

# ANNUAL REPORT

## 1963



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INTERNATIONAL MONETARY FUND  
WASHINGTON, D. C.

# **ANNUAL REPORT**

**1963**

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# INTERNATIONAL MONETARY FUND

*ANNUAL REPORT* OF THE  
EXECUTIVE DIRECTORS FOR THE  
FISCAL YEAR ENDED APRIL 30, 1963

WASHINGTON, D. C.

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# INTERNATIONAL MONETARY FUND

**Pierre-Paul Schweitzer**

Managing Director and Chairman of the Executive Board<sup>1</sup>

**Frank A. Southard, Jr.**

Acting Managing Director and Acting Chairman of the Executive Board

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Jean de Largentaye  
Wilhelm Hanemann  
J.J. Anjaria  
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J.M. Garland  
Gengo Suzuki  
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Walter Habermeier  
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William Tennekoon  
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L. Denis Hudon  
Carlos Sansón  
Costa P. Caranicas  
Javier Urrutia  
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I-Shuan Sun  
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Amon Nikoi

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D.S. Savkar	Director, Asian Department
Ernest Sturc	Acting Director, European Department
Irving S. Friedman	Director, Exchange Restrictions Department
Joseph Gold	General Counsel
Anwar Ali	Director, Middle Eastern Department
J.J. Polak	Director, Research and Statistics Department
Jorge Del Canto	Director, Western Hemisphere Department
Phillip Thorson	Director, Office of Administration
Roman L. Horne	Secretary
Y.C. Koo	Treasurer
Jean-Paul Sallé	Director, European Office (Paris)
J. K. Horsefield	Chief Editor

<sup>1</sup> Appointment effective September 1, 1963.

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LETTER OF TRANSMITTAL  
TO THE BOARD OF GOVERNORS

July 11, 1963

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, 1963.

Yours sincerely,

/s/

FRANK A. SOUTHARD, JR.

*Acting Chairman of the Executive Board*

Chairman of the Board of Governors  
International Monetary Fund

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**PER JACOBSSON**  
**1894-1963**





**PER JACOBSSON**

**1894-1963**

## OBITUARY

Per Jacobsson, Managing Director of the Fund and Chairman of the Executive Board, died on May 5, 1963.

Born on February 5, 1894, in Tanum, Sweden, Mr. Jacobsson received most of his early education in the high school at Västerås, Sweden. In 1912 he entered the University of Uppsala, where he studied law and economics and took an active part in students' organizations. In 1917-18 he was secretary to the Legal Society of Uppsala. Mr. Jacobsson lectured in economics at the Stockholm School of Forestry from 1918 to 1920 and, from 1919, at the School of Engineering. Joining the staff of the Economic and Financial Section of the League of Nations Secretariat in Geneva in 1920, he was in charge of public finance and participated in League reconstruction work in Austria, Bulgaria, Hungary, Danzig, and Greece. In 1928 he returned to Sweden to take up the position of Secretary General of the Swedish Economic Defense Council.

In 1931, Mr. Jacobsson became the economic adviser and head of the monetary and economics department of the newly established Bank for International Settlements, and served in that capacity until 1956. From 1934 to 1938, he was a member of the Irish Banking Commission which led to the establishment of the Central Bank of Ireland. After World War II he conducted special inquiries into the economic and financial conditions of Austria, the Netherlands, and the sterling area, and played an important part in French and Italian financial reforms and in the examination of payments imbalance in the Federal Republic of Germany. From 1952 to 1956, he served also as codirector of the Basle Center for Economic and Financial Research.

Mr. Jacobsson assumed leadership in the Fund in 1956 and guided it through the years of its greatest growth in activity and

financial resources. He brought to the Fund rare qualities—his sense of history, his unfailing capacity to see the long trends and the financial and political realities confronting governments, his wise and genial view of the course of events. With these qualities and with his unshakable conviction that a good currency was the basis of a good economy, he enhanced the Fund's influence with its members. To him, international collaboration was a natural way of life, and his constructive thought, expressed in speeches and in writings, has left an indelible impact not only on the Fund, but on the whole international financial system.

The Executive Board, meeting in special session on the afternoon of May 5, unanimously adopted the following resolution:

The Executive Directors of the International Monetary Fund, having heard with profound sorrow of the death of Mr. Per Jacobsson, Managing Director and Chairman of the Executive Directors, hereby RESOLVE to place on record their sense of loss at the passing of this good friend and outstanding Chairman, and their gratitude for the enormous contribution that he has made to the work of the Fund, to the welfare and advancement of its member countries, and to the cause of international collaboration.

**Part I**

**THE WORLD ECONOMY AND THE FUND**

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## Chapter 1

# The World Payments Situation

**D**URING the course of 1962 economic activity continued to expand in most industrial countries. In the United States, there was some slowdown in production, but final purchases rose almost as much as during 1961, and a revival of activity set in during the early part of 1963. In continental Europe, a climate of general prosperity continued to prevail although the rise in exports leveled off and there were signs of a weakening of investment demand. The main exceptions to the general upward trend were recorded in the United Kingdom and Japan, where there were minor decreases in activity in the course of the year, in part responding to policies directed toward strengthening the balance of payments. For the year as a whole, world industrial production excluding the countries in the Soviet area was some 7 per cent higher than in 1961, whereas the rise from 1960 to 1961 had been 3-4 per cent; but the increase from the beginning to the end of the year was considerably less in 1962 than in 1961. In both years, the value of world trade was some 5 per cent higher than in the preceding year. In 1962, in contrast to experience in recent years, the increase in the value of exports of primary producing countries as a group almost kept pace with that of the manufacturing countries, although declines in the prices of certain products adversely affected some countries.

Upward pressure on wages and prices continued during the year in continental Europe and Japan, while a considerable degree of price stability prevailed in the United States and Canada; the United Kingdom was in an intermediate position. Although the

balance of payments of the United States did not show any marked change, these divergencies undoubtedly contributed to the trend toward broad adjustment in international payments positions, especially among the industrial countries. But at the same time the continued greater rise in wages than in productivity, which reduced profit margins, gave cause for concern in most European countries. In several of them, these developments were considered a threat to long-run monetary stability; and increasing attention was given not only in these countries but also elsewhere to the problem of formulating appropriate principles for determining wage increases in relation to increases in productivity and other relevant factors, and for developing methods to implement these principles. The need for a policy along such lines, which is a new departure in most countries, has been increasingly felt as sharper international competition and more ample domestic supplies have limited the scope for price increases. In most countries, an "incomes policy" has up to now not gone much beyond official statements of "guidelines" for wage negotiations—although in some, such indications have been extended to other types of income. The Fund is watching these developments with interest.

As both balance of payments surpluses and domestic pressures of demand in continental Europe decreased, the harmonizing of internal and external policy objectives became easier. Although the most pressing problem for these countries to date is to restrain excessive increases in wages and prices without losing momentum in economic growth, it can no longer be taken for granted generally that effective demand necessary to sustain a high level of employment and a satisfactory rate of economic growth will be forthcoming without the stimulus of appropriate action. It is increasingly realized that coordinated policies among the industrial countries are required to ensure that expansion of the world economy will not be jeopardized by domestic developments causing disturbances to international payments.

In this situation, both the United States and the United Kingdom are leaning toward expansionary policies. Investment demand in the United States has been stimulated through a liberalization of

depreciation allowances; in addition, a tax cut, which will initially result in a substantial increase in the budget deficit, is under consideration. These measures involve the risk of a deterioration in the U.S. balance of payments, especially as import demand rises; but their stimulating effect on the U.S. economy, in combination with the lowering of profit margins in the other industrial countries, may tend to reduce the net outflow of capital and thus offset the anticipated reduction in the trade surplus. In the United Kingdom, where excess capacity was growing in 1962, measures taken in the autumn and winter of 1962 and the 1963 budget aim at stimulating the economy while attempting to avoid adverse effects on the balance of payments. The rapid economic expansion in continental European countries during recent years has been a powerful influence underlying the increase in world trade. These countries have generally not found it necessary to introduce special measures to stimulate demand, but in view of their generally comfortable reserve positions they will be able to take whatever measures the situation may require. It is important that their regional arrangements remain outward-looking and thus contribute to the flow of trade, supporting both the recent progress toward equilibrium in world payments and the upward trend of exchange earnings of the less developed countries.

Except for the short-lived exchange crisis in Canada during the first half of 1962 and some speculation against sterling in the early months of 1963, international movements of short-term capital have been moderate during the past year. As short-term interest rates rose in the United States and in general fell in Europe, the commercial inducements for moving funds were reduced, and most of such disequilibrating movements as took place were effectively countered by official actions. The most serious instance of a disequilibrating movement of short-term funds was the speculative flow of funds out of Canada, occasioned by various uncertainties. Immediately after the election in June 1962, however, the Government adopted a series of measures to alleviate the strain on the balance of payments; and these measures, together with a drawing of \$300 million from the Fund and financial assistance totaling



\$750 million from official institutions in the United States and the United Kingdom, soon turned the tide. In fact, the fourth quarter of 1962 was a period of unusual strength in the Canadian balance of payments. The relatively mild disturbances to exchange markets which occurred at the time of the serious international troubles in October 1962 were effectively counteracted by coordinated action by monetary authorities. Similar coordinated action was taken when pressure on sterling developed, following the breakdown of the negotiations for the entry of the United Kingdom into the European Common Market. The general fall in security prices which started in the United States about the middle of 1962 and was particularly sharp in continental Europe appears to have had only a moderate impact on international payments and virtually none on economic activity.

Cooperation on monetary matters among the industrial countries was intensified during the past year, being reflected in an increasing volume of bilateral financing arrangements and in the creation of a cooperative scheme for stabilizing the price of gold—the so-called gold pool—established by the United States, the United Kingdom, and six countries in continental Europe.<sup>1</sup> As in 1961, countries in Europe made substantial advance debt repayments to the United States, which lessened the pressures on the U.S. balance of payments. Also, the Fund's potential for counteracting payments disturbances was again strengthened. The General Arrangements to Borrow—under which ten main industrial countries indicated their willingness, on their formal adherence, to lend to the Fund amounts in their currencies totaling the equivalent of \$6 billion—came into effect in October 1962 when the necessary number of countries had agreed to the arrangement.<sup>2</sup> Total commitments under the scheme now amount to \$5.8 billion. Switzerland is contemplating entering into an understanding with the Fund under which it would be associated with currency support operations of the Fund in an amount equivalent to a maximum of \$200 million; it has submitted legislation for this purpose to its Parlia-

<sup>1</sup> See page 176.

<sup>2</sup> See page 28.

ment. The decision of the Fund's Executive Board in July 1962, setting out the principles that should govern the choice of currencies in drawings and repurchases,<sup>3</sup> has increased the flexibility with which the Fund's resources can be used to meet the requirements of changing conditions.

The changes in basic positions from 1961 to 1962 were in the direction of greater equilibrium in world payments. While the U.S. deficit on the basic accounts (i.e., current and long-term capital transactions, excluding advance debt repayments) increased somewhat from 1961 to 1962, there was a further substantial reduction in the persistent surplus position of continental Europe. The surplus positions of the Federal Republic of Germany and the Netherlands, which had been eliminated in the course of 1961, showed no signs of reappearing in 1962; on the contrary, the German balance of payments on the basic accounts showed a small deficit. Moreover, the balance of payments of Italy, another persistent major surplus country, weakened. For the second half of 1962, the net surplus on the basic accounts for continental Europe as a whole did not exceed \$500 million, an amount corresponding to the surplus of France alone. The deterioration in the basic balance of both the United States and continental Europe was apparently reflected largely in improvements in the balance of payments of the United Kingdom, Japan, and the primary producing countries, i.e., in general, countries that are perhaps less likely than the major countries in continental Europe to remain in substantial surplus over a long period.

Despite the adjustments in competitive positions among the industrial countries that have taken, and are still taking, place, the payments problems of the United States and the United Kingdom have continued, and the solution must be expected to take time. Effective international cooperation on monetary matters should facilitate the further adjustments needed in surplus as well as deficit positions, without undue disturbances to the international payments system. It is significant that the United Kingdom took advantage

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<sup>3</sup> *Annual Report, 1962*, pages 36-41.

of its improved over-all position to repay its 1961 drawing on the Fund, and that all the increase in the reserves of Canada and Japan was in the form of foreign exchange.

Between 1961 and 1962, there was a certain improvement in the balance of payments of the less developed countries as a group; a moderate over-all deficit in 1961 was reduced during 1962, and there was near balance in the second half of the year. However, many of the less developed countries live, in a sense, from hand to mouth in their international transactions. If their export and other receipts increase, their imports rather quickly adjust to a higher level. On the other hand, their reserves are often so low that, even allowing for their potential for drawing on the Fund and other sources of credit, they cannot afford to run large deficits even temporarily, as major industrial countries generally can. Disequilibria in their international transactions are therefore much more often reflected in depreciation of their currencies or changes in trade and other restrictions than in the use of reserves or similar financing. There is no long-run tendency for the countries as a group toward a cumulative surplus or deficit. The outstanding features of their combined balance of payments have hitherto been a slow growth in their exports and an increasing flow of financial resources from the industrial countries, facilitating a somewhat higher growth in their imports.

The most encouraging aspect of the balance of payments of the primary producing countries during 1962 was that the value of their exports rose 4 per cent above the 1961 value. Prices of their exports averaged about the same in both years, as the downward movement of the prices of primary products was halted in 1962 and there was an upturn in the last quarter. The net inflow of private and official financial resources from the industrial countries, directly and through international organizations, remained in 1962 near the 1961 record. As in other recent years, this inflow of foreign funds appears to have been offset in part by an outflow of domestic capital (whose magnitude is difficult to gauge) from the less developed countries, mainly from some of the overseas franc area countries and Latin America. The information available

for Latin America indicates that during the last decade the annual outflow of domestic capital may have averaged about one third of the annual inflow of foreign private capital.

While the payments balances of the less developed countries were somewhat more favorable in 1962 than in 1961, many of these countries continued to be troubled by major difficulties in pursuing their efforts toward further economic development while satisfying the requirements of the balance of payments. The rise in the volume of their exports has not been sufficient in most countries to sustain the rate of growth that they consider desirable in the face of the declining trend in the terms of trade since the mid-1950's and rapidly expanding populations. At the same time, the net inflow of financial resources from the industrial countries, rising in total, has been distributed somewhat unevenly, tending to favor countries that are rich in natural resources or whose strategic importance is high. Over the last several years, however, with the creation of new institutions devoted directly to the aid effort—such as the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) and the Alliance for Progress—efforts have been made not only to expand the flow of financial resources to less developed countries but also to increase its effectiveness and to improve the terms on which financial aid is offered. Moreover, in addition to the international institutions, a number of consortia or coordinating groups of aid-extending countries have been created under the sponsorship of the International Bank for Reconstruction and Development (IBRD) and the DAC to support development in, and coordinate aid to, particular countries. The Fund has been participating in an advisory capacity in a number of such consortia and consultative groups, and it welcomes this opportunity to cooperate with them in their efforts to promote economic development.

The proper functioning of the world monetary system, which is a joint interest of all countries, must always be the Fund's main concern; at the same time, an increasing share of the Fund's work is being devoted to the less developed countries. Although a few large transactions of the Fund with industrial countries have

attracted much public attention, its transactions with the less developed countries have been considerably more numerous, and in the aggregate have reached very large amounts. Taking into account also consultations and technical assistance missions, the problems of the less developed countries occupy the Fund more than those of the industrial countries, and much thought has been given to the manner in which the Fund can most effectively render assistance to them. In this connection the Executive Board decided in February of this year to create a new compensatory financing facility, not normally exceeding 25 per cent of a country's quota, which should enable the Fund to grant assistance more readily to countries that experience a temporary shortfall in export receipts—particularly to those countries exporting mainly primary products.<sup>4</sup>

The balance of payments problems confronting the less developed countries, for which the Fund has been called upon to render financial assistance, have in many instances been aggravated by the endeavor of these countries to promote development at a faster rate than permitted by their own savings and the available foreign finance in the form of private capital and government aid. As explained in earlier Annual Reports, the Fund's experience is that such policies discourage domestic savings and foreign investment, and stimulate an outflow of local capital. This profoundly disrupts the development effort. Many of the Fund's contacts with the less developed countries have, in fact, been directed toward stabilization of their monetary situation. The Fund has always considered monetary stability to be a necessary condition for orderly and sustained development. At the same time, it has repeatedly stated that this is not a sufficient condition, but that it must be accompanied by resolute efforts to increase productivity and capital formation. Countries must expect to finance most of their development from domestic savings and only a relatively small proportion of their investments out of foreign financial resources, even though some foreign aid is often indispensable to the development effort. This means that a development policy must insist

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<sup>4</sup> See pages 77-79 and Appendix III C, pages 196-99.

that full attention be given to the promotion of domestic savings. Appropriate fiscal policies are of great importance in this respect. In many instances, the financing of larger development programs will require a substantial increase in government revenue; at the same time, tax policies will have to be formulated in such a way that they encourage investment, the spirit of enterprise, and the most efficient use of available resources. Consideration of these aspects has prompted the Fund to expand substantially the technical assistance that it will be willing to provide to member countries on fiscal matters and in connection with central bank techniques; plans to accomplish this are being carried out.

In 1962, as in previous years, the Fund has endeavored to adapt its policies, within the framework of the Articles of Agreement, to the needs of all its members. The Fund will continue to re-examine its policies in the light of the developing situations of its members and the requirements of the international monetary system.

## Chapter 2

# The Activities of the Fund

### Membership and Quotas

NINE countries joined the Fund during the year, raising the total membership to 85. Togo became a member on August 1, 1962, with a quota of US\$11.25 million; Senegal on August 31, with a quota of US\$7.5 million (to be increased to US\$25 million in four installments); Somalia on August 31, with a quota of US\$11.25 million; Sierra Leone on September 10, with a quota of US\$11.25 million; Tanganyika on September 10, with a quota of US\$25 million; Kuwait on September 13, with a quota of US\$50 million; Jamaica on February 21, 1963, with a quota of US\$20 million; the Ivory Coast on March 11, with a quota of US\$15 million; and Niger on April 24, with a quota of US\$7.5 million.

The Board of Governors approved terms and conditions for the admission to membership of Burundi, Cameroon, the Central African Republic, Chad, the Congo (Brazzaville), Dahomey, Gabon, Guinea, Mali, Rwanda, and the Upper Volta. Applications have also been received from Algeria, the Congo (Leopoldville), the Malagasy Republic, Mauritania, Trinidad and Tobago, and Uganda.

The United Arab Republic submitted a request for an increase in its quota from US\$90 million to US\$120 million. This request was approved by the Board of Governors, and the United Arab Republic has until May 16, 1964 to express its formal consent to the change. As a result of payments by eight members of annual installments of increases in their quotas under the Board of Governors' Resolutions of February 2, 1959 on Enlargement of Fund Resources Through Increases in Quotas,<sup>1</sup> and of the admis-

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<sup>1</sup> *Annual Report, 1959*, pages 185-89.

sion of new members, the aggregate of Fund quotas on April 30, 1963, rose to US\$15,231.2 million, from US\$15,056.9 million at the end of the preceding year.

Three more countries have accepted the obligations of Article VIII, Sections 2, 3, and 4, of the Fund Agreement—Austria from August 1, 1962, Jamaica (notification received on February 28, 1963), and Kuwait (notification received on April 5, 1963). This step rendered their currencies convertible under the Fund Agreement. The number of such currencies is now 24.

The Executive Directors and Alternate Directors and their voting powers are shown in Appendix I, and changes in membership of the Executive Board in Appendix II.

## Fund Transactions

### *Purchases and Stand-By Arrangements, 1962-63*

The period May 1, 1962 to April 30, 1963 was a very active one for the Fund, although the total of transactions did not reach the record level of the preceding fiscal year. Purchases from the Fund amounted to the equivalent of \$579.97 million (Table 1).

TABLE 1. PURCHASES OF CURRENCIES FROM THE FUND,  
FISCAL YEAR ENDED APRIL 30, 1963

(In millions of U.S. dollars)

Members Purchasing	Total Purchases	Members Purchasing	Total Purchases
Afghanistan	5.62	Guatemala	2.00
Argentina	75.00	Haiti	3.75
Bolivia	5.00	Honduras	3.75
Canada	300.00	India	25.00
Chile	17.50	Nicaragua	4.50
Colombia	30.00	Syrian Arab Republic	5.60
Costa Rica	6.00	Turkey	21.50
Ecuador	3.00	United Arab Republic	42.50
Ghana	14.25	Uruguay	15.00
Total purchases			579.97



The total of repurchases, equivalent to \$807.25 million, was the second highest in any year in the Fund's history, being exceeded only in 1961-62. So, too, was the amount of stand-by arrangements agreed or extended during the year, equivalent to \$1,531.10 million. Of the 23 members which received financial assistance from the Fund, either through direct purchase transactions or in the form of stand-by arrangements, 2 were industrial countries (Canada and the United Kingdom) and 21 were nonindustrial countries. Canada accounted for more than 50 per cent of the amount of total purchases, and the United Kingdom for about 65 per cent of the total made available under stand-by arrangements. Fifteen of the members receiving financial assistance were in the Western Hemisphere, 3 in the Middle East, 2 in Europe, 1 in Africa, and 2 in Asia. The stand-by arrangement with the United Kingdom, for the equivalent of \$1,000 million, was the largest in the Fund's history. No drawing under this arrangement was made during the fiscal year.

All purchases except three—those by Afghanistan, Canada, and Ghana—were made under stand-by arrangements (Table 2). Canada purchased the equivalent of \$300 million in June 1962; this was the largest purchase approved by the Fund during the period. This drawing was associated with a comprehensive program, described in a later chapter,<sup>2</sup> to deal with pressures on the balance of payments, as was also that of Ghana (for \$14.25 million in August).<sup>3</sup> In March 1963, Afghanistan and the Fund agreed to an initial par value of 45 afghanis per U.S. dollar. The member is undertaking a comprehensive reform of the exchange system, designed to eliminate most of the previous multiple exchange rate practices and to strengthen exports. The present freedom from restrictions on imports, on invisibles, and on capital transactions will be maintained. In support of this program, the Fund agreed to a purchase of US\$5,625,000 by Afghanistan.

For members in need of financial assistance from the Fund, particularly in connection with the introduction or continuation of

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<sup>2</sup> Page 105.

<sup>3</sup> Page 157.

stabilization programs, the stand-by arrangement has again proved a valuable instrument. As in previous years, some members found

TABLE 2. FUND STAND-BY ARRANGEMENTS WITH MEMBERS,  
FISCAL YEAR ENDED APRIL 30, 1963

(In millions of U.S. dollars)

Member	Date of Inception	Date of Expiration	Amount	New or Extended in 1962-63	Amount Available April 30, 1963
Argentina	Dec. 12, 1961	Dec. 11, 1962 <sup>1</sup>	100.00	—	—
	June 7, 1962	Oct. 6, 1963 <sup>2</sup>	100.00	100.00	25.00
Bolivia	July 27, 1961	July 26, 1962	7.50	—	—
	Aug. 8, 1962	Aug. 7, 1963	10.00	10.00	5.00
Brazil	May 18, 1961	May 17, 1962	160.00	—	—
Chile	Jan. 15, 1963	Jan. 14, 1964	40.00	40.00	22.50
Colombia	Jan. 1, 1962	Dec. 31, 1962	10.00	—	—
	Jan. 14, 1963	Jan. 13, 1964	52.50	52.50	25.00
Costa Rica	Oct. 4, 1961	Oct. 3, 1962	15.00	—	—
	Dec. 24, 1962	Dec. 23, 1963	11.60	11.60	5.60
Ecuador	June 8, 1961	June 7, 1962	10.00	—	—
	June 8, 1962	June 7, 1963	5.00	5.00	2.00
El Salvador	July 13, 1961	July 12, 1962	11.25	—	—
	Sept. 13, 1962	Sept. 12, 1963	11.25	11.25	11.25
Guatemala	Aug. 14, 1961	Aug. 13, 1962	15.00	—	—
Haiti	Oct. 1, 1961	Sept. 30, 1962	6.00	—	—
	Oct. 1, 1962	Sept. 30, 1963	6.00	6.00	5.00
Honduras	June 29, 1962	June 28, 1963	7.50	7.50	3.75
Iceland	Mar. 22, 1962	Mar. 21, 1963	1.63	—	—
India	July 9, 1962	July 8, 1963	100.00	100.00	75.00
Indonesia	Aug. 16, 1961	Aug. 15, 1962	41.25	—	—
Japan	Jan. 19, 1962	Jan. 18, 1963	305.00	—	—
Mexico	July 13, 1961	July 12, 1962	90.00	—	—
Nicaragua	Mar. 1, 1963	Feb. 29, 1964	11.25	11.25	6.75
Paraguay	Dec. 11, 1961	Mar. 10, 1963 <sup>3</sup>	5.00	5.00 <sup>3</sup>	—
Peru	Mar. 1, 1962	Feb. 28, 1963	30.00	—	—
	Mar. 1, 1963	Feb. 29, 1964	30.00	30.00	30.00
Philippines	Apr. 12, 1962	Apr. 11, 1963	40.40	—	—
	Apr. 12, 1963	Apr. 11, 1964	40.40	40.40	40.40
South Africa	July 6, 1961	July 5, 1962	75.00	—	—
Syrian Arab Republic	Mar. 26, 1962	Nov. 30, 1962 <sup>4</sup>	6.60	6.60 <sup>4</sup>	—
Turkey	Mar. 30, 1962	Dec. 31, 1962	31.00	—	—
	Feb. 15, 1963	Dec. 31, 1963	21.50	21.50	15.00
United Arab Republic	May 7, 1962	May 6, 1963	42.50	42.50	—
United Kingdom	Aug. 8, 1961	Aug. 7, 1962	500.00	—	—
	Aug. 8, 1962	Aug. 7, 1963	1,000.00	1,000.00	1,000.00
Uruguay	June 6, 1961	June 5, 1962	30.00	—	—
	Oct. 4, 1962	Oct. 3, 1963	30.00	30.00	15.00
Total				1,531.10	1,287.25

<sup>1</sup> Canceled by Argentina on May 16, 1962.

<sup>2</sup> Extended from June 6, 1963.

<sup>3</sup> Extended from December 10, 1962.

<sup>4</sup> Extended from September 30, 1962.

it sufficient to have the Fund's assurance of financial assistance without actually making use of their stand-by arrangements. Programs associated with stand-by arrangements with Chile, Colombia, India, and the United Arab Republic are described in Chapter 9.<sup>4</sup>

Stand-by arrangements agreed during the year with Costa Rica, El Salvador, Honduras, Turkey, and Uruguay continued, after short interruptions, the financial support that the Fund had accorded these countries in the preceding year. One with Nicaragua replaced a smaller arrangement which had expired in November 1961. Stand-by arrangements with Argentina, Bolivia, Ecuador, Haiti, Paraguay, Peru, the Philippines, the Syrian Arab Republic, and the United Kingdom were also renewed or extended.

As previously, most of the stand-by arrangements entered into or renewed during the year were for a period of one year. The total amount available to members under stand-by arrangements at the end of the financial year was \$1,287.25 million.

### *Policies Governing Drawings*

It may be useful to restate the policies which guide the Fund on the use of its resources. Members are given the overwhelming benefit of the doubt in relation to requests for transactions within the "gold tranche," that is, for drawings which do not increase the Fund's holdings of the currency beyond an amount equal to the member's quota. The Fund's attitude to requests for transactions within the "first credit tranche"—that is, transactions which bring the Fund's holdings of a member's currency above 100 per cent but not above 125 per cent of its quota—is a liberal one, provided that the member itself is making reasonable efforts to solve its problems. Requests for transactions beyond these limits require substantial justification. They are likely to be favorably received when the drawings or stand-by arrangements are intended to support a sound program aimed at establishing or maintaining the enduring stability of the member's currency at a realistic rate of exchange.

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<sup>4</sup> Pages 157, 159-61, 165.

Any drawing or stand-by arrangement exceeding 25 per cent of a member's quota within any 12-month period (except to the extent that the Fund holds less of the member's currency than 75 per cent of its quota), and any drawing or stand-by arrangement which would increase the Fund's holdings of that currency to more than 200 per cent of the quota, require—under Article V, Section 4, of the Articles of Agreement—the grant of a waiver in favor of the member. The first waiver of the former kind was granted in August 1953; and in 1962-63, all but two transactions (the gold tranche drawing by Afghanistan and the stand-by arrangement with Turkey) required such a waiver. No waiver of the latter kind has yet been granted. Indeed, before February 1961 no drawing and only one stand-by arrangement had been approved—that with the United Kingdom—under which the Fund's holdings of a member's currency was or could be increased beyond 175 per cent of its quota. In March 1962, the first stand-by arrangement was approved under which the Fund's holdings of a currency could be increased to 200 per cent of quota. During the year under review, three members were granted stand-by arrangements under which the Fund's holdings of their currencies could be increased to 200 per cent of quota; in fact, half of the stand-by arrangements granted were for amounts which could increase the Fund's holdings of the currencies of the members concerned to 175 per cent or more of their quotas. During the year, the Fund's holdings of two members' currencies, in terms of percentage of quota, increased to 193 per cent and 200 per cent, respectively.

#### *Financing of Export Fluctuations*

Details are given in Chapter 5<sup>5</sup> of a new facility, created by a decision by the Executive Board on February 27, 1963, to extend the Fund's balance of payments support of member countries suffering from fluctuations in receipts from exports of primary products. The use of this facility will permit those members who qualify to use the Fund's resources to an extent which would

<sup>5</sup> Pages 77-79.

increase the Fund's holdings of their currencies beyond 200 per cent of their quotas. The first drawing under this facility was \$60 million by Brazil in June 1963.

### *Repurchases*

Repurchases were made during 1962-63 by 23 members: 13 in Latin America, 6 in Europe, 3 in the Middle East, and Australia (Table 3). Improvements in the monetary reserve positions of

TABLE 3. REPURCHASES OF CURRENCIES FROM THE FUND,  
FISCAL YEAR ENDED APRIL 30, 1963

(In millions of U.S. dollars)

Members Repurchasing	Total Repurchases	Members Repurchasing	Total Repurchases
Argentina	36.00	Iran	20.44
Australia	27.43	Ireland <sup>1</sup>	
Bolivia	2.54	Luxembourg	1.27
Brazil	17.50	Mexico	45.00
Chile	12.70	Nicaragua	4.50
Colombia	<sup>1</sup>	Paraguay	1.50
Costa Rica	6.64	Sudan	2.92
Ecuador	6.15	Turkey	18.00
Guatemala	1.09	United Arab Republic	2.50
Haiti	2.52	United Kingdom	582.00
Honduras	1.83	Yugoslavia	7.90
Iceland	6.81		
		Total repurchases <sup>2</sup>	807.25

<sup>1</sup> Less than \$5,000.

<sup>2</sup> Total does not equal sum of items because of rounding.

several members enabled them to make large repurchases before the expiration of the maximum period (three to five years) for which their drawings had been made available, thus strengthening their secondary line of reserves in the form of potential recourse to the Fund's resources. Most repurchases, however, were made on dates when repayments became due in accordance with schedules to which members had committed themselves, either at the time of their purchases from the Fund or later.

*Currency Composition of Drawings and Repurchases*

The Executive Directors, on July 20, 1962, approved a statement on Currencies to Be Drawn and to Be Used in Repurchases.<sup>a</sup> According to this statement, the main considerations which govern the selection of currencies for drawings have been and will be the balance of payments and reserve positions of the countries whose currencies are considered for drawings, together with the Fund's holdings of these currencies. The currencies to be used in the discharge of repurchase obligations arising under Article V, Section 7(b), are determined by rules specified in the Fund Agreement. For other repurchases, the Fund will accept any currency which is formally convertible under Article VIII and of which the Fund's holdings are below 75 per cent of the quota, provided that the repurchasing member has consulted the Managing Director on the currencies to be used. When advising on the allocation of currencies to be used in repurchases, the Fund gives much weight to the amount of its holdings, in comparison with quotas, of currencies that can be received; when appropriate, consideration is also given to the prevailing balance of payments position. Relatively small drawings are frequently executed in the currency in which the drawing country customarily holds most of its reserves, and the same is true for small repurchases.

Drawings and repurchases during the year ended April 30, 1963 are classified by currency in Table 4, in which the largest drawing, the equivalent of \$300 million by Canada, and the largest repurchase, totaling the equivalent of \$582 million by the United Kingdom, are shown separately. Mainly as a result of these transactions, the Fund's holdings of U.S. dollars rose by \$336.5 million, from 65 per cent of quota at the beginning of the year to nearly 73.5 per cent at the end, while its holdings of sterling were reduced from 112 per cent to just below 75 per cent. This reduction was effected through a repurchase by the United Kingdom itself of sterling equivalent to \$582 million, and by purchases by others of sterling equivalent to \$163.6 million, offset to a small extent by

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<sup>a</sup> *Annual Report, 1962*, pages 36-41.

repurchases in sterling equivalent to \$12.9 million. The drawings in sterling took place mainly while the Fund's sterling holdings exceeded 75 per cent of quota, i.e., before the final repurchase by the United Kingdom in July 1962.

TABLE 4. DRAWINGS AND REPURCHASES, BY CURRENCY,  
FISCAL YEAR ENDED APRIL 30, 1963

(In millions of U.S. dollars)

Currency	Drawings			Repurchases			
	Canada	Other Countries	Total	Under Article V, Sec. 7(b) <sup>1</sup>	United Kingdom	Other Countries	Total
Gold	—	—	—	75.8	—	—	75.8
Austrian schillings <sup>2</sup>	—	7.5	7.5	—	—	—	—
Belgian francs	20.0	—	20.0	—	15.0	—	15.0
Canadian dollars	—	—	—	—	20.0	—	20.0
French francs	80.0	15.0	95.0	—	50.0	—	50.0
Deutsche mark	80.0	25.8	105.8	1.3	90.0	17.0	108.3
Italian lire	—	10.0	10.0	—	25.0	—	25.0
Netherlands guilders	20.0	10.0	30.0	—	25.0	—	25.0
Spanish pesetas <sup>3</sup>	—	7.5	7.5	—	—	—	—
Swedish kronor	—	—	—	—	15.0	—	15.0
Pounds sterling	100.0	63.6	163.6	—	—	12.9	12.9
U.S. dollars	—	140.6	140.6	72.6	342.0	45.6	460.2
Total	300.0	280.0	580.0	149.8 <sup>4</sup>	582.0	75.5	807.3 <sup>4</sup>

<sup>1</sup> Including discharges in respect of previous years.

<sup>2</sup> The schilling became formally convertible on August 1, 1962 and could have been accepted for repurchases only on and after that date.

<sup>3</sup> The peseta is not formally convertible and cannot be accepted for repurchases.

<sup>4</sup> Total does not equal sum of items because of rounding.

The creditor positions in the Fund of Belgium, the Federal Republic of Germany, and the Netherlands were little changed as the net result of drawings and repurchases in these currencies. The Fund's holdings of lire, which (at 18 per cent of quota) had been lowest in terms of quota of all currencies at the end of the previous fiscal year, were on balance increased by the equivalent of \$15 million, reaching 23 per cent of quota at the end of April 1963; on the other hand, there was a net use equivalent to \$45 million of French francs over the year, while the reserves of France increased by the equivalent of about \$700 million. During the year, Austrian schillings and Spanish pesetas were used for the first time in purchases, and Swedish kronor in repurchases.

*Conversion*

Countries that have drawn from the Fund currencies other than the currency in which they normally keep their reserves have in many cases converted the balances so drawn into their reserve currency; and countries that have made repurchases with currencies they did not normally keep in their reserves have first had to acquire these currencies against payment in their reserve currency. These conversion operations have sometimes taken place through the exchange markets; sometimes, especially those for large amounts, in direct transactions between the central banks concerned. As far as the Fund, which is not a party to these operations, is aware, conversion has usually been arranged on the basis of prevailing market rates. No cases have come to the attention of the Fund where conversion has presented appreciable difficulties. The Fund will keep the practices with respect to conversion under consideration in the light of further experience.

*Monetary Reserves Data*

Since the repurchase by the United Kingdom at the end of July 1962, the Fund's holdings of U.S. dollars have remained close to 75 per cent of the U.S. quota; if that level is reached, the terms of Article V, Section 7, will preclude the Fund from accepting U.S. dollars in repurchases. A rather large number of small drawings and repurchases have been made in U.S. dollars since that date. On balance, they did not greatly affect the Fund's holdings of dollars, but the sales made it possible for the Fund to continue to receive dollars in repurchase from countries that customarily hold their reserves in U.S. dollars. The Fund's holdings of the other main reserve currency—the pound sterling—were also close to 75 per cent on April 30, 1963.

Under Rule I-6 of the Fund's Rules and Regulations, monetary reserves data are to be furnished within six months after the end of the Fund's financial year. In order to enable the Fund to determine as soon as possible after the end of the financial year the amounts that will have to be discharged in currencies of which



the Fund holds less than 75 per cent of quota, mainly U.S. dollars and sterling, the Executive Board has decided that each member whose currency was held by the Fund in amounts exceeding 75 per cent of its quota should submit a provisional monetary reserves report to the Fund not later than May 31 (Appendix III A). The provisional monetary reserves data should include the member's holdings of gold and convertible currencies of its Treasury, central bank, stabilization fund, and similar fiscal agencies, and its currency liabilities owed to member countries, with information regarding any exclusion claimed under Schedule B, paragraph 3, of the Articles of Agreement. The Fund will then make a provisional calculation of the repurchase obligation of the member and inform it of this not later than June 15. The discharge of the provisionally calculated repurchase obligation should be completed within 30 days after it has been agreed with the member concerned. It will still be necessary for the members to submit to the Fund complete monetary reserves data in accordance with the requirements of Rule I-6, in order to substitute a final computation in due course for the provisional calculation. This decision will be reviewed before the end of 1964.

By the end of the financial year, monetary reserves data for April 30, 1962 had been submitted by all Fund members with the exception of five. Of these five members, only one could have incurred a repurchase obligation under Article V, Section 7(b); in the absence of monetary reserves data it is not possible to ascertain whether such an obligation has been incurred.

### *Summary of Transactions*

From the inception of Fund operations, 48 members have purchased currency from the Fund, and 2 other members have had stand-by arrangements without drawing under them. Of these 50 members, 19 are in Latin America, 12 in Europe, 7 in the Middle East, 7 in the Far East and Western Pacific, 4 in Africa, and 1 in North America. Total Fund sales were equivalent to US\$6.85 billion. All Fund transactions are summarized in Table 5.

TABLE 5. SUMMARY OF FUND TRANSACTIONS, FISCAL YEARS ENDED  
APRIL 30, 1948-63*(In millions of U.S. dollars)*

	Total Purchases by Members	Total Stand-By Arrangements in Force at End of Fiscal Year	Total Repurchases by Members
1948	606.04	—	—
1949	119.44	—	—
1950	51.80	—	24.21
1951	28.00	—	19.09
1952	46.25	—	36.58
1953	66.12	53.00	184.96
1954	231.29	90.00	145.11
1955	48.75	90.00	276.28
1956	38.75	97.50	271.66
1957	1,114.05	968.90	75.04
1958	665.73	884.28	86.81
1959	263.52	1,132.84	537.32
1960	165.53	291.88	522.41
1961	577.00	338.62	658.60
1962	2,243.20	1,942.88	1,260.00
1963	579.97	1,287.25	807.25
Total <sup>1</sup>	6,845.45		4,905.30 <sup>2</sup>

<sup>1</sup> Totals do not equal sums of items because of rounding.<sup>2</sup> Including \$272.2 million repurchased in excess of drawings. Of this amount, \$248.4 million represents repurchases that reduced the Fund's holdings of the members' currencies below the amounts originally paid on subscription account, and \$23.8 million represents repurchases of members' currencies paid as charges. Repurchases do not include sales of currencies equivalent to \$547.3 million and other adjustments of \$6.7 million, totaling \$554 million, having the effect of repayment.

Total financial assistance accorded by the Fund, measured by combining the amount of new stand-by arrangements granted with the amount of purchases not made under stand-by arrangements, has amounted to \$10.94 billion. Table 6 records the corresponding totals for each fiscal year. This table, however, does not take account of the fact that most drawings are outstanding, in whole or in part, for more than one fiscal year. Moreover, it includes stand-by arrangements, even if renewed, only in the initial year in which they were granted. Various alternative formulations are possible to measure Fund assistance allowing for these factors. One such, adopted in Chart 1, is to record the amount of

assistance (by drawings or stand-by arrangements) actually being given to countries on a given date each year. This chart shows the drawings outstanding at April 30 in each year, together with the amounts available (but not used) under stand-by arrangements on the same date. The division in the table between industrial and other countries indicates that a preponderance of all drawings has been made by the latter countries. This becomes especially clear when it is recalled that these countries have, on the whole, smaller quotas and, therefore, make smaller drawings than do the industrial

TABLE 6. TOTAL FUND FINANCIAL ASSISTANCE, FISCAL YEARS ENDED APRIL 30, 1948-63: <sup>1</sup> NEW STAND-BY ARRANGEMENTS PLUS EXCHANGE TRANSACTIONS NOT EFFECTED UNDER STAND-BY ARRANGEMENTS <sup>2</sup>

(In millions of U.S. dollars)

Year	United Kingdom	Other Industrial Countries <sup>3</sup>	Other Countries	Total
1948	300	241.7	64.3	606.0
1949	—	11.4	108.1	119.5
1950	—	—	51.8	51.8
1951	—	—	28.0	28.0
1952	—	—	46.3	46.3
1953	—	50.0	69.1	119.1
1954	—	124.0	144.3	268.3
1955	—	—	48.8	48.8
1956	—	—	73.8	73.8
1957	1,300	262.5	423.0	1,985.5
1958	—	427.8	227.7	655.5
1959	—	—	345.5	345.5
1960	—	—	429.5	429.5
1961	—	—	855.9	855.9
1962	2,000	305.0	1,163.8	3,468.8
1963	1,000	300.0	539.4	1,839.4
Total	4,600	1,722.4	4,619.3	10,941.7

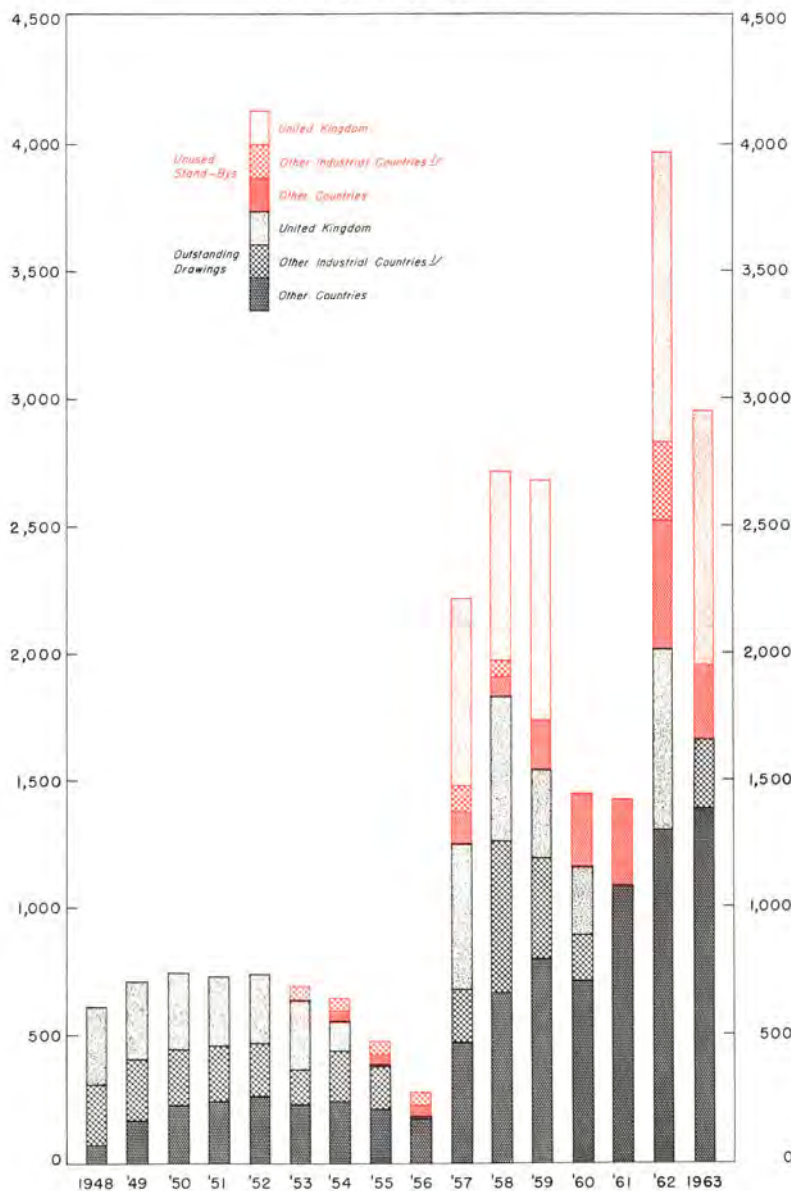
<sup>1</sup> For analysis by countries, 1948-62, see *Annual Report, 1962*, pages 20-21.

<sup>2</sup> Augmentations of stand-by arrangements by repurchases are not included. Renewed stand-by arrangements are included only for the first year in which they were in effect.

<sup>3</sup> Countries in the European Economic Community and the European Free Trade Association (except the United Kingdom), Canada, and Japan.

**CHART 1. OUTSTANDING BALANCES OF DRAWINGS FROM THE FUND, AND  
UNUSED STAND-BY ARRANGEMENTS, ON APRIL 30, 1948-63**

(In millions of U.S. dollars)



<sup>1</sup> See Table 6, footnote 3.

countries. If all the sums drawn by a country in the course of a calendar year are counted as one drawing for that country, it appears that the industrial countries, other than the United Kingdom, have made since 1947 a total of 16 drawings averaging the equivalent of \$84 million each, while the less developed countries have made a total of 145 drawings averaging the equivalent of \$22 million each.

The drawings made by 40 members have been wholly or partly repaid, either through repurchases in gold or convertible currencies or as a result of purchases of their currencies by other members. On April 30, 1963, the total amount of purchases still outstanding was equivalent to US\$1,658.4 million. On that date the amounts drawn had been outstanding for the following periods:

	Amount in millions of U.S. dollars	Number of members involved
12 months or less	554.6	18
13 to 18 months	107.9	11
19 to 24 months	561.0	14
25 to 30 months	167.6	7
31 to 36 months	123.3	7
37 to 48 months	54.0	2
Over 48 months	90.0	5

All purchases made prior to June 1958 have been fully reversed. However, several members have been in a debtor position to the Fund for more than five years—that is, they have not within that period reduced the Fund's holdings of their currency to 75 per cent of quota, or to the level corresponding to their subscription payment. This has been the result of new drawings, agreed with the Fund to meet re-emerging payments problems, being made concurrently with the repurchase of earlier drawings.

### *Fund Charges*

During the year, three decisions relating to stand-by charges and to charges on balances in excess of quota were adopted by the Executive Board. Firstly, in determining the Fund's holdings of a member's currency for the purposes of calculating charges payable

for stand-by arrangements entered into after May 23, 1962, it has been decided to take no account of amounts of the member's currency (not in excess of 1/100 of 1 per cent of the member's quota) which are held in a special account to meet administrative expenses. Secondly, a decision of the Executive Board on February 25, 1963 provides that, when an agreement for repurchase within three to five years after a drawing is not reached or observed, the charges to be imposed on balances in excess of quota shall continue to rise by  $\frac{1}{2}$  per cent per annum each six months, provided that when the charges payable on any segment have reached 6 per cent the Fund will review the charges to be imposed thereafter (Appendix III B, p. 195).

Thirdly, a decision on April 24, 1963 makes provision for the charges to be levied on segments of holdings above the level of 100 per cent in excess of quota, i.e., where the Fund's total holdings are more than 200 per cent of quota. The three brackets are retained and in each bracket the rates of charge remain unchanged. Bracket I still covers holdings exceeding quota by amounts ranging from 0 to 50 per cent, but Bracket II now covers holdings exceeding quota by 50 to 100 per cent, and Bracket III now covers holdings exceeding quota by more than 100 per cent. This schedule (reproduced in Appendix IV, p. 200) applies to each segment of the holdings of a member's currency to the extent that it represents the acquisition of that currency by the Fund from May 1, 1963 through April 30, 1964. For drawings before April 30, 1963, the schedule of charges remains as set out in last year's Annual Report.<sup>7</sup>

At the present time, 23 members are paying the charges levied by the Fund on holdings of a member's currency in excess of quota; the amount of such charges incurred during the year under review totaled \$24.5 million, compared with \$21.4 million during the preceding year. Since the beginning of the Fund's operations, 43 members have been subject to such charges. At present, part of these charges is paid by 3 members in their own currencies, in

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<sup>7</sup> *Annual Report, 1962*, page 196.

accordance with the provision in the Fund Agreement that permits such payments if a member's monetary reserves are less than half of its quota. Service charges on drawings amounted to a total of \$2.9 million during the year under review, compared with \$11.2 million in 1961-62 and \$2.9 million in 1960-61. Charges collected on stand-by arrangements, after deduction of the amounts credited against service charges if and when drawings were made under the arrangements, and refunds resulting from changes in the level of the Fund's holdings of members' currencies, re-creating or increasing the gold tranche, totaled \$1.9 million during the year ended April 30, 1963. These charges are not considered as income until the expiration or cancellation of the stand-by arrangement; the income derived from them in the past fiscal year was \$3.7 million.

### General Arrangements to Borrow

The General Arrangements to Borrow described in last year's Annual Report<sup>8</sup> came into effect on October 24, 1962, when the necessary number of countries had agreed to the Arrangements. Belgium deposited its instrument of adherence at the end of January 1963; Canada has introduced the necessary legislation into the current session of Parliament. The additional resources that the parties to the arrangements have undertaken to provide, if needed, amount to the equivalent of \$6 billion, composed as follows:

	Amount (equivalent in millions of U.S. dollars)
Belgium	150
Canada	200
France	550
Deutsche Bundesbank	1,000
Italy	550
Japan	250
Netherlands	200
Sveriges Riksbank	100
United Kingdom	1,000
United States	2,000

<sup>8</sup> *Annual Report, 1962*, pages 33-36 and pages 234-45.

In addition, the Swiss Parliament is considering legislation which would permit that country to become associated with these arrangements, even though Switzerland is not a member of the International Monetary Fund. It is proposed that Switzerland would undertake to give support, in an appropriate form, directly to any participant in the General Arrangements for whose benefit the Arrangements are activated, provided that the participant has entered into a bilateral agreement for that purpose with Switzerland. The total of such support to all participants, outstanding at any one time, would not exceed the equivalent of \$200 million.

The purpose of the General Arrangements is to increase the Fund's resources by facilitating borrowing under Article VII of the Fund Agreement. The considerations for the selection of currencies to be used in drawings on the Fund (described on page 19) indicate that drawings should be made largely in the currencies of those countries that have strong balance of payments and reserve positions. The General Arrangements are designed to provide the Fund with supplementary resources in these currencies at times when they are needed to forestall or cope with an impairment of the international monetary system in the new conditions of widespread convertibility, including greater freedom for short-term capital movements. To date, it has not been necessary to make use of the resources available under these Arrangements.

### Consultations with Members

Members of the Fund that have not notified the Fund of their acceptance of the obligations of Article VIII, Sections 2, 3, and 4, of the Fund Agreement are required to consult with the Fund annually under Article XIV. In accordance with this requirement, consultations were held during the financial year 1962-63 with many such member countries; for most of them, Fund missions were sent to the countries concerned. As in previous years, these annual consultations continued to provide opportunities for useful collaboration between the Fund and its members. Several of the consulta-



tions under Article XIV were combined with discussions of new financial programs or included reviews of such efforts already being made. Some of the discussions also covered the initiation or renewal of stand-by arrangements with the Fund, the simplification of exchange systems, the reduction of restrictions, and other matters of mutual concern to the member and the Fund.

Discussions were also held with a number of members of the Fund which have accepted the obligations of Article VIII, Sections 2, 3, and 4, of the Fund Agreement. Consultations with Article VIII countries are mandatory only if the countries concerned maintain or introduce exchange measures which require the approval of the Fund under that Article. However, the Executive Board Decision No. 1034-(60/27) of June 1, 1960<sup>9</sup> stressed the merit of holding periodic discussions between the Fund and its members even if no questions involving action under Article VIII arise. These discussions have provided the opportunity not only for close contacts with the members but also for exchanges of views on monetary and financial developments; they have thus furthered the Fund's purposes by providing machinery for consultation and collaboration on financial and monetary policies. In accordance with the Executive Board decision referred to above, it is intended, with the cooperation of the countries concerned, to continue holding such discussions at intervals of about one year.

### Technical Assistance and Training Programs

One aspect of the Fund's activities that has gained increasing recognition in recent years has been the technical advice and assistance that the Fund makes available to members. Many countries have requested such advice and assistance in specific problems in the monetary and fiscal fields, and the Fund has responded by assigning staff members to the countries concerned for periods ranging from a few weeks to more than a year. The work undertaken by the Fund staff has dealt with many problems,

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<sup>9</sup> *Selected Decisions of the Executive Directors* (Washington, D.C., September 1962), pages 56-58.

including the collection of statistics, the establishment of central banks, banking legislation, exchange reforms, and major programs of monetary stabilization. In addition, a number of nonmember countries have received assistance in connection with their applications for Fund membership. The Fund has also assisted countries in finding foreign experts to serve as advisors or officials in their financial institutions. At the present time, the Fund is taking steps to increase its capacity to tender technical advice in connection both with fiscal problems and with the general field of central banking institutional arrangements and practices.

During the year, many visiting delegations from member and nonmember countries were received by the management at headquarters; the management and the staff discussed with them at length various problems on which the Fund's advice had been sought. These visits provided a welcome opportunity for further contacts between the Fund and officials of its member countries. On numerous occasions, also, groups of graduate students, or participants in the technical training programs of other institutions, exchange programs, etc., have been received at Fund headquarters for seminars on the over-all work of the Fund or on specific technical subjects.

The Fund has also continued to cooperate with the Center for Latin American Monetary Studies (CEMLA), in its training program for technicians in the financial field, which include many central bank officials. As in previous years, the Fund has made available members of its staff, for short periods of time, to give series of lectures on subjects related to its area of interest.

### *Training Programs*

Beginning in 1962, the Fund converted its annual Training Program, for selected nationals of member countries, from one session of nine months to two sessions of five months each. While this shortening has inevitably limited the instruction that the participants are able to obtain in Washington, it has had the beneficial result of doubling the number who can be accommodated

in the Fund's headquarters during each year. The sharp increase in the number of applications received for the 1962-63 program indicates that the shorter period is attractive to many government employees, who have only limited training objectives or who could not afford to be away from their home responsibilities for longer periods. During 1962-63, there were 50 participants from 41 member countries, bringing the aggregate for the past 12 years to 288 persons from central banks and government agencies of member countries. While regional participation has fluctuated somewhat between individual years, the numbers of participants over the entire period have been fairly evenly divided among the four principal areas—Asia, Europe, Latin America, and the Middle East and Africa.

## Publications

The Fund's regular program of publications was continued in 1962-63: *Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1962* (Seventeenth Annual Report); *Summary Proceedings of the Seventeenth Annual Meeting of the Board of Governors*; *Thirteenth Annual Report on Exchange Restrictions*; *Balance of Payments Yearbook*, Volume 14, 1957-61; *Staff Papers*, Volume IX, Nos. 2 and 3, and Volume X, No. 1; *International Financial Statistics*, monthly; and *International Financial News Survey*, weekly. The monthly *Direction of International Trade* continued to be published jointly with the International Bank for Reconstruction and Development and the Statistical Office of the United Nations.

The first issue of *Selected Decisions of the Executive Directors* was published in September 1962; it brings together the texts of general decisions relating to certain obligations, policies, and procedures under the Articles of Agreement to which frequent reference is made. It is intended to issue later editions that will keep the collection up to date.

*The Fund Agreement in the Courts*, by Joseph Gold, the Fund's General Counsel, appeared in November 1962. This volume covers a number of cases, considered by international and national courts, in which the Articles of Agreement of the International Monetary Fund have had a bearing on issues before the courts. The contents of the volume were first published in *Staff Papers*, as a series of articles.

The Fund report, *Compensatory Financing of Export Fluctuations*, published in February 1963 in English, French, and Spanish, is described below.<sup>10</sup>

*Central Banking Legislation: A Collection of Central Bank, Monetary and Banking Laws*, selected and annotated by Hans Aufricht, was reprinted in August 1962, since the first printing had been exhausted. Also, some early volumes of *Staff Papers*, which were out of print, were reprinted.

## Cooperation with Other International Organizations

The Fund continued to cooperate during the past year with other international organizations having similar areas of interest, both in matters of substance and on the technical level. Close relations were maintained with the United Nations and its regional and technical Commissions and Committees, the International Bank for Reconstruction and Development (IBRD), the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade (GATT), the Organization for Economic Cooperation and Development (OECD), the Bank for International Settlements (BIS), and the Inter-American Development Bank (IDB).

In response to an invitation from the UN Commission on International Commodity Trade at its 10th Session in Rome in May 1962 "to present, as soon as possible, a report as to whether and in what way the Fund might play an increased part in the compensatory financing of export fluctuations of primary exporting coun-

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<sup>10</sup> Page 196.

tries, and to keep the Technical Working Group currently informed of the progress of its deliberations on the subject," the Fund participated in discussions of the Technical Working Group on Compensatory Financing and in March submitted a Report, *Compensatory Financing of Export Fluctuations*, which was discussed by the Commission at its 11th Session. The proposals contained in this Report are discussed in Chapter 5.<sup>11</sup>

The late Managing Director addressed the Economic and Social Council (ECOSOC) at its 35th Session on the occasion of presenting the Fund's 1962 Annual Report, and he also attended the 35th Session of the Administrative Committee on Coordination, the Annual Meeting of the BIS, and the meeting of the OECD Ministerial Council in November 1962. The Fund was represented at the 34th Session of the ECOSOC, the 17th Session of the General Assembly, and the 9th Session of the Governing Council of the Special Fund, as well as at meetings of various administrative working groups of the United Nations. In addition, the Fund participated in meetings of the Preparatory Committee for the UN Conference on International Trade and Development, the International Coffee Conference, the Economic Commissions for Africa, Asia and the Far East, Europe, and Latin America (including the Committee for Economic Cooperation of the Central American Isthmus), and the Food and Agriculture Organization. In Latin America, Fund representatives attended the annual meetings of the Organization of American States' Inter-American Economic and Social Council at the Expert and Ministerial Levels, the Inter-American Development Bank, and the Central American Bank for Economic Integration, as well as the 7th operational meeting of the Center for Latin American Monetary Studies. Most of these organizations were represented at the Fund's Annual Meeting in September 1962. Fund representatives also attended the Conference on Economic Development Problems in Cairo, the Symposium on Economic Development in Nyasaland, and the Conference on Inflation and Growth in Rio de Janeiro.

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<sup>11</sup> Pages 77-79.

Fund missions attended sessions and other meetings of the CONTRACTING PARTIES to the GATT in Geneva during the period under review, and the CONTRACTING PARTIES were represented at the Fund's Annual Meetings. The CONTRACTING PARTIES consulted with the Fund in connection with their consultations with members on import restrictions maintained for balance of payments reasons, and on other matters involving balance of payments questions or exchange rates. The Fund transmits to the CONTRACTING PARTIES the results of its Article XIV consultations with governments consulting under the balance of payments provisions of the GATT, together with background material relating to such countries, and Fund missions cooperate with the GATT committee conducting the consultations. These arrangements have been extended to include the Fund's consultations under Article VIII with countries that are members of both organizations.

### Management and Staff

Mr. Per Jacobsson, Managing Director and Chairman of the Executive Board, died on May 5, 1963. An obituary notice appears on page xvii. Mr. Pierre-Paul Schweitzer has been appointed to succeed him from September 1, 1963.

Mr. Frank A. Southard, Jr., formerly Executive Director of the Fund for the United States, was appointed Deputy Managing Director and assumed his duties on November 1, 1962, succeeding Mr. H. Merle Cochran upon the latter's retirement.

At the end of the fiscal year, the Fund staff numbered 521, including 10 temporary employees and 1 on extended leave. This total represents a net increase of 30 over the total at the beginning of the year. During the year, 86 new staff members were appointed from 34 member countries. Nationals of 56 countries are now on the staff. For the purpose of rendering technical assistance as described above, staff members were made available on long-term assignments to 9 countries.

## Finance

During the financial year, the Fund's operating income of \$31,044,417 exceeded its total expenditure by \$21,474,713. This amount was transferred provisionally to the General Reserve pending action by the Board of Governors. The General Reserve now totals \$93,287,149.

The Fund continued to invest a part of its gold holdings in U.S. Government securities, with the understanding that the same quantity of gold can be reacquired whenever the investment is terminated. The amount so invested was \$800 million. The income therefrom amounted to \$25,094,232 for the financial year; it was credited to a Special Reserve, which on April 30, 1963 showed a balance of \$90,038,598.

The administrative budget approved by the Executive Directors for the period May 1, 1963–April 30, 1964 is presented in Appendix V. The budget provides for a substantial strengthening of the staff in response to the increase in Fund membership and the growing volume of current activities. Comparative income and expenditure figures for the fiscal years 1961, 1962, and 1963 are given in Appendix VI.

The Executive Board requested the Governments of Argentina, Austria, and India to nominate members of the Audit Committee for 1963. The following nominations were made and confirmed: Mr. Luis Larrosa, Chief Accountant, Banco Central de la República Argentina; Mr. Fritz Diwok, Consultant of the Austrian National Bank; and Mr. A. K. Mukherji, Additional Deputy Comptroller and Auditor General of India. The report of the Committee is submitted separately. Appendix VII gives the Auditors' Certificate, together with the audited Balance Sheet for April 30, 1963 and the audited Statement of Income and Expenditure.

**Part II**  
**TOWARD SUSTAINED GROWTH**



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## Chapter 3

# International Reserves and Liquidity

### Total Reserves

**H**OLDINGS of reserves or other forms of international liquidity permit countries to finance temporary deficits in their balances of payments and thus give them a certain amount of freedom of action in their economic policies. Such holdings make it possible, for example, for countries to continue economic expansion policies when expansion in other countries falters temporarily, or to pursue, up to a point, price policies or wage policies or interest rate policies different from those followed elsewhere. Without international liquidity, countries that maintain a fixed exchange rate would have virtually no such balance of payments leeway. Liquidity allows them to make any necessary adjustment without precipitate haste and without being forced to take measures that would have unnecessarily damaging effects on their own or on other countries' economies. Nevertheless, in a world in which trade and capital movements respond quickly to small differentials in prices or interest rates, even large reserve holdings do not give countries more than a limited independence in their policies.

In view of the important function of reserves, it is natural that continuous attention be paid to the adequacy of world reserves and liquidity—as to size, distribution, quality, composition, stability, and availability. The Fund, which is an important component of the liquidity structure, has devoted a number of studies to these questions, including its *International Reserves and Liquidity*, published in the summer of 1958, which recommended a broad increase

in Fund quotas. An increase was proposed to the Board of Governors by the Fund's Executive Directors in December 1958<sup>1</sup> and came into effect in September 1959, after affirmative action by the Governors and by a large number of member countries.

From the end of 1958 to the end of 1962, the total of countries' reserves continued to increase, the total increase over the four-year period being about \$5.4 billion, or 9 per cent (Table 7). Reserves are defined in Table 7 as including not only countries' holdings of gold and foreign exchange, but also their gold tranche positions in the Fund. The latter term indicates the amount which a member can draw from the Fund without increasing the Fund's holdings of its currency beyond 100 per cent of its quota.<sup>2</sup>

More than 11 years ago, in February 1952, the Fund adopted its "gold tranche policy," under which a member "can count on receiving the overwhelming benefit of any doubt" for drawings that do not raise the Fund's holdings of its currency beyond 100 per cent of quota.<sup>3</sup> The experience of member countries since that time has made it completely clear that these "gold tranche positions" are readily available to members whenever needed; and the clarification with respect to use of the Fund's resources for capital transfers (decided in July 1961)<sup>4</sup> removed any doubts that could have attached to the usability of these drawing rights within the limits of the Articles of Agreement. It therefore follows that members' reserves and their changes can usefully be measured as including gold tranche positions in the Fund.

<sup>1</sup> Report by the Executive Directors to the Board of Governors, *Enlargement of Fund Resources Through Increases in Quotas*.

<sup>2</sup> When a country joins the Fund, it normally pays 25 per cent of its quota in gold and 75 per cent in its own currency. The Fund's initial holdings of that currency are then 75 per cent of quota and the country's gold tranche is  $100 - 75 = 25$  per cent of quota. Changes in the Fund's holdings of the country's currency from the initial position affect the size of the country's gold tranche. Thus, when the country draws on the Fund, utilizing its own currency in payment, the Fund's holdings of that currency increase and the gold tranche declines, reaching zero as the Fund's holdings of the country's currency reach 100 per cent of quota. Conversely, as the Fund sells a country's currency to other members, that country's gold tranche increases; it could reach a magnitude equal to the country's quota if the Fund had sold all its holdings of the currency of that country.

<sup>3</sup> See *Selected Decisions of Executive Directors* (Washington, D.C., September 1962), page 18.

<sup>4</sup> *Selected Decisions of Executive Directors*, page 35.

TABLE 7. COUNTRIES' OFFICIAL RESERVES, INCLUDING GOLD TRANCHE POSITIONS IN THE INTERNATIONAL MONETARY FUND, END OF CALENDAR YEARS, 1958-62<sup>1</sup>

(In billions of U.S. dollars)

	1958	1959	1960	1961	1962	Change from 1958 to 1962
<b>Countries</b>						
Main industrial countries	43.29	42.64	45.70	47.49	47.13	+3.84
United States	22.54	21.51	19.35	18.75	17.22	-5.32
United Kingdom	3.11	2.81	3.73	3.32	3.31	+0.20
Other <sup>2</sup>	17.64	18.32	22.62	25.42	26.60	+8.96
Other high-income countries <sup>3</sup>	4.43	5.09	4.84	5.81	6.54	+2.11
Other countries	12.09	12.58	12.77	12.06	11.52	-0.57
Total	59.81	60.31	63.31	65.36	65.19	+5.38
<b>Composition</b>						
Gold	38.07	37.87	38.05	38.90	39.26	+1.19
IMF gold tranche position	2.51	3.25	3.57	4.16	3.79	+1.28
Liquid claims on United States	8.56	9.59	10.92	11.59	12.00	+3.44
Sterling claims on United Kingdom	6.67	7.14	7.24	7.25	6.94	+0.27
Credit balance in EPU	1.37					-1.37
Other <sup>4</sup>	2.63	2.46	3.53	3.46	3.20	+0.57
Total	59.81	60.31	63.31	65.36	65.19	+5.38

Sources: International Monetary Fund, *International Financial Statistics*, and Fund staff estimates.

<sup>1</sup> Excluding the U.S.S.R. and associated countries.

<sup>2</sup> Other countries participating in the General Arrangements to Borrow (see p. 28) and Switzerland.

<sup>3</sup> Other Western European countries, Australia, New Zealand, and South Africa.

<sup>4</sup> Including Euro-dollar claims, non-dollar claims on countries other than the United States, currency deposits with the Bank for International Settlements, and net errors and omissions.

Gold production, less hoarding and industrial uses, is one factor that has added to aggregate monetary reserves every year.<sup>5</sup> In most postwar years, some \$500-700 million of gold has been added to the official holdings of countries and international agencies, but the figure was much smaller in 1960 and again in 1962 (about \$300 million in each year). The small increase in official holdings of gold in the latter year (discussed in more detail in Chapter 10) was a reflection of political and economic uncertainty, which led to an abnormally large hoarding of gold.

<sup>5</sup> Provided reserves are defined as including Fund gold tranche positions. In 1959, when Fund quotas were increased, the amount of gold held by countries fell by \$200 million, but this was more than offset by the \$740 million increase in their gold tranche positions as countries paid to the Fund in gold one fourth of their quota increases.

Liquid claims on the United States have also shown a persistent tendency to rise, by nearly \$1 billion a year on the average. Until recently, such claims consisted entirely of holdings expressed in U.S. dollars. In the autumn of 1962, however, the United States began to issue, to certain foreign central banks and governments, nontransferable obligations expressed in the currency of the purchaser, usually with a maturity of from 15 to 24 months. In the first four months of 1963, these new instruments, with an additional provision that made them convertible into dollar claims at short notice, constituted an important part of the continued rise of liquid claims on the United States in other countries' reserves—approximately \$275 million compared with the increase in official dollar holdings of \$150 million.

Insofar as U.S. deficits have been financed by other countries accumulating liquid claims against the United States, these deficits have led to increases in the world totals for international reserves. In other respects, too, these totals have reflected either payments developments or the method of their financing. Reserve statistics for a certain period will, for example, show an increase in world reserves as a consequence of drawings under swap arrangements or of drawings on the Fund whenever the country drawn upon considers the asset acquired as part of its reserves; the increase will, indeed, exceed the amount drawn if the drawing country has retained part or all of the amount drawn by the end of the period covered.

Because of these factors, figures indicating changes in aggregate official reserves over short periods may often be of limited significance. The contrast in the reserve changes in 1961 and 1962 (an increase of \$2 billion in the former year against a small decline in the latter year) is to a considerable extent accounted for by the United Kingdom's drawing of the equivalent of \$1.5 billion on the Fund in 1961 and the repayment of the balance of that drawing in 1962 (a proportion was repaid late in 1961). As a result of this drawing, the United Kingdom had an unusually large amount of dollars at the end of 1961, and the countries whose currencies

had been drawn held increased gold tranche positions; both of these effects disappeared in 1962 when the United Kingdom repaid the balance of its drawing.

A second factor that suggests the need for caution in short-run comparisons of official reserves is the practice pursued by commercial banks in some countries of repatriating foreign balances for year-end window dressing. This factor affects not only quarterly changes but also changes between end-of-year dates whenever (as happened between 1961 and 1962) the magnitude of the window dressing practice varies.

Beyond these qualifications that attach to short-run comparisons of movements in official reserves, allowance has to be made over longer periods of time for the increases in the holdings of foreign exchange by banks and business firms. These nonofficial holdings have generally reached a level, in the industrial countries, that permits the financing of international payments to take place outside the official reserves, leaving the latter freer for the task of absorbing fluctuations in payments, both on current and on capital account. The market in Euro-dollars and Euro-sterling has done much in recent years to mobilize and thus to raise the effectiveness of these nonofficial reserves.

### Other Forms of International Liquidity

Beyond reserves in the form of gold, foreign exchange, and Fund gold tranche positions, international liquidity includes a broad spectrum of facilities permitting countries, with greater or less certainty, to acquire reserves in case of need. These facilities cannot fully be described in terms of statistics, since they shade from resources that are practically at hand—such as Fund resources available under stand-by arrangements—to potential commercial bank accommodation or the vague expectation of countries that friendly governments may be ready to grant short-term emergency help for severe difficulties.

A large part of this liquidity over and beyond reserves consists of countries' drawing facilities on the Fund beyond the gold tranche. These "credit tranche" drawing facilities are subject to increasing degrees of scrutiny by the Fund as higher tranches are used. In using an increasing proportion of the liquidity they have in the Fund, members themselves also are ordinarily increasingly concerned to ensure that their policies are such as to bring their balance of payments difficulties to an end. While, at any moment of time, many members may consider use of the higher tranches of the Fund as only a remote possibility—just as they would consider the use of the greater part of their reserves as only a remote possibility—it is useful to express for each country its access to the Fund beyond the gold tranche in a number that is comparable to the statistics of its total reserves. A reasonable measure for this is the amount beyond the quota that the member could still draw before the Fund's holdings of its currency reached 200 per cent of quota.<sup>a</sup> Members' "credit tranche positions," so defined, are given in Table 8. These figures show an increase of \$6.3 billion in the

TABLE 8. CREDIT TRANCHE POSITIONS OF MEMBERS OF THE INTERNATIONAL MONETARY FUND, END OF CALENDAR YEARS, 1958-62

(In billions of U.S. dollars)

	1958	1959	1960	1961	1962
Main industrial countries	5.70	9.87	9.87	9.31	9.73
United States	2.75	4.12	4.12	4.12	4.12
United Kingdom	0.98	1.95	1.95	1.39	1.95
Other <sup>1</sup>	1.97	3.80	3.80	3.80	3.66
Other high-income countries <sup>2</sup>	0.56	1.06	1.29	1.26	1.43
Other countries	1.08	1.97	2.49	2.24	2.20
Total	7.34	12.90	13.65	12.81	13.36

<sup>1</sup> Other countries participating in the General Arrangements to Borrow (see p. 28).

<sup>2</sup> Other Western European countries, Australia, New Zealand, and South Africa.

two years 1959-60 (from \$7.3 billion at the end of 1958 to \$13.6 billion at the end of 1960), resulting mainly from increases in quotas during those years. At the end of 1962, however, total credit tranche positions were nearly \$300 million below those two

<sup>a</sup> Drawings beyond this point are possible, under the Articles of Agreement, through a waiver (see page 17), and the Fund has indicated its willingness to use this waiver as appropriate for compensatory drawings. (See pages 77-79.)

years before, in spite of increased Fund membership and some further adjustments of quotas. The decline was due mainly to large net drawings (about \$525 million) by the less developed countries.

None of the main industrial countries had a Fund drawing outstanding at the end of 1960, and the same was true, with the exception of Canada, at the end of 1962. The credit tranche positions of the nine other countries were equal to their full quotas, therefore, at both year ends. The liquidity of the industrial countries increased, however, during 1962 as a result of understandings reached between the U.S. authorities, on the one hand, and the central banks of nine other industrial countries and the Bank for International Settlements, on the other, to engage in short-term swap transactions at the initiative of either party. These facilities were intended to be drawn upon to deal with balance of payments swings of a very short-term character, with the intention of preventing such swings from reducing a country's reserve figures. The total amount agreed in 1962 was \$900 million.<sup>7</sup> Against this, net drawings were \$265 million; the \$635 million in stand-by swap facilities still available to the United States and its partner countries at the end of 1962 represented an addition of \$1,270 million to their aggregate liquidity during 1962, which did not show up in their reserves.<sup>8</sup> The corresponding figure for the middle of 1963 was approximately \$3 billion, as a result of the conclusion of one new arrangement, the enlargement of three others,<sup>9</sup> and the reconstitution of some of the stand-by facilities as amounts previously drawn were repaid from the proceeds of the sale by the United States of obligations expressed in creditors' currencies.

<sup>7</sup> \$50 million each for Austria, Belgium, France, the Federal Republic of Germany, the Netherlands, and the United Kingdom; \$250 million for Canada; \$150 million for Italy; and \$200 million for Switzerland (including the transaction with the Bank for International Settlements).

<sup>8</sup> The reserve statistics presented in Table 7 include \$316 million obtained under swap arrangements in 1962—\$51 million held by the United States and \$265 million held by its partner countries (*Forty-Ninth Annual Report of the Board of Governors of the Federal Reserve System*, Washington, D.C., 1963, pp. 43-44).

<sup>9</sup> Including one with Sweden (\$50 million), and increases of \$50 million in the arrangement with France, \$100 million in that with the Federal Republic of Germany, and \$450 million in that with the United Kingdom.



Beyond those mentioned here, there are other institutional arrangements, multilateral and bilateral, which can create additional liquidity in certain circumstances or transfer liquidity to countries in need of reserves—such as the European Fund, the mutual credit arrangements among the Scandinavian countries, U.S. Treasury stabilization credits, and arrangements between the French Treasury and certain countries in the overseas franc area.

### Reserves and Liquidity by Countries

An analysis of reserve movements for certain groups of countries brings out rather striking differences. The less developed countries show a small decline in reserves over the period under review. Ever since 1952, the reserves of these countries have continued to fluctuate around their present level of approximately \$12 billion, while their trade has expanded by about 40 per cent.

The higher-income primary producing countries and the smaller industrial countries in Europe have shown quite substantial increases in reserves (some 50 per cent) in the last four years. But changes in the reserves of the main industrial countries present possibly the greater current interest. While the composition of that group is necessarily somewhat arbitrary, it is here defined, for statistical purposes, as including the ten countries participating in the Fund's General Arrangements to Borrow,<sup>10</sup> and Switzerland. The aggregate reserves of the group increased by about \$4 billion between the end of 1958 and the end of 1962 (from \$43 billion to \$47 billion). This increase was composed of a net gain in combined gold holdings of about \$500 million, reflecting an increase of \$5.5 billion for the European countries and a decline of \$5 billion for the United States and Canada; a rise of about another \$1 billion in their gold tranche positions in the Fund, more than half of which reflects the increase in the amount of outstanding drawings of the less developed countries; and an increase of some \$2.5 billion in their foreign exchange, primarily dollar, holdings.

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<sup>10</sup> See page 28.

Over the same period the credit tranche positions in the Fund of the same countries (except Switzerland) increased by \$4 billion (from \$5.7 billion to \$9.7 billion). The capacity of the Fund to finance drawings by these countries, including those with the largest quotas, was enhanced by the General Arrangements to Borrow, totaling \$6 billion, which went into effect in October 1962. Almost all the additional liquidity created by the stand-by swap arrangements initiated by the United States, to which reference was made above, is also concentrated in the eleven main industrial countries.

Certain suggestions have been made in the last year that would add further to the ability of the industrial countries to increase reserves in case of need. On the bilateral side, the United States has indicated its willingness, once it has reached a position of balance of payments surplus, to acquire the currencies of other industrial countries as required by the needs of an expanding world economy. Additional machinery of a multilateral character—in the form of a “Mutual Currency Account”—was proposed for consideration by the Chancellor of the Exchequer for the United Kingdom, at the Fund’s Annual Meeting in September 1962. Under this facility, credits would be obtained by countries in short-term payments difficulties, and these credits would be matched by creditor positions in the Account acquired by countries in strong balance of payments and reserve positions. The value of credit and debit positions would be maintained in gold. In certain other respects also, this facility would be similar to the arrangements now existing in the International Monetary Fund.

The description and analysis of the development of the reserve and liquidity positions of the industrial countries in recent years would be quite incomplete, however, if they were limited to the increases in reserves that have taken place and the proposals made for further increases. Attention must also be paid to certain steps taken, both nationally and on the basis of international agreement, the main effect of which has been to reduce the official reserves of the industrial countries below the level they would otherwise have reached. At the end of 1958, as a result of the abolition of the European Payments Union (EPU), \$1.4 billion in EPU credit

balances disappeared from reserves—part being paid off and the remainder consolidated in nonliquid claims on the EPU debtor countries. Continental European countries have used their surplus positions to make advance debt repayments to the United States and Canada, thus preventing a rise of about \$1.9 billion in their reserves. Furthermore, in contrast to earlier years when commercial banks were usually allowed to hold not more than working balances in foreign exchange, such holdings have in recent years been freely permitted, and in certain instances encouraged, as the European countries' reserve strength has increased; as a result, commercial banks' holdings increased from about \$3 billion to about \$5 billion over the four-year period, 1958-62.

These asset and liability dispositions reflect an understandable attitude of countries with respect to reserves—an attitude that is not solely, and beyond a certain point not primarily, focused on increasing their official reserves. Reserves for which the need is marginal are canceled against liabilities, or used to acquire non-reserve assets that may be more useful in other respects. This concern for a country's asset and liability structure, rather than for reserves as such, has found expression in other ways. The central banks on the continent of Europe have not sought, but, on the contrary, have by various measures discouraged, capital inflows that would increase their reserves and simultaneously increase their foreign liabilities. Their reluctance toward accepting foreign deposits in their currencies has applied to private as well as official deposits.

The reserves of the industrial countries are likely to continue to grow from new gold production, from the net operations of the Fund with the less developed countries, and from some further increase in currency holdings. The contribution that each of these three sources has made in recent years to the reserves of the main industrial countries has been too irregular to justify a forecast of their possible importance for the future, and the total growth in reserves will, as in the recent past, depend not only on what might be supplied but also on the desire of these countries to take any increase in their net financial wealth in the form of gross official liquid foreign assets.

## Adequacy of International Reserves and Liquidity

International liquidity is, of course, not an end in itself. If the world is keenly interested in the question of the adequacy and responsiveness of liquidity, it is because the proper level of liquidity is expected to contribute to objectives such as those mentioned in Article I of the Fund Agreement: the expansion and balanced growth of international trade, the promotion and maintenance of high levels of employment and real income, the development of the productive resources of all members; exchange stability, orderly exchange arrangements among members, and the avoidance of competitive exchange depreciation; a multilateral system of payments in respect of current transactions, and the elimination of foreign exchange restrictions which hamper the growth of world trade.

In the four years 1959 through 1962, world trade increased from \$95 billion to \$124 billion, a rise of about 31 per cent or approximately 8 per cent a year—or about 5 per cent a year if the higher 1957 figure is taken as the basis of comparison. During these years, as indeed in the whole postwar period, the expansion of world trade has been accompanied by, and facilitated by, great advances toward the attainment of exchange stability and the establishment of a multilateral system of payments for current international transactions and, in some major cases, for all international transactions.

During this period, the reserves of many less developed countries have continued to be inadequate, reflecting many of the pervasive difficulties of these countries: the weakness of their export markets, the urge to use all available resources for development, the shortage of foreign capital. In many instances, the low reserves have also reflected the inadequacy of monetary or exchange rate policies. Expansion in the industrial countries, flows of aid, and access for the products of the less developed countries to the main markets of the world, can assist in improving these countries' position. This improvement, however, is not likely to be reflected in more adequate

reserves until individual less developed countries, seeing the benefits of larger reserves, take decisive steps to acquire them when conditions are relatively favorable to do so.

In the industrial countries, the tendency toward economic expansion and full employment has been strong in the postwar period. Total industrial production has shown large annual increases. Prices of industrial products, although no longer rising markedly in a world in which capacity has grown and competition has become keener, have displayed few significant declines. In many countries demand for labor has tended to outrun the number of job seekers, and wages have shown a persistent tendency to rise—frequently by more than increases in productivity. However, the United States, Canada, and the United Kingdom in recent years have shown a slow rate of economic growth, which has been accompanied, especially in the first two countries, by above normal unemployment. The Government of each of these countries has indicated measures needed to restore economic expansion. In Canada, an important stimulus is expected to come from a reduction in the deficit on account of goods and services, facilitated by the depreciation of the Canadian dollar from somewhat more than equal to the U.S. dollar in 1960 to a new par value of US\$0.925 agreed with the Fund in May 1962. To take up the slack in the economy, the U.K. Government has proposed an increase in government expenditure and a reduction of taxes. In the United States, the main emphasis has also been placed on tax reduction, aimed both at stimulating private investment and at raising consumer demand.

While important changes are taking place in the structure of demand in many industrial countries, it would be rash to conclude that the dominating expansionary tendencies of the postwar period have run their course. But if a general flagging of demand were to become evident, it would be most important for the industrial countries collectively and individually to take the measures needed to restore the expansionary momentum of the world economy.

International liquidity should be sufficient to allow these countries to take the expansionary steps needed for the benefits of their own economies, as well as to assure continued expansion of the

world economy. Although it is by no means certain that policies now being pursued, or those that might become necessary in the future, would lead to large balance of payments disequilibria, most countries already have sufficient reserves or access to credit arrangements, particularly in the Fund, to finance the kind of disequilibria that might occur. If improvement or enlargement of the credit facilities is needed, it may be more important and feasible to concentrate on the adaptation or enlargement of the existing multilateral arrangements through the Fund than to seek to establish supplementary or alternative arrangements outside. In this connection, it should be evident that the Fund, in its further evolution, would be capable of accommodating itself to the emerging needs for such enlarged facilities.

As balances of payments change, it is inevitable that reserves sometimes show sharp fluctuations while countries take time to appraise the developing situation and to consider the need for, and the timing of, any corrective measures. Reserves have been accumulated, and the supporting international arrangements have been worked out, to give the international economy this flexibility; and it is no cause for alarm to find that, from time to time, situations arise which confirm the wisdom of these defensive preparations. Countries that have built up large gold holdings are sometimes likely to experience substantial declines in these holdings. This has happened in recent years in the United States, and it may well happen in some European countries. The dollar and sterling balances of many countries may be expected to fall as well as to rise. Countries' gold tranche positions in the Fund will rise as large deficits have to be financed by other countries; and when payments swing in the opposite direction, a country need not hesitate to use its access to the Fund. Thus, for example, industrial countries should feel as free to look to the Fund as to other readily available short-term credit facilities. On the assumption that liquidity of all kinds is freely used to deal with temporary swings in a country's balance of payments, available liquidity is large; but if a substantial proportion of it is, for one reason or another, considered to be

available “for emergency use only,” then the risk is correspondingly increased, not only of slowing down the world economy but also of being unable smoothly to deal with emergencies.

If the problem of expansion of the world economy is approached as indicated here, lack of liquidity is unlikely, in the foreseeable future, to present a bar to the adoption of desirable policies.

The quantitative and qualitative adequacy of the international liquidity structure requires continued close attention. The Fund must keep developments in this field under constant review in order to anticipate the problems that might arise. In this way, the Fund will be in a position in good time to take, or to propose to its members, any requisite action. The ability of the Fund's members to take, within a relatively brief time, measures to strengthen the international monetary system, and their readiness to cooperate when that system is under strain, have been well demonstrated in recent years; and the determination of the main industrial countries to safeguard that system has been clearly laid down in the Preamble to the Fund's General Arrangements to Borrow.

## Chapter 4

# Payments Problems of the Less Developed Countries

THE greater part of the day-to-day work of the Fund is concerned with the problems of the less developed countries. The reason for this is not far to seek. These countries, practically all of which are predominantly exporters of primary products, are particularly likely to incur difficulties in balancing their external transactions for reasons that are partly of internal and partly of external origin. Their difficulties stem from three main sources: (1) the prevalence, in many of these countries, of inflationary tendencies often connected with development programs, (2) relatively large short-term fluctuations in their foreign exchange receipts from exports and in capital movements, and (3) a relatively slow rate of growth of export receipts (particularly when compared with the growth of population), which is attributable partly to structural conditions affecting the demand for products in which these countries specialize and partly to limitations on the access of their products to markets, especially in the developed countries.

### *Inflationary Tendencies in the Less Developed Countries*

As discussed in previous Annual Reports, many of the less developed countries have in recent years experienced difficulties associated with inflation. Pointing out these difficulties implies no underestimate of the urgency with which the needs of development press upon the authorities of low-income countries. This urgency



can scarcely be overstated. The growth of population, alone, imposes the requirement of a rapid increase in the absolute level of national income, if already meager per capita incomes are to be prevented from declining. Beyond this are the legitimate aspirations of the people of these countries to enjoy standards of living less remote from those of the industrial countries—standards of which they have become increasingly aware in recent decades. Rapid growth in real income has thus become an overriding objective throughout the less developed countries, but conditions in many countries have been such as to make it impossible to achieve the desired rates of growth, as savings and taxable capacity are both low and the amount of foreign borrowing available is not sufficient to fill the gap.

In attempting to cover this deficiency, some governments have sometimes been attracted by the apparent ease of financing development by inflationary methods. In such countries, government expenditures, including development expenditures, have been allowed to exceed revenues by more than could be borrowed directly from residents of these countries or obtained through grants or loans from abroad. The differences have been covered by borrowing from the banking systems. At the same time, expansive monetary policies have been adopted to encourage private investment. While a moderate expansion in credit would generally have been compatible with internal stability, the extent to which some countries resorted to the banking system has been inflationary.

Existing inflationary tendencies were mostly initiated during the early postwar years when prices and export receipts were high. Since then they have been reinforced in some countries by cost-inflationary factors (such as wage-price tying arrangements), by supply bottlenecks in particular sectors, and by attempts to hold down the prices of particular goods and services by subsidies financed through budgetary deficits.

The general effect of severe inflation on economic development was discussed in last year's Annual Report.<sup>1</sup> In summary, experience shows that inflationary policies are likely to make more, rather

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<sup>1</sup> *Annual Report, 1962*, pages 42-44.

than less, intractable many of the problems facing less developed countries. Inflation diminishes the volume of resources available for domestic investment. The community's saving is reduced, and a significant part of this saving is channeled to foreign rather than domestic investment, while the flow of capital from abroad is discouraged. A substantial part of the reduced flow of resources for domestic investment is diverted to uses which are not of the highest social and economic priority, such as luxury housing and other luxury goods. The accumulation of large inventories is encouraged. Savings are diverted to channels where investment decisions are insufficiently guided by longer-term economic criteria. The apparent profitability of certain short-lived investments leads to distortions in the productive structure, which makes the economy less adaptable. To reduce the foreign deficits, the authorities are tempted to resort to controls, which frequently protect uneconomic domestic production. Political pressures lead to further restrictions that intensify the distortions in the general economic structure.

Realization that inflation *per se* is inimical to development has grown in recent years. Several countries which succumbed to inflation prior to 1954 have since brought it under control. Much, however, remains to be done, and the process of bringing inflation to a halt is by no means easy in countries where the social and political structure has become weakened, not only by inflation itself but also by difficulties arising out of adverse developments on world markets for their exports. It is to be deplored that even the most responsible financial and industrial interests in these countries frequently fail to give proper support to the authorities who are endeavoring to bring inflation under control.

### *Instability of Exports*

The export earnings of the primary producing countries—particularly the less developed countries<sup>2</sup>—show, in general, wider short-term fluctuations than those of the industrial countries. This

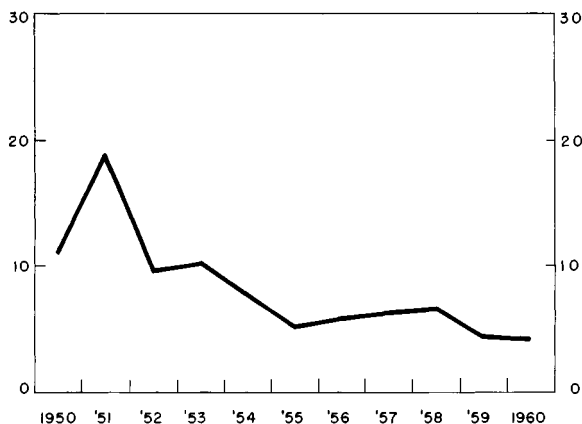
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<sup>2</sup> In the remainder of this chapter the term "less developed countries" is used to denote the primary producing countries other than Australia, Canada, New Zealand, and South Africa.

is largely because less elastic supply conditions subject the prices of most primary products to much wider fluctuations than those of manufactured goods. There are great differences among exporters of primary products, as there are among industrial countries, in the magnitude of these fluctuations. Indeed, the export record of some primary producing countries, notably the oil producers and those whose exports are relatively diversified, is more stable than that of some industrial countries. On the whole, however, before and after World War II export fluctuations from trend averaged some 30-40 per cent more for the primary producing countries than for the industrial countries. Moreover, the primary producing countries are more sensitive to export fluctuations than are the industrial countries in general. They are less well able to cushion the effects of such fluctuations on domestic production and prices, and they frequently find it difficult to sustain the imports of capital goods required to maintain a steady program of development.

CHART 2. INSTABILITY OF EXPORT EARNINGS OF PRIMARY EXPORTING COUNTRIES, 1950-60<sup>1</sup>

(In per cent)



<sup>1</sup> For each year, deviations of the value of exports from medium-term export norms (i.e., centered five-year moving averages) have been added together, irrespective of sign, for 48 countries; and the sum of the deviations has been expressed as a percentage of the sum of the norms, to obtain the measure of instability.

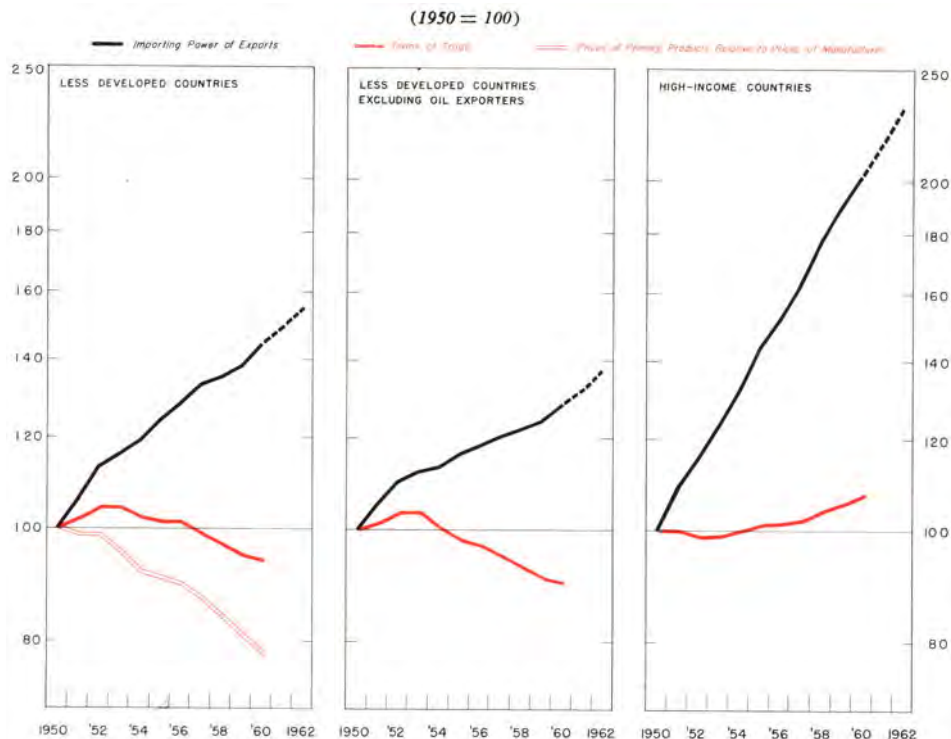
The instability of export proceeds in the average primary producing country during the postwar period as a whole has been about one-third less than in the interwar period, when of course the markets for primary products were subject to severe price fluctuations arising from the instability of employment and output in the industrial countries. Moreover, there are some signs that the degree of fluctuation in the latter part of the postwar period has become considerably less than during, and immediately following, the Korean war (Chart 2). In view of the diminution in instability that has occurred in recent years, the problems raised by export fluctuations are now less important in the great majority of less developed countries than the problems created by adverse longer-term trends in the terms of trade.

#### *Medium-Term Export Trends*

Countries exporting mainly primary products have for nearly a decade been adversely affected by the declining trend in world prices of their products. This trend set in after the temporary Korean boom, at the same time that prices of manufactured goods moved upward. The decline was particularly pronounced for the less developed countries, the prices of their products falling more steeply than those of primary products in general. As indicated in Chart 3, the ratio of the prices of primary products to those of manufactured goods declined by more than 20 per cent in the course of the fifties.

These comparisons, however, though correctly indicating a decline in the buying power of primary products vis-à-vis manufactures, tend to overstate the degree of deterioration in the terms of trade of the less developed countries. Certainly most of their exports consist of primary products, and a large proportion of their imports is made up of manufactured goods. But a considerable proportion—some 40 per cent in recent years—of their imports consists of primary products other than those which they individually export. As a result, the terms of trade of the less developed countries reflect the decline in prices of primary products, not only

CHART 3. IMPORTING POWER OF EXPORTS AND TERMS OF TRADE: FIVE-YEAR MOVING AVERAGES, 1950–62<sup>1</sup>



<sup>1</sup> Based on data in United Nations, *Monthly Bulletin of Statistics*. The importing power of exports is defined as the volume of exports multiplied by the terms of trade. The ratio of prices of primary products to prices of manufactures is based on world price indices compiled by the United Nations; see *Monthly Bulletin of Statistics*, June 1963, Special Table D. For description of high-income countries, see above, Table 7, footnotes 2 and 3 (p. 41).

on the export but also on the import side. Moreover, freight rates, which in the earlier fifties reflected the acute shortage of shipping space, have been reduced. Thus the average prices of the totality of imports of the less developed countries (as distinct from the prices of manufactured goods) have shown a rather flat trend, with a slight tendency, in recent years, to decline. Therefore, when measured as the ratio of export to import prices, the terms of trade of the less developed countries show a much more moderate downward trend than the ratio of prices of primary products to those of manufactured goods (Chart 3). The decline, which began in 1952-53, amounted over the rest of the decade to only about half the decline in the ratio of prices of primary to manufactured goods.

This downward trend, however, even though it is moderated in that way, has adversely affected the importing power of the exports of the less developed countries.<sup>3</sup> Over the decade 1950-60, the volume of their exports increased by some 52 per cent but their importing power increased by no more than 44 per cent. With account taken of the growth of population in the less developed countries, the increase in importing power per capita was hardly more than 15 per cent.

These figures, moreover, include the oil producing countries, where heavy direct investments led to a steep increase in export receipts. The increase in the importing power of exports of the remaining less developed countries was considerably smaller, and the deterioration in their terms of trade was greater than for the total group.

As the counterpart to the adverse movement in the terms of trade of the less developed countries, those of the high-income countries (with the notable exception of Australia and New Zealand) showed a marked improvement. Consequently, the importing power of exports of this group rose more steeply than the volume of their exports: it doubled, while the volume rose by only 90 per cent. Per capita, the increase was roughly 80 per cent, i.e., five times as much as the increase for the less developed areas (Chart 3).

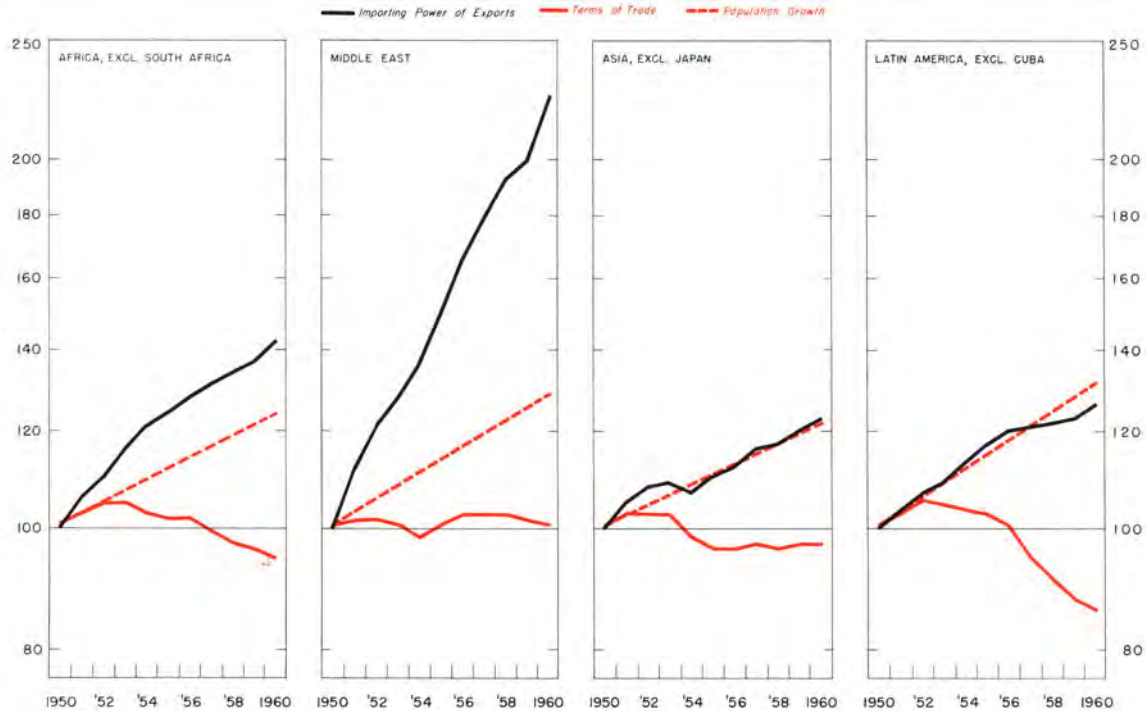
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<sup>3</sup> See Chart 3, footnote 1.

All the major regions in the less developed group, except the Middle East, have been affected by the declining trend of the terms of trade. There have, however, been marked differences among them in the degree of change of the terms of trade, and of exports, and the growth in the purchasing power of exports has differed considerably (Chart 4). The downward movement in the terms of trade was most pronounced for Latin America, where the decline from the high point (1952) amounted to as much as 17 per cent; this compares with a reduction of only 5 per cent for Asia. The worsening of the terms of trade of African countries by some 11 per cent from the highest to the lowest point falls just in between. The much milder decline in the terms of trade of the Asian countries over the decade was the result of a different behavior in the prices of the region's imports rather than of greater strength in the prices of its exports. In none of these three regions did import prices display a rising trend; for the countries of Asia, indeed, they showed, over the period as a whole, a considerable decline, which largely offset the fall in export prices.

Chart 4 also indicates the adverse effect of the movement in the terms of trade on the development of the importing power of countries in the areas mentioned; the rise of their importing power would have been steeper if the terms of trade had been maintained at the level of the mid-fifties. The considerable differences in the rate of increase of the importing power of exports, however, reflect primarily differences in the expansion of the volume of exports. Thus, the countries of Asia, where the terms of trade declined the least, show the lowest rate of growth in the buying power of their exports, as the expansion in the volume of their exports was comparatively small. The volume increases in Latin America and Africa were considerably larger, amounting between 1950 and 1960 to more than 40 per cent and some 60 per cent, respectively. In both these areas, however, the terms of trade effect greatly modified the expansion in the buying power of exports. In contrast, the importing power of exports of Middle Eastern countries increased very sharply—primarily reflecting the rapid expan-

CHART 4. IMPORTING POWER OF EXPORTS AND TERMS OF TRADE, BY REGIONS: FIVE-YEAR MOVING AVERAGES, 1950-60<sup>1</sup>  
(1950 = 100)



<sup>1</sup> Based on data in United Nations, *Monthly Bulletin of Statistics*. The importing power of exports is defined as the volume of exports multiplied by the terms of trade.



sion of petroleum shipments from that area. The preponderance of petroleum in the area's exports is largely responsible also for the stability in its terms of trade.

With account taken of population increases, it appears that Africa was the only area (except the Middle East) to show an appreciable increase in the per capita importing power of its exports—the increase between 1950 and 1960 amounting to some 15 per cent. In Asia, the rise of some 20 per cent in aggregate buying power was just sufficient to maintain the per capita buying power of exports; in Latin America, on the whole, the buying power per capita actually declined.

#### *Flow of Capital to the Less Developed Countries*

The unsatisfactory rate of growth of exports of the less developed countries in recent years has been accompanied by a similar trend in the inflow of private long-term capital to these countries. For the postwar period as a whole, the inflow of such capital shows a clearly rising trend; it reached a peak in 1956-57 as a result of some extraordinary investments in the Venezuelan oil industry. If Venezuela is excluded (and also some countries in the overseas franc area for which data are not available), the annual rate of inflow of private long-term capital into less developed countries was slightly higher in 1961-62 than in either 1956-57 or the five-year period 1956-60, reaching a total of about \$1.4 billion. While private long-term investment has not risen appreciably, there has been a very substantial increase in the inflows on account of government grants and loans (Chart 5).

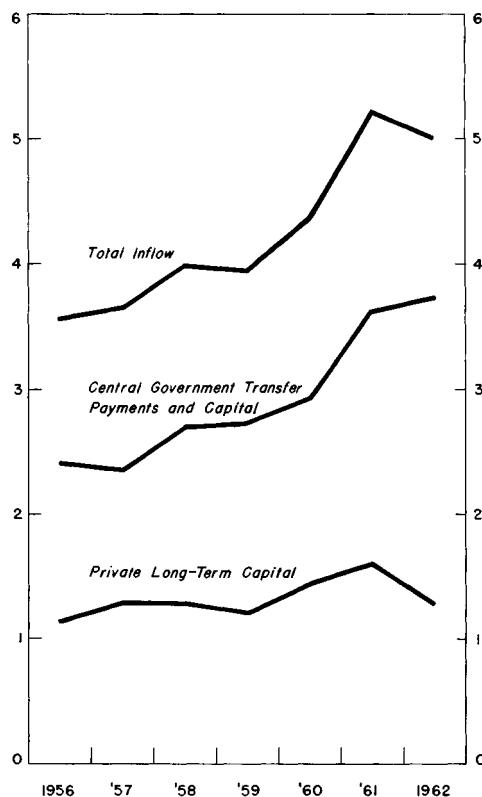
Large-scale economic aid to the less developed countries is a relatively new phenomenon. It was virtually nonexistent in the early postwar period, when the flow of private long-term capital to these countries was also small. But during the last two years, the total flow of private and official financial resources in the form of long-term capital, including reinvested earnings, and grants to all the less developed countries (excluding those in the overseas franc area) from members of the Development Assistance Committee

of the Organization for Economic Cooperation and Development has amounted to about \$8 billion a year. This represents an increase of almost 50 per cent since 1956.

Much of the private foreign capital invested in the less developed countries takes the form of direct investment in the production of

CHART 5. FLOW OF CAPITAL AND AID INTO LESS DEVELOPED COUNTRIES, EXCLUDING VENEZUELA, 1956-62<sup>1</sup>

(In billions of U.S. dollars)



<sup>1</sup> Includes central government transfer payments and short-term capital, and all long-term capital.

Data have been derived from the statistics of the less developed countries; they exclude a number of countries, e.g., several in the overseas franc area.

primary products for export, notably in the oil industry. Such investment, even in export industries, may be relatively immune to inflationary developments in the country in which it is made, if the proportion of costs represented by domestic labor is small, and particularly if the investor is permitted to remit his profits out of the export proceeds. But the profitability of the investment clearly varies with developments in the markets for primary products, and recent trends in prices of most primary products have tended to discourage investment of this kind. Moreover, the flow of capital will be discouraged unless it is free both to enter and to leave the partner countries, and unless earnings can be freely transferred. Since the mid-fifties, these various factors have tended to damp down the flow of private capital into the less developed countries.

The recent rise in the flow of total financial resources from the industrial countries to the less developed countries appears to have been offset, to some extent, by increased outflows of domestic capital from these countries, which in some instances has had the character of a capital flight. This problem has reached substantial proportions only in some of the overseas franc area countries and in Latin America. In both groups of countries, the outflow of capital seems often to have been related to political events or uncertainties, although, of course, inflation in some countries has also been an important factor. The establishment of national governments in some of the former French colonies has been accompanied by a large-scale emigration of Europeans, but there is no statistical basis for appraising the magnitude of the capital movements accompanying this migration. The outflow of capital from Latin America has aroused much public attention, and there have been some very high estimates of the total. The information available to the Fund suggests that this outflow (much of which has been in spurts) may have averaged about \$300 million annually during the fifties (or about one third of the inflow of new private investment capital). It seems to have been somewhat larger during the last few years.

*Access to Markets*

Less developed countries are affected by protectionism in two ways: as importers practicing it and as exporters facing it. Protectionism *per se*, i.e., irrespective of the means chosen to implement it, is of concern because of its adverse effects on the price and cost structure of the countries practicing it, and on the balance of payments of the countries against which it is directed. Furthermore, the implementation of protective policies is apt to involve discriminatory arrangements.

At present, there are apprehensions that the development and extension of regional arrangements for freeing trade among industrial countries, both in manufactured and in agricultural products, may result in the reduction of imports from the less developed countries. The freeing of trade among industrial countries, by favoring imports from within the group and discouraging those from outside, will in fact tend to such a result unless barriers to importation from the outside world are substantially reduced. The extent to which the common agricultural policy of the European Economic Community will have the effect of intensifying protection is still uncertain. In this connection, great importance attaches to the negotiations begun at the Ministerial meeting of the General Agreement on Tariffs and Trade (GATT) in May 1963. On the national level there has in recent years been rather frequent resort to the provisions of antidumping legislation and to requests for export restraint, while several countries, including certain less developed countries, have overhauled their import tariffs, in part for protective reasons. Also, in an attempt to improve their access to markets sheltered by quantitative restrictions, both industrial and less developed countries have more frequently resorted to Articles XXII and XXIII of the GATT, dealing respectively with consultation and with nullification or impairment of benefits accruing under the General Agreement.

## Chapter 5

# The Search for Ways to Foster Growth

THE problems of the less developed countries described in the preceding chapter have rendered still more elusive the sustained growth which these countries seek. Among the solutions to these problems attempted in recent years have been certain expedients which, in the Fund's view, have not only been unsuccessful but have actually intensified the countries' problems. The first part of the present chapter discusses some of these expedients; the second part reviews alternative methods for overcoming these problems which the Fund, in the light of its experience, considers to be preferable.

### Some Expedients

#### *Price Controls*

Almost all governments attempting to cope with inflation have resorted to restraints on prices in an attempt to suppress the symptoms of inflation and to mitigate some of its social injustices. In some cases, direct price controls have been imposed upon essential commodities and certain services (e.g., rent controls). These controls may achieve certain desirable results. First, by limiting the rise in prices of essential goods and services, they may ease the social injustices resulting from an inflation. Second, by limiting the increase in the basic cost of living, they may reduce the pressures and social justification for wage increases, and thus

restrain the cost-push forces making toward further inflation. However, they may also lower the prices of essential goods and services relative to nonessential goods and services, by limiting the rise in the former. Hence, they may serve to cause a misallocation of resources and introduce rigidities in the structure of production. Moreover, after a certain point, direct price controls become unenforceable, and price increases can be restrained only by direct or indirect subsidies. The financing of these subsidies and of the losses of government-owned public utilities resulting from underpricing has often imposed such a strain on the resources available to the government that the financing of desirable investment projects has become impossible.

#### *Import Restrictions and Currency Overvaluation*

Quantitative restrictions on imports and on payments are frequently resorted to by less developed countries to meet balance of payments difficulties arising for the various reasons discussed in the previous chapter, viz., inflationary pressures, currency overvaluation whether arising from past inflation or from a long-term decline in export proceeds, and short-term fluctuations in exports or capital movements.

Inflationary pressures give rise to increases in domestic prices which encourage imports and discourage exports. In addition, an excessive demand itself attracts imports and absorbs resources which might be used for export production. Many governments of less developed countries, faced with the deterioration in the balance of payments, have taken steps to support the exchange rate at the existing level, or closer to that level than would be appropriate to the current level of domestic costs, either by using up reserves or other forms of external financing if available or else by the imposition of restrictions on imports and payments. The maintenance of such an overvalued rate is usually motivated by one or both of two considerations. In many countries, the exchange rate is widely accepted as an index of inflation, and it is considered that, if this index can be pegged, confidence in the currency will

be maintained. Alternatively, it is believed that, if exchange depreciation can be prevented or postponed, the rise in domestic prices can be limited or delayed. Moreover, the alteration of an exchange rate involves political costs which often seem formidable.

Maintenance of a rate that overvalues the currency has the effect, so long as the associated balance of payments deficit can be financed, of absorbing excess demand and of damping down price increases which would otherwise have taken place. However, in most underdeveloped countries this situation is very short-lived, since a lack of means to finance the deficit generally renders it necessary to impose restrictions at an early stage. The maintenance of an overvalued exchange rate by means of such restrictions does little or nothing to relieve inflationary pressure except insofar as special privileges are given for the importation of goods which enter heavily into the cost of living—a policy that can only be carried out by sacrificing imports that may be more essential for the development of the country, and at the risk of encouraging real income expectations which cannot ultimately be sustained.

More generally, the use of import restrictions to bolster up an overvalued exchange rate, whether the overvaluation is attributable to past inflation or to deterioration in world market conditions, is inevitably arbitrary in its incidence as between commodities and productive of distortions in the internal economy. While some degree of protection of infant industries may be a rational policy for a developing country to pursue, the type of protection afforded by restrictive import licensing is highly erratic and is usually much more extreme than that which would be afforded by a rational tariff system. Production for export is unduly discouraged, and the same is often true of production of such import competing goods as happen to be admitted with comparative liberality by the restrictive system.

The maintenance of an overvalued rate which it is generally foreseen will have to be abandoned sooner or later has a discouraging effect on capital imports and frequently gives rise to an exodus of domestic capital also. Investment in export trades is, of course, particularly unattractive, but the uncertainty as to the future profit-

ability of the various types of industry is also generally discouraging to investment. Moreover, the domestic investor feels more certain of making a profit by holding foreign exchange than by any form of domestic investment.

The use of import restrictions on a temporary basis to cope with the payments difficulties arising out of temporary export shortfalls is in theory much more defensible. It is always, however, a second-best remedy, compared with the use of reserves or other forms of compensatory financing, and it carries with it the danger that restrictions imposed to meet a temporary emergency may be retained when they are no longer appropriate.

### *Bilateral Agreements*

Some countries have sought to buttress the control of imports by entering into bilateral agreements with other member countries. In the short run, such agreements often seem to achieve the objectives sought, which may include economizing convertible exchange, seeking more outlets for traditional exports or opening up markets for new ones (e.g., manufactures produced by new industries), or merely postponing settlements in convertible currencies until swing credits are overdrawn. In the longer run, however, serious drawbacks have become apparent where an attempt is made to divert trade into new channels. The most common and most obvious one is that it is difficult to find in the partner country a sufficient variety of goods—in the right qualities, at attractive prices, and on acceptable delivery terms—to avoid a one-way development of the clearing account to the point where an excessive bilateral claim arises. Thus, less developed countries may find themselves granting credits which they cannot afford, rather than receiving them; alternatively, trade under the agreement stagnates.

A less apparent drawback is that, in the longer run, bilateralism actually tends to harm the exports of a less developed country—by causing an upward pressure on prices, wages, and costs, by reducing substantially the proportion of export earnings accruing in convertible exchange, or by distorting the structure of production, and



perhaps undermining a development program. What is more, the other parties to the agreements may well experience adverse economic effects similar to those mentioned, and are likely to feel obliged to maintain more discriminatory trade and exchange policies than would be required in the absence of the bilateral agreements.

### *Multiple Currency Practices*

A somewhat different solution has been sought by countries which have established multiple currency systems, thereby undertaking a devaluation (and the restraint of imports) on a selective, rather than an over-all, basis. Only some dozen countries still maintain more or less complex multiple rate systems. Almost all of them plan to simplify the rate structure progressively, and ultimately to adopt a unitary rate; and there have been only a few instances in recent years of reverse movements toward further complexity of the exchange structure.

Multiple currency systems are clearly partial attempts to adjust internal and external prices, and it might be thought that they provide the best possible answer to a difficult problem. Experience has shown, however, that such systems bring difficulties of their own.

One disadvantage stems from the public knowledge that the local currency cost of an import or an export is subject to change by administrative action on the part of the authorities of the country. Almost inevitably, this results in continuing pressures on the authorities to alter particular exchange rates to favor the interests of special groups. In such circumstances, it is most difficult for the authorities to resist fragmenting the exchange structure into a very complex system, calling for very difficult administrative judgments as to the impact on the economy.

In addition to the uncertainties which such a system creates for producers, traders, and governments, inside the country and abroad, it has a tendency, similar to that created by import restrictions, to distort the pattern of investment. Moreover, a fragmented exchange system sometimes leads to a situation in which the local

currency payments to the central authorities by individuals buying foreign exchange do not match the local currency payments by the authorities to sellers of foreign exchange. If receipts fall short, they represent a strain on the budget; if they exceed outpayments, the government may become so dependent on this special source of revenue that subsequently, when it wishes to unify the exchange rate structure, it finds its problem doubly difficult.

In sum, multiple rate systems have not proved able to solve the basic problems of the countries adopting them. Rather, in most cases, these problems have been aggravated.

### Alternative Measures

In the search for solutions to these problems, we should first note that a heavy responsibility lies on the richer and more developed countries to follow policies which will encourage progress in the poorer areas of the world. The most important contribution that can be made by the industrial countries is to maintain a high level of economic activity and employment, so that demand for the products of the less developed countries may be sustained. Moreover, the industrial countries have the further responsibility of ensuring that nothing is done to interfere with the proportion of the total demand thus generated that is expended on imports from the less developed countries. Finally, the wealthier countries should not only facilitate, and indeed encourage, the export of capital to the poorer areas, but should also endeavor to free the funds so provided from limitations as to the country of origin of the products for which the funds can be spent.

#### *Export Promotion and Diversification*

It is naturally desirable that the less developed countries should do whatever lies in their power to increase the rate of growth of their export proceeds, or to reduce their import requirements.

Sustained efforts by individual countries to promote exports by enlarging the supplies and improving the quality of export commodities, keeping domestic demand under proper restraint, and maintaining competitiveness have frequently produced considerable results. Measures to increase and cheapen export supplies, however, will increase export receipts only from products for which the amount imported by the industrial countries from the less developed countries as a whole is elastic with respect to price. Such elasticity may prevail even for some major primary commodities where a high proportion of the world output of the commodities in question or of close substitutes is produced in the more developed countries, provided that the latter are willing to admit additional supplies from the less developed countries as prices fall. Unfortunately, the range of products over which these conditions prevail is narrow, so that a cheapening in the exports of one less developed country, though likely to increase its own export receipts, will often do so at the expense of similar exporting countries.

The scope for useful action on the part of the less developed countries to promote their exports lies primarily in the diversification of exports, particularly in the development of new lines of semimanufactured and manufactured products for export, and in the reduction of the need for imports by the production of import substitutes. In order to foster such changes, the less developed countries need to direct more of their investment resources into industrial ventures, to maintain competitive cost conditions in their territories, and to provide a climate in which outside investors will be willing to bring in their capital and know-how to assist in the development of infant export industries. The recent tendency toward economic integration among less developed countries may widen opportunities for the mutual exchange of their products and for the development of their own industries. In the short run, however, the export receipts of the less developed countries will be effectively expanded only if the efforts mentioned above are complemented by actions which either, like import liberalization, lie within the purview of the more developed countries or else, like well-conceived commodity agreements, require their cooperation.

*Freedom of Trade*

The industrial countries may, in their own interests, be expected to follow policies directed toward the maintenance of high and stable levels of economic activity and employment. If all countries pursue such active policies, the risk of serious balance of payments deficits facing any one of them should be small. But should an individual country be hindered by the fear of temporary balance of payments difficulties from pursuing policies to maintain employment, the Fund might be in a position, by making its resources available to the country in question, to render assistance toward attaining the desired goals.

However, the mere maintenance of over-all domestic demand by the industrial countries will not by itself suffice to maintain their demand for the products of the less developed countries. It is necessary also to remove those obstacles that exist at present to the import of both primary products and manufactured goods from the less developed countries, and to refrain from the imposition of further obstacles. Some industrial materials and tropical products exclusively produced in the less developed areas have relatively secure markets in the industrial countries. For certain of these products, however, particularly the tropical beverage commodities, markets might be widened in a number of countries if existing high taxes on imports or consumption were reduced. Conditions are still less favorable for agricultural products of the temperate zone and for manufactured goods, where the less developed countries are faced with high barriers protecting domestic output in the industrial countries.

Most important, perhaps, is the problem of manufactured goods. There are many less developed countries where it would be highly economic to encourage export trade in certain types of manufactured and semimanufactured goods. This would be in accordance with the principles of comparative cost, and would also serve to diversify the export trade of the countries concerned, which in itself would tend to stabilize export receipts. However, the importation of such goods into the industrial countries and the territories that

they control frequently meets with severe obstacles, based on the desire to protect existing industries against the feared dangers of low-wage competition. Thus the poverty of the producers is made a reason for excluding their products, and thereby that poverty is intensified, even though unit labor costs in those countries are not abnormally low.

In recent years, the progressive dismantling of trade and exchange restrictions, especially of multiple currency practices relating to trade transactions and of quantitative import restrictions under the aegis of the GATT and of the OEEC, has more clearly exposed to view the hard core of protectionist measures maintained by both the industrial and the less developed countries. Broad shifts in the supply and demand relations in world markets have generally added to the pressures for such measures (regardless of economic considerations weighing against them) in countries already relying on protectionism; but at the same time, they have underlined the less developed countries' need for improved conditions of access to their traditional and potential markets. One of the biggest contributions that the industrial countries could make to the less developed areas would be to remove all barriers to importation from the latter countries; if this were done simultaneously by all industrial countries, the hardships inflicted within individual countries would be considerably reduced.

When protectionism is practiced by the less developed countries themselves, it is particularly important that they do not over-emphasize the allocation of resources to import-substitute industries or to export industries, but attempt to maintain an appropriate balance between the two. Nowhere is the misallocation of resources so evident as in countries where it speeds up an already troublesome rate of urbanization, thus constituting a hidden burden on the budgetary position of central and local governments, or encourages relatively trivial consumer goods industries. In this connection, to facilitate the elimination of temporary protection granted to infant industries—to enable them to become viable producers—the merits should be stressed of providing this protection in such a way that its cost is readily ascertainable by all concerned.

*Re-establishing Equilibrium*

Such economic measures as the foregoing may well alleviate some of the problems which the less developed countries are facing. But they will not suffice to solve the problems confronting countries suffering from excessive inflation. Experience suggests that when inflation has developed, no matter in what type of country, the first step toward efficient growth must be to re-establish equilibrium. This can be done only if monetary and fiscal policies are directed toward the maximization of output and investment within the limits of available resources, and if exchange rate policy is directed toward the removal of distorting influences on the domestic economy. The appropriate policies were described in last year's Annual Report.<sup>1</sup> They include firm steps to control the volume of money and credit. To this end, the Fund has sought to assist countries in developing central banks armed with effective powers, and banking systems that are not only responsive to the restraining hand of the central bank but also susceptible to encouragement to expand credit when such a course is appropriate. Such systems make it possible to develop policies and powers for central banks that will ensure the maximum expansion of bank credit compatible with the willingness of the community to hold money, and the Fund has cooperated in the determination of such criteria with members willing to control inflation.<sup>2</sup>

A second prerequisite is the development of sound fiscal policies, institutions, and procedures. Effective stabilization requires that the budget deficit be limited to an amount which the government can borrow from abroad, from its own citizens, or from the banking system within the limit for a noninflationary expansion of bank credit. Limitation of budget deficits may call for the expansion of revenues and the reduction of expenditures. In the process, it may be possible to devise fiscal incentives that are themselves favorable to sound economic development. As noted above,<sup>3</sup> the Fund is

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<sup>1</sup> *Annual Report, 1962*, pages 46-47.

<sup>2</sup> See page 30.

<sup>3</sup> Page 31.

taking steps to increase its capacity to offer to its members technical assistance in the evolution of appropriate fiscal practices.

The third prerequisite is to remove any abnormal features of the exchange system, so that the distortions which arise from an overvalued currency may be eliminated. To this end, the Fund has encouraged members to eliminate restrictions on foreign payments as rapidly as possible. In particular, it has recommended the elimination of discriminatory application of restrictions and the re-establishment of a unitary exchange rate.

Sometimes, however, by the end of a period of inflation, the trade and exchange controls which have been imposed make it difficult to foresee what exchange rate would be realistic. In some such instances, the Fund has been prepared to share the member's view that a fluctuating exchange rate may be advisable until the situation can be clarified and a sound judgment reached concerning a rate that can be maintained without undue restrictions. It is believed that the dangers of currency overvaluation arising from a pegged rate outweigh any drawbacks which a temporarily fluctuating rate may have.

### *The Basis for Development*

Cooperation between the Fund and its members in programs of financial and economic stabilization geared to effective development efforts has often helped to revive the flow of government and private capital to the less developed countries. The adoption of stabilization programs by these countries and the assurance of financial assistance from the Fund have served to give confidence to other governments and to private investors in the viability of less developed economies. In addition, it has reassured residents of the less developed countries, whose savings would otherwise have sought refuge in capital flight.

It is recognized, however, that financial policy alone will not ensure development. In addition to some financial assistance from abroad, essential prerequisites for rapid growth are the fight against illiteracy, the reform of bureaucratic practices, the encouragement

of a widespread spirit of entrepreneurship, and the creation of an adequate amount of social capital. Attacks on these problems are likely to be more feasible in an atmosphere of financial stability.

Many less developed countries have in the past turned to the Fund for advice and assistance after inflation had imposed such a strain on their balances of payments that emergency steps had become necessary to forestall a marked decline in domestic consumption and investment. An earlier effort would be less perilous and complex. The Fund has always been ready to make its resources available to those countries prepared to make realistic attempts to stabilize their financial systems and thus to create an environment favorable to economic development along productive lines.

### *Compensating Export Fluctuations*

One problem remains, of those described in the previous chapter—that of temporary shortfalls in export receipts. In connection with this the role of the Fund has recently been under special review and a new facility has been provided, as described below.

One of the ways which have been proposed to remedy or to mitigate the effects of instability in export proceeds has been what is called compensatory financing, namely, the provision of financial assistance, in the form of loans or otherwise, to the countries affected by shortfalls in receipts for exports. Part of the Fund's regular function, of course, is to provide its members with financial assistance to meet short-term fluctuations in their balance of payments, including those caused by fluctuations in export earnings. In recent years, when the total amount of assistance provided by the Fund to the less developed countries has risen substantially, there seems to have been an increase in the instances in which the need for assistance has arisen at least in part from temporary declines in export proceeds.

Much thought has lately been given, in international forums and elsewhere, to ways in which useful assistance could be rendered to



countries affected by variations in their export earnings. The Fund has closely followed these discussions, which have contributed to the evolution of its own views on the subject. It has steadily maintained that fluctuations in export proceeds must be regarded within the context of the balance of payments as a whole, and that the determination of what is a genuine short-term shortfall of exports cannot be automatically decided on the basis of a statistical formula. At the same time, in view of the strain that has been placed on primary producing countries in recent years, the Fund has explored methods by which it might assist members in payments difficulties, because of export shortfalls, by granting more (and more readily available) assistance than would have been possible in all cases under the normal Fund policies for the use of the higher credit tranches.

After a thorough consideration of the problems involved, the Fund took a decision on February 27, 1963 to create a new compensatory financing facility which will broaden its balance of payments support of member countries, particularly those primary product exporters that encounter payments difficulties produced by temporary shortfalls in receipts from exports.<sup>4</sup> This new facility will not normally exceed 25 per cent of the member's quota. The Fund will have to be satisfied, in the first place, that the shortfall is of a short-term character, relative to the medium-term trend of the country's exports, and that it is largely attributable to circumstances beyond the control of the member country. Such a shortfall might be expected frequently to be the result of price fluctuations related to cyclical conditions in the industrial countries, or to the special circumstances affecting the market in a particular commodity, but it might also be the result of a particularly bad harvest, or even of a natural calamity, such as an earthquake. Secondly, the member country concerned will need to show willingness to cooperate with the Fund in an effort to find, where required, appropriate solutions of its balance of payments difficulties.

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<sup>4</sup> See Appendix III C, pages 196-99.

Of course, the mere existence of a shortfall of a genuinely short-term character would not indicate that a change in policies was required; nor, even if such a change were appropriate, would an approved program have to be already established before assistance was granted under the new facility. However, with a view to attaining positive results, the country will discuss any balance of payments problems with the Fund in a spirit of cooperation—a course which, as experience has shown, member countries in their own interest are generally anxious to follow. The new facility will provide a net addition to the amount of assistance available under the Fund's ordinary drawing policies, in the sense that the Fund will be prepared to grant a waiver which will permit outstanding drawings to exceed the limit of 125 per cent of quota whenever this is necessary to implement its policies on compensatory financing. While the precise mode of application of the new policy will have to be worked out on the basis of experience and in an atmosphere of friendly cooperation between the Fund and its members, it is believed that the new facility will prove to be of genuine assistance, both directly and indirectly, to the less developed countries in pursuing a steady course of development. Moreover, the introduction of the new facility will not in any way prevent a member from drawing, under the ordinary tranche policy of the Fund, any portion of its quota for the purpose of meeting balance of payments difficulties arising from export fluctuations.

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**Part III**  
**REVIEW OF THE YEAR**

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## Chapter 6

# World Trade

THE evolution of world trade from 1961 to 1962 was strongly influenced by the cyclical changes of output in the major industrial countries. The main factors favoring the expansion of world trade were the recovery of economic activity in the United States and the further rise in activity in continental Europe, which are described in the next chapter. Factors tending to limit the growth in 1962 were the downswing in Japan and hesitancy in the U.K. economy.

The year was one of mixed tendencies in world payments relationships. Although the balance of payments of the United States did not change appreciably, there was nevertheless some evidence that the trend toward a reduction in the imbalances among major industrial countries (which have been characteristic of recent years) continued. Among primary producing countries, the payments positions of the more industrialized countries continued relatively favorable, but those of the less industrialized were not so satisfactory.

When cyclical factors are taken into account, the development of manufacturing countries' exports suggests that some improvement may have taken place during 1961-62 in the competitive strength of the major deficit countries versus that of certain major surplus countries. Progress toward the reduction of the more persistent disequilibria in the payments positions of industrial countries is reviewed in Chapter 8.

From 1961 to 1962, in contrast to the pattern which had generally prevailed in recent years, the value of exports of the primary producing countries rose almost as rapidly as that of the industrial

countries, and, as described in Chapter 9, their recorded balance on goods and services showed a marked improvement. However, this was offset to a considerable extent by an increase in the net outflow of short-term capital and in unrecorded transactions, while the recorded inflow of private long-term capital and official aid showed no appreciable change.

### *Main Trends in World Trade*

The value of world trade rose at about the same rate (5 per cent) from 1961 to 1962, as from 1960 to 1961 (Table 9), and the general level of prices remained practically unchanged from 1961. The exports of both manufacturing and primary producing countries expanded faster in the earlier than in the latter part of the year. The downward movement of prices of primary products, which had persisted for a number of years, halted in 1962; in general, these prices were stable through September, but rose in the last quarter, and at the end of the year were somewhat higher than at the start. With the exception of a few major countries whose exports fell quite sharply, export receipts of primary producing countries increased from 1961 to 1962. For the group as a whole, total receipts increased by about 4 per cent, reflecting a similar expansion in volume. Price developments for various groups of commodities and changes in the export receipts of countries exporting various types of primary products are described in a later section of this chapter.

As in other recent years, trade between manufacturing countries rose more rapidly than world trade as a whole—and slightly more than from 1960 to 1961. Exports of primary producing countries also rose more than from 1960 to 1961, but total exports from manufacturing countries to primary producers scarcely increased.

### *Trade Between Manufacturing Countries*

The major factor in the growth of trade between manufacturing countries was the sharp rise in their exports to the United States, the value of which increased by nearly 17 per cent from 1961

TABLE 9. VALUE OF WORLD TRADE, 1959-62

	Value f.o.b. (billion U.S. dollars)				Percentage Change from Preceding Year <sup>1</sup>			
	1959	1960	1961	1962	1959	1960	1961	1962
World exports <sup>2</sup>	100.1	112.2	117.7	123.7	6	12	5	5
Exports of manufacturing countries								
United States <sup>3</sup>	16.4	19.6	20.2	20.9	—	20	3	4
United Kingdom	9.7	10.3	10.8	11.1	4	7	4	3
Other EFTA countries <sup>4</sup>	7.1	8.0	8.5	9.1	3	13	7	7
EEC countries <sup>5</sup>	25.2	29.7	32.3	34.2	11	18	9	6
Japan	3.5	4.1	4.2	4.9	20	17	5	16
Total	61.9	71.7	76.0	80.2	7	16	6	6
Exports of primary producing countries <sup>6,7</sup>	38.2	40.5	41.7	43.5	5	6	3	4
Trade between manufacturing countries	31.1	37.4	40.7	44.6	14	20	9	10
Trade between manufacturing countries and primary producing countries								
Exports of manufacturing countries	29.1	32.0	33.0	33.1	—	10	3	—
Exports of primary producing countries <sup>6,7</sup>	26.8	28.4	28.9	30.1	6	6	2	4
Trade between manufacturing countries and Sino-Soviet bloc								
Exports of manufacturing countries	1.7	2.3	2.3	2.5	-3	28	—	9
Exports of Sino-Soviet bloc	2.0	2.2	2.4	2.6	18	9	9	6

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

<sup>1</sup> Based on unrounded value figures.

<sup>2</sup> Excluding exports of the Soviet area and Mainland China, and U.S. military aid. For statistical reasons, exports of Cuba are also excluded.

<sup>3</sup> Excluding military aid.

<sup>4</sup> Austria, Denmark, Norway, Sweden, and Switzerland. Portugal is considered to be a primary producing country.

<sup>5</sup> Belgium-Luxembourg, France, Federal Republic of Germany, Italy, and the Netherlands.

<sup>6</sup> Countries exporting mainly primary products and semimanufactures, i.e., all countries excluding those classified as "manufacturing countries" and also excluding the Soviet area and Mainland China. See also footnote 2.

<sup>7</sup> 1962 figures are partly estimated.



to 1962 (Table 10); in 1960 and in 1961, there had been a decline from 1959 and 1960, respectively. Among the countries whose exports to the United States rose most rapidly from 1961 to 1962 were Japan (32 per cent), Sweden (20 per cent), and the United Kingdom (17 per cent); in each case the increase followed a marked decline from 1960 to 1961. Italy and Belgium-Luxembourg increased their exports to the United States by 15-16 per cent, following little change in value from 1960 to 1961.

TABLE 10. TRADE BETWEEN MANUFACTURING COUNTRIES, 1960-62

	Value (billion U.S. dollars)			Percentage Change from Preceding Year <sup>1</sup>	
	1960	1961	1962	1961	1962
Exports to United States from other countries	4.9	4.7	5.5	-3.9	16.7
Exports to Japan					
Exports from United States <sup>2, 3</sup>	1.4	1.8	1.5	30.0	-18.0
Exports from other countries	0.4	0.5	0.5	50.0	—
Total	1.8	2.3	2.0	33.0	-14.0
Exports to EEC and EFTA countries <sup>4</sup>					
Exports from United States <sup>2, 3</sup>	6.1	5.9	6.3	-3.0	7.0
Exports from other countries	24.6	27.7	30.8	12.6	10.8
To EEC	14.8	17.0	19.3	14.7	13.3
To EFTA <sup>4</sup>	9.8	10.8	11.5	9.5	6.7
Total	30.7	33.7	37.1	9.7	9.9
Total trade between manufacturing countries <sup>5</sup>					
Exports from United States <sup>2</sup>	7.5	7.7	7.8	2.5	1.4
Exports from other countries	29.9	33.0	36.8	10.4	11.5
Total	37.4	40.7	44.6	8.9	9.6

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*.

<sup>1</sup> Based on unrounded value figures.

<sup>2</sup> Excluding military aid.

<sup>3</sup> Partly estimated.

<sup>4</sup> Excluding Portugal.

<sup>5</sup> Members of the European Economic Community (Belgium-Luxembourg, France, Germany, Italy, and the Netherlands), members of the European Free Trade Association except Portugal (Austria, Denmark, Norway, Sweden, Switzerland, and the United Kingdom), Japan, and the United States.

When exports to the United States are excluded, trade between the manufacturing countries expanded less rapidly than in recent years, increasing by about 8½ per cent, against 10½ per cent from 1960 to 1961 and 25 per cent from 1959 to 1960. An important factor in this slowing down was the reduction of 14 per cent in exports to Japan, following an increase of one third

from 1960 to 1961. Manufacturing countries' exports to the European Economic Community (EEC) rose slightly less rapidly than in the preceding year, mainly as a result of the slower expansion of trade between member countries (14 per cent, compared with 16 per cent from 1960 to 1961).

The share of U.S. exports in total trade between manufacturing countries again declined in 1962, as the value of U.S. exports to these countries increased by only about 1 per cent, but this was in part a reflection of the fact that the United States could not, of course, participate in the favorable effect on other countries' exports of the rise in its own imports. In addition, the United States, as Japan's principal trading partner, felt the main impact of the reduction in that country's imports. The value of U.S. exports (excluding military aid shipments) to the European Economic Community and the European Free Trade Area (EFTA) rose by some 7-8 per cent, following a slight decline from 1960 to 1961. However, the increase was due very largely to a rise in items unrelated to European business demand—especially to a sharp increase in special category exports of defense equipment other than under military aid, and to expanded sales of agricultural products to EEC countries prior to the raising of Common Market levies in July 1962. The exact trend of U.S. exports (excluding military aid shipments) to these areas cannot be ascertained, but it seems clear that from 1961 to 1962 such exports to EEC countries rose about two thirds as fast as the total of manufacturing countries' exports to that area, compared with about one third as fast from 1960 to 1961. While the total exports of all manufacturing countries to EFTA countries (other than Portugal) expanded at the same rate as from 1960 to 1961, U.S. exports rose somewhat in 1962, following a decline of about 15 per cent from 1960 to 1961.

#### *Trade Between Manufacturing and Primary Producing Countries*

Complete data on exports in 1962 to the manufacturing countries from the primary producing countries are not yet available;

however, it appears that their exports to the United States and to manufacturing countries in Western Europe rose considerably faster from 1961 to 1962 than from 1960 to 1961, but that their exports to Japan increased only slightly, following a very sharp rise from 1960 to 1961. U.S. imports from primary producing countries rose by nearly 10 per cent from 1961 to 1962 (Table 11), while those of manufacturing countries in Western Europe rose by about 5 per cent. Both fell slightly from 1960 to 1961.

TABLE 11. TRADE BETWEEN MANUFACTURING COUNTRIES AND PRIMARY PRODUCING COUNTRIES, 1960-62

	Value (billion U.S. dollars)			Percentage Change from Preceding Year <sup>1</sup>	
	1960	1961	1962	1961	1962
Exports to primary producing countries					
United States <sup>2</sup>	11.94	12.36	13.00	3.5	5.1
United Kingdom	6.31	6.37	6.13	0.8	-3.7
Other EFTA countries <sup>3</sup>	1.74	1.84	1.91	5.7	3.5
EEC countries	9.54	9.76	9.34	2.3	-4.3
Japan	2.48	2.62	2.71	5.6	3.6
Total	32.02	32.95	33.09	2.9	0.4
Imports from primary producing countries (c.i.f.)					
United States <sup>4</sup>	10.79	10.78	11.82	—	9.6
United Kingdom	7.46	7.20	7.36	-3.5	2.3
Other EFTA countries <sup>3</sup>	1.40	1.45	1.55	3.9	7.2
EEC countries	10.07	10.20	10.94	1.2	7.3
Japan	2.45	2.98	3.04	21.6	2.0
Total	32.17	32.61	34.71	1.4	6.4

Sources: See Table 10.

<sup>1</sup> The expansion in the total of manufacturing countries' trade, and more particularly the growth of U.S. trade, with primary producing countries from 1960 to 1961 was reduced by the marked decline in trade with Cuba. There was a slight further decline from 1961 to 1962, but this hardly affects the percentages shown in these columns. However, if trade with Cuba were excluded the increases in the 1961 column would be, for total exports and imports of manufacturing countries, 3.6 per cent and 2.5 per cent, respectively; and for the U.S. exports and imports, 5.4 per cent and 3.2 per cent. There would be no important change in the figures for manufacturing countries other than the United States.

<sup>2</sup> Excluding military aid.

<sup>3</sup> Austria, Denmark, Norway, Sweden, and Switzerland. Portugal is considered to be a primary producing country.

<sup>4</sup> F.o.b. figures increased by 9 per cent as approximate adjustment to c.i.f. values.

U.S. exports to primary producing countries rose by 5 per cent, while exports from EEC and EFTA countries declined by 4 per cent and 2 per cent, respectively. The increase in Japan's exports to primary producing countries was less than in the preceding year.

Sweden and Switzerland, which are not large exporters to primary producing countries, were the only other manufacturing countries to expand their exports to the group.

The rise in U.S. exports to primary producing countries is in sharp contrast to the decline of 9 per cent in exports of France and of 4 per cent in those of the United Kingdom and of the Federal Republic of Germany. The United States was the only one of these countries which substantially increased its exports to the Far East, the Middle East, and Africa. There was no increase in Japan's exports to the Middle East and a marked decline in its exports to Africa; but its exports to Canada and to the Far East rose considerably, as did those of the United States. In trade with South America, exports of the United States and of the Federal Republic declined by about 10 per cent, while those of the United Kingdom, France, and Japan were barely maintained.

The value of exports financed by U.S. Government grants and loans (including P.L. 480 exports) increased further from \$1.8 billion in 1960 and \$2.2 billion in 1961 to \$2.3 billion in 1962. Changes in the area distribution of U.S. exports were associated with the reduction, from 1961 to 1962, of \$170 million in net government loans and grants to Latin America, and an increase of \$320 million to all other less developed areas. The expansion of U.S. exports to the Far East, Middle East, and Africa reflected a rise of nearly \$300 million in exports to India and Pakistan, and substantial increases in exports to the United Arab Republic, and to the Congo (Leopoldville), and several other tropical African countries, each associated with increased U.S. Government aid. There were no important increases in the exports of the other major manufacturing countries to India and Pakistan; in fact, those of the United Kingdom declined by \$100 million. German and Japanese exports to Indonesia were considerably lower than in 1961. The rise in Japan's exports to the Far East occurred in trade with China (Taiwan) and Hong Kong. In the Middle East, the less favorable trend of exports from the Federal Republic of Germany, Japan, and the United Kingdom reflected reduced exports to Iran and Iraq, while U.S. exports to those countries were main-

tained. In Africa, much of the decline for the United Kingdom, Germany, and Japan, was in trade with the sterling area countries of Ghana, Nigeria, and Rhodesia; trade of the United States with those countries held at the 1961 level. The decline in total exports of France reflected a reduction of more than \$300 million in exports to Algeria; exports to other primary producing countries were approximately unchanged from 1961 to 1962.

### *Trade in Manufactures*

Although the value of total exports of the United States rose less from 1961 to 1962 than the average for all manufacturing countries (Table 9), the U.S. share of world trade in manufactures increased slightly.

As Table 12 shows, the United States, Belgium-Luxembourg, and Japan were the only major industrial countries whose exports of manufactures rose considerably faster from 1961 to 1962 than from 1960 to 1961. Japan's exports had been particularly affected by the slowing down of trade with the United States from 1960 to 1961, and Belgium-Luxembourg's exports scarcely increased over

TABLE 12. SELECTED COUNTRIES' EXPORTS  
OF MANUFACTURED GOODS, 1959-62

	Value f.o.b. (billion U.S. dollars)				Percentage Change from Preceding Year			
	1959	1960	1961	1962	1959	1960	1961	1962
United States	11.31	13.00	12.87	13.88	-3	15	-1	8
United Kingdom	7.86	8.40	8.73	8.91	5	7	4	2
Germany, Fed. Rep. of	8.68	10.13	11.21	11.74	12	17	11	5
France	4.18	5.06	5.21	5.40	15	21	3	4
Belgium-Luxembourg	2.73	3.12	3.16	3.47	10	14	1	10
Italy	2.01	2.70	3.13	3.49	16	34	16	12
Netherlands	1.88	2.12	2.32	2.45	15	13	9	6
Total, EEC countries	19.48	23.13	25.03	26.55	13	19	8	6
Sweden	1.39	1.62	1.80	1.99	9	17	11	11
Japan	3.04	3.62	3.76	4.39	21	19	4	17
Grand total	43.08	49.77	52.19	55.72	7	16	5	7

Source: United Nations, *Monthly Bulletin of Statistics*, June 1963.

that period owing to strikes. The slight decline of U.S. exports of manufactures had reflected a reduction in exports of capital equipment to certain markets, notably Canada, Venezuela, the United Kingdom, and Australia, and lack of expansion in other major markets, such as India, Mexico, and Brazil.

To judge from the admittedly imperfect indicator of the average unit value indices,<sup>1</sup> the competitiveness of both U.S. and U.K. exports of manufactures improved in relation to those of Germany during 1961, but this trend does not seem to have been maintained during 1962. Between the first quarter of 1961 and the first quarter of 1962, the unit value of German exports of manufactures rose by 4 per cent, compared with increases of 2½ per cent and 1 per cent for U.S. and U.K. manufactures. On the other hand, while the unit values of German and U.S. manufactures were no higher in the first quarter of 1963 than a year earlier, the U.K. figure had risen by almost 2 per cent. For the other countries covered by Table 12, comparable figures either did not increase or declined slightly.

### *Trade in Primary Products*

For most primary products, prices moved within rather narrow limits in 1962. Except for a few commodities—notably lead, zinc, and jute on the declining, and rice on the increasing, side—changes in either direction remained well below 10 per cent and were attributable to special conditions on particular markets. Thus, coffee prices were determined largely by supply conditions—relative scarcity of African robusta which caused prices of this variety to rise, and a more than ample supply of Latin American coffees which resulted in declines between 1961 and 1962. The effect of price changes on exports receipts was offset, in many instances, by volume movements in the opposite direction. As a result, export receipts of most countries in the group—with the notable exception of Brazil—remained close to, or even exceeded, those in 1961 (Table 13).

<sup>1</sup> See United Nations, *Monthly Bulletin of Statistics*, June 1963, Special Table E.

TABLE 13. TRADE OF PRIMARY PRODUCING COUNTRIES,<sup>1</sup> 1961 AND 1962

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

	Exports f.o.b.			Imports c.i.f.		
	1961	1962 <sup>2</sup>	Percentage change	1961	1962 <sup>2</sup>	Percentage change
<b>Countries exporting mainly</b>						
<b>Coffee</b>						
Brazil	1,403	1,214	-13	1,460	1,475	1
Colombia	435	463	6	557	540	-3
Others <sup>3</sup>	817	885	8	838	914	9
	2,655	2,562	-4	2,855	2,929	3
<b>Other tropical foods<sup>4</sup></b>						
Ceylon	364	380	4	358	349	-3
Nigeria	486	472	-3	622	568	-9
Philippines	500	556	11	721	692	-4
Others <sup>5</sup>	1,158	1,242	7	1,488	1,508	1
	2,508	2,650	5	3,189	3,117	-2
<b>Other agricultural products<sup>6</sup></b>						
Australia	2,324	2,344	1	2,394	2,551	7
Argentina	964	1,216	26	1,460	1,357	-7
New Zealand	793	798	1	901	753	-16
Thailand	477	461	-3	485	549	13
United Arab Republic	485	407	-16	700	759	8
Others <sup>7</sup>	2,392	2,572	8	3,725	4,043	9
	7,435	7,798	5	9,665	10,012	4
<b>Metals and rubber</b>						
Chile	506	532	5	585	518	-11
Indonesia	784	674	-14	794	658	-17
Malaya	858	858	—	728	800	10
Rhodesia and Nyasaland	579	587	1	489	451	-8
Others <sup>8</sup>	540	467	-14	516	579	12
	3,267	3,118	-5	3,112	3,006	-3
<b>Petroleum</b>						
Kuwait	1,010	1,130	12	249	200	-20
Saudi Arabia	980	1,070	9	275	290	5
Venezuela	2,413	2,594	8	1,178	1,306	11
Others <sup>9</sup>	3,200	3,408	7	2,816	2,766	-2
	7,603	8,202	8	4,518	4,562	1
<b>Other major exporters</b>						
Canada	6,107	6,231	2	6,193	6,367	3
Finland	1,054	1,104	5	1,153	1,228	7
Hong Kong	688	768	12	1,045	1,165	11
India	1,386	1,409	2	2,264	2,315	2
Mexico	826	929	12	1,139	1,143	—
Morocco	343	348	1	452	434	-4
Peru	494	538	9	468	538	15
Singapore	1,081	1,116	3	1,295	1,367	6
South Africa	1,367	1,366	—	1,547	1,580	2
Spain	709	734	4	1,092	1,569	44
Yugoslavia	569	690	21	910	888	-2
	14,624	15,233	4	17,558	18,546	6
<b>All other countries<sup>10</sup></b>						
	3,660	3,980	9	6,550	6,210	-5
<b>Grand total<sup>10</sup></b>	<b>41,750</b>	<b>43,540</b>	<b>4</b>	<b>47,450</b>	<b>48,380</b>	<b>2</b>

For footnotes, see page 93.

Receipts of Brazil, however, declined considerably, because of reduced earnings not only from coffee but also from other commodities.

Prices of cocoa and tea, though gaining toward the end of the year, averaged somewhat less in 1962 than in 1961. Expansion of volume, however, kept receipts of the main exporting countries at or above their 1961 level. The sharp advance in the price of sugar came late in 1962 and had little effect on export receipts for the year; however, a number of exporting countries, notably the Dominican Republic and Brazil, gained from larger shipments to the United States at prices considerably higher than those in other markets. Large supplies further depressed prices of oilseeds and oils. These lower prices were reflected in reduced export earnings of Nigeria and Senegal; for the Philippines, however, a larger volume of recorded exports raised export receipts some 10 per cent above the 1961 figure.

Cotton prices, particularly those of extra-long-staple varieties, weakened in 1962, and the annual average was below the 1961 average. Most of the exporting countries, however—except the United Arab Republic where a poor crop severely limited supplies—expanded their shipments of cotton, thus offsetting the effect of lower prices on receipts. Prices of wool changed little, and prices of other livestock products increased somewhat between 1961 and 1962; grain prices strengthened as a result of heavier demand. Suppliers of these products tended to maintain or to increase their export receipts, Argentina showing the largest gain. Higher rice

*Footnotes to Table 13.*

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

<sup>1</sup> Countries included are those exporting mainly primary products and semimanufactures, i.e., all countries excluding those classified as manufacturing countries, the Soviet area, and Mainland China. For statistical reasons, the trade of Cuba is also excluded. The data shown in this table are derived from customs statistics, and may differ from those in Table 23.

<sup>2</sup> Preliminary.

<sup>3</sup> Angola, Costa Rica, El Salvador, Ethiopia, Guatemala, Haiti, Ivory Coast, and Nicaragua.

<sup>4</sup> Cocoa, tea, sugar (cane), bananas, oilseeds, and vegetable oils.

<sup>5</sup> China (Taiwan), Dominican Republic, Ecuador, Ghana, Honduras, Jamaica, Panama, and Senegal.

<sup>6</sup> Grain, livestock products, textile fibers, and tobacco.

<sup>7</sup> Burma, Greece, Ireland, Kenya, Pakistan, Sudan, Syrian Arab Republic, Turkey, Uganda, and Uruguay.

<sup>8</sup> Bolivia, Congo (Leopoldville), and Viet-Nam.

<sup>9</sup> Bahrain, Brunei, Iran, Iraq, Kuwait (neutral zone), Libya, Netherlands Antilles, Qatar, Sarawak, and Trinidad and Tobago.

<sup>10</sup> Figures are rounded to the nearest \$10 million.



prices reflected shorter supplies in the main exporting countries. Since rice shipments from Burma were maintained at their 1961 level, receipts were larger on account of higher prices; both the volume and the value of exports from Thailand declined.

Although demand for nonferrous metals continued strong, ample supply weakened prices. For lead and zinc, prices averaged some 13 per cent less than in 1961; prices of tin were supported by buffer stock operations, and those of copper by individual producers' stockpiling. Rubber prices, affected by rapidly rising production of synthetics, continued their downward trend. Yet, with the exception of Indonesia and Viet-Nam, exporters of nonferrous metals and rubber were able, through expanded volume, to maintain export receipts close to those realized in 1961.

The posted price of petroleum was again unchanged, and export receipts of the group of countries supplying petroleum were higher in 1962 than in the preceding year.

## Chapter 7

# The Industrial Countries: Production and Economic Policies

### Industrial Production and Employment

**W**ORLD industrial production (excluding that in the U.S.S.R. and other eastern bloc countries) continued to rise during 1962, although at a slower rate than in 1961. A reduced rate of growth was apparent both in North America (United States and Canada) and in most countries in continental Europe, while production remained sluggish in the United Kingdom, and output in Japan, after a record rise for several years, suffered a decline in the second half of 1962 (Chart 6). Nevertheless, because of the relatively slow growth of output in the early months of 1961, world industrial production in 1962 as a whole was about 6 per cent higher than in the previous year, almost doubling the rate of growth from 1960 to 1961 (Table 14). While unemployment and excess capacity remained disturbingly high in North America and tended to increase in the United Kingdom, labor continued to be in short supply in most countries in continental Europe, even though over-all demand was less buoyant than in earlier years.

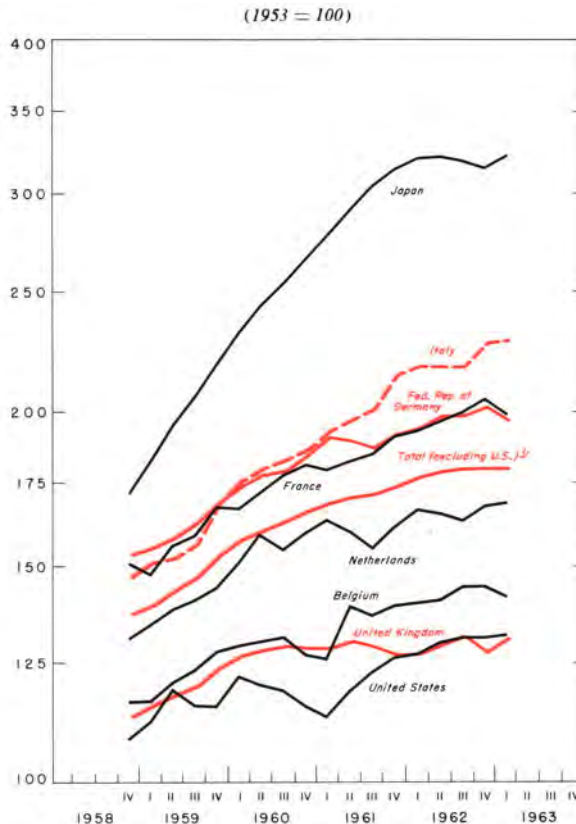
#### *United States and Canada*

In North America, industrial output advanced much more slowly in the first and second quarters of 1962 than during the early stages of recovery in 1961, and changed little thereafter. Over-all activity,

however, continued to rise under conditions of sustained price stability and a further small increase in employment.

In the *United States*, the rate of unemployment continued to decline in early 1962, but over the rest of the year it remained virtually unchanged at about 5.5 per cent of the labor force, i.e., well

CHART 6. MANUFACTURING COUNTRIES: INDICES OF INDUSTRIAL PRODUCTION, SEASONALLY ADJUSTED, LAST QUARTER 1958–FIRST QUARTER 1963



<sup>1</sup> Countries in the European Economic Community and the European Free Trade Association, plus Japan.

TABLE 14. SELECTED INDUSTRIAL COUNTRIES: PERCENTAGE CHANGES<sup>1</sup> IN COST OF LIVING, WAGE RATES OR EARNINGS, REAL GROSS NATIONAL PRODUCT, AND INDUSTRIAL PRODUCTION, 1961, 1962, AND FIRST QUARTER 1963

	Cost of Living			Wage Rates or Earnings			Real Gross National Product		Industrial Production		
	1961	1962	1963, 1st quarter	1961	1962	1963, 1st quarter	1961	1962	1961	1962	1963, 1st quarter
United States	1	1	1	3	3	2	2	6	1	8	4
Canada	1	1	2	3	3	4	2	6	4	7	6
United Kingdom	3	5	5	5	4	4	3 <sup>2</sup>	—	2	1	—1
Austria	3	6	4	9	6	6	5	2-3	4	2	1
Belgium	1	1	2	3	8	7	4	4	5	6	2
Denmark	3	8	8	13	10	8	4-5	4-5	3 <sup>2</sup>	2 <sup>2</sup>	..
France	4	4	5	10	9	8	4-5 <sup>2</sup>	6 <sup>2</sup>	5	6	—
Germany, Federal Republic of	3	4	4	10	12	7	5-6	4	6	5	1
Italy	2	5	7	4	8	8	8	6	11	12	4
Netherlands	2	4	6	5	8	10	2-3	2-3	1	4	4
Norway	3	6	5	8	9	6	6	3-4	7	4	3
Sweden	2	5	3	9	7	10	6	3-4	4	2	4
Switzerland	2	4	4	5	6	6	9	7	..	..	..
Japan	6	6	7	10	11	9	14 <sup>4</sup>	4 <sup>4</sup>	20	8	—
Industrial countries, total <sup>5</sup>	—	—	—	—	—	—	—	—	3	7	3
World total <sup>6</sup>	—	—	—	—	—	—	—	—	3	6	3

Sources: For the individual countries, figures for cost of living, wage rates or earnings, and industrial production are based on data from International Monetary Fund, *International Financial Statistics*; figures for real gross national product, on national estimates. For "Industrial countries, total," figures for industrial production are based on data from Organization for Economic Cooperation and Development, *General Statistics*, and Japan, Ministry of International Trade and Industry, *Statistics Monthly* (in Japanese). For the world total, the corresponding figures are based on data from United Nations, *Monthly Bulletin of Statistics*.

<sup>1</sup> Annual figures are percentage changes from preceding year; quarterly figures are percentage changes from first quarter of 1962.

<sup>2</sup> Real gross domestic product.

<sup>3</sup> Gross factor income in industry.

<sup>4</sup> Fiscal year (April-March).

<sup>5</sup> United States, Canada, Japan, and countries in the European Economic Community and in the European Free Trade Association.

<sup>6</sup> Excluding the U.S.S.R. and associated countries.

above the average for the postwar years. In the first quarter of 1963, the unemployment ratio increased again and reached about the same level as that of early 1962. The slow-down in the over-all rate of expansion of economic activity during 1962 was closely related to a sharp reduction in inventory accumulation, from an annual rate of \$8.1 billion in the first quarter (the peak during the current upswing) to an annual rate of \$4.0 billion in the last quarter. The growth in final demand was only slightly less pronounced during 1962 than during the last three quarters of 1961. Disposable personal income and private consumption rose steadily, although more slowly than in 1961. An increase in government expenditures was a major factor in sustaining demand, but private fixed investment rose little after the middle of the year as excess capacity continued and corporate profits increased by only a small amount.

In *Canada* the unemployment rate in 1962 was higher than in the United States, fluctuating around a level of almost 6 per cent, the rate to which it had fallen toward the end of 1961. The rate of increase in economic activity slowed down after the first quarter of 1962, reflecting in part a less rapid increase in consumer purchases and, after the middle of the year, a decline in government expenditures. On the other hand, economic activity was supported in the latter part of the year by a reduction in the balance of payments deficit on current account, resulting largely from the depreciation of the Canadian dollar and from measures taken to strengthen the balance of payments after the exchange crisis in June, as discussed below.

### *Continental Europe*

In the industrial countries of continental Europe, the deceleration of economic expansion stemmed to a greater extent than in 1961 from a slackening in the rate of increase in final demand, although labor shortages continued to limit the expansion in several of these countries. In some, particularly in Denmark, France, the Federal Republic of Germany, and Italy, the main support for expansion was provided by the growth of private consumption, generated by

the rapid rise in wages and salaries and not by increased employment; in France, the influx of Europeans from Algeria in the first half of 1962 was an additional factor.

On the other hand, in a number of countries (Austria, Belgium, France, Germany, Italy, the Netherlands, Norway, and Sweden), the volume of new investment did not increase as rapidly as in earlier years. The emergence of excess capacity, particularly in basic industries, and a reduction in profit margins and in self-financing, resulting from the rapid rise in labor costs and the limited scope for compensating increases in prices, especially of internationally traded goods, both served to dampen the effective demand for new investment. In Austria, Denmark, Norway, and Switzerland, policies designed to restrain over-all excessive demand also contributed to the lessening in private fixed investment. In addition, shortages of labor continued to be a limiting factor. In some countries (for example, in Germany), the scarcity of labor was intensified by a shortening of the average workweek and the lengthening of paid holidays, and by growing difficulties in recruiting foreign workers, especially skilled labor, as full employment of such labor was reached in practically all the industrial countries in continental Europe. The migration of labor tended to aggravate the labor shortages in countries with comparatively low wages and to alleviate the tensions in the labor market in countries with relatively high wages.

In several countries in continental Europe, a further increase in government expenditures served to stimulate demand. On the other hand, exports of most of the countries ceased to grow as the year progressed. The leveling-off of exports was associated with the slower expansion of economic activity in several industrial countries and of import demand in primary producing economies. In most European countries wages rose substantially more than prices, with a consequent narrowing of profit margins. Price increases occurred mainly in the consumer goods and services sector, while import and export prices remained relatively stable as international competition became more intense. Certain countries (e.g., Germany), where the rise in wages and prices was most pronounced,

experienced some relative deterioration of their international competitive position, which contributed to a slowdown of the increase in exports. As in the two preceding years, wage increases in continental Europe were higher than those in the United States and the United Kingdom—a factor which helped to reduce the underlying disequilibria in international payments.

### *United Kingdom*

The growth of output in the United Kingdom in 1962 was less than the average for the other industrial countries; in addition, rising unemployment gave cause for concern. After falling back in the second half of 1961, total expenditure and output recovered in the first half of 1962, stimulated mainly by upturns in exports and in private consumption. However, in the third quarter output leveled off, and thereafter declined. The sluggishness of the economy after the middle of the year was related, to a large extent, to a cessation in the expansion of exports; growing excess capacity and uncertainties about the short-term economic prospects discouraged private investment in plant and equipment. On the other hand, government expenditures and residential construction continued to expand throughout the year. Hourly wage rates rose during 1962 less rapidly than in most recent years; after the middle of the year, there was also a slowing down of the increases in domestic prices. Export prices, however, rose quite markedly during the last quarter of the year.

### *Japan*

The slackening of growth in Japan arose from a distinct weakening in private fixed investment and a lessening in inventory accumulation, related to measures taken in 1961 to deal with the balance of payments deficit. On the other hand, exports recovered markedly in 1962, and the growth in private consumption lost little momentum, as the rise in wages was substantial for the whole year, although slower in the second half. The cost of living rose much

less than wages and showed little change in the last six months. In early 1963, industrial production recovered from the decline in the second half of 1962, while the balance of payments, which had improved markedly after the introduction of stabilization measures in the autumn of 1961, continued to be strong.

### Problems and Policies

Economic developments in the industrial countries during 1962 have tended to ease some of the problems confronting national authorities. The underlying disequilibria in some major countries, which in 1960 resulted in large disruptive international movements of funds and which were mitigated by international cooperation in monetary matters in 1961, appear to have gradually lessened. The most important development is, perhaps, the major reduction in continental Europe's surplus position in international payments, together with the related phenomena, the rise in costs and wages and the fall in profit margins in that area. By the end of 1962 virtually all the countries of the area, with the exception of France, had ceased to be in balance of payments surplus. Indeed, balance of payments deficits may well arise in some of these countries; but the reserves of most of them are now so strong that even deficits of considerable size would not undermine the strength of their currencies, or call for policies directed toward protection of the balance of payments at the cost of a slowdown in economic activity. While in both the United States and the United Kingdom reconciling economic growth with equilibrium in the payments balance is still a problem, it has changed somewhat in character. First, the counterpart of a deficit in these two countries is not likely to be concentrated to the same degree as before in persistent surpluses in the industrial countries in continental Europe; and, to the extent that the corresponding surpluses arise elsewhere, they are more likely to be accompanied by increases in foreign exchange holdings than by gold settlements. Second, past experience suggests that balance of



payments surpluses outside continental Europe are not often maintained over a long period. Third, the intensification of cooperation among the industrial countries in monetary matters during recent years has further reduced the immediate risk to the balance of payments involved in expansionary policies in the industrial countries. For these and other reasons, domestic policies in the United States and the United Kingdom appear to have been somewhat less constrained recently by balance of payments considerations.

In most of the European countries, wages have continued to rise at a rate considerably higher than the gain in productivity, at the same time that certain structural changes have taken place in demand, which are discussed below. Thus, these countries are currently faced with the urgent problem of avoiding sharp upward movements in wages and prices and also with the possibility that the demand necessary to sustain full employment and a satisfactory rate of economic growth may not be forthcoming without the stimulus of deliberate policy measures. The latter problem, which the United States and the United Kingdom have been facing for some time, is one in which the less developed areas have an equal interest and one for which the industrial countries will have to share responsibility. The international cooperation that has so successfully reduced tensions in gold and foreign exchange markets and the cooperation in the broader fields of economic policy achieved in recent years will therefore need to be further strengthened to ensure that expansionary policies pursued in the common interest do not result in major disturbances to international payments.

### *United States*

In the United States, monetary and fiscal policies were directed toward encouraging domestic expansion while giving recognition to the need to minimize strains on the balance of payments. During 1962, the Federal Reserve System engaged in net open market purchases of \$1.9 billion and reduced commercial bank reserve

requirements against time and savings deposits by \$0.8 billion. Also, in early 1962, it increased the maximum rates of interest permitted for domestically owned time and savings deposits with commercial banks; and in the autumn of 1962, it suspended temporarily interest rate ceilings on time deposits owned by foreign governments and monetary authorities and by international institutions, thereby encouraging a shift from demand deposits with higher reserve requirements to time deposits with lower requirements, and freeing bank cash reserves. Time and savings deposits with commercial banks in fact increased during the year by the record amount of \$17 billion.

Bank reserves, unadjusted for the change in reserve requirements, actually declined during 1962. However, the net effect of the Federal Reserve's open market operations and the reduction in reserve requirements, partially offset by the gold outflow of \$0.9 billion and by an increase of \$0.7 billion in currency in circulation, was equivalent—after adjustment for the reduction in the required reserve ratio for time and savings deposits—to an expansion of \$0.7 billion in the commercial banks' reserves. Although this latter increase was less than the comparable expansion in 1961, the banks increased their loans and investments by \$19 billion—more than in any other peacetime year. On the other hand, the increase in the money supply was only \$2 billion—less than half the increase in 1961.

Despite unusually low business demands on the capital market and virtually unchanged Federal Government borrowing requirements (an increase in cash holdings having offset a \$1 billion decline in the Government's cash deficit from 1961 to 1962), the net total raised in the capital and credit markets was a record, reflecting chiefly a large volume of mortgage lending. Since much of the credit extended was in short-term form, or reflected the operations of financial intermediaries whose liabilities in the form of time and savings deposits or savings shares were increasing rapidly, the U.S. economy at the end of 1962 was in a highly liquid position.

These developments were associated with relatively stable interest rates. The market yield on Treasury bills and on long-term government bonds remained within the narrow ranges of 2.7 to 2.9 per cent and 3.9 to 4.1 per cent, respectively. However, while the Treasury bill rate was above its 1961 average of 2.4 per cent, the long-term bond yield tended after the middle of 1962 to decline below its 1961 average (3.9 per cent). This divergent movement of interest rates reflected the combined intervention of the Federal Reserve System and the Treasury, as well as other market influences. For the year as a whole, the System's total open market operations resulted in net acquisitions of securities maturing in more than one year, but no net changes in its holdings of shorter-term securities. The Treasury supported these operations by purchasing longer-term government securities on account of its various agencies and trust funds, and by concentrating most of its new borrowing in the short-term end of the markets. This conduct of open market and debt-management policies helped to hold down longer-term interest rates and to encourage the flow of funds into private fixed investment. The sharp increases in time and savings deposits and savings shares with financial institutions also put downward pressure on long-term interest rates, by providing an abundance of funds for long-term investment. At the same time, Treasury and Federal Reserve operations in the short end of the market tended to prevent downward pressure on short-term interest rates, thereby discouraging the outflow of short-term capital.

Various other monetary and fiscal devices were also directed toward expansion. Responding to the sharp decline in stock market prices in the middle of the year, the Federal Reserve System reduced the margin requirement on loans for purchases of listed securities from 70 per cent to 50 per cent. To stimulate private fixed investment, depreciation allowances were liberalized in July, and a program of tax credits on corporate fixed investment was introduced in September. In early 1963, the Administration presented to Congress proposals for a reduction in taxes to foster economic growth.

*Canada*

In Canada, where the domestic situation also pointed to a more expansionary policy, maintenance of exchange reserves and of confidence in the currency required stringent credit policies during part of the year. As described in last year's Annual Report,<sup>1</sup> speculative outflows of capital led early in 1962 to pressures on Canadian foreign exchange reserves. After subsiding for a few weeks following the establishment on May 2, 1962 of a new par value for the Canadian dollar, below earlier rates, these pressures were resumed on a large scale in June. To defend the fixed exchange rate, and to improve the balance of Canada's international transactions for the longer run, the authorities initiated a series of fiscal and monetary measures toward the end of that month. These measures included arrangements for a drawing from the Fund and loans and stand-by credits from foreign official institutions, together totaling more than US\$1 billion. In addition, temporary surcharges, graduated from 5 per cent to 15 per cent, were imposed on about half of total imports, and the duty-free import allowances for Canadian tourists were reduced. A cut in government expenditures, announced at the same time, together with the increased revenue from the import surcharges, resulted in a noteworthy reduction of the prospective government deficit. Complementing these measures was a sharp increase in interest rates. The discount rate, which since November 1956 had been permitted to fluctuate  $\frac{1}{4}$  per cent above the weekly Treasury bill rate, was fixed at the relatively high figure of 6 per cent. Under the impact of these measures, the balance of payments improved markedly in the second half of the year.<sup>2</sup> As a result, the bilateral credit arrangements made in June were all terminated or converted to stand-by status by the year end, and the import surcharges were removed in several stages, culminating in their complete elimination by the end of March 1963. The discount rate was reduced to 4 per cent in November 1962, following reductions of  $\frac{1}{2}$  per cent each in September and October. The Treasury bill rate fell gradually

<sup>1</sup> *Annual Report, 1962*, pages 56 and 146.

<sup>2</sup> See page 154.

from 5.5 per cent in July, when it had been about double the average prevailing in 1961, to 3.7 per cent early in 1963. In May 1963, there was a further reduction in the discount rate, from 4 per cent to 3½ per cent.

### *Japan*

Economic developments in Japan during 1962 were dominated by measures taken in the autumn of 1961 to curb excessive expansion in the domestic economy and to eliminate a deficit in the balance of payments. To forestall excessive inflows of short-term capital and, hence, to help to strengthen the domestic monetary restrictions, the authorities requested the commercial banks in the middle of 1962 to maintain foreign exchange reserves equal to 20 per cent of foreign liabilities and to limit the guarantee of foreign borrowing to prescribed levels. The steady recovery of the international payments position in the course of 1962 encouraged the authorities to relax the restrictions in the last quarter of the year. The basic discount rate was lowered in two steps, from 7.3 per cent to 6.6 per cent, its level prior to July 1961. This was accompanied by a reduction in the penalty rates, applicable to banks' borrowings above their credit ceilings, and by a release of minimum reserves of the large banks and a lowering of the advance deposit requirements for importers. In order to bring short-term interest rates into closer alignment with those in other industrial countries and also with the long-term rates, the discount rate was further reduced, to 6.2 per cent in March 1963 and to 5.8 per cent in April. The gain in foreign reserves also enabled the authorities to repay financial assistance obtained from U.S. commercial banks between November 1961 and July 1962, without drawing on the stand-by credit from the Fund which had been arranged in January 1962.

### *United Kingdom*

In the United Kingdom, financial measures designed to adjust the external position led to an improvement of the balance of pay-

ments; however, the slackening in economic activity made it increasingly desirable to relax the previous financial restraints and to provide a stimulus to domestic expansion.

The presentation of an almost balanced budget in April 1962, designed to encourage a better external position, was based on the expectation that foreign and domestic demand would be strong enough to generate and sustain expansion. However, as the pace of advance slackened, financial policies were progressively redirected toward the expansion of domestic demand. The shift in policy began in June, when the "special deposits" of the London clearing banks and the Scottish banks with the Bank of England were reduced from 3 per cent and 1.5 per cent of deposit liabilities to 2 per cent and 1 per cent, respectively. At the same time, the minimum downpayment on hire purchases, formerly 20 per cent for most goods, was reduced to 10 per cent for all goods except automobiles. In October and December, the remaining special deposits were released, and in October the informal requests for restraint and discrimination in the granting of credit, which had been issued to the banks between July 1961 and May 1962, were withdrawn. As a result, there was some revival in bank lending without a deterioration in bank liquidity. Market yields on gilt-edged securities and short-term interest rates fell appreciably, and in January 1963, the bank rate was lowered from 4½ per cent to 4 per cent, after having been reduced by stages from 6 per cent at the end of 1961.

In November 1962, the purchase tax on automobiles was reduced from 45 per cent to 25 per cent; and early in the new year, similar cuts were made for all other goods (mainly consumer durables) which were at the former maximum rate of 45 per cent. In addition, the Government announced its intention to release another three-year installment of postwar credits, to increase public investment over the period up to the middle of 1964, to allow for higher social benefits, and to include in the next budget significant tax concessions for investment, which would be retroactive to the date of the announcement. As a result of these and various other expansionary fiscal measures (including tax concessions to individ-

uals), the budget submitted in April 1963 provided for an over-all deficit of £687 million, which was substantially larger than that budgeted in any one of the three preceding fiscal years.

### *Continental Europe*

In continental Europe, financial policies had to be formulated against a background of generally full employment and accelerated price and wage increases, although pressures on domestic resources were in many instances eased by a slowdown in investment demand and a deceleration of the rising export trend. In general, developments in these countries brought a growing realization of the need for policies to keep wage increases within limits, e.g., within the gains of productivity, in order to maintain sustained growth in investment, price stability, full employment, and a satisfactory international competitive position. So far, only a few countries have followed incomes policies, e.g., the Netherlands, where a system of governmental wage control was brought into operation soon after World War II, and Austria, where the government authorities initiated temporary wage and price restraints in 1962; but an approach toward an incomes policy has also been made in both the United Kingdom and Denmark, and there have been discussions in France and the Federal Republic of Germany. Moreover, the determination to facilitate and sustain a high rate of investment, in the context of the reduced profit margins and internal financing that has resulted from increases in wage costs, has brought to the forefront the need for broadening capital markets in several industrial countries in continental Europe. Policies directed toward this end have been pursued in Belgium, France, and Italy.

In *France*, financial policies remained basically unchanged in 1962, as the sustained expansion of production was accompanied by a continued large surplus in the over-all balance of payments, and prices and wages rose substantially. The liquidity of the banking system increased during the year as a result of the foreign surplus and, particularly later in the year, of the transfer of liquid assets from Algeria. As a result, there was a steady expansion of

bank credit to the private sector. The Treasury's cash deficit, which increased in 1962, continued to be entirely financed through short-term borrowings, so as not to burden the capital market. Since 1958, the Treasury has abstained from long-term bond issues in order to encourage a decline in long-term interest rates, which should be conducive to an increase in private issues on the capital market. With the same end in view, the authorities in 1962 widened the spread between long-term and short-term interest rates by reducing both the rates on Treasury bills and the maximum rates that banks may pay on time deposits. To encourage medium-term lending by the banks, the authorities in early 1962 reduced the required ratio of banks' holdings of Treasury bills from 17.5 per cent to 15 per cent of their liabilities, and at the same time raised the liquidity ratio (between the total of certain liquid assets of the banks—mainly cash, Treasury bills, and medium-term paper—and their liabilities) from 30 per cent to 32 per cent.

As the pressure on prices and wages accelerated and the inflow of funds continued early in 1963, the Government adopted restrictive and defensive measures. The banks were requested to limit credit to the private sector to an increase of 12 per cent during the ensuing 12 months, and to promote the extension of export credit and medium-term investment credit rather than other types of credit. In addition, the liquidity ratio was further raised to 35 per cent of the banks' deposit liabilities, while the Treasury bill and time deposit rates were further reduced. As a support to these measures, the issue of Treasury bills on "tap" (i.e., in unlimited quantities and at fixed discount rates) in excess of the amounts required to maintain the banks' compulsory holdings was replaced by a system of periodic "tender" issues, which was applied to increase the downward pressure on short-term interest rates. The authorities also froze the prices or the profit margins of various manufactured goods. In order to counteract the inflow of short-term capital, interest payment on franc accounts of nonresidents was prohibited. In May, these measures were reinforced by a further increase in the liquidity ratio to 36 per cent of the banks'



deposit liabilities. At the same time, a number of new taxes were introduced, while the promised abolition of the 5 per cent surtax on family income was only partially made effective. In order to reduce somewhat the large increase in the short-term public debt and in the liquid funds held by the general public, the Government issued F 1 billion long-term bonds, the yield of which was exempted from personal income tax.

In the *Federal Republic of Germany*, efforts were made in 1962 to deal effectively with the factors underlying the strong upward trend in wages and prices by measures designed, in particular, to restrain building demand. In May 1962, the initiation of certain private and public building projects was prohibited for one year. Early in 1963, the Federal Government suspended the accelerated depreciation allowances for new residential buildings to be rented, having announced its intention to do so in the preceding autumn. In addition, it sought to limit the increase in budgetary expenditures for 1963, particularly those affecting residential and other building projects. The Länder Governments, whose tax revenues had been rising substantially more than those of the Federal Government, were requested to agree to an increase in the legal share of the Federal Government in income and corporate tax revenues, in order to help finance the federal budget deficit without tax increases and without increased resort to the capital market.

In the field of monetary policy, only minor adjustments were made in 1962. The disappearance of the balance of payments surplus eased the problems created by the conflict between internal and external objectives of monetary policy. The investment of foreign funds in domestic Treasury bills continued to be restricted, but the relatively low rates in the domestic money market at the beginning of 1962 and the rise of short-term interest rates in some major foreign money markets allowed the Bundesbank to make domestic liquid assets more attractive to domestic banks without stimulating an inflow of foreign-owned funds. Between March and October, the Bundesbank gradually raised by  $\frac{3}{4}$  per cent its selling rate for short-term securities. Since October 1962, 3-month Treasury bills and 2-year Treasury bonds have been offered at

discounts of 2½ per cent and 3½ per cent, respectively. In addition, at the beginning of 1962 the Bundesbank set a discount (later often varied) for its purchases of forward dollars from the commercial banks, instead of the premium (or occasionally the spot rate) at which it had generally bought them since the end of 1959.

Developments in *Italy* in the course of 1962 led to a sharp reduction in the Italian balance of payments surplus; however, comfortable balance of payments and reserve positions continued to give the authorities considerable freedom in the conduct of their economic policies. A marked increase in bank credit to the private sector and a temporary net outflow of private capital resulted in a substantial tightening of bank liquidity and, therefore, in a sharp increase in short-term interest rates, despite a relaxation of reserve requirements early in 1962. There was also an increase in long-term interest rates, as a result of exceptionally large bond issues in anticipation of the abolition in June of the partial tax exemption of bond yields, presumably in conjunction with a certain lessening of confidence on the part of investors, largely attributable to the nationalization of the electricity sector.

In response to a slowing down of the rate of increase of private investment and exports, the authorities adopted expansionary measures, designed inter alia to broaden the capital market, to improve the functioning of the money market, and to reduce short-term interest rates. In November 1962, they revoked the requirement imposed on the banks at the end of 1960 to balance individually their positions vis-à-vis foreign countries. At the same time, the reserve requirements against foreign deposits denominated in lire were reduced to the ratio applicable to domestic deposit liabilities. Monetary ease was also provided by the Treasury, which experienced a marked improvement in its cash position and was able to redeem a substantial amount of maturing long-term debt. In addition, the Treasury discontinued its practice of issuing Treasury bills on "tap" and, instead, introduced a monthly tender. This step was designed to prepare a basis for open market policy and to eliminate the rigidities in short-term interest rates.

The authorities also prohibited the banks from paying interest rates on interbank deposits in excess of the "tender" rate for Treasury bills, seeking thus to induce small banks to make longer-term investments with their excess liquidity rather than to place it on deposit with larger banks.

In the *Netherlands*, where wages increased rapidly and demand pressures remained relatively strong until late in 1962, the authorities maintained the monetary restraints that had been introduced in the middle of 1961. Early in 1962, the expansion of short-term credit to the private sector exceeded the rate of  $\frac{1}{2}$  per cent a month, which had been temporarily agreed upon by the private and agricultural banks and the Netherlands Bank. As a result, those banks which registered a credit expansion in excess of the agreed limits had to maintain supplementary interest-free deposits with the Netherlands Bank between March and October. In January 1963, the discount rate (which had been raised from  $3\frac{1}{2}$  per cent to 4 per cent in April 1962) was reduced to  $3\frac{1}{2}$  per cent and the agreement on the ceiling on bank credit was suspended, as it became evident that the pressure of demand, particularly for investment, had lessened and the expansion of bank credit had become more moderate.

In *Belgium*, price stability was maintained despite an increase in wages somewhat more rapid than in earlier years. Financial policy was directed essentially toward reducing interest rates as a means of fostering private investment, as envisaged in the first program for economic expansion (1962-65). The effect upon interest rates of the liquid condition of financial markets was reinforced by the reduction in net borrowing by the public sector. The decline in interest rates was also greatly facilitated by the monetary reform, initiated in January 1962, by which the commercial banks were freed from the obligation to maintain government securities as a fixed proportion of increases in their deposits. This enabled the authorities to adopt a weekly tender system for certain securities in place of "tap" issues at a fixed interest rate. The National Bank lowered its basic discount rate in several steps from 4.5 per cent early in January to 3.5 per cent in December

1962. These reductions were intended to bring short-term interest rates more into line with those in other European countries and to help to increase the flow of funds into private fixed investment. The fiscal reform, part of which became effective in 1963, also provides, inter alia, for increased incentives to private investment.

In *Denmark*, extremely strong demand pressures, a sharp increase in prices and wages, and a decline in foreign exchange reserves to uncomfortably low levels prompted the authorities to take measures that were more stringent than those needed in other industrial countries. To curb excessive demand, the Government restrained the start of new public and private building and introduced, in August 1962, a general purchase tax of 9 per cent at the wholesale level. However, in order to avoid too heavy a strain on bank liquidity, resulting from the public cash surplus, the National Bank purchased bonds and increased its loans to commercial banks. During the course of the year, the commercial banks also borrowed abroad on a considerable scale. At the beginning of 1963, the threat of a further increase in demand pressure emerged with the revival of high wage demands at the expiration of the collective wage agreements. These developments induced the Government in March 1963 to implement a comprehensive program directed toward restraining the rise in costs and domestic demand. This program included, inter alia, measures designed to restrict increases in wages, prices, and dividends. In addition, the effect of a promised reduction in income tax for the year 1963-64 was almost neutralized by the introduction of a compulsory saving scheme. To bridge the period until these measures might result in an improvement of the balance of payments, official and quasi-official borrowing abroad, especially on the U.S. market, was increased substantially.

The authorities in *Switzerland* continued their previous policies of discouraging the inflow of foreign short-term capital, while reinforcing the measures designed to restrain the continued strong pressures on domestic resources which resulted in significant wage increases and a further deterioration of the balance on current international transactions. From April 1962, a temporary agree-

ment to restrict credit extension to domestic borrowers to certain maximum rates of increase was reached between the National Bank and larger commercial banks. In January 1963, this agreement was renewed and the permissible rate of increase in bank credit was lowered. In addition, some sectors of the economy undertook not to increase prices or employment. The Federal Government refrained from using its cash surpluses for debt redemption and invested part of the surpluses in U.S. Treasury bonds denominated in Swiss francs, thereby helping to neutralize the effects of capital inflows on domestic liquidity. As these inflows became excessive at the time of the Canadian exchange crisis and the sharp decline of stock prices in the United States in the middle of the year, and later in October at the time of the Cuban crisis, the National Bank sold substantial amounts of U.S. dollars, obtained under a reciprocal swap agreement with the Federal Reserve System, to Swiss commercial banks, which in turn invested the dollars in U.S. Treasury bills. These transactions were complemented by similar operations between the commercial banks and the Bank for International Settlements.

\* \* \*

The recent experiences of countries in continental Europe may possibly be regarded as a new phase of the process initiated by the postwar recovery. In large part, the high levels of demand have been stimulated by a sustained demand for investment and—even allowing for the exceptionally high increase in trade within the area—the rapid expansion of exports. In the early postwar years, investment demand originated primarily from the need to replace facilities which had been destroyed during the war, or which became obsolescent then or in the period of low investment in the prewar depression, and from a desire to take advantage of new technological developments. This stage was initially supported by massive intergovernmental aid. Some further expansion of productive facilities was associated with a period of major readjustment in

international trading relations, when exports of the industrial countries in continental Europe expanded more rapidly than those of other areas, which in turn added a powerful stimulus to investment demand. The rise in exports was impressive not only when related to the low levels at the end of the war, but even when compared with prewar experience; thus, whereas in the immediate prewar years this area accounted for approximately 30 per cent of world exports, the percentage had risen to almost 40 by 1962.

However, the rate of increase of exports slackened in 1962 in most of these countries, and, with the rapid rise in wage costs in the area, a certain weakening in their competitive position in world markets may be expected. If exports continue to grow at their present more modest rate, the stimulus to investment in continental Europe arising from the growth of exports will be less insistent, and expansion may, as it did in 1962, come to depend more heavily on rising consumption demand. With investment demand less strong than formerly, the year-to-year variations in this demand are likely to be greater. Hence, the factors which have encouraged the almost universal annual increases in output in the industrial countries in continental Europe may be losing their force.

## Chapter 8

# The Industrial Countries: Balance of Payments

### Global Survey

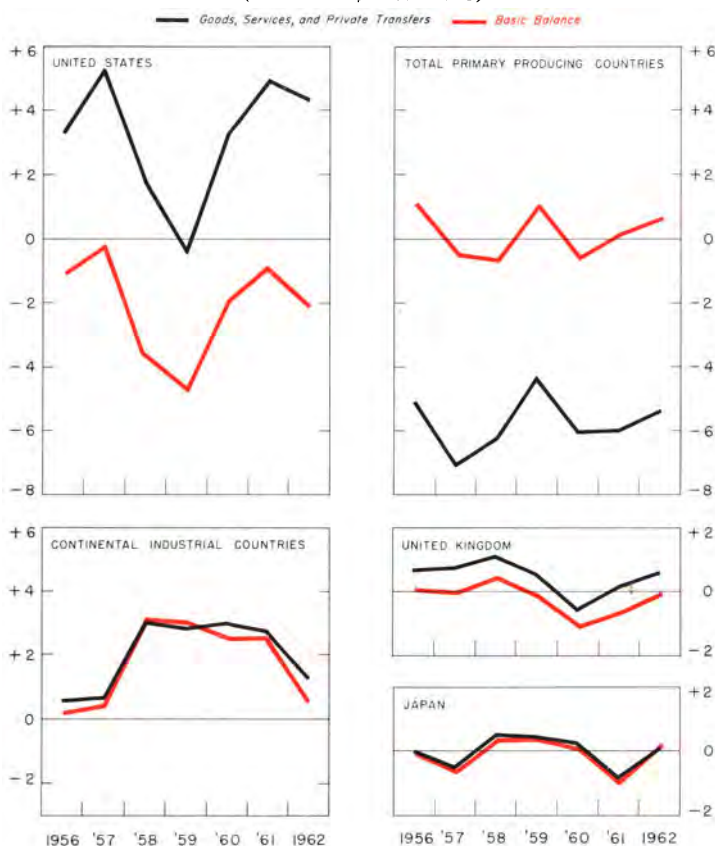
**I**NTERNATIONAL payments relationships over the past five years have been dominated by the structural disequilibria among the industrial countries which became apparent in 1958. The progress since made toward reducing these disequilibria has been somewhat obscured by year-to-year changes in international payments brought about by diverse cyclical developments in various countries, by movements of volatile capital arising from cyclical and other factors, and by the large advance repayments of government debt that have, from time to time, been made in part to ease balance of payments pressures. Consequently, the broader changes in international payments during the past year can usefully be evaluated in relation to a longer period, and in terms of changes in what are here referred to as basic balances, i.e., current and long-term capital transactions, excluding certain transactions of a non-recurring character (mainly advance repayments of government debt).

Chart 7 shows the basic balances so defined, as well as balances on goods, services, and private transfers, for the United States, the United Kingdom, the industrial countries in continental Europe, Japan, and the primary producing countries as a group, for the years 1956-62. Because of statistical uncertainties, the data in the chart (which usually exclude errors and omissions) should be

regarded as indications of order of magnitude rather than precise estimates. In general, the basic surpluses tend to be understated, and the basic deficits to be overstated; in particular, it is believed that the basic balances of the United Kingdom and of continental Europe omit net receipts averaging a few hundred million dollars annually, although the amounts vary from year to year. Also, it should be remembered that some countries may be exporters or

CHART 7. SELECTED AREAS: BALANCE OF PAYMENTS, 1956-62<sup>1</sup>

(In billions of U.S. dollars)



<sup>1</sup> See also Chart 8 (p. 152).



importers of private short-term capital over the long run, so that positive or negative (rather than zero) basic balances, as defined above, may be necessary if their balances of payments are to be in equilibrium.

The major balance of payments problem of recent years has comprised the basic deficit of the United States and the basic surplus of the industrial countries in continental Europe. Within continental Europe, the Common Market countries have contributed the principal part of the area's surplus, but some of the other industrial countries, such as Austria and Switzerland, have also at times had substantial surpluses in their balances of payments. The close economic relationships of all the industrial countries in continental Europe with one another makes it convenient to treat them as a group. The United Kingdom and Japan have shown no clear tendency toward either surplus or deficit in their basic transactions; nor, as is shown in Chapter 9, have the primary producing countries.

The years 1956 and 1957 were comparatively favorable for the balance of payments of the United States, partly as a result of changes in trade in connection with the Suez crisis, which coincided with strong pressures of demand in the other industrial countries. The change from near balance in 1957 to large deficits in 1958 and 1959 arose mostly from the normalization of trade following the reopening of the Suez Canal and the relaxation of the strong pressures of demand in the other industrial countries. U.S. exports of manufactured products to the other industrial countries at that time showed a positive correlation with the rate of expansion in those countries. For this reason, the effect on the U.S. balance of payments of the recession in the United States and other industrial countries in 1958 was very unfavorable. From 1958 to 1959, the U.S. deficit increased, primarily because the United States was leading the other industrial countries in the recovery; and it decreased from 1959 to 1961, largely because the continued high rate of expansion in the other industrial countries coincided with a recession in the United States. During the low point of the recession in the early part of 1961, the U.S. basic deficit was eliminated, but

it reappeared in the course of the year as the economy recovered; during the second half of the year, it reached an annual rate of about \$2¼ billion, slightly above the rate for 1962 as a whole. There was a surplus on goods and services account (including private transfer payments) throughout the years 1956-62 except in 1959. But while this surplus was in most years substantial, it has not in any full year since 1957 been sufficient to offset the outflow on account of private long-term capital transactions and government financing (other than advance debt repayments), which has tended to increase.

While the adjustment in the U.S. balance of payments has been hesitant, the reduction of the extreme surplus position of continental Europe has been continuous during the last three years. This surplus was highest—about \$3 billion—in 1958 and 1959. In 1962, the elimination of the basic surplus position was speeded up by the sharp rise in costs in several countries, together with the revaluations in the previous year of the deutsche mark and the Netherlands guilder. The surplus positions of the Federal Republic of Germany and the Netherlands disappeared in the course of 1961, and that of Italy seems to have been eliminated. The only country in the group with a major surplus in 1962 was France, whose basic surplus remained at about \$1 billion; the other countries had a combined basic deficit of perhaps half a billion dollars. In evaluating these figures, it should be kept in mind that the basic surplus position of continental Europe may be underestimated in the statistics, probably by a few hundred million dollars annually.

The reduction in the basic surplus of the industrial countries in continental Europe, and the small rise in the basic deficit of the United States from 1961 to 1962, had a counterpart in improvements in the basic balances of Japan, the United Kingdom, and the primary producing countries as a group. The measures taken by the United Kingdom and Japan, in the course of 1961, to eliminate a balance of payments deficit have been described in Chapter 7; the improvement in Japan's basic balance was particularly marked in 1962. Developments in the balance of payments of the primary producing countries are reviewed in Chapter 9.

## Individual Countries

### *United States*

Although the U.S. deficit on goods, services, aid, and long-term capital, excluding advance debt repayment and subscriptions to international organizations, rose from almost \$0.7 billion in 1961 to over \$1.9 billion in 1962, the latter rate was only slightly higher than in the second half of 1961 (Table 15).

The trend in the deficit, quarter by quarter during 1962, is impossible to trace with any certainty because of special circumstances. The Canadian exchange crisis in the first half of the year and that country's recovery after June had a strong favorable effect on many categories of transaction in the U.S. balance of payments during the first half of the year and an unfavorable influence in the second half. The amounts cannot be closely assessed in dollar terms, although such appraisals as can be made suggest that the favorable and unfavorable effects canceled out fairly well over the full year. The dock strikes in October and again beginning in December distorted the quarterly trade pattern in the second half of the year as well as in the first quarter of 1963. Here again, however, the net effect in 1962 is not believed to have been large.

The trade surplus in 1962 was almost \$470 million below the annual rate of the July-December period of 1961, as a 5 per cent rise in imports was only partly offset by an increase of less than 2 per cent in exports. If trade with Japan is excluded, however, imports increased at only a slightly higher rate than exports, and the trade balance showed a much smaller decline in 1962. Military expenditures (net of military sales) at \$2.4 billion were virtually the same in 1962 as in the second half of 1961 (at annual rate). Net receipts for other services in the same periods rose from \$2.6 billion to \$2.9 billion, mainly because of higher income from investments abroad. Remittances and pensions, and net U.S. Government grants and loans (excluding advance debt repayment), showed little change, the portion of government assistance that resulted in dollar payments to foreign countries and international institutions also remaining stable. U.S. direct investment abroad

TABLE 15. UNITED STATES: BALANCE OF PAYMENTS SUMMARY, 1961–FIRST QUARTER 1963<sup>1</sup>

(In millions of U.S. dollars)

	1961	1962	1961		1962		1963 <sup>2</sup>
			First half	Second half	First half	Second half	First quarter
<b>A. Goods, Services, Aid, and Long-Term Capital</b>							
Main categories, seasonally adjusted, excluding major special transactions <sup>3</sup>							
Exports	19,913	20,479	9,805	10,108	10,284	10,195	4,998
Imports	-14,497	-16,145	-6,790	-7,707	-7,972	-8,173	-3,985
Trade surplus	5,416	4,334	3,015	2,401	2,312	2,022	1,013
Services, remittances, and pensions	-677	-244	-425	-252	-210	-34	-37
Government grants and capital	-3,279	-3,542	-1,566	-1,713	-1,814	-1,728	-939
U.S. direct investment abroad	-1,598	-1,557	-802	-796	-705	-852	-556
Other U.S. long-term capital	-1,011	-1,209	-313	-698	-686	-523	-457
Foreign long-term capital	466	271 <sup>4</sup>	323	143	261	10 <sup>4</sup>	28 <sup>4</sup>
Total	-683	-1,947	232	-915	-842	-1,105	-948
Seasonal influences	—	—	-25	25	30	-30	25
Major special transactions <sup>3</sup>	497	544	704	-207	53	491	25
Total	-186	-1,403	911	-1,097	-759	-644	-898
<b>B. Unrecorded Transactions</b>	-905	-1,025	-447	-458	106	-1,131	106
<b>C. Short-Term Capital, n.i.e.</b>							
U.S. private assets	-1,541	-507	-845	-696	-234	-273	31
Foreign nonliquid capital	262	498	123	139	92	406	29
Foreign liquid capital	488	348	86	402	525	-177	-7
Total	-791	339	-636	-155	383	-44	53
<b>D. Liquid Liabilities to Foreign Commercial Banks</b>	595	-148	395	200	198	-346	383
<b>E. Total (B through D)</b>	-1,101	-834	-688	-413	687	-1,521	542
<b>F. Reserves and Related Items</b>							
Net IMF position	-135	626	36	-171	281	345	-46
Liabilities, mainly liquid, to central banks and governments	681	704 <sup>4</sup>	-274	955	-191	895 <sup>4</sup>	324 <sup>4</sup>
U.S. convertible currency holdings (increase —)	-116	17	-186	70	-438	455	-33
Gold sales	857	890	201	656	420	470	111
Total	1,287	2,237	-223	1,510	72	2,165	356
<b>Memorandum item: reduction in monetary reserve assets and increase in liquid liabilities, seasonally adjusted</b>	2,370	2,186 <sup>5</sup>	441	1,929	1,037	1,149 <sup>5</sup>	806 <sup>5</sup>

Source: U.S. Department of Commerce, *Survey of Current Business*, June 1963.<sup>1</sup> No sign indicates credit; minus sign indicates debit.<sup>2</sup> Preliminary.<sup>3</sup> Advance debt repayments and subscriptions to international organizations.<sup>4</sup> Increases in foreign official holdings of U.S. Government nonmarketable, medium-term, inconvertible securities (credit of \$251 million for the second half of 1962 and \$63 million for the first quarter of 1963) are included with liquid liabilities.<sup>5</sup> Excluding the U.S. Government securities referred to in footnote 4.

and other U.S. private long-term capital showed the customary large outflow, some \$2.8 billion in 1962. As in recent years, the share of Western Europe in this outflow was substantial, and private investment in that area was maintained at the 1960-61 level of about \$1 billion; private investment in Latin America fell further, to about \$100 million.

The recorded outflow of U.S. private short-term capital, which exceeded \$1.5 billion in 1961 and had been almost as large in 1960, dropped to \$0.5 billion in 1962. The major change was in the outflow to Japan, which ceased after the first quarter of 1962. On the other hand, there was a withdrawal of liquid capital by foreign commercial banks of \$150 million in 1962, contrasted with an inflow of almost \$600 million in 1961. The difference in the pattern of the two years is even greater if account is taken of the large temporary withdrawal of funds by foreign commercial banks late in 1961 and their return at the beginning of 1962; movements of this type did not occur on anything like the same scale at the end of 1962. This reversal of the movement of bank funds into the United States is believed to have had, to a considerable extent, a counterpart in changes in the flows of funds into and out of the Federal Republic of Germany and Italy; the relationships are necessarily indirect, however, since a large part of the transactions was conducted through the Euro-dollar market. After the year-end movements, the prevailing tendency was for German bank assets to be repatriated, while during the last quarter of 1962 and in early 1963 Italian commercial banks borrowed large amounts abroad. These developments brought about a rise in interest rates in the Euro-dollar market which may have influenced the movements of bank funds and those movements of U.S. short-term funds that are reflected in unrecorded transactions; the net debit for the latter item was about \$0.9 billion in 1961 and over \$1 billion in 1962. In both years, there was a substantial inflow of foreign short-term capital, other than bank funds, reaching about \$750 million in 1961 and some \$850 million in 1962 (Table 15, Group C). This inflow included short-term investments by international organizations and also, in 1962, advances on U.S. military exports.

As a result of all these transactions, the deficit financed by changes in U.S. reserves and foreign official reserve holdings in the United States and in IMF accounts increased from \$1.3 billion in 1961 to \$2.2 billion in 1962. By far the most important element in financing the increase was a shift from net use of the Fund's dollar holdings by Fund members in 1961 to net repayments in 1962, which accounted for more than \$750 million. U.S. official holdings of convertible currencies were almost unchanged in 1962, in contrast to an increase of more than \$100 million in the preceding year. Gold sales and increases in claims on the United States that represent the reserves of foreign central banks and governments were virtually the same in both years. In 1962, these claims included \$250 million of foreign official holdings of nonmarketable U.S. Treasury bonds denominated in foreign currencies with an original maturity of more than 12 months. During the early months of 1963, the U.S. Treasury continued to borrow from foreign central banks and governments, a technique that may help to moderate the outflow of gold.

During the first quarter of 1963, transactions in goods, services, aid, and U.S. Government long-term capital (excluding major special transactions) remained very close to the rate of the previous six months, although it appears that the adverse effects of the dock strike may not have been fully overcome by the end of March. Net outflows of private long-term capital, however, reached \$1 billion in the first quarter of 1963, nearly double the amounts in the first quarters of the several previous years. U.S. direct investment abroad is estimated at more than \$550 million, one of the largest amounts recorded for a single quarter, with direct investment in Western Europe alone showing a figure of over \$0.4 billion. The other major source of long-term outflows was the issuance of new securities in the United States; Canadian bonds accounted for the bulk of these issues, which aggregated nearly \$0.5 billion. Except for a large reduction—probably mainly for seasonal reasons—in liabilities to foreign banks, recorded changes in private short-term capital were minor. However, a decline in the balance on unrecorded transactions from a debit of almost

\$0.5 billion (seasonally adjusted) in each of the last two quarters of 1962 to a negligible debit in the succeeding quarter strongly suggests that unrecorded short-term outflows were sharply reduced. The deficit on all these transactions was about \$350 million, a figure that coincides with the sales of U.S. Government convertible, nonmarketable securities to foreign official holders during the quarter.

### *United Kingdom and the Sterling Area*

In 1962, the United Kingdom's recorded current and long-term capital transactions were nearly in equilibrium, following deficits since 1958; after allowing for unrecorded transactions, there may have been a surplus of \$250-300 million in the basic balance (Table 16, line C and part of line D). On a seasonally adjusted basis, the whole of this surplus appears to have been achieved in the first half of the year. The improvement in the current account, which had commenced in the second half of 1961, continued during the first half of 1962, deteriorated somewhat in the third quarter, but improved again in the last quarter. Long-term capital transactions, which had shown an exceptional net inflow of more than \$200 million in the second half of 1961, were almost in balance in the first half of 1962 and reverted to a considerable outflow in the second half of the year. The improvement in the basic position after the middle of 1961 was supported by recorded and unrecorded movements of short-term capital, particularly during the early part of 1962.

The over-all position of the overseas sterling area remained strong in both 1961 and 1962, but this strength was not reflected in the United Kingdom's reserves; during the two years, overseas sterling countries added the equivalent of \$700 million to their own reserves in forms other than sterling, while their official sterling reserves rose little.

The United Kingdom's exports rose quite rapidly in the first half of 1962, reflecting the general expansion in world production and trade; their value, seasonally adjusted, was about 5 per cent

higher in the second quarter than in the first quarter of the year. This rise was due chiefly to a revival of exports to the sterling area (which had declined quite steeply in the course of 1961) and a further increase in exports to Western Europe, particularly the EEC countries. However, the rise in exports ceased toward the middle of 1962. During the second half of the year, there was a marked reduction in exports to Canada and Latin America, a cessation of the rapid growth of exports to the EEC countries, and a leveling off of exports to the sterling area. In 1962 as a whole, exports to the sterling area declined for the second year in succession, and the balance of trade with sterling countries showed a sizable deficit for the first time since 1953. The United Kingdom's share of both exports and imports of the overseas sterling area again fell markedly.

In contrast to the imports of most industrial countries, those of the United Kingdom did not rise appreciably in value from 1961 to 1962, despite exceptionally heavy imports of food and fuels in the middle of the year, and despite a renewed growth of inventories, following some reduction in the first quarter. The seasonally adjusted value of imports reached its peak in the third quarter, when it was about \$200 million (7 per cent) higher than at the end of 1961; it declined by about \$100 million in the fourth quarter. The volume of imports had fallen slightly from 1960 to 1961, and an increase of about 3 per cent between 1961 and 1962 was just sufficient to bring them above the previous record, reached in 1960. The principal element in this increase was a 4 per cent growth in the volume of imports of food.

The surplus on transactions in invisibles, which had deteriorated sharply after 1958, recovered by about \$170 million in 1962. Net receipts on profits and dividends rose, oil earnings revived, interest payments to overseas holders of sterling were reduced by lower interest rates, government expenditure rose less than in recent years, and the deficit on shipping was reduced.

The improvement in the total balance of current transactions of nearly \$400 million from 1961 to 1962, and of more than \$1,000 million from 1960 to 1962, occurred wholly in transactions with



TABLE 16. UNITED KINGDOM: BALANCE OF PAYMENTS SUMMARY, 1961–FIRST QUARTER 1963<sup>1</sup>

(In millions of U.S. dollars)

	1961	1962	1961		1962		1963
			First half	Second half	First half	Second half	First quarter
<b>A. Goods, Services, and Transfer Payments</b>							
Exports, seasonally adjusted	10,822	11,166	5,407	5,415	5,532	5,634	2,876
Imports, seasonally adjusted	-11,237	-11,365	-5,746	-5,491	-5,594	-5,771	-2,837
Trade balance, seasonally adjusted	-415	-199	-339	-76	-62	-137	39
Services and transfer payments, seasonally adjusted	213	386	107	106	201	185	126
Total, seasonally adjusted	-202	187	-232	30	139	48	165
Seasonal influences	—	—	78	-78	141	-141	-8
Total, unadjusted	-202	187	-154	-48	280	-93	157
<b>B. Capital Movements, n.i.e.</b>							
Official long-term	-117	-294	-33	-84	-76	-218	-28
Official liabilities to nonmonetary international institutions	98	72	50	48	22	50	6
Private long-term							
Investment abroad (net)	-918	-739	-543	-375	-428	-311	-266
Investment in U.K. (net)	792 <sup>2</sup>	775	165 <sup>2</sup>	627	462	313	90 <sup>3</sup>
Total	-145	-186	-361	216	-20	-166	-198
<b>C. Total (A plus B)</b>	-347	1	-515	168	260	-259	-41
<b>D. Errors and Omissions</b>	136	359	37	99	181	178	66
<b>E. Private Short-Term Capital Movements, n.i.e.</b>							
Miscellaneous capital (mainly U.K. commercial banks)	-174	311	-137 <sup>4</sup>	-37 <sup>4</sup>	263	48	-9
Nonofficial sterling holdings							
Sterling area	238	238	143	95	143	95	11 <sup>3</sup>
Non-sterling area	-840 <sup>2</sup>	-67	-829 <sup>2,4</sup>	-11 <sup>4</sup>	-101	34	-250 <sup>3</sup>
Total	-776	482	-823	47	305	177	-248
<b>F. Official Monetary Movements</b>							
Net IMF position	1,046	-1,060	-42	1,088	-505	-555	—
European central bank assistance	—	—	904	-904	—	—	250
Other official sterling holdings							
Sterling area	190	-115	190	—	3	-118	118 <sup>3</sup>
Non-sterling area	-165	-182	-213	48	-129	-53	-137 <sup>3</sup>
U.K. gold and currency reserves (increase —)							
Gold	534	-314	367	167	-351	37	135
Other (mainly convertible currency)	-618	829	95	-713	236	593	-143
Total	987	-842	1,301	-314	-746	-96	223

For footnotes, see page 127.

non-sterling countries. During these two years, the large current account deficit with these countries was reduced by about \$1,350 million, while the surplus with sterling area countries declined.

The net outflow of private and official long-term capital was slightly larger in 1962 than in 1961, excluding the Ford Motor Company transaction. Private long-term investment in the United Kingdom was about the same in the two years, but it was at its peak in the second half of 1961, when it included a substantial net inflow of portfolio funds which ceased after the first quarter of 1962. Private investment abroad was materially lower than in 1961, partly as a result of lower investment by oil companies; other direct investment was about the same as in recent years. Official capital receipts in 1962 did not include any extraordinary items like the advance repayments of debt by the Federal Republic of Germany and France and the loan from Switzerland, which together amounted to more than \$250 million in 1961. Thus, although new official lending was about the same as in recent years, the net outflow on official transactions increased by some \$200 million.

In contrast to the large outflow of short-term funds in 1961, there was a marked inflow in 1962, mainly in the first quarter of the year when short-term interest rates in the United Kingdom were most favorable. In each month from January to March, funds held by London banks against deposits in foreign currencies rose substantially, reflecting both increases in such deposits and their greater utilization for domestic rather than foreign lending. A considerable growth in the positive balance for errors and omissions probably implies that unrecorded capital and monetary transactions

*Footnotes to Table 16.*

Source: Central Statistical Office, *Economic Trends*, June 1963.

<sup>1</sup> No sign indicates credit; minus sign indicates debit.

<sup>2</sup> The purchase by the Ford Motor Company of the United States of the minority interest in its U.K. subsidiary for \$367 million has been treated as if it had been completed in December 1960. It is therefore excluded from Group B, while the withdrawal of this amount of sterling from holdings is excluded from Group E.

<sup>3</sup> For the first quarter of 1963, other official sterling holdings cover central monetary institutions only; nonmonetary official holdings are included with nonofficial sterling holdings; changes in acceptances outstanding are now included in nonofficial sterling holdings instead of miscellaneous capital; and certain liabilities formerly included in sterling holdings are now classified as private long-term investment in the United Kingdom or miscellaneous capital.

<sup>4</sup> Assistance received from European central banks has all been entered in Group F, although part of it is classified in U.K. publications as liabilities to the private sector.

were moderately positive in 1962, whereas they were negative for 1961 as a whole.

Favorable changes in both basic transactions and movements of short-term capital resulted in the over-all balance of the United Kingdom showing a substantial surplus in 1962, following a slightly larger deficit in 1961. As noted in an earlier chapter, the United Kingdom repaid its 1961 drawing to the Fund; liabilities to official holders of sterling also decreased substantially, and reserves fell by about \$500 million. The reduction by countries in the overseas sterling area of their official sterling holdings in 1962, following a marked rise in 1961, in part reflected their net repayments to the Fund in 1962 following net drawings in 1961. Official sterling holdings of non-sterling countries were reduced in both years.

The improvement in the current balance continued in the first quarter of 1963. While imports remained unchanged, exports were 2 per cent higher than in the preceding quarter, as a result of a renewed expansion of exports to Western Europe and certain sterling area countries. Allowing for seasonal factors, the surplus on invisible transactions remained at the higher level attained in the last quarter of 1962, and the current account surplus (\$165 million) was the largest since early 1959. However, the basic balance remained in deficit, as the net outflow of long-term capital increased to almost \$200 million. Outward investment was higher and inward investment lower than in recent quarters, but this comparison is influenced by an important change in the classification of certain portfolio investments previously included in sterling holdings (see Table 16, footnote 3). There was also a marked outflow of short-term funds. At the end of January, and again in March, sterling came under strong pressure, unofficial holdings of sterling were sharply reduced, and reserves fell. These losses were largely offset by borrowing from European central banks. The position of sterling has since improved. Reserves rose in April and May, but declined in June when the assistance from central banks was repaid.

*Federal Republic of Germany*

The decline in the Federal Republic's strong surplus position in international payments, which emerged in the course of 1961, continued in 1962 (Table 17). The basic balance of goods and services and long-term capital transactions, excluding advance debt repayments and certain other extraordinary transactions, showed a deficit of \$325 million, compared with a surplus of about \$650 million in 1961. The deterioration in the goods and services account was even more marked. Imports rose at an appreciable rate, exceeding that of exports, and payments on services, especially tourism, grew very rapidly. Consequently, the surplus on goods and services of about \$600 million recorded in 1962 was only a little more than one third of that in each of the preceding two years. Apart from the nonrecurrence of the large advance payments of government debt, there was little alteration in the total of the long-term capital account. The balance of private long-term capital transactions changed from a small net outflow in the second half of 1961 to a renewed small net inflow in the first half of 1962; this increased further in the second half, owing to greater foreign net purchases of German bonds. The official capital outflow, excluding special transactions, remained in 1962 below that of the preceding years, as disbursements of development aid were slow in following the substantial commitments entered into by the Federal Government in recent years. Short-term capital transactions (other than commercial bank net foreign exchange assets and including errors and omissions) were virtually in balance in 1962 taken as a whole, whereas in both 1960 and 1961 they had resulted in a substantial net inflow.

The commercial banks' net foreign exchange assets decreased during 1962, after having risen early in the year following the usual year-end repatriations; at the end of January 1963, they were about \$700 million less than they had been 12 months earlier. To some extent this reduction was due to the gradual tightening of domestic bank liquidity (which was no longer reinforced by large external surpluses) while demand for bank credit remained high. The Bundesbank refrained from action that might have strengthened

TABLE 17. FEDERAL REPUBLIC OF GERMANY: BALANCE OF PAYMENTS SUMMARY, 1960-62<sup>1</sup>

(In millions of U.S. dollars)

	1960	1961	1962	1961		1962	
				First half	Second half	First half	Second half
<b>A. Goods, Services, and Transfer Payments</b>							
Exports f.o.b.	11,410	12,644	13,236	6,170	6,474	6,460	6,776
Imports c.i.f.	-10,101	-10,920	-12,263 <sup>2</sup>	-5,243	-5,677	-6,035 <sup>2</sup>	-6,228
Other merchandise	-45	-116	-119	-33	-83	-83	-36
Trade balance	1,264	1,608	854	894	714	342	512
Paid services to foreign troops	943	949	1,076	493	456	516	560
Other services	-440	-956	-1,339	-345	-611	-469	-870
Transfer payments	-685	-865	-941	-369	-496	-489	-452
Total	1,082	736	-350	673	63	-100	-250
<b>B. Long-Term Capital</b>							
Bonds	333	72	153	156	-84	40	113
Shares	-9	282	37	145	137	14	23
Other private long-term capital	-90	-141	83	-67	-74	35	48
Advance debt redemption	-	-780	-	-780	-	-	-
Other government long-term capital	-276	-286	-248	-116	-170	-105	-143
Repayments on post-EPU claims	278	236	35	66	170	6	29
Other Bundesbank assets (increase -) <sup>3</sup>	-25	-201	6	-29	-172	1	5
Total	211	-818	66	-625	-193	-9	75
<b>C. Total (A plus B)</b>	1,293	-82	-284	48	-130	-109	-175
Total, excluding certain extraordinary transactions <sup>4</sup>	1,040	663	-325	791	-128	-116	-209
<b>D. Short-Term Capital, n.i.e. (including net errors and omissions)</b>	578	430	6	782	-352	155	-149
<b>E. Commercial Bank Liquid Foreign Assets (net)</b>	347	-253	59	-791	538	-399	458
<b>F. IMF Position and Net Reserves</b>							
Net IMF position	-40	-330	120	-135	-195	40	80
Bundesbank liabilities	5	-21	5	143	-164	6	-1
Foreign exchange (increase -) <sup>5</sup>	-1,849	948	110	495	453	311	-201
Monetary gold (increase -)	-334	-692	-16	-542	-150	-4	-12
Total	-2,218	-95	219	-39	-56	353	-134

Source: Data provided by the Deutsche Bundesbank.

<sup>1</sup> No sign indicates credit; minus sign indicates debit.<sup>2</sup> Because of changes in customs procedures, this amount is \$116 million higher than it would have been on a basis comparable with the figures for earlier years.<sup>3</sup> Covers IBRD bonds and notes and repayments received on consolidated credits.<sup>4</sup> This balance is intended to facilitate analysis of the more basic factors in the balance of payments. It excludes the following extraordinary transactions: (a) advance debt redemption, (b) repayments on post-EPU claims, and (c) other Bundesbank assets, i.e., IBRD bonds and notes and repayments received on consolidated credits. However, it includes private transactions in securities, which are likely to fluctuate widely in the short run. Such transactions should be taken into account in evaluating the balance.<sup>5</sup> Foreign exchange covers freely usable foreign exchange and earmarked assets.

bank liquidity, but—with a view to diminishing seasonal fluctuations in bank assets held abroad—it encouraged the holding of liquid bank assets in domestic money market paper rather than in foreign exchange assets; this was done through repeated increases in discounts on domestic money market paper sold to the banks. With the same end in view, the Bundesbank tightened the special conditions that it had earlier offered to the banks for swap transactions in U.S. dollar assets. In a special attempt to discourage as far as possible temporary year-end repatriation of foreign bank assets for window-dressing purposes, the Bundesbank declined to enter into swaps maturing during December 1962.

Imports rose at a particularly brisk pace in the first half of 1962, when they were 15 per cent higher in value in terms of dollars (c.i.f.) than in the same period of 1961. Special factors explain part of this sharp rise: the poor harvest of 1961 required larger purchases abroad of food and feeding stuffs; the steep rise in food imports was further augmented by the desire of importers to forestall price increases for imported farm products following the introduction on July 30, 1962 of the new marketing regulations under the common agricultural policy arrangements of the EEC; in the early months of the year, there was also a purely statistical increase in imports owing to changes in German customs procedures. To an important extent, however, the rise in imports reflected the growing share of foreign supplies in the German market for industrial goods. The value of imports of finished products (in terms of deutsche mark) rose by 20 per cent, following a 13 per cent increase in 1961; these imports accounted for 38 per cent of the total in 1962, compared with 35 per cent in 1961. Even if imports of armaments, which were particularly large in 1962, are eliminated, evidence of a very substantial rise in purchases of finished manufactured goods remains. This rise, which was especially marked in consumer goods, must to some extent be attributed to the present stronger competitive position of foreign products in the German market. In terms of deutsche mark, import prices declined on the average by 2 per cent in 1962, following a 3.5 per cent decline in 1961, while domestic prices

rose appreciably. Moreover, the persistence of considerable pressure of demand on available domestic resources provided a strong stimulus to imports.

A certain weakening of the competitive position of German products in foreign markets is also apparent, although the recent less rapid growth of exports has been due, to an important extent, to a slower expansion of demand, notably of investment activity, in industrial countries in Europe. The increase from 1961 to 1962 of nearly 5 per cent in the dollar value of German exports was less than half the rate of growth from 1960 to 1961. This reduced rate is in line with that recorded for exports of other important industrial countries, but the tendency for Germany's share in total world exports to rise has apparently not continued. The volume of exports conspicuously slackened in the early part of the year, but improved in the later months as export orders increased somewhat. The unit value of total exports declined slightly from 1961 to 1962; but those of finished manufactures, which account for nearly two thirds of total German exports, rose by 3 per cent, as they had done in 1961. The regional distribution of foreign trade—especially exports—showed a further shift toward the other members of the European Economic Community.

The balance on services account (excluding freight and insurance payments included in the cost of imports) moved into a deficit of more than \$250 million in 1962, after a virtual balance in 1961 had followed considerable surpluses in earlier years. German tourist expenditures abroad rose by one third, to nearly \$1.2 billion, and remittances from foreigners working in the Federal Republic again increased substantially. The net payment for profits, interest, and dividends also increased, though by less than in 1961, reflecting a smaller growth of profits. Receipts for deliveries and services to foreign troops rose from \$950 million in 1960 and 1961 to \$1.1 billion in 1962. Net transfer payments, consisting mainly of indemnification payments by the Government, were nearly \$80 million higher in 1962 than a year earlier; however, indemnification payments are declining.

In the first quarter of 1963, both imports and exports were slightly greater than those in the same period in 1962; the trade surplus was virtually unchanged.

### *France and the Franc Area*

The surplus of Metropolitan France on current transactions with the non-franc area was much the same in 1962 as in 1961, declining by no more than about \$100 million, to \$820 million (Table 18). This resulted from a somewhat larger reduction in the surplus on invisibles (mainly because of a reduction in net receipts from tourism and an increase in private transfers abroad). On a payments basis, the trade surplus with this area increased somewhat, although according to customs data the value of imports rose slightly faster than exports to that area. The surplus on current transactions was somewhat lower in the second half of the year than in the first half, owing partly to a seasonal reduction in net service receipts and partly to the replacement of a net inflow of transfer payments by a net outflow.

The traditional trade surplus of France with countries in the outer franc area had been considerably reduced in 1961 (when it amounted to about \$450 million, customs figures, with imports estimated f.o.b.). For most of 1962 it virtually disappeared, but it reappeared in the last quarter of the year and the first quarter of 1963. Imports from these countries increased slightly in value in 1962, but France's exports to them fell by about \$400 million (more than one fifth). The major cause was a reduction in exports to Algeria, related to the political changes in that country. These shifts of trade within the franc area had no immediate impact on the balance of payments of the franc area as a whole. The over-all surplus of the outer franc area with non-franc area countries increased in 1962 from \$118 million to \$150 million.

The net inflow (\$400 million) of private long-term capital into Metropolitan France from the non-franc area, and the outflow (\$130 million) to that area of official long-term capital, other than advance debt redemption, were much the same as in 1961. The



TABLE 18. FRANC AREA: BALANCE OF PAYMENTS SUMMARY, 1961 AND 1962<sup>1</sup>

(In millions of U.S. dollars)

	1961	1962	1961		1962	
			First half	Second half	First half	Second half
<b>I. METROPOLITAN FRANCE</b>						
<b>A. Goods, Services, and Transfer Payments</b>						
Trade balance, payments basis	417	481	167	250	232	249
Services	467	287	270	197	182	105
Transfer payments	70	56	28	42	78	-22
Total, payments basis	954	824	465	489	492	332
<b>B. Long-Term Capital</b>						
Private	370	397	211	159	179	218
Advance debt redemption	-320	-584	-40	-280	-119	-465
Other official	-120	-137	-14	-106	-52	-85
Total	-70	-324	157	-227	8	-332
<b>C. Total (A + B)</b>	884	500	622	262	500	—
Total, excluding advance debt redemption	1,204	1,084	662	542	619	465
<b>D. Private Nonmonetary Short-Term Capital</b>						
Operations pending settlement	-18	43	-35	17	35	8
Other	-87	-114	-46	-41	-70	-44
Total	-105	-71	-81	-24	-35	-36
<b>E. Total (C + D)</b>	779	429	541	238	465	-36
<b>II. REST OF FRANC AREA</b>						
<b>F. Net Transactions with Non-Franc Area</b>	118	150	51	67	57	93
<b>III. TOTAL FRANC AREA</b>						
<b>G. Net Errors and Omissions</b>	54	19	27	27	56	-37
<b>H. Commercial Bank Assets (net)</b>	122	88	150	-28	75	13
<b>I. Official Monetary Movements</b>						
Net IMF position	-233	-12	-28	-205	-62	50
Other liabilities	52	-13	-12	64	-22	9
Foreign exchange (increase —)	-412	-195	-350	-62	-420	225
Monetary gold (increase —)	-480	-466	-379	-101	-149	-317
Total	-1,073	-686	-769	-304	-653	-33

Source: Data provided by the French authorities.

<sup>1</sup> Groups A through E cover settlements by institutions in Metropolitan France on account of transactions of any part of the franc area with the non-franc area, and Group F covers similar settlements by institutions in the rest of the franc area. This distinction is administrative and does not necessarily coincide with a division between transactions for account of Metropolitan France and those for account of the rest of the franc area. Groups H and I cover changes in assets and liabilities of institutions in Metropolitan France arising from transactions of both parts of the franc area with the rest of the world, but exclude changes in the independent reserves of countries in the rest of the franc area. No sign indicates credit; minus indicates debit.

combined surplus on current transactions and these capital transactions again exceeded \$1,000 million, and was only about \$100 million smaller than in 1961. That the net reserves held by France, including those of the other countries in the franc area, rose by some \$400 million less in 1962 than in 1961 was due principally to the fact that advance debt repayments totaled \$585 million in 1962, against \$320 million in 1961. Since the greater part of these repayments was made in the second half of the year, when the current surplus was also reduced, there was little accumulation of net reserves during that period.

### *Italy*

The strong current account position of Italy, and the apparent ability of the economy to attract considerable inward flows of capital (both short-term and long-term), have for many years been supported by such factors as a high degree of price stability, an elastic supply of labor, and a rapid rate of economic growth. For a number of years, wage costs rose less in Italy than in most other countries in Western Europe, owing mainly to substantial increases in productivity and to the prevalence of a rather high level of unemployment. The rapid economic expansion in recent years, and the concomitant decline in unemployment—despite the shift of underemployed agricultural labor to the industrial labor force—together with large-scale employment of Italian workers in other countries in Europe, have gradually given rise to pressures on wages and prices in Italy also. These developments have led to rising pressures of demand in the economy, which in turn have resulted in the weakening of Italy's current account position (Table 19). While the decline in the current balance occurred late in the year, developments during the early months of 1963 suggest that the change was more than temporary, and give reasons for believing that a major current account surplus will not reappear in Italy's balance of payments for some time to come.

The rise in Italian exports continued in 1962, although at a reduced rate, but it was far exceeded by the rise in imports, so

TABLE 19. ITALY: BALANCE OF PAYMENTS SUMMARY, 1961–FIRST QUARTER 1963<sup>1</sup>

(In millions of U.S. dollars)

	1961	1962	1961				1962				1963
			First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
<b>A. Goods, Services, and Transfer Payments</b>											
Exports f.o.b.	3,851	4,457	892	938	1,003	1,018	1,093	1,093	1,149	1,122	1,130
Imports c.i.f.	-4,937	-5,884	-1,241	-1,231	-1,181	-1,284	-1,389	-1,436	-1,398	-1,661	-1,641
Trade balance	-1,086	-1,427	-349	-293	-178	-266	-296	-343	-249	-539	-511
Services (net)	984	979	171	232	375	206	158	232	399	190	190
Transfer payments (net)	465	578	90	105	132	138	109	124	178	167	110
Total	363	130	-88	44	329	78	-29	13	328	-182	-211
<b>B. Capital Movements (excluding Groups D, E, and F) and Net Errors and Omissions</b>											
Remittances of Italian banknotes	-329	-766	-77	-123	-43	-86	-252	-202	-105	-207	-525
Foreign investments in Italy	666	844	133	244	123	166	195	201	224	224	468
Italian investments abroad	-115	-279	-21	-25	-39	-30	-36	-59	-129	-55	
Other and net errors and omissions	-9	122	-43	20	20	-6	28	22	17	55	
Total	213	-79	-8	116	61	44	-65	-38	7	17	-57
<b>C. Total (A plus B)</b>	576	51	-96	160	390	122	-94	-25	335	-165	-268
<b>D. Commercial Banks Foreign Assets, Net (increase -)</b>	40	430	-33	40	-17	50	-43	16	-45	502	154
<b>E. Advance Repayment of Foreign Debt</b>	—	-178	—	—	—	—	—	—	-178	—	—
<b>F. Official Monetary Movements</b>											
Net IMF position	-175	40	-15	-28	-120	-12	20	-5	25	—	-5
Gold and free exchange (increase -)	-339	-22	144	-172	-262	-49	140	40	-13	-189	115
Other foreign assets of UIC and Bank of Italy (increase -)	-102	-321	—	—	9	-111	-23	-26	-124	-148	4
Total	-616	-303	129	-200	-373	-172	137	9	-112	-337	114

Source: Ufficio Italiano dei Cambi, *Movimento Valutario*.<sup>1</sup> No sign indicates credit; minus sign indicates debit.

that the trade balance deteriorated by some \$350 million. While receipts on account of transfer payments (mainly workers' remittances) rose further by about \$100 million, the current surplus fell by about \$250 million, to \$130 million.<sup>1</sup> Whereas for the first nine months of 1962 it was slightly higher than that for the corresponding period of 1961, a major deterioration set in during the fourth quarter, when the current surplus was about \$250 million lower than in the same quarter a year earlier, the main factor being a sharp rise in imports. During the first three months of 1963, the customary seasonal deficit on current account was much higher than in the same months of 1962.

The reduction in the current surplus appears to have been accompanied by a deterioration in the balance of payments on capital account, excluding transactions of monetary institutions. Italy's position on capital account as a whole is difficult to assess because of large remittances by Italian residents of Italian banknotes, which are subsequently returned to Italy. The use made of the notes sent abroad is not known; it is believed, however, that part of them are used for capital transactions through foreign banking institutions, mainly investments in Italy, the figures for which are therefore believed to be overstated. Including such remittances and other unrecorded transactions, there was a change, by almost \$300 million, from a net inflow in 1961 to a net outflow in 1962 on account of capital transactions, other than those of monetary institutions.

While changes in the foreign assets and liabilities of commercial banks remained moderate during the first three quarters of the year, there was a net inflow of funds of more than \$500 million during the last quarter, representing almost exclusively borrowing. This inflow was made possible by the removal, in November 1962, of the obligation imposed on the banks to match their foreign assets and liabilities. This obligation was removed to ease domestic liquidity, which was being increasingly strained.

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<sup>1</sup> This figure, which is derived from Table 19, is on a payments basis; the current surplus on a transactions basis has been estimated for both 1961 and 1962 at about \$150 million higher than indicated in that table.

In the course of 1962, the Italian monetary authorities cooperated with those of the United States in easing pressures on the U.S. dollar, both by making advance debt repayments to the U.S. Government of \$178 million and by investing \$150 million of foreign assets in nonmarketable U.S. Treasury bonds. The Italian gold reserves have not risen appreciably since the end of 1960.

### *Other Countries in Continental Europe*

Among the other manufacturing countries in continental Europe (Table 20), there was a notable deterioration in the current balances of Denmark and Switzerland between 1961 and 1962. In Norway (where the current deficit was sizable in both 1961 and 1962) as well as in *Denmark*, an inflow of long-term and short-term capital, including government and commercial bank borrowing, covered most of the current deficit, so that the effect on official reserves was moderate. In both countries, the deficits were related to sharp increases in prices and incomes, and in Norway to a considerable increase in net imports of ships compared with 1960; the measures taken in Denmark to redress the balance of payments are described in Chapter 7.<sup>2</sup>

Despite rising deficits on current account, and a reported outflow of long-term capital of about \$300 million in both 1961 and 1962, the official reserves of *Switzerland* rose in both years, but the increase (\$120 million) in 1962 was \$300 million smaller than in 1961. However, in 1962, the Swiss Government invested \$100 million in special nonmarketable U.S. Treasury bonds denominated in Swiss francs. In spite of efforts by the Swiss authorities to stem an inflow of capital, the unrecorded inflow of long-term and short-term capital into Switzerland appears to have been substantial in both years, reaching more than \$1 billion in 1961 and somewhat less than \$1 billion in 1962. It is believed that much of the unrecorded inflow stems from a repatriation of Swiss funds previously invested abroad, but it probably also includes considerable amounts of foreign capital. While some allowance

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<sup>2</sup> Page 113.

TABLE 20. OTHER MANUFACTURING COUNTRIES IN CONTINENTAL EUROPE: BALANCE OF PAYMENTS SUMMARIES, 1961 AND 1962<sup>1</sup>

(In millions of U.S. dollars)

		Goods, Services, and Private Transfers (1)	Official Transfers and Capital <sup>2</sup> (2)	Other Nonmonetary Long-Term Capital (3)	Extraor- dinary Trans- actions <sup>3</sup> (4)	Basic Balance (Col. 1 + 2 + 3 minus Col. 4) (5)	Other Nonmonetary Short-Term Capital and Errors and Omissions (6)	Net Commercial Bank Short-Term Assets <sup>4</sup> (7)	Net Reserves <sup>4,5</sup> (8)
Austria	1961	-5	2	61	4	54	75	8	-141
	1962	65	23	98	3	183	78	-3	-261
Belgium-Luxembourg	1961	58	-72	92	-180	258	-4	230	-304
	1962	72	-54	26	-24	68	34	-114	36
Denmark	1961	-111	10	82	8	-27	-1	24	-4
	1962	-247	27	97	—	-123	33	65	25
Netherlands	1961	228	-147	-127	-69	23	-65	170	-59
	1962	228	-114	-91	-26	49	-68	30	15
Norway	1961	-204	-7	119	-13	-79	20	69	3
	1962	-206	-11	98	-15	-104	95	22	2
Sweden	1961	22	-4	12	3	27	155	9	-194
	1962	8	-17	-4	1	-14	109	-4	-92
Switzerland	1961	-210	-67	-308	...	...	1,117	-95	-437
	1962	-350	...	-285	...	...	755	...	-120

Source: Based on data reported to the International Monetary Fund. For 1962, the data for some countries are provisional and are not comparable with those for 1961.

<sup>1</sup> No sign indicates credit; minus sign indicates debit.

<sup>2</sup> Excluding capital movements considered as reserve movements; see footnote 5.

<sup>3</sup> Included in column 2; mainly advance debt repayments, but include all repayments on post-EPU debts.

<sup>4</sup> Increase (-).

<sup>5</sup> Reserve movements generally cover changes in official holdings of gold and foreign exchange assets, in central monetary sector, in short-term liabilities, and in net IMF position. Repayments on post-EPU claims and debts are included with official transfers and capital.

has been made in the estimate, shown in Chart 7,<sup>3</sup> of the combined basic balance of the manufacturing countries in continental Europe, for an unrecorded inflow of long-term capital into Switzerland, it is mainly because of the large credit errors and omissions in the Swiss balance of payments that the area's basic surplus is believed to be underestimated.

### *Japan*

In 1962, for the third time within ten years, Japan demonstrated its ability to correct a balance of payments deficit by moderating the expansion of production and stepping up efforts toward export promotion. This success in adjusting the balance of payments is particularly notable in view of the fact that neither exports nor imports account for more than about 10 per cent of Japan's gross national product. The adjustment in 1962 was all the more remarkable because it occurred in the face of a continued liberalization of trade.

The deficit in Japan's balance of payments had been brought about by an excessively high rate of economic expansion (financed in part by an inflow of short-term capital) combined with the effects on exports of the 1960 recession in the United States. The subsequent improvement was related both to a series of measures taken by the Japanese authorities to redress the balance of payments, resulting mainly in a reduction of imports, and to a renewed sharp rise in exports, stimulated in large part not only by the recovery of economic activity in the United States but also by reduced discrimination against Japanese exports in Europe. Contributing to the improvement in Japan's balance of payments in 1962 was a net inflow of \$147 million of private long-term capital (Table 21) in contrast to a net outflow of \$41 million in 1961, the change arising in part from a decline in Japanese investment abroad.

In the third quarter of 1962, Japan's basic balance changed to a surplus, after being in deficit for the preceding six quarters. The

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<sup>3</sup> Page 117.

TABLE 21. JAPAN: BALANCE OF PAYMENTS SUMMARY, 1960-62 <sup>1</sup>

(In millions of U.S. dollars)

	1960	1961	1962	1961		1962	
				First half	Second half	First half	Second half
A. Goods, Services, and Private Transfer Payments							
Exports f.o.b.	3,978.2	4,148.6	4,860.3	1,913.3	2,235.3	2,195.1	2,665.2
Imports f.o.b.	-3,710.7	-4,707.1	-4,458.7	-2,281.9	-2,425.2	-2,309.8	-2,148.9
Trade balance	267.5	-558.5	401.6	-368.6	-189.9	-114.7	516.3
Special government receipts <sup>2</sup>	412.6	389.2	376.9	190.9	198.3	179.7	197.2
Other services and private transfer payments	-456.4	-714.2	-742.4	-330.9	-383.3	-410.7	-331.7
Total	223.7	-883.5	36.1	-508.6	-374.9	-345.7	381.8
B. Private Long-Term Capital							
Direct investment	-72.9	-34.7	-19.0	-18.2	-16.5	-11.7	-7.3
Other	-10.3	-6.5	166.6	14.2	-20.7	48.3	118.3
Total	-83.2	-41.2	147.6	-4.0	-37.2	36.6	111.0
C. Central Government Transfer Payments and Nonmonetary Capital							
Reparations and loans extended	-87.3	-112.4	-80.9	-62.2	-50.2	-40.2	-40.7
IBRD loans received (net)	74.9	65.2	50.2	36.7	28.5	26.4	23.8
Other <sup>3</sup>	-34.8	-18.4	-44.0	-10.0	-8.4	-30.9	-13.1
Total	-47.2	-65.6	-74.7	-35.5	-30.1	-44.7	-30.0
D. Total (A through C)	93.3	-990.3	109.0	-548.1	-442.2	-353.8	462.8
E. Net Errors and Omissions	32.5	19.0	5.7	49.6	-30.6	54.5	-48.8
F. Private Short-Term Capital							
Nonmonetary sector	-15.8	21.0	107.7	-20.6	41.6	54.1	53.6
Commercial banks							
Liabilities	596.0	781.6	100.6	576.9	204.7	105.6	-5.0
Assets	-202.1	-229.8	-86.7	11.6	-241.4	58.4	-145.1
Total	378.1	572.8	121.6	567.9	4.9	218.1	-96.5
G. Treasury and Bank of Japan Monetary Capital and Gold							
Net IMF position	-	-55.0	-	-	-55.0	-	-
Payments agreement (net)	14.6	4.1	15.8	10.6	-6.5	16.3	-0.5
Other liabilities <sup>3</sup>	-18.5	97.2	102.2	8.4	88.8	201.3	-99.1
Official reserves (increase -)	-500.0	352.2	-354.3	-88.4	440.6	-136.4	-217.9
Total	-503.9	398.5	-236.3	-69.4	467.9	81.2	-317.5

Source: Based on data reported to the International Monetary Fund.

<sup>1</sup> No sign indicates credit; minus sign indicates debit.<sup>2</sup> Including sales to U.S. and UN forces under the special procurement program.<sup>3</sup> Yen portions of subscriptions to the International Development Association other than amounts immediately converted to U.S. dollars (\$6.0 million for 1960 and also for 1961), and the corresponding increases in liabilities are excluded from this table.



surplus in the second half of 1962 more than offset the deficit in the first half, so that a surplus of \$109 million was recorded for the full year. The deficit for 1961 was \$990 million. The predominant factor in the change from deficit in 1961 to surplus in 1962 was the expansion of exports by 16 per cent, following an increase of about 5 per cent from 1960 to 1961. Imports were 5 per cent lower than in 1961, after rising by more than 25 per cent from 1960 to 1961; and the trade balance changed from a deficit of \$558 million in 1961 to a surplus of \$402 million in 1962.

Almost half the increase in exports was in shipments to the United States, while imports from the United States decreased by considerably more than the decline in Japan's total imports. At the same time, trade with Europe and with Asian countries expanded in both directions, exports, however, rising much more than imports. Trade with other areas changed only moderately, although there was some increase in exports to Western Pacific countries, mainly Australia.

The net inflow of private short-term capital in 1962 was much less than in either 1960 or 1961. In the second half of 1962 there was, in fact, a net outflow. At mid-1962, as described in Chapter 7,<sup>4</sup> the Japanese authorities introduced certain measures aimed at discouraging a further inflow of foreign short-term capital. Because of the changes in short-term capital movements, the improvement in the over-all balance of payments was considerably less than that in the basic balance.

Part of the over-all deficit in the second half of 1961 and early 1962 had been financed by official short-term borrowing, on which repayments began late in 1962. By that time, Japanese reserves had been restored to their level at the end of 1960, and while repayments of official borrowing continued through the early months of 1963, there was a further small rise in reserves. In September 1962, an agreement was concluded between the Governments of Japan and the United States, under which Japan will pay to the United States, over a period of 15 years, \$490 million in settlement for postwar economic assistance received from the United States.

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<sup>4</sup> Page 106.

## Chapter 9

# The Primary Producing Countries

THE countries whose economic developments are the subject of this chapter are treated as a group because they are dependent on primary products for most of their export receipts. In other respects they are dissimilar. Some are industrially advanced while others are in the early stages of development. Some are endowed with rich natural resources, and some are not. The exports of some are based almost exclusively on one crop or product, while those of others are diversified. There are therefore considerable variations in the degree to which their export receipts vary from year to year as a result of price changes, and in their potential for expanding the volume of their exports.

For the purpose of considering their balances of payments, the primary producing countries are divided between the more industrialized and the less industrialized. The first group (Canada, Australia, New Zealand, South Africa, and Spain) comprises a few countries whose external position has recently been much more favorable than that of the majority of the primary producing countries. The second group is a residual, which includes all countries exporting mainly primary products other than those distinguished in the first group. While this second group includes some relatively advanced countries, it is heavily weighted by countries that are less industrialized; therefore, the collective outcome of the balances of payments of this group is fairly representative of the less industrialized members of it. The statistics for, and the discussion of, the countries in this second group refer only to those countries for which reasonably complete balance of payments

statements are available, and exclude a number in the overseas franc area and in the Middle East and Far East that have been major recipients of government aid and private long-term capital.

Of the countries in the first group, Canada, Australia, New Zealand, and South Africa are unquestionably much more industrially advanced than the majority of the primary producing countries. Spain has been included in this group mainly because its inclusion with the less industrialized countries would distort the picture of these countries' external position.

The domestic economic developments and policies of Canada have been reviewed in Chapter 7 because of their similarity to those of the other industrial countries, especially the United States. The varied domestic developments of the other four countries were closely related to their international transactions during 1962 (as, indeed, were Canada's); therefore, domestic developments in these countries are considered country by country in connection with the review below of their balance of payments.

The next section of this chapter is devoted to a brief discussion of general financial developments in the less industrialized countries. The third section discusses general balance of payments developments in the primary producing countries; and the two final sections discuss the balance of payments developments in individual countries, and consider (wherever appropriate in this context) financial or general economic developments in them.

### General Financial Developments in the Less Industrialized Countries

Several of the less industrialized countries continued in 1962 to follow policies of financial stability. But in others, as shown in Chapters 4 and 5, inflationary pressures have created serious difficulties. In some, the pressures have originated in attempts to finance economic development more rapidly than available domestic and foreign reserves would permit. In others, the weak fiscal

positions, and the less highly developed monetary instruments available, have made the control of inflation difficult.

On balance, financial developments in 1962 in the less industrialized countries as a group were marked by somewhat more moderation than in 1961 in the rate of credit expansion, as measured by net government borrowing from the banking system and bank credit to the private sector (Table 22, Columns 6 to 11). Fewer countries experienced an excessive credit expansion, and some actually reduced domestic credit (Column 7), which none had done in 1961. Many of the remaining countries slowed the rate of growth of domestic credit. In some, this rate of growth was less than that of time and saving deposits (Column 13) and similar liabilities of the banking system (Column 15), so that in fact the effect of the banking system's domestic operations was contractionary; in most instances, this was accomplished through a reduction in net government borrowing from the banking system (Column 9). Such contractionary action was generally accompanied by increases in international reserves (Column 5), while, in one country, Venezuela, the decline in reserves was halted. In most countries where net foreign assets increased in 1962, the increase was associated with a contraction, or only a very mild expansion, of domestic assets.

In contrast, sizable decreases in foreign reserves are evident in those countries where domestic credit expansion was excessive in 1962. In many of these countries, increases in quasi-money (essentially time and savings deposits) and similar liabilities of the banking system proceeded at a slower rate than in 1961, as a result of the loss of confidence engendered by the inflation. Therefore, there was a lowering of savings in monetary form, such as might have dampened the inflationary effects of the domestic credit expansion.

#### *Central Bank Legislation*

Realizing that a central bank is a highly important instrument in the conduct of economic policies, and in particular an important

TABLE 22. SELECTED LESS INDUSTRIALIZED COUNTRIES: PERCENTAGE CHANGES IN MONEY SUPPLY, 1955-62, AND FACTORS AFFECTING CHANGES IN MONEY SUPPLY, 1961 AND 1962

	Percentage Change in Money Supply			Change in Net Foreign Assets <sup>1</sup>		Change in Domestic Assets <sup>2</sup>	
	Annual average			As percentage of money supply at beginning of year		As percentage of money supply at beginning of year	
	1955-60 (1)	1961 (2)	1962 (3)	1961 (4)	1962 (5)	1961 (6)	1962 (7)
1. Argentina	29	11	3	-8	-12	31	20
2. Bolivia	68	18	12	8	-9	19	11
3. Brazil	32	50	63	2	2	68	73
4. Burma	7	3	10	-5	16	8	-7
5. Ceylon	3	6	5	-6	-7	17	13
6. Chile <sup>6</sup>	33	13	29	-34	-30	72	100
7. Colombia	16	25	21	-4	-2	33	32
8. Costa Rica	5	-3	14	-12	13	9	5
9. Dominican Republic	6	1	11	-27	2	24	12
10. Ecuador	8	3	13	-8	12	20	4
11. El Salvador	1	-4	—	-6	8	7	1
12. Ethiopia <sup>7</sup>	6	5	4	4	5	3	3
13. Ghana	6	36	-5	-71	-1	106	8
14. Greece	16	15	15	6	4	30	25
15. Guatemala	4	1	4	2	-10	8	20
16. Haiti	-2	13	4	—	-18	8	15
17. Honduras	1	1	14	-6	1	8	21
18. Iceland <sup>8</sup>	10	29	22	41	46	48	34
19. India	6	5	10	-2	-2	13	19
20. Indonesia <sup>7</sup>	32	42	109	-15	-19	68	111
21. Iran	—	—	7	—	8	—	21
22. Iraq <sup>8</sup>	11	2	8	-18	-6	20	20
23. Israel <sup>8</sup>	16	10	30	20	38	20	-1
24. Jordan	8	11	16	14	23	7	8
25. Korea <sup>8</sup>	19	47	8	30	-16	27	69
26. Lebanon <sup>7</sup>	15	7	17	6	9	5	1
27. Malaya	4	1	5	7	8	1	5
28. Mexico	10	6	13	-2	1	13	15
29. Morocco	—	6	16	-8	-6	16	20
30. Nicaragua	-1	3	29	-7	13	8	24
31. Pakistan	7	—	5	-3	—	8	12
32. Paraguay	14	27	-2	17	-4	21	6
33. Peru <sup>7</sup>	13	19	6	17	4	19	20
34. Philippines	7	17	13	-3	5	54	25
35. Sudan	4	19	16	-9	-9	36	35
36. Syrian Arab Republic	12	6	14	-13	3	25	16
37. Thailand	7	10	—	15	6	3	11
38. Tunisia	—	7	13	-9	-10	25	22
39. United Arab Republic	4	8	-2	-5	-11	13	29
40. Venezuela	9	3	-2	-2	—	6	-5
41. Viet-Nam	7	3	13	-12	-1	14	9

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

<sup>1</sup> Foreign assets are reported in gross terms for a few countries. For most of these countries, foreign liabilities are unimportant and do not change markedly in the short run. Hence changes in gross foreign assets may be taken as an approximate reflection of changes in net foreign assets.

<sup>2</sup> The sum of net government borrowing from the banking system (cols. 8 and 9) and bank credit to the private sector and official entities (cols. 10 and 11).

<sup>3</sup> Monetary system's claims on government (excluding official entities), less government deposits.

TABLE 22 (concluded). SELECTED LESS INDUSTRIALIZED COUNTRIES:  
PERCENTAGE CHANGES IN MONEY SUPPLY, 1955-62, AND FACTORS  
AFFECTING CHANGES IN MONEY SUPPLY, 1961 AND 1962

Net Government Borrowing from Banking System <sup>3</sup>		Bank Credit to Private Sector and Official Entities		Inc. or Dec. in Quasi-Money <sup>4</sup>		Inc. or Dec. in Other Liabilities <sup>5</sup>		
As percentage of money supply at beginning of year								
1961 (8)	1962 (9)	1961 (10)	1962 (11)	1961 (12)	1962 (13)	1961 (14)	1962 (15)	
4	11	27	9	7	4	5	1	1.
11	6	8	5	—	2	8	-12	2.
35	26	33	47	1	—	19	-12	3.
4	-9	4	2	—	2	—	-3	4.
16	13	1	—	—	3	5	-2	5.
36	64	36	36	10	27	15	14	6.
5	15	28	17	3	3	1	6	7.
36	-6	-12	18	-1	3	1	1	8.
11	1	9	3	5	4	1	-1	9.
—	—	—	—	11	4	-2	-1	10.
12	6	-5	-5	16	15	-11	-6	11.
-1	-4	4	7	3	2	-1	2	12.
65	26	41	-18	—	4	-1	8	13.
11	—	19	25	24	29	-3	-15	14.
—	9	8	11	5	7	4	-1	15.
3	10	5	5	3	—	-8	-7	16.
1	11	7	10	3	10	-2	-2	17.
-8	-9	56	43	48	52	12	6	18.
5	11	8	8	2	5	4	2	19.
49	93	19	18	1	1	10	-18	20.
—	-4	—	25	—	18	—	4	21.
13	17	7	3	3	4	-3	2	22.
-10	-43	30	42	1	1	29	6	23.
—	—	—	—	7	10	3	5	24.
-16	35	43	34	13	23	-3	22	25.
-4	-1	9	2	10	4	-6	-11	26.
-9	1	10	4	5	3	2	5	27.
1	-2	12	17	3	2	2	1	28.
6	13	10	7	—	1	2	-3	29.
—	12	8	12	4	—	-6	8	30.
-2	1	10	11	3	7	2	—	31.
3	-17	18	23	7	8	4	-4	32.
-3	-6	22	26	8	14	9	4	33.
14	2	40	23	20	23	14	-6	34.
24	17	12	18	3	3	5	7	35.
18	6	7	10	-2	—	8	5	36.
-5	—	8	11	6	15	2	2	37.
12	19	13	3	5	2	4	-3	38.
16	24	-3	5	2	13	-2	7	39.
7	-11	-1	6	-1	4	2	-7	40.
6	2	8	7	—	—	-1	-5	41.

<sup>4</sup> Includes time deposits excluding foreign currency deposits where they exist.

<sup>5</sup> Includes changes in advance deposits on imports, counterpart funds, exchange profits, capital, and unclassified liabilities.

<sup>6</sup> Data have been adjusted to eliminate effect of revaluation of foreign assets and liabilities.

<sup>7</sup> Data for 1962 cover the 12 months ended September 1962.

<sup>8</sup> Data for 1962 cover the 12 months ended June 1962.

aid to effective control of the monetary system, a number of the less industrialized countries have either established such institutions, revised earlier statutes governing existing ones, or initiated steps directed to one of these ends. Legislation establishing central banks has been passed in Algeria (1963), Cyprus (1963), Guinea (1960), Jamaica (1960), Jordan (1960), Madagascar (1962), Mali (1962), Sierra Leone (1963), and Somalia (1960), and has been proposed in British Guiana, Kuwait, Lebanon, and Trinidad and Tobago; legislation revising statutes governing existing ones has been passed in El Salvador (1961), Ghana (1963), Nicaragua (1960), Peru (1962), and Venezuela (1960), and has been proposed in Afghanistan, Bolivia, and Ethiopia. In addition, a common central bank for Rwanda and Burundi was established (1960), and the statutes governing the common central banks for seven countries (Dahomey, the Ivory Coast, Mauritania, the Niger, Senegal, Togo, and the Upper Volta) in West Africa, and for five countries (Cameroon, the Central African Republic, Chad, the Congo (Brazzaville), and Gabon) in Equatorial Africa have recently been revised. These laws or proposals have certain general characteristics. They tend to give the government a substantial degree of control over central bank policy, by various combinations of government ownership of the bank, government appointment to and participation in the board of directors, government approval of major policy decisions, and government policy directives. On the other hand, they generally place restrictions on government borrowing from the central bank, in order to limit this financing to the amount necessary to offset seasonal and other temporary fluctuations in government receipts. At the same time, a minimum foreign reserve cover against the banks' monetary liabilities, or against the currency portion of them, is usually required. Eligible foreign exchange reserves are generally limited to gold, convertible currencies, and relatively short-term claims denominated in foreign currencies. There is also considerable similarity in the general quantitative credit controls—discount policy, variable cash reserve requirements, and open market operations—provided for in different laws. In most countries, the issue of currency is vested in

the central bank. Most of them are permitted also to engage in commercial banking activities, i.e., accept deposits from, and grant loans to, the general public.

### Balance of Payments Developments

In both 1961 and 1962, balance of payments developments differed markedly between the more industrialized and the less industrialized countries exporting mainly primary products (Table 23 and Chart 8). In each of the two years, the combined basic surpluses of the more industrialized countries (Table 23, Group A) reached \$450-500 million, to which was added a net inflow of short-term capital amounting to about \$650 million in 1961 and about \$250 million in 1962. Among these countries, the most marked changes occurred in Canada, as discussed below. Another noteworthy event was the diminution of the large over-all surplus of Spain, which had persisted since the stabilization program of 1959 was put into effect. Developments in each of the countries in the more industrialized group are reviewed further below.

The aggregate balance of payments of the group of less industrialized countries was not so satisfactory, though it was improving. The value of their exports rose by 4-5 per cent from 1961 to 1962; their combined deficit on goods and services account was reduced by \$550 million, to about \$4.7 billion; and the recorded inflow of private long-term capital and official aid went down by about \$200 million, also to \$4.7 billion. Accordingly, their basic position improved from a deficit of about \$300 million to near balance. In each of the years 1961 and 1962, however, there was a net outflow from the area on account of short-term capital and unrecorded transactions; this outflow may have risen from about \$400 million in 1961 to about \$700 million in 1962. For both years, therefore, over-all deficits were recorded for the group, although the deficit was diminishing, and indeed appears to have been almost eliminated in the second half of 1962.



TABLE 23. PRIMARY PRODUCING COUNTRIES: BALANCE OF PAYMENTS SUMMARIES, 1961 AND 1962<sup>1</sup>

(In millions of U.S. dollars)

	1961					
	Goods, Services, and Private Transfer Payments (1)	Private Long-Term Capital (2)	Central Government Capital and Aid (3)	Total, Col. 1+2+3 (4)	Other Short-Term Capital and Net Errors and Omissions (5)	Total, Col. 4+5 <sup>2</sup> (6)
A. Canada	-914	692	-101	-323	610	287
Australia	-175	375	-11	189	142	331
New Zealand	-147	10	87	-50	-1	-51
South Africa <sup>3</sup>	249	-60	10	199	-57	142
Spain	175	191	66	432	-35	397
Total	-812	1,208	51	447	659	1,106
B. Other Sterling Area <sup>4</sup>						
Burma	-7	-1	1	-7	-3	-10
Ceylon	-28	-2	7	-23	-	-23
Ghana	-145	-13	129	-29	-1	-30
India	-663	136	494	-33	-26	-59
Libya	-31	-2	32	-1	-6	-7
Malaya	-12	48	18	54	-5	49
Pakistan	-270	28	214	-28	-13	-41
Rhodesia and Nyasaland	-31	38	12	19	11	30
U.K. Colonial Territories <sup>5</sup>	-325	140	202	17	62	79
Other <sup>6</sup>	-74	23	86	35	-1	34
Total	-1,586	395	1,195	4	18	22
C. Latin American Republics <sup>7</sup>						
Brazil	-292	269	159	136	-87	49
Chile	-280	93	84	-103	-9	-112
Colombia	-142	-9	4	-147	18	-129
Dominican Republic	41	-30	-	11	-27	-16
Mexico	-82	169	127	214	-249	-35
Peru	18	-	-2	16	18	34
Uruguay	-16	4	-5	-17	-9	-26
Venezuela	375	-247	-94	34	-71	-37
Other <sup>7</sup>	-757	291	253	-213	43	-170
Total	-1,135	540	526	-69	-373	-442
D. Other						
Ethiopia	-25	6	18	-1	2	1
Indonesia	-521	-11	365	-167	-64	-231
Iran	-69	44	63	38	5	43
Iraq	-47	2	-	-45	1	-44
Morocco	-50	1	83	34	-54	-20
Philippines	-88	10	-1	-79	10	-69
Sudan	-65	15	40	-10	-1	-11
Syrian Arab Republic	-63	-21	60	-24	-15	-39
Thailand	7	32	26	65	17	82
Tunisia	-77	9	50	-18	3	-15
Turkey	-119	37	122	40	-8	32
United Arab Republic	-164	40	72	-52	18	-34
Other <sup>8</sup>	-1,201	265	897	-39	48	9
Total	-2,482	429	1,795	-258	-38	-296
Total (B+C+D)	-5,203	1,364	3,516	-323	-393	-716
Grand total	-6,015	2,572	3,567	124	266	390

Source: Based on data reported to the International Monetary Fund. For 1962, data for many countries are provisional.

<sup>1</sup> No sign indicates credit; minus sign indicates debit.

<sup>2</sup> Represents net official reserve movements including changes in net IMF position. No sign indicates an increase in assets, a gold subscription to the Fund, a repayment of a drawing on the Fund, another reduction of Fund holdings, or a reduction of other liabilities; minus sign indicates a decrease in assets, a drawing on the Fund, another increase in Fund holdings, or an increase in other liabilities.

<sup>3</sup> Including Basutoland, Bechuanaland Protectorate, and Swaziland.

TABLE 23 (concluded). PRIMARY PRODUCING COUNTRIES: BALANCE OF PAYMENTS SUMMARIES, 1961 AND 1962<sup>1</sup>

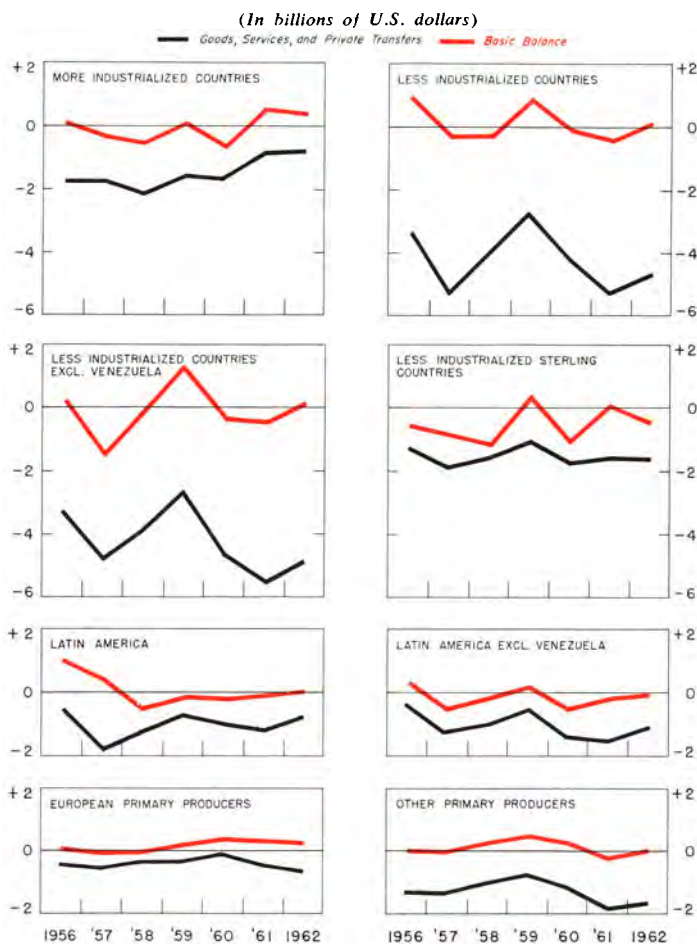
(In millions of U.S. dollars)

	1962					
	Goods, Services, and Private Transfer Payments (1)	Private Long-Term Capital (2)	Central Government Capital and Aid (3)	Total, Col. 1+2+3 (4)	Other Short-Term Capital and Net Errors and Omissions (5)	Total, Col. 4+5 <sup>2</sup> (6)
A. Canada	-764	533	216	-15	158	143
Australia	-289	425	-24	112	28	140
New Zealand	7	17	11	35	—	35
South Africa <sup>3</sup>	396	-126	—	270	-27	243
Spain	-74	177	-21	82	78	160
Total	-724	1,026	182	484	237	721
B. Other Sterling Area <sup>4</sup>						
Burma	15	—	34	49	-2	47
Ceylon	-35	—	13	-22	3	-19
Ghana	-57	11	37	-9	1	-8
India	-845	117	591	-137	-5	-142
Libya	—	—	30	30	-15	15
Malaya	-60	60	25	25	-12	13
Pakistan	-213	2	226	15	-14	1
Rhodesia and Nyasaland	-6	-31	10	-27	41	14
U.K. Colonial Territories <sup>5</sup>	-320	140	200	20	60	80
Other <sup>6</sup>	-131	43	102	14	27	41
Total	-1,652	342	1,268	-42	84	42
C. Latin American Republics <sup>7</sup>						
Brazil	-408	33	112	-263	-125	-388
Chile	-157	83	136	62	-82	-20
Colombia	-119	10	80	-29	-13	-42
Dominican Republic	12	—	15	27	-15	12
Mexico	64	131	135	330	-316	14
Peru	-22	-12	41	7	-1	6
Uruguay	-40	—	—	-40	—	-40
Venezuela	331	-226	-89	16	-18	-2
Other <sup>7</sup>	-471	272	94	-105	-263	-368
Total	-810	291	524	5	-833	-828
D. Other						
Ethiopia	-38	4	45	11	-2	9
Indonesia	-367	-18	272	-113	64	-49
Iran	-12	25	38	51	-14	37
Iraq	13	-14	9	8	-13	-5
Morocco	-49	—	78	29	-55	-26
Philippines	21	-19	16	18	19	37
Sudan	-56	5	38	-13	7	-6
Syrian Arab Republic	5	—	13	18	-12	6
Thailand	-58	72	39	53	9	62
Tunisia	-101	9	68	-24	11	-13
Turkey	-233	38	137	-58	5	-53
United Arab Republic	-295	50	153	-92	-8	-100
Other <sup>8</sup>	-1,023	261	944	182	66	248
Total	-2,193	413	1,850	70	77	147
Total (B+C+D)	-4,655	1,046	3,642	33	-672	639
Grand total	-5,379	2,072	3,824	517	-435	82

<sup>1</sup> Excluding Basutoland, Bechuanaland Protectorate, Cyprus, Hong Kong, Nigeria, Persian Gulf Territories, Sierra Leone, the State of Singapore, and Swaziland.<sup>2</sup> Covering all areas that were colonial territories of the United Kingdom at the end of 1961, except Basutoland, Bechuanaland Protectorate, Hong Kong, Northern Rhodesia, Nyasaland, the State of Singapore, and Swaziland, but including Tanganyika, which became an independent country on December 9, 1961.<sup>3</sup> Iceland, Ireland, and Jordan.<sup>4</sup> Excluding Cuba.<sup>5</sup> China (Taiwan), Finland, Greece, Israel, Korea, Portugal, Viet-Nam, and Yugoslavia.

When the countries within the less industrialized group are analyzed in smaller groups, considerable variation in their payments balances is evident. There was little change in the combined position of the sterling area members of the group, which in both

CHART 8. PRIMARY PRODUCING COUNTRIES: BALANCE OF PAYMENTS, 1956-62<sup>1</sup>



<sup>1</sup> See also Chart 7 (p. 117).

1961 and 1962 had goods and services deficits of about \$1.6 billion, matched by almost equivalent inflows of long-term capital and government aid. The flows on account of private short-term capital and unrecorded transactions being negligible, these countries were in approximate balance in both years on over-all, as well as on basic, account. For Latin America, a reduction of about \$300 million in the deficit on goods and services, to a little over \$800 million, was offset by a reduction of \$250 million in the net inflow of private long-term capital and government aid, leaving, as for the sterling area, the basic balance near zero in each year. There was, however, in both years a substantial net outflow on account of short-term capital and unrecorded transactions, causing an over-all deficit of about \$400 million in 1961 and about \$800 million in 1962. For the other less industrialized countries, the balance of payments on basic and on over-all accounts improved between 1961 and 1962 by about \$350 million and \$450 million, respectively, as a \$300 million reduction in the deficit on goods, services, and private transfer payments was slightly reinforced by larger inflows of long-term capital and aid, and as movements of short-term capital remained moderate. The combined surplus of these countries on either account was about \$100 million in 1962.

### Individual More Industrialized Countries

For *Australia*, the year 1962 was one of recovery from the recession which had followed the boom of 1960. Public authority expenditure on goods and services was accelerated, unemployment and social service benefits were increased, and personal income taxes were reduced; the government deficit, which was higher than in the previous year, contributed to the recovery. The expansion was accompanied by an increase in imports, and the goods and services deficit rose by \$110 million. Exports of most commodities were well maintained in 1962, and prices became firmer toward the end of the year. Proceeds from wheat exports benefited from sales

to Mainland China. The net inflow of capital, which had fallen sharply in the second half of 1961, remained small in the first half of 1962, partly because of repayment of short-term borrowing abroad; however, the net inflow rose again in July-December 1962, and now appears to have reached an annual rate of about \$500 million. Despite the increase in the deficit on account of goods and services, an over-all surplus of \$140 million was recorded during 1962; and at the end of the year, reserves amounted to slightly more than \$1.3 billion, after repurchases totaling \$177 million from the Fund in March and June 1962.

Production, prices, and employment in *Canada* have been reviewed in Chapter 7.<sup>1</sup> The balance of payments in 1962 as a whole showed some improvement over 1961. The deficit on current account decreased from US\$962 million (Can\$982 million) to US\$793 million (Can\$848 million), reflecting chiefly a 13 per cent reduction in net payments for services and other nonmerchandise transactions. The excess of merchandise exports over imports f.o.b., US\$145 million, was only slightly smaller than in 1961, despite an increase in the value of imports fully proportionate to the expansion of about 8 per cent in the value of the gross national product.

The net inflow of long-term capital in various forms amounted in 1962 to US\$672 million, compared with US\$780 million in 1961. This inward movement, coupled with a net capital inflow of US\$315 million in short-term forms, exceeded the current account deficit by some US\$194 million. With the aid of a drawing from the Fund equivalent to US\$300 million, Canada was able to raise its official holdings of gold and foreign exchange by US\$483 million during the year.

During the course of 1962, the Canadian balance of payments showed a marked deterioration in the first half, followed by rapid improvement and recovery of reserves in the second half. Both the deterioration and the reversal were centered mainly in the capital accounts, although the trade and service balance showed marked improvement in the fourth quarter after having been

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<sup>1</sup> Page 98.

slightly less favorable in the first three quarters than in the corresponding period of 1961. The net long-term capital inflow dropped to negligible proportions in the first half of 1962, and there was a sizable outflow of short-term funds, especially in the second quarter when the foreign currency holdings of Canadian residents increased by US\$226 million. The measures adopted to deal with the consequent losses of reserves have been described in Chapter 7.<sup>2</sup>

The first effects of these measures were seen in a return flow of volatile capital; but by the fourth quarter, the current account deficit had diminished appreciably and the long-term capital inflow had resumed. The substantially more favorable balance achieved in the fourth quarter was sustained through the opening quarter of 1963. One of the principal factors contributing to the gains in the balance of payments and exchange reserves of Canada was a better international competitive position resulting from the adoption of the present exchange rate.

*New Zealand's* basic payments balance recovered during 1962 from its disequilibrium in each of the two previous years. Imports, which had risen sharply in 1960 and the first half of 1961 as a result of the excessive pressure of domestic demand, declined by about 15 per cent following a reintensification of quantitative restrictions. On the other hand, a recovery of butter and lamb prices, combined with a record output of meat, resulted in a 4 per cent increase in export receipts. Thus, despite a further growth in the net payments on account of services and transfers, the current account showed a slight surplus in 1962, in contrast to the deficit of \$147 million in 1961. A modest inflow of new private long-term capital continued; in addition, the Government borrowed overseas to help in rebuilding official foreign reserves, which rose by about \$70 million.

The increase of \$243 million during 1962 in *South Africa's* net reserves, including the net IMF position, was the largest for any year of the past decade. An important factor was the increase of \$90 million in gold production. The upturn in economic activity,

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<sup>2</sup> Page 105.

fostered by a stepping up of government expenditures and a lowering of the official discount rate and of other interest rates, was reflected in an increase in the trade deficit by some \$35 million. However, payments for services were reduced; and the outflow of private capital, which had been mainly responsible for the severe deterioration in the over-all balance of payments position in 1960, now seems to be under effective control. The increase in the outflow of capital in the middle of the year was the result of the controlled relaxation by the authorities of restrictions on the purchase of South African securities in London.

In *Spain*, continued rapid expansion of economic activity in 1962 added to the progress achieved since the stabilization program was instituted in 1959. The most important demand factor behind the expansion of output was private investment, but private consumption, stimulated by substantial wage increases and by higher farm incomes, also rose markedly. The rapid increase during 1962 in over-all demand, financed by a substantial growth in bank credit to the private sector, together with temporary scarcities of certain goods, caused upward pressures on prices; as a result, the balance of payments on current account deteriorated markedly. The trade deficit increased by about \$450 million (to \$830 million). Exports of edible oils, of textiles, and of metal products declined by amounts ranging from 29 per cent to 43 per cent; however, the reduction was partly compensated for by increases in exports of agricultural products other than edible oils, which rose by 20 per cent, to comprise half of total exports. Imports, which had risen by 50 per cent in 1961, increased in 1962 by 45 per cent, outpacing the growth in foreign exchange receipts from tourism, workers' earnings, emigrants' remittances, and inflows of private long-term capital. A small over-all balance of payments deficit was recorded in the last quarter of 1962—the first quarterly deficit since the introduction of the stabilization program. Official gold and foreign exchange reserves declined by \$9 million during these three months; for the year as a whole, however, reserves increased by \$160 million, to \$1,029 million at the end of 1962, sufficient to cover eight months' imports at the 1962 rate.

## Individual Less Industrialized Countries

### *Other Sterling Area*

In an effort to reverse the deficit payments position of 1960 and 1961, the authorities in *Ghana* intensified import controls, halted the increase in government expenditures, and restricted credit to the private sector. Subsequently, imports decreased by about \$60 million in 1962; the value of exports, affected by the declining world market price for cocoa (the principal export commodity), remained virtually unchanged from 1961 in spite of a larger volume. To provide time for remedial measures to take effect, Ghana purchased the equivalent of \$14.25 million from the Fund in August 1962. In 1962, international reserves increased by \$10 million, to \$209 million. In order to stimulate the economic development of the country and, in particular, to increase foreign investment, the Legislature passed a Capital Investment Act, and a development bank has been established.

The rate of growth in *India* did not show any marked improvement during 1962. Monetary expansion was somewhat larger than in 1961, while prices remained substantially stable. Unlike 1961, the main expansionary factor was an increase in credit to the public sector. Following the declaration of the Emergency, monetary policy was further tightened; and in the fiscal field, heavy additional taxation, amounting to one fifth of existing revenues, was included in the budget adopted by the Legislature for the fiscal year commencing April 1, 1963.

The further improvement in India's trade balance in 1962 resulted mainly from a moderate expansion of export earnings. The higher value for exports of vegetable oil products and jute manufactures, deriving from increased volume, was partly neutralized by reductions in some other exports. Despite the smaller trade deficit, the continuance of a net inflow of capital and aid at a high rate, and a drawing on the Fund amounting to \$25 million, India's gross reserves fell during 1962 by about \$150 million, to a level equivalent to about three months' imports.



A sharp increase in imports in *Nigeria* in 1961, in expectation of the increase in import duties in early 1962, was followed by a decline of nearly \$60 million in 1962. This decline—which was also due in part to the reduction in consumer purchasing power following a fall in export prices and in part to expanding local production of import substitutes—resulted in an improvement of about \$30 million in the trade balance; however, it still showed a substantial deficit. Because of a slowing down in the inflow of foreign capital, reserves declined by about \$65 million and at the end of 1962 were equivalent to about seven months' imports. This external imbalance was accompanied by a relatively stable internal financial situation. Money supply and prices have risen only moderately, mainly because the loss of reserves and the continued rise in time and savings deposits have helped to offset the expansionary forces in the economy, which had originated in a rapid expansion of bank credit to the private sector. The Federal Government has introduced new tax measures in an effort to mobilize resources under the new Six-Year Development Plan and to strengthen the balance of payments.

Economic activity in *Pakistan* rose again in 1962 as the emphasis continued on replacing direct internal controls by a greater reliance on fiscal and monetary policies. The balance of payments position also improved. Receipts from exports rose by 5 per cent, to almost \$420 million, while payments for imports declined. More official loans and grants were received, which helped to finance a larger proportion of imports than in 1961. Hence, foreign exchange reserves rose by \$2 million, against a decline of \$39 million in the preceding year.

### *Latin America*

In *Argentina*, in the course of 1961, an excessive rate of credit expansion, attributable mainly to a relaxation of controls over bank credit, had given rise to considerable inflationary pressures, reversing the progress toward monetary stability achieved since the adoption of the stabilization program in 1959. The situation

worsened further in 1962, as the Central Bank was called upon to finance a heavy cash deficit of the government sector, and the rate of economic growth declined sharply amid an inflationary environment. These developments brought about a depreciation of the Argentine peso by about 60 per cent in the course of the year. Larger shipments of wheat (150 per cent greater than in 1961) and of corn (75 per cent greater) resulted in higher export earnings. Imports were reduced for a number of reasons, including the exchange depreciation, a decline in activity, and strains on liquidity related to the repayment of foreign credits and other outflows of short-term capital. These outflows, and also the discouragement of the inflow of long-term capital, were caused by the lack of confidence induced by the inflationary climate and recurring political crises; they resulted in a much greater reduction in net reserves of the Central Bank than in any recent year.

The inflation in *Brazil* accelerated in the course of 1962; total bank credit and money supply rose by some 60-70 per cent and the cost of living by more than 50 per cent, while the exchange rate depreciated substantially. The cash budget deficit of the Central Government doubled (reaching 36 per cent of government expenditure), while credit to the private sector continued to expand rapidly. Export proceeds decreased by \$190 million, partly as the result of lower prices for coffee and the poor cocoa crop. There was a reduction of \$66 million in the inflow of direct investment capital and an even larger reduction in the net inflow of other long-term capital—both related to the lack of confidence created by a rapidly deteriorating financial situation and uncertainties about future policy toward foreign investment. Despite a small reduction in imports, these developments put a heavy strain on the monetary authorities, whose net reserves fell during the year by \$293 million, to a very low level.

In *Chile*, the fiscal situation has unquestionably been the most critical area of the country's finances in recent years. In 1962, internal and external imbalances were the result of heavy government deficits financed by the Central Bank as well as of an unrealistic exchange rate. Late in the year, the Chilean authorities

undertook the preparation of a comprehensive stabilization program, designed to limit central bank financing of the government budget deficit and to introduce an exchange reform. Major tax proposals have been introduced in Congress, but have not yet been enacted. Prices continued to rise at a rapid rate during the early months of 1963.

For the balance of payments, the year 1962 again was one of difficulty though some improvement was achieved. Receipts from exports rose by about 10 per cent, and the goods and services deficit of almost \$160 million was substantially lower than in 1961 and less than the inflow of government aid and ordinary foreign capital (i.e., other than that reflected in import arrears). However, much of the reduction in the goods and services deficit was accomplished—in spite of rising pressures of demand—through the introduction of import surcharges, advance deposit requirements, and other stop-gap measures, including the introduction of a waiting period for remittances of import payments, resulting in the accumulation of substantial arrears. Moreover, there was a large outflow of short-term capital, and the net liabilities of the banking system increased by \$70 million, to about \$260 million at the end of the year. During the first few months of 1963 there was an appreciable improvement in the balance of payments.

*Colombia's* balance of payments position, which had worsened in 1961, improved slightly in 1962. The goods and services deficit was reduced by some \$25 million as a larger volume of coffee exports more than compensated for a decline in their price, and imports fell slightly. In addition, the Government was able to obtain additional amounts of foreign capital and aid, and there was a favorable shift in movements of private long-term capital. However, heavy central bank financing of the public sector and an overvalued exchange rate led to some exchange speculation, and the net reserves of the central bank were reduced by about \$40 million.

In November 1962, an exchange reform was instituted and a stabilization program initiated. The strengthening of monetary policies included an increase of 5 per cent in the basic legal reserve

requirement, the temporary application of a 100 per cent marginal legal reserve requirement, and a reduction of rediscount quotas. The fiscal task involves not merely avoiding large deficits, but also generating revenues sufficient to finance the greatly expanded investment needs of the Ten Year Development Program. New tax legislation designed to cover increased government investment expenditure within a balanced budget is planned but not yet enacted.

While the export earnings of the *Dominican Republic* expanded considerably, mainly as a result of increased sugar exports to the United States at prices considerably higher than those in other markets, its imports almost doubled in 1962, reflecting an upward pressure on domestic wages and prices and the liberalization of import restrictions. As a result, the surplus on goods, services, and private transfer payments was reduced by some \$30 million, to \$12 million, which is about equal to the average surplus for the preceding seven years. The deterioration in the balance of these transactions was more than compensated by such favorable factors as a sharp reduction in the outflow on account of private capital and unrecorded transactions, and the initiation of a U.S. aid program, both being associated with recent political changes. The net result of all these factors was the first increase since 1954 in the net assets of the Central Bank.

Within the framework of a considerable degree of monetary stability, *Mexico* has continued to record consistent and balanced economic growth. Through sales of securities, mainly to the private credit institutions, the Bank of Mexico has been successful in limiting the inflationary impact of central bank credit to the public sector.

A recovery in the volume of cotton exports, together with a further increase in receipts from other exports and tourism, caused the recorded balance on account of goods, services, and private transfer payments to show a \$64 million surplus in 1962, instead of the deficit which has been customary in recent years. Although the improvement from 1961 to 1962 was partly offset by a \$30 million decline in the inflow of long-term capital (more than

accounted for by a reduction in borrowing from the Export-Import Bank of Washington), there was a substantial increase in the already large recorded surplus on account of current and long-term capital transactions. In both 1961 and 1962, this strong basic balance of payments surplus was offset by a heavy outflow on account of short-term capital and unrecorded transactions (which for Mexico are likely to include a considerable element of net current payments). However, although there was in 1962 a considerable increase in this outflow, a small over-all surplus was recorded, contrasting with a deficit in 1961. Moreover, late in 1962 the outflow of short-term capital appeared to have been arrested, and a counter-seasonal increase in reserves early in 1963 suggests a reversal of some of the earlier outflows.

Economic activity in *Peru* continued at a high rate in 1962, real gross national product increasing by 6½ per cent mainly because of a continued expansion of exports and rising domestic investment. Though government revenues continued to increase, expenditures, especially investment expenditures, rose even more. However, because of the confidence arising from the continuance of sound financial and monetary policies, an unprecedented amount of government expenditure was financed by foreign loans for investment projects, and the Government did not resort to central bank financing for its budgetary operations. The principal instruments of monetary management during the year were an over-all limit on central bank credit to the banking system and to the Government, and a more active central bank policy with respect to discounts and legal reserves than in previous years.

In respect of international payments, developments continued favorable. Exports of fish and fishmeal increased from 1961 to 1962 by some \$50 million (approximately 70 per cent); however, the increase in the value of total exports was less than this amount because the expansion of cotton exports did not completely compensate for reductions in exports of copper, lead, and sugar. An increase of \$65 million in imports, mainly machinery, apparently was related, for the most part, to projects financed by the augmented flow of capital to the Government. Rising foreign exchange receipts

on both current and capital account enabled the authorities to avoid import restrictions, and \$6 million was added to reserves, the fourth consecutive annual rise.

Although oil production in *Venezuela* increased by 10 per cent, net foreign exchange receipts from this industry remained virtually unchanged while those from the iron ore companies were reduced. However, imports (other than those by the oil and iron ore sectors) decreased by about \$60 million, mainly as a result of a lower rate of credit expansion and the effects of the partial devaluation in April 1962, and the outflow of private capital was reduced, so that the over-all balance of payments was virtually in equilibrium, following deficits in the preceding four years.

#### *Other Middle East and Africa*

*Iran* had balance of payments surpluses of about \$40 million in both 1961 and 1962. A 10 per cent increase in exports of oil was largely offset by higher investment income payments and a reduced inflow of capital. Iranian fiscal and monetary policies were neutral in their net effect. The balance of the transactions of the non-oil sector did not change appreciably; these transactions do not appear to have been affected by the modifications in the exchange and import system that were introduced in the course of 1962. Repurchases from the Fund in January and March 1962, equivalent to \$38 million, completed the repayment of Iran's drawings.

The exports of *Morocco* increased in 1962 by less than 2 per cent, to \$348 million; record shipments of phosphates offset a decline in exports of various other minerals. The value of imports declined by 4 per cent, to \$434 million. Import demand for cereals decreased in 1962 as crops recovered to a more normal level, following the poor harvest in 1961. Other factors contributing to the smaller demand were the increase in import duties on a number of products and the beginning of operations of a domestic oil refinery plant. Although expenditures of foreign governments in

Morocco declined, they again covered a large part of the deficit on trade and on other services. Foreign exchange reserves of the Bank of Morocco at the end of 1962 were about \$10 million less than reserves a year earlier. In addition, in the latter half of 1962, Morocco used part of the drawing right of \$20 million made available by France in July 1962, as part of a program under which French financial aid to Morocco was resumed. The Moroccan Government further accentuated its policy of encouraging private investment, both domestic and foreign, inter alia through an increase in the capital of the National Development Bank in December 1962, obtained from the International Finance Corporation and private foreign and domestic investors.

In the *Syrian Arab Republic*, the stabilization program introduced late in 1961, which was designed to eliminate the inflationary situation that had prevailed for several years, helped to bring about a marked improvement in the economy during 1962. The rapidity of the recovery, however, was due in large measure to the beneficial effect of favorable weather conditions on agricultural production.

Larger exchange receipts from exports and foreign loans, together with an increase in the official buying and selling rates of exchange, facilitated a relaxation of the exchange restrictions in force since early in 1961. As a result of political developments, however, restrictions similar to those put into effect in February 1961 were introduced in May 1963. The record cotton crop, as well as larger supplies of other products, enabled exports to be increased substantially in 1962, whereas imports rose by a smaller amount. As a result, the goods and services deficit was reduced to about \$40 million, which was less than the inflow of government capital and aid. Other foreign credits, together with a reduction in the outflow on account of recorded movements of private capital and of unrecorded transactions, helped further to improve the balance of payments position, and a small over-all surplus was recorded, contrasting with a large deficit in 1961.

Production in *Tunisia* recovered in 1962, after having been adversely affected by a crop failure in 1961. Public investment, financed in large part by central bank advances, increased consider-

ably between the two years, and prices edged upward. At the same time, there was some deterioration in the balance of payments. Exports of olive oil were increased by reducing inventories accumulated in earlier years, while crop failures in other countries reduced supplies; but most other exports fell somewhat. Imports rose, in part because of increased public investment and in part in expectation of the introduction of restrictions on imports from France in November; and the deficit on services was increased, owing largely to a reduction in expenditures by foreign governments. Despite the rise in the deficit on goods and services, increased borrowing enabled the Government to limit the decline in reserves to nearly the same amount as in 1961.

Economic developments in the *United Arab Republic* in 1962 were adversely affected by a crop failure which sharply reduced exports of cotton. Imports rose (although mainly as a result of increased shipments of surplus agricultural commodities from the United States), and there was an increase in net payments for services, including government expenditures.

In view of the mounting balance of payments deficit, a stabilization program was adopted in May 1962 which involved an exchange reform and sought to stem the rapid rate of credit expansion. A single exchange rate replaced the system of premiums on exports and surcharges on imports that had existed previously. Although the Government continued to rely on the banking system to finance deficits, some improvement was attained in the second half of the year through the revision of fiscal and monetary policies. The program was supported by a stand-by arrangement with the Fund for the equivalent of \$42.5 million, covering up to 200 per cent of the member's quota, under which the entire amount has been drawn.

### *Other Asia*

In *Indonesia*, the sharp increase in money supply in 1962, resulting primarily from a sizable increase in government expenditures, and the intensification of import restrictions caused an



unprecedented increase in domestic prices. Imports fell by 17 per cent. Since a large part of this decline was in industrial raw materials, domestic production was adversely affected. To promote exports, the Indonesian authorities introduced an export retention arrangement in March 1962; however, the volume of exports declined, and lower world market prices for several of the major exports further reduced their value. Large repayments on foreign loans added to the strain on the balance of payments. The net foreign assets of the deposit money banks were reduced by some \$120 million, and, in spite of a drawing of \$21 million from the Fund, the reserves of the Bank Indonesia declined further, to a very low level.

In the *Philippines*, the strength of the peso had been impaired, prior to 1962, by speculative pressures, fed by an excessive domestic monetary expansion, and by a marked deterioration in the terms of trade. A series of measures initiated early in 1962 brought about improved economic conditions. Monetary expansion was restrained without impairing productive activity, which showed satisfactory gains. Imports were reduced by about \$25 million and exports increased by \$55 million, closely approaching the all-time peak reached in 1960. A higher volume of exports of coconut products and wood, especially in the last quarter of the year, contributed substantially to this result. Aided by a gain in net receipts for services, the deficit on goods and services account turned into a large surplus; and an over-all balance of payments surplus of some \$35 million contrasted with a deficit of almost \$70 million in 1961.

The record of consistent progress in *Thailand*, where real gross domestic product has been rising at an average annual rate of 5 per cent during the past decade, continued in 1962. A great part of the credit for this achievement is ascribed to the large measure of freedom from direct controls, to the creation of a favorable environment for investment, and to policies aimed at avoiding inflation. A new commercial bank law enacted in 1962 has strengthened the authority of the Bank of Thailand to control credit.

Net reserves expanded by about \$60 million in 1962, to nearly \$500 million, which is the equivalent of ten months' imports at the 1962 level. This increase occurred even though export receipts fell below those in 1961 and imports rose by some 12 per cent. Exports of rice, the major export crop, were reduced as a result of the Government's actions to safeguard domestic supplies, which in turn brought about a 12 per cent rise in the export price. Aided by a sharply increased inflow of private capital, the authorities were able to liberalize payments for interest, the redemption of foreign loans, and certain other transactions.

## Chapter 10

# Gold and Silver

### Gold Production

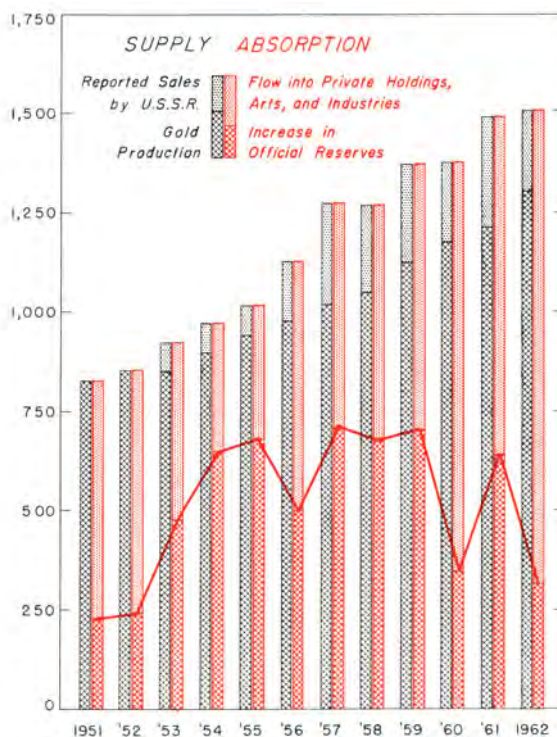
**W**ORLD production of gold, excluding the output of the U.S.S.R. and of countries associated with it, increased in 1962 by a little more than 7 per cent, attaining an all-time record total, as well as a new postwar peak for the ninth consecutive year (Chart 9). The increase in 1962, which was of the order of 2.5 million fine ounces, raised output to about 37.2 million ounces. At US\$35 per fine ounce, the value of production in 1962 was approximately \$1,300 million, compared with \$1,215 million in 1961 and \$1,178 million in 1960; it exceeded by about 3 per cent the previous all-time peak of \$1,264 million, reached in 1940.

In the Republic of South Africa, production increased in 1962 by approximately 2.6 million ounces (about 11 per cent) over 1961, reaching 25.5 million ounces, equivalent to \$892 million. This was once again the highest figure ever recorded in South Africa and was equal to about 68 per cent of world production (Table 24). The increase is attributed mainly to the development of the new mines in the Orange Free State and on the Far West Rand, together with some modernization and changes in mining techniques.

The second largest absolute increase in production in 1962 was recorded in Japan, where output rose by the equivalent of \$1.5 million, to about \$14.7 million. There was also an increase in India equivalent to \$0.3 million, bringing total production in that country to \$5.7 million. Production in the Philippines remained about the same as in 1961, the equivalent of \$14.8 million.

In Canada, which is second only to South Africa as a producer of gold (outside the U.S.S.R.), production declined again. Output in 1962 fell to 4.2 million ounces (equivalent to US\$145.5 million) from 4.4 million ounces (\$155.5 million) in 1961 and 4.6 million ounces (\$162 million) in 1960. Canada's peak output was attained in 1941, when 5.4 million ounces (the equivalent of \$188 million) were produced. Output in the United States, the third largest producer, has remained roughly constant in recent years; it was about 1.6 million ounces (\$55 million) in both 1962 and 1961 and 1.7 million ounces (\$58.8 million) in 1960. The peak year for

CHART 9. ESTIMATED SUPPLY AND ABSORPTION OF GOLD, 1951-62  
(In millions of U.S. dollars)



the United States was 1940, when output was 4.9 million ounces, equivalent to \$170 million. Production also declined in Nicaragua, by the equivalent of \$2.5 million, to \$5.4 million; in Mexico, by the equivalent of \$1.2 million, to \$8.2 million; and in Southern Rhodesia, by \$0.5 million, to \$19.4 million.

TABLE 24. VALUE OF WORLD GOLD PRODUCTION, EXCLUDING OUTPUT OF U.S.S.R. AND ASSOCIATED COUNTRIES

(In millions of U.S. dollars at US\$35 a fine ounce)

	1940	1945	1958	1959	1960	1961	1962
South Africa	492	428	618	702	748	803	892
Canada	186	95	160	157	162	155	145
United States	170	32	62	57	59	55	55
Australia	57	23	39	38	38	38	38
Ghana	31	19	30	32	31	29	31
Southern Rhodesia	29	20	19	20	20	20	19
Philippines	39	—	15	14	14	15	15
Japan	30	3	11	11	12	13	15
Colombia	22	18	13	14	15	14	14
Mexico	31	17	12	11	11	9	8
Congo (Leopoldville)	20	12	12	12	11	8	8
Other <sup>1</sup>	157	69	60	59	57	56	60
Total <sup>1</sup>	1,264 <sup>2</sup>	736	1,051	1,127	1,178	1,215	1,300 <sup>3</sup>

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

<sup>1</sup> These figures include estimates for data not available.

<sup>2</sup> All-time peak production prior to 1962.

<sup>3</sup> All-time peak production.

In South Africa, the gold mining industry in 1962 again established new records, both in production and in profitability. The number of tons of ore milled was about 3.6 per cent higher than in 1961, and the average grade of ore per ton milled rose from 6.142 dwt. in 1961 to 6.570 dwt. in 1962, in contrast to 4.553 dwt. in 1956. The combined working profits from gold, uranium, and other products rose from R 264.0 million (\$369.6 million) in 1961 to R 288.3 million (\$403.6 million) in 1962; and dividends paid by all producers of gold and uranium increased from R 99.5 million to R 104.6 million.

Gold production in South Africa has almost doubled during the last nine years, and the profitability of the gold mining industry as a whole was greater in 1962 than ever before. Yet the older

marginal mines are still a matter of great concern to the industry. This was evidenced in 1961, when the Marginal Mines Research Council was established at the University of the Witwatersrand; its terms of reference include "an investigation into the extent and character of the economic results and implications of the closing down of gold mines on the community living on the Rand." In that year, the 35 Witwatersrand mines produced gold valued at approximately \$277 million, 34 per cent of the total output in South Africa, but it is presently expected that by the end of 1966 some 18 of these mines—accounting for production which amounted to \$92 million in 1961—will have ceased to operate. By 1970 a total of 22 mines, with a labor force of some 115,000 out of a total of some 383,000 now employed, may have closed down, with important economic repercussions. On the other hand, great expectations have been aroused by a new mining area north of Benoni; geological discoveries in this area are considered to be of major importance.

Virtually no information is available about gold production in the U.S.S.R. However, according to the Tass agency, two new important gold fields are to be opened in the near future in Armenia and Uzbekistan, which will considerably increase Soviet output. In Tibet, the Chinese authorities are reported to be attempting to exploit the Thok Yalung gold mines, situated 160 kilometers north of Gangtok; mining has also been resumed in Tibet's second largest gold mine in the vicinity of Mansarover Lake. Both mining areas had been closed down since Tibet was occupied by the Chinese in 1959.

In the rest of the world, the gold mining industry remains concerned about rising costs and declining production. In some areas, mines have been unable to change over to higher-grade ore, and some governments have found it necessary to continue to render financial assistance to the industry through tax reductions or direct subsidies.<sup>1</sup>

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<sup>1</sup> Pages 180-82.

## Gold Holdings

The increase during 1962 in the stock of gold held by the monetary authorities of the world is estimated at about \$305 million (Table 25), compared with increases of about \$630 million in 1961, \$335 million in 1960, \$695 million in 1959, \$680 million in 1958, and \$230 million in 1951, the smallest increase in the postwar period. These figures exclude the holdings of the U.S.S.R. and countries associated with it, but include those of the International Monetary Fund, the Bank for International Settlements, and the European Fund. At the end of 1962, world monetary gold reserves, thus defined, amounted to approximately \$41.5 billion. The important movements in the distribution of these reserves in recent years are discussed in Chapter 3.<sup>2</sup>

TABLE 25. SOURCES OF CHANGES IN WORLD GOLD RESERVES, 1960-62

(In millions of U.S. dollars)

	1960	1961	1962
Production	1,178	1,215	1,300
Soviet sales	200	275	200
Total available	1,378	1,490	1,500
Consumption in industry and arts, and private hoarding	-1,043	-860	-1,195
Total added to world monetary gold stock	335	630	305
IMF gold transactions			
Subscriptions	-189	-72	-24
Sales to countries	300	500	—
Repayments etc.	-141	-67	-91
BIS and EPU/EF gold transactions	-130	-136	165
Total added to countries' monetary gold stock	175	855	355

Sources: International Monetary Fund, *International Financial Statistics*, and Fund staff estimates.

Russian sales of gold in Western Europe during 1962 have been estimated at not more than \$200 million. The total increase in the amount of gold newly available to the rest of the world was therefore of the order of \$1,500 million. A comparison of these supplies with the estimated aggregate increase of about \$305 million in official holdings suggests that in 1962 the equivalent of some

<sup>2</sup> Pages 39-43.

\$1,195 million was absorbed by private holders, industries, and the arts—about \$335 million more than in 1961.

This diversion of gold from official holdings to other uses, representing in 1962 almost 80 per cent of the newly available supplies, has been attributed to political and economic uncertainties in a number of countries. The large proportion of supplies diverted to private holders is, however, of great concern to the monetary authorities. It is still in the best interests of Fund members that, as far as possible, gold should be channeled into official reserves rather than disappear into private hoards. Happily, recent observations indicate that the drain of gold into private hoards in 1963 may be smaller than in 1962. The Governments of India and the United States have taken measures, described below,<sup>3</sup> to check the hoarding of gold.

## Gold Markets and Prices

### *New York*

The most important stabilizing influence in the gold markets of the world has been the continued readiness of the Federal Reserve Bank of New York, as fiscal agent for the U.S. Treasury, to buy gold at a price of \$34.9125 per fine ounce and to sell gold at a price of \$35.0875 per fine ounce for official monetary purposes.

During 1962, the Federal Reserve Bank of New York, acting for the U.S. Treasury, sold \$832.9 million (net) of gold to foreign countries and international institutions. In addition, the equivalent of \$57 million was sold domestically by the Treasury to meet the requirements of industry, professions, and the arts. Sales to foreign countries included the equivalent of \$459.1 million to France, \$387 million to the United Kingdom, \$146.1 million to Spain, and \$142.5 million to Austria. Sales by the United States to the United Kingdom during the first three calendar quarters totaled some \$395 million, but the trend was reversed during the final three

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<sup>3</sup> Pages 179-80.



months of the year when, on balance, the United States acquired the equivalent of \$8 million in gold from the United Kingdom. The major suppliers of gold to the United States were Canada and Switzerland, which sold the equivalents of \$190 million and \$101.6 million, respectively. As a result of these and other operations in 1962, the amount of gold held under earmark by the Federal Reserve Bank of New York for the account of foreign central banks and governments and international institutions rose by \$681 million, to a total of \$12.7 billion.

### *London*

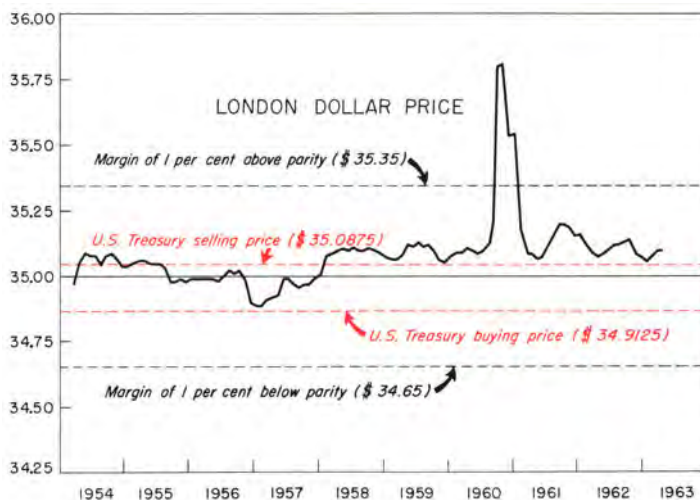
Despite the various political and economic factors which influenced the price of gold in London, the Bank of England, with the cooperation of the U.S. Treasury and the central banks of Western Europe, succeeded in maintaining relatively stable prices in the London gold market. Movements in the price were slight compared with the violent fluctuations which marked the period October 19, 1960 through February 1, 1961. During 1962-63, the dollar price of gold (converted at the buying rate for dollars in London at the time of the daily fixing) fluctuated within a range of 13½ cents, between a maximum of \$35.18½ per fine ounce recorded on October 24 and 25, 1962 and a minimum of \$35.05½ on January 10, 1963 (Chart 10).

From \$35.07¼ per fine ounce on May 1, 1962 the price climbed slowly but steadily to \$35.14¾ on July 20, under the influence of doubts as to the stability of the U.S. dollar and sharp setbacks on world-wide stock markets. However, the market steadied on July 23, when the President of the United States, in his "Telstar" broadcast to Europe, reiterated unequivocally the U.S. policy of maintaining the official price of gold at \$35 per fine ounce. After a slight decline, the upward trend then reasserted itself, and the price reached \$35.13¾ on October 22. During the Cuban crisis the price increased sharply, reaching a peak, for the period under review, of \$35.18½ on October 24 and 25. Substantial intervention by the Bank of England caused the price to fall to \$35.11½ by the end of that month.

The price continued to decline steadily during November, December, and early January, assisted by the reversal of some of the speculative buying at the time of the Cuban crisis, and by some Russian selling in an otherwise rather dull market. The low point of  $\$35.05\frac{1}{8}$  per fine ounce was reached on January 10, but thereafter demand for the metal picked up. Some buying pressure caused by the termination of the negotiations for the entry of the United Kingdom into the Common Market, followed by newspaper articles concerning the possible devaluation of sterling, raised the price of gold once more, to  $\$35.11\frac{3}{8}$  per fine ounce on March 13. By April 30 the price had eased to  $\$35.07\frac{3}{4}$ .

CHART 10. PRICE OF GOLD IN LONDON MARKET, MONTHLY AVERAGES, MARCH 1954–APRIL 1963

(In U.S. dollars a fine ounce)



During the year, the sterling price of gold fluctuated between a minimum of 249s. 4d. per fine ounce on May 8, 1962 and a maximum of 251s. 3½d. on October 24, 1962. At the end of April 1963, it was quoted at 250s. 6¼d.

During the calendar year 1962, the United Kingdom imported some 34.1 million ounces of gold bullion, equivalent to \$1,192.9 million, compared with 50.8 million ounces (\$1,777.7 million) in

the year 1961. Of the 1962 imports, the equivalent of \$336.0 million was from the United Kingdom's own stock in the United States, \$664.7 million from the Republic of South Africa, and \$106.9 million from the U.S.S.R.; the remainder was mainly from other countries in the sterling area. Exports from the United Kingdom amounted to 29.0 million ounces (the equivalent of \$1,013.8 million), against 24.6 million ounces (\$861.1 million) in 1961. Of the 1962 exports, \$509.7 million went to Switzerland, \$135.0 million to France, \$79.7 million to the Federal Republic of Germany, \$30.3 million to Austria, and \$22.7 million to Italy. The excess of total imports over total exports left a net increase of \$179.0 million in the gold bullion stocks physically located in London.

The figures in the preceding paragraph represent actual movements of gold to and from London during the year; they are not indicative of the turnover in the London market. The main supplier of the market was the Bank of England, as agent for the sale of the larger part of the South African production and for the Exchange Equalization Account. The United Kingdom's share of the sales of gold from South Africa increased again in 1962 to virtually 100 per cent, compared with 88 per cent in 1961, 66 per cent in 1960, and 80 per cent in 1959. The position of the Bank of England as the most important factor in the market was reinforced during the year by virtue of its role as operator for the international gold pool.

### *The Gold Pool*

Following the upheaval in world gold markets in October 1960, agreement for joint action to stabilize the price of gold was reached between the Federal Reserve Bank of New York, acting on behalf of the U.S. Treasury, and the central banks of Belgium, France, the Federal Republic of Germany, Italy, the Netherlands, Switzerland, and the United Kingdom. Representatives of these central banks from time to time consider methods by which effective monetary control, with particular reference to the price of gold, may be

maintained. The Bank of England acts as agent for this group and, within certain limits, both sells and buys gold for account of the members of the pool. No information about the operation of the pool is available from official sources, but it is thought that over the year 1962 as a whole there was probably a net gain of gold by members of the pool.

### *Other Developments*

In markets where gold is bought and sold against local currencies (Table 26), the day-to-day movements of the U.S. dollar equivalents of local prices often diverge from the movements of London prices because of exchange rate fluctuations and the special characteristics of each market. In general, however, prices in these markets have followed the pattern of the London market, generally reaching a peak in October 1962. Prices remained, however, below the peaks of the previous year, and subsequently declined to their lowest points in several years, which were reached in most markets in January 1963.

TABLE 26. PRICES OF GOLD IN VARIOUS WORLD MARKETS

(In U.S. dollars a fine ounce, at day's dollar rate)

	Bar Gold		Sovereign		Napoleon	
	End of Apr. 1962	End of Apr. 1963	End of Apr. 1962	End of Apr. 1963	End of Apr. 1962	End of Apr. 1963
Beirut	35.25	35.00	40.92	40.64	42.85	42.99
Bombay <sup>1</sup>	78.71	69.73 <sup>2</sup>	—	—	—	—
Brussels	34.14	35.20	39.96	41.43	—	—
Hong Kong	38.63	38.55	—	—	—	—
Milan	35.43	35.38	40.90	42.09	44.88	48.76
Paris	35.29	35.23	39.88	41.52	42.96	45.04

<sup>1</sup> See page 179.

<sup>2</sup> Average for week ended April 19.

In the markets for gold coins, the prices of the sovereign and the napoleon, while remaining below the previous year's high levels, showed a general upward trend from the beginning of the year under review until late in October 1962. Thereafter, the prices declined, parallel with the decline in the price of bar gold. In

Paris the price of the napoleon on October 24 reached the highest premium over the value of bar gold since August 1957. It had risen from the equivalent of \$43.18 per fine ounce (22 per cent premium over bar gold on May 2, 1962) to \$47.33 (33 per cent premium), slightly in excess of the previous year's peak. By the end of April 1963, the price of the napoleon had declined to the equivalent of \$45.04 a fine ounce.

Nearly 2,350,000 sovereigns were exported from the United Kingdom in 1962, compared with more than 3,000,000 sovereigns in 1961. In South Africa, 300,000 two-rand pieces were minted in 1962 and sent to Switzerland, where purchases were modest, at a premium of about 10 per cent.

### Gold Transactions Service

Since the inauguration of the Fund's gold transactions service in March 1952, the central banks of 25 member countries and 5 international organizations have purchased or sold gold through the facilities provided by the Fund. In all, 119 transactions, amounting to about \$1,083 million, have taken place since March 1952. The creation of the gold pool arrangements, described above,<sup>4</sup> has had the effect of reducing the need for the service, and no transactions were carried out during the fiscal year ended April 30, 1963.

### Changes in National Policies Affecting Gold

In *Austria*, an ordinance of the National Bank permits, inter alia, foreign exchange dealers to buy and sell domestically, against payment in schillings, Austrian 25-schilling and 100-schilling gold coins and all foreign gold coins which have ceased to be official means of payment. Private individuals are no longer bound to

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<sup>4</sup> Pages 176-77.

offer such gold coins to the Mint or the National Bank, but can offer them for sale to jewelers.

During 1962, the Government of *Burma* embarked upon a policy of acquiring gold as part of its foreign reserves. The goal set at the time of the decision was K 200 million (\$42 million). Accordingly, gold was purchased in and after June 1962, and by the end of November the desired total was reached.

In the *Netherlands* an ancient Dutch gold coin, the “gouden ryder,” is again being minted by the royal mint in Utrecht, by order of De Twentsche Bank, Amsterdam.

The Government of *India* took several measures during the year to check the smuggling of gold, to bring about a progressive reduction in the demand for the metal, and to mobilize private gold hoards. Rough official estimates indicated that Rs 200-300 million in gold (at the international price) was being smuggled into the country annually, and that hoarded gold in the form of bars and ornaments in India approximates to 110 million ounces (worth Rs 18.5 billion at international prices). In September 1962, the Indian Parliament authorized the Government to take legislative or administrative steps to control the production, supply, and distribution of gold and silver. The national emergency created by the large-scale attack on India's northern frontiers in October 1962 led to speedy action. On November 12, 1962, an issue of 15-year, 6½ per cent gold bonds was made in an attempt to mobilize private gold hoards, in order to replenish the foreign exchange reserves and strengthen India's defense effort. The gold exchanged for bonds was valued at the international price of Rs 53.58 per 10 grams (equivalent to \$35 per fine ounce). The bonds were to be exempt from the wealth tax and the capital gains tax. On November 13, the Government banned forward trading in gold as it might lead to unhealthy speculation and a rise in gold prices.

On January 9, 1963, further measures were announced in the form of Gold Control Rules framed under the Defense of India Act. All individuals and institutions were required to declare to a newly constituted Gold Board, within one month (subsequently

extended by 30 days), the amount of gold in their possession, other than ornaments, above certain small exempted limits. No new ornaments of gold exceeding a purity of 14 carats may be made. Gold dealers and power-operated refineries must be licensed and are the only ones permitted to acquire gold otherwise than in the form of ornaments. Other residents can acquire gold only by inheritance or by special permit. Violation of these rules is subject to severe penalties. The promulgation of the Rules brought trading in bullion in the Bombay market to a virtual standstill for several weeks, although it was subsequently resumed to a limited extent. On January 9, 1963, spot gold was quoted at 102.75 rupees per 10 grams (equivalent to \$67.11 per fine ounce), against an all-time record of Rs 129.90 (\$84.85) reached on August 29, 1962. In the last week of March 1963, dealer-to-dealer prices averaged Rs 98.80 rupees per 10 grams (equivalent to \$64.53 per fine ounce). Forward trading in silver has also been prohibited with effect from January 10, 1963.

In the *United States*, an Executive Order dated July 20, 1962 and an amendment to the Treasury Department Gold Regulations taking effect on July 23, 1962 have made it illegal for persons subject to the jurisdiction of the United States to acquire and hold outside the United States rare gold coins, i.e., coins minted prior to April 5, 1933. (No U.S. gold coins have been issued since that date.) U.S. citizens who owned rare gold coins abroad on July 23, 1962 were given until January 1, 1963 to sell them to persons not subject to the jurisdiction of the United States, or to import them into the United States for holding within the United States or for sale to a Mint institution. Since July 23, 1962, no other gold coin, whether or not rare, may be purchased abroad and imported without a special Treasury Department license. Such licenses are to be issued only exceptionally.

### *Gold Subsidy Programs*

The gold subsidy programs of the Governments of Australia, Canada, and the Philippines, discussed in previous Annual Reports,

were still in operation during the past year. In May and in August 1962, Australia consulted the Fund with regard to its gold subsidy program: on the first occasion, concerning an extension for a period of three years from June 30, 1962 of its present system of gold subsidies;<sup>5</sup> and on the second occasion concerning the governmental assistance for development purposes to be granted to those gold mines which were not eligible to receive a subsidy under existing legislation. Under this new arrangement, subject to certain conditions, each mine concerned is to receive an allowance not exceeding the amount by which its expenditure on development in any year exceeds the annual rate of its expenditure on development in a selected base period.

In October 1962, the Philippine Government consulted the Fund with regard to amendments to its gold subsidy program instituted in 1961.<sup>6</sup> The amendments reflect a change in the method of calculating the official price, resulting from the inauguration of the floating exchange rate on January 22, 1962. They provide that, while the rates of the subsidy remain unchanged at ₱ 65 and ₱ 50 per ounce for marginal and over-marginal producers, the total amount of the official price plus the subsidy cannot exceed ₱ 200, or fall below ₱ 160, per ounce of gold for both marginal and overmarginal producers.<sup>7</sup> Assurances were given that, if at any time the exchange rate moved to a point at which a uniform premium price for gold would seem likely to arise, contrary to the terms of Article IV, Section 2, of the Fund Agreement and the Fund's statement on gold subsidies, the Government would be prepared to adopt appropriate corrective measures, after consultations with the Fund.

The Fund deemed the new arrangements adopted by Australia, and the amended arrangements adopted by the Philippines, on the basis of the assurance given, to be consistent with the objectives of the Fund's statement of December 11, 1947 on gold subsidies.<sup>8</sup>

<sup>5</sup> *Annual Report, 1960*, page 144.

<sup>6</sup> *Annual Report, 1962*, page 164.

<sup>7</sup> At the free rate, the approximate equivalents of these four figures are \$17, \$13, \$51, and \$41, respectively.

<sup>8</sup> *Selected Decisions of the Executive Board*, page 9.



Fund members considering the introduction of subsidy schemes relating to the production of gold, as well as those desiring to amend existing programs, have an obligation to consult with the Fund on the measures proposed.

## Silver

During the year world silver markets were very active, and prices rose to their highest level in 43 years. The sharp upward movement followed the issuance by the President of the United States, on November 28, 1961, of a directive to the U.S. Treasury to suspend further sales of free (nonmonetary) silver to industrial and artistic users, previously made at 91 cents an ounce, and to suspend its use for coinage.<sup>9</sup> The trend persisted until on March 13, 1963 the price of silver came within one cent of \$1.2929 per fine ounce, the price at which the U. S. Treasury is legally obliged to redeem any silver certificates presented for redemption. By that date, the price in New York had increased by about 26 per cent since May 1962, when it was quoted at \$1.01¾, and by nearly 40 per cent over the price of 91½ cents quoted for a period of almost three years prior to the Treasury withdrawal from the market. In London the price advanced by nearly 30 per cent, from 84¾d. (98.9 cents) on May 1, 1962 to an all-time peak of 110d. (\$1.284) on March 12-14, 1963. Sales from speculative stocks gradually depressed the spot price in London to 108¾d. (\$1.267½) an ounce on March 29. The New York price followed suit and was quoted at \$1.267 on March 28 and 29. Renewed demand in early April, reported to be from European and London consumers, caused the prices to strengthen in both markets. At the end of April 1963, spot silver was quoted at \$1.27 a fine ounce in New York and 109d. in London.

Underlying these developments are profound changes in world production of, trade in, and consumption of silver. Silver produc-

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<sup>9</sup> *Annual Report, 1962*, pages 164-65.

tion has fallen short of consumption for several years, and the continuous expansion in the industrial uses of silver during the past decade, together with its use in the arts and for coinage, has steadily widened the gap between production and consumption. Since 1959, annual consumption has exceeded 300 million ounces, and has been increasing; current production is estimated at about 200 million ounces. For the free world as a whole, the shortfall in 1962 was met from official stocks, demonetized coin, sales by Mainland China (considerably smaller than in 1961), liquidation of speculative holdings, salvage, and miscellaneous other sources. While the increased price of silver has benefited the producers, it is not expected to have an immediate marked effect on production, since about two thirds of the silver produced in the free world is a by-product of base metals, mainly copper, lead, and zinc.

On June 4, 1963, the President of the United States signed a bill repealing the Silver Purchase Acts of 1934, 1939, and 1946, and authorizing the Federal Reserve Banks to replace \$1 and \$2 silver certificates with Federal Reserve notes. It is not expected that the change-over to Federal Reserve notes, backed by one fourth of their value in gold, will take place until 1964 at the earliest. In anticipation of the passage of the Bill, the President had stated that "These actions will permit the establishment of a broad market for trading in silver on a current and forward basis, comparable to the markets in which other commodities are traded. Our new policy will, in effect, provide for the eventual demonetization of silver except for its use in subsidiary coinage." Since November 29, 1961, the U.S. Treasury has been retiring \$5 and \$10 silver certificates, replacing them with Federal Reserve notes, and utilizing the silver so released for the coinage of subsidiary coins; the amount of certificates of such denominations is, however, limited. On the other hand, coinage requirements have been increasing each year, and the steady growth in population has led to a corresponding growth in the number of \$1 bills required for circulation; up to June 4, 1963, these could be issued only in the form of silver certificates and silver was required to back them. About 113 million ounces of silver were used by the United States to meet these two

requirements in 1962. The passage of the repeal legislation will, in due course, make available 1.6 billion ounces of silver (currently backing silver certificates) that can be used for coinage.

On March 11, 1963, the U.S. Secretary of the Treasury stated that "for many years now silver has not served any major purpose as a monetary reserve metal. While it has been held as a reserve behind outstanding silver certificates, the amount of these in relation to total currency in circulation is small (approximately \$2 billion in silver certificates in circulation, of which approximately \$1.5 billion are in \$1 certificates, compared with \$30 billion in Federal Reserve notes). Our basic currency is the Federal Reserve note, which is backed by 100 per cent collateral, 25 per cent in the form of gold."

## **APPENDICES**

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**Appendix I. EXECUTIVE DIRECTORS AND VOTING POWER**  
as of April 30, 1963

Director <i>Alternate</i>	Casting Votes of	Votes by Country	Total Votes <sup>1</sup>	Per Cent of Total
<b>APPOINTED</b>				
William B. Dale <i>John S. Hooker</i>	United States	41,500	41,500	24.50
D. B. Pitblado <i>Raymond H. Bonham Carter</i>	United Kingdom	19,750	19,750	11.66
Jean de Largentaye <i>Jacques Waitzenegger</i>	France	8,125	8,125	4.80
Wilhelm Hanemann <i>Walter Habermeier</i>	Federal Republic of Germany	8,125	8,125	4.80
J. J. Anjaria <i>S. L. N. Simha</i>	India	6,250	6,250	3.69
<b>ELECTED</b>				
Ahmed Zaki Saad (United Arab Republic) <i>Albert Mansour</i> (United Arab Republic)	Afghanistan	475	9,103	5.38
	Ethiopia	382		
	Iran	950		
	Iraq	400		
	Jordan	329		
	Kuwait	750		
	Lebanon	317		
	Pakistan	1,750		
	Philippines	1,000		
	Saudi Arabia	800		
	Sudan	400		
	Syrian Arab Republic	400		
	United Arab Republic	1,150		
J. M. Garland (Australia) <i>F. C. Pryor (Australia)</i>	Australia	4,250	7,955	4.70
	New Zealand	1,500		
	South Africa	1,750		
	Viet-Nam	455		
Gengo Suzuki (Japan) <i>William Tennekoon (Ceylon)</i>	Burma	550	7,525	4.44
	Ceylon	700		
	Japan	5,250		
	Nepal	325		
	Thailand	700		

**Appendix I (continued). EXECUTIVE DIRECTORS AND VOTING POWER**  
as of April 30, 1963

Director Alternate	Casting Votes of	Votes by Country	Total Votes <sup>1</sup>	Per Cent of Total
Pieter Liefstinck (Netherlands) <i>H. M. H. A. van der Valk</i> (Netherlands)	Cyprus Israel Netherlands Yugoslavia	362 500 4,375 1,450	6,687	3.95
André van Campenhout (Belgium) <i>Maurice Toussaint (Belgium)</i>	Austria Belgium Korea Luxembourg Turkey	1,000 3,625 437 380 1,110	6,552	3.87
A. F. W. Plumptre (Canada) <i>L. Denis Hudon (Canada)</i>	Canada Ireland	5,750 700	6,450	3.81
Práxedes Reina Hermosillo (Mexico) <i>Carlos Sansón (Nicaragua)</i>	Costa Rica Cuba El Salvador Guatemala Honduras Mexico Nicaragua Venezuela	400 750 362 400 362 2,050 362 1,750	6,436	3.80
Sergio Siglienti (Italy) <i>Costa P. Caranicas (Greece)</i>	Greece Italy Portugal Spain	850 2,950 850 1,750	6,400	3.78
Guillermo Walter Klein (Argentina) <i>Javier Urrutia (Chile)</i>	Argentina Bolivia Chile Ecuador Paraguay Uruguay	3,050 475 1,250 400 362 550	6,087	3.59

**Appendix I (concluded). EXECUTIVE DIRECTORS AND VOTING POWER**  
as of April 30, 1963

Director <i>Alternate</i>	Casting Votes of	Votes by Country	Total Votes <sup>1</sup>	Per Cent of Total
Maurício C. Bicalho (Brazil) <i>Antonio de Abreu Coutinho</i> (Brazil)	Brazil Colombia Dominican Republic Haiti Panama Peru	3,050 1,250 400 362 255 600	5,917	3.49
Beue Tann (China) <i>I-Shuan Sun</i> (China)	China	5,750	5,750	3.40
Karl Skjaeveland (Norway) <i>Lennart Olofsson</i> (Sweden)	Denmark Finland Iceland Norway Sweden	1,550 820 362 1,250 1,750	5,732	3.38
Sumanang (Indonesia) <i>Amon Nikoi</i> (Ghana)	Ghana Indonesia Laos Libya Malaya Morocco Tunisia	600 1,900 325 380 600 775 433	5,013	2.96
			169,357 <sup>2</sup>	100.00

<sup>1</sup> Voting power varies on certain matters with use by members of the Fund's resources.

<sup>2</sup> This total does not include the votes of the Ivory Coast, Jamaica, Liberia, the Niger, Nigeria, Senegal, Sierra Leone, Somalia, Tanganyika, and Togo, which did not participate in the 1962 Regular Election of Executive Directors.



## Appendix II. CHANGES IN MEMBERSHIP OF EXECUTIVE BOARD

Changes in the membership of the Executive Board between May 1, 1962 and April 30, 1963 were as follows:

José Antonio Mayobre (Venezuela) resigned as Executive Director for Costa Rica, Cuba, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Venezuela, effective May 15, 1962.

Jorge A. Montealegre (Nicaragua), formerly Alternate Executive Director to José Antonio Mayobre (Venezuela), was elected Executive Director by Costa Rica, Cuba, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Venezuela, effective May 16, 1962, and completed his term of service, October 31, 1962.

Lempira E. Bonilla (Honduras) was appointed Alternate Executive Director to Jorge A. Montealegre (Nicaragua), effective May 16, 1962, and completed his term of service, October 31, 1962.

Masaru Fukuda (Japan) served as Temporary Alternate Executive Director to Gengo Suzuki (Japan), June 1 to 18, 1962.

Dominique Sauvel (France) served as Temporary Alternate Executive Director to Jean de Largentaye (France), June 15 to July 9 and August 17, 1962.

Gabriel Costa Carvalho (Brazil) was appointed Alternate Executive Director to Maurício C. Bicalho (Brazil), effective June 20, 1962, and completed his term of service, October 31, 1962.

W. Y. Hui (China) served as Temporary Alternate Executive Director to Beue Tann (China), July 20 and August 17, 1962.

D. R. Taylor (Canada) served as Temporary Alternate Executive Director to Louis Rasminsky (Canada), July 30 to August 17, 1962.

Thorhallur Ásgeirsson (Iceland) completed his term of service as Executive Director for Denmark, Finland, Iceland, Norway, and Sweden, October 31, 1962.

Gabriel Kielland (Norway) completed his term of service as Alternate Executive Director to Thorhallur Ásgeirsson (Iceland), October 31, 1962.

Appendix II (*continued*). CHANGES IN MEMBERSHIP  
OF EXECUTIVE BOARD

M. Kumashiro (Japan) completed his term of service as Alternate Executive Director to Gengo Suzuki (Japan), October 31, 1962.

Louis Rasminsky (Canada) completed his term of service as Executive Director for Canada and Ireland, October 31, 1962.

Soetikno Slamet (Indonesia) completed his term of service as Executive Director for Ghana, Indonesia, Libya, Malaya, Morocco, and Tunisia, October 31, 1962.

Frank A. Southard, Jr. (United States) resigned as Executive Director for the United States, effective October 31, 1962.

Maurício C. Bicalho (Brazil) was re-elected Executive Director by Brazil, Colombia, the Dominican Republic, Haiti, Panama, and Peru, effective November 1, 1962.

Antonio de Abreu Coutinho (Brazil) was appointed Alternate Executive Director to Maurício C. Bicalho (Brazil), effective November 1, 1962.

William B. Dale (United States) was appointed Executive Director by the United States, effective November 1, 1962.

J. M. Garland (Australia) completed his term of service as Executive Director for Australia, South Africa, and Viet-Nam, October 31, 1962, and was elected Executive Director by Australia, New Zealand, South Africa, and Viet-Nam, effective November 1, 1962.

F. C. Pryor (Australia) was reappointed Alternate Executive Director to J. M. Garland (Australia), effective November 1, 1962.

Guillermo Walter Klein (Argentina) was re-elected Executive Director by Argentina, Bolivia, Chile, Ecuador, Paraguay, and Uruguay, effective November 1, 1962.

Javier Urrutia (Chile) was reappointed Alternate Executive Director to Guillermo Walter Klein (Argentina), effective November 1, 1962.

Pieter Lieftinck (Netherlands) completed his term of service as Executive Director for Israel, the Netherlands, and Yugoslavia,

Appendix II (*continued*). CHANGES IN MEMBERSHIP  
OF EXECUTIVE BOARD

October 31, 1962, and was elected Executive Director by Cyprus, Israel, the Netherlands, and Yugoslavia, effective November 1, 1962.

H. M. H. A. van der Valk (Netherlands) was reappointed Alternate Executive Director to Pieter Lieftinck (Netherlands), effective November 1, 1962.

A. F. W. Plumptre (Canada) was elected Executive Director by Canada and Ireland, effective November 1, 1962.

L. Denis Hudon (Canada), formerly Alternate Executive Director to Louis Rasminsky (Canada), was appointed Alternate Executive Director to A. F. W. Plumptre (Canada), effective November 1, 1962.

Práxedes Reina Hermosillo (Mexico) was elected Executive Director by Costa Rica, Cuba, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Venezuela, effective November 1, 1962.

Carlos Sansón (Nicaragua) was appointed Alternate Executive Director to Práxedes Reina Hermosillo (Mexico), effective November 1, 1962.

Ahmed Zaki Saad (United Arab Republic) completed his term of service as Executive Director for Afghanistan, Ethiopia, Iran, Iraq, Jordan, Lebanon, Pakistan, the Philippines, Saudi Arabia, the Sudan, the Syrian Arab Republic, and the United Arab Republic, October 31, 1962, and was elected Executive Director by Afghanistan, Ethiopia, Iran, Iraq, Jordan, Kuwait, Lebanon, Pakistan, the Philippines, Saudi Arabia, the Sudan, the Syrian Arab Republic, and the United Arab Republic, effective November 1, 1962.

Sergio Siglienti (Italy) completed his term of service as Executive Director for Greece, Italy, and Spain, October 31, 1962, and was elected Executive Director by Greece, Italy, Portugal, and Spain, effective November 1, 1962.

Appendix II (*continued*). CHANGES IN MEMBERSHIP  
OF EXECUTIVE BOARD

Costa P. Caranicas (Greece) was reappointed Alternate Executive Director to Sergio Siglienti (Italy), effective November 1, 1962.

Karl Skjaeveland (Norway) was elected Executive Director by Denmark, Finland, Iceland, Norway, and Sweden, effective November 1, 1962.

Lennart Olofsson (Sweden) was appointed Alternate Executive Director to Karl Skjaeveland (Norway), effective November 1, 1962.

Sumanang (Indonesia) was elected Executive Director by Ghana, Indonesia, Laos, Libya, Malaya, Morocco, and Tunisia, effective November 1, 1962.

Amon Nikoi (Ghana), formerly Alternate Executive Director to Soetikno Slamet (Indonesia), was appointed Alternate Executive Director to Sumanang (Indonesia), effective November 1, 1962.

Gengo Suzuki (Japan) completed his term of service as Executive Director for Burma, Ceylon, Japan, and Thailand, October 31, 1962, and was elected Executive Director by Burma, Ceylon, Japan, Nepal, and Thailand, effective November 1, 1962.

William Tennekoon (Ceylon) was appointed Alternate Executive Director to Gengo Suzuki (Japan), effective November 1, 1962.

Beue Tann (China) was re-elected Executive Director by China, effective November 1, 1962.

André van Campenhout (Belgium) was re-elected Executive Director by Austria, Belgium, Korea, Luxembourg, and Turkey, effective November 1, 1962.

A. K. Ghosh (India) served as Temporary Alternate Executive Director to J. J. Anjaria (India), December 5, 1962.

D. R. Taylor (Canada) served as Temporary Alternate Executive Director to A. F. W. Plumptre (Canada), December 5, 1962 and March 23, 1963.

Appendix II (*concluded*). CHANGES IN MEMBERSHIP  
OF EXECUTIVE BOARD

Alan G. H. Wright (United Kingdom) served as Temporary Alternate Executive Director to D. B. Pitblado (United Kingdom), April 9, 1963.

Joaquin Gutierrez Cano (Spain) served as Temporary Alternate Executive Director to Sergio Siglienti (Italy), April 17, 1963.

Julián Sáenz Hinojosa (Mexico) served as Temporary Alternate Executive Director to Práxedes Reina Hermosillo (Mexico), April 24 to 26, 1963.

### Appendix III. EXECUTIVE BOARD DECISIONS

#### A. Calculation of Repurchase Obligations: Prompt Reporting of Monetary Reserves Data

1. Where on any April 30 the Fund holds a member's currency in an amount exceeding 75 per cent of the member's quota, the member shall make a provisional monetary reserves report to the Fund not later than May 31.

2. The Fund will make a provisional calculation of the amount and distribution of the repurchase obligations of such members and will inform them of the results of the calculation not later than June 15. Members shall discharge within thirty days any repurchase obligations as thus provisionally calculated and agreed with the member.

3. All provisional repurchases shall be subject to adjustment by members and the Fund in accordance with Rule I-6 of the Fund's Rules and Regulations.

4. This decision will be reviewed by the Fund not later than the end of 1964.

*Decision No. 1510-(63/23)*

*May 3, 1963*

#### B. Absence or Nonperformance of Agreement for Repurchase: Amendment of Rule I-4(g)

The following shall be added at the end of Rule I-4(g) <sup>1</sup>

When an agreement for repurchase within three to five years after a drawing is not reached or observed, the charges to be

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<sup>1</sup> *Annual Reports, 1954, pages 134-35; 1959, page 191.*

imposed shall rise in accordance with (e) and (f) above, provided that when the charges payable on any segment have reached 6 per cent the Fund will review the charges to be imposed thereafter. In the case of non-observance, if 5 per cent is payable on any segment at the date of non-observance, it shall continue to be payable only for that part of a period of six months for which it has not yet been payable; and when the repurchases to which the non-observance relates are made or a new agreement for repurchase not later than five years after the drawing is made all charges in excess of 5 per cent shall be reduced to 5 per cent.

*Decision No. 1475-(63/7)*

*February 25, 1963*

### C. Compensatory Financing of Export Fluctuations

I. The report entitled "Compensatory Financing of Export Fluctuations" is approved for transmittal to the United Nations.

II. The following shall be recorded as the decision of the Executive Board on the compensatory financing of fluctuations in exports of primary exporting countries:

(1) The financing of deficits arising out of export shortfalls, notably those of primary exporting member countries, has always been regarded as a legitimate reason for the use of Fund resources, which have been drawn on frequently for this purpose. The Fund believes that such financing helps these members to continue their efforts to adopt adequate measures toward the solution of their financial problems and to avoid the use of trade and exchange restrictions to deal with balance of payments problems, and that this enables these members to pursue their programs of economic development with greater effectiveness.

(2) The Fund noted in its 1962 Annual Report that trends in prices of basic commodities in the past few years have adversely affected the export earnings of many Fund members, which has increased the strain on their reserves. In view of this and in order to ensure the maximum effectiveness for its support to members—in particular, primary exporting members—that are faced with fluctuations in export proceeds, the Fund is taking the action set forth below.

*A. Quotas*

(3) The quotas of many primary exporting countries, taken in conjunction with a reasonable use of their own reserves, are at present adequate for dealing with export fluctuations such as have occurred during the past decade. In those instances, however, where adjustment of the quotas of certain primary exporting countries, and in particular of countries with relatively small quotas, would be appropriate to make them more adequate in the light of fluctuations in export proceeds and other relevant criteria, the Fund is willing to give sympathetic consideration to requests for such adjustment.

*B. Drawing policies*

(4) Under the present policies and practices on the use of Fund resources, any member is given the overwhelming benefit of the doubt in relation to requests for transactions within the gold tranche, and the Fund's attitude to requests for transactions within the first credit tranche is a liberal one provided the member itself is making reasonable efforts to solve its problems. In the higher credit tranches too, where a member's policies are consistent with Fund policies and practices on the use of Fund resources in these tranches, the Fund gives assistance, on a substantial scale, toward meeting temporary payments deficits, including deficits arising out of export shortfalls. The policies and practices of the Fund on drawings and stand-by arrangements have been developed in order to help members to meet more effectively their temporary balance of payments difficulties and to enable them, where necessary, to pursue policies aimed at restoring external and internal equilibrium. Fund assistance in accordance with these policies and practices has made an effective contribution to the solution of the difficulties of these members and the achievement of equilibrium. It has often led, moreover, to the provision of further resources from public and private



sources for meeting immediate and longer-term needs. In the application of its policies and practices governing the use of its resources, the Fund's attitude has been a flexible one, and account has been taken of special difficulties facing members.

(5) The Fund has reviewed its policies to determine how it could more readily assist members, particularly primary exporters, encountering payments difficulties produced by temporary export shortfalls, and has decided that such members can expect that their requests for drawings will be met where the Fund is satisfied that

- (a) the shortfall is of a short-term character and is largely attributable to circumstances beyond the control of the member; and
- (b) the member will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties.

The amount of drawings outstanding under this decision will not normally exceed 25 per cent of the member's quota, and the drawings will be subject to the Fund's established policies and practices on repurchase. When drawings are made under this decision, the Fund will so indicate in an appropriate manner.

(6) In order to implement the Fund's policies in connection with compensatory financing of export shortfalls, the Fund will be prepared to waive the limit on Fund holdings of 200 per cent of quota, where appropriate. In particular, the Fund will be prepared to waive this limit (i) where a waiver is necessary to permit compensatory drawings to be made under paragraphs (4) and (5) above, or (ii) to the extent that drawings in accordance with paragraph (5) are still outstanding.

Whenever the Fund's holdings of a member's currency resulting from an outstanding compensatory drawing under paragraph (5) are reduced, by the member's repurchase or otherwise, this will restore *pro tanto* the member's facility to make a further compensatory drawing under that paragraph, should the need arise.

(7) In order to identify more clearly what are to be regarded as export shortfalls of a short-term character, the Fund, in conjunction with the member concerned, will seek to establish reasonable estimates regarding the medium-term trend of the member's exports on the basis of appropriate statistical data in conjunction with qualitative information about its export prospects.

### Appendix III (*concluded*). EXECUTIVE BOARD DECISIONS

(8) The provision of credit to deal with the balance of payments effects of export fluctuations provides immediate relief for a country's short-term difficulties. In many cases, however, it will also be necessary to introduce measures of a policy character in order to attain a satisfactory and lasting solution to a country's balance of payments problems. Members generally have actively cooperated with the Fund to find and adopt the measures necessary to this end. Beyond immediate balance of payments difficulties, the primary exporting countries are, in many instances, facing unfavorable long-term export trends, and all are trying to meet the challenge of achieving more rapid and sustained development through a strengthening and broadening of their economies. The last mentioned problem will require action in many fields and over many years by both the primary exporting countries and the industrial countries, separately and in concert, including readier access to the markets of the developed countries for the products of the developing countries and an appropriate and sustained flow of technical and financial assistance to the developing countries. The Fund considers that its activities can provide valuable assistance in helping to establish a climate within which longer-term measures can be more effectively pursued.

*Decision No. 1477-(63/8)*

*February 27, 1963*

## Appendix IV. SCALE OF FUND CHARGES

The following charges are made by the Fund: a service charge of  $\frac{1}{2}$  of 1 per cent of the amount of the purchase of a currency from the Fund, a charge of  $\frac{1}{4}$  of 1 per cent per annum for stand-by arrangements (credited against the service charge if the member makes a purchase during the period of the stand-by), and a charge payable by the member on the Fund's holdings of its currency that exceed its quota. The rate of charge on balances in excess of quota rises in two dimensions: the larger the member's drawings relative to its quota, and the longer the period during which the Fund holds the member's currency.

Charges on transactions effected on or after May 1, 1963 are as follows:

Charge for Period Stated and for Portion of Holdings in Excess of Quota				Average Effective Rates <sup>1</sup> for Portion of Holdings in Excess of Quota			
<i>Portion of Holdings Exceeding Quota</i>		Per Cent		<i>Portion of Holdings Exceeding Quota</i>		Per Cent	
By more than . . . .	0	50	100	By more than . . . .	0	50	100
But by not more than	50	100		But by not more than	50	100	
<i>Service Charge</i> . . .	0.5	0.5	0.5				
<i>Charge for Period of</i>		Per Cent Per Annum		<i>Average for Period of</i>		Per Cent Per Annum	
0 to 3 months . . .	0.0	0.0	0.0	3 months . . . . .	2.00	2.00	2.00
3 to 6 months . . .	2.0	2.0	2.0	6 months . . . . .	2.00	2.00	2.00
$\frac{1}{2}$ to 1 year . . . .	2.0	2.0	2.5	1 year . . . . .	2.00	2.00	2.25
1 to $1\frac{1}{2}$ years . . .	2.0	2.5	3.0	$1\frac{1}{2}$ years . . . . .	2.00	2.17	2.50
$1\frac{1}{2}$ to 2 years . . .	2.5	3.0	3.5	2 years . . . . .	2.12	2.38	2.75
2 to $2\frac{1}{2}$ years . . .	3.0	3.5	4.0*	$2\frac{1}{2}$ years . . . . .	2.30	2.60	3.00
$2\frac{1}{2}$ to 3 years . . .	3.5	4.0*	4.5	3 years . . . . .	2.50	2.83	3.25
3 to $3\frac{1}{2}$ years . . .	4.0*	4.5	5.0	$3\frac{1}{2}$ years . . . . .	2.71	3.07	3.50
$3\frac{1}{2}$ to 4 years . . .	4.5	5.0		4 years . . . . .	2.94	3.31	
4 to $4\frac{1}{2}$ years . . .	5.0			$4\frac{1}{2}$ years . . . . .	3.17		

When a charge reaches 4 per cent per annum, the Fund and the member must consult on means to reduce the Fund's holding of the member's currency. The charge continues to increase by an additional  $\frac{1}{2}$  per cent per annum each six months, subject to the

<sup>1</sup> Total charges payable by the member over the stated period, expressed as a per cent and divided by the number of years of the period. Includes service charge.

\* Point at which the Fund and the member consult.

#### Appendix IV (*concluded*). SCALE OF FUND CHARGES

following provisions: If agreement is reached for full repurchase within five years from the date of the drawing, the maximum rate is 5 per cent per annum; but a higher maximum may be fixed by the Fund if the agreement is for a repurchase running beyond five years. In the absence of agreement, the Fund may impose such charges as it deems appropriate after the rate of 5 per cent per annum is reached. When an agreement for repurchase within three to five years after a drawing is not reached or observed, the charge continues to increase by  $\frac{1}{2}$  per cent per annum each six months, but when a charge reaches 6 per cent the Fund will review the charges to be imposed thereafter.

Charges are normally paid in gold; but when a member's monetary reserves are below half its quota, charges may be paid partly or wholly in the member's currency.

## Appendix V. ADMINISTRATIVE BUDGET

### Letter of Transmittal

July 11, 1963

My dear Mr. Chairman:

The administrative budget of the Fund approved by the Executive Board for the Fiscal Year ending April 30, 1964 is presented herewith, in accordance with Section 20 of the By-Laws. The presentation also shows actual expenditures for the past two 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 would recommend appropriate amendments to the Executive Board.

Yours sincerely,

/s/

FRANK A. SOUTHARD, JR.

*Acting Chairman of the Executive Board*

Chairman of the Board of Governors  
International Monetary Fund

**Administrative Budget as Approved by the Executive Board for the Fiscal Year Ending April 30, 1964,  
Compared with Actual Expenditures for the Fiscal Years 1961-62 and 1962-63**

Category of Expenditure	Budget F.Y. 1963-64	F.Y. 1962-63		Actual Expenditures F.Y. 1961-62
		Budget	Actual Expenditures	
I. BOARD OF GOVERNORS .....	\$ 347,000	\$ 320,000	\$ 312,278	\$ 369,257
II. OFFICE OF EXECUTIVE DIRECTORS .....				
Salaries .....	\$ 968,000	\$ 866,000	\$ 863,075	\$ 756,908
Other compensations and benefits .....	200,000	178,000	170,081	149,179
Travel .....	190,000	233,000	184,409	181,648
Total .....	\$ 1,358,000	\$1,277,000	\$1,217,565	\$1,087,735
III. STAFF .....				
Salaries .....	\$ 5,088,000	\$4,235,000	\$4,223,564	\$3,656,301
Other compensations and benefits .....	1,841,000	1,585,000	1,560,424	1,265,275
Travel .....	1,315,000	1,090,000	1,036,870	798,275
Total .....	\$ 8,244,000	\$6,910,000	\$6,820,858	\$5,719,851
IV. OTHER ADMINISTRATIVE EXPENSES .....				
Communications .....	\$ 275,000	\$ 259,000	\$ 254,110	\$ 222,943
Office occupancy expenses .....	441,000	337,000	299,659	301,895
Books and printing .....	250,000	181,000	158,467	152,404
Supplies and equipment .....	193,000	177,000	176,435	153,137
Miscellaneous .....	222,000	169,000	161,639	142,755
Total .....	\$ 1,381,000	\$1,123,000	\$1,050,310	\$ 973,134
TOTAL .....	\$11,330,000	\$9,630,000 <sup>1</sup>	\$9,401,011	\$8,149,977

<sup>1</sup> Includes \$500,000 supplementary appropriations approved by the Executive Board on October 3, 1962 and \$150,000 approved on January 25, 1963.

Appendix V (concluded)

# Appendix VI. COMPARATIVE STATEMENT OF INCOME AND OF TOTAL ADMINISTRATIVE EXPENDITURE

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

	Year Ended Apr. 30, 1961	Year Ended Apr. 30, 1962	Year Ended Apr. 30, 1963
<b>INCOME<sup>1</sup></b>			
Service charges			
Received in gold ..	\$ 2,808,750	\$ 4,676,273	\$ 2,774,861
Received in members' currencies..	76,250	6,539,719	125,000
Total .....	<u>\$ 2,885,000</u>	<u>\$11,215,992</u>	<u>\$ 2,899,861</u>
Charges on Fund's holdings of members' currencies and securities in excess of quotas			
Received in gold	\$ 7,910,044	\$15,914,728	\$19,940,415
Received in members' currencies.	3,103,122	5,444,359	4,533,900
Total .....	<u>\$11,013,166</u>	<u>\$21,359,087</u>	<u>\$24,474,315</u>
Other operational income .....	\$ 652,207	\$ 530,636	\$ 3,669,065
Miscellaneous income .....	627	1,053	1,176
TOTAL INCOME.	<u>\$14,551,000</u>	<u>\$33,106,768</u>	<u>\$31,044,417</u>
<b>TOTAL ADMINISTRATIVE EXPENDITURE .....</b>	<u>\$ 7,346,711</u>	<u>\$ 8,149,977</u>	<u>\$ 9,569,704</u>

<sup>1</sup> Excludes income from investments transferred to Special Reserve for the fiscal years ended April 30, as follows:

1961.....	\$19,866,077
1962.....	22,779,476
1963.....	25,094,232

Appendix VII. FINANCIAL STATEMENTS OF INTERNATIONAL  
MONETARY FUND AND STAFF RETIREMENT FUND

Letter of Transmittal

July 11, 1963

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 financial statements of the International Monetary Fund, and the Staff Retirement Fund, for the year ended April 30, 1963, together with two memoranda from the Audit Committee, which include the audit certificates.

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, Argentina, Austria, and India nominated auditors to serve on this Committee. They respectively nominated Mr. Luis Larrosa, Chief Accountant, Banco Central de la República Argentina; Mr. Fritz Diwok, Consultant of the Austrian National Bank; and Mr. A. K. Mukherji, Additional Deputy Comptroller and Auditor General of India. The auditors thus nominated were confirmed by the Executive Directors.

It will be noted that, in the period under review, ordinary income amounted to \$31,044,417 and expenditure amounted to \$9,569,704, resulting in a net income of \$21,474,713, which has been transferred provisionally to General Reserve pending Board of Governors' action. In addition, income of \$25,094,232 from the Fund's gold investment program has been transferred to Special Reserve.

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

Yours sincerely,  
/s/

FRANK A. SOUTHARD, JR.  
*Acting Chairman of the Executive Board*

Chairman of the Board of Governors  
International Monetary Fund



## Appendix VII (*continued*)

### MEMORANDUM BY THE AUDIT COMMITTEE

June 21, 1963

To the Acting Managing Director  
and the Executive Directors  
International Monetary Fund

The report of the Audit Committee, dated June 21, 1963, submitted through you to the Board of Governors, on the audit of the financial records and transactions of the Fund for the fiscal year ended April 30, 1963, includes the following paragraphs relating to the scope of the audit conducted and the audit certificate given:

#### SCOPE OF THE AUDIT

The Audit Committee conducted its audit according to generally accepted auditing standards and took cognizance of the requirements of Section 20(b) of the By-Laws that it be comprehensive with respect to the examination of the financial records of the Fund; that it extend, insofar as practicable, to the ascertainment that financial transactions consummated during the period under review were supported by the necessary authority; and that it determine that there was adequate and faithful accounting for the assets of the Fund. In determining the authority for financial transactions, reference was made to the Articles of Agreement, the By-Laws and Rules and Regulations of the Fund, the minutes of the Executive Board and the General Administrative Orders of the Fund. The system of accounting and the internal control were reviewed, and the work program performed by the Internal Auditor, as reported by him to the Committee, was taken into account in the audit after adequate review was made of his work performance.

#### AUDIT CERTIFICATE

We have made an independent examination of the Balance Sheet of the International Monetary Fund as at April 30, 1963, of the Statements of Income and Expenditure and of Reserves for the fiscal year then ended and of the schedules related to such financial statements. 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.

## Appendix VII (*continued*)

As a result of our examination, we report that, in our opinion, 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, 1963, 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.

### AUDIT COMMITTEE:

/s/ Luis Larrosa, Chairman (Argentina)

/s/ Fritz Diwok (Austria)

/s/ A. K. Mukherji (India)

# Appendix VII (continued)

## EXHIBIT A

		BALANCE	
		as at April	
		Values expressed in U. S. dollars on the	
ASSETS			
GOLD ACCOUNT			
Gold with depositories (See Note 2) .	\$2,228,343,340		
(63,666,952.583 fine ounces, at \$35 per ounce)			
Less: 21,428.605 fine ounces held in suspense for the account of Upper Volta pending completion of the formalities of membership . .	750,001	\$2,227,593,339	
Investments (See Note 3) . . . . .			
\$810,778,000 U. S. Government securities maturing within 12 months, at cost . . . . .	\$799,971,901		
Funds awaiting investment . . . . .	19,610	799,991,511	\$ 3,027,584,850
CURRENCIES AND SECURITIES			
With depositories			
Currencies . . . . .		\$2,485,332,651	
Securities . . . . .		9,113,960,528	11,599,293,179
(nonnegotiable, noninterest- bearing demand obligations, payable at face value by members in their currencies)			
SUBSCRIPTIONS TO CAPITAL—RECEIVABLE			
Balances due . . . . .		\$ 11,092,403	
Balances not due . . . . .		764,179,771	775,272,174
SUBSCRIPTION DUE FROM MEMBER IN RESPECT OF AUTHORIZED INCREASE IN QUOTA (Contra) . . . . .			
			50,000,000
OTHER ASSETS (See Note 4) . . . . .			
(receivables, accruals, prepayments, and sundry cash)			14,870,377
TOTAL ASSETS . . . . .			\$15,467,020,580

### NOTES:

1. With the exception of the following currencies which, for bookkeeping purposes, are computed at provisional rates (the Tunisian dinar represents U. S. cents per currency unit; all other rates represent currency units per U.S. dollar):
 

Argentine peso	83.0000	Indonesian rupiah	45.0000	Tunisian dinar	238.000
Peso boliviano	11.8750	Korean won	125.000	Vietnamese piastre	35.0000
Brazilian cruzeiro	470.000	Paraguayan guaraní	122.000	Yugoslav dinar	750.000
Chilean escudo	1.60000	Peruvian sol	26.8150		
Colombian peso	9.00000	Thai baht	21.0000		
2. Excludes 11,790.559 fine ounces earmarked for members.
3. Made with the proceeds of the sale of 22,856,900.312 fine ounces of gold. Upon termination of the investment, the same quantity of gold can be reacquired.
4. The assets and liabilities of the Staff Retirement Fund are not included in this Balance Sheet.
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, 1963 is \$1,938,759. A portion of the stand-by charge is refundable to a member if the arrangement is canceled; the maximum amount on April 30, 1963 is \$715,863.

## EXHIBIT A

## SHEET

30, 1963

basis of established parities (See Note 1)

## CAPITAL, RESERVES, AND LIABILITIES

## CAPITAL

Authorized subscriptions of members .....	\$15,231,200,000
---	------------------

## RESERVES (Exhibit C)

Special reserve .....	\$90,038,598	
General reserve .....	<u>93,287,149</u>	183,325,747

SUBSCRIPTION IN RESPECT OF INCREASE IN QUOTA  
CONSENTED TO BUT NOT YET EFFECTIVE

Payment due (Contra) .....	50,000,000
----------------------------	------------

## PROVISION FOR POTENTIAL REFUNDS OF

STAND-BY CHARGES (See Note 5) .....	1,938,759
-------------------------------------	-----------

OTHER LIABILITIES (See Note 4) .....	556,074
(accruals, etc.) .....	

TOTAL CAPITAL, RESERVES, AND LIABILITIES .....	<u>\$15,467,020,580</u>
--	-------------------------

/s/ Y. C. KOO  
Treasurer

/s/ FRANK A. SOUTHARD, JR.  
Acting Managing Director

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

## Appendix VII (continued)

## EXHIBIT B

STATEMENT OF INCOME AND EXPENDITURE  
for the year ended April 30, 1963

## INCOME

Operational charges .....	\$ 6,568,926	
Charges on balances in excess of quotas .....	24,474,315	
Other income .....	<u>1,176</u>	
TOTAL INCOME (See Note 1) .....		\$31,044,417

## EXPENDITURE

Board of Governors .....		\$ 312,278
Office of Executive Directors		
Salaries .....	\$863,075	
Other compensations and benefits .....	170,081	
Travel .....	<u>184,409</u>	1,217,565
Staff		
Salaries .....	\$4,223,564	
Other compensations and benefits .....	1,560,424	
Travel .....	<u>1,036,870</u>	6,820,858
Other administrative expenses		
Communications .....	\$254,110	
Office occupancy expenses .....	299,659	
Books and printing (See Note 2) .....	158,467	
Supplies and equipment .....	176,435	
Miscellaneous (See Note 3) .....	<u>161,639</u>	1,050,310
Total Administrative Expenditure...		\$9,401,011
Other expenditure		
Fixed property costs .....	\$167,038	
Gold handling and conversion costs .....	461	
Exchange adjustments .....	<u>1,194</u>	168,693
TOTAL EXPENDITURE .....		<u>9,569,704</u>
NET INCOME .....		<u>\$21,474,713</u>
(Transferred provisionally to General Reserve pending Board of Governors' action) (Exhibit C)		

## NOTES:

1. Excludes income from investments amounting to \$25,094,232, transferred to Special Reserve (Exhibit C).
2. After deduction of \$63,278 for sales of Fund's publications.
3. After deduction of \$101,716 for food service sales.

Appendix VII (*continued*)

## EXHIBIT C

STATEMENT OF RESERVES  
for the year ended April 30, 1963

## SPECIAL RESERVE (See Note)

Balance, April 30, 1962 .....	\$64,944,366	
Add		
Income from investments in U.S. Govern- ment securities for year .....	<u>25,094,232</u>	
Balance, April 30, 1963 .....		\$ 90,038,598

## GENERAL RESERVE

Balance, April 30, 1962 .....	\$71,812,436	
Add		
Net income for year (Exhibit B), transferred provisionally pending Board of Governors' action .....	<u>21,474,713</u>	
Balance, April 30, 1963 .....		<u>93,287,149</u>
TOTAL RESERVES (carried to Balance Sheet) .....		<u><u>\$183,325,747</u></u>

## NOTE:

Represents income from investments in U.S. Government securities from November 1, 1957.

## Appendix VII (*continued*)

### STAFF RETIREMENT FUND

#### MEMORANDUM BY THE AUDIT COMMITTEE

June 21, 1963

To the Acting Managing Director  
and the Executive Directors  
International Monetary Fund

The report of the Audit Committee, dated June 21, 1963, submitted through you to the Board of Governors, on the audit of the financial records and transactions of the International Monetary Fund for the fiscal year ended April 30, 1963, includes the following paragraphs relating to the scope of the audit conducted, the investments held, and the audit certificate given with respect to the Staff Retirement Fund:

#### SCOPE OF THE AUDIT

An examination was made by the Audit Committee of the separate accounts and financial statements relating to the Staff Retirement Fund for the fiscal year ended April 30, 1963. In the course of the examination, the Committee referred to the Articles of the Staff Retirement Plan and to the decisions of the Pension, Administration and Investment Committees created under the Plan. The Audit Committee made what it considered an adequate test check of the various classes of transactions, taking into account the audit coverage made by the Internal Auditor as reported by him to the Committee. The report of the Internal Auditor, among other audit activities conducted by his staff, showed that a detailed examination had been made of the Participants' Accounts.

#### INVESTMENTS

A confirmation was received by the Audit Committee directly from the depository concerning the investments held by it as at April 30, 1963, as custodian for the International Monetary Fund Staff Retirement Fund. The holdings of the various classes of investments and the limiting percentages prescribed by the Pension Committee for this purpose are indicated in the statement below. The Pension Committee decided in its meeting 63/1

## Appendix VII (continued)

on January 15, 1963 that the limiting percentages are to be determined not with reference to the book value of the investments as in the past but with reference to "original investment" defined as book value adjusted to exclude the effect of realized gains and losses. The actual percentages on the basis of book value of investments as well as on the basis of "original investment" are indicated below:

		<i>Authorized Percentage</i>	<i>Actual Percentages on the Basis of Book Value</i>	<i>Actual Percentages on the Basis of "Original Investment"</i>	<i>Book Value</i>	<i>"Original Investment"</i>
Bonds:						
U.S. Government . . . .	Minimum 30		33.39	35.38	\$ 4,006,447	\$ 4,121,949
International Bank for Reconstruction and Development . . . . .	Maximum 20		13.57	14.52	1,628,709	1,691,571
Corporate (other than convertible) . . . . .	Maximum 25		18.34	18.86	2,201,156	2,198,495
Corporate (convertible)	Maximum 5		—	—	—	—
Corporate stocks . . . . .	Maximum 35		34.70	31.24	4,162,856	3,640,248
			<u>100.00</u>	<u>100.00</u>	<u>\$11,999,168</u>	<u>\$11,652,263</u>

It is observed that decisions regarding the buying and selling of investments had been made by the Investment Committee after giving due consideration to the advice of the Investment Consultant.

### AUDIT CERTIFICATE

As a result of our examination of the separate accounts and financial statements relating to the Staff Retirement Fund for the fiscal year ended April 30, 1963, we report that, in our opinion, the Balance Sheet, the Statement of Source and Application of Funds, and the related Schedules in respect of Participants' Account, Accumulation Account, Retirement Reserve Account, and Reserve Against Investments present fairly the financial position of the Staff Retirement Fund as at April 30, 1963 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.

#### AUDIT COMMITTEE:

/s/ Luis Larrosa, Chairman (Argentina)

/s/ Fritz Diwok (Austria)

/s/ A. K. Mukherji (India)



# Appendix VII (concluded)

## EXHIBIT I

### STAFF RETIREMENT FUND

#### BALANCE SHEET

as at April 30, 1963

#### ASSETS

CASH AT BANKS .....	\$	6,593
INVESTMENTS		
Bonds, at amortized value		
United States Government		
( <i>market value, \$3,949,420</i> ) .....	\$4,006,447	
International Bank for Recon- struction and Development		
( <i>market value, \$1,671,538</i> ) .....	1,628,709	
Corporate ( <i>market value,</i> <i>\$2,054,565</i> ) .....	<u>2,201,156</u>	\$7,836,312
Corporate stocks (common), at cost		
( <i>market value, \$5,943,823</i> ) .....	<u>4,162,856</u>	11,999,168
ACCRUED INTEREST ON BONDS .....		119,017
ACCRUED CONTRIBUTIONS FROM PARTICIPANTS AND EMPLOYER ....		<u>36,706</u>
TOTAL ASSETS .....		<u><u>\$12,161,484</u></u>

#### LIABILITIES AND RESERVES

PARTICIPANTS' ACCOUNT .....	\$ 2,636,562
ACCUMULATION ACCOUNT .....	8,135,116
RETIREMENT RESERVE ACCOUNT .....	1,042,902
RESERVE AGAINST INVESTMENTS .....	<u>346,904</u>
TOTAL LIABILITIES AND RESERVES .....	<u><u>\$12,161,484</u></u>

/s/ Y. C. KOO  
Treasurer

/s/ FRANK A. SOUTHARD, JR.  
Acting Managing Director

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

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