy of the United States in this connection is a matter of particular concern to other countries which fear that the efforts made since 1954 to expand outlets abroad for the large surpluses that have accumulated in the United States may jeopardize their own export markets or depress prices, and thus create difficulties in their external payments. Actual shipments under the U. S. surplus disposal program in the fiscal year ended June 1954 amounted to $160 million, and in the following year to $680 million. In the fiscal year ending June 1956, they may reach $1,450 million. More than 60 per cent of these exports has been sold for domestic currencies, a major part of which has been lent by the United States to the importing governments for developmental projects. Sales of U. S. agricultural surpluses may to some extent take the place of ordinary U. S. agricultural exports, and the general policy of the U. S. authorities is to consult with other interested exporting countries in connection with the sales of surpluses. In estimating their prospects for the near future, however, and especially where market conditions are already uncertain, some agricultural exporting countries consider that they have to take account of the possibility that U. S. exports of agricultural surpluses may be pushed more energetically.

The improvement in the world payments situation which continued in 1955 has been shown in the continued growth in the value of world trade. The surplus in the over-all payments balance of the rest of the world with the United States was somewhat less in 1955 than it had been in 1954, but was large enough to lead to a further substantial increase in the gold and dollar reserves of countries outside the United States. In addition to the large-scale assistance provided after the war by several countries, and in particular by the United States, the most important reason for the continued improvement in recent years has been the sustained high level of economic activity in most countries, and particularly in the industrial countries. Most of the abnormal postwar difficulties arising from the urgent need to carry out massive reconstruction of both industry and agriculture have faded into the past, and with them have gone the acute payments problems which gave rise to the need for severe exchange and trade restrictions. These developments have permitted considerable increases in the dollar imports of some countries, which were in part facilitated by earlier relaxations of discriminatory restrictions on these imports. The movement toward more liberal multilateral trading arrangements carries with it the benefits to be gained by buying imports on a strictly competitive basis, unaffected by currency considerations. It also tests the ability of the economies concerned to make the adjustments required if their positions as sellers in competitive markets are to be maintained and strengthened. The adjustments required by the liberalizing movements of recent years have presented no serious difficulties. This experience appears to justify the expectation that the further adjustments required as these movements are carried forward may be faced with some confidence that they will be successful.

By and large, the members of the Fund have responded to this improved situation by progressive relaxation of exchange and trade restrictions. Substantial progress has been possible even in countries which have felt themselves handicapped by obstacles to freer entry of their exports to the markets of important industrial countries. These obstacles still have considerable significance, and the industrial countries should continue efforts to reduce them as extensively as feasible. In view of the predominant position of the United States as a producer and trader, special importance attaches to its commercial policy. In this connection it is encouraging to note the continued strong support given by the President of the United States to various elements of liberal trade policy, including membership in the Organization for Trade Cooperation. The agreements for tariff reduction and tariff stabilization made in May 1956 by the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade (GATT) show that there is still scope for effective negotiation for reducing the barriers to international trade.

In 1955, there was a somewhat greater supply of dollars and other convertible currencies available for use in international trade, and a stronger tendency to settle payments deficits in gold or convertible currencies. The higher ratio of 75 per cent gold to 25 per cent credit established for European Payments Union (EPU) settlements since August 1955 is an illustration of the general trend, as is also the increase in purchases and sales of transferable sterling against dollars by certain countries in order to influence their net EPU positions or for other purposes. The justification for maintaining severe discriminatory restrictions against dollar imports thus tended to weaken. The use of transferable currencies in international payments was also extended somewhat during the year. The importance of the transferable sterling market, in which official intervention had been authorized by the U.K. authorities in February 1955, has grown; both the transferable sterling and the security sterling rates have improved, with the discount on transferable sterling against the official spot rate at about 1 per cent. The partly convertible deutsche mark (Beko Mark) has been used to finance an increasing volume of trade as it became freely transferable between nearly all non-dollar countries.

The convertibility of sterling has been widely regarded as a crucial element in any further formal move toward convertibility for other currencies. When sterling area reserves declined in the second half of 1955, it became clear that there would be no early action by the U.K. authorities to extend general authorization to all nonresidents to convert their current sterling earnings into convertible currencies at the official rate of exchange. Though the sterling area reserve position has since improved, the earlier declines have not yet been made fully good. Certain Western European countries whose reserve positions have steadily strengthened have been reluctant to make any independent formal commitment for convertibility on their own account without reference to sterling. It may be expected that, in the year ahead, if satisfactory balance of payments positions are maintained, these countries will continue the introduction and further extension of most of the essential features of convertibility, even though they may not make their currencies formally convertible.

It is in this world payments situation that the Fund will continue to encourage the forward movement to a fully multilateral system, and to urge its members, with appropriate consideration of the circumstances of particular cases, to diminish their use of restrictive and discriminatory practices, wherever their balance of payments positions and prospects warrant such action. Moreover, the Fund is always ready to make its resources available to members who may need its help in establishing or maintaining the convertibility of their currencies or in overcoming temporary balance of payments difficulties.

II

World Payments Developments in 1955

Main Trends in World Trade

World industrial output outside the Soviet area, which in 1954 had been roughly the same as in 1953, rose by 10 per cent in 1955. This great increase was achieved with relatively little inflation in most industrial countries. Prices of finished products entering into international trade remained fairly stable from 1954 to 1955, while those of primary products showed, on balance, a slight decline.

In the United States, industrial production rose by 11 per cent; the average increase in the United Kingdom and continental European industrial countries was somewhat less, 9 per cent. The expansion was made possible not only by an increase in employment, which set the stage for substantial wage increases, but also by an increase in productivity, which helped to moderate the effect of these increases on prices. In the United States, output was recovering from the level to which it had been reduced by the 1953-54 recession, and the recovery was relatively unhampered by supply difficulties. In Western Europe, the expansion was a continuation of an already flourishing boom, and in several sectors tended to come up against limitations of productive capacity necessitating greater reliance on imports.

The volume of imports in industrial countries as a whole [1] rose between 1954 and 1955 by 12½ per cent, i.e., rather more than in proportion to industrial production. For the United States, however, the rise was slightly less (10½ per cent), and for Western Europe it was considerably more (almost 14 per cent), than the rise in industrial output. This divergence is easily explained by the high degree of demand pressure and the lessening severity of import restrictions in the OEEC countries, whereas in the United States there was more slack to be taken up internally and demand for coffee, other foodstuffs, and certain crude materials recovered slowly.

At a time of rising production and incomes it is to be expected that manufactured imports will rise more sharply, and imports of foodstuffs less sharply, than imports in general. For U. S. imports, this contrast has recently been accentuated. From 1954 to 1955, the volume of U. S. imports of manufactures increased by 20 per cent, of semimanufactures and crude materials by 11 per cent, and of foodstuffs by only 4 per cent. There appear to have been similar, though less radical, changes in the composition of the imports of other industrial countries.

Altogether, the volume of the industrial countries' imports of manufactured goods may have risen by 16-18 per cent, and their imports of other goods by 10-11 per cent, from 1954 to 1955; in terms of value (f.o.b.) the increases are estimated at 15-18 per cent and 8-10 per cent, respectively. Moreover, there was some tendency for the industrial countries to supply a higher proportion of each other's needs of semimanufactures and foodstuffs. These factors together account for the fact that, whereas the value of trade between industrial countries increased by some 18-19 per cent, imports of industrial countries from primary producing countries rose by only 6-7 per cent (Table 1). Exports from industrial to primary producing countries rose, as one might expect, in a

[1] The industrial countries included in the subsequent analysis are listed in footnote 3 to Table 1. The basis of classification is the structure of export trade. Some countries with a considerable volume of industrial production are classified as "primary producing countries" because their export trade consists predominantly of primary products.

TABLE 1. VALUE OF WORLD TRADE, 1950 AND 1953-55[1]

(*Value figures in billions of U. S. dollars*)

	1950	1953	1954	1955	Percentage Increase 1954 to 1955
World exports (f.o.b.)[2]	55.8	70.6	74.5	82.0	10
Exports of industrial countries[3]	29.0	38.5	41.7	47.0	13
Exports of nonindustrial countries	26.8	32.1	32.8	35.0	6½
Trade between industrial countries	12.1	16.1	17.8	21.1	18½
Between industrial OEEC countries	7.7	10.5	11.9	14.0	17½
Between industrial OEEC countries and United States	3.7	4.5	4.6	5.5	20
Exports from industrial to primary producing countries	16.9	22.5	23.8	25.7	8
Imports (f.o.b.)[1] of industrial countries from primary producing countries	18.4	23.7	23.5	25.0	6½

Sources: Based on data from International Monetary Fund, *International Financial Statistics*, and Statistical Office of the United Nations. International Monetary Fund, and International Bank for Reconstruction and Development, *Direction of International Trade.*

[1] Except for the last row, these data are export figures. The data in the last row have been estimated by reducing imports (c.i.f.) by 11, 12, 13, and 16 per cent, respectively, for the four years.

[2] Excluding Soviet area exports and U. S. special category exports.

[3] Industrial countries include the United States, the United Kingdom, Austria, Belgium-Luxembourg, France, Federal Republic of Germany, Italy, the Netherlands, Norway, Portugal, Sweden, Switzerland, and Japan.

similar proportion. The primary producers' total exports rose in much the same proportion as their exports to industrial countries; the percentage increase in the industrial countries' total exports was about halfway between the increase in their exports to each other and the increase in their exports to the primary producers.

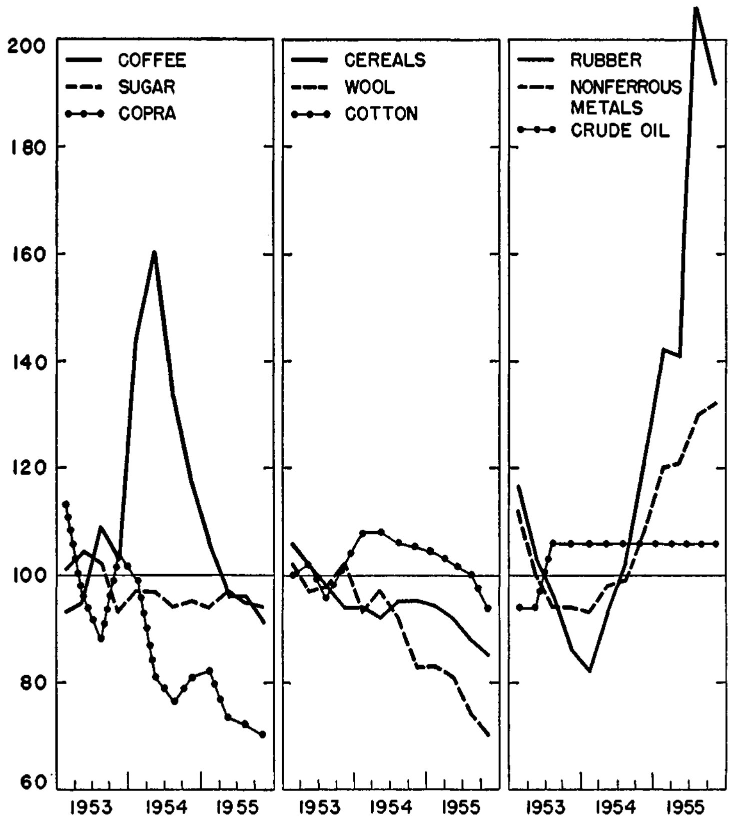
The share of primary producing countries in the value, and to a less extent in the volume, of world trade has been tending to fall for some years. Both from 1950 to 1953 and from 1953 to 1955 the growth in the exports of industrial countries exceeded that of the primary producing countries; the difference between the two, however, was considerably greater in the later than in the earlier period. This trend is due mainly to such factors as the declining importance of food in aggregate consumption, the substitution of synthetic for primary raw materials, and the expansion of agricultural production in industrial countries.

Trade of Various Classes of Primary Producing Countries

The wide variations in the price movements of particular categories of primary product are illustrated by Chart 1. These varia-

CHART 1. INDICES OF PRICES OF CERTAIN PRIMARY PRODUCTS, QUARTERLY, 1953-55[1]

(1953 = 100)



[1] Data are from International Monetary Fund, *International Financial Statistics;* United Nations, *Monthly Bulletin of Statistics;* Organization for European Economic Cooperation, *Statistical Bulletin;* and U. S. Department of Agriculture, *The Cotton Situation.*

Coffee, Santos No. 4, f.o.b. New York; sugar, Cuba, f.o.b. price to countries other than the United States; copra, Philippines, f.o.b. Manila; cereals, OEEC index; wool, Australia, average price at Sydney auctions; cotton, Mexican Matamaros, f.o.b. Brownsville, Texas; rubber, Malaya, No. 1, ribbed smoked sheets, f.o.b. Singapore; nonferrous metals, OEEC index; crude oil, Saudi Arabia, f.o.b. Ras Tanura.

tions reinforced the influence of volume changes in determining how much by value the industrial countries imported from different groups of primary producing countries. From 1954 to 1955 the f.o.b. unit value of imported foodstuffs appears to have fallen by some 8 per cent in OEEC countries, and by 10 per cent in the United States, the latter being affected chiefly by the steep decline in the price of coffee. Unit values of industrial raw materials in general rose by some 4 per cent in Europe and by 7 per cent in the United States.[2]

The wide variations in the price movement of industrial raw materials are illustrated by the European figures for import prices of metals and ores, which rose by more than 20 per cent, and those of textile materials, which fell by 6 per cent. Broadly speaking, prices of foodstuffs and textile materials fell from 1954 to 1955, while those of rubber and nonferrous metals rose.

Larger crops of coffee, cacao, and tea, which ended or eased the shortages of these three commodities, brought their prices down from the high levels of 1954. The decline in the price of coffee was particularly severe. Import demand for grains and sugar was higher in 1955 than in 1954 because of less favorable European harvests. Grain surpluses, however, continued to accumulate, and prices remained below those in 1954. Sugar prices fell less, as supplies were controlled by the International Sugar Agreement.

Among important commodities, the largest increase in price—70 per cent—was in rubber, for which there was a sharp rise in demand linked with booming automobile production in both the United States and Europe. The expansion in durable goods industries generally raised demand and prices for nonferrous metals, especially for copper, the supply of which was severely limited by a series of strikes in nearly all the producing countries.

These developments help to explain the differences between the expansion of export earnings from 1954 to 1955 in various primary producing countries. The more important primary producing countries (outside the Soviet area and excluding the United States) may be grouped in five categories, according to the character of their principal export products (Table 2). Although world demand grew rapidly during the year, the export proceeds of the

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[2] These comparisons are based on the unit values available for various categories of U. S. imports and estimates for similar categories of OEEC imports based on market price data with the assumption of a time lag of three months.

countries exporting tropical foodstuffs actually declined, while those of countries exporting other agricultural products increased only slightly. The exports of oil producing countries and of countries of diversified exports expanded roughly in proportion to world industrial production and world trade, while the growth of the exports of countries exporting rubber and nonferrous metals was greater than that of any but the most exceptional industrial countries.

TABLE 2. TRADE OF PRIMARY PRODUCING AREAS, 1954 AND 1955

(Value figures in billions of U. S. dollars)

	Exports f.o.b.			Imports c.i.f.		
	1954	1955	Percentage change	1954	1955	Percentage change
Major countries exporting						
Tropical foods[1]	5.66	5.45	−4	5.94	5.92	0
Other agricultural products[2]	7.06	7.26	+3	7.95	8.68	+9
Petroleum	4.85	5.27	+9	2.68	2.82	+5
Rubber and metals	3.15	3.77	+20	2.84	3.13	+10
Major countries with diversified exports	8.19	9.04	+10	9.24	10.40	+13

Source: Based on data from Statistical Office of the United Nations, International Monetary Fund, and International Bank for Reconstruction and Development, *Direction of International Trade*.

[1] Coffee and cacao; other tropical foods; oilseeds and vegetable oils.

[2] Textile fibers, livestock products, grains, and tobacco.

For primary producing countries as a whole, exports and imports increased in about the same proportion, 6-7 per cent. This, of course, is not true of individual countries or groups. While the tropical food exporters maintained their imports in spite of the decline in their export receipts, and the livestock and grain exporters expanded their imports much more than was warranted by the modest increase in their exports, the rubber and metal exporters, and above all the petroleum exporters, increased imports by amounts that were comparatively small in relation to the increase in their exports. Such divergences are to be expected in view of the normal time lag between the movements of exports and of imports in primary producing countries, and because of differences in the impact of variations in export receipts upon domestic incomes. The imports of some of the agricultural exporters, however, were also influenced by internal inflationary developments, the effects of which are evident in the trade movements of individual countries described elsewhere in this Report.

East-West Trade

Trade between the U.S.S.R., the European countries associated with the U.S.S.R., and Mainland China, on the one hand, and the rest of the world, on the other, expanded considerably from 1954 to 1955, largely within a framework of bilateral arrangements. According to the available trade statistics of the non-Soviet countries, the exports of the Soviet area rose by 25 per cent, to about $1.8 billion, and imports by 10 per cent, to some $1.6 billion—a rate of growth more closely resembling that of the industrial countries than that of the primary producing countries.

The greater part of these increases resulted from an intensification of trade between the Soviet area and industrial Western Europe. European imports from that area rose by almost one third, while exports to it expanded by some 20 per cent. There resulted an increase in the European trade deficit with the Soviet area, a deficit which, in the case of the United Kingdom, was already large. The trade of the Soviet area with the primary producing countries changed much less. For the primary producing countries as a whole, there appears to have been a small trade surplus with the Soviet area in 1954. In 1955 there was a small deficit, imports from that area rising by some 15 per cent while exports appear to have fallen slightly.

Exports of Industrial Countries

Variations in the imports of the primary producing countries tend to follow changes in export earnings with a longer or shorter time lag. The growth of the exports of industrial countries as a whole is therefore dependent to a large extent upon the growth of their aggregate imports. The growth of the exports of individual countries in total export markets depends, on the other hand, largely on changes in their relative competitive strength, as well as on changes in the relative importance of different markets, in the relative demand for different types of product, and in the commercial policies of importing countries.

There were rather large changes from 1954 to 1955 in the relative positions in world markets of the main countries exporting manufactured products, and in their competitiveness as indicated by price data (Table 3). There appears to have been a broad, though far from perfect, inverse correlation between changes in the shares of these countries in the total exports of important industrial countries and changes in their relative export prices. In certain countries, demand factors or elements of competitive strength other than price appear to have exerted some influence. Thus West Germany, Austria, and Belgium probably benefited from the sharp increase in world demand for the products of the metal industries, which constituted a large part of their total exports, while Italy suffered from the comparative slackness of demand for textiles. Japan probably benefited from the fact that the proportion of its exports that went to the United States—where the increase between 1954 and 1955 in demand for imports from industrial countries exceeded the increase in any other major area—was far greater than the proportion of exports of other countries to the United States; in addition, disinflationary conditions in Japan may have not only made prices more competitive, but also made more goods available for export. French exports benefited from a sharp increase in domestic supplies of foodstuffs, coal, and

TABLE 3. PERCENTAGE CHANGES FROM 1954 TO 1955 IN EXPORT VOLUMES AND EXPORT PRICES OF MAJOR INDUSTRIAL COUNTRIES

	Volumes	Prices		Volumes	Prices
Japan	+24	−4[1]	United States: Nonmilitary	+10	+1
France: Total	+12	0	Finished manufactures	+7	+2
To foreign countries	+25	−4	Netherlands	+10	+1
Belgium-Luxembourg	+16	+3	Switzerland	+10	−2
Italy	+15	−2	United Kingdom	+8	+2
Germany, Federal Republic of	+15	+2	Sweden	+4	+4
Austria	+11½	+3	Norway	+2	+8

Sources: Based on data from International Monetary Fund, *International Financial Statistics*, and Institut National de la Statistique et des Etudes Economiques, *Bulletin Mensuel de Statistique*.

[1] Index of Ministry of Finance.

steel, all of which were in great demand abroad. U.K. exports, on the other hand, suffered because of high pressure of internal demand, which drew resources and effort from the export trade, and also perhaps from some relaxation in certain markets of restrictions on competing imports from the dollar area and other countries. It is, at first sight, surprising that U. S. exports did not increase more than their price competitiveness alone would seem to warrant, for they also benefited from special demand factors as well as from reduced adverse discrimination in Europe and the sterling area. The explanation appears to lie partly in a decline in the relative importance (as measured by total imports) of certain markets (for example, in Latin America and Japan) where the United States is a predominant supplier, partly in a decline in the U. S. share of the Japanese market, and partly in the fact that there can be no U. S. exports to the most favorable major market for industrial exports in 1955, the United States itself.

Balance of Payments Developments

The general changes in reserves produced by the balance of payments developments in recent years are summarized in Table 4. There was a further increase in 1955 of $1.7 billion in gold and dollar reserves outside the United States and the Soviet area, but the rate of accumulation was less than in 1953 or 1954. Other developments from 1953 to 1955 include the large and expanding payments surplus of continental Europe, the shift from increasing to decreasing reserves in the United Kingdom, balanced, however, by equivalent movements in sterling liabilities, and the deteriorating payments balance of the primary producing countries included in the category "all other countries."

The accumulation of official gold and dollar reserves by countries outside the United States and the Soviet area is affected not only by their balance of payments with the United States, but also by current gold production, private hoarding or dishoarding, sales or purchases of gold or dollars from international organizations, and sales of gold by Soviet area countries. These latter factors

TABLE 4. OFFICIAL RESERVES OUTSIDE THE UNITED STATES AND THE SOVIET AREA, 1952-55

(Value figures in billions of U. S. dollars)

	End of Year		Changes			As Per Cent of Imports (c.i.f.)			
	1952	1955	1953	1954	1955	1952	1953	1954	1955
United Kingdom	1.96	2.16	+0.59	+0.25	−0.64	20	27	30	20
Continental OEEC countries and Japan	9.66	14.29	+1.29	+1.48	+1.86	41	46	48	48
All other countries[1]	11.51	12.04	+0.67	+0.10	−0.24	43	51	49	45
Total	23.13	28.49	+2.55	+1.83	+0.98	37	45	46	42
Gold and dollar reserves[2]	15.73	21.66	+2.41	+1.82	+1.70				
U.K. sterling liabilities (except to U.K. colonies)	6.72	6.89	+0.57	+0.21	−0.61				
U.K. sterling liabilities to colonies	2.89	3.59	+0.19	+0.35	+0.16				

Sources: Based on data from International Monetary Fund, *International Financial Statistics*, and Board of Governors of Federal Reserve System, *Federal Reserve Bulletin*, July 1956.

[1] Excluding United States, countries of the Soviet area, and dependent territories.

[2] Including estimated official holdings of U. S. Government securities.

on balance contributed rather more to reserves in 1955 than in 1953, and the decline in gold and dollar reserve accumulation was somewhat less than the decline (from almost $2 billion to slightly under $1.2 billion) in the transfer of gold and dollars by the United States to official holders in other countries. The underlying cause of this decline in the payments surplus of the rest of the world with the United States lies in the fact that from 1953 to 1955 output and income elsewhere expanded much more rapidly than in the United States. For industrial production, the increase in non-dollar countries was probably some 18 per cent, compared with only 4 per cent in the United States. As a result of these divergent income developments, U. S. imports rose by only 5 per cent while U. S. exports rose by 16 per cent. Although there was a widespread decline in the severity of dollar restrictions, the expansion of U. S. exports was probably limited by the growth of the fundamental competitive strength of other industrial countries vis-à-vis the United States. The answer to the question whether a "dollar problem" may be said to have persisted in 1955 is, to a large extent, a matter of definition. The increase of $1.2 billion in 1955 in the gold and dollar holdings of other countries as a result of transactions with the United States falls short of the sums provided by the U. S. Government to the rest of the world by way of grants ($1.9 billion) and loans ($0.7 billion). Probably, however, only a small proportion of these sums is of the nature of balance of payments assistance and, while some of the remainder may also be temporary, an abrupt decline in the aggregate amount received by the rest of the world as a whole is probably not to be expected. Moreover, a reduction of some of the U. S. special payments to other countries might involve a more or less corresponding reduction of their imports. On the other hand, discriminatory restrictions maintained, though in greatly reduced intensity, on dollar imports probably still have a considerable effect upon U. S. transactions with the rest of the world, the magnitude of which cannot, however, be precisely estimated.

The changes from 1953 to 1955 in total reserves in countries outside the United States and the Soviet area are broadly similar to the changes in their gold and dollar reserves alone. Although total reserves rose by more than $2.8 billion from the end of 1953 to the end of 1955, the increase was insufficient to maintain the end-1953 ratio of reserves to trade.

The balance of payments of the industrial countries as a whole (excluding the United States) showed little net change from 1953 to 1955. As a result of a rapid growth in productivity and competitiveness and also, in Japan, of various internal measures tending to discourage imports, the continental OEEC countries as a whole and Japan actually increased the already substantial surplus recorded in 1953. This improvement, however, was exceeded by the deterioration in the balance of payments of the United Kingdom.

The shares of different countries in the continental OEEC surplus changed considerably over the period. In 1953, the West German surplus had amounted to some two thirds of the total, and there appeared to be a danger that this might exercise an adverse pressure on the balance of payments of other countries.

The German surplus has declined from year to year, however, not because of any falling off in exports—which indeed have continued to expand rapidly—but because of a growth of imports attributable both to increased employment and domestic demand and to progressive import liberalization and tariff reduction. On the other hand, France, though still a relatively high cost country, had increasing surpluses as a result partly of increased competitiveness, but mainly of temporary factors described below.

The movement of U.K. reserves, which broadly reflects the balance of payments of the entire sterling area with non-sterling countries, changed substantially for the worse from 1953 to 1955. While U.K. exports increased only half as much as those of continental European countries, U.K. imports rose by three fourths as much. For the period as a whole, the exports of the overseas sterling area fared about as well as those of other primary producing areas, suffering more than the latter from the U. S. recession of 1953-54 but recovering more sharply afterward; the imports of the overseas sterling area, however, increased more than those of other primary producing areas. Both in the United Kingdom and in the southern Dominions, high demand pressures played an important role. In addition, an important factor contributing to the 1955 deficit was the running down of sterling balances by holders residing outside the sterling area, which was due to a temporary impairment of confidence in sterling. The parallelism shown in Table 4 between the directions of movement of U.K. reserves and of U.K. sterling liabilities (other than to the colonies) is striking, but at least to some extent fortuitous, the decline in overseas sterling area balances in 1955 being much influenced by the steep decline in the net capital outflow to the overseas sterling area, which had no direct effect on the movement of U.K. reserves.

The balance of payments of primary producing countries as a whole deteriorated in both 1954 and 1955. From 1953 to 1954, this reflected an increased aggregate trade deficit, as exports rose little and imports expanded more. From 1954 to 1955, however, imports and exports expanded by roughly the same amount, and most of the deterioration was probably due to a decline in net capital imports, particularly a decline in the movement of capital from the United Kingdom to the rest of the sterling area.

The positions and trends of the balance of payments of individual primary producing countries naturally varied widely, and this was also true, though to a somewhat lesser degree, of industrial countries. To a large extent, the character of the balance of payments trends of individual countries, though influenced by such general factors as world market conditions for their exports, has been decisively determined by factors special to them or within their control; for this reason, developments in the more important countries are treated individually, though briefly, in later sections of this Report.

Among the industrial countries, the factors most important in determining balance of payments trends have been the rate of growth in productivity, the extent of wage adjustments, harvest or other developments affecting import competing or export industries, and, above all, the intensity of internal demand pressures as affecting both imports and exports.

Among the primary producers, the differences between individual countries might have been expected to correspond more or less to differences in the growth of their export proceeds as determined by world market conditions. In fact, however, the most severe deterioration from 1954 to 1955 occurred not among the exporters of tropical products, which were forced by shortages of reserves to curtail their imports, but rather among the livestock and grain exporters and some of the diversified exporters, whose imports were allowed to expand substantially, or which were affected, as in South Africa, by adverse changes on capital account. Here too, as with the industrial countries, the dominating factor determining the course of the balance of payments of individual countries was the presence or absence of internal inflationary pressures.

The Equilibrating Role of Capital Movements

The experience of 1955 is not very encouraging to hopes that private capital movements might be relied upon in present circumstances to offset or to mitigate short-term disequilibria in international payments. The reason appears to be partly that the monetary policies of surplus and deficit countries are not always such as to bring about an appropriate differential between the interest rates in the two groups of countries, and partly that considerations of profitability are often outweighed by considerations of exchange risk which are a deterrent to the movement of funds to countries in weak payments positions.

Capital funds move most freely in response to interest differentials between the United States and Canada and between the United Kingdom and other sterling countries. There are also other international capital movements of this kind, but their scope is limited by exchange controls and other considerations. The sharp decline in the apparent net capital outflow from the United Kingdom to the overseas sterling area in 1955 stands out as the clearest example of a capital movement tending to offset the deterioration in a current account balance. This movement, however, because it occurred within the sterling area, could do little in the short run to relieve the pressure on U.K. reserves, while, on the other hand, it tended to accentuate the payments difficulties of some other sterling area countries. Such interest differentials as were created between London on the one hand and New York and continental financial centers on the other were usually insufficient to offset the cost of covering the exchange risk, and the movement of short-term funds between London and those centers in 1955 tended to add to the decline of U.K. reserves.

In the first half of 1955, the continuance of easy credit conditions in Canada at a time when U. S. credit policy had already become firmer tended to reduce capital imports and thus to allow the adverse current balance to express itself in some pressure on the Canadian exchange rate. In the second half of the year, however, Canadian credit policy tightened, leading—along with the fall in the exchange rate—to an equilibrating inflow of funds which was in part responsible, particularly in the fourth quarter, for the rate remaining close to its new level.

Policies Applied to Correct Disequilibria

Internal and external financial policies, including in the latter category the adjustment of exchange rates, continue to be used increasingly, in preference to commercial or exchange restrictions, to correct balance of payments disequilibria. This, however, has applied primarily to countries in deficit, rather than to countries in surplus. Of the countries in a strong or improving payment position, both the United States and West Germany during the past year permitted a degree of monetary expansion enabling production and employment to expand substantially, thus encouraging imports, but both took steps to prevent this expansion from exceeding the bounds deemed desirable from an internal standpoint. France and Italy which had large, though somewhat precarious, payments surpluses did not, for various reasons, join in the general European tendency to raise interest rates. In both West Germany and France, advantage was taken of the favorable payments situation to push somewhat further their liberalization of imports, though in France the effects of liberalization were to some extent offset by compensatory taxes. The United States continued to offset its surplus on private account by large and increasing government expenditures abroad (including grants and credits). Part of this increase, however, was linked to additional exports under surplus disposal programs, and such linked transactions, while easing the balance of payments difficulties of the recipient countries, tended to intensify those of some competing agricultural exporters.

Most of the countries in adverse payments situations in 1955 were suffering at the same time from internal inflationary pressure. Since foreign markets were sufficiently buoyant to absorb easily any resources released by internal disinflation, conditions were in general favorable for the application of corrective measures of internal financing. The outstanding instance of the use of disinflationary measures in preference to renewed recourse to import restriction to meet a drain on reserves is provided by the United Kingdom. The measures adopted there in 1955 and 1956 to curtail credit and public and private expenditure are described elsewhere. There was no resort to intensified restriction on either trade or capital movements, but, at most, merely a slowing down of progress toward convertibility and liberalization. Norway and Sweden also showed increased reliance on financial restraints, and Denmark continued to apply a restrictive financial policy for payments reasons, at some cost to domestic production and employment.

Among the primary producing countries, there was less disposition to rely exclusively on disinflationary policies as a means of securing external balance. But there was also a tendency to resort less to intensification of import restrictions and more to adjustments in the exchange structure or changes in export or import taxes, sometimes supplemented by internal monetary or fiscal measures. Some countries, notably Australia, but also Burma and, to a lesser extent, New Zealand, used import restrictions in conjunction with disinflationary measures. In South Africa, where difficulties arose in the capital account, a moderate increase in the cost of credit was followed by certain measures to restrict capital export. In some other countries, where chronic inflation had led to a highly overvalued currency and an increasingly severe degree of import restriction, an attempt was made to escape from the vicious circle by adjusting the exchange rates applicable to import and export transactions by depreciated and sometimes flexible rates of exchange. Outstanding examples are provided by the Argentine devaluation of October 1955, and the adoption of a new and more flexible exchange regime in Chile in April 1956, supplemented in both countries by measures of internal monetary discipline. Paraguay followed a similar course. Less comprehensive adjustments were made in the rate structure, with a view to raising the cost of imports and/or promoting exports, by a large number of Latin American and other countries where inflationary pressure of varying degrees had been the cause of external imbalance. In Pakistan, where there was a substantial devaluation in July 1955, the disequilibrium which had to be corrected had only to a limited extent been caused by previous inflation. In Canada, the flexible exchange rate system permitted a slight depreciation in 1955, in response to trends in the foreign exchange market.

Balance of Payments Prospects

The following considerations suggest that, in looking to the future, a broad distinction should be drawn between the payments prospects for industrial countries and those of the primary producing countries.

There is probably more scope for noninflationary expansion of demand in the United States than in Europe. If inflationary pressure is held in check in Europe and expansion continues in the United States, the consequent movements of income and output in the two areas would tend to bring about a greater proportionate expansion of U. S. than of European imports, and thus at least to prevent any further deterioration in Europe's current balance on private account with the dollar area.

The question is whether there will in fact be internal monetary stability in Europe and an advance of production and income in the United States. For the most part because of a recession in automobile production and some decline in residential construction, there was little net increase in economic activity in the United States in the fourth quarter of 1955 and the first quarter of 1956. Private investment plans, however, are encouraging, and it would be premature to assume that the North American economy as a whole will fail to use its expansion potential. In several countries in Europe, early steps to curb inflationary pressures have been taken, and in others, while disinflationary monetary policies have been slower in taking effect than was originally expected, it is reasonable to hope that 1956 will see a diminution in excess demand.

Any reduction of the backlog of unfilled orders now existing in various sectors of European industry would of itself promote greater competitiveness with North American industry. However, relative wage movements, which cannot be easily predicted, are also an important factor in competitiveness.

The balances of payments of non-dollar industrial countries are still dependent on U. S. Government expenditure to the extent of over $3 billion per annum. While the total amount of this expenditure is not likely to show any very great decrease over the next year or two, since the military expenditures which are its principal constituent are based on the requirements of U. S. troops stationed abroad, individual countries, such as France and, to a lesser extent, Japan, will have to reckon with a serious decline in receipts from this source.

On balance—and apart from the possible trend of primary product prices, discussed below—these considerations suggest that it would not be surprising if non-dollar industrial countries as a whole were able to avoid any substantial deterioration in their present reasonably favorable balance of payments positions. The United Kingdom is beset by more serious difficulties than those of most of the other industrial countries, but in this case, too, there is no reason to doubt that a continuation of prudent domestic policies would enable gradual progress to be made. The prospect for some of the primary producing countries may be somewhat less assured.

While output and incomes are likely to continue to grow in industrial countries on both sides of the Atlantic, it would be too much to expect the extraordinary rate of growth which has prevailed since mid-1954 to be maintained. A slackening in this rate of growth in industrial countries would tend to bring about some slackening in the rate of growth of exports from primary producing to industrial countries. Since the over-all level of primary product prices has declined slightly, despite the recent abnormal rate of growth of manufacturing production, a decrease in the rate of growth seems likely to accelerate the decline in such prices, unless there are compensatory changes in the export supply conditions for primary products. There is already evidence of weakening in the price of rubber, which advanced sharply from 1954 to 1955.

For a time at any rate, the effects of these factors might be outweighed by changes in the rate of inventory accumulation in industrial countries. Cotton stocks have declined in most importing countries. Supply shortages have compelled some reduction in inventories of copper. These movements make it probable that import demand for cotton will rise and that copper may also be sought for stock replenishment. In general, however, inventories of primary products appear to have risen in the United States and the United Kingdom—and possibly in continental Europe as well—in 1955, and they continued to rise during the early months of 1956. There is therefore little reason to expect any general support for primary product prices from an acceleration of inventory accumulation.

There is more reason to anticipate an acceleration than a slackening over the next year or two in the rate of expansion of the supply of some foodstuffs and raw materials. For example, at current rubber prices, an increase is expected in the U. S. output of synthetic rubber. Prices of nonferrous metals, especially copper, are well above the cost of production in important exporting countries. Surpluses of cotton and wheat continue to accumulate but, despite these surpluses and weakening world prices, agricultural production outside the United States is likely to continue to expand. In many areas, prices received by producers are insulated against world price movements by taxes and subsidies; and in others, lack of alternative occupations tends to render output inelastic. Only for a few commodities, notably wheat, sugar, and tin, may international arrangements prevent prices from falling below certain agreed levels.

III

Payments Developments in the Principal Regions

United States

WITH the rapid recovery of the U. S. economy from the recession of 1953-54, U. S. imports of goods and services in 1955 were substantially greater than in 1954. The net external expenditures of the U. S. Government also rose considerably. The over-all deficit in the balance of payments, as measured by net transfers of gold and dollars to official holders (including international organizations) in the rest of the world, fell from $1,465 million in 1954 to some $1,100 million in 1955 (Table 5). Apart from an increase in nonmilitary exports of goods and services, reflecting increased pressure of demand, improved payments positions, and reduced dollar discrimination in the rest of the world, there was a sharp decline in the net outflow of private capital.

Gross national product for 1955 exceeded that for 1954 by almost 7 per cent, with industrial production rising by 11 per cent. Accompanying this expansion, the volume as well as the value of total imports into the United States increased by slightly less than 11 per cent. The volume of imports of finished manufactures increased by 20 per cent, reflecting the continued success of Western European and Japanese manufacturers in re-establishing and expanding their markets in the United States and the rapid rise of consumers' expenditures which characterized the U. S. recovery in 1954-55.

TABLE 5. UNITED STATES: SUMMARY OF BALANCE OF PAYMENTS, 1954 AND 1955

(In millions of U. S. dollars)

	1954	1955	Change
Private transactions			
Merchandise: Exports, f.o.b.[1]	12,814	14,264	1,450
Imports, f.o.b.	−10,354	−11,516	−1,162
Trade balance	2,460	2,748	288
Service (including private donations), net	1,214	1,324	110
Capital movements[2]	−1,324	−767	557
Balance, private transactions	2,350	3,305	955
Government transactions, net[3]	−3,993	−4,844	−851
Errors and omissions	178	451	273
Gold and dollar transfers to official holders in rest of world[4]	1,465	1,089	−376

Sources: U. S. Department of Commerce, *Survey of Current Business*, June 1956; Board of Governors of Federal Reserve System, *Federal Reserve Bulletin*; International Monetary Fund, *International Financial Statistics*.

[1] Includes disposals of U. S. Government surplus commodities under (1) the provisions of the Agricultural Trade Development and Assistance Act of 1954 (P.L. 480, 83rd Congress), (2) Section 550 of the Mutual Security Act of 1953 and Section 402 of the Mutual Security Act of 1954, and (3) authority of the Commodity Credit Corporation Charter Act (1951). The estimated export values of these disposals were approximately $375 million in 1954 and $1,045 million in 1955.

[2] Total U. S. private capital, foreign long-term capital including estimated private holdings of U. S. Government securities, and change in U. S. short-term liabilities to private foreign holders.

[3] U. S. military expenditures (including offshore purchases), grant aid other than military, net U. S. Government foreign lending, net income from U. S. Government foreign investment, miscellaneous government services (net), pension transfers, and certain sales of government goods and services not financed by military aid. Disposals of U. S. Government surplus are excluded (see footnote 1).

[4] Includes official holdings of gold and short-term dollar balances and estimated official foreign holdings of U. S. Government securities. Official holders include international institutions.

The volume of industrial raw material imports rose slightly more than manufacturing production between 1954 and 1955, the increase being particularly marked between the second halves of the two years. In the first half of 1955, the increase in raw material consumption was met, to a large extent, from domestic public and private stocks and from rapidly expanding production, especially of minerals; there was also a reduction of imports for the U. S. Government stockpile. In addition, serious difficulties developed in the overseas supply of several raw materials. In the second half of the year, however, stocks were rebuilt and supply limitations abroad became less serious.

The volume of food imports rose in 1955 by only 4 per cent, though here again the movement accelerated in the second half of the year. In the first half, as uncertainties about coffee prices induced U. S. importers to deplete their inventories far below normal levels, imports were 11 per cent less than in the first half of 1954. In the second half, increased consumer demand led to restocking; the volume of coffee imports was almost 60 per cent, and of total food imports 25 per cent, higher than in the corresponding period of 1954.

The effects of increased volume upon the value of crude and semimanufactured imports were reinforced by rising prices; but for imported foodstuffs, price declines were so sharp that the effects of increased volume were more than offset, and their value declined by more than 6 per cent.

The volume of U. S. nonmilitary exports rose by 10 per cent from 1954 to 1955. Most of this increase was a response to rapidly rising demand from Canada and Western Europe where domestic expansion was especially large; it was much more pronounced in raw materials, and especially in foodstuffs, than in finished products. Excluding cotton exports, which fell steeply, the value of exports of raw materials and foodstuffs combined rose by over 20 per cent. Exports of coal, iron and steel products and scrap, paper raw materials, and grains showed especially strong advances. Exports of finished manufactures increased in volume by only 7 per cent. While exports of machinery, automobiles, and chemicals rose substantially, textile products, faced by intensified competition from Europe, Japan, and India, showed no increase at all.

Increased sales under U. S. Government programs for the disposal of agricultural surpluses considerably exceeded the increase in U. S. agricultural exports as a whole from 1954 to 1955. The total export value of disposals under these programs in 1955 was more than $1 billion, sales against local currencies rising by some $310 million, and disposal through various types of donation and through commodity barter arrangements rising by some $360 million compared with 1954. It is impossible to determine how large exports would have been in the absence of these programs, but they were probably stimulated to some extent by disposal conditions which were especially favorable to the recipient countries.

The increase from 1954 to 1955 in the U. S. commodity trade surplus was supplemented by higher receipts on service account. While there was a substantial increase in U. S. expenditures on travel and transportation, net income from foreign investments rose even more.

A large part of the decline in the outflow of private capital from 1954 to 1955 (Table 6) was due to the cessation of the abnormally large net short-term capital outflow of 1954. In 1954 there had been a considerable accumulation by Latin American countries of short-term trade debts. Some of these countries, notably Colombia, continued to accumulate payments arrears in 1955, but others, including Brazil, reduced their short-term indebtedness, part of which was converted into medium-term debts to U. S. banks. On balance, there was a net inflow of $25 million of short-term private funds from Latin America in 1955, compared with a net outflow of $310 million in 1954. Partly as a result of temporary uncertainty about the future of sterling, there was an inflow of funds from the United Kingdom in 1955, in contrast to the outflow in 1954.

The net outflow in 1954 of about $225 million of private long-term capital (excluding U. S. direct investments abroad) was succeeded in 1955 by a net inflow of approximately $35 million.

TABLE 6. UNITED STATES: PRIVATE CAPITAL MOVEMENTS, 1953, 1954, AND 1955

(In millions of U. S. dollars; no sign indicates outflow, minus sign indicates inflow)

	1953	1954	1955	Increase (+) or Decrease (−) from 1954 to 1955 in Capital Flow to Foreign Countries[1]
U. S. direct investments	721	664	679	+15
New issues of foreign securities	270	309	124	−185
Redemptions by foreign borrowers	−139	−124	−203	−79
Other U. S. long-term capital	−316	135	359	+224
Foreign long-term capital[1]	−104	−94	−313	−219
U. S. short-term capital	−167	635	194	−441
Foreign short-term capital[2]	3	−201	−73	+128
Total	268	1,324	767	−557

Sources: U. S. Department of Commerce, *Survey of Current Business*, June 1956, and International Monetary Fund, *International Financial Statistics*.

[1] Including changes in estimated private holdings of U. S. Government securities.

[2] Change in U. S. short-term liabilities to private foreign holders.

U. S. purchases of newly issued foreign securities, including IBRD bonds, declined substantially; there was a sharp increase in redemption of long-term obligations by Canadian borrowers; and there was an accelerated net inflow of foreign capital to the United States, especially from the European continent. The sum total of these movements was only partially offset by an increase in medium-term bank loans, especially to Latin American borrowers, and by U. S. purchases of outstanding Canadian securities. A tightening U. S. credit position and growing opportunities for profitable domestic lending, the continued upward movement of U. S. stock exchange quotations, and the improving foreign exchange position in continental Europe appear to have exerted a strong influence on these movements.

U. S. direct investment showed little net change, with some increase in Western Europe and the overseas sterling area. As investment projects in oil and metals were brought to completion, direct investment elsewhere tended to decline.

The effects of the reduction in private capital exports on the net supply of dollar funds to the rest of the world were more than offset by a rise of over 20 per cent in net U. S. Government expenditures abroad (Table 7). Economic grant aid increased by some 13 per cent, despite a decline in aid to Europe from $1 billion to $800 million. There was an increase of some $250 million in aid to the Far East arising largely out of the

TABLE 7. U. S. GOVERNMENT FOREIGN TRANSACTIONS,[1] NET, 1954 AND 1955

(In millions of U. S. dollars; no sign indicates outflow, minus sign indicates inflow)

	1954	1955	Increase from 1954 to 1955 in Dollar Supply to Foreign Countries
Grant aid other than military	1,647	1,865	218
Foreign lending: Long-term	306	375	69
Short-term, net	108	343	235
Repayments of long-term loans	−507	−416	91
Military expenditures	2,603	2,804	201
Miscellaneous transactions	−164	−127	37
Total	3,993	4,844	851

Source: U. S. Department of Commerce, *Survey of Current Business*, June 1956.

[1] Excluding military aid transfers of military goods and services and disposals of U. S. Government agricultural surplus commodities (see Table 5, footnote 1).

Korean reconstruction program, and an increase of about $150 million in grants to overseas sterling area countries.

Expenditures by U. S. military agencies, especially in Western Europe, continued to rise from 1954 to 1955. Owing to the temporary accumulation of local currencies in exchange for agricultural surplus commodities, much of which it was intended subsequently to convert into longer-term loans, U. S. Government short-term capital outflow more than trebled.

The record of transactions between the United States and other parts of the world showed a substantial increase from 1954 to 1955 in the U. S. surplus with Canada, the disappearance of the 1954 deficits with the United Kingdom and Latin America, and a substantial increase in the deficits with Japan and primary producing areas outside Latin America.

Trade with Canada and Western Europe expanded considerably in both directions, but U. S. exports increased more than imports and increased trade surpluses were supplemented by reduced capital outflows or increased capital inflows. In relation to continental Western Europe however, unlike either Canada or the United Kingdom, the increased U. S. surplus on private account was offset by an increase in U. S. Government expenditures. Trade with the overseas sterling area expanded in both directions, and the U. S. deficit rose as U. S. Government expenditures increased. Trade with Latin America as a whole showed little net change, and since its capital exports declined, the United States had an over-all surplus with that area.

The increased deficits of the United States with the remaining areas—mainly non-sterling countries in the Far East, Middle East, and Africa—were attributable to a substantial expansion in their exports to the United States, together with a considerable increase in their receipts of aid.

In the first quarter of 1956, the U. S. balance of payments deficit with the rest of the world, according to preliminary figures, was more than $400 million. The net transfer of gold and dollars to the rest of the world was thus nearly double the average quarterly transfer in 1955. This was not accompanied by any significant change in the balance of trade. Industrial production, which had expanded during the previous year, remained the same in the first quarter of 1956 as in the last quarter of 1955. There was a small increase in gross national product. Both the volume and the unit values of U. S. imports were slightly higher than in the previous quarter. The volume of U. S. exports fell somewhat, but export unit values rose sufficiently to increase the value of exports. The private current account surplus thus changed little. Net U. S. Government expenditures abroad were below the quarterly average in 1955. The increase in the U. S. deficit was entirely attributable to a sharp revival of the net outflow of private U. S. capital. In continuance of a trend that had appeared in the last quarter of 1955, both direct investment and the net outflow of long-term portfolio capital, mainly to Canada and Western Europe, increased and the total net outflow of private capital, estimated at more than $300 million, was nearly 60 per cent greater than the average quarterly outflow in 1955.

Industrial Continental Western Europe

There was a very large increase from 1954 to 1955 in output and income in the industrial countries of continental Western Europe, while at the same time an already favorable balance of payments was maintained and even slightly improved. The total product of this group of countries rose by some 6 per cent and their industrial production by 11 per cent, the biggest increases taking place in the Federal Republic of Germany and Austria, and the smallest in the Scandinavian countries. (See Table 8; figures for the United Kingdom and Japan are included in this and other tables for purposes of comparison.) The expansion was most marked in the metal and chemical industries; production of textiles was practically the same as in 1954.

The increasing pressure of demand was accompanied by a relaxation of quantitative trade restrictions and even, in some countries, of tariff barriers; in most countries, the volume of imports, and especially of imports of raw materials and finished manufactures, rose more sharply than industrial production. This was particularly true of Austria, the Netherlands, and Sweden. Imports of raw materials for the metal trades showed a large increase, while imports of textile materials remained practically unchanged.

TABLE 8. INDUSTRIAL CONTINENTAL OEEC COUNTRIES, UNITED KINGDOM, AND JAPAN: PERCENTAGE INCREASES FROM 1954 TO 1955 IN VOLUME OF INDUSTRIAL PRODUCTION, IMPORTS, AND EXPORTS

	Industrial Production	Imports	Exports
Industrial Continental OEEC Countries	11[1]	15[1]	13[1]
Austria	13	39	12
Belgium-Luxembourg	9	6	16
France	10	12	12
Germany, Federal Republic of	14	21	15
Italy	8	11	15
Netherlands	7	12	10
Norway	4	4	2
Sweden	7	11	7
United Kingdom	5	12	8
Japan	9[2]	4	24

Source: Based on data from International Monetary Fund, *International Financial Statistics.*
[1] Change in weighted average of country indices.
[2] Manufacturing production.

The export volume also increased from 1954 to 1955 somewhat more than industrial production. This was achieved—despite some decline in the degree of preference enjoyed in various markets by European over dollar exports—by virtue of the increased competitiveness of most continental exporters. The factors underlying the competitiveness of industrial countries in export markets have been discussed in an earlier section.

The gross [1] terms of commodity trade declined slightly in most countries, with the exception of Sweden and Belgium. This was more than fully accounted for, however, by the advance in ocean freight rates.

As a result of the very large increase in the c.i.f. value of imports, the gross trade deficits of continental Western European countries increased in the aggregate from almost $1,700 million

[1] Import prices c.i.f.; export prices f.o.b.

in 1954 to $2,200 million in 1955 (Table 9). The value of their exports to the dollar area rose by one sixth, but as their dollar imports increased by more than one fourth, the increase in their trade deficit with the dollar area (Table 10) exceeded the increase in their over-all trade deficit. Exports to the United States rose to much the same extent as those to other industrial countries; exports to the rest of the dollar area increased more than those to most primary producing countries. The expansion in dollar imports, however, was more than twice the increase in imports from other areas.

This expansion of dollar imports, in so far as it exceeded the general expansion of European imports, appears to have been due to three main factors: the inability of European productive capacity to satisfy fully the demand for certain items of which

TABLE 9. INDUSTRIAL CONTINENTAL OEEC COUNTRIES, UNITED KINGDOM, AND JAPAN: TRADE AND PAYMENTS BALANCES AND OFFICIAL RESERVES, 1954 AND 1955

(*Value figures in millions of U. S. dollars*)

	Trade Balances		Payments Balances[1]		Official Reserves[2] (year end)		Official Reserves[2] as Per Cent of Imports	
	1954	1955	1954	1955	1954	1955	1954	1955
Austria	−43	−188	99	−55	412	357	63	40
Belgium-Luxembourg	−235	−54	−46	100	1,046	1,146	41	41
France	−40[3]	110[3]	502	915	1,369	2,120	32[3]	45[3]
Germany, Federal Republic of	677	322	743	438	2,682	3,120	58	54
Italy	−801	−849	46	132	1,041	1,237	43	46
Netherlands	−444	−520	52	7	1,282	1,289	45	40
Norway	−436	−455	−27	9	138	165	14	15
Portugal	−97	−114	49	7	665	671	189	168
Sweden	−193	−263	−29	−8	478	470	27	24
Switzerland	−75	−182	67	19	1,837	1,856	141	124
Total	−1,687	−2,193	1,456	1,564	10,950	12,431	50	49
United Kingdom	−1,676	−2,413	584	−646	2,798	2,156	30[4]	20[4]
Japan	−770	−461	127	378	1,022	1,338	43	54

Source: Based on data from International Monetary Fund, *International Financial Statistics*.

[1] As measured by changes in reserves of gold and foreign exchange, in the net EPU position (i.e., including credits granted to, and deducting credits received from, EPU), and in the net IMF position (i.e., quotas less holdings of members' own currencies).

[2] Reserves of gold and foreign exchange including EPU credit balances.

[3] Trade balance with foreign and overseas areas. The ratio of reserves to imports relates to total imports of Metropolitan France and not to imports of the franc area; in 1954 the ratio of reserves to franc area imports was 52 per cent.

[4] In this ratio imports are total imports of the United Kingdom and not imports of the sterling area. In 1954 the ratio of reserves to sterling area imports from non-sterling area countries was 29 per cent; the ratio of reserves, including the gold and dollar reserves of the overseas sterling area countries, to sterling area imports was 38 per cent.

TABLE 10. INDUSTRIAL CONTINENTAL OEEC COUNTRIES, UNITED KINGDOM, AND JAPAN: TRADE WITH THE DOLLAR AREA,[1] 1954 AND 1955

(Value figures in millions of U. S. dollars)

	1954			1955			Percentage Change	
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports
Austria	38	70	−32	47	110	−63	+24	+57
Belgium-Luxembourg	286	386	−100	342	434	−92	+20	+12
France	263	483	−220	324	575	−251	+23	+19
Germany, Federal Republic of	566	831	−265	713	1,200	−487	+26	+44
Italy	201	349	−148	251	467	−216	+26	+34
Netherlands	233	501	−268	246	611	−365	+6	+22
Norway	63	142	−79	68	162	−94	+8	+14
Portugal	32	32	0	35	43	−8	+9	+34
Sweden	122	195	−73	138	283	−145	+13	+45
Switzerland	225	242	−17	232	267	−35	+3	+10
Total	2,029	3,231	−1,202	2,396	4,152	−1,756	+18	+29
United Kingdom	1,012	1,731	−719	1,152	2,352	−1,200	+14	+36
Japan	400	1,182	−781	609	1,114	−505	+52	−6

Source: Statistical Office of the United Nations, International Monetary Fund, and International Bank for Reconstruction and Development, *Direction of International Trade*.

[1] Defined to include the United States, Canada, dollar countries of Latin America, and the Philippine Republic.

North America was the chief potential exporter; a poor European grain harvest in 1954; and a removal or reduction of discriminatory restrictions on dollar imports. It is impossible fully to disentangle the effects of these three factors, but the last, though of increasing importance as time went on, was probably less important than either of the other two as an explanation of the change from 1954 to 1955.

Formal dollar liberalization was adopted or extended by most members of the OEEC. In most of these countries it had been preceded, and in others it was accompanied, by informal relaxation of licensing restrictions. Whereas most of the earlier dollar liberalization had affected scarce materials (such as metals, scrap, paper raw material), liberalization was also extended, first by the Netherlands and later by such countries as West Germany, Sweden, and Denmark, to consumer or near-consumer goods, in relation to which the effects of liberalization might have been expected to be greater. The expansion of dollar imports was on the whole greater in West Germany and Sweden, where dollar liberalization had been increasing fairly rapidly over the whole 1954-55 period, than in Belgium-Luxembourg, where it had been accomplished earlier, or in France and Norway, where it had not yet made great progress.

On the other hand, an examination of the commodity composition of the increase in dollar imports indicates that it was concentrated to a considerable extent on such products as grains, which were affected by the poor European harvest, and nonferrous metals, coal, steel products, paper, pulp, etc., for which European demand outran supply and imports from other nondollar sources were not easily available. This is true to a substantial degree even of West Germany and the Netherlands, where dollar restrictions have been declining most rapidly.

There were, however, several commodities, e.g., coffee, vegetable oils, and possibly cotton, where liberalization clearly increased dollar imports. The fact that imports of manufactured goods from the United States increased by as much as 25 per cent, against an increase of 17-18 per cent in such imports from other industrial countries, may also indicate the influence of liberalization. The rise in U. S. exports of manufactures to Europe appears to have accelerated toward the end of 1955.

The trade of continental industrial countries with each other benefited from the general expansion of European demand for industrial products. In the favorable environment created by the maintenance and extension of European trade liberalization—and despite increased competition from dollar supplies—this trade expanded by some 18-19 per cent. European imports from the United Kingdom, however, increased much less sharply.

The same tendency that has already been noted for the trade of primary producing countries with the industrial countries in general to expand less rapidly than the trade of the industrial countries among themselves is also to be discerned in the trade of the continental industrial countries. The value of their trade (on an f.o.b. basis) in both directions with primary producers as a whole increased by some 5 per cent only, with, however, marked differences between the different categories of primary producers.

Despite the deterioration in their aggregate trade balances and an increased net outflow of funds on capital account, in the form both of new investments and of repayments to the United States and to the International Bank for Reconstruction and Development, the already substantial payments surpluses of the industrial continental OEEC countries showed a further increase from 1954 to 1955 (Table 9). Larger receipts from U. S. Government military expenditures and rising net receipts from invisibles—especially travel and freight—account for this increase.

The direct balance of the continental OEEC countries as a whole (including their dependencies) with the United States changed little from 1954 to 1955. The increases in U. S. Government military expenditures and in lending to finance surplus disposals was sufficient to offset the decline in grants and the deterioration of the continental balance with the United States on private transactions.

Individual Countries

The trade balances with the dollar area of practically all the industrial countries of continental Western Europe deteriorated from 1954 to 1955. While for most countries the over-all balance also deteriorated (Table 9), the balances of France and Belgium-Luxembourg improved, and those of Italy and Norway changed only slightly. In certain countries, increased domestic supplies of import-competing goods or the comparatively mild pressure of demand kept the expansion of imports down, both absolutely and in relation to the expansion of industrial output. It was in these countries that, broadly speaking, the balance of trade improved or deteriorated only a little.

The over-all payments surplus of *France* showed a very large increase from 1954 to 1955. The figures used in Table 9 for estimating France's payments balance include, however, a certain amount of gold acquired by the French authorities from net dishoarding by French residents, and to that extent overstate the surplus on foreign transactions.

The sharp expansion of exports in 1955 was the most important foreign trade development in France. Output increased considerably, and there were relatively few bottlenecks. Despite substantial wage increases, the existing degree of competitiveness was sustained by large increases in productivity. French exports of foodstuffs, steel, and coal increased sharply as European demand for these products was especially active. French imports, particularly of raw materials and machinery, also increased, but proportionately less than exports. In contrast to developments in trade with foreign countries, the trade of Metropolitan France with the outer franc area did not expand, mainly because of developments in Viet-Nam and in North Africa.

In considering the significance of France's large payments surplus in 1955, it should be borne in mind that the French balance of payments in that year was still supported by receipts from U. S. Government expenditures totaling nearly $1 billion, an amount which is likely to be reduced in 1956. At the beginning of 1956, the French payments picture deteriorated as inflationary pressures re-emerged and crops suffered heavy frost damage. As a result, imports increased sharply, exportable supplies of foodstuffs and coal dwindled, and there was an adverse movement in the leads and lags in financing merchandise trade. Finally, France's trade balance is still dependent, to some extent, on the maintenance of import restrictions and the support given to exports by rebates of certain taxes and social security charges.

The payments balance of *Belgium-Luxembourg* improved by almost $150 million, from a deficit in 1954 to a surplus in 1955. This was fully accounted for by the decline in the trade deficit. A high level of world demand for steel increased both the prices and the volume of steel exports, and other exports also expanded considerably. Equally important, however, was the smallness of the expansion in imports, which was partly attributable to the comparative absence of inflationary pressures. The trade deficit of Belgium-Luxembourg was somewhat smaller than in 1954.

West Germany in 1955 continued to be outstanding in Western Europe with respect to the rate of growth of productivity and real income; though not increasing its share of export markets as rapidly as in previous years, it was again one of the European countries with the greatest expansion of exports. Nevertheless, its payments surplus declined from $743 million in 1954 to $438 million in 1955. This was more than fully accounted for by the deterioration in the visible trade balance. While the volume of exports rose by 15 per cent, that of imports rose by fully 21 per cent. This import expansion reflected, in the main, a considerable increase in the pressure of demand on domestic resources in West Germany. Partly as a result of a tightening of domestic credit, the expansion of imports slowed down in the second half of 1955, when the inventory accumulation which had characterized especially the first half of the year fell off. In the latter part of the year, exports also increased more rapidly than imports. For the year as a whole, there was an increase in foreign payments on account of restitution and a decrease in receipts from U. S. Government aid. There was also a substantial change in "errors and omissions," and the changes in net foreign payments appear to have been offset by a decline in the net capital outflow. The trade surplus with the United Kingdom and continental EPU countries increased, while with the dollar area and the overseas sterling area there were increased trade deficits.

Real income and demand in *Italy* continued to increase substantially in 1955, but there still was a large reserve of unemployed manpower. Despite a sharp increase in exports, the trade balance deteriorated slightly, but this was more than offset by an increase in tourist receipts, in military dollar expenditure, and in a net inflow of capital, particularly from Switzerland. Thus the over-all balance of payments yielded a surplus in 1955, and official monetary reserves continued to increase.

The payments surplus of the *Netherlands,* already reduced in 1954, dwindled further in 1955. While exports continued to expand rapidly, demand pressures stimulated imports even more; there was a moderate deterioration in the visible trade balance, but this was compensated by an improvement in earnings on invisibles. Inward capital movements, mainly by way of continued large purchases of Netherlands securities against U. S. dollars, tended to offset outward capital movements. Foreign issues in the Netherlands capital market were larger than in previous years, while official debt repayment declined.

The balance of payments of *Austria* deteriorated from 1954 to 1955, while those of *Norway* and *Switzerland* showed an improvement. The sharp increase in Austrian imports exceeded the continued strong growth of exports. Norwegian and Swiss reserves increased as a result of greater receipts from invisibles and capital transactions, even though the trade balance worsened in both countries. Though the current account deficit of *Sweden* more than doubled, its payments deficit was kept within very narrow limits, partly because of leads and lags in payments. The deterioration in Austria was associated with high pressure of demand, a considerable expansion of imports, and the adverse initial consequences of the State Treaty. However, in the first four months of 1956, the Austrian balance of payments improved. The position of Norway was strengthened by increased freight earnings resulting from higher freight rates and increased shipping activity.

United Kingdom and the Sterling Area

The United Kingdom's gold and foreign exchange reserves, which had risen by almost £210 million in 1954, declined by some £230 million in 1955 (Table 11). All this decline took place in the second half of 1955.

These reserve movements may be explained in terms of the balance of payments of the sterling area as a whole with non-sterling countries. Of the deterioration of £440 million, referred to above, only about £30 million corresponds to a decline in the non-sterling surplus of the overseas sterling area. The remainder is accounted for by a substantial decline in the United Kingdom's own balance with non-sterling countries, including movements in sterling liabilities (Table 11).

TABLE 11. INTERNATIONAL TRANSACTIONS OF THE UNITED KINGDOM AND THE OVERSEAS STERLING AREA, 1954 AND 1955[1]

(In millions of pounds sterling)

	Total U.K. Transactions			U.K. Transactions with: Overseas sterling area			U.K. Transactions with: Non-sterling countries		
	1954	1955	Change	1954	1955	Change	1954	1955	Change
Current and investment accounts									
Visible trade	−192	−352	−160	10	14	+4	−202	−366	−164
Invisibles[2]	397	249	−148	262	201	−61	135	48	−87
Investment account	−176	−135	+41	−223	−94	+129	47	−41	−88
Errors and omissions[3]	−25	175	+200	—	90	+90	−25	85	+110
Change in sterling liabilities to non-sterling countries[4]	89	−93	−182	—	—	—	89	−93	−182
Total	93	−156	−249	49	211	+162	44	−367	−411
Overseas sterling area transfers	—	—	—	−164	−137	+27	164	137	−27
Equal:									
Overseas sterling area gold production, net[5]				−200	−216	−16	200	216	+16
Plus:									
Other current and investment account of overseas sterling area with non-sterling countries, balance				5	32	+27	−5	−32	−27
Plus:									
Adjustment for overseas sterling area repurchases from IMF and change in overseas sterling area gold and dollar reserves				31	47	+16	−31	−47	−16
Change in sterling liabilities to overseas sterling area	115	−74	−189	115	−74	−189	—	—	—
Change in U.K. gold and foreign exchange holdings[6]	208	−230	−438	—	—	—	208	−230	−438

Sources: *United Kingdom Balance of Payments 1946 to 1955 No. 2* (Cmd. 9731) and Fund estimates.

[1] Preliminary.

[2] Includes defense aid of £50 million in 1954 and £44 million in 1955.

[3] Rounded figures (Cmd. 9731); regional allocation estimated by the Fund.

[4] Excluding change in liabilities to IMF.

[5] Overseas sterling area (OSA) gold production less nonmonetary consumption of gold in OSA gold producing countries.

[6] Includes changes in official gold and dollar reserves, change in EPU debit balance, repayment to IMF (£40 million in 1954), and change in holdings of other non-sterling currencies.

The decline of about £30 million in the non-sterling surplus of the overseas sterling area was due partly to the fact that the balances of the sterling area countries with non-sterling countries decreased by more than the increase in their gold production, and partly to a slight increase in the rate at which the sterling area countries accumulated gold and dollar reserves of their own and repurchased their currencies from the Fund.

There was an increase of some £60 million in U. S. Government expenditures in the overseas sterling area and a somewhat higher capital inflow from European countries, while the current balance of overseas sterling area countries with non-sterling countries probably showed a moderate decline. Their current balance with the United Kingdom, on the other hand—as far as can be estimated in view of the statistical uncertainties—probably improved slightly, so that their over-all current balance cannot have deteriorated greatly.

While the export earnings of overseas sterling area countries varied according to the nature of their export products, their recovery, in comparison with 1954, was somewhat better than for most primary producing countries. The value of exports rose by some 9 per cent, and of imports by about 11 per cent, from 1954 to 1955. The imports of some of the colonies increased by an even higher proportion; and in some of the independent sterling area countries, high demand pressures had to be restrained by intensified import restrictions. While exports to non-sterling countries, especially to Japan and to the United States, rose much more than exports to the United Kingdom, the proportion of overseas sterling area imports drawn from these countries also increased, following the relaxation of restrictions on imports from these sources.

As far as is known, the decline of £410 million in the United Kingdom's own balance on all transactions with non-sterling countries from 1954 to 1955 was fairly evenly shared between the current and the capital account, but the substantial movement in the "errors and omissions" item (Table 11) makes it impossible to be certain of this.

The deterioration in the United Kingdom's current balance with non-sterling countries was probably accompanied by some deterioration in its current balance with overseas sterling area countries also. As already shown (Table 8), the expansion of industrial production and of exports between 1954 and 1955 was less in the United Kingdom than in most other industrial countries. A slight decline in the U.K. share of the exports of manufacturing countries as a whole might have been expected in view of the slower rate of growth of U.K. productivity. The decline was intensified by the heavy pressure of home demand. This pressure, which was particularly strong in the metal-using industries, was also in part responsible for the expansion of imports, which much exceeded the expansion of either exports or industrial production. The unfavorable harvest of 1954 and the rebuilding of domestic stocks drawn upon in 1954 also tended to increase U.K. imports.

In the United Kingdom's over-all current balance, the decline in invisible transactions appears to have been almost as large as that in visible trade (Table 11). Despite the rise in freight rates, net earnings from shipping declined, owing to the increased use of both domestic and overseas shipping services to carry U.K. imports. Since U.K. interest rates rose during the year, interest remittances on sterling liabilities increased, while the resumption of oil operations in Iran and other expenditures abroad of an exceptional character led to a fall in net receipts from U.K. oil companies from abroad.

On both visible and invisible account, the deterioration in the U.K. current balance was more marked with non-sterling than with sterling area countries. This was due in large part to the increase in the share of U.K. imports drawn from non-sterling countries, in particular from the dollar area.

The net capital export from the United Kingdom to the overseas sterling area (excluding changes in sterling balances) amounted to some £220 million in 1954. The corresponding outflow in 1955 was probably no greater than £90 million, and it may have been less if part of the large "errors and omissions" item is attributable to the investment account. This decline, which was particularly noticeable in U.K. investment in South Africa, was probably attributable in large part to the high U.K. interest rates accompanied by relatively tight credit conditions and a scarcity of funds in the capital market. This appears to have affected the movement of short-term as well as long-term funds. As a result of all these developments, the sterling holdings of the overseas sterling area, which had risen by £115 million in 1954, fell by more than £70 million in 1955.

The development of the U.K. balance on investment account with non-sterling countries can be determined with much less certainty than that of capital movements to the overseas sterling area, because of a substantial change in "errors and omissions" (Table 11). In particular, there is no clear evidence that the relative tightening of credit in the United Kingdom had a significant net effect on the balance of capital transactions with these countries. On the other hand, U.K. sterling liabilities to these countries, which increased by about £90 million in 1954, decreased by over £90 million in 1955. Part of this change of £180 million may have represented a change in the movement of official holdings, but most of it was the result of a shift in the flow of autonomous short-term capital. Balances which had been built up in 1954, especially by residents of the dollar area, were withdrawn in 1955, possibly owing in part to diminished confidence in sterling.

Apart from seasonal movements, pressure on sterling increased on two occasions in 1955, one in the first and the other in the third quarter of the year. On both occasions, adverse movements in short-term funds accompanied a decline of overseas confidence in sterling. On the first occasion, the pressure relaxed after the U.K. authorities raised the bank rate in February and at the same time announced their intention to intervene in transferable sterling markets; in the second quarter, there was a small increase in reserves. On the second occasion, much heavier pressure on sterling ended in September after a statement by the Chancellor of the Exchequer at the Annual Meeting of the Fund, reaffirming the determination of the U.K. Government to maintain the par value of sterling at $2.80 to the pound; in the fourth quarter of

1955, reserves remained fairly steady (after allowance for payments of principal and interest on the U. S.-Canadian loans at the end of the year).

Japan

In Japan a number of factors, some of them temporary, combined to produce a large balance of payments surplus in 1955 (Table 9). Manufacturing production was more than 9 per cent above 1954, and, partly because of favorable weather, agricultural output was at record levels—almost 13 per cent above 1954. Rising world import demand and the diminution of adverse discrimination, especially in the sterling area, aided Japanese exports. Prices remained approximately stable. Relatively short delivery terms for iron and steel products and advantageous prices for synthetic fibers and miscellaneous other finished products, together with a generally favorable competitive position, raised Japan's total exports by nearly 25 per cent in both volume and value, though exports of cotton goods other than clothing declined.

The volume of imports rose only 4 per cent, despite the much greater rise in industrial activity. There was an increase in import-saving food production, compared with 1954. Imports of textile raw materials declined, partly because of uncertainty regarding U. S. cotton price policy. Imports of machinery declined from the high level of the previous year when substantial imports were financed by an IBRD loan. These declines more or less offset increases in other raw material imports. The gross trade deficit declined considerably, and on a payments basis there was a surplus on trade account for the first time since the war.

Considerable changes took place in the geographical distribution of Japanese trade. Exports to the United States rose by 63 per cent, and those to continental Europe and the sterling area also rose considerably; exports to Indonesia and South Korea, however, were curtailed so that a better balance was achieved with these countries with which Japan has accumulated extensive short-term claims. Imports from the sterling area, which had fallen in 1954, both in absolute amount and as a percentage of total imports, expanded substantially, largely as a result of changes in Japan's import licensing practices. Coincident with this development, and partly in consequence of it, Japanese imports from the United States and continental Europe showed an absolute decline.

Increased freight rates raised Japan's net transportation outlay, and the balance on invisible account deteriorated accordingly. However, this was offset by the improvement in the trade balance, together with larger short-term foreign borrowing. Official reserves, which had risen by $127 million in 1954, rose by $316 million in 1955. In addition, Japan repurchased the yen equivalent of $62 million from the Fund.

Japan's payments position continued to derive support in 1955 to the extent of some $550 million from UN and U. S. military expenditures in Japan; these special receipts were some $40 million smaller than in 1954. There were also substantial Japanese purchases of U. S. agricultural surplus products against payment in yen.

Countries Exporting Tropical Foods, Oilseeds, and Vegetable Oils

The export earnings in 1955 of countries depending to a considerable extent on coffee and cacao were in the aggregate well below the high 1954 level but only fractionally lower than in 1953. This was largely the result of the price movements of these two commodities. The average price for Brazilian coffee in 1955 declined to somewhat less than the 1953 average (Chart 1, p. 11); prices for Colombian and other mild coffees, as well as for cacao, though substantially lower than in 1954, were higher than in 1953. (Changes in the trade and the trade balances of these countries and of exporters of other tropical foods, oilseeds, and vegetable oils are shown in Tables 12 and 13.)

Brazil was affected by lower receipts from both coffee and cacao. The effects of falling prices of coffee outweighed those of a substantial increase in the volume of exports. The export volume of cacao was virtually unchanged at considerably lower prices. Moreover, the volume of cotton exports, which had been unusually high in 1954 on account of sales from government stocks, was considerably reduced in 1955, and cotton prices also were somewhat lower. Despite the decline in export receipts, Brazil's statistical balance of payments improved from 1954 to 1955, for a reduction of the foreign exchange offered on auction markets was followed by a drastic cut in imports, and the drain on reserves was checked. The situation was still difficult, because internal costs had risen as a result of continued budgetary deficits, monetary

TABLE 12. TRADE OF EXPORTERS OF TROPICAL FOODS, OILSEEDS, AND VEGETABLE OILS, 1954 AND 1955

(*Value figures in millions of U. S. dollars*)

	Exports			Imports		
	1954	1955	Percentage change	1954	1955	Percentage change
Exporters of coffee and cacao						
Brazil	1,562	1,423	−9	1,630	1,307	−20
Colombia	657	584	−11	672	672	0
Other coffee producers[1]	474	483	+2	434	461	+6
Dominican Republic	120	115	−4	94	112	+20
Ecuador	128	122	−5	123	108	−12
Gold Coast	294	244	−17	199	246	+24
Total	3,235	2,971	−8	3,152	2,906	−8
Exporters of other tropical foods[2]						
Cuba	539	594	+10	527	535	+2
Other Western Hemisphere[3]	177	185	+5	246	277	+12
Ceylon	377	414	+10	282	301	+7
China (Taiwan)	93	123	+32	211	201	−5
Israel	88	88	0	287	326	+14
Total	1,274	1,404	+10	1,553	1,640	+6
Exporters of oilseeds and vegetable oils						
French West Africa	333	300	−10	380	384	+1
Nigeria	418	370	−11	319	380	+19
Philippine Republic	396	395	0	545	617	+13
Total	1,147	1,065	−7	1,244	1,381	+10
Total	5,656	5,440	−4	5,949	5,927	0

Sources: Based on data from International Monetary Fund, *International Financial Statistics*, and national sources.

[1] Costa Rica, El Salvador, Ethiopia, Guatemala, Haiti, Nicaragua.

[2] Sugar (cane), tea, bananas, citrus fruit.

[3] Honduras, Jamaica, Panama.

expansion, and wage increases, and the flow of exports other than coffee was thus impaired. Measures to stimulate such exports were taken in May 1956.

In most other coffee and cacao exporting countries, the payments position deteriorated from 1954 to 1955. Largely with a view to securing additional capital goods to speed its development program, *Colombia* had previously increased its imports *pari passu* with a sharp rise in export receipts from 1952 to 1954. It was difficult to reverse this process; investment continued high, and the maintenance of imports at the 1954 level caused a severe drain on reserves. In an attempt to reduce import demand, a number of items formerly imported at the fixed exchange rate were shifted to the free market where the rate consequently depreciated, and monetary restraints were applied.

The four major Central American coffee exporters, *Costa Rica, El Salvador, Guatemala,* and *Nicaragua,* by expanding the volume of their exports offset the adverse effects of lower prices on their coffee earnings, the total of which actually rose slightly. A sharp

TABLE 13. TRADE AND PAYMENTS BALANCES AND OFFICIAL RESERVES OF EXPORTERS OF TROPICAL FOODS, OILSEEDS, AND VEGETABLE OILS, 1954 AND 1955

(Value figures in millions of U. S. dollars)

	Trade Balances		Payments Balances[1]		Official Reserves (year end)		Official Reserves as Per Cent of Imports	
	1954	1955	1954	1955	1954	1955	1954	1955
Brazil	−68	+116	−123	+3	480	483	29	37
Colombia	−15	−88	+67	−117	257	140	38	21
Other coffee producers[2]	+29	+13	−6	+15	112	127	. .	. .
Dominican Republic	+26	+3	+8	0	36	36	38	32
Ecuador	+5	+14	−1	−4	38	34	31	31
Cuba	+12	+59	−27	+39	454	493	86	92
Other Western Hemisphere[3]	−52	−61	−2	−11	72	61	. .	. .
Ceylon	+95	+113	+55	+35	169	204	58	66
Israel	−202	−238	+26	+20	29	49	10	15
Philippine Republic	−149	−222	−33	−53	198	139	36	23

Sources: Based on data from International Monetary Fund, *International Financial Statistics*, and national sources.

[1] Measured by the changes in gross official reserves and net IMF position.

[2] Costa Rica, El Salvador, Guatemala, Nicaragua.

[3] Honduras, Panama.

rise in cotton sales increased the total value of the exports of Nicaragua by well over one third of their value in 1954. Imports in all four countries rose, partly on account of grain imports necessitated by poor harvests. In *Haiti,* lower prices and crop failures, which cut exportable supplies severely, caused a decline in export receipts. In the *Dominican Republic,* most of the decline in earnings from coffee and cacao was offset by higher receipts from sugar, and the value of total exports fell only slightly. An increase in imports, partly on government account, was largely financed by a decline in foreign assets of commercial banks and by some short-term borrowing.

In *Ecuador,* export earnings were reduced by lower receipts for coffee and cacao, only partly offset by a sharp rise in banana exports. Owing to high domestic incomes sustained by credit expansion, imports continued large through the first part of the year, and there was a considerable drain on reserves. In order to curb import demand, some goods formerly admitted at the official rate were shifted to the free market, advance deposit requirements were extended, and import taxes imposed on a number of commodities. Some decline in imports followed, which, with the seasonal rise in exports, brought temporary relief. Later in the year, reserves again began to decline.

In several countries supplying tropical foodstuffs other than coffee and cacao, the effects upon export earnings of comparatively slight price declines were much more than offset by increased export volume. Sugar prices were comparatively well maintained (Chart 1, p. 11), as demand was greater than in 1954, while output and offerings on the market were limited under the terms of the International Sugar Agreement. Consequently, earnings from sugar exports tended to be higher than in 1954. A rise in the value of exports of *Cuba,* mainly sugar, together with a slight change in imports, increased Cuba's small trade surplus. Public works undertaken to sustain economic activity in the face of reduced sugar production had to be financed in part by borrowing abroad. *China* (Taiwan) improved its trade balance, mainly through larger sugar and rice exports.

Ceylon increased its export receipts for all three major export commodities, tea, rubber, and coconut products. This was due to large exports of tea early in the year, when prices were still at their peak, to expanded rubber exports at favorable prices, and to a high volume of coconut exports, which more than offset the price decline for that product. As import prices declined, the rise in the value of imports was small and the accumulation of reserves which had started the year before continued throughout 1955. In the first quarter of 1956, however, declining prices for tin and rubber caused a considerable reduction of export earnings and of the trade surplus.

Exporters of oilseeds were adversely affected by the sharp price decline for their products. The earnings of African producers showed the full impact of that decline (Table 12). The *Philippine Republic,* though highly dependent on trade in coconut products, was able to offset lower receipts for those products by increased earnings from timber and abaca; Philippine sugar exports were well maintained. Despite the stability of export earnings, Philippine imports rose sharply in response to high domestic demand induced by increased spending for development projects; the drain on reserves which had started in 1953 persisted through 1955. An import cut in the first quarter of 1956 resulted in a reduction of the trade deficit, and reserves increased slightly.

Countries Exporting Textile Fibers, Livestock Products, Grain, and Tobacco

The export earnings of the four major wool exporting countries, Australia, New Zealand, Argentina, and Uruguay, were adversely affected by lower prices for wool and for some of their other exports. This decline, together with internal inflationary pressure and the heavy pressure of import demand, caused a severe deterioration in the payments position of each of these countries. In Uruguay and Argentina, high domestic demand also competed for export goods and tended to reduce exportable supplies.

In *Australia* and *New Zealand,* there was a moderate increase in the value of exports (Table 14); a considerable expansion in their volume more than offset the effects of falling prices. Imports advanced sharply in both countries, mainly as a result of the increased pressure of domestic demand in a fully employed economy. In both countries the payments deficit was greater than in 1954 (Table 15), though the deterioration was mitigated by an increased inflow of capital. Both countries took steps intended directly or indirectly to reduce import demand and check the drain on reserves. Australia relied mainly on import restrictions. The restrictions introduced in 1954, when some that had been relaxed the year before were reimposed, were followed by further and more severe restrictions in April and October 1955. There was for some time little response to these restrictions. The effect

TABLE 14. TRADE OF EXPORTERS OF TEXTILE FIBERS, LIVESTOCK PRODUCTS, GRAIN, AND TOBACCO, 1954 AND 1955

(*Value figures in millions of U. S. dollars*)

	Exports			Imports		
	1954	1955	Percentage change	1954	1955	Percentage change
Exporters of wool and livestock products						
Australia	1,656	1,751	+6	1,869	2,160	+16
New Zealand	683	724	+6	688	804	+17
Argentina	1,062	1,000	−6	955	1,100	+15
Uruguay	249	184	−26	273	226	−17
Ireland	322	309	−4	503	572	+14
Denmark	948	1,042	+10	1,163	1,173	+1
Total	4,920	5,010	+2	5,451	6,035	+11
Exporters of vegetable fibers, grain, and tobacco						
Egypt	397	402	+1	460	557	+21
Sudan	116	137	+18	137	138	+1
Uganda	115	118	+13	71	98	+38
Greece	152	183	+20	330	382	+16
Turkey	335	313	−7	478	498	+4
Syria	129	128	−1	174	179	+3
Pakistan	359	401	+12	335	290	−13
Total	1,603	1,682	+5	1,985	2,142	+8
Exporters of rice						
Burma	251	227	−10	204	180	−12
Thailand	283	335	+18	312	334	+7
Total	534	562	+5	516	514	0
Total	7,057	7,254	+3	7,952	8,691	+9

Source: Based on data from International Monetary Fund, *International Financial Statistics.*

TABLE 15. TRADE AND PAYMENTS BALANCES AND OFFICIAL RESERVES OF EXPORTERS OF TEXTILE FIBERS, LIVESTOCK PRODUCTS, GRAIN, AND TOBACCO, 1954 AND 1955

(Value figures in millions of U. S. dollars)

	Trade Balances		Payments Balances[1]		Official Reserves (year end)		Official Reserves as Per Cent of Imports	
	1954	1955	1954	1955	1954	1955	1954	1955
Australia	−213	−407	−205	−284	1,133	835	61	39
New Zealand	−5	−80	−32	−60	239	179	35	22
Argentina	+107	−100	+23	−111	878	767	92	70
Uruguay	−24	−36	−56	−51	178	127[2]	65	58
Ireland	−181	−263	+26	−18	260	242	52	42
Denmark	−215	−131	−24	+1	143	133	12	11
Egypt	−63	−155	+4	−91	732	641	159	115
Greece	−178	−199	+14	+60	117	177	35	46
Syria	−45	−50	+5	−30[3]	74	44[4]	43	25
Pakistan	+24	+111	+30	+44	326	370	97	128
Burma	+47	+47	−87	−20	124	92	61	51
Thailand	−29	−1	−29	+24	273	297	88	89

Source: Based on data from International Monetary Fund, *International Financial Statistics.*

[1] Measured by changes in gross official reserves and net IMF position.

[2] November 1955.

[3] Three quarters only.

[4] September 1955.

of those imposed in October 1955 could not be expected, in any case, to appear before mid-1956, and in March 1956 the Government announced fiscal and monetary measures with the purpose of counteracting inflationary pressure.

Up to the end of 1955, New Zealand relied exclusively on monetary measures, gradually intensified in the course of the year, to improve the payments position. Direct controls were at first actually softened: exchange allocation for importers was terminated on January 1, 1955, and import restrictions were gradually relaxed. Late in 1955, however, it was announced that import licenses for automobiles to be granted in 1956 would be reduced by one third, and certain goods were placed under license.

Despite inflationary pressure, *Argentina* maintained the volume of its major exports in 1955, but as a result of reduced prices export receipts declined. This, together with a sharp rise in imports, resulting mainly from the necessity for replenishing stocks depleted by the severe restrictions of previous years, caused a severe deterioration in Argentina's payments position. The substantial devaluation carried out in October 1955, together with the higher internal prices for agricultural products decreed toward the end of the year, is expected ultimately to increase export supplies by stimulating production.

Uruguay's export receipts declined from 1954 to 1955 on account of declines both in price and in volume. Reduced supplies of cattle and rising domestic demand brought about a severe decline in exports of meat. Wool exports, though lagging earlier in 1955, revived in the last quarter under the stimulus of an exchange bonus. Restrictions, supplemented by depreciation of import rates in September, led to a reduction of imports which was not, however, sufficient to prevent a rise in the trade deficit and a sharp decline of reserves. Inflation which persisted throughout the year exerted continuous pressure on the balance of payments.

In contrast to most other exporters of foodstuffs, Ireland and Denmark were favored by a small rise in the prices of their exports. In *Ireland,* however, the value of exports fell and, as imports rose considerably, there was a drain on reserves which continued well into 1956. With a view to curbing imports, a special import levy on a wide range of consumer goods and restrictions on hire purchase were announced early in 1956. *Denmark,* on the other hand, improved its payments position in 1955. However, this was mainly the result of an increase of 18 per cent in exports of Danish industrial goods, against 5 per cent for agricultural products. Imports rose only slightly, and the prolonged drain on reserves which had prompted a series of anti-inflationary measures was reversed in mid-1955. The trade balance and the reserve position continued to improve in the early months of 1956.

Exporters of vegetable fibers, grain, and tobacco (Table 14) were less affected by declining prices than most other agricultural exporters. Higher prices for tobacco, jute, and long-staple cotton largely offset the effects of price declines for the other products of these countries. In Greece and Turkey, mainly on account of the large share of tobacco in their export trade, average export prices actually rose. Through a considerable increase in its exports and in net invisible earnings which more than offset the rise in imports, *Greece* substantially improved its payments position. This, together with aid from the United States, added considerably to Greek reserves. In spite of larger earnings from tobacco and some other exports, the total exports of *Turkey* declined, partly as a result of a poor grain crop which sharply reduced exportable supplies. Imports, on the other hand, rose, so that there was a deterioration in the adverse trade balance. Early in 1956, the Turkish Government announced a program of fiscal and monetary measures designed to achieve internal stability. *Syria's* exports, though adversely affected by a poor grain crop, were maintained at the 1954 level by a considerable increase in cotton exports. Continued high imports during the first half of the year, however, caused a drain on reserves, which later subsided as a result of declining imports, increased royalties on the use of oil pipelines, and financial assistance from Saudi Arabia. A restrictive monetary policy may have assisted in reducing imports. *Egypt's* exports lagged in the first part of the year, but gained considerably in the last quarter when cotton trade was revived, partly under the stimulus of bilateral agreements. Consequently, export receipts for the year as a whole were slightly greater than in 1954. Owing, however, to a sharp rise in imports, partly on account of governmentally sponsored development projects, the trade balance deteriorated and a considerable drain on reserves ensued, which continued into 1956.

Pakistan's payments balance increased slightly in 1955. In the first part of the year, export earnings were greater by 5 per cent than in the first part of 1954, mainly on account of some increase in jute prices and expanded sales of jute manufactures. Receipts from cotton exports declined because of lower prices and volume. Imports were almost the same as in the first half of 1954. On July 31 the rupee was devalued. In the five months, September 1955-January 1956, exports were greater by roughly 7 per cent than in the corresponding period in 1954-55. This was mainly the result of increased cotton earnings with jute exports rising only a little. Imports in the same five months were down by over 40 per cent. These developments suggest that the devaluation may have helped in moving Pakistan's major export commodities, and in curtailing import demand. However, other factors also affected the volume of imports, for there is still a high degree of import restriction in Pakistan.

Both Burma and Thailand were affected by reduced prices for rice, though the volume of their rice exports increased. *Thailand* indeed maintained its export receipts from rice; earnings from rubber exports almost doubled, and the total value of its exports was considerably greater than in 1954. Imports remained fairly stable, in part because of the elimination of preferential exchange rates for certain products, and the improved payments position permitted replenishment of reserves, which continued in the early months of 1956. In *Burma,* which is more dependent than Thailand on rice, the volume increase was not sufficient to offset the effects of lower prices; it is estimated that receipts declined both from total exports and from rice exports. Imports were reduced in the second half of the year by more stringent restrictions and the slowing down of Burma's development program; the drain on reserves was thus halted. Difficulties in selling rice led Burma to conclude a number of bilateral payments agreements with Mainland China and Eastern European countries. The critical exchange shortage, which developed early in 1956 and led to a drawing on the Fund, resulted in part from the fact that roughly one fourth of Burma's official reserves at that time represented bilateral balances which could not be used for settlement with other trading partners.

Countries Exporting Rubber, Metals, and Petroleum

Exporters of rubber, metals, and petroleum were favored by sharply rising demand for their products in industrial countries, and the value of their exports rose substantially from 1954 to 1955 (Table 16). For the countries exporting mainly rubber or metals, the increase in export receipts resulted entirely from higher prices (Chart 1, p. 11); owing to supply limitations, the aggregate volume of their exports was lower in 1955 than in 1954. In contrast, the much more moderate rise in the export earnings of the countries exporting petroleum was due entirely to an expansion of volume, petroleum prices being stable.

Price increases for rubber and metals varied widely, ranging from 70 per cent for rubber to not more than 3 per cent for tin. These differences, as well as differences in the extent to which individual countries succeeded in expanding their output and their exports, account for the great inequalities in the rates of increase of their export earnings.

Bolivia is the only exporter of metals whose trade balance deteriorated in 1955 (Table 17). Export earnings rose slightly. A decline in tin exports resulting from reduced output was more than offset by increases in export values of other metals, owing to larger volume and in some cases higher prices, and more significantly, by growing exports of petroleum products. A high rate of internal inflation was mainly responsible for the sharp rise in Bolivian imports and the resulting increased trade deficit. Notwithstanding expanded U. S. aid, Bolivia's reserves were further depleted. The free rate of exchange depreciated by more than 50 per cent in 1955.

Chile also suffered severely from inflation, but continued severe restrictions kept the expansion of imports within moderate limits. This, together with increased export receipts, mainly on account of high copper prices, raised the trade surplus by nearly $40 million. External reserves, instead of falling, as in the previous year, increased, and short-term liabilities were reduced. The comprehensive program of fiscal and monetary measures which was adopted early in 1956, and the reforms of the Chilean exchange system and the stand-by agreement with the Fund which were made at the same time, are reported elsewhere.

By far the largest absolute and relative increase in export earnings accrued to *Malaya,* chiefly on account of the sharp rise in receipts from rubber exports. This was mainly the result of higher prices, but there was also some increase in the volume of exports.

TABLE 16. TRADE OF EXPORTERS OF RUBBER, METALS, AND PETROLEUM, 1954 AND 1955

(Value figures in millions of U. S. dollars)

	Exports			Imports		
	1954	1955	Percentage change	1954	1955	Percentage change
Exporters of rubber and metals						
Bolivia	72	74	+3	75	89	+19
Chile	401	472	+18	343	376	+10
Belgian Congo	397	454	+14	371	379	+2
Rhodesia[1]	411	484	+18	393	435	+11
Malaya	1,016	1,358	+34	1,026	1,249	+22
Indonesia	856	932	+9	629	604	−4
Total	3,153	3,774	+20	2,837	3,132	+10
Exporters of petroleum						
Venezuela	1,690	1,912	+13	1,002	1,050	+5
Netherlands Antilles	773	803	+4	966	980	+1
Trinidad and Tobago	153	167	+9	146	172	+18
Brunei and Sarawak	228	254	+11	163	177	+8
Iraq	489	520	+6	204	269	+32
Kuwait	720	830	+15	...	...	...
Saudi Arabia	800	811	+1	200	175	−12
Total	4,853	5,297	+9	2,681	2,823	+5
Total	8,006	9,067	+13	5,518	5,955	+8

Source: Based on data from International Monetary Fund, *International Financial Statistics.*
[1] Federation of Rhodesia and Nyasaland.

Imports rose much less, part of the rise consisting of imports of rubber for processing and re-export. The trade balance, which had been in deficit in 1954, showed a considerable surplus in 1955.

Indonesia also profited from higher rubber prices, but the increase in total export earnings was limited by a decline in volume and by lower prices for export goods other than rubber. Imports were less than in 1954, largely because of greatly reduced rice imports in the first three quarters. Rising internal food prices, however, necessitated increased rice purchases abroad, which were largely responsible for the increase in imports in the last quarter of 1955 and the early months of 1956. This increase and sharply declining rubber export receipts resulted in a trade deficit and declining reserves in the early months of 1956.

All the petroleum exporting countries shown in Table 16 increased their export receipts. *Venezuela,* whose resources are being rapidly developed, doubled its production of iron ore;

TABLE 17. TRADE AND PAYMENTS BALANCES AND OFFICIAL RESERVES OF EXPORTERS OF RUBBER, METALS, AND PETROLEUM, 1954 AND 1955

(Value figures in millions of U. S. dollars)

	Trade Balances		Payments Balances[1]		Official Reserves (year end)		Official Reserves as Per Cent of Imports	
	1954	1955	1954	1955	1954	1955	1954	1955
Bolivia	−3	−15	−13	−5	11	6	15	7
Chile	+58	+97	−26	+44	39	83	11	22
Indonesia	+227	+328	+21	+59	248	307	39	51
Venezuela	+688	+862	−2	+54	475	529	47	50
Iraq	+285	+251	+52	+53	233	294	114	109
Iran	...	...	+1	+10	186	205	...	...

Source: Based on data from International Monetary Fund, *International Financial Statistics.*
[1] Measured by changes in gross official reserves and net IMF position.

exports of products other than oil, however, still account for only a small portion of Venezuela's export trade. Domestic prices remained stable, and imports, though larger than in 1954, rose considerably less than exports. As a result, both the trade surplus and foreign reserves rose sharply. There was little change in the trade balance of *Iraq;* although imports rose more than exports, there was a considerable export surplus, and the accumulation of reserves continued. In *Iran,* oil production recovered sharply from the low level of previous years and, in spite of a rise in imports by some $35 million, foreign exchange reserves increased.

Other Countries, Including Countries with Diversified Exports

Tables 18 and 19 summarize trade and reserve developments in a number of countries which do not fit conveniently into any of the categories listed above. They differ widely in economic structure and the extent to which their natural resources have been developed, and the exports of most of them are more diversified than those of any of the primary producing countries that have already been examined.

TABLE 18. TRADE OF EXPORTERS OF DIVERSIFIED COMMODITIES, 1954 AND 1955

(Value figures in millions of U. S. dollars)

	Exports f.o.b.			Imports c.i.f.		
	1954	1955	Percentage change	1954	1955	Percentage change
Canada[1]	4,226	4,595	+9	4,549	5,165	+14
Union of South Africa and South West Africa[2]	950	1,054	+11	1,358	1,485	+9
India	1,182	1,269	+7	1,297	1,361	+5
Mexico[3]	670	804	+20	789	884	+12
Peru	245	268	+9	250	300	+20
Yugoslavia	240	257	+7	344	441	+28
Finland	681	788	+16	656	769	+17

Source: Based on data from International Monetary Fund, *International Financial Statistics.*

[1] Exports adjusted to exclude military end-items.

[2] Exports and imports for 1954 corrected to exclude trade between Union of South Africa and South West Africa.

[3] Exports adjusted for undervaluation of customs figures.

Exports of *Canada* increased in 1955 by almost $400 million and their value almost equaled the peak figure recorded in 1952. There was a substantial expansion in export volume, and also some increase in average export prices. Both the volume and prices of grain exports declined, but this was far more than outweighed by the expanding volume and higher prices of exports of industrial materials—metals, lumber, pulp, newsprint, and chemicals.

The sharp upturn in Canadian economic activity in the second quarter of 1955, which followed the minor recession in 1954, gave

TABLE 19. TRADE AND PAYMENTS BALANCES AND OFFICIAL RESERVES OF EXPORTERS OF DIVERSIFIED COMMODITIES, 1954 AND 1955

(Value figures in millions of U. S. dollars)

	Trade Balances		Payments Balances[1]		Official Reserves (year end)		Official Reserves as Per Cent of Imports	
	1954	1955	1954	1955	1954	1955	1954	1955
Canada	−323	−570	+127	−44	1,954	1,910	43	37
Union of South Africa	−408	−431	+121	−48	416	368	30	25
India	−115	−92	+63	+50	1,782	1,791	137	132
Mexico	−119	−80	−17	+257	201	435	25	49
Peru	−5	−32	+7	−4	56	52	22	17
Finland	+25	+19	+66	+8	211	219	32	28

Source: Based on data from Internationa !Monetary Fund, *International Financial Statistics.*

[1] Measured by changes in gross official reserves and net IMF position.

rise to a considerable increase in Canadian imports, which was particularly pronounced in the third and fourth quarters, and continued in the first quarter of 1956. The growth of imports exceeded the expansion of exports, leading to a deterioration in the trade balance and increasing the current account deficit. With the narrowing of the differential between Canadian and U. S. interest rates in 1955, there was a decline in the net inflow of long-term U. S. capital into Canada, which is more fully described in Chapter IV.

In the balance of payments of *South Africa,* there was a small reduction in the current account deficit, accompanied by a sharp decline, from $210 million to $20 million, in net capital inflow. In contrast to 1954, the net capital inflow in 1955 was not sufficient to cover the current account balance, and official reserves declined.

The slight improvement in the current balance was the result of a rise in exports by over $100 million and in gold production by $60 million, largely attributable to earlier investments in new gold mines and uranium plants. Atomic energy material contributed $45 million to the rise in total exports, while receipts for wool fell slightly, in spite of a substantial rise in export volume. Rising economic activity, pressure on domestic prices, and relaxation of import controls for both capital and consumer goods were the main reasons for the rise in imports.

The decline in net capital inflow was mainly in private capital, where a net inward movement of over $150 million in 1954 was succeeded by a net outflow of almost $10 million in 1955. This was attributable partly to the near completion of investments in the new gold mines and uranium plants and partly to the rise of interest rates in London above the South African level.

India's balance of payments in 1955 showed a stronger position than in 1954. Both exports and imports were higher, and India was able to increase its foreign exchange holdings, even after repurchases of rupees from the Fund. The value of exports was greater than in 1954 by 7 per cent. This was mainly the result of an increase in the volume of exports, mostly of raw materials—vegetable oils, shellac, and raw cotton. Exports of tea and cotton textiles declined, while exports of jute manufactures increased moderately. The increase of 5 per cent in the value of imports, resulting partly from higher prices, was concentrated mainly on capital goods, industrial materials, and machinery, closely linked to India's development program. Imports of grain, partly on government account, were somewhat less than in 1954. During the second half of the year, however, in an effort to check rising food prices, the Government released grain from stocks accumulated earlier, and early in 1956 announced its intention to build up additional food reserves through purchases of wheat from the United States and other sources and of rice from Burma.

The balance of payments of *Mexico* showed a striking improvement in 1955, resulting largely from a considerable rise in net receipts on current account, and from large-scale repatriation of private capital. Excellent coffee and cotton crops permitted a sizable expansion in the volume of their exports, far outweighing the effects of lower prices. Larger exports of silver and fuel oil and higher prices for metals further added to the increase in export receipts. Net earnings from tourist traffic also showed a substantial gain. The increase in imports was concentrated on capital goods; food imports were reduced as favorable crops provided larger domestic grain supplies. The rise in the current surplus and the return of flight capital more than doubled foreign exchange reserves in the course of the year; by the end of December they had reached the record figure of $435 million.

In *Peru,* average export prices remained virtually unchanged, but an expanded volume of trade increased exports by roughly 9 per cent. After a period of stability under the Government's stabilization program of 1954, pressures recurred in the second half of 1955, arising from increasing public and private investment and expanding business activity sustained by bank credit expansion. As a result, imports for the year as a whole increased far more than exports. This reversed the previous growth of reserves which, after having reached a peak of $58 million at the end of July, declined to $47 million by February 1956. Reserves subsequently recovered by the end of April to $53 million, primarily because of favorable markets for mineral exports. Moreover, late in 1955 the Government slowed down the rate of public investment and adopted measures of credit restraint with a view to checking the rising domestic demand.

Yugoslavia's trade balance and payments position deteriorated considerably from 1954 to 1955. A high level of internal demand, caused by a high rate of investment in the industrial sector, as well as the poor grain crop in 1954, limited expansion of exports, and were largely responsible for a sharp increase in imports of both capital and consumer goods. As in 1954 the largest part of the trade deficit was covered by U. S. grants and by U. S. credits, financing the sale of surplus foodstuffs. Late in 1955, the Government took new and more energetic steps to slow down the rate of industrial investment and to raise agricultural production.

Finland profited from the high level of demand in 1955 for timber, pulp, and paper, and was able to expand exports at somewhat higher prices. Imports rose by roughly the same amount; the current account surplus was only slightly below that of 1954 and reserves increased somewhat. A general strike early in 1956 hampered the expected further expansion in output and exports.

IV

Internal Monetary and Fiscal Developments

The More Developed Countries

FOR the more developed countries, 1955 was a year of high prosperity. Business confidence everywhere was strong and private investment, especially in fixed capital, reached new high levels. Consumer demand for durable goods also rose strongly. Industrial production was greater than in 1954 in every country in Western Europe and North America and in Japan, and unemployment fell in most countries. Believing the tendency toward expansion to be excessive, monetary authorities in most countries took action to limit the increased demand. Interest rates, particularly short-term rates, rose sharply, and bank lending was checked.

Production, Wages, and Prices

The increase in industrial production varied widely from country to country (Table 20). It was particularly great in West Germany and Austria, but considerably less in the United Kingdom and the Scandinavian countries. The increases in continental Europe are even more striking when viewed in the light of the fact that they followed a period of unprecedented growth, whereas

TABLE 20. CHANGES IN INDUSTRIAL PRODUCTION, SELECTED COUNTRIES

	Percentage Change from Previous Year			Percentage Change from Previous Year	
	1954	1955		1954	1955
United States	−7	11	Austria	14	13
Canada	−2	9	Belgium-Luxembourg	6	9
			France	9	10
United Kingdom	7	5	Germany, Federal Republic of	12	14
			Italy	9	8
			Netherlands	10	7
Japan	9	9[1]			
Denmark	9	0			
Norway	9	4			
Sweden	4	7			

Source: Based on data from International Monetary Fund, *International Financial Statistics*.
[1] Manufacturing production.

increases of comparable size in North America represented a recovery from the recession of 1953-54.

Under the stimulus of rising demand, employment increased in most countries, and in many unemployment fell to new low levels. Particularly satisfactory were the developments in West Germany and in Belgium. In September 1955, the percentage of the labor force unemployed in West Germany fell below 3 per cent for the first time in recent years. In some of the other countries, notably the United Kingdom, the advance of production was impeded by labor shortages.

The tight labor market, together with production advances, was favorable to increases in money wages. The largest increases occurred in France, but those in Sweden, Austria, West Germany, the United Kingdom, Japan, and the United States also exceeded 5 per cent. In Sweden and the United Kingdom, where production increases were below the average in 1955, rising wages tended to push the cost of living up more than in most other industrial countries (Table 21).

In general, prices were fairly stable in 1955 in the developed countries, considering the degree of activity prevailing. Even wholesale prices, which are somewhat more sensitive to inflationary pressures, rose comparatively little. The pattern of change

TABLE 21. PERCENTAGE CHANGES FROM FOURTH QUARTER 1954 TO FOURTH QUARTER 1955 IN WAGES, COST OF LIVING, AND WHOLESALE PRICES, SELECTED COUNTRIES

	Wages	Cost of Living	Wholesale Prices		Wages	Cost of Living	Wholesale Prices
United States	6	0	1	Denmark	...	7	5
Canada	4	0	3	Norway	4	0	1
				Sweden	8	6	6
United Kingdom	7	6	5	Austria	7	3	0
Australia	4	3	5	Belgium	3	1	2
New Zealand	1	2	1	France	12	2	2
Union of South Africa	...	2	4	Germany, Federal Republic of	7	2	3
				Italy	2	2	1
Japan	6	−1	0	Netherlands	1	1	1

Source: Based on data from International Monetary Fund, *International Financial Statistics.*

was much the same for wholesale prices and for the cost of living, with the largest increases in Australia, the United Kingdom, Sweden, and Denmark. In the first months of 1956, the tendency for prices to increase became more widespread.

Financial Measures

The balance of payments of most industrial countries developed favorably from 1954 to 1955. Nevertheless, some of these countries encountered payments problems. Particularly in the United Kingdom, Austria, and the Scandinavian countries, there was some concern early in the year about probable payments developments. These countries took a series of financial measures in 1955 and early 1956 which moderated the growth of demand and reduced the pressure on their international reserves. Unlike the early postwar years, when the first reaction to payments difficulties had usually been to tighten exchange restrictions and other physical controls, most countries relied instead in 1955 and early 1956 on financial action to reduce demand. In the circumstances of the period, restrictive financial action served the double purpose of contributing to internal as well as external stability.

These restrictive financial measures were not limited to countries in balance of payments difficulties. Indeed, almost every developed country applied some restrictive monetary measures. Such action was stimulated primarily by indications of incipient price inflation arising from excessive domestic demand. Timely action of this kind by the large trading countries can be most helpful in moderating general swings in world prices. On the other hand, the determination of surplus countries to prevent increases in their domestic price levels means that deficit countries must take somewhat stronger action to attain external equilibrium.

In early 1955, the restrictive action of the authorities usually took the form of monetary rather than of fiscal measures. The most important measures were directed toward interest rates and the volume of bank credit. In some countries, there were actually some tax reductions, and only later was emphasis given to restraints imposed by budgetary action.

This emphasis on monetary policy was no doubt related to the belief that inflationary pressures were coming mainly from the expansion of private expenditures financed by credit. It seemed logical to direct action at the immediate cause. Moreover, it was also believed that the problems were transitory and that monetary policy, being more flexible than fiscal policy, was the most suitable instrument. As time passed, however, it became evident that the pressures were not short-lived and would not be contained by monetary measures alone. Further, the need for increasing rather than curtailing investment was widely accepted in several of the countries where demand had to be restricted. In the United Kingdom, it was particularly evident that the relatively low rate of investment in manufacturing industry was becoming increasingly damaging to the relative competitive position of the country. Since the effects of monetary policy press more heavily on investment than on consumption, attention turned to budgetary measures, which could have stronger effects on consumption. This trend was reinforced somewhat by acceptance of the extent of the influence that could be exercised upon private investment by technical tax measures, such as the variation of investment and depreciation allowances.

Interest Rates

In many countries, the monetary measures adopted included increases in the central bank discount rate (Table 22). Particularly large increases were made in the United Kingdom and New Zealand. Even in the United States and the Federal Republic of Germany, which were in strong surplus positions, the increases were substantial. On the other hand, in France and Italy there were no changes at all.

The increased central bank discount rates were, in general, accompanied by rising short-term interest rates. Monetary policy was thereby able to exert some restrictive effect on private borrowers who used the short-term market. More important in some countries were its effects on the liquidity of the commercial banks. In the United Kingdom, particularly, the rise in short-term interest rates early in 1955 attracted deposits from the banks into Treasury bills, and thereby reduced significantly the banks' liquidity at that time.

There were also some consequential adjustments of long-term rates of interest. These changes in general were less than those in short-term rates, and the differential between short and long rates which had persisted for the past 20 years narrowed considerably, and even disappeared in the United Kingdom. The rate on

TABLE 22. CENTRAL BANK DISCOUNT RATES, SELECTED COUNTRIES

(In per cent per annum)

	January 1955	April 1956		January 1955	April 1956
United States	1.5	2.75–3.0	Austria	3.5	5.0
Canada	2.0	3.0	Belgium	2.75	3.0
			France	3.0	3.0
United Kingdom	3.5	5.5	Germany, Federal Republic of	3.0	4.5
New Zealand	4.0	7.0	Italy	4.0	4.0
Union of South Africa	4.0	4.5	Netherlands	2.5	3.0
Denmark	5.0	5.5			
Norway	2.5	3.5			
Sweden	2.75	3.75			

Source: International Monetary Fund, *International Financial Statistics.*

U.K. Treasury bills rose from 1.79 per cent in December 1954 to 5.18 per cent in March 1956, while the yield on 2½ per cent consols rose only from 3.76 per cent to 4.65 per cent, leaving the long-term rate 0.53 per cent below the short-term rate. Less extreme, but nevertheless considerable, were the changes in Canada and the United States, where the spread between the yields of Treasury bills and of long-term government securities fell in the same period by 1.23 per cent and 0.81 per cent, respectively.

Part of this narrowing probably came from the market expectation that the credit tightness would be temporary and that interest rates would soon fall. Also, the authorities in many countries were apparently less directly concerned with the restrictive effects obtainable in the long-term market than with those in the short-term market. The measures taken to tighten conditions in the short-term market caused a sharp rise in short-term rates. The long-term market was usually permitted to respond to these movements, partly because it would have been a contradiction of the policy that was being pursued to prevent the upward adjustment of long-term rates by expanding central bank credit. But in general the authorities did not take direct action to increase the effects of credit policy upon the long-term market. Central banks did not push sales of long-term securities, nor did finance ministries increase the total of long-term issues at the expense of short-term issues. The absence of direct pressure on the long-term market somewhat reduced the effectiveness of monetary policy, for the long-term interest rate not only affects a wide range of private investments, but also in some countries limits the expansion of bank credit by reducing the willingness and the ability of the banks to acquire funds by the sale of securities. This period consequently does not provide a thorough test of the methods whereby monetary policy can be made effective.

The increases in the yields of long-term government bonds were generally less than one-half percentage point in 1955 (Table 23), and the changes that did occur must be considered small in the context of expansive business investment plans. That action in the short-term market is not the only means of exercising monetary restraint is suggested by the fact that the rise in long-term rates was almost as large in Switzerland and Italy, countries taking no discount rate action, as in most countries actively using the short-term rate for disinflation.

TABLE 23. YIELDS ON SELECTED LONG-TERM GOVERNMENT BONDS

(*In per cent per annum*)

	December 1954	December 1955	Change		December 1954	December 1955	Change
United States	2.57	2.88	0.31	Belgium	4.20	4.17	−0.03
Canada	3.05	3.38	0.33	France	5.36	5.15	−0.21
				Germany, Federal Republic of	5.03	4.99	−0.04
United Kingdom	3.76	4.39	0.63	Italy	6.02	6.38	0.36
Australia	4.51	4.53	0.02	Netherlands	3.22	3.40	0.18
New Zealand	4.05	4.38	0.33	Switzerland	2.74	3.07	0.33
Union of South Africa	4.25	4.62	0.37				
Denmark	5.47	5.62	0.15				
Norway	2.75	3.14	0.39				
Sweden	3.37	3.75	0.38				

Sources: International Monetary Fund, *International Financial Statistics*, and Bank deutscher Länder.

Other Restraints on Credit

In addition to restricting the availability of credit through increased interest rates, monetary authorities in several countries attempted to reduce the volume of bank credit by appealing to the banks to restrict loans voluntarily. Such an appeal was made in the United Kingdom in July 1955, and there were similar appeals in other sterling area countries and in Scandinavia. Although these appeals generally seem to have been helpful, the effects of voluntary cooperation for quantitative limits on bank lending, which involves the suspension of competition, are likely to be short-lived.

The check on bank advances was also supplemented by direct control measures on other sources of capital. For example, in some countries the terms prescribed for consumer credit were made more stringent. In the United Kingdom, the control of capital issues was tightened early in 1956 by a reduction in the limit above which approval is required. In Norway, the reduction of State Bank housing loans was continued, so that less public money was available for housing.

The measures taken in the sterling area countries, in Austria, and in Scandinavia checked the growth of bank credit to the private sector in the second half of 1955, and in these countries the trend was in sharp contrast to the preceding rapid expansion of credit (Table 24).

TABLE 24. INDICES OF COMMERCIAL BANK LENDING[1] TO PRIVATE SECTOR, SELECTED COUNTRIES

(December 1953 = 100)

	December 1954	1955 June	1955 December		December 1954	1955 June	1955 December
United Kingdom	112	128	111	Norway	109	114	114
Australia	113	118	119	Sweden	110	110	105
New Zealand	122	135	130	Austria	117	123	125
Union of South Africa	113	126	119				

Source: Based on data in International Monetary Fund, *International Financial Statistics*.
[1] Including any holdings of private securities.

North America

The contrast in 1954 between booming production in Western Europe and reduced production in North America disappeared in 1955. Strong demand increases in the *United States* caused a rapid expansion of industrial production. The expansion was based entirely on growing private demand, for from 1954 to 1955 government expenditures fell by a further $1 billion, and it drew some strength from a revival of demand for durable consumer goods, especially automobiles. But demand was also affected by the pervading confidence in continuing prosperity which made consumers more willing to incur debt and lenders more willing to supply consumer and mortgage credit. Equally, manufacturers' confidence was translated into large-scale plans for fixed investment. This confidence was maintained, despite the weakness in the agricultural sector, which stemmed from special long-term supply problems.

In view of the high level of demand, particularly of demand financed by credit, the Federal Reserve System took action to moderate the growth of private credit. Discount rates were raised four times in 1955, and again in April 1956. The 3 per cent rate reached in April 1956 by the Federal Reserve Banks of San Francisco and Minneapolis was the highest since 1933, and in the following weeks the yield of Treasury bills was also higher than at any time since that year. Open market policy likewise was directed at restraining the volume of reserves available to the banks, but the authorities did not attempt to stop all growth of bank credit. Commercial banks substantially reduced their holdings of government securities, thereby obtaining resources which enabled them to expand loans to the private sector by 16 per cent in 1955.

In *Canada,* demand was buoyant in 1955, and production rapidly expanded, reversing the slight downward movement in 1954. The upswing was assisted in the first half of the year by an easy credit policy and some reduction in taxes. In the second quarter of 1955, bank loans started to rise rapidly after 18 months of stability. Later in the year, when the recovery was well established, the objective of monetary policy became one of offering increasing resistance to further expansion. The discount rate, which for some months in the middle of the year had been below the U. S. discount rate, was raised in three stages between August and November from 1½ per cent to 2¾ per cent, which was higher than the rate in the United States at that time. Toward the end of the year, the Bank of Canada discussed with the commercial banks the rapid rise in bank credit and its implications in view of the high level at which the economy was operating. The banks agreed, with minor exceptions, not to make any new "term" loans or direct purchases of long-term corporate securities from issuers. The Bank of Canada also obtained from the commercial banks an undertaking to endeavor to raise their liquid assets to 15 per cent of deposits by May 1956. The bank rate was further increased in April 1956, to 3 per cent.

Sterling Area

Whereas in Canada and the United States monetary policy was used to moderate expansion of credit, in the *United Kingdom* it was applied to the more exacting task of helping to contract it. The continued fall of gold and dollar reserves in 1955, together with an accelerated rise of wages and prices, led to a series of corrective measures. Early in 1955, the bank rate was raised from 3 per cent to 4½ per cent. This was followed by a sharp rise in short-term interest rates and by increased pressure on the banks, as depositors withdrew funds for direct investment in Treasury bills. However, bank advances continued to grow, financed by sales of government securities. In July 1955, the pressure which falling liquidity placed on the banks was supplemented by an appeal from the Chancellor of the Exchequer for a reduction of bank advances. In the second half of the year, advances fell significantly, part of this being attributable to the funding of advances to the nationalized industries. The gold and dollar reserve position did not improve, however, and in October a supplementary budget was introduced. Taxes were increased, housing subsidies reduced, and the unconditional access of local governments to Treasury borrowing was withdrawn.

Demand continued high in early 1956. Unfilled vacancies for labor continued to exceed by a large margin the small number of wholly unemployed. Wages were rising more rapidly than productivity, and the cost of living increased more than in most other industrial countries. In February 1956, the Bank of England announced a further rise in the bank rate, to 5½ per cent. Short-term interest rates were again forced up, Treasury bills giving a yield of 5.18 per cent in March. But long-term rates rose relatively little, the yield on consols, which in December 1955 had been 4.39 per cent, increasing only to 4.65 per cent. In February 1956, the Government suspended the arrangement introduced two years earlier for investment allowances for tax purposes and introduced more stringent hire-purchase conditions and control of public investment and private borrowing. The 1956-57 budget, introduced in April 1956, again emphasized the restriction of demand by encouraging saving, making small additions to taxes, and planning a reduction in government expenditure.

In the overseas sterling area, Australia, New Zealand, and the Union of South Africa, rising demand in early 1955 had been fed by a considerable expansion of bank credit. During the year, this expansion was checked in each of these countries. The primary part of this change was played by the external deficit, to the extent to which it affected the liquidity of the banking system. In addition, however, the authorities took important restrictive action. In order to discourage borrowing from the central bank, *New Zealand* raised the discount rate to 7 per cent, which was considerably above the maximum bank overdraft rate of 5 per cent. Active use was also made of the power to vary reserve requirements to make the discount rate effective. Long-term interest rates advanced a little in 1955 and were raised again in 1956. In contrast to most of the more highly developed countries, *Australia* used more stringent import restrictions. Central bank policy was aimed at checking the growth of expenditure which endangered both internal and external stability. The decline in exchange reserves was allowed to have a progressively heavier impact on bank liquidity. Appeals were made for voluntary restraint both by the banks and by organizations providing consumer credit. From the middle of 1955, bank credit began to decline slightly. Early in 1956, the authorities reduced substantially their support of government bond prices, bank interest rates were increased, and fiscal measures increased taxation by roughly 10 per cent. In *South Africa,* inflationary pressures were somewhat milder. Interest rates were increased, but during most of the year the short-term rate was kept significantly lower than that in the United Kingdom. In September 1955, the South African Government increased both the bank rate and the interest rate on government bonds, thus bringing the South African rate structure into line with rates in London. When the latter were again raised early in 1956, however, the South African Government, anxious to avoid a contraction of domestic activity, especially of building, did not follow suit. Instead, it placed restrictions on capital movements to the sterling area; capital transactions by South African residents with other sterling area countries were made subject to licensing, with the exception of purchases of South African shares in London.

Continental Europe

In Europe, the tightening of monetary policy was most pronounced in the Scandinavian countries and West Germany. In *Denmark,* the already strongly restrictive monetary policies were continued throughout 1955; at the same time, there was renewed emphasis on fiscal measures to reduce consumption, and housing construction was limited by a reduction of building licenses and a substantial decrease in the government funds available for mortgages. In Sweden and Norway, there were significant increases of interest rates; in Norway, the discount rate was raised for the first time in the postwar period. However, the primary emphasis in *Norway* seems to have been given to direct negotiation with the banks to limit lending and to the continued reduction of State Bank housing loans. In *Sweden,* the liberal rules on tax-free amortization of fixed investment were curtailed, and increases in corporate taxes were introduced to check the upward trend of prices. A country-wide agreement was accepted by the Swedish trade union movement, which provided for a wage increase in 1956 of about 4 per cent, roughly comparable to the estimated increase in production.

In the *Federal Republic of Germany,* production rose very rapidly in 1955, but for the first time the number of unemployed fell to a point where it no longer provided a cushion preventing further expansion of demand from being translated into price increases. Its past history has made Germany particularly aware of the dangers of inflation, and the authorities acted to maintain a restrictive pressure on demand. Discount rates were raised three times, reaching 5½ per cent in May 1956. The Government continued to run a substantial cash surplus, owing to rapidly mounting revenues and a lag in budgeted expenditure.

A substantial increase in bank credit and a deteriorating payments position led *Austria* to intensify credit controls in 1955. The discount rate was raised in May and November, and quantitative restrictions on commercial bank credit were reinforced and extended to other credit institutions.

France and *Italy* took no important restrictive monetary measures. In both countries, the rise in production was sufficient to permit a significant increase in the money supply without inflationary effects. For France, however, some inflationary pressures re-emerged in the winter of 1955-56 as a result of events in Algeria and of a severe winter which reduced agricultural production, and prices accordingly rose.

Belgium and the *Netherlands,* both countries with satisfactory foreign payments positions, also took relatively mild monetary measures in the past year. The central bank discount rate was raised in both countries. There were some significant tax reductions in the Netherlands, the effects of which, however, were partly offset by speeding up tax collections and by reducing depreciation allowances.

Japan

Prices remained stable in Japan throughout 1955. Production expanded, although the corresponding increase in employment was less satisfactory. Private banks continued their repayment of loans from the central bank until by December 1955 these debts had been considerably reduced. In the past, the monetary authorities had been able to exercise considerable influence over commercial bank operations by varying the conditions on which central bank credit was made available to them. In view of the diminished reliance of the commercial banks upon rediscounting with the central bank, it became necessary to develop new techniques of control. The first steps in this direction have been taken by selling government bonds to the banks.

The Less Developed Countries

Although internal prices, as measured by cost of living indices, were stable or declined slightly in 1955 in a number of less developed countries (Table 25), inflationary pressures continued to be strong in many of them. The rate of price increase exceeded 10 per cent in Chile, Bolivia, Indonesia, Korea, Paraguay, Brazil, Turkey, Nicaragua, Mexico, Thailand, and Burma. In several of these countries, the inflation of 1955 was a continuation of the experience of earlier years.

Expansion in effective demand will usually be excessive if the money supply increases much more rapidly than the growth of the economy. In more than half of the countries shown in Table 25, the rate of increase of the money supply in 1955 exceeded 10 per cent, and several of them encountered inflationary pressures that resulted in substantial price rises.

In some of the countries where there were comparatively moderate increases in the money supply in 1955, domestic credit expansion would have resulted in a considerably greater increase in the money supply if there had not been a partially or wholly offsetting reduction in the foreign assets of the banking system. Significant reductions of foreign asset holdings in Colombia, Egypt, El Salvador, Honduras, the Philippines, and Uruguay reflected import surpluses.

On the other hand, the large increases in the money supply in Mexico and Ceylon can be attributed to balance of payments surpluses and the accumulation of foreign exchange reserves. *Mexico,* for example, has added large amounts to its reserves since the devaluation of the peso in April 1954. While the money

TABLE 25. PERCENTAGE CHANGES IN MONEY SUPPLY AND COST OF LIVING, SELECTED COUNTRIES, 1954 AND 1955

Countries Classified by Percentage Increase in Money Supply, 1955	Money Supply[1]		Cost of Living[1]	
	1954	1955	1954	1955
Increase below 5 per cent				
Honduras	15	−12	8	1
Ecuador	17	−6	5	−1
Uruguay	8	1[2]	8	10
Cuba	1	3	−1	1
El Salvador	10	3	7	—
Nicaragua	13	3	13	16
Egypt	−3	3	−3	—
Costa Rica	12	4	7	2
Increase, 5 to 10 per cent				
Colombia	19	5	1	2
Iraq	21	6	3	6
Peru	6	7	5	4
Philippines	—	7	—	−4
Iran	2	9	12	−2
Increase, 11 to 20 per cent				
Guatemala	2	11	2	3
Venezuela	4	11	2	3
India	8	11	−5	−5
Ceylon	15	12	1	—
Dominican Republic	14	14	−1	−1
Thailand	11	14	−7	15
Argentina	16	15[3]	16	7
Lebanon	13	17	−3	4
Indonesia	46	17	11	36
Brazil	22	18	23	17
Pakistan	7	18	−2	−3
Israel	9	20	7	5
Mexico	12	20	12	16
Increase above 20 per cent				
Burma	10	28	−5	14
Paraguay	24	33	18	23
Turkey	9	35[4]	9	17
Korea	95	66[3]	50	30
Chile	52	70	71	84
Bolivia	81	105[5]	99	73

Sources: International Monetary Fund, *International Financial Statistics;* United Nations, *Monthly Bulletin of Statistics;* Economic Commission for Asia and the Far East, *Economic Survey of Asia and the Far East;* Bank of Korea, *Monthly Statistical Review;* Central Statistical Office (Buenos Aires), *Síntesis Estadística Mensual de la República Argentina.*

[1] Changes are from end of one year to end of following year.

[2] Change from November 1954 to November 1955.

[3] Change from October 1954 to October 1955.

[4] Currency only.

[5] Change from September 1954 to September 1955.

supply increased by 20 per cent in 1955, the foreign assets of the Mexican banking system rose by an amount equal to 32 per cent of the 1954 money supply. Strict credit and budgetary policy not only prevented any secondary credit expansion arising from the increase in foreign assets, but also offset one third of its direct effects. Prices continued to rise in 1955, and by December they were 30 per cent higher than at the time of the 45 per cent devaluation in April 1954. But the rate of price increase has slowed down, wholesale prices increasing by only 3 per cent in the six months ended March 1956.

Several countries which had been suffering from serious inflation took steps to control the situation in 1955 and early 1956. In *Chile,* where inflation had been a continuing problem for many years and the rate of price increase accelerated in 1955, a comprehensive program of fiscal and monetary reforms was adopted early in 1956, with a view to curbing inflation and insuring internal stability. As part of this program, the Government overhauled the exchange system, as noted elsewhere in this Report, limited the traditional automatic annual increases in wages to one half of the cost of living increase in 1955, and adopted measures to restrict credit through portfolio ceilings and tightening of rediscount policy. Measures were also proposed to Congress to increase revenues and reduce public expenditures. In the first quarter of 1956, the rate of increase in the cost of living was less than one half, and in the expansion of bank credit approximately one half, of the rate in the first quarter of 1955.

Indonesia made a fairly successful effort to reduce its budget deficit in order to ease inflationary pressures. During the second half of 1955, government borrowing from the banks declined for the first time in several years; but credit expansion to the private sector, which had been more or less under control in 1954, increased rapidly during the entire year. However, steps were taken to control the availability of bank credit to the private sector, including more stringent requirements for prepayment on imports.

Prices continued to rise in *Argentina* in 1955, though less sharply than in the last months of the previous year. The Government increased taxes in early 1956, and also levied a special nonrecurrent tax equivalent to 20 per cent of income and excess profits tax liabilities of 1955. Price controls, which had been relaxed at the end of 1955, were again tightened. The stabilization of wages was also attempted, but in February 1956 an emergency wage and salary increase of 10 per cent was permitted. Despite the taxation increases, the 1956 budget still showed a deficit equal to about one third of total government revenue.

Turkey was one of the few less developed countries that changed its bank rate in 1955, the discount rate of the central bank, which had remained unchanged since February 1951, being raised in June 1955 from 3 per cent to 4½ per cent. In *Syria,* a program to check the rapid expansion of bank credit included a small increase in the discount rate and, more important, the establishment of minimum cash reserves and the prescription of advance deposits for opening letters of credit. Reserve requirements in *Bolivia* were raised in October 1955 from 20 per cent of demand deposits and 10 per cent of time deposits to a uniform percentage of 40 per cent against both types of deposit. *Colombia* in April 1956 reimposed a supplementary reserve requirement of 60 per cent against increases in demand deposits, practically doubled the advance deposits required from importers, and took other measures to limit bank credit. In *Israel,* the authorities tightened credit restrictions in late 1955 by requiring authorized banks to obtain cash deposits from importers for the opening of documentary credits.

In *Peru,* a penalty charge on commercial bank reserve deficiencies was introduced in September 1955. This penalty rate was raised in November, while reserve requirements against increments over the November level in bank deposits were increased from 50 per cent to 70 per cent for sight deposits and from 25 per cent to 35 per cent for time deposits. There was also a slowing down of public investment.

In *Burma,* the adverse payments developments described earlier led the authorities to take substantial financial measures. Drastic reductions were decreed in government expenditures in 1955-56, especially on new development projects, and the estimated budget deficit was reduced to about 40 per cent of the deficit in 1954-55.

India provides an example of the manner in which a less developed country, not highly dependent on foreign trade, can finance fairly large development expenditures without inflationary pressures. The year under review marked the end of India's First Five Year Plan, which had been implemented without any inflation during the period as a whole. Although the planned development outlays were not fully realized, the goal of a 5 per cent increase in per capita real income had been achieved by 1953-54, the third year of the Plan. A cautious credit policy was maintained throughout, and the absence of inflationary pressure was also due in part to the emphasis given to increasing production of food and to favorable weather conditions. There was some upward movement of prices in the early months of 1956. A Second Five Year Plan adopted for the period ending in 1960-61 has the objective of raising national income by 25 per cent, compared with an estimated 18 per cent increase during the first Plan. It contemplates the provision of additional employment opportunities which will be adequate not only to absorb the increase of about 10 million persons in the working population during the Plan period but also to reduce underemployment. In the Second Five Year Plan, there is a significant gap between planned expenditures and the resources likely to be available, and greater emphasis is to be placed on heavy industries.

Several countries took steps during the past year to improve the structure of their financial institutions. Central banks were established in Libya, and the Federation of Rhodesia and Nyasaland; Syria, Malaya, and the Gold Coast are contemplating, or have taken steps for, the establishment of such institutions.

V

Exchange Practices and Payments Arrangements

Exchange Stability and the System of Par Values

The Fund's Articles of Agreement, recognizing that changes in exchange rates are matters of international concern, established a procedure by which international status is accorded to each member's national exchange parity. Members are required to apply these par values in determining the range of exchange rates within which exchange transactions in their territories take place. Changes in par values may be made only on the initiative of the member and in order to correct a fundamental disequilibrium, and, with minor exceptions, only with the approval of the Fund. The Fund has always recognized that in some circumstances a new exchange rate is an indispensable condition for establishing the conditions necessary to enable a country to discharge its international obligations without undue pressure upon reserves, and has never sought to insist on the maintenance of an exchange rate that is unsuitable for the economy of a country. The Fund's general position on the par value system, formulated in the light of experience gained since 1946, was stated in the Annual Report for 1951 (pp. 36-41). The Fund has concurred with the par values proposed by 49 of its members. In September 1949, 13 members made changes in their par values with the approval of the Fund, and there have since been similarly approved adjustments of par value by 9 other members.

Changes in Par Values

During the fiscal year ended April 30, 1956, three changes in members' par values were made in agreement with the Fund. The Fund concurred in a proposal by the Government of *Nicaragua* for a change in the par value of the córdoba from 5 córdobas to 7 córdobas per U. S. dollar, effective July 1, 1955. At the same time, the Nicaraguan exchange system was considerably simplified by the elimination of surcharges of 1 córdoba and 3 córdobas per U. S. dollar, which had been applied to less essential imports and to most invisibles, of a preferential selling rate, equivalent to the old par value, which had been used for government payments, and of an exchange tax on payments for some invisibles. The new system temporarily retains a differential buying rate of 6.60 córdobas per U. S. dollar for export proceeds, while all imports and other transactions in the official market now take place at the new par value. A fluctuating free market, in which a somewhat more depreciated rate prevails, is used primarily for tourist and similar transactions.

The new par value had been the basic rate in the system established by the exchange reform of late 1950, which included the multiple rate practices mentioned above. Since 1950, production and exports, especially of cotton, have increased rapidly, with consequent improvement in the payments position of Nicaragua. In 1954 and 1955, some inflationary pressures appeared, as a result of liberal extension of bank credit and increased public investment, and the payments position tended to weaken somewhat, partly also as a consequence of a decline of export prices.

On July 31, 1955, with approval of the Fund, the Government of *Pakistan* changed the par value of the Pakistan rupee from 3.31 rupees to 4.76 rupees per U. S. dollar. The devaluation followed a period in which, under the impact of increased competition in agricultural raw material world markets, the prices of Pakistan's exports had been declining, while the prices of home consumed goods moved upward because of the monetary expansion induced by the financing of large capital expenditures. Devaluation, therefore, had the effect of restoring in part the share of the export sector in national output and of reducing the windfall profits accruing to importers. At the same time, by bringing domestic costs into better alignment with external price movements, it facilitated the marketing abroad of surpluses of industrial goods that were developing as a consequence of the intensive industrial efforts of recent years. In order to damp down the inflationary effects of devaluation, the Government increased the taxes levied on the principal export commodities.

The Fund also concurred in a proposal by the Government of *Paraguay* for a change in the par value of the guaraní from 21 guaraníes to 60 guaraníes per U. S. dollar, effective March 1, 1956. At the same time, Paraguay carried out a simplification of its complex multiple rate system under which effective import and export rates had ranged from 21 guaraníes to 75 guaraníes per U. S. dollar. Under the new exchange system, the par value is the effective exchange rate for all transactions except payments for some less essential imports and related services, which are subject to a surcharge of 25 guaraníes per U. S. dollar, and capital transactions and certain invisibles, which are conducted in the free market. The immediate cause of the change in the par value of the guaraní was a sudden deterioration in the terms of trade and the payments position of Paraguay, after the removal in October 1955 of the arrangements whereby Argentina had given preferential treatment to Paraguayan exports. The fundamental cause, however, was related to the continued inflation and distortions in the Paraguayan price system, which resulted in a stagnation of production, made difficult the flow of exports, and created an excessive demand for imports. Changes in the exchange system were accompanied by the adoption of a broad stabilization program, the main features of which are quantitative restrictions on bank credit and the coordination of fiscal, investment, and exchange policies, with the objective of maintaining the money supply at appropriate levels conducive to economic stability.

In *Canada,* which decided in September 1950 that temporarily its exchange rate could not be maintained within the specified margins of the par value previously agreed with the Fund, the exchange rate weakened in 1955, from Can$1.00=US$1.0331 in December 1954 to Can$1.00=US$1.0005 in December 1955; for the year, it averaged about 1.3 per cent less than in 1954. The decline took place in two steps in February-March and in October, the rate during each of the other months being steady within a range of 1 per cent. For the first time since early 1952, the Canadian dollar was quoted below US$1.00 at certain dates in November and December. Subsequently, the rate was steady through March 1956, but by April 30 it had moved to US$1.0050.

The decline in the exchange value of the Canadian dollar during 1955 accompanied an increase over 1954 in the current account deficit and a slackening in the long-term capital inflow. The rate was supported, however, by a greatly increased inflow of short-term capital, and total capital receipts increased moderately over the year as a whole.

The initial decline in the exchange rate in February 1955, which was noted in last year's Annual Report, occurred at a period of normal seasonal deficit on current account. The narrowing in 1955 of the differential between Canadian and U. S. interest rates, which was the result of differences between the monetary policies of the two countries reflecting in part differences in the timing of recession and recovery, discouraged Canadian bond flotations in New York and led U. S. residents to liquidate their Canadian bond holdings on a substantial scale. These effects were offset only in part by substantial nonresident purchases of Canadian stocks, to some extent attributable to tax advantages available to U. S. residents from particular forms of such investment. There was little change in direct investment between 1954 and 1955.

The fall in the exchange rate during the latter part of the year accompanied a rapid and counterseasonal increase in the current account deficit, resulting from rising imports brought about by the expansion of domestic activity. Long-term capital receipts also fell off, mainly as a result of reduced nonresident purchases of Canadian stocks. There were, however, substantial receipts of short-term funds, arising from commercial borrowing, and a decline in private Canadian holdings of foreign exchange, especially during the fourth quarter, when the exchange rate was declining. Credit conditions in Canada tightened during the second half of the year, and, instead of net sales of outstanding Canadian bonds by non-residents, there were small net purchases during the fourth quarter, and toward the end of the year a resumption of new issues in New York, mainly by Canadian public borrowers.

Canadian official reserves of gold and U. S. dollars fell by $42 million during 1955, to US$1,901 million on December 31. Official intervention to maintain orderly market conditions led to some support for the rate during the periods of exchange weakness in February and October, and there were additional drafts on reserves in February in connection with the official repatriation of US$50 million of Government of Canada bonds payable in U. S. funds. However, there were net purchases of exchange in March and again around the middle of the year, as the rate steadied. In January 1956 the Government retired a US$48 million bond issue payable in U. S. funds, and by April 30 reserves had fallen to US$1,865 million.

Exchange stability has continued to be the objective of the basic exchange policy of *Peru,* which in November 1949 decided that temporarily its exchange rate could not be maintained within the specified margins of the par value agreed with the Fund. In the certificate market, with some regulatory intervention by the Central Reserve Bank, the exchange rate remained unchanged at 19 soles per U. S. dollar. In the subsidiary free exchange market, where invisible payments and capital transactions take place, and in which the Central Reserve Bank does not operate, the rate fluctuated within fairly narrow margins. The U. S. dollar rate moved from slightly over 19 soles in April 1955 to approximately 19.30 at the end of April 1956.

In *France,* which in 1948 changed the agreed par value of its currency, and has not yet agreed with the Fund on a new par value, the exchange rate established at the time of the devaluations of September 1949 has since been maintained. During the past year, it continued to be approximately 350 French francs per U. S. dollar.

During the year under review, three Fund members, Thailand, Chile, and Iran, effected a substantial unification of their exchange rates. In Chile and Iran, which have agreed par values, the effective rate applied to the great majority of transactions differs from the par value, and multiple rates are maintained for certain limited purposes.

The unification of the exchange system of *Thailand* was practically complete by the end of 1955. The flow of export proceeds to the free exchange market, which had been stimulated by the reform of the rice export policy on January 1, reported in last year's Annual Report, was further widened on August 13, when all surrender requirements at the official rate for export proceeds of rice and tin were abolished. After the abolition on September 15 of surrender requirements at the official rate for rubber export proceeds, the free market rate was applicable to the whole of the exchange proceeds of Thailand's exports.

Beginning January 1, 1956, government transactions and student remittances, which previously had been settled at the official rate, were transferred to the free market. At present, therefore, all Thailand's foreign exchange transactions are effected at the fluctuating free market rate. An Exchange Equalization Fund, which was established in July 1955 from part of the profits of the revaluation of exchange reserves in order to prevent undue fluctuations in the U. S. dollar rate, started operations toward the end of August. The baht has since strengthened considerably, and at the end of April 1956 the rate was 20.87 baht per U. S. dollar, compared with 22.11 baht at the end of August 1955 and a low of 22.56 baht at the end of May 1955.

The baht also appreciated in terms of sterling in which the Equalization Fund does not operate at present; at the end of

April 1956, the sterling exchange rate was 58.21 baht per pound, compared with a low of 62.59 baht at the end of May 1955. After falling during 1954, the dollar-sterling cross rate moved toward parity during 1955 and early 1956; at the end of April 1956, it was £1=$2.79.

Fundamental changes in the exchange system of *Chile,* which became effective in late April 1956, entailed a considerable simplification of its multiple rate structure and the abolition of its import licensing system. This was part of a general program intended to re-establish the stability of the Chilean economy. Prior to the change, most trade, registered capital, and some other invisible transactions took place at the rate of 300 pesos per U. S. dollar. Some essential imports were permitted at the rate of 200 pesos per U. S. dollar. For minor exports there was a mixing system based on the fluctuating free market rate and the 300 pesos rate. Some invisibles not directly related to trade, capital transactions, and some other minor transactions were also effected through the free market.

The new exchange system provides for two fluctuating free markets: a Banking Free Market for all permitted imports and exports and associated invisibles, certain registered capital items, and government and semigovernment transactions; and a Brokers' Free Market for capital and invisible transactions not permitted in the Banking Free Market. The authorities will intervene in the Banking Free Market if necessary to maintain orderly conditions. Imports had previously been regulated by means of licenses granted to established importers in accordance with individual quotas. Under the new system, the importation of a large number of commodities is permitted without license, and other imports are prohibited. Imports are subject to advance deposits in local currency, varying from 5 per cent to 200 per cent of their value, depending on the commodity.

The par value which was established in October 1953 is no longer applicable to any exchange transaction. At the opening of operations in the new exchange market, the rate for the U. S.

dollar was 490 pesos in the Banking Free Market, and 500 pesos in the Brokers' Free Market.

In *Iran,* equality between the free market rate for Category II imports and the Category I rate was maintained by official intervention for several months until March 1956, when the Category II rate was formally eliminated, and a uniform effective rate of Rls 75 per U. S. dollar (buying) and Rls 76.50 per U. S. dollar (selling) was established for all commercial and most noncommercial transactions.

In Lebanon and Syria, the great majority of exchange transactions take place at rates that are not governed by the par values agreed with the Fund. In *Lebanon,* the exchange market continued to be stable during 1955 and early 1956; the U. S. dollar rate fluctuated between LL 3.22 and LL 3.26. In order to build up reserves, mainly of gold, there were some official purchases in the exchange market, mainly of U. S. dollars. In *Syria,* as a result of official intervention, the free market rate for U. S. dollars remained steady at LS 3.56-3.57. There were minor fluctuations in rates for other currencies. While broken cross rates still exist in both countries, the degree of disparity has diminished. The sterling-dollar cross rates, which were about $2.72 to the pound at the end of 1954, moved to $2.77 by the end of 1955.

There are nine members of the Fund, Afghanistan, China, Greece, Indonesia, Israel, Italy, Korea, Thailand, and Uruguay, with which initial par values have not yet been agreed with the Fund. In *Italy,* the official exchange rate of approximately 625 lire per U. S. dollar has been maintained since its establishment shortly after the devaluations of September 1949. *Greece* has maintained the official rate of 30 drachmas per U. S. dollar.

Current Position with Respect to Restrictions and Discrimination (including bilateralism)

Foreign exchange restrictions impose a less serious obstacle to international commerce today than at any time since the outbreak of World War II. Although there are still substantial exchange restrictions and discrimination, the trend toward convertibility which was noted in 1953 and 1954 has been maintained. Indeed, in 1955 and the early part of 1956, progress toward an international system of freer trade and payments was probably greater than in 1954. Throughout a large area, economic factors of price and quality are permitted to play a larger role than when last year's Annual Report was written. There were no dramatic changes of policy during the year. The important fact, however, is that the changes have generally pointed in the direction of less and less exchange and trade restriction, and that there is a widespread and genuine conviction that this is the right direction. It was to be expected that, from time to time, individual countries would be confronted with a recrudescence of balance of payments difficulties. They have, however, shown little disposition to regard a return to exchange controls as the appropriate remedy, although some countries have felt obliged to reintroduce controls temporarily as a means of checking declines in their reserves.

The economic conditions of the previous year and the administrative actions that were then taken laid the foundations upon which this progress was in large part based. During 1955, there was further general improvement in balances of payments and reserves, particularly in Western Europe, though sterling area reserves declined during the year. Further use was also made of the facilities for the transfer of payments among members, particularly through the use of sterling and the deutsche mark.

The extension of transferability is illustrated by the facilities granted by several members of the European Payments Union (EPU) to certain other countries to convert holdings of their currencies into some or all other EPU currencies. Some of these countries made it possible for Finland to exchange part of the Finnish balances of their respective currencies into other EPU currencies, and France extended similar facilities to Argentina, Mainland China, and Hungary. Residents of most sterling area countries are allowed to accept payment in any of the so-called "specified" currencies (which include the major world currencies) for exports to countries in the transferable account area. In its transactions with some other countries, Egypt has, by using transferable sterling facilities, been able to reduce the volume of dealings in Egyptian pounds at depreciated rates. As new payments agreements have been concluded by the Federal Republic of Germany, and the number of countries with which Germany has maintained a bilateral payments basis has diminished, the use of partly convertible deutsche mark by foreign traders has risen sharply. The authorization by the U.K. authorities of official intervention in the foreign markets that deal in transferable sterling, and the reduction in the discount on transferable sterling in these markets, have also been important factors in the continued movement toward a freer international payments system. The transferable sterling-dollar rate, after weakening from about $2.77 in February 1955 to about $2.76 in September, had recovered to $2.78 7/16 by the end of April 1956, when the official market rate for sterling was $2.80 23/32, and the security sterling rate was $2.77 3/4.

As a result of all these developments, many member countries have been able to take both individual and concerted steps toward convertibility through the reduction of restrictions, discrimination, and bilateral practices. They have taken advantage of the opportunity provided by the generally favorable state of reserves to reduce restrictions, and thus discrimination, against dollar goods. In some of them, the discriminatory effect of exchange controls and restrictions has been eliminated, particularly with respect to imports. During the past year, dollar import lists were further enlarged by many countries, and the OEEC countries continued their efforts to extend dollar liberalization. Simultaneously, the establishment of conditions of wider transferability and the progressive elimination of bilateral agreements permitted the reduction of restrictions on non-dollar payments and thus reduced the extent of discrimination between non-dollar countries.

The question has sometimes been raised whether some countries have not been too slow in responding to favorable developments in their payments situation, and in particular whether discriminatory practices have not been maintained when they were no longer justified by the current balance of payments position. Governments often insist upon the necessity for caution; they are understandably anxious to avoid being compelled by unfavorable developments to reverse decisions already made. Since they have to take the responsibility for any errors made in estimating the short-run consequences of the relaxation of restrictions, their assessment of the likelihood of these consequences will be conservative. No external authority can claim to be in a better position to make this assessment. But the Fund's consultations with its members serve to bring more clearly into focus the extent to which various exchange and trade controls, including bilateral arrangements and other forms of discrimination, are based upon considerations of commercial policy now that the importance of balance of payments pressures has diminished.

There has, indeed, been real progress in getting rid of discrimination, even if some countries may have been unduly cautious in this respect. In most, though not in all, cases where payments discrimination is applied on balance of payments grounds, it is directed against exports from the dollar area; but, generally speaking, dollar area exporters now have to face much less stringent discriminatory restrictions than they did a few years ago. The machinery of the Fund makes it possible for any members that believe themselves to be injured by discriminatory treatment to seek an examination by the Fund of the circumstances which have produced this situation, and in Fund consultations with its members this problem is kept continuously under review. In the light of recent balance of payments and external reserve developments and of the decreasing differences in the extent to which different currencies are acceptable in international financial settlements, the Fund believes that it is justified in continuing to urge its members, with appropriate consideration of their individual circumstances, to take advantage of the opportunities which exist for further reduction in discrimination. Its decisions in particular cases reflect the view that it is more important to deal with the fundamental causes of the situations from which restrictions spring than to attempt to impose rigid conformity with rules which may be beyond the power of some of its members to observe in present circumstances.

Consideration has been given during the past year to what Fund policy might be with regard to the use of restrictions by underdeveloped countries when convertibility has been established for the major currencies. The use of restrictions by underdeveloped countries to alleviate their balance of payments difficulties stems in part from balance of payments uncertainties to which countries that export only a few primary products are particularly liable, or from their efforts to speed up economic development. In this connection, it may be noted that the proposed revision of the General Agreement on Tariffs and Trade contemplates more lenient treatment of restrictions imposed for economic development purposes by "countries which can only support low standards of living and are in the early stages of development." No such distinction is made in the Fund's Articles of Agreement, which contemplate the use of generally applicable criteria. However, when the Fund is asked for approval of payments restrictions, it takes into consideration the particular problems of the country concerned, including problems related to programs for economic development. The reasons for applying payments restrictions on a basis which discriminates among currencies will diminish as progress is made toward the convertibility of major currencies.

Bilateral arrangements involving the use of exchange restrictions have always been of concern to the Fund, because of the adverse effects they may have on the economies of countries which do not participate in them. In the light of the general improvement in recent years in the economic and payments positions of its members, the Fund has found it possible to take more positive action aimed at the reduction and ultimate elimination of such arrangements by its members. In 1955, a thorough examination of bilateral arrangements was undertaken in connection with the Article XIV consultations. The Fund discussed with its members how far they needed to retain their existing bilateral arrangements and the possibility of taking action that would make it easier for other members to dispense with them. A wide variety of reasons has been adduced for the maintenance of bilateral arrangements.

General balance of payments pressures are still regarded by some countries as an important part of their justification, though these difficulties have, in general, diminished. Some countries with relatively strong balance of payments positions have maintained bilateral agreements for fear of discrimination or to prevent a deterioration of their foreign exchange reserves. Bilateral arrangements to which swing credits are attached are attractive to some countries whose reserves are usually low, or inadequate to cover seasonal variations in export earnings. Bilateral arrangements have also been found convenient in dealing with countries with controlled economies, or for the collection of commercial arrears and other forms of indebtedness. The part played in international trade by bilateral arrangements, however, has diminished considerably, and some of the obstacles to trade both between non-dollar countries and between non-dollar and dollar countries have thus been reduced. Although several countries entered into new bilateral arrangements during 1955, some bilateral payments agreements were allowed to lapse, and others were made less rigid. Import lists in these agreements became, increasingly, merely expressions of the partner countries' intentions to facilitate trade in certain commodities. There was little change in the total number of bilateral agreements, but their terms were liberalized, their rigidity reduced by making use of the broader transferability accorded by some important trading countries to their currencies, and their significance as a restriction on trade diminished.

In Western Europe, Belgium-Luxembourg, the Netherlands, the Federal Republic of Germany, France, and the United Kingdom terminated some of their bilateral agreements or liberalized their payments arrangements. The machinery of the Hague Club, which is described below, has replaced the bilateral arrangements that had regulated the trade of its European members with Brazil. Finland continued its policy of negotiating agreements providing for transferability of some export earnings into EPU currencies. Japan abolished its open account agreements with several countries, replacing them with cash settlement agreements in convertible and transferable currencies. Colombia abolished the regulations under which almost all of its trade had been handled bilaterally, although some bilateral agreements have been retained.

In the light of the experience that had been gained, it was decided to continue during 1956-57 the Fund's efforts for the reduction or elimination of bilateral practices. Many of the exchange restrictions practiced by Fund members still have a bilateral character. In many countries, bilateral payments agreements are associated with bilateral trade agreements, and the two together, with varying degrees of effectiveness, divert international trade into channels not consistent with the full benefits to be derived from a multilateral system of trade and payments. The Fund indicated certain practical steps which might be taken by members, in the light of their individual circumstances, for the more effective implementation of its policy decision of June 1955 on bilateralism, which is reported in last year's Annual Report (pp. 123-24). For example, there is room for the elimination of inconsistencies between the payments arrangements maintained by certain members. It was also suggested that partially multilateral payments techniques should be used more extensively, bearing in mind the possibility that some currencies for which transferability facilities are already available might be used more extensively and that additional currencies might be made transferable. Attention was directed to the risk that the advantages derived from the use of convertible or transferable currencies might be nullified by discriminatory trade arrangements, and the Fund recommended that, with any reduction of the scope of bilateral payments arrangements, there should be a corresponding reduction in the use of bilateral trade practices. While recognizing the difficulties presented by the accumulation of commercial arrears and other debts, it was suggested that the possibility should be explored of solving these problems by other means. Since the elimination of bilateral payments agreements sometimes involves the disappearance of swing margins, other forms of credit, including recourse to the Fund's resources, might be considered to facilitate the transition to a more fully multilateral system. It was also pointed out that, unless countries in stronger payments and trading positions take the lead in dismantling bilateral arrangements even at some cost to themselves, it will be difficult to continue the progress already made in the removal of restrictions. Attention was directed to the desirability of coordinated action, and it was agreed that, in appropriate cases, the Fund might make a simultaneous approach to two or more countries with a view to a further reduction in their use of bilateral arrangements. Finally it was agreed that the Fund should give special attention to the termination clauses in members' bilateral arrangements, and that members should review at regular intervals all their outstanding bilateral agreements and determine whether they continued to serve any useful purpose.

Although in recent years Fund members have come much closer to the attainment of the Fund's objective of the elimination of exchange restrictions, restrictive and discriminatory practices are still used by most of them, including some which do not apply transitional arrangements. Although the effects of these practices are less restrictive than at any time in the recent past, the practices persist in the forms of discrimination against the dollar area, regional discrimination, multiple exchange rates, and bilateral arrangements. Forty-seven Fund members continue to apply restrictive measures under Article XIV of the Fund Agreement. Most countries retain some element of exchange discrimination against the dollar area, and regional arrangements and some multiple currency practices make possible discrimination which may affect either dollar or non-dollar countries. Almost two thirds of the Fund's members retain bilateral payments arrangements of some kind, though many of these arrangements have little more than a marginal significance. Finally, the administrative machinery of restrictive systems is maintained by four fifths of its members, even though the improvements of the immediate past suggest for many countries the possibility of dismantling or at least simplifying it. Some countries have not yet decreased the bilateral impact of their arrangements with other countries, or otherwise diminished their use of restrictive and discriminatory practices to the full extent justified by recent improvements in the world payments position. When there has been time for the anti-inflationary measures taken by some important countries to strengthen their balance of payments and thus to permit further progress toward convertibility to produce their full effects, the general position should become still more favorable. Barring unforeseen developments, the immediate future should therefore prove propitious for further progress in many countries in reducing, or eliminating, exchange restrictions in whatever form they may be practiced.

Article VIII and Article XIV

It is to be expected that, in the course of time, the number of Fund members with an obligation to consult regularly with the Fund on the retention of restrictions on payments and transfers for current international transactions qualifying under Article XIV, Section 2, during "the postwar transitional period" will diminish, and that eventually, as contemplated in Article VIII, Sections 2(a) and 3, any restrictions imposed on the making of payments and transfers for current international transactions and any discriminatory currency arrangements or multiple currency practices will be maintained by members only with the approval of the Fund. The issues that may arise in connection with the termination of the transitional period and of the transitional arrangements which have been maintained during this period continue to be under study by the Fund.

European Payments Union

On July 29, 1955 the OEEC Council of Ministers decided to renew the EPU Agreement until June 30, 1956 and to raise further the gold-credit settlement ratio, from 50:50 to 75 per cent gold and 25 per cent credit, the amount of available credit remaining unchanged. In order to introduce a greater measure of flexibility in the conditions under which the EPU might be terminated, a new clause was inserted in the Agreement providing that the EPU might be brought to an end at any time before June 30, 1956 at the request of countries whose quotas represent at least 50 per cent of total EPU quotas, provided that, at the same time, the new European Monetary Agreement (EMA) comes into force. This Agreement, which provides for the establishment of a European Fund and a Multilateral System of Settlements, is designed to ensure that, in connection with the return by some members to convertibility, the EPU would be replaced by a credit and settlement system more appropriate to the conditions of convertibility; its entry into force is dependent upon countries responsible for 50 per cent of the contributions to the European Fund indicating their intention to apply the Agreement.

The European Fund is intended to have a capital of $600 million, of which $272 million originating from the U. S. contribution to the EPU capital is to be transferred from the EPU, and the remainder is to be contributed by member countries. It is to make short-term credits (up to two years) available to members in order to aid them to withstand temporary over-all difficulties where such difficulties endanger the maintenance of their intra-European trade. The Multilateral System of Settlements is intended to embody machinery for settling outstanding balances at regular intervals on terms specified in advance and for ensuring the availability of short-term intercentral bank finance; however, the system is such that most balances will probably be settled through normal market channels.

The termination clause has not yet been invoked. In June 1956, the OEEC Council decided to renew the EPU for a further year with the gold-credit settlement ratio and the termination provisions unchanged; certain members concluded further bilateral amortization agreements for claims and debts to EPU not yet covered by such agreements, and Italy effected a voluntary repayment of $12 million to the EPU. During the past year, Italy joined the multilateral arbitrage scheme. The bilateral balances compensated through the EPU multilateral clearing operations have gradually declined. Several member countries have chosen to settle their monthly deficits wholly in gold rather than to take advantage of EPU credits; there is also evidence that certain member countries have reduced their net deficits offered for EPU clearing through purchases of EPU currencies for gold or convertible currencies shortly before the monthly settlements. In this respect, there has been a movement toward observing the conditions of settlement which would rule when the EPU is replaced by the EMA.

During the year under review, Germany, Belgium-Luxembourg, and the Netherlands continued to run surpluses and remained the main creditors of the EPU. The United Kingdom and Italy incurred the largest deficits. In July 1955, Italy was granted a special credit of $50 million for settlement of deficits in case of exhaustion of its regular credit facilities; this credit, which has not yet been utilized, was prolonged in June 1956 for a further period of one year. France had a surplus during most of 1955, and during the year made two voluntary repayments totaling $130 million to the EPU. It had deficits in the latter part of the year, which it chose to settle fully in gold.

Organization for European Economic Cooperation

The Organization for European Economic Cooperation (OEEC) during the past year continued its efforts toward greater freedom in intra-European trade and payments. In January 1955, the Council of the OEEC asked member countries to abolish 10 per cent of the quantitative restrictions still in force on June 30, 1954, and, during a probationary period of 18 months, to raise their liberalization percentages to at least 90 per cent over-all and 75 per cent for each of the three categories (raw materials, foodstuffs, and manufactured products). The first undertaking has been discharged, but in some countries the program of liberalization has not been completed. At the same time, the Council decided that during the same probationary period member countries should not increase further the amount of their artificial aids to exporters and should abolish them by December 31, 1955; however, because of special circumstances, certain members were exempt from the obligation to abolish these aids. The OEEC

Council decided on February 29, 1956 to promote further liberalization of invisibles and capital movements.

The OEEC also continued to work toward a larger degree of freedom in dollar imports, and an OEEC Working Group periodically reviews the dollar liberalization measures of member countries as well as the trade policies of the United States and Canada. As of January 1, 1956, 54 per cent of all private imports (calculated on the basis of 1953 imports) by member countries other than Norway and Turkey—where all dollar imports remain subject to restrictions—had been freed from quantitative restrictions.

During the year under review, the OEEC has increasingly concerned itself with the problem of bilateral agreements. In February 1956, the OEEC Council decided to "carry forward the study of the problem of reducing bilateralism and discrimination in trade and payments with third countries as a step toward obtaining a convertible system of trade and payments."

The Hague Club

A revision in the summer of 1955 of the bilateral agreements which previously had governed the trade and payments relations of a number of OEEC countries with Brazil resulted in the formation of what has come to be known as the Hague Club. This arrangement, which is made effective through separate agreements or understandings between Brazil on the one side and Belgium-Luxembourg, Germany, Italy, the Netherlands, and the United Kingdom on the other, is designed to widen the degree of multilateralization of trade and payments between Brazil and the monetary areas of the European participants.

The arrangements provide that Brazilian exports to the monetary areas of the participants will receive the same exchange rate treatment as exports settled in convertible currencies and that they may be paid for in any of the participants' currencies without regard to the particular country of destination. Brazil has agreed not to discriminate between the European currencies in respect of Brazilian import payments, and orderly cross rates among these five currencies are maintained. Furthermore, since Brazil may use its earnings of these currencies for payments to any of the participants, it is able to pool these earnings, and offer them conjointly for auction in the form of "ACL (i.e., area of limited convertibility) dollar certificates." Successful bidders for such certificates are able to obtain imports from any of the European participants (including their monetary areas) payable in any of their currencies.

In addition, Brazil is able to transfer its earnings of the currencies of Belgium-Luxembourg, Germany, Italy, the Netherlands, and the United Kingdom, directly or indirectly, to other non-dollar countries. Previously, only Brazil's holdings of sterling had been thus transferable. It is understood that the Brazilian authorities intend to avoid the use of these currencies for payments to the dollar area.

The European participants have not instituted a common policy in regard to imports of Brazilian products; in fact, however, their policies have been generally liberal, both before and after the institution of the Hague Club.

These agreements, which members have indicated their willingness to extend by adding new members,[1] represent an important step in expanding the use of the techniques of multilateral payments, and of doing away with the distortions of trade and payments patterns that had been produced by bilateral relationships. The wider area of competition and the fact that there is no provision for swing margins mean, for both the European participants and for Brazil, that internal measures must play a greater part in solving their balance of payments problems. The Fund welcomed the contribution made by these arrangements as a transitional step toward a fully multilateral and nondiscriminatory system of trade and payments, and stated that it would maintain its interest in their future operation.

[1] Austria became a member of the Hague Club on June 13, 1956.

Other Developments in Exchange Policy and Practice

Details of other changes in exchange policy and practice in 1955 are reported in the *Seventh Annual Report on Exchange Restrictions.* However, developments in the countries noted below are of sufficient general interest to be recorded also in this Annual Report.

The use of the free exchange market in *Belgium-Luxembourg* was extended on July 18, 1955 to all capital transactions by both residents and nonresidents. As a result, capital transactions between Belgium-Luxembourg and all other countries can now be made freely, provided they are made through the free exchange market. The volume of transactions in this market is reported not to have been large and, with the exception of the rates for certain blocked currencies, the free market rates have generally been within 1 per cent of parity.

As of August 1, 1955, residents of the United States and of Canada, and as of January 1, 1956, residents of other dollar countries, were permitted to repatriate capital balances in the *Netherlands* through the purchase of so-called "security dollars" originating from the sale of dollar securities by Netherlands residents.

No basic changes in the exchange system of *Brazil* were made during the year. Exchange auctions for imports and fixed bonuses for exports were maintained, with some adjustments involving primarily the shifting of commodities from one export or import category to another, and generally in the direction of more depreciated rates. With the establishment of multilateral trade and payments arrangements involving the United Kingdom, Germany, Italy, the Netherlands, and Belgium-Luxembourg, referred to above, the bonuses for exports in deutsche mark, lire, guilders, and Belgian francs were raised to the level of those applicable to exports in convertible currencies or sterling.

The prices of "dollar certificates" for the five categories of private imports fluctuated considerably, and for the period as a whole showed a substantial rise. Average quotations for 120-day delivery, U. S. dollar certificates in Rio de Janeiro toward the end of April

1956 were as follows (with comparative figures for April 1955 shown in parentheses): Category I, Cr$93.35 (Cr$69); Category II, Cr$126.65 (Cr$80); Category III, Cr$202.75 (Cr$175); Category IV, Cr$242.60 (Cr$171); and Category V, Cr$300.50 (Cr$291).

From a low of about Cr$84 in March 1955, the free market rate for the U. S. dollar applicable to certain invisible transactions appreciated continuously until late November, when it averaged Cr$66.96; it then began to weaken, averaging Cr$79.85 in the latter part of April 1956.

The exchange rate structure of *Uruguay* was modified on September 15, 1955 by the establishment of a temporary premium on exports of wool and the devaluation of the exchange rates for imports. A premium of Ur$0.21 per U. S. dollar over and above the rates of Ur$1.519 per U. S. dollar for greasy wool and of Ur$1.60 for scoured wool was granted to exports made in the period September 15-December 31, 1955. It was intended to reduce this premium in two successive steps in the following half year, but the period during which it was granted was subsequently extended to March 31, 1956. Import rates were raised from Ur$1.90 to Ur$2.10 per U. S. dollar for essential goods, and from Ur$2.45 to Ur$2.80 for other imports, representing a devaluation of 9.5 per cent and 12.5 per cent, respectively. Later in the year, a temporary premium of Ur$0.14 per U. S. dollar over the exchange rate of Ur$2.026 was given to exports of wool tops, and the export rate for dry cattle hides was also temporarily increased from Ur$1.519 per U. S. dollar to Ur$2.25.

In the free financial market, the exchange rate applicable to invisibles not associated with trade and to capital transactions was fairly stable during the early part of the period, but subsequently tended to depreciate. The free market rate which in April 1955 had been about Ur$3.14 per U. S. dollar had moved to Ur$3.95 by April 1956. The weakening of the rate can be attributed in part to the decline in the purchasing power of the peso produced by inflation. Moreover, with the falling off of exports, the leakage of export proceeds to the free market was presumably reduced.

In an effort to cope with its exchange difficulties, a series of measures was taken in *Colombia,* primarily in order to raise the cost of imports. In May 1955, a new free exchange market was created by the consolidation of the former "export voucher," gold exchange, and curb markets. Proceeds from minor exports and payments for many less essential imports were transferred from the official market to this new free market. At the same time, the imports so shifted were exempted from the requirement that payments with certain countries be made on a bilateral basis. As the pressure on official exchange resources persisted, additional payments, including imports of capital goods, were shifted to the free market later in the year. To meet part of this additional demand for exchange, export proceeds from bananas and certain invisibles were similarly shifted. In order to restrict imports further, many commodities, primarily raw materials, were shifted to the free market in April 1956. Other measures taken at the same time included an increase in advance deposits on imports and the imposition of supplementary reserve requirements for increases in bank deposits. Moreover, the system of controlling exchange payments on the basis of bilateral balances was abandoned. The free market rate, which in May 1955 was Ps$4 per U. S. dollar, had moved by the end of April 1956 to Ps$4.75.

To cope with the growing pressure of import demand, *Ecuador* made a number of adjustments within the framework of the existing exchange system. A reclassification of imports in mid-1955 was tantamount to a selective devaluation of the import rate, and imports were subjected to additional taxes and differential advance deposit requirements. Moreover, the Central Bank began to limit the types of payment that could be effected through it at the free market rate and required the surrender of export proceeds eligible for the free market. As a result, the free market was, in effect, divided into two segments, and the rate in the dealers' market began to diverge from the free market rate applied by the Central Bank, which was confined to certain trade and related transactions. After having been maintained at about S/ 17.30—17.40 per U. S. dollar for several years, the rate in the dealers' market tended to weaken around mid-1955, and reached a low of S/ 19.15 per U. S. dollar in July. It subsequently recovered to below S/ 18, but at the end of April 1956 was about S/ 18.50.

Continued severe inflation in *Bolivia* caused the authorities to resort to a number of ad hoc measures, designed primarily to maintain the flow of exports, and there was a further depreciation of the boliviano in the free market from Bs 2,667 per U. S. dollar at the end of April 1955 to Bs 5,800 at the end of April 1956. In November 1955, a new system for dealing with exports of certain agricultural and forest products was introduced, granting such exporters preferential use of their exchange proceeds for specified imports or for sale at the free market rate. The exchange retention privileges of small and medium-sized mining enterprises were extended.

The fourth extension, until the end of June 1956, of the 17 per cent exchange tax, which had been first imposed in the *Philippine Republic* in March 1951, was approved by the Fund in June 1955. However, following the revision of the Philippine-U. S. trade agreement in September 1955, this exchange tax was abolished, effective January 1, 1956, and instead a 17 per cent import levy was imposed. The import levy is intended to be successively reduced and finally eliminated within ten years. All trade transactions which were exempt from the exchange tax are also exempt from the import levy.

The rate applied in *Israel* to incoming remittances from fund-raising institutions was raised on October 2, 1955 from I£1.30 per U. S. dollar to I£1.50, the principal exchange rate being I£1.80 per U. S. dollar.

The premiums on the import certificates introduced in *Iceland* in 1951 in order to increase the local currency receipts from certain exports of fish were increased on November 4, 1955 from 61 per cent to 71 per cent for imports from the dollar area, the EPU area, and the U.S.S.R., and from 26 per cent to 36 per cent for imports from most other countries with which Iceland has bilateral clearing arrangements.

In *Finland* in December 1955, the surcharge on foreign exchange for travel purposes was reduced from about 51 per cent to about 42 per cent of the par value. At the same time, transfers were permitted between inland markka accounts held by foreign banks and tourist markka accounts, so that the discount on the former decreased to that on the latter.

Modifications introduced by *Turkey* in November 1955 into its exchange subsidy arrangements amended the list of commodities subject to export subsidy, and unified the subsidies paid on exports against dollars and EPU currencies; separate subsidies are maintained for exports paid in bilateral account currencies.

In *Egypt,* the import entitlement account system, under which U. S. dollars, sterling, and deutsche mark had been quoted at premiums up to 15 per cent, was abolished in September 1955. At the same time, export taxes on raw cotton were substantially reduced, and a 7 per cent import tax was imposed on a wide range of imports. The "B account" arrangements with Switzerland, Belgium-Luxembourg, and the Netherlands, under which the Egyptian pound had been quoted at discounts up to 14 per cent, were also abolished, but were subsequently revived, with safeguards intended to prevent the re-export of Egyptian raw cotton from these countries. In March 1956, a general restrictive import licensing system was adopted, with a view to limiting imports by reference to the value of exports in specified periods.

Changes in the exchange system of *Yugoslavia* during 1955 had the effect of reducing, and, as from January 1, 1956, of virtually eliminating, the importance of the free market for foreign currencies. Under the present system, almost all foreign exchange is channeled into the Central Exchange Fund and, with minor exceptions, payments are made with exchange administratively allocated from this Fund. There are still numerous rates, but the scope of fluctuating rates has been greatly reduced. As from January 1, 1956, a premium of 33⅓ per cent was introduced for exchange receipts from tourism and from diplomatic and other foreign missions, so that the effective rate for these transactions became 400 dinars per U. S. dollar.

Indonesia made several changes in its exchange system in 1955, and in particular overhauled its import system on September 1. Imports were reclassified into four categories: (I) essentials, (II) semiessentials, (III) luxuries, and (IV) extreme luxuries. The surcharges previously levied were replaced by new consolidated surcharges of 50 per cent of the cost and freight value, at the official exchange rate of Rp 11.36 per U. S. dollar, for Category I imports, 100 per cent for Category II imports, and, from October 15, 200 per cent for Category III and 400 per cent for Category IV imports. However, several imports, including rice, raw cotton, and cotton weaving yarns were exempted from all surcharges.

Export-import linked transactions, barter transactions, and the so-called "exchange free" imports (i.e., luxury imports for which no official exchange was made available) were also abolished in September, quantitative restrictions were considerably reduced, and the import licensing procedure was reformed and simplified. The re-registration of all importers was ordered, and the rules for prepayment were amended to require from national importers an advance deposit of the countervalue of foreign exchange requested, plus all surcharges, at the time of filing an application, instead of, as previously, at the time when licenses were granted. Foreign importing firms were required to deposit with an authorized bank, at the time of registration, a minimum of Rp 5 million, against which they could draw for making advance payments on imports, including surcharges. From February 1, 1956, national importers were required to make similar deposits of Rp 500,000. Foreign importers of industrial and horticultural goods solely for their own use were exempted from the Rp 5 million deposit requirement, but remained subject to the regular advance deposit requirements.

As from June 1, 1955, the Export Inducement Certificate system, from which smallholder rubber had been withdrawn in February, was entirely abolished. However, effective October 24, there was introduced a system of premiums of 5 per cent on the f.o.b. proceeds from exports of pepper, and 10 per cent on the proceeds from all other exports of Indonesian products, except copra, coffee, palm products, crude oil and its products, tin, leaf tobacco, sugar, and certain types of rubber. At the same time, all additional export duties and a number of ordinary export duties were abolished, and some other ordinary export duties were lowered. The export premium on kapok was raised from 10 per cent to 15 per cent, effective March 10, 1956, and that on all other types of fiber from 10 per cent to 25 per cent, effective March 1, 1956.

Beginning February 19, 1955, the importation of foreign securities was subjected to a levy of 33⅓ per cent of the current domestic market value of the security. In May 1955, allocations for outward private remittances by foreign residents in Indonesia were set at 20 per cent of the remitter's gross taxable salary with an over-all ceiling of Rp 36,000 per year for the independent professions and Rp 48,000 for employed persons; and for life insurance, annuity, and similar payments, they were set at Rp 300 per month. For other remittances, the limits that had been set previously were maintained.

In *China* (Taiwan) the application of the exchange certificate rates introduced on March 1, 1955 was extended later in the year to some additional major commodities. In September the system was further revised, different percentages, depending on the kind of payment or receipt, of the value (fixed or fluctuating) of the exchange certificate being added to the Bank of Taiwan rate of NT$15.60 per U. S. dollar. The fixed price for exchange certificates on which the percentages are calculated is NT$6 per U. S. dollar. The exchange certificates are also negotiated in a market, and quotations have been between NT$7 and NT$15 per U. S. dollar. The quotation at the end of March 1956 was NT$12.40 per dollar. A defense tax of 20 per cent continues to be imposed on sales of foreign exchange. A preferential exchange rate is set monthly for diplomats, members of the U. S. Armed Services, etc.; in December 1955, this rate was changed from NT$34 to NT$36 per U. S. dollar.

In the *Republic of Korea,* the official rate of 180 hwan per U. S. dollar, which had been in effect since December 1953, was changed to 500 hwan on August 15, 1955. The official rate applies to all transactions except certain imports received under the U. S. aid program. A rate of not less than 200 hwan applies to coal of U. S. origin during the fiscal year ending June 30, 1956, and differential rates, depending on the commodity, apply to relief supplies and investment type commodities for nonrevenue-producing projects. The present exchange control system, effective since August 25, 1955, represents a move from restrictions based on import licensing to restrictions through allocation of exchange. Exchange may be obtained from government sales of exchange or from the proceeds of exports. Exporters are required to collect their export proceeds in specified currencies to be held in foreign exchange accounts maintained at the Bank of Korea. Government approval is required for all remittances abroad except those of certain diplomatic agents.

The most far-reaching change in the exchange policies of countries which are not members of the Fund was announced in *Argentina* on October 27, 1955. A basic exchange rate of M$N 18 per U. S. dollar was established to replace the rates of M$N 5, M$N 7.5, and M$N 13.95 ("controlled free" rate), and numerous mixing rates that had existed previously.

The new system comprises two exchange markets: the official market, with a fixed rate of M$N 18 per U. S. dollar, and the free market, with a fluctuating rate determined by market forces. In the latter, the peso has tended to depreciate from about M$N 30 per U. S. dollar at the time the new system took effect to about M$N 38.85 at the end of April 1956. The official market applies to all major exports, to imports of fuel, essential foodstuffs, and raw materials, and to government payments. The official market export rates are modified, however, by taxes ranging up to 25 per cent, which are intended as a temporary measure to minimize the undesirable effects of the devaluation. Transactions in the free exchange market include minor exports, imports not authorized in the official market, and invisible and capital transactions. Some imports through this market are subject to an exchange surcharge of M$N 20 or M$N 40 per U. S. dollar, varying with the degree of their essentiality.

Restrictions affecting financial remittances and capital movements were abolished, and such transfers may now be made freely through the free exchange market, without authorization. However, income from foreign investments accruing before June 30, 1955 and the principal of such foreign investments existing on October 28, 1955 continue to be subject to the control of the Central Bank.

VI

Gold Production and Prices

Gold Production

In 1955 total world production of gold, valued at $35 per fine ounce, exceeded 1954 output by about $49 million and 1953 output by about $97 million. Total world output (excluding that of the U.S.S.R. and the countries associated with it), which had been $852 million in 1952, $849 million in 1953, and $897 million in 1954, increased in 1955 to $946 million.

Production in the Union of South Africa accounted for virtually all of the increase of world output in both 1954 and 1955. In 1955 it rose to $511 million, the highest ever recorded by that country. The increases in both years were attributable mainly to the expansion of mining in the Orange Free State, whose output increased in 1955 by $38.3 million, to $76.6 million. However, production of the Witwatersrand mines, which had declined between 1941 and 1951, also improved, and continued to increase during 1955. As a result of the new mines moving toward full production and the beginning of operations by four more mines, total production in South Africa can be expected to increase further in 1956, provided the supply of African labor, which improved somewhat in 1955, is maintained or increased.

Production also increased during 1955 in Canada, where output rose by $6 million, to $159 million. The booming base metal business, in which the output of gold as a by-product expanded, was responsible for much of this increase. As the Canadian exchange rate approached parity with the U. S. dollar, the Canadian gold price rose from Can$33.80 per fine ounce in January 1955 to Can$35.00 in November. In both 1954 and 1955, all mines eligible for subsidy elected to sell their output to the Government rather than in a free market. While the mines received a higher price for their gold in 1955, they received less aid than in 1954 under the modified Emergency Gold Mining Assistance Act, described in last year's Annual Report. Increasing costs have forced some mines to expand their treatment of higher grade ores and have caused others to shut down. The number of gold producers in Canada fell from 122 in 1949 to 94 in 1953 and to 60 in 1955.

Gold production in the United States increased in 1955 by $1 million, to about $66 million. It declined by about $3.5 million in the Gold Coast, $2.4 million in Australia, and $1 million in India. In other gold producing countries, there were smaller movements of less importance.

As mentioned in previous Annual Reports, high production costs continue to be a matter of concern to the gold mining industry in most major gold producing countries. Some marginal mines have been closed, and others have shifted from the production of lower grade to that of higher grade ore. In several countries, producers who had obtained relief by selling gold in premium markets have received virtually no premium during the last two years. Relief has been granted in some countries either by tax concessions or by subsidy programs. The subsidy programs of the Governments of Australia, Canada, Colombia, and the Philippine Republic, which were discussed in last year's Annual Report, are still in operation. During the year under review, two of these members again consulted the Fund regarding their subsidy programs, and the Fund deemed both programs to be consistent with the objectives of the Fund's statement of December 11, 1947 on gold subsidies. In September 1955, the Government of the Philippines adopted modifications of its gold subsidy program which were effective for a period of three and one-half months ended December 31, 1955. The rates of assistance to two categories of mines in respect of newly mined gold bought by the Central Bank were reduced. Gold producers were required to sell to the Central Bank a minimum of 50 per cent of their gold production at the new rates of assistance, with the option of selling their entire output at the same prices. In March 1956, the Australian Government extended its subsidy scheme without change for a further period of three years commencing with the financial year 1956-57.

Gold Reserves

Gold reserves continued to grow throughout 1955. The total stock of gold in the possession of monetary authorities in the world (excluding the U.S.S.R. and the countries associated with it, but including the Fund, the Bank for International Settlements, and the European Payments Union) at the end of 1955 is estimated at $37,150 million. The increase during the year was approximately $600 million; the increase in 1954 had been about $600 million, in 1953, $400 million, and in 1952, $300 million.

With the extension of marketing facilities for gold, it has become more difficult than in recent years to trace the movements of gold, and to estimate how much is sold to the arts and industries or to private individuals for hoarding purposes. Such data as are available suggest that the percentage of newly mined gold flowing into official monetary reserves during 1955 and 1954 was larger than in any other similar postwar period. Reliable data on U.S.S.R. sales of gold to other European countries are not available, but reports indicate that the total of such sales was less in 1955 than in either 1954 or 1953. The major shifts in the distribution of gold reserves during 1955 have been described in an earlier section of this Report.

Gold Markets and Gold Prices

The gradual easing of restrictions and the growing tendency to grant more freedom for domestic and international gold transactions, described in previous Annual Reports, continued in several countries during the year under review. New marketing facilities have created new channels for the flow of gold and have made it possible for new international trading centers to develop. The most notable events in this connection since the reopening of the London gold market in March 1954 are the measures taken by Belgium-Luxembourg and by Canada, which permit residents as well as nonresidents to buy and sell gold for their own account and to import or export gold freely.

As of January 1, 1956, Belgium and Luxembourg abolished restrictions on gold transactions within their territories. Imports and exports of gold coin or bars are authorized by a general license issued by the National Bank of Belgium. Transactions in such gold, whether it is located in Belgium-Luxembourg or abroad, are permitted between residents or between residents and nonresidents. Payments for international transactions in gold have to be made in Belgian, Luxembourg, or foreign banknotes, or through the free exchange market for capital transactions. While private gold trading had been prohibited in Belgium since March 1935, a "grey" market had been tolerated; the new regulations legalized the previously existing situation.

The Government of Canada, which on several occasions from 1951 onward had liberalized the regulation of gold transactions in Canada, announced the removal of all restrictions on gold transactions in Canada as of March 21, 1956. From that date, both residents and nonresidents are free to buy gold in Canada for export or for safekeeping, and Canadian gold producers who may in the future forego aid under the Emergency Gold Mining Assistance Act are free to sell their gold wherever they desire, subject only to the obligation to report production and sales to the Department of Finance.

Imports into Greece of gold in bars, plates, coins, or any form except jewelry were completely freed in January 1956 from all exchange control or customs formalities, and exempted from all customs duties or other taxes at the time of importation. The importer is not required to declare his import to the monetary authorities. For some years there has been a free domestic gold market in Greece; the freeing of imports is intended to limit profits from arbitrage operations in gold and foreign exchange with foreign markets, and thus to lower the domestic drachma price of the gold sovereign.

The Government of Thailand in June 1955 imposed a temporary ban on the importation of gold, in order to conserve foreign exchange for the import of essential commodities. This embargo was lifted in January 1956, when the Government took measures to curb clandestine imports by authorizing the annual importation of 90,000 ounces.

These developments, together with those described in previous Annual Reports, indicate that a number of governments have increasingly relaxed restrictions on gold transactions. While affirming the principle that "to the maximum extent practicable, gold should be held in official reserves rather than go into private hoards," the Fund had, in its gold policy statement of September 28, 1951, left to the discretion of members the practical operating decisions in this field, subject to the provisions of Article IV, Section 2, and other relevant articles of the Fund's Articles of Agreement; it has not taken exception to any of the measures applied by members for freeing their gold markets. In general, the freeing of gold markets does not appear to have increased the proportion of newly mined gold that goes into private hoards.

Prices in international gold markets during the year under review were fairly stable. The dollar price of gold did not diverge from $35 per fine ounce by more than a few cents, and the trade pattern that developed following the reopening of the London market in March 1954 continued to strengthen London's position as the world's main gold trading center. The measures taken by Belgium-Luxembourg and Canada have not, as yet, had any appreciable effects on the operations of the London market. A large proportion of gold production in 1955 was sold in the London market, the main supplies coming from South Africa and other sterling area producers. Western European central banks were the principal buyers, and private operators purchased gold for export to the Middle East and Far East. For some time after the U. S. dollar price of gold on the London market had declined to a few cents under $35 per fine ounce in September 1955, some Western European central banks took more active interest in gold operations. They converted part of their increased dollar holdings into gold, and initiated the practice of settling their monthly EPU obligations in gold rather than in dollars. This practice was advantageous for them when the price of gold was less than $35 per fine ounce since, for the settlement of EPU balances, gold is valued at $35 per ounce irrespective of the current price in international free markets.

During the year under review, the London "fixing" price of bar gold in sterling moved within a narrower range than in the previous year, fluctuating between a high of 251s. 9¾d. on July 21, 1955 and a low of 248s. 11½d. on April 19, 1956. The dollar equivalent of the sterling price converted at the dollar rate prevailing in London at the time of the fixing remained above $35 per fine ounce from May 1, 1955 through September 12, going as high as $35.06 on several occasions; on September 13, 1955, it fell below parity and has since fluctuated between $34.95¾ and $34.99¾. On April 30, 1956, it was $34.99 per fine ounce.

The price at which gold is traded in other markets directly for U. S. dollars remained within a few cents per fine ounce of the London dollar price. In Zürich, the U. S. dollar bid price moved between a high of $35.05 per fine ounce on May 9, 1955 and a low of $34.94 on October 25, 1955, and at the end of April was quoted at $34.98. With the intensification of political tension in North Africa, the dollar price of transit gold in Tangier has been consistently quoted at a few cents per fine ounce lower than the gold prices in Zürich and London. At the end of April 1956, it was quoted at $34.87½ per fine ounce. Much of the gold previously held in Tangier for safekeeping is reported to have been moved to Switzerland, and the importance of Tangier as an international gold trading center has diminished.

The price of bar gold in Paris rose from the year's low of 420,000 francs per kilogram on July 15, 1955 to a high of 470,000 francs on March 15, 1956, and on April 30 was quoted at 457,000 francs. When converted into U. S. dollars at the parallel market franc-dollar rate, the price of bullion per fine ounce was equivalent to $35.89 on July 15, 1955, $35.92 on March 15, 1956, and $35.89 on April 30.

The U. S. dollar equivalent prices for bar gold in Beirut, Brussels, Milan, and elsewhere did not necessarily follow the day to day movements of the London price because of local conditions and the special characteristics of the local market. Arbitrage operations between London, Switzerland, and Paris, and perhaps other centers, helped to narrow the range of the local currency price of gold in the various markets.

The price of bullion in the Far East tended to be higher than in 1954. In Hong Kong, the price of bar gold increased from HK$250.375 per tael (equivalent to $38.09 per fine ounce at the day's T.T. Hong Kong dollar rate for the U. S. dollar) on June 23, 1955 to HK$263.25 ($38.82) on February 24, 1956 (the highest since September 21, 1953), and was quoted at HK$255.125 ($38.48) on April 30, 1956. In Bombay, the average price of bullion was higher than in the previous year; it rose from Rs 89-8 per tola (equivalent to $50.12 per fine ounce at par value) on May 14, 1955 to Rs 106-11 ($59.75) on April 25, 1956 (the highest since January 20, 1952).

A sharp increase in the demand for gold coins, particularly in France and to a smaller extent in West Germany and elsewhere, pushed free market prices up to the level attained in October and November 1953. In the Paris market, demand increased as a result of capital flight from North Africa and other developments in France. Although during the year under review imports and exports of gold coins were subject to authorization in West Germany, the market was not entirely isolated from other markets, for considerable quantities of 20-mark pieces which had been held abroad were reported to have been returned to Germany, and higher prices from time to time attracted imports through clandestine channels. The U. S. dollar equivalent price of the sovereign rose by about $3.00 per fine ounce in Beirut, Brussels, and Milan and by about $3.75 in Paris, so that by the end of April 1956 the prices in all these centers were equivalent to about $42-43 per fine ounce. The largest increase in the price of the napoleon, equivalent to about $5.00 per fine ounce, took place in Paris, where on April 30, 1956 it was quoted at the equivalent of $42.07 per fine ounce. In Milan, the napoleon rose by the equivalent of $3.10 per fine ounce, and in Beirut by the equivalent of $0.93.

Gold Transaction Service

Since the inauguration of the Fund's gold transaction service in March 1952, the central banks of 16 member countries and 2 international organizations have effected purchases or sales of gold through the facilities of this service. Six of these institutions have used the Fund's services on several occasions, and 4 of them have been sellers of gold as well as buyers. During 1952-53, the extent to which gold transactions could be matched by the Fund depended primarily upon central bank requirements for monetary gold located in New York. There were occasions when the supply of gold offered through the Fund exceeded the demand, or vice versa. If on such occasions the time factor was not essential for either buyer or seller, the Fund was successful in completing most of the transactions. As most of the transactions were effected at par value, i.e., $35 per fine ounce, for gold located in New York, the price of gold was not a major factor in bringing buyers and sellers together. Since the reopening of the London gold market in March 1954, the elements of price and time, especially the former, have become more important in determining whether a transaction can be concluded. Central banks normally submit bids and offers at a price very close to the prevailing dollar price of gold in London, and usually wish to reach agreement as quickly as possible in view of possible fluctuations in the market price of gold. During the year under review, the Fund was successful in facilitating the completion of 20 transactions, amounting to a total of about $145 million, compared with 35 transactions, amounting to a total of about $302 million, during the previous three years. On several occasions, small price differentials between bids and offers prevented the Fund from bringing a potential buyer and seller of gold together. In some cases, the Fund's charge of 1/32 of 1 per cent to each party in a transaction may also have been a deterrent factor. However, for the most part the charge is not an impediment to these transactions, and a number of members continue to use the facilities provided by the Fund.

VII

Use of the Fund's Resources

THE Fund's general policies regarding the use of its resources, set forth in detail in last year's Annual Report (pp. 84-86), have remained unchanged during the past year.

In the course of the year, the Executive Board interpreted Article V, Section 3(a)(iii), of the Articles of Agreement with a view to clarifying the meaning of the limit of 25 per cent of quota in connection with a member's drawing rights, which appears in that Article. Such an interpretation was important in order to determine when a waiver of the limit might be required. Under the interpretation, a member in any twelve-month period may make purchases equal to 25 per cent of its quota. If it makes such purchases which are then offset by later repurchases or sales by the Fund of its currency, the member may make further purchases equal to the amount of this offsetting. The full text of the decision of the Executive Board is given in Appendix I.

Fund Transactions

The stand-by arrangements with Belgium and Peru which were described in previous years' Reports continued in effect during the year under review. Drawings of up to \$50 million by Belgium and \$12.5 million by Peru are permitted by these arrangements. Mexico allowed its stand-by arrangement, which permitted drawings up to \$50 million, to expire on October 15, 1955. The Fund agreed to a stand-by arrangement with Chile, whereby up to \$35 million may be drawn between April 1, 1956 and March 31, 1957. This arrangement is an integral part of the wider program, described elsewhere, which has exchange and general economic stability as its objective. The stand-by arrangement, which was made at the same time as similar arrangements with the U. S. Treasury and with private U. S. banks, is intended to give an assurance that temporary pressures upon Chile's exchange reserves can be withstood without serious embarrassment. Since Chile's quota is $50 million, the arrangement required the granting of a waiver of the normal limitation on annual drawings pursuant to Article V, Section 4, of the Articles of Agreement. No drawings were made during the year under any stand-by arrangement.

The Philippine Republic purchased $10,000,000 in June 1955, and $5,000,000 in April 1956, for pesos; in October 1955, Iran purchased $8,750,000 for rials; and in March 1956, Burma purchased $15,000,000 for kyats. Each of these drawings required a waiver of the normal limitations, in accordance with Article V, Section 4, of the Articles of Agreement. One of the drawings amounted to 67 per cent, and another to 100 per cent, of the member's quota.

In the year under review, repurchases from the Fund by 10 members of amounts of their currency for gold and dollars were equivalent to $271,661,333.80 (Table 26). The total of repur-

TABLE 26. REPURCHASES OF CURRENCY FROM THE FUND, FISCAL YEAR ENDED APRIL 30, 1956

(In U. S. dollars)

Member	U.S. Dollars	Gold	Total
Australia	8,000,000.00		8,000,000.00
Burma	3,246,823.18		3,246,823.18
Ceylon	1,001,000.00		1,001,000.00
Finland	2,308,408.14	3,084,091.86	5,392,500.00
France	75,910,548.88	52,000,002.35	127,910,551.23
India	27,500,000.00		27,500,000.00
Iran	8,750,000.00		8,750,000.00
Japan	62,437,897.17		62,437,897.17
Mexico	22,420,999.60	1,562.62	22,422,562.22
Turkey		5,000,000.00	5,000,000.00
Total	211,575,676.97	60,085,656.83	271,661,333.80

chases thus again substantially exceeded the amount drawn by members during the year.

When drawing on the Fund in October 1953, Brazil undertook to repurchase a total amount of $65.5 million in accordance with a schedule providing for payments in 1957 and 1958. The Fund subsequently granted Brazil's request for postponement of a repurchase obligation computed by the Fund as having been incurred as of April 30, 1953, so that this payment should coincide with the payments to be made in accordance with Brazil's repurchase schedule. At the same time, Brazil requested that the discharge of any repurchase obligation that might have accrued as of April 30, 1954 be likewise postponed, and the Fund acceded to this request. During the current year, the Fund computed a repurchase obligation in accordance with Article V, Section 7(b), in the amount of $21,606,630.63, incurred by Brazil as of April 30, 1954, and Brazil agreed with the Fund's computation. Payment of this obligation will thus be effected not later than the dates specified in the repurchase schedule agreed between Brazil and the Fund, and in the amounts specified in that schedule.

When Turkey made a drawing in August 1953, it undertook to repurchase a total of $30 million in installments in accordance with a schedule providing for payments between January 1954 and January 1957. Turkey has so far repurchased $15 million in gold and U. S. dollars, corresponding to the first four installments. In January 1956, Turkey requested a postponement of the last two installments amounting to $15 million, so that $7 million would be paid at the end of January 1957 and $8 million at the end of January 1958. Also, under Article V, Section 7(b), the Fund computed a repurchase obligation for Turkey of $7,226,422.58, as of April 30, 1955. Turkey agreed with the Fund's computation, and requested that the discharge of the repurchase obligation be postponed to coincide with the payments to be made in January 1957 and January 1958. The Fund agreed to both requests.

Total transactions between March 1, 1947, when the Fund commenced operations, and April 30, 1956 are equivalent to

$1,236.4 million. In all, 28 members have drawn on the Fund, some of them more than once. A summary of these transactions is given in Table 27, and details are given in Appendix II. Of the total sales of currency by the Fund up to April 30, 1956, $1,029 million, or about 83 per cent, has been in U. S. dollars. There have also been sales of sterling, of Belgian francs, and of deutsche mark.

Of the 25 drawings since the decision of February 1952, which stated that "each member can count on receiving the overwhelm-

TABLE 27. SUMMARY OF FUND TRANSACTIONS FROM THE BEGINNING OF OPERATIONS TO APRIL 30, 1956

(In millions of U. S. dollars)

Member	Currencies Purchased by Fund	Currencies Sold by Fund	Repurchases by Members
Australia	50.0		50.0
Austria			7.5
Belgium	33.0	11.4	21.6
Bolivia	2.5		
Brazil	168.5		103.0
Burma	15.0		3.2
Ceylon			1.0
Chile	21.3		12.5
Colombia	25.0		
Costa Rica	1.2		2.1
Czechoslovakia	6.0		[1]
Denmark	10.2		11.0
Egypt	3.0		8.5
Ethiopia	0.6		2.0
Finland	9.5		14.9
France	125.0		147.9
Germany		4.4	45.1
India	100.0		99.9
Indonesia	15.0		
Iran	26.2		17.5
Japan	124.0		124.0
Lebanon			0.9
Mexico	45.0		44.9
Netherlands	75.4		75.4
Nicaragua	0.5		0.5
Norway	9.6		9.6
Paraguay	0.9		0.4
Peru			3.1
Philippine Republic	15.0		
Sweden			8.0
Syria			1.4
Turkey	35.0		20.0
Union of South Africa	10.0		10.0
United Kingdom	300.0	191.7	112.0
United States		1,029.0	
Yugoslavia	9.0		
Total[2]	1,236.4	1,236.4	957.9

[1] The settlement with Czechoslovakia (see page 127) involved an offset of $2.04 million in respect of Czechoslovakia's drawing of $6 million. The first installment paid under this settlement increased the offset to $2.37 million.

[2] Totals may not equal sums of items because of rounding.

ing benefit of any doubt respecting drawings which would raise the Fund's holdings of its currency to not more than its quota," 19 have been partly or wholly within the gold tranche which was covered by this decision. Of the total outstanding drawings which had not been repurchased or otherwise offset by April 30, 1956, amounting to $187.3 million, $115.4 million was within the gold tranche of the members concerned. As of April 30, 1956, the total amount which members other than the United States might draw if they made gold tranche drawings to the fullest possible extent was $915.3 million.

Since August 1953, the date of the first purchase from the Fund which required a waiver of the limitation of drawings from the Fund, laid down in Article V, Section 3, to such an amount as will not increase the Fund's holdings of a member's currency by more than 25 per cent of its quota in any period of 12 months, 15 purchases have been made by members. Of these purchases, 6 have required the exercise of the Fund's discretion to grant a waiver. Several of these waivers have been granted to members whose quotas are very small in relation to the present volume of their trade. The amounts of individual waiver transactions have ranged from 31.2 per cent to 100 per cent of quota; in two cases, the Fund's holdings of the member's currency were raised to 175 per cent of quota. Three stand-by arrangements have been for amounts that exceeded 25 per cent of the member's quota; one of these arrangements permits drawings up to 70 per cent of the member's quota. The comparatively frequent use of the waiver in recent years may be taken as evidence of the Fund's readiness to consider all aspects of a member's position. It has shown that granting a waiver is not to be regarded as something so exceptional as to be of little practical importance to members.

Repurchases of their currencies by 29 members, which on April 30, 1956 amounted to $957.9 million, have had the effect of maintaining a high degree of liquidity for the Fund. Most of the purchases of U. S. dollars that were made in 1947 and 1948 have since been reversed. There has been a considerable volume of voluntary repurchases, which by April 30, 1956 amounted to

$612.6 million, including both repurchases offered by members on their own initiative and repurchases in fulfillment of representations made on the occasion of drawings in accordance with the Executive Board decision of February 13, 1952. Of the total of $1,236.4 million drawn from the Fund, $1,048.9 million, or 85 per cent, has been repaid through repurchases by members that had drawn upon the Fund, through drawings by other members of the currencies of members that had purchased from the Fund, and by the settlement with Czechoslovakia. Fourteen members, which on joining the Fund had paid less than 25 per cent of their quotas in gold, have incurred repurchase obligations in excess of any previous transactions they had had with the Fund. The total of repurchases in excess of previous transactions has amounted to $114.6 million.

The Fund's gold holdings increased steadily from $1,325.1 million on April 30, 1947 to $1,811.4 million on April 30, 1956. The increase of $67 million in the year ended April 30, 1956 was due to the settlement of repurchases by 4 members, the payment of various Fund charges, and the payment of Afghanistan's and Korea's gold subscriptions. The Fund's holdings of U. S. dollars, which were originally $2,062.5 million, reached their lowest point, $1,269.2 million (46.2 per cent of the U. S. quota), on August 20, 1952; on April 30, 1956, they were $1,776.9 million (64.6 per cent of the U. S. quota).[1]

Since the Fund started operations, 17 members have had to pay charges because transactions raised the Fund's holdings of their currencies above their quotas. On April 30, 1956, 6 members were paying such charges. The Fund Agreement provides that, if a member's monetary reserves are less than one half its quota, part of the Fund's charges may be paid in the member's own currency. One member is currently availing itself of this provision.

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1 The investment of Fund assets, amounting on April 30, 1956 to $50 million, which is described later in this Report, is not taken into account in calculating either of the above totals.

Approximately $1.1 million was received in charges on balances in excess of quota in the year under review. In the preceding year, the total was $2.0 million.

Fund Charges

The revised schedule of charges which has been in effect from January 1, 1954 and which expired on December 31, 1955 was extended by the Executive Board, first for six months until June 30, 1956, and then, after further study and consideration of the general principles involved, for another six months until December 31, 1956. The schedule of charges is being kept under review by the Fund.

Computation of Monetary Reserves

Monetary reserves data as of April 30, 1955 have been received from 53 members. Of the 3 members that have not yet submitted the required reports, 2 cannot have repurchase obligations. For the remaining member, Brazil, the submission of monetary reserves data is indispensable in order to determine whether it has incurred a repurchase obligation as of April 30, 1955, and efforts to obtain the data are being continued. The computation of France's monetary reserves as of April 30, 1954 and April 30, 1955 has not been completed, since discussions of some legal problems between the Fund and France are still in progress. Since the Fund's holdings of French francs have been reduced by voluntary repurchases to 75 per cent of the French quota, the computation will affect only the distribution between the types of reserve in which any obligation would be discharged.

VIII

Membership, Organization, and Administration

Membership

Afghanistan became a member of the Fund on July 14, 1955, with a quota of $10 million, and Korea on August 26, 1955, with a quota of $12.5 million. Both members have paid 25 per cent of their quotas in gold. On December 21, 1955, the Government of Viet-Nam applied for membership in the Fund.

As noted in the Annual Report for 1955, Czechoslovakia ceased to be a member of the Fund as of the close of business on December 31, 1954. Discussions in Washington concerning a settlement of accounts between Czechoslovakia and the Fund led to an agreement signed on June 23, 1955, according to which Czechoslovakia will pay to the Fund an amount of 113,242.206 fine ounces of gold (US$3,963,477.21) in settlement of all accounts. Payment will be made in gold or, at the option of Czechoslovakia, in U. S. dollars at the par value in effect at the time of payment. Czechoslovakia undertook to make 12 equal semiannual payments, the first due on January 2, 1956 and the last on July 2, 1961, and to pay interest from January 1, 1955, at the rate of 2½ per cent per annum on the unpaid portion of the amount payable. Czechoslovakia has the right to make earlier payments, and the agreement provides for a rebate of interest in the amount of two tenths of 1 per cent per annum for each full year by which complete payment precedes July 2, 1961. The first installment under this agreement was paid on January 2, 1956.

There are now 58 members of the Fund and the aggregate of quotas is US$8,750.5 million. The members of the Fund, their quotas, voting power, Governors, and Alternate Governors as of April 30, 1956 are shown in Appendix III. Changes in membership of the Board of Governors during the year are shown in Appendix IV. The Executive Directors of the Fund and their voting power are shown in Appendix V. Changes in membership of the Executive Board are shown in Appendix VI.

Review of Quotas

The Executive Board completed its quinquennial review of quotas required by Article III, Section 2, of the Articles of Agreement in January 1956, and did not propose any general revision.

Investment of Fund Assets

The Fund's income has been less than its operating expenses, a situation which in recent years has reflected the reduced need of members to draw on the Fund, in view of the improvement in the international payments and reserve positions of many members. Accordingly, during the past year, discussions were resumed as to the possibility of investing some of the Fund's assets, which had been under consideration from time to time in the past. The discussions concentrated on the sale of a limited portion of the Fund's gold for the purpose of investing the proceeds so as to produce a supplemental income. The investment contemplated was in short-term U. S. Government securities, because the greater part of the Fund's administrative expenditure has been and will continue to be in U. S. dollars.

The Executive Board concluded that there was authority under the Articles of Agreement to sell a limited portion of the Fund's gold to the United States for the purpose of investing the proceeds in U. S. Treasury bills having not more than 93 days to run. The conditions for making this investment were set forth in an interpretation under Article XVIII. One of these conditions is that the Fund will be able to reacquire the same amount of gold as is sold for investment, and that the United States will sell this amount of gold to the Fund at the U. S. selling price at the time of sale to the Fund. In accordance with its commitment under the Articles of Agreement of the Fund, the United States would maintain the gold value of the U. S. Treasury bills in which the Fund invests. It was decided that, with the assurance that the United States would resell gold to the Fund on demand, the Fund would sell approximately, but not more than, $200 million of gold to the United States for the Fund's investment program. The interpretations and operating decisions are reproduced in Appendix VII.

The Fund received the assurance from the United States and, accordingly, steps were taken to initiate the investment program. As of April 30, 1956, an amount of gold equivalent to $50 million had been sold and invested in U. S. Treasury bills.

Operations Relating to Restrictions and Discrimination

As reported in Chapter V, the Fund examined during the year the problem of bilateralism and undertook studies of discriminatory restrictions and of the Hague Club. The Fund also consulted with 32 members still maintaining restrictions under Article XIV. In each case it recommended policies and measures which the Fund believes should be adopted in order to conform more completely and as rapidly as possible with its objectives. In the 1956 series of consultations which has already begun, the general procedures of previous years are being followed.

In accordance with the practice of previous years, the Fund was consulted in 1955 by the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade (GATT) in connection with their consultations with five governments on the discriminatory aspects of import restrictions being applied in order to safeguard balances of payments and monetary reserves. The Fund also transmitted to the CONTRACTING PARTIES the results of its Article XIV consultations with governments which were participants in GATT consultations, together with background material on the countries concerned. The Fund Mission to the Tenth Session of the CONTRACTING PARTIES, which was held from October 27 to December 3, 1955, cooperated with the working party of the CONTRACTING PARTIES in these consultations.

During the past year, the Fund reviewed some of its procedures and operating policies in respect of changes in multiple rate systems. Simplified procedures for the approval of changes in multiple rate systems, which do not appear to involve competitive depreciation, exchange subsidization, or harmful discrimination, were broadened. These simplified procedures will not be applied to proposed changes where the appropriateness of giving approval is open to doubt, or where a commodity is involved on which tariff rates are bound under the GATT.

Technical Assistance and Training Program

During the year under review, members of the Fund staff visited 42 member countries for purposes of consultation, technical assistance, or the exchange of views and information. Three members of the staff were granted leave without pay to undertake special assignments.

The Fund's training program, initiated in 1951, was intended, in the first place, to provide nationals of member countries with technical training related to activities with which the Fund is especially concerned, for example, the collection and presentation of balance of payments data. The number of persons who have participated in these programs is now close to 100, from 48 member countries. In the program that started in September 1955, there are 17 participants from 17 member countries. The training program has proved useful for its original purpose; but also, by disseminating a clearer understanding of the Fund's purposes and procedures, it has made a valuable contribution to the general relations of the Fund with its members. Several former trainees now fill positions of considerable responsibility in their own countries; the knowledge and experience gained by trainees at the Fund may be expected to prove of increasing value, as time goes on, both to member countries and to the Fund as a whole.

Information

The Fund's program of publications during the year included the *Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1955* (Tenth Annual Report), the *Sixth Annual Report on Exchange Restrictions,* Volume 6 of the *Balance of Payments Yearbook,* Volume IV, No. 3 and Volume V, No. 1 of *Staff Papers,* the monthly *International Financial Statistics,* and the weekly *International Financial News Survey. Direction of International Trade* is published jointly with the International Bank for Reconstruction and Development and the Statistical Office of the United Nations. The Fund also makes available to each member a large amount of systematic analytical material dealing with important trends in its economy and in the economies of other countries.

Relations with Other International Organizations

Close relations have been maintained between the Fund and the International Bank for Reconstruction and Development, the United Nations and its regional and technical bodies, and other international agencies, particularly the Organization for European Economic Cooperation (OEEC), the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade (GATT), and the Bank for International Settlements. The objectives and activities of the OEEC and the European Payments Union are closely related to those of the Fund, and efforts are constantly being made to ensure that the Fund's relations with them will be effective and fruitful. The attainment of the Fund's objectives also requires, especially in the long run, as much harmonization as possible by its members between commercial policies and exchange and monetary policies. Collaboration between the Fund and the CONTRACTING PARTIES aims at establishing consistent courses of policy with respect to restrictions in international trade and payments. The procedures for collaboration are continually under review in order to arrive at the most effective working relationship.

Administration

At the end of the fiscal year, the Fund staff numbered 419, including 7 temporary employees and 7 on extended leave. During the year, there was a net reduction of 9. The turnover was moderate, with 48 new appointments involving nationals of 17 countries. Continuous attention is paid to the importance of recruiting staff on as wide a geographical basis as possible, subject to the paramount importance of securing the highest standards of efficiency and of technical competence. In the past year, the number of countries represented on the staff increased from 40 to 43.

The administrative budget approved by the Executive Directors for the period May 1, 1956 to April 30, 1957 is presented in Appendix VIII. Estimated income is expected to cover administrative expenditures during the fiscal year. A tabulation comparing the budget with actual expenditures for the fiscal years 1955 and 1956 and a comparative statement of income are attached.

The Executive Board requested the Governments of Australia, Colombia, and France to nominate members of the Audit Committee. The following nominations were made and confirmed: Mr. Lindsay G. D. Farmer, Chief Auditor in New York for the Commonwealth of Australia; Mr. Alfonso Llano, Sub-Secretary and Assistant to the General Manager of the Banco de la República, Bogotá, Colombia; and Mr. Hubert Davost, Inspector of Finance in the Ministry of Economic and Financial Affairs, Paris, France. The report of the Committee is submitted separately. Appendix IX gives the Auditors' Certificate, together with the audited Balance Sheet as of April 30, 1956, the audited Statement of Income and Expenditure, with supporting schedules, and audited financial statements of the Staff Retirement Fund.

APPENDICES

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Appendix I

DECISION ON EXTENT OF DRAWING RIGHTS—MEANING OF ARTICLE V, SECTION 3(a)(iii)

The Executive Board, acting pursuant to Article XVIII(a) of the Fund Agreement, interprets the quantitative limit of twenty-five per cent of quota in relation to drawing rights under Article V, Section 3(a)(iii) as follows:

Where the Fund's holdings of a member's currency are not less than seventy-five per cent of its quota, and to the extent that such holdings would not be increased above two hundred per cent of its quota, the purchases which the member may make during a period of twelve months ending on the date of a proposed purchase shall be determined as follows:

(a) The total purchases shall not exceed twenty-five per cent of its quota;

(b) Provided that, if the member has made purchases during the period, it may then purchase an amount equal to the difference between twenty-five per cent of its quota and the total of such purchases adjusted on the basis that a repurchase by the member or sale of its currency during the period is deducted from a previous, but not subsequent, purchase or purchases during the period.

August 24, 1955

Appendix II

SUMMARY OF FUND TRANSACTIONS

from the beginning of operations to April 30, 1956[1]

(In millions of U. S. dollars)

Member (1)	Currency Purchased by Member Against Own Currency (2)	Member's Currency Sold by Fund to Other Members for Their Currency or Gold (3)	Member's Currency Repurchased by Member with Convertible Currency or Gold (4)	With-drawing Member's Offset (5)	Member's Currency Used for Repurchases by Other Members (6)	Effect of Operations on Fund's Currency Holdings (columns 2 & 6 minus 3, 4, & 5) (7)	Fund's Currency Holdings on Apr. 30, 1956 Expressed as Percentage of Quota (8)
Afghanistan							—
Australia	50.0		50.0			0.0	96
Austria			7.5			−7.5	75
Belgium	33.0	11.4	21.6			0.0	75
Bolivia	2.5					2.5	100
Brazil	168.5		103.0			65.5	119
Burma	15.0		3.2			11.8	175
Canada							75
Ceylon			1.0			−1.0	88
Chile	21.3		12.5			8.8	100
China							—
Colombia	25.0					25.0	125
Costa Rica	1.2		2.1			−0.9	75
Cuba							75
Czechoslovakia	6.0			2.4[2]		3.6[2]	[2]
Denmark	10.2		11.0			−0.8	90
Dominican Republic							75
Ecuador							75
Egypt	3.0		8.5			−5.5	75
El Salvador							75
Ethiopia	0.6		2.0			−1.4	75
Finland	9.5		14.9			−5.4	84
France	125.0		147.9			−22.9	75
Germany, Fed. Rep. of		4.4	45.1			−49.5	75
Greece							—
Guatemala							75
Haiti							75
Honduras							75
Iceland							75
India	100.0		99.9			0.0	93
Indonesia	15.0					15.0	100
Iran	26.2		17.5			8.7	100
Iraq							100
Israel							—
Italy							—
Japan	124.0		124.0			0.0	75
Jordan							97
Korea, Republic of							—
Lebanon			0.9			−0.9	75
Luxembourg							95
Mexico	45.0		44.9			0.0	75
Netherlands	75.4		75.4			0.0	75
Nicaragua	0.5		0.5			0.0	75
Norway	9.6		9.6			0.0	75
Pakistan							96
Panama							75
Paraguay	0.9		0.4			0.5	89
Peru			3.1			−3.1	75
Philippine Republic	15.0					15.0	175
Sweden			8.0			−8.0	75
Syria			1.4			−1.4	75
Thailand							—
Turkey	35.0		20.0			15.0	110
Union of South Africa	10.0		10.0			0.0	75
United Kingdom	300.0	191.7	112.0			−3.7	82
United States		1,035.2			789.5	−245.7	65
Uruguay							—
Venezuela							75
Yugoslavia	9.0					9.0	102
	1,236.4	1,242.6[3]	957.9[4]	2.4	789.5	−177.3	

[1] Totals may not equal sum of items because of rounding.
[2] The settlement with Czechoslovakia involved an offset of $2.04 million in respect of Czechoslovakia's drawing of $6 million. The first installment paid by Czechoslovakia under the settlement (see page 127) increased the offset to $2.37 million.
[3] $1,236.4 million sold for currency and $6.2 million for gold.
[4] $789.5 million repurchased with convertible currency and $168.4 million with gold.

Appendix III

MEMBERSHIP, QUOTAS, GOVERNORS, AND VOTING POWER

as of April 30, 1956

	QUOTA		VOTES		
Member	Amount (000,000's)	Per Cent of Total	Governor *Alternate*	Number[1]	Per Cent of Total
Afghanistan	$ 10.0	0.11	Abdul Malik *Mohammad Sarwar*	350	0.34
Australia	200.0	2.29	Sir Arthur William Fadden *L. H. E. Bury*	2,250	2.21
Austria	50.0	0.57	Eugen Margaretha *Franz Stoeger-Marenpach*	750	0.74
Belgium	225.0	2.57	Maurice Frere *Joseph Vanheurck*	2,500	2.45
Bolivia	10.0	0.11	Franklin Antezana Paz *Guillermo Mac Lean*	350	0.34
Brazil	150.0	1.71	Vacant *Octavio Paranagua*	1,750	1.72
Burma	15.0	0.17	Kyaw Nyein *San Lin*	400	0.39
Canada	300.0	3.43	Walter Edward Harris *James Elliott Coyne*	3,250	3.19
Ceylon	15.0	0.17	Stanley de Zoysa *Sir Arthur Ranasinha*	400	0.39
Chile	50.0	0.57	Arturo Maschke *Felipe Herrera*	750	0.74
China	550.0	6.29	Peh-Yuan Hsu *Pao-hsu Ho*	5,750	5.64
Colombia	50.0	0.57	Carlos Villaveces *Gabriel Betancur*	750	0.74
Costa Rica	5.0	0.06	Angel Coronas *Mario Fernandez*	300	0.29
Cuba	50.0	0.57	Joaquin Martinez Saenz *Bernardo Figueredo Antunez*	750	0.74
Denmark	68.0	0.78	Svend Nielsen *Einar Dige*	930	0.91
Dominican Republic	5.0	0.06	Milton Messina *Eudaldo Troncoso Pou*	300	0.29
Ecuador	5.0	0.06	Guillermo Perez-Chiriboga *Clemente Vallejo*	300	0.29
Egypt	60.0	0.69	Abdel Moneim El Kaissouni *Ahmed Nabih Younis*	850	0.83
El Salvador	2.5	0.03	Catalino Herrera *Manuel Melendez-Valle*	275	0.27
Ethiopia	6.0	0.07	Ato Makonnen Habte Wolde *Stanislaw Kirkor*	310	0.30
Finland	38.0	0.43	R. v. Fieandt *Reino Rossi*	630	0.62
France	525.0	6.00	Pierre Mendes-France *Wilfrid Baumgartner*	5,500	5.39
Germany, Federal Republic of	330.0	3.77	Wilhelm Vocke *Hans Karl von Mangoldt-Reiboldt*	3,550	3.48
Greece	40.0	0.46	Xenophon Zolotas *Charalambos Theodoropoulos*	650	0.64

Appendix III (*continued*)

MEMBERSHIP, QUOTAS, GOVERNORS, AND VOTING POWER

as of April 30, 1956

	QUOTA		VOTES		
Member	Amount (000,000's)	Per Cent of Total	Governor *Alternate*	Number[1]	Per Cent of Total
Guatemala	$ 5.0	0.06	Gustavo Miron Porras *Gabriel Orellana*	300	0.2
Haiti	2.0	0.02	Christian Aime *Edmond Policard*	270	0.2
Honduras	2.5	0.03	Pedro Pineda Madrid *Roberto Ramirez*	275	0.2
Iceland	1.0	0.01	Bjorn Olafsson *Thor Thors*	260	0.2
India	400.0	4.57	Chintaman D. Deshmukh *B. Rama Rau*	4,250	4.1
Indonesia	110.0	1.26	Sjafruddin Prawiranegara *R. Soegiarto*	1,350	1.3
Iran	35.0	0.40	Ali Asghar Nasser *Ebrahim Kachani*	600	0.5
Iraq	8.0	0.09	Khalil Kenna *Salih Kubba*	330	0.3
Israel	4.5	0.05	David Horowitz *Martin Rosenbluth*	295	0.2
Italy	180.0	2.06	Vacant *Ugo La Malfa*	2,050	2.0
Japan	250.0	2.86	Hisato Ichimada *Eikichi Araki*	2,750	2.7
Jordan	3.0	0.03	Izzeddin Mufti *Abdul Karim Humud*	280	0.2
Korea	12.5	0.14	Hyun Chul Kim *Suk Hi Park*	375	0.3
Lebanon	4.5	0.05	Nasr Harfouche *Farid Solh*	295	0.2
Luxembourg	10.0	0.11	Pierre Werner *Hugues Le Gallais*	350	0.3
Mexico	90.0	1.03	Antonio Carrillo Flores *Rodrigo Gomez*	1,150	1.1
Netherlands	275.0	3.14	M. W. Holtrop *E. van Lennep*	3,000	2.9
Nicaragua	2.0	0.02	Guillermo Sevilla Sacasa *Leon DeBayle*	270	0.2
Norway	50.0	0.57	Erik Brofoss *Christian Brinch*	750	0.2
Pakistan	100.0	1.14	Syed Amjad Ali *Abdul Qadir*	1,250	1.2
Panama	0.5	0.01	Roberto M. Heurtematte *Jose D. Crespo*	255	0.2
Paraguay	3.5	0.04	Epifanio Mendez *Pedro Juan Mayor*	285	0.2
Peru	25.0	0.29	Andres F. Dasso *Vacant*	500	0.4
Philippines	15.0	0.17	Miguel Cuaderno, Sr. *Emilio Abello*	400	0.4

Appendix III (*continued*)

MEMBERSHIP, QUOTAS, GOVERNORS, AND VOTING POWER

as of April 30, 1956

	QUOTA		VOTES		
Member	Amount (000,000's)	Per Cent of Total	Governor *Alternate*	Number[1]	Per Cent of Total
Sweden	$ 100.0	1.14	Per V. Asbrink *T. L. Hammarskiold*	1,250	1.23
Syria	6.5	0.07	Rafic Sioufi *Awad Barakat*	315	0.31
Thailand	12.5	0.14	Prince Viwat *Puey Ungphakorn*	375	0.37
Turkey	43.0	0.49	Nedim Okmen *Burhan Ulutan*	680	0.67
Union of South Africa	100.0	1.14	Eric Hendrik Louw *Daniel Hendrik Steyn*	1,250	1.23
United Kingdom	1,300.0	14.86	Harold Macmillan *Sir George Bolton*	13,250	12.99
United States	2,750.0	31.43	George M. Humphrey *Herbert V. Prochnow*	27,750	27.20
Uruguay	15.0	0.17	Miguel B. Rognoni *Carlos Sanguinetti*	400	0.39
Venezuela	15.0	0.17	J. J. Gonzalez Gorrondona *Francisco Alfonso Ravard*	400	0.39
Yugoslavia	60.0	0.69	Nenad Popovic *Janko Smolej*	850	0.83
	$8,750.5	100.00[2]		102,005	100.00[2]

[1] Voting power varies on certain matters with use by members of Fund resources.
[2] This total is not equal to the sum of the items because of rounding.

Appendix IV

CHANGES IN MEMBERSHIP OF THE BOARD OF GOVERNORS

Changes in the membership of the Board of Governors between May 1, 1955 and April 30, 1956 have been as follows:

Per V. Asbrink succeeded M. H. Lemne as Governor for Sweden, June 17, 1955.

Carlos Villaveces succeeded Hernan Jaramillo Ocampo as Governor for Colombia, June 27, 1955.

Gabriel Betancur succeeded Eduardo Arias Robledo as Alternate Governor for Colombia, June 27, 1955.

Pedro Pineda Madrid succeeded Marco Antonio Batres as Governor for Honduras, June 30, 1955.

Roberto Ramirez was reappointed Alternate Governor for Honduras, June 30, 1955.

Abdul Karim Humud succeeded Abdul Monem Rifa'i as Governor for Jordan, July 6, 1955.

J. C. Deeks succeeded Abdul Karim Humud as Alternate Governor for Jordan, July 6, 1955.

Prudente de Moraes Neto succeeded Octavio Bulhoes as Alternate Governor for Brazil, July 8, 1955.

B. Rama Rau was reappointed Alternate Governor for India, August 2, 1955.

R. Soegiarto succeeded Soetikno Slamet as Alternate Governor for Indonesia, August 9, 1955.

Abdul Malik was appointed Governor for Afghanistan, August10, 1955.

Clemente Vallejo succeeded Hernan Escudero Moscoso as Alternate Governor for Ecuador, August 15, 1955.

Janko Smolej succeeded Mirko Mermolja as Alternate Governor for Yugoslavia, August 16, 1955.

Octavio Paranagua succeeded Prudente de Moraes Neto as Alternate Governor for Brazil, August 17, 1955.

Mohammad Sarwar was appointed Alternate Governor for Afghanistan, August 18, 1955.

Izzeddin Mufti succeeded Abdul Karim Humud as Governor for Jordan, August 18, 1955.

Abdul Karim Humud succeeded J. C. Deeks as Alternate Governor for Jordan, August 18, 1955.

Hyun Chul Kim was appointed Governor for Korea, August 26, 1955.

Suk Hi Park was appointed Alternate Governor for Korea, August 26, 1955.

L. H. E. Bury succeeded Sir Percy C. Spender as Alternate Governor for Australia, August 29, 1955.

Louis Rasminsky succeeded James Elliott Coyne as Alternate Governor for Canada, September 1, 1955.

Rafic Sioufi succeeded Izzat Traboulsi as Governor for Syria, September 5, 1955.

Awad Barakat was reappointed Alternate Governor for Syria, September 5, 1955.

T. K. Chang succeeded Peh-Yuan Hsu as Governor for China, September 10, 1955.

J. Mauricio Duke succeeded Catalino Herrera as Governor for El Salvador, September 10, 1955.

Abdulilah Hafidh succeeded Dhya Jafar as Governor for Iraq, September 10, 1955.

Leon DeBayle succeeded Guillermo Sevilla Sacasa as Governor for Nicaragua, September 10, 1955.

Jorge Alberto Montealegre succeeded Leon DeBayle as Alternate Governor for Nicaragua, September 10, 1955.

Peh-Yuan Hsu succeeded T. K. Chang as Governor for China, September 17, 1955.

Catalino Herrera succeeded J. Mauricio Duke as Governor for El Salvador, September 17, 1955.

Dhya Jafar succeeded Abdulilah Hafidh as Governor for Iraq, September 17, 1955.

Guillermo Sevilla Sacasa succeeded Leon DeBayle as Governor for Nicaragua, September 17, 1955.

Leon DeBayle succeeded Jorge Alberto Montealegre as Alternate Governor for Nicaragua, September 17, 1955.

James Elliott Coyne succeeded Louis Rasminsky as Alternate Governor for Canada, October 1, 1955.

Syed Amjad Ali succeeded Mohamad Ali as Governor for Pakistan, December 5, 1955.

Christian Brinch was reappointed Alternate Governor for Norway, January 1, 1956.

Svend Nielsen was reappointed Governor for Denmark, January 12, 1956.

Milton Messina succeeded J. J. Gomez as Governor for the Dominican Republic, January 15, 1956.

Eudaldo Troncoso Pou succeeded Hector Garcia Godoy as Alternate Governor for the Dominican Republic, January 27, 1956.

Angel Coronas was reappointed Governor for Costa Rica, February 8, 1956.

Mario Fernandez was reappointed Alternate Governor for Costa Rica, February 8, 1956.

Harold Macmillan succeeded Richard Austen Butler as Governor for the United Kingdom, February 10, 1956.

Ezio Vanoni, Governor for Italy, died February 16, 1956.

Thor Thors was reappointed Alternate Governor for Iceland, February 29, 1956.

Hugues Le Gallais was reappointed Alternate Governor for Luxembourg, March 1, 1956.

Nedim Okmen succeeded Hasan Polatkan as Governor for Turkey, March 5, 1956.

Pierre Mendes-France was reappointed Governor for France, March 6, 1956.

Xenophon Zolotas was reappointed Governor for Greece, March 7, 1956.

Herbert V. Prochnow succeeded Samuel C. Waugh as Governor for the United States, March 7, 1956.

Einar Dige was reappointed Alternate Governor for Denmark, March 23, 1956.

Chintaman D. Deshmukh was reappointed Governor for India, April 5, 1956.

Khalil Kenna succeeded Dhya Jafar as Governor for Iraq, April 7, 1956.

Stanley de Zoysa succeeded M. D. H. Jayawardene as Governor for Ceylon, April 26, 1956.

Appendix V

EXECUTIVE DIRECTORS AND VOTING POWER

as of April 30, 1956

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Per Cent of Total
APPOINTED				
Frank A. Southard, Jr. *John S. Hooker*	United States	27,750	27,750	27.40
Viscount Harcourt *R. E. Heasman*	United Kingdom	13,250	13,250	13.08
Beue Tann *Ching-Yao Hsieh*	China	5,750	5,750	5.68
Jean de Largentaye *Daniel Dommel*	France	5,500	5,500	5.43
P. S. Narayan Prasad *V. G. Pendharkar*	India	4,250	4,250	4.20
ELECTED				
Octavio Paranagua (Brazil)	Bolivia	350		
	Brazil	1,750		
J. C. Gouvea Fo. (Brazil)	Chile	750		
	Dominican Republic	300		
	Ecuador	300		
	Haiti	270		
	Panama	255		
	Paraguay	285		
	Peru	500		
	Uruguay	400	5,160	5.09
Ahmed Zaki Saad (Egypt)	Egypt	850		
	Ethiopia	310		
Albert Mansour (Egypt)	Iran	600		
	Iraq	330		
	Jordan	280		
	Lebanon	295		
	Pakistan	1,250		
	Philippines	400		
	Syria	315	4,630	4.57
Jose Luna-Guerra (Mexico)	Colombia	750		
Jorge Sol (El Salvador)	Costa Rica	300		
	Cuba	750		
	El Salvador	275		
	Guatemala	300		
	Honduras	275		
	Mexico	1,150		
	Nicaragua	270		
	Venezuela	400	4,470	4.41

Appendix V (*continued*)

EXECUTIVE DIRECTORS AND VOTING POWER

as of April 30, 1956

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Per Cent of Total
Andre van Campenhout (Belgium)	Austria	750		
	Belgium	2,500		
Maurice Toussaint	Luxembourg	350		
(Belgium)	Turkey	680	4,280	4.23
Pieter Lieftinck (Netherlands)	Israel	295		
H. M. H. A. van der Valk	Netherlands	3,000		
(Netherlands)	Yugoslavia	850	4,145	4.09
Carlo Gragnani (Italy)	Greece	650		
Costa P. Caranicas	Indonesia	1,350		
(Greece)	Italy	2,050	4,050	4.00
Takeo Yumoto (Japan)	Burma	400		
San Lin (Burma)	Ceylon	400		
	Japan	2,750		
	Thailand	375	3,925	3.88
S. T. G. Akermalm (Sweden)	Denmark	930		
Torben Friis (Denmark)	Finland	630		
	Iceland	260		
	Norway	750		
	Sweden	1,250	3,820	3.77
Otmar Emminger (Federal Republic of Germany) *Otto Donner (Federal Republic of Germany)*	Federal Republic of Germany	3,550	3,550	3.51
L. H. E. Bury (Australia)	Australia	2,250		
B. B. Callaghan (Australia)	Union of South Africa	1,250	3,500	3.46
Louis Rasminsky (Canada) *J. H. Warren (Canada)*	Canada	3,250	3,250	3.21
			101,280[2]	100.00[3]

[1] Voting power varies on certain matters with use by members of Fund resources.

[2] This total does not include the votes of Afghanistan and Korea which were not members at the time of the Fifth Regular Election of Executive Directors.

[3] This total is not equal to the sum of the items because of rounding.

Appendix VI

CHANGES IN MEMBERSHIP OF THE EXECUTIVE BOARD

Changes in the membership of the Executive Board between May 1, 1955 and April 30, 1956 have been as follows:

Kuo-Hwa Yu (China) resigned as Alternate Executive Director to Beue Tann (China), effective May 31, 1955.

Ching-Yao Hsieh (China) was appointed Alternate Executive Director to Beue Tann (China), effective June 1, 1955.

Andre de Lattre (France) resigned as Alternate Executive Director to Jean de Largentaye (France), effective June 23, 1955.

Roger Hoppenot (France) served as Temporary Alternate Executive Director to Jean de Largentaye (France), June 24 to 30, 1955.

Daniel Dommel (France) was appointed Alternate Executive Director to Jean de Largentaye (France), effective July 1, 1955.

H. W. Lueck (Federal Republic of Germany) served as Temporary Alternate Executive Director to Otmar Emminger (Federal Republic of Germany), July 8 to 20 and August 26 to September 2, 1955.

Louis Couillard (Canada) served as Temporary Alternate Executive Director to Louis Rasminsky (Canada), July 28 to 30 and September 2 (afternoon session), 1955.

P. C. Witte (Netherlands) served as Temporary Alternate Executive Director to D. Crena de Iongh (Netherlands), July 28 to 30, 1955.

J. C. Lloyd (Australia) served as Temporary Alternate Executive Director to L. H. E. Bury (Australia), September 2 and November 23 to December 2, 1955.

D. Crena de Iongh (Netherlands) resigned as Executive Director for the Netherlands, Israel, and Yugoslavia, effective September 30, 1955.

Pieter Lieftinck (Netherlands) was elected Executive Director by the Netherlands, Israel, and Yugoslavia, effective October 1, 1955.

H. M. H. A. van der Valk (Netherlands), formerly Alternate Executive Director to D. Crena de Iongh (Netherlands), was appointed Alternate Executive Director to Pieter Lieftinck (Netherlands), effective October 1, 1955.

Boonma Wongswan (Thailand) resigned as Alternate Executive Director to Takeo Yumoto (Japan), effective October 31, 1955.

San Lin (Burma) was appointed Alternate Executive Director to Takeo Yumoto (Japan), effective November 1, 1955.

P. J. Keogh (United Kingdom) resigned as Alternate Executive Director to Viscount Harcourt (United Kingdom), effective January 16, 1956.

R. E. Heasman (United Kingdom) was appointed Alternate Executive Director to Viscount Harcourt (United Kingdom), effective January 17, 1956.

Guenther Grosse (Federal Republic of Germany) served as Temporary Alternate Executive Director to Otmar Emminger (Federal Republic of Germany), February 3 to 17, 1956.

Appendix VII

DECISIONS ON INVESTMENT OF THE FUND'S ASSETS

The Executive Board, observing that the Fund has had and may continue to have an excess of expenditure over income and that the greater part of the Fund's administrative expenditure has been and will continue to be in United States dollars, considers that in the interest of good administration and conservation of the Fund's resources it would be appropriate to raise income towards meeting the deficit by the investment of a portion of the Fund's gold in a manner which will enable the Fund to reacquire gold at any time and will maintain the gold value of the investment.

In view of the foregoing and noting the willingness of the United States to consent to investment by the Fund in United States Treasury bills, the Executive Board takes the following decisions:

I. The Executive Board, acting pursuant to Article XVIII(a) of the Articles of Agreement, interprets the Articles of Agreement to permit the investment described in the present decisions, namely, sale of a portion of the Fund's gold to the United States for the purpose of investment of the proceeds in United States Treasury bills having not more than ninety-three days to run, subject to the following conditions:

(1) The amount of gold to be sold for investment:

(a) will not be such as to limit the ability of the Fund to make its resources available to members in accordance with the Articles of Agreement; and

(b) will be such as to produce an amount of income reasonably related to the deficit of the Fund;

(2) Whenever the Fund decides to reacquire gold after the sale or maturity of any United States Treasury bills invested in, it will be able to reacquire the same amount of gold as was sold for investment in such bills; and the United States, at the request of the Fund, will sell the said amount of gold to the Fund for U. S. dollars at the United States selling price at the time of the sale to the Fund;

(3) In any computations for the purpose of applying the provisions of the Articles of Agreement the Fund will treat the

following assets as representing gold and not as holdings of United States currency:

(a) the dollar proceeds of the sale of gold before investment in United States Treasury bills; and

(b) the United States Treasury bills invested in; and

(c) the dollar proceeds resulting from the sale or maturity of any such bills before the purchase of gold therewith.

II. (1) The Executive Board, acting pursuant to Article XVIII(a) of the Articles of Agreement, interprets Article IV, Section 8(a) to require the United States to maintain the gold value of the assets set forth in paragraph I (3) (a), (b) and (c) above, notwithstanding changes in the par or foreign exchange value of the currency of the United States. This obligation of the United States shall be fully discharged by its maintaining the gold value of the dollar proceeds resulting from the sale of the gold or from the sale or maturity of the U. S. Treasury bills purchased therewith.

(2) For the purposes of paragraphs I and II of these decisions the dollar proceeds resulting from the sale or maturity of the U. S. Treasury bills invested in shall not include the income of the investment.

III. Subject to the receipt of an assurance from the United States in accordance with paragraph I (2) above satisfactory to the Fund, the Executive Board decides that an amount of the Fund's gold sufficient to realize approximately but not more than two hundred million United States dollars shall be sold to the United States and the proceeds invested and reinvested in United States Treasury bills having not more than ninety-three days to run. The Executive Board will review the amount and operation of the investment at quarterly intervals and at such other times as may be appropriate.

January 25, 1956

Appendix VIII (i)

ADMINISTRATIVE BUDGET

Letter of Transmittal

June 29, 1956

My dear Mr. Chairman:

The administrative budget of the Fund approved by the Executive Board for the Fiscal Year ending April 30, 1957 is presented herewith, in accordance with Section 20 of the By-Laws. The presentation also shows actual expenditures for the two past fiscal years.

I should like to reiterate that it is of course impossible to predict whether the amounts budgeted will, in fact, meet the requirements of the Fund's program. The amounts shown are estimates of requirements on the basis of the expected level of activities. Should contingencies arise or present plans change materially, the management may have to recommend appropriate amendments to the Executive Board.

Yours sincerely,
/s/
IVAR ROOTH
Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

Appendix VIII (ii)

ADMINISTRATIVE BUDGET

As Approved by the Executive Board for the Fiscal Year Ending April 30, 1957, Compared with Actual Expenditures for the Fiscal Years 1954-55 and 1955-56

Category of Expenditure	Budget F. Y. 1956-57	F. Y. 1955-56		Actual Expenditures F. Y. 1954-55
		Budget	Actual Expenditures	
I. BOARD OF GOVERNORS	$ 177,800	$ 347,200	$ 347,160.42	$ 171,004.44
II. OFFICE OF EXECUTIVE DIRECTORS				
Salaries	$ 574,000	$ 576,000	$ 573,529.63	$ 544,630.34
Other compensations and benefits	84,700	85,000	82,753.47	76,523.33
Travel	93,000	93,000	91,016.09	84,219.07
Total	$ 751,700	$ 754,000	$ 747,299.19	$ 705,372.74
III. STAFF				
Salaries	$2,700,400	$2,618,000	$2,615,438.06	$2,460,989.38
Other compensations and benefits	655,700	636,000	633,917.97	592,132.95
Travel	305,000	295,000	293,231.38	283,362.25
Total	$3,661,100	$3,549,000	$3,542,587.41	$3,336,484.58
IV. OTHER ADMINISTRATIVE EXPENSES				
Communications	$ 124,000	$ 120,000	$ 119,219.48	$ 116,172.14
Office occupancy expenses	402,500	411,000	408,125.00	451,723.85
Books and printing	99,900	91,000	87,487.23	103,124.21
Supplies and equipment	67,000	56,000	50,965.99	65,663.57
Miscellaneous	46,000	41,800	38,756.67	39,825.88
Total	$ 739,400	$ 719,800	$ 704,554.37	$ 776,509.65
TOTAL	$5,330,000	$5,370,000	$5,341,601.39	$4,989,371.41

Appendix VIII (iii)

COMPARATIVE STATEMENT OF INCOME

(Values expressed in U. S. dollars on the basis of established parities)

	Year ended Apr. 30, 1954	Year ended Apr. 30, 1955	Year ended Apr. 30, 1956
INCOME			
Service charges received in gold	$1,156,450.00	$ 243,750.00	$ 193,750.00
Charges on Fund's holdings of members' currencies and securities in excess of quotas			
Received in gold	$3,258,252.18	$1,914,631.83	$1,110,091.19
Received in members' currencies	414,924.48	15,293.12	15,043.75
Outstanding	91,208.10	111,679.02	—0—
Total	$3,764,384.76	$2,041,603.97	$1,125,134.94
Income from investments	—0—	—0—	$ 123,279.51
Sales of Fund's publications	$ 14,297.18	$ 16,088.52	—0—[1]
Other operational income	49,654.92[2]	44,404.29[2]	232,892.35[2]
Miscellaneous income	412.91	579.07	278.74
TOTAL INCOME	$4,985,199.77	$2,346,425.85	$1,675,335.54
TOTAL ADMINISTRATIVE EXPENDITURE	$5,009,158.95	$4,989,371.41	$5,341,601.39

[1] Proceeds from sales of Fund's publications deducted from administrative expenditure item "Books and Printing."

[2] Excludes transfers to Stand-By Charge Reserve for the years 1954 and 1955 of $42,091.77 and $42,091.78, respectively, and includes transfer of $24,810.90 (net) from Stand-By Charge Reserve for year 1956.

Appendix IX (i)

BALANCE SHEET, STATEMENT OF INCOME AND EXPENDITURE, AND SUPPORTING SCHEDULES

Letter of Transmittal

June 29, 1956

My dear Mr. Chairman:

In accordance with Section 20(b) of the By-Laws of the Fund, I have the honor to submit for the consideration of the Board of Governors the audited Balance Sheet and the audited Statement of Income and Expenditure of the Fund for the year ended April 30, 1956, together with the Auditors' Certificate, as well as audited financial statements of the Staff Retirement Fund.

In conformity with the By-Laws, the external audit of the Fund has been performed by an Audit Committee consisting of auditors nominated by three member countries. At the Fund's request, Australia, Colombia, and France nominated auditors to serve on this Committee. They respectively nominated Mr. Lindsay G. D. Farmer, Chief Auditor in New York for the Commonwealth of Australia; Mr. Alfonso Llano, Sub-Secretary and Assistant to the General Manager of the Banco de la República, Bogotá, Colombia; and Mr. Hubert Davost, Inspector of Finance in the Ministry of Economic and Financial Affairs, Paris, France. The auditors thus nominated were confirmed by the Executive Directors.

It will be noted that, in the period under review, expenditure exceeded income by $3,699,128.26, and that the total excess of expenditure over income from inception to April 30, 1956 is thus increased to $14,211,843.57.

The detailed report of the Audit Committee is being submitted separately to the Board of Governors.

Yours sincerely,

/s/

IVAR ROOTH

Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

Appendix IX (ii)

AUDITORS' CERTIFICATE

We have made an independent examination of the Balance Sheet of the International Monetary Fund as at April 30, 1956, of the Statement of Income and Expenditure for the fiscal year then ended, and of the schedules related to such financial statements. As required by Section 20 of the Fund's By-Laws, our examination was made in accordance with generally accepted auditing standards and included all procedures which we considered necessary in the circumstances. We have examined or tested, to the extent deemed appropriate, the accounting records of the Fund and other supporting evidence of its financial transactions; we have ascertained generally and to the extent practicable that financial transactions have been conducted in compliance with the Fund's requirements; and we have obtained from the officers and staff of the Fund all such information and representations as we have required in the conduct of our audit. We have also reviewed the accounting methods and system of internal control.

In our opinion, based on our examination, such Balance Sheet and related Statement of Income and Expenditure, together with the notes appearing thereon, present fairly the financial position of the International Monetary Fund as at April 30, 1956, and the results of its operations for the fiscal year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of previous fiscal years.

/s/ L. G. D. FARMER (Australia)

/s/ ALFONSO LLANO (Colombia)

/s/ HUBERT DAVOST (France)

Appendix
BALANCE
April 30,

Values expressed in United States dollars

ASSETS

GOLD ACCOUNT			
Gold with depositories (See Note 2)		$1,761,362,728.16	
(50,324,649.376 fine ounces at US$35.00 per ounce)			
Investments (See Note 3)			
$50,276,000 U. S. Treasury bills at cost	$ 49,993,715.14		
Funds awaiting investment	1,937.17	49,995,652.31	$1,811,358,380.47
CURRENCY AND SECURITIES			
With depositories			
Currency	$ 799,294,450.81		
Securities	5,305,230,069.84	$6,104,524,520.65	
(non-negotiable, non-interest bearing demand obligations payable at face value by members in their currencies)			
Add:			
Currency adjustment receivable		1,413,245.48	6,105,937,766.13
(in accordance with Article IV, Section 8)			
SUBSCRIPTIONS TO CAPITAL—RECEIVABLE			
Balances not due			814,546,391.82
(members whose par values have not yet been established)			
WITHDRAWING MEMBER'S CURRENCY			3,633,187.44
(redeemable by Czechoslovakia in gold or U. S. dollars in installments not later than July 2, 1961)			
OTHER ASSETS (See Note 6)			1,092,975.30
(other cash, receivables, etc.)			
TOTAL ASSETS			$8,736,568,701.16

NOTES: 1. With the exception of Canadian dollars, French francs, Indonesian rupiah, and Peruvian soles which, for bookkeeping purposes, are computed at provisional rates of 0.995000 dollar, 349.600 francs, 11.4000 rupiah, and 19.0000 soles per U. S. dollar.

2. Excludes 2,059.819 fine ounces earmarked for members.

3. Made with the proceeds of the sale of 1,428,447.208 fine ounces of gold. Upon termination of the investment, the same quantity of gold can be reacquired.

4. Includes an adjustment of $24,447.71 relating to net capital of the previous year.

5. A stand-by charge has, under certain circumstances, to be credited against the service charge for a drawing under the stand-by arrangement. The maximum amount on April 30, 1956 is $59,372.65. A portion of the stand-by charge is refundable to a member if the arrangement is cancelled. The maximum amount on April 30, 1956 is $41,256.08.

6. The assets and liabilities of the Staff Retirement Fund are not included in this Balance Sheet.

IX (iii)
SHEET
1956

on the basis of established parities (See Note 1)

CAPITAL, RESERVES, AND LIABILITIES

CAPITAL		
Authorized subscriptions of members		$8,750,500,000.00
Less: Excess of expenditure over income		
From inception to April 30, 1955	$10,512,715.31	
For year ended April 30, 1956 (See Note 4)	3,699,128.26	14,211,843.57
Net capital		$8,736,288,156.43
RESERVES		
Stand-by charge reserve (See Note 5)	$ 59,372.65	
Reserve for potential rebate of interest charges (*in relation to withdrawing member's settlement*)	51,664.17	111,036.82
LIABILITIES (See Note 6) (*accruals, accounts payable, deferred income, etc.*)		169,507.91
TOTAL CAPITAL, RESERVES, AND LIABILITIES		$8,736,568,701.16

/s/ Y. C. Koo
Treasurer

/s/ C. M. Powell
Comptroller and
Assistant Treasurer

/s/ Ivar Rooth
Managing Director

Appendix IX (iv)

STATEMENT OF INCOME AND EXPENDITURE

for the year ended April 30, 1956

INCOME

Operational charges		$ 426,642.35[1]	
Charges on balances in excess of quota		1,125,134.94	
Income from investments		123,279.51	
Other income		278.74	
TOTAL INCOME			$1,675,335.54

EXPENDITURE

Board of Governors		$ 347,160.42	
Office of Executive Directors			
Salaries	$ 573,529.63		
Other compensations and benefits	82,753.47		
Travel	91,016.09	747,299.19	
Staff			
Salaries	$2,615,438.06		
Other compensations and benefits	633,917.97		
Travel	293,231.38	3,542,587.41	
Other administrative expenses			
Communications	$ 119,219.48		
Office occupancy expenses	408,125.00		
Books and printing (net)	87,487.23[2]		
Supplies and equipment	50,965.99		
Miscellaneous	38,756.67	704,554.37	
TOTAL ADMINISTRATIVE EXPENDITURE		$5,341,601.39	
Gold handling and conversion costs	$ 8,772.43		
Exchange adjustments	Cr. 357.73	8,414.70	
TOTAL EXPENDITURE			5,350,016.09
EXCESS OF EXPENDITURE OVER INCOME FOR THE YEAR			$3,674,680.55
Add:			
Adjustment of charges for the previous fiscal year pursuant to agreement with withdrawing member			24,447.71
EXCESS OF EXPENDITURE OVER INCOME (carried to Balance Sheet)			$3,699,128.26

[1] Includes $24,810.90 (net) transferred from Stand-by Charge Reserve.

[2] After deduction of proceeds from sales of Fund's publications formerly shown under "Other Income."

Appendix IX (v)

GOLD ACCOUNT

April 30, 1956

GOLD WITH DEPOSITORIES

Valued at US$35.00 per fine ounce

	Fine Ounces	*U. S. Dollar Equivalent*
Gold with depositories	50,324,649.376[1]	$1,761,362,728.16

INVESTMENTS

United States Treasury Bills

Maturity Dates	*Face Value*	*Cost*
May 24, 1956	$ 5,136,000.00	$ 5,112,990.72
May 31, 1956	5,000,000.00	4,974,293.06
June 7, 1956	5,000,000.00	4,971,056.94
June 14, 1956	10,000,000.00	9,940,000.00
June 21, 1956	6,000,000.00	5,969,299.72
June 28, 1956	4,000,000.00	3,977,831.11
July 5, 1956	15,140,000.00	15,048,243.59
Totals	$50,276,000.00	$49,993,715.14

[1] Excludes 2,059.819 fine ounces held under earmark by the Fund as follows:

Member	*Fine Ounces*
Australia	38.342
Austria	.848
Bolivia	38.776
Brazil	11.356
Burma	277.452
Chile	37.885
Colombia	224.521
Egypt	20.282
Ethiopia	32.436
Finland	13.805
Germany	2.345
India	357.046
Indonesia	40.977
Iran	43.543
Japan	.381
Lebanon	.784
Mexico	12.878
Netherlands	154.540
Norway	369.864
Paraguay	.552
Philippine Republic	1.413
Syria	.019
Turkey	227.894
Yugoslavia	151.880
Total	2,059.819

Appendix IX (vi)

STATEMENT OF CURRENCIES AND SECURITIES

April 30, 1956

Depositories	National Currencies	Amounts in Currencies						Exchange Rates[2]	U. S. Dollar Equivalents
		With Depositories				Currency Adjustments[1] Receivable (+) or Payable (−)	Totals After Currency Adjustments		
		Securities	No. 1 Account	No. 2 Account	Totals				
Commonwealth Bank of Australia	Pounds	76,575,000.0.0	8,942,252.8.4	422.14.9	85,517,675.3.1		85,517,675.3.1	224.000†	$ 191,559.592.34
Austrian National Bank	Schillings	961,980,617.00	13,000,000.00	8,878.10	974,989,495.10		974,989,495.10	26.0000	37,499,595.97
Banque Nationale de Belgique S. A.	Francs	8,323,889,561.24	112,640,000.00	20,914.26	8,436,550,475.50		8,436,550,475.50	50.0000	168,731,009.51
Banco Central de Bolivia	Bolivianos	1,405,612,388.60	494,000.000.00	179,320.00	1,899,791,708.60		1,899,791,708.60	190.000	9,998,903.73
Superintendencia da Moeda e do Credito (Brazil)	Cruzeiros		3,292,754,442.50	15.623.30	3,292,770,065.80		3,292,770,065.80	18.5000	177,987.571.12
The Union Bank of Burma	Kyats	52,830,512.77	72,133,857.14	2,836.45	124,967,206.36		124,967,206.36	21.0000†	26,243,113.33
Bank of Canada	Dollars	218,000,000.00	4,455,164.75	438.08	222,455,602.83	+1,406,179.25	223,861,782.08	0.995000*	224,986 715.65
Central Bank of Ceylon	Rupees	62,316,333.34	714 332.90	4,734.63	63,035,400.87		63,035.400.87	21 0000†	13,237,434.18
Banco Central de Chile	Pesos		5,499,478,426.	619,834.	5,500,098,260.		5,500,098,260.	110.000	50,000,893.28
Banco de la República (Colombia)	Pesos		121,849.541.17	1,686.61	121,851,227.78		121,851,227.78	1.94998	62,488,450.03
Banco Central de Costa Rica	Colones		21,035.457.46	6,963.56	21.042,421.02		21,042 421 02	5.61500	3,747,537.14
Banco Nacional de Cuba	Pesos		37,487,613.64	597.43	37,488,211.07		37,488,211.07	1.00000	37,488,211.07
Danmarks Nationalbank	Kroner	418,000,000.00	5,632,000.27	6,923.27	423,638,923.54		423,638,923.54	6.90714	61,333,478.63
Banco Central de la República Dominicana	Pesos	3,248,000.00	500 987.33	868 85	3.749,856.18		3,749,856.18	1.00000	3,749,856.18
Banco Central del Ecuador	Sucres		56,232,752.37	10,087.48	56,242,839.85		56,242,839.85	15.0000	3,749,522.65
National Bank of Egypt	Pounds	15,458,670.375	208,945.660	584.817	15,668,200.852		15,668,200.852	287.156†	44,992,178.84
Banco Central de Reserva de El Salvador	Colones		4,676,405.50	1,039.93	4,677,445.43		4.677,445 43	2.50000	1,870,978.17
State Bank of Ethiopia	Dollars	10.979,375.30	194.299.17	1,634.94	11.175,309.41		11,175.309.41	40.2500†	4,498,062.04
Bank of Finland	Markkas	7.234,623 839.00	89,270,000 00	187,599.00	7 324 081.438.00		7 324,081,438.00	230.000	31,843,832.34
Banque de France	Francs	135,810,000,000.	1,843.806,755.	22.162.	137,653,828,917.		137,653,828.917.	349.600*	393 746,650.22
Bank deutscher Länder	D. Marks	1,025,600,000.00	13,880,455.38	2,776.33	1,039.483,231.71		1,039,483,231.71	4.20000	247,496,007.56
Banco de Guatemala	Quetzales		3,744,940.19	504.34	3,745,444.53		3,745,444.53	1.00000	3,745,444.53
Banque Nationale de a République d'Haiti	Gourdes	7,394,945.10	100 000.00	4,970.00	7,499,915 10		7,499,915.10	5.00000	1,499,983.02
Banco Central de Honduras	Lempiras	3,647 881.12	98,000.00	1,538.66	3,747.419.78		3.747 419.78	2.00000	1 873,709.89
National Bank of Iceland	Krónur		12,168,211 65	11,583.21	12,179 794.86		12,179.794.86	16.2857	747,882.80
Reserve Bank of India	Rupees	1,754,600,000.0.0	19,188,716.12.3	7,151.13.9	1,773,795,868.10.0		1,773,795,868.10.0	21.0000†	372,497,132.41
Bank Indonesia	Rupiah	1,064,700,000.00	183,588,250.02	17,517.57	1,248,305,767.59		1,248,305,767.59	11.4000*	109,500,505.93

Bank Melli Iran	Rials	1,116,787,569.30	11,759,941.30	25,031.50	1,128,572,542.10		1,128 572,542.10	32.2500	34,994,497.43
National Bank of Iraq	Dinars	2,569,125.000	286,672 319	150.442	2,855,947.761		2 855 947.761	280 000†	7,996,653.73
The Bank of Japan	Yen	66,596.400 000.	900,757,019.	2,391,363.	67,499,548.382.		67,499,548.382.	360.000	187,498,745.50
Ottoman Bank (Jordan)	Dinars	1,025,350.896	10,714.286	323.950	1,036,389.132		1,036.389.132	280.000†	2,901,889.57
Banque de Syrie et du Liban (Lebanon)	Pounds		7,372,572.00	1,467.11	7,374,039.11		7.374,039.11	2.19148	3,364,867.17
Caisse d'Epargne de l'Etat (Luxembourg)	Francs	470,836,334.80	5,000,000.00	20 666.84	475,857 001.64		475.857,001 64	50.0000	9,517,140.03
Banco de México, S. A.	Pesos		843,731,006.89	12,610.38	843,743 617.27		843.743,617.27	12.5000	67,499,489.38
De Nederlandsche Bank N. V.	Guilders	773,000,000.00	10,724.504.18	1,160.46	783.725,664.64		783,725,664.64	3.80000	206,243,595.96
Banco Nacional de Nicaragua	Córdobas		10,474,717.85	7,000.15	10,481,718.00		10,481,718.00	7.00000	1,497,388.28
Norges Bank	Kroner	263,848,315.10	3,939,941.41	8,164.29	267,796,420.80		267,796,420.80	14 0000†	37,491,498.91
State Bank of Pakistan	Rupees	454,661,398.0.0	4,810,858.14.10	1,973.11.2	459,474,230.10.0		459,474,230.10.0	21 0000†	96,489,588 43
Banco Nacional de Panama	Balboas	369,000.00	4,999.75	863.30	374.863.05		374,863.05	1.00000	374.863.05
Banco Central del Paraguay	Guaranies		187,322,283.60	63,504.00	187.385,793.60		187 385,793.60	60.0000	3,123,096.56
Banco Central de Reserva del Peru	Soles	351,464,946.44	4,750,000.00	15,303 42	356,230,249.86		356,230,249.86	19.0000*	18,748,960.52
Central Bank of the Philippines	Pesos	22,000,000.00	30,494,902.42	1,106.82	52,496,009.24		52,496,009.24	2.00000	26,248,004.62
Sveriges Riksbank	Kronor		387,951,594.61	2,358 86	387,953,953.47		387,953,953.47	5.17321	74,992,887.10
Banque de Syrie et du Liban Damascus, Syria	Pounds	10,447,000.00	233,734.01	1,526.12	10,682,260.13		10,682,260.13	2.19148	4,874,450.21
Banque Centrale de la République de Turquie	Liras	78 250,000.00	53,768,264.33	2,068.73	132 020,333.06		132.020,333.06	2.80000	47.150,118.95
South African Reserve Bank	Pounds	26,405,574.8.7	375.889.11.7	354 4.3	26,781,818.4.5		26.781,818.4.5	280.000†	74.989,091.01
Bank of England	Pounds	375,175,000.0.0	4,654 213.3.1	1,922.1.9	379 831,135.4.10		379.831,135.4.10	280.000†	1,063,527,178.67
Federal Reserve Bank of New York	Dollars	1,666,000,000.00	110,577,179.25	210 798.78	1,776,787,978.03		1,776,787,978.03	100.000†	1,776,787,978.03
Riggs National Bank of Washington, D. C.[3]	Dollars			67,683.74	67,683.74		67,683.74	100.000†	67,683.74
Banco Central de Venezuela	Bolívares	32,659,359.42	5,006,000.00	2,586.70	37,667,946.12		37,667,946.12	3.35000	11,244,163.02
Banque Nationale de la République Fédérative Populaire de Yougoslavie	Dinars		18,359,836,356.00	68.753.00	18,359,905.109.00		18,359,905,109.00	300.000	61,199,683.70
TOTALS (In U. S. dollar equivalents)		$5,305,230,069.84	$798,963,002.76	$331,448.05	$6,104,524,520.65	+$1,413,245.48	$6,105,937,766.13		$6,105,937,766.13[4]

[1] In accordance with Article IV, Section 8. [2] Parity rates, except for those marked * which are provisional rates for bookkeeping purposes. Rates marked † represent U. S. cents per currency unit; all other rates represent currency units per U. S. dollar. [3] Checking accounts are maintained with The Riggs National Bank in Washington, D. C. for the purpose of making local payments for administrative expenditure. [4] Excludes withdrawing member's currency equivalent to US$3,633,187.44 shown under separate caption in the Balance Sheet.

Appendix IX (vii)

STATUS OF SUBSCRIPTIONS TO CAPITAL

April 30, 1956

(expressed in U. S. dollars)

Members	Quotas	Payments on Subscriptions to Capital			Subscriptions to Capital Receivable	
		1/100 of 1% Paid in U.S. Dollars[1]	Paid in Gold	Paid in Member's Currency	Balances Due (Par Values Established)	Balances Not Due (Par Values Not Established)
Afghanistan	$ 10,000,000.00		$ 2,500,027.46			$ 7,499,972.54
Australia	200,000,000.00		8,404,843.20	$ 191,595,156.80		
Austria	50,000,000.00		5,000,003.72	44,999,996.28		
Belgium	225,000,000.00	$ 22,500.00	56,227,500.00	168,750,000.00		
Bolivia	10,000,000.00	1,000.00	2,500,040.06	7,498,959.94		
Brazil	150,000,000.00	15,000.00	37,485,030.14	112,499,969.86		
Burma	15,000,000.00		500,369.14	14,499,630.86		
Canada	300,000,000.00	30,000.00	74,970,000.00	225,000,000.00		
Ceylon	15,000,000.00		751,010.09	14,248,989.91		
Chile	50,000,000.00	5,000.00	8,813,013.93	41,181,986.07		
China	550,000,000.00	55,000.00				549,945,000.00
Colombia	50,000,000.00	5,000.00	12,495,150.61	37,499,849.39		
Costa Rica	5,000,000.00	500.00	373,700.09	4,625,799.91		
Cuba	50,000,000.00	5,000.00	12,495,386.36	37,499,613.64		
Denmark	68,000,000.00	6,800.00	5,934,983.32	62,058,216.68		
Dominican Republic	5,000,000.00	500.00	1,249,512.67	3,749,987.33		
Ecuador	5,000,000.00	500.00	1,249,612.81	3,749,887.19		
Egypt	60,000,000.00	4,500.00	9,484,075.69	50,511,424.31		
El Salvador	2,500,000.00	250.00	624,787.80	1,874,962.20		
Ethiopia	6,000,000.00	600.00	61,752.22	5,937,647.78		
Finland	38,000,000.00		760,222.44	37,239,777.56		
France	525,000,000.00	52,500.00	108,056,306.15	416,891,193.85		
Germany	330,000,000.00		33,009,651.50	296,990,348.50		
Greece	40,000,000.00	4,000.00				39,996,000.00
Guatemala	5,000,000.00	500.00	1,249,559.81	3,749,940.19		

Haiti	2,000,000.00		500,010.98	1,499,989.02		
Honduras	2,500,000.00	250.00	624,809.44	1,874,940.56		
Iceland	1,000,000.00	100.00	249,900.28	749,999.72		
India	400,000,000.00	40,000.00	27,486,453.61	372,473,546.39		
Indonesia	110,000,000.00		15,500,030.70	94,499,969.30[2]		
Iran	35,000,000.00	2,500.00	8,764,707.14	26,232,792.86		
Iraq	8,000,000.00	800.00		7,999,200.00		
Israel	4,500,000.00		1,125,047.56			3,374,952.44
Italy	180,000,000.00	18,000.00				179,982,000.00
Japan	250,000,000.00		62,500,000.15	187,499,999.85		
Jordan	3,000,000.00		97,617.49	2,902,382.51		
Korea	12,500,000.00		3,125,025.02			9,374,974.98
Lebanon	4,500,000.00	450.00	267,415.12	4,232,134.88		
Luxembourg	10,000,000.00	1,000.00	479,995.96	9,519,004.04		
Mexico	90,000,000.00	9,000.00	22,491,205.14	67,499,794.86		
Netherlands	275,000,000.00	27,500.00	68,722,500.00	206,250,000.00		
Nicaragua	2,000,000.00	200.00	499,975.66	1,499,824.34		
Norway	50,000,000.00	5,000.00	12,495,054.90	37,499,945.10		
Pakistan	100,000,000.00		3,500,607.22	96,499,392.78		
Panama	500,000.00	50.00	124,950.25	374,999.75		
Paraguay	3,500,000.00	200.00	875,496.47	2,624,303.53		
Peru	25,000,000.00	2,500.00	3,149,921.00	21,847,579.00		
Philippine Republic	15,000,000.00	1,500.00	3,748,548.79	11,249,951.21		
Sweden	100,000,000.00		17,000,086.78	82,999,913.22		
Syria	6,500,000.00	650.00	169,187.17	6,330,162.83		
Thailand	12,500,000.00		3,125,008.14			9,374,991.86
Turkey	43,000,000.00	4,300.00	10,745,912.23	32,249,787.77		
Union of South Africa	100,000,000.00	10,000.00	24,994,519.20	74,995,480.80		
United Kingdom	1,300,000,000.00	130,000.00	236,135,323.70	1,063,734,676.30		
United States	2,750,000,000.00	275,000.00	687,500,000.11	2,062,224,999.89		
Uruguay	15,000,000.00	1,500.00				14,998,500.00
Venezuela	15,000,000.00	1,500.00	3,748,541.96	11,249,958.04		
Yugoslavia	60,000,000.00	6,000.00	7,896,966.11	52,097,033.89		
TOTALS	$8,750,500,000.00	$747,150.00	$1,611,841,357.49	$6,323,365,100.69	–0–	$814,546,391.82

[1] As per Article XX, Section 2(d), of the Articles of Agreement.

[2] Accepted provisionally at the rate of 11.4000 rupiah per U. S. dollar, subject to such adjustment as may be necessary when a par value for the rupiah is agreed upon.

Appendix IX (viii)

OTHER ASSETS

April 30, 1956

Cash		
On hand	$ 1,100.00	
With European Office	4,103.83	$ 5,203.83
Sundry debtors		
Deposits	$ 3,310.65	
Commercial accounts	57,941.26	
Advances against salaries	13,663.00	
Travel advances	7,839.39	
Other receivables	8,370.90	91,125.20
Prepayments		
Postage	$ 3,979.30	
Insurance	5,386.09	
Travel	26,426.29	
Other	4,824.99	40,616.67
Accounts receivable—members (*mainly charges on Fund's holdings of currencies in excess of quotas*)		308,231.43
Accrued income from investments		121,292.00
Fund building suspense		526,506.17
Furniture, equipment, and automobiles		
Furniture and equipment at cost	$ 527,285.23	
Automotive equipment at cost	8,314.65	
	$ 535,599.88	
Less: Reserve	535,599.88	Nil
Libraries		
Cost of books for Law Library	$ 28,839.01	
Investment in Joint Library	36,267.90	
	$ 65,106.91	
Less: Reserve	65,106.91	Nil
TOTAL OTHER ASSETS (carried to Balance Sheet)		$1,092,975.30

LIABILITIES

April 30, 1956

Accruals (*mainly personal services and office occupancy*)	$ 157,997.24
Accounts payable	5,304.63
Deferred credits (*mainly subscriptions to Fund's publications for periods after April 30, 1956*)	6,206.04
TOTAL LIABILITIES (carried to Balance Sheet)	$ 169,507.91

Appendix IX (ix)

SUMMARY OF TRANSACTIONS

for the year ended April 30, 1956

1. EXCHANGE TRANSACTIONS

(a) Currency sold by Fund

			U.S. dollar equivalents
	38,750,000.00	U.S. dollars	$ 38,750,000.00
Total sold by Fund			$ 38,750,000.00

(b) Currency purchased by Fund from

Burma	71,428,571.43	kyats	$ 15,000,000.00
Iran	282,187,500.00	rials	8,750,000.00
Philippine Republic	30,000,000.00	pesos	15,000,000.00
Total purchased by Fund			$ 38,750,000.00

2. REPURCHASES

(a) Currency repurchased from Fund by

			U.S. dollar equivalents
Australia	3,571,428.11.5	pounds	$ 8,000,000.00
Burma	15,461,062.76	kyats	3,246,823.18
Ceylon	4,766,666.66	rupees	1,001,000.00
Finland	1,240,275,000.00	markkas	5,392,500.00
France	44,717,528,709.	francs	127,910,551.23
India	130,952,380.15.3	rupees	27,500,000.00
Iran	282,187,500.00	rials	8,750,000.00
Japan	22,477,642,981.	yen	62,437,897.17
Mexico	280,282,027.75	pesos	22,422,562.22
Turkey	14,000,000.00	liras	5,000,000.00
Total repurchased from Fund			$271,661,333.80

(b) Currency and gold paid to Fund

U. S. dollars	$211,575,676.97
Gold: 1,716,733.052 fine ounces	60,085,656.83
Total currency and gold paid to Fund	$271,661,333.80

Appendix IX (x)

STAFF RETIREMENT FUND
AUDITORS' CERTIFICATE

We have made an independent examination of the accounts of the Staff Retirement Fund of the International Monetary Fund for the year ended April 30, 1956. Our examination was made in accordance with generally accepted auditing standards and included all procedures which we considered necessary in the circumstances. In that connection, consideration was given to the authority and other requirements governing transactions of the Staff Retirement Fund.

The examination did not include a verification of the individual participants' accounts as at April 30, 1956, except for inquiry into certain of such accounts as a consequence of the application of auditing procedures to the other accounts of the Staff Retirement Fund. We ascertained, however, that the Internal Auditor of the International Monetary Fund had made a detailed audit of all participants' individual accounts as at April 30, 1956, and we satisfied ourselves that application of the auditing procedures adopted by him would be adequate to insure the correctness of such individual accounts with regard for eligibility, contributions, and interest allowed.

In our opinion, the Balance Sheet and related Statements of the Participants' Account, Accumulation Account, Retirement Reserve Account, Reserve against Corporate Stock Investments Account, and of the Source and Application of Funds, together with the notes appearing thereon, present fairly the financial position of the Staff Retirement Fund of the International Monetary Fund as at April 30, 1956, and the results of operations for the year ended that date, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of previous fiscal years.

/s/ L. G. D. Farmer (Australia)
/s/ Alfonso Llano (Colombia)
/s/ Hubert Davost (France)

Appendix IX (xi)

STAFF RETIREMENT FUND

BALANCE SHEET

April 30, 1956

ASSETS

Cash in bank			
The Riggs National Bank, Washington, D. C.		$ 5,379.75	
The Chase Manhattan Bank, New York, N. Y.		21,500.83	$ 26,880.58
Investments (Book Value) (See Appendix IX (xviii) and Note 1, Appendix IX (xix).)			
Bonds			
United States Government	$1,668,441.33		
International Bank for Reconstruction and Development (market value, $543,617.50)	560,888.78		
Commercial (market value, $732,202.50)	785,873.86	$3,015,203.97	
Corporate stocks			
Common (market value, $1,792,604.63)		1,067,216.77	
		$4,082,420.74	
Less: Reserve Against Corporate Stock Investments (See Note 2, Appendix IX (xix).)		86,209.47	3,996,211.27
Accrued interest on bonds			16,625.51
Accrued contributions receivable from International Monetary Fund			5,835.27
TOTAL ASSETS			$4,045,552.63

LIABILITIES AND RESERVES

Participants' Account (See Appendix IX (xii).)	$1,077,593.10
Accumulation Account (See Appendix IX (xiii).)	2,835,056.15
Retirement Reserve (See Appendix IX (xiv).)	132,903.38
TOTAL LIABILITIES AND RESERVES	$4,045,552.63

/s/ Y. C. Koo
Treasurer

/s/ Ivar Rooth
Managing Director

/s/ Charles M. Powell
Comptroller and
Assistant Treasurer

See Notes, Appendix IX (xix), which are an integral part of this Statement.

Appendix IX (xii)

STAFF RETIREMENT FUND

STATEMENT OF PARTICIPANTS' ACCOUNT

for the year ended April 30, 1956

	Participating Service	Additional Contributions
BALANCE, April 30, 1955	$ 927,699.66	$ 8,553.42
Add		
Participants' contributions	$ 179,419.02	$ 2,660.00
Interest credited to participants	24,508.34	240.81
Transfer from Retirement Plan of International Bank for Reconstruction and Development	3,450.07	
	$ 207,377.43	$ 2,900.81
Less		
Refunds upon participants' withdrawals	$ 44,331.01	$ 238.75
Refunds on deaths (prior to retirement)	10,051.49	
Transfer to Retirement Reserve	12,046.25	
Transfer to Retirement Plan of International Bank for Reconstruction and Development	2,270.72	
	$ 68,699.47	$ 238.75
	$1,066,377.62	$11,215.48

TOTAL (carried to Balance Sheet)....$1,077,593.10

See Notes, Appendix IX (xix), which are an integral part of this Statement.

Appendix IX (xiii)

STAFF RETIREMENT FUND

STATEMENT OF ACCUMULATION ACCOUNT

for the year ended April 30, 1956

BALANCE, April 30, 1955			$2,457,227.88
Add			
Employer's contributions			
Participating service			354,034.92
Transfer from Retirement Plan of International Bank for Reconstruction and Development			5,152.46
Income from investments			
Interest on bonds		$81,920.66	
Dividends on stocks		51,532.92	133,453.58
Profit on sale or redemption of investments (net)			11,713.96
Profits			
Bonds	$5,386.50		
Corporate stocks	7,605.54	$12,992.04	
Less losses on bonds		1,278.08	
		$11,713.96	
			$2,961,582.80
Less			
Transfer to Retirement Reserve		$19,978.06	
Withdrawal benefits		8,308.85	
Death benefits (prior to retirement)		37,228.51	
Interest credited to Participants' Account		24,749.15	
Interest on Retirement Reserve		2,922.04	
Amortization of premiums, less accumulation of discounts on investments		375.86	
Transfer to Retirement Plan of International Bank for Reconstruction and Development		2,909.24	
Transfer to Reserve against Corporate Stock Investments		30,054.94	126,526.65
TOTAL (carried to Balance Sheet)			$2,835,056.15

See Notes, Appendix IX (xix), which are an integral part of this Statement.

Appendix IX (xiv)

STAFF RETIREMENT FUND

STATEMENT OF RETIREMENT RESERVE ACCOUNT

for the year ended April 30, 1956

BALANCE, April 30, 1955	$103,664.30
Add	
Transfers from Participants' and Accumulation Accounts	32,024.31
Interest on Retirement Reserve	2,922.04
	$138,610.65
Less	
Pension payments to retired participants	5,707.27
TOTAL (carried to Balance Sheet)	$132,903.38

See Notes, Appendix IX (xix), which are an integral part of this Statement.

Appendix IX (xv)

STAFF RETIREMENT FUND

STATEMENT OF RESERVE AGAINST CORPORATE STOCK INVESTMENTS ACCOUNT

for the year ended April 30, 1956

BALANCE, April 30, 1955	$56,154.53
Add: Transfer from Accumulation Account	30,054.94
TOTAL (carried to Balance Sheet)	$86,209.47

See Notes, Appendix IX (xix), which are an integral part of this Statement.

Appendix IX (xvi)

STAFF RETIREMENT FUND

STATEMENT OF

SOURCE AND APPLICATION OF FUNDS

for the year ended April 30, 1956

FUNDS PROVIDED		
Participants' contributions		
Participating service	$179,419.02	
Additional voluntary contributions	2,660.00	$182,079.02
Employer's contributions		354,034.92
Sales of investments (book value)		
U. S. Treasury bonds	$196,625.96	
Commercial bonds	61,886.21	
Corporate stocks	24,772.39	
	$283,284.56	
Add: Profits from sale of securities (net)	11,713.96	294,998.52
Income from investments	$138,865.35	
Less: Interest on bonds purchased	5,411.77	133,453.58
Transfers from Retirement Plan of International Bank for Reconstruction and Development		8,602.53
TOTAL FUNDS PROVIDED		$973,168.57
FUNDS APPLIED		
Purchase of investments		$855,026.20
Payments to participants on withdrawal		52,639.86
Refund of additional voluntary contributions to a participant		238.75
Payments on death prior to retirement		47,280.00
Pension payments to retired participants		5,707.27
Transfers to Retirement Plan of International Bank for Reconstruction and Development		5,179.96
Increase in working capital between 1955 and 1956 (See Appendix IX (xvii).)		7,096.53
TOTAL FUNDS APPLIED		$973,168.57

See Notes, Appendix IX (xix), which are an integral part of this Statement.

STAFF RETIREMENT FUND

STATEMENT OF CHANGES IN WORKING CAPITAL

	April 30, 1956	April 30, 1955	+Increase −Decrease
CURRENT ASSETS			
Cash........................	$26,880.58	$53,867.34	−$26,986.76
Accrued interest on bonds......	16,625.51	15,254.45	+ 1,371.06
Accrued contributions receivable from International Monetary Fund......................	5,835.27	3,763.33	+ 2,071.94
	$49,341.36	$72,885.12	−$23,543.76
CURRENT LIABILITIES.......	—	30,640.29	+ 30,640.29
WORKING CAPITAL..........	$49,341.36	$42,244.83	+$ 7,096.53

See Notes, Appendix IX (xix), which are an integral part of this Statement.

Appendix IX (xviii)

STAFF RETIREMENT FUND
SCHEDULE OF INVESTMENTS
April 30, 1956

	Interest Rate—%	Maturity	Face Value	Book Value	
BONDS					
United States Savings, Series G	2½	1960	$250,000.00	$250,000.00	
United States Savings, Series G	2½	1961	100,000.00	100,000.00	
United States Savings, Series G	2½	1962	100,000.00	100,000.00	
United States Savings, Series G	2½	1963	65,000.00	65,000.00	
United States Savings, Series K	2.76	1966	200,000.00	200,000.00	
United States Savings, Series K	2.76	1967	81,000.00	81,000.00	
United States Treasury	2¾	1980	203,000.00	200,848.76	
United States Treasury	3¼	1983	211,500.00	219,109.94	
United States Treasury	3	1995	451,500.00	452,482.63	$1,668,441.33
International Bank for Reconstruction and Development	3½	1969	50,000.00	$ 50,000.00	
International Bank for Reconstruction and Development	3	1972	276,000.00	272,219.39	
International Bank for Reconstruction and Development	3	1976	50,000.00	50,000.00	
International Bank for Reconstruction and Development	3¼	1981	187,000.00	188,669.39	560,888.78
Commercial					
American Telephone and Telegraph Company — Debentures	2¾	1980	38,000.00	$ 38,089.15	
American Telephone and Telegraph Company — Debentures	3¼	1984	30,000.00	31,062.65	
American Telephone and Telegraph Company — Debentures	2⅝	1986	44,000.00	38,780.90	
American Telephone and Telegraph Company — Debentures	2⅞	1987	24,000.00	22,746.72	
Central New York Power Co. General Mortgage	3	1974	17,000.00	16,237.50	
Commonwealth Edison Company—Sinking Fund Debentures	3⅛	2004	100,000.00	96,990.96	
Connecticut Light and Power Co.—1st & Refunding Mortgage, Series "L"	2¾	1984	12,000.00	12,227.44	
Consolidated Edison Company of New York—1st & Refunding Mortgage, Series "E"	3	1979	38,000.00	39,476.60	
Consolidated Edison Company of New York—1st & Refunding Mortgage, Series "A"	2¾	1982	16,000.00	14,883.60	
Consolidated Natural Gas Company — Sinking Fund Debentures	3⅛	1979	30,000.00	30,724.81	
Carried forward				$341,220.33	$2,229,330.11

Appendix IX (xviii) (*continued*)
STAFF RETIREMENT FUND
SCHEDULE OF INVESTMENTS
April 30, 1956

	Interest Rate—%	Maturity	Face Value	Book Value	
Brought forward				$341,220.33	$2,229,330.11
Commercial (continued)					
Duke Power Company—1st & Refunding Mortgage	2⅞	1979	$13,000.00	$13,530.85	
Illinois Bell Telephone Company—1st Mortgage, Series "A"	2¾	1981	25,000.00	25,324.52	
Kansas City Power & Light Company—1st Mortgage	3¼	1983	15,000.00	15,180.11	
New York Telephone Company — 1st & Refunding Mortgage, Series "D"	2¾	1982	37,000.00	37,501.77	
New York Telephone Company—Refunding Mortgage, Series "H"	3	1989	32,000.00	32,185.89	
Pacific Gas and Electric Company — 1st & Refunding Mortgage, Series "Q"	2⅞	1980	14,000.00	13,410.99	
Pacific Gas and Electric Company — 1st and Refunding Mortgage, Series "S"	3	1983	45,000.00	46,753.22	
Pacific Gas and Electric Company — 1st and Refunding Mortgage, Series "X"	3⅛	1984	21,000.00	21,293.70	
Pacific Gas and Electric Company — 1st & Refunding Mortgage, Series "Z"	3⅜	1988	20,000.00	19,942.59	
Pacific Telephone and Telegraph Company — Debentures	2⅞	1986	26,000.00	24,392.62	
Philadelphia Electric Company — 1st & Refunding Mortgage	2¾	1974	24,000.00	24,254.84	
Potomac Electric Power Company—1st Mortgage	2¾	1985	44,000.00	44,283.70	
Potomac Electric Power Company—1st Mortgage	3⅜	1990	14,000.00	14,461.22	
Public Service Electric and Gas Company—1st & Refunding Mortgage	2⅞	1979	40,000.00	41,338.21	
Public Service Electric and Gas Company—1st & Refunding Mortgage	3¼	1984	20,000.00	20,854.28	
Southern Bell Telephone and Telegraph Company — Debentures	3¼	1995	10,000.00	10,110.90	
Virginia Electric & Power Company—1st & Refunding Mortgage, Series "K"	3⅛	1984	39,000.00	39,834.12	785,873.86
TOTAL BONDS (carried forward)					$3,015,203.97

Appendix IX (xviii) (*continued*)

STAFF RETIREMENT FUND

SCHEDULE OF INVESTMENTS

April 30, 1956

TOTAL BONDS (brought forward)....................................$3,015,203.97

	No. of Shares	Book Value	
CORPORATE STOCKS, Common:			
Abbott Laboratories	200	$ 11,063.00	
Addressograph-Multigraph Corporation	100	10,895.85	
Allied Chemical and Dye Corporation	210	19,264.18	
Aluminum Company of America	400	8,509.48	
American Can Company	440	11,086.00	
American Cyanamid Company	300	13,939.12	
American Natural Gas Company	700	26,321.98	
American Telephone and Telegraph Company	100	18,325.00	
Atlantic Refining Company	250	7,558.53	
Atlas Powder Company	200	8,321.25	
Bankers Trust Company of New York	300	18,112.50	
Caterpillar Tractor Co.	840	19,523.58	
C. I. T. Financial Corporation	100	4,236.00	
Consolidated Natural Gas Company	900	29,257.50	
Consumers Power Company	486	16,924.47	
Continental Can Company	200	8,798.62	
Continental Insurance Company	600	25,011.90	
Crown Zellerbach Corporation	600	25,084.63	
Dow Chemical Company	714	23,832.70	
DuPont (E. I.) de Nemours and Company	100	11,058.51	
Eastern Airlines, Incorporated	300	15,081.87	
Eastman Kodak Company	310	18,786.17	
Fidelity-Phenix Fire Insurance Company	400	16,961.88	
Firestone Tire & Rubber Co.	200	7,067.03	
Ford Motor Company	200	12,990.00	
General Electric Company	700	15,990.39	
General Motors Corporation	630	16,836.00	
Goodrich (B. F.) Company	400	14,066.00	
Guaranty Trust Company of New York	200	13,287.50	
Gulf Oil Corporation	234	8,616.00	
Hartford Fire Insurance Company	157	13,247.25	
Hercules Powder Company	200	12,389.33	
Idaho Power Company	800	17,321.21	
Illinois Power Company	100	5,452.91	
International Business Machines Corporation	99	30,106.54	
International Harvester Company	400	14,152.70	
International Nickel Company of Canada, Limited	300	11,738.25	
International Paper Company	486	19,251.26	
Koppers Company, Incorporated	100	5,202.66	
Lone Star Cement Corporation	400	10,278.44	
Marathon Corporation	400	11,919.00	
May Department Stores Company	600	20,458.95	
McGraw Electric Company	500	26,928.01	
Merck & Co. Inc.	900	22,476.25	
Minnesota Mining and Manufacturing Company	200	11,619.04	
Carried forward..............................		$689,349.44	$3,015,203.97

Appendix IX (xviii) (*continued*)

STAFF RETIREMENT FUND

SCHEDULE OF INVESTMENTS

April 30, 1956

	No. of Shares	Book Value	
Brought forward		$689,349.44	$3,015,203.97
Monsanto Chemical Company	306	8,922.39	
Montgomery Ward & Co., Incorporated	200	14,153.59	
Murphy (G. C.) Company	400	17,295.75	
National Distillers Products Corporation	500	15,062.19	
National Lead Company	600	18,464.08	
Ohio Edison Company	297	10,517.53	
Peoples Gas Light and Coke Company	200	25,345.66	
Pfizer (Chas.) & Co., Inc.	300	10,456.89	
Phillips Petroleum Company	200	12,448.38	
Pittsburgh Plate Glass Company	525	24,600.94	
Sears, Roebuck and Company	909	22,001.88	
Sherwin-Williams Company	200	14,389.82	
Socony-Mobil Oil Company, Incorporated	700	23,908.26	
Southern Company	300	6,954.38	
Standard Oil Company of California	210	16,561.48	
Standard Oil Company (New Jersey)	600	14,829.26	
Texas Company	300	16,043.95	
Texas Utilities Company	1000	24,842.67	
Union Carbide and Carbon Corporation	300	23,744.63	
United Gas Corporation	710	18,701.64	
United States Fidelity and Guaranty Company	145	5,615.80	
United States Steel Corporation	100	3,502.23	
Westinghouse Electric Corporation	500	22,430.65	
Youngstown Sheet and Tube Company	100	7,073.28	1,067,216.77
TOTAL INVESTMENTS (carried to Balance Sheet)			$4,082,420.74

Appendix IX (xix)

NOTES TO FINANCIAL STATEMENTS OF STAFF RETIREMENT FUND OF THE INTERNATIONAL MONETARY FUND

for the year ended April 30, 1956

1. The following table shows the approved limiting percentages for various bonds and corporate stocks, and the percentages and amounts (book value) of the actual investments as at April 30, 1956:

	Authorized Percentage	Actual Percentage	Book Value
Bonds			
U. S. Government..........	Minimum 40	40.87	$1,668,441.33
International Bank for Reconstruction and Development	Maximum 20	13.74	560,888.78
Corporate..................	Maximum 25	19.25	785,873.86
Corporate stocks.............	Maximum 30	26.14	1,067,216.77
		100.00	$4,082,420.74

All corporate stocks have been selected from a list prepared by the Investment Committee on the recommendation of the Investment Consultant (Chase Manhattan Bank, formerly the Chase National Bank of the City of New York).

2. Corporate stock income received during the fiscal year in excess of 3 per cent of the weighted average corporate stock investment held during that period has been transferred to the account "Reserve Against Corporate Stock Investments." All profits resulting from sales of corporate stocks during the year were transferred to this account.

Appendix X (i)

SCHEDULE OF PAR VALUES—as of June 30, 1956

CURRENCIES OF METROPOLITAN AREAS

		Par Values In Terms of Gold		Par Values In Terms of U. S. Dollars	
Member	Currency	Grams of fine gold per currency unit	Currency units per troy ounce of fine gold	Currency units per U. S. dollar	U. S. cents per currency unit
Afghanistan	Afghani	Par Value not yet established			
Australia	Pound	1.990 62	15.625 0	0.446 429	224.000
Austria	Schilling	0.034 179 6	910.000	26.000 0	3.846 15
Belgium	Franc	0.017 773 4	1,750.00	50.000 0	2.000 00
Bolivia	Boliviano	0.004 677 22	6,650.00	190.000	0.526 316
Brazil	Cruzeiro	0.048 036 3	647.500	18.500 0	5.405 41
Burma	Kyat	0.186 621	166.667	4.761 90	21.000 0
Canada[1]	Dollar				
Ceylon	Rupee	0.186 621	166.667	4.761 90	21.000 0
Chile	Peso	0.008 078 83	3,850.00	110.000	0.909 091
China	Yuan	Par Value not yet established			
Colombia	Peso	0.455 733	68.249 3	1.949 98	51.282 5
Costa Rica	Colón	0.158 267	196.525	5.615 00	17.809 4
Cuba	Peso	0.888 671	35.000 0	1.000 00	100.000
Denmark	Krone	0.128 660	241.750	6.907 14	14.477 8
Dominican Republic	Peso	0.888 671	35.000 0	1.000 00	100.000
Ecuador	Sucre	0.059 244 7	525.000	15.000 0	6.666 67
Egypt	Pound	2.551 87	12.188 5	0.348 242	287.156
El Salvador	Colón	0.355 468	87.500 0	2.500 00	40.000 0
Ethiopia	Dollar	0.357 690	86.956 5	2.484 47	40.250 0
Finland	Markka	0.003 863 79	8,050.00	230.000	0.434 783
France	Franc	No Par Value agreed with the Fund			
Germany, Federal Republic of	Deutsche Mark	0.211 588	147.000	4.200 00	23.809 5
Greece	Drachma	Par Value not yet established			
Guatemala	Quetzal	0.888 671	35.000 0	1.000 00	100.000
Haiti	Gourde	0.177 734	175.000	5.000 00	20.000 0
Honduras	Lempira	0.444 335	70.000 0	2.000 00	50.000 0

Iceland	Króna	0.054 567 6	570.000	16.285 7	6.140 36
India	Rupee	0.186 621	166.667	4.761 90	21.000 0
Indonesia	Rupiah	Par Value not yet established			
Iran	Rial	0.027 555 7	1,128.75	32.250 0	3.100 78
Iraq	Dinar	2.488 28	12.500 0	0.357 143	280.000
Israel	Pound	Par Value not yet established			
Italy	Lira	Par Value not yet established			
Japan	Yen	0.002 468 53	12,600.0	360.000	0.277 778
Jordan	Dinar	2.488 28	12.500 0	0.357 143	280.000
Korea	Hwan	Par Value not yet established			
Lebanon	Pound	0.405 512	76.701 8	2.191 48	45.631 3
Luxembourg	Franc	0.017 773 4	1,750.00	50.000 0	2.000 00
Mexico	Peso	0.071 093 7	437.500	12.500 0	8.000 00
Netherlands	Guilder	0.233 861	133.000	3.800 00	26.315 8
Nicaragua	Córdoba	0.126 953	245.000	7.000 00	14.285 7
Norway	Krone	0.124 414	250.000	7.142 86	14.000 0
Pakistan	Rupee	0.186 621	166.667	4.761 90	21.000 0
Panama	Balboa	0.888 671	35.000 0	1.000 00	100.000
Paraguay	Guaraní	0.014 811 2	2,100.00	60.000 0	1.666 67
Peru[2]	Sol				
Philippines	Peso	0.444 335	70.000 0	2.000 00	50.000 0
Sweden	Krona	0.171 783	181.062	5.173 21	19.330 4
Syria	Pound	0.405 512	76.701 8	2.191 48	45.631 3
Thailand	Baht	Par Value not yet established			
Turkey	Lira	0.317 382	98.000 0	2.800 00	35.714 3
Union of South Africa	Pound	2.488 28	12.500 0 (or 250 shillings)	0.357 143	280.000
United Kingdom	Pound Sterling	2.488 28	12.500 0 (or 250 shillings)	0.357 143	280.000
United States	Dollar	0.888 671	35.000 0	1.000 00	100.000
Uruguay	Peso	Par Value not yet established			
Venezuela	Bolívar	0.265 275	117.250	3.350 00	29.850 7
Yugoslavia	Dinar	0.002 962 24	10,500.0	300.000	0.333 333

[1] The initial par value of the Canadian dollar, established on December 18, 1946, was 100.000 U. S. cents per Canadian dollar. On September 19, 1949, following consultation with the Fund, the par value of the Canadian dollar was changed to 90.909 1 U. S. cents per Canadian dollar. On September 30, 1950, Canada introduced a new exchange system under which the exchange value of the Canadian dollar will be allowed to fluctuate, so that for the time being Canada will not ensure that exchange transactions within its territories will be based on the par value established on September 19, 1949. No new par value has been proposed to the Fund.

[2] The initial par value of the sol, established on December 18, 1946, was 15.384 6 U. S. cents per sol. In November 1949, Peru introduced a new exchange system, but no agreement on a new par value has been reached.

Appendix X (ii)

SCHEDULE OF PAR VALUES—as of June 30, 1956

SEPARATE CURRENCIES IN NONMETROPOLITAN AREAS OF MEMBERS

Member and Nonmetropolitan Areas	Currency and Relation to Metropolitan Unit	Par Values In Terms of Gold: Grams of fine gold per currency unit	Par Values In Terms of Gold: Currency units per troy ounce of fine gold	Par Values In Terms of U. S. Dollars: Currency units per U. S. dollar	Par Values In Terms of U. S. Dollars: U. S. cents per currency unit
BELGIUM					
Belgian Congo	Franc (parity with Belgian franc)	0.017 773 4	1,750.00	50.000 0	2.000 00
FRANCE					
Algeria French Antilles French Guiana Morocco Tunisia	Franc (parity with French franc)	Since January 26, 1948, no Par Value agreed with the Fund			
Cameroons French Equatorial Africa French West Africa Madagascar and dependencies Réunion St. Pierre and Miquelon Togoland	CFA Franc (=2.00 French francs)	Since January 26, 1948, no Par Value agreed with the Fund			
French Possessions of Oceania New Caledonia New Hebrides	CFP Franc (=5.50 French francs)	Since September 20, 1949, no Par Value agreed with the Fund			
French Somaliland	Djibouti Franc	0.004 145 07	7,503.73	214.392	0.466 435
ITALY					
Somaliland	Somalo	Par Value not yet established			
NETHERLANDS					
Netherlands Antilles Surinam	Guilder (=2.015 Netherlands guilders)	0.471 230	66.004 9	1.885 85	53.026 4
Netherlands New Guinea	Guilder	Par Value not yet established			

UNITED KINGDOM					
Gambia Gold Coast Nigeria Sierra Leone	British West African Pound (parity with sterling)	2.488 28	12.500 0	0.357 143	280.000
Federation of Rhodesia and Nyasaland	Southern Rhodesian Pound (parity with sterling)				
Bahamas	Bahamas Pound (parity with sterling)				
Bermuda	Bermuda Pound (parity with sterling)				
Cyprus	Cyprus Pound (parity with sterling)				
Falkland Islands	Falkland Islands Pound (parity with sterling)				
Gibraltar	Gibraltar Pound (parity with sterling)				
Jamaica	Jamaican Pound (parity with sterling)				
Malta	Maltese Pound (parity with sterling)				
Aden British Somaliland Kenya Tanganyika Uganda Zanzibar	British East African Shilling (20 per pound sterling)	0.124 414	250.000	7.142 86	14.000 0
Barbados British Guiana Leeward Islands Trinidad Windward Islands	British West Indian Dollar (4.80 per pound sterling)	0.518 391	60.000 0	1.714 29	58.333 3
British North Borneo Brunei Malaya (Singapore and Federation of Malaya) Sarawak	Malayan Dollar (8.571 43 per pound sterling, or 2 shillings 4 pence per Malayan dollar)	0.290 299	107.143	3.061 22	32.666 7

Appendix X (ii) (*continued*)

SCHEDULE OF PAR VALUES—as of June 30, 1956

SEPARATE CURRENCIES IN NONMETROPOLITAN AREAS OF MEMBERS

Member and Nonmetropolitan Areas	Currency and Relation to Metropolitan Unit	Par Values In Terms of Gold		Par Values In Terms of U. S. Dollars	
		Grams of fine gold per currency unit	Currency units per troy ounce of fine gold	Currency units per U. S. dollar	U. S. cents per currency unit
UNITED KINGDOM (*continued*)					
British Honduras	British Honduras Dollar (4.00 per pound sterling)	0.622 070	50.000 0	1.428 57	70.000 0
Fiji	Fiji Pound (1.11 per pound sterling)	2.241 69	13.875 0	0.396 429	252.252
Hong Kong	Hong Kong Dollar (16 per pound sterling)	0.155 517	200.000	5.714 29	17.500 0
Mauritius Seychelles	Mauritius Rupee (13⅓ per pound sterling) Seychelles Rupee (13⅓ per pound sterling)	0.186 621	166.667	4.761 90	21.000 0
Tonga	Tongan Pound (1.250 00[1] per pound sterling)	1.990 62	15.625 0	0.446 429	224.000

[1] The relation of 1.252 50 Tongan pounds per pound sterling, as initially communicated and confirmed on September 18, 1949, was corrected on August 2, 1950 to 1.250 00.

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