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September 21, 1969
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WASHINGTON TIME

1969 ANNUAL REPORT

INTERNATIONAL MONETARY FUND

ANNUAL REPORT
1969

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INTERNATIONAL MONETARY FUND

ANNUAL REPORT

OF THE

EXECUTIVE DIRECTORS FOR THE FISCAL YEAR ENDED APRIL 30, 1969

WASHINGTON, D.C.

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The following symbols have been used throughout this Report:

. . . indicate that data are not available;

— indicates that the figure is zero or less than half the final digit shown, or that the item does not exist;

- is used between years or months (e.g., 1965-68 or January-June) to indicate a total of the years or months inclusive of the beginning and ending years or months;

/ is used between years (e.g., 1968/69) to indicate a fiscal year or a crop year.

Minor discrepancies in totals shown in the tables and in percentages are due to rounding.

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Frank A. Southard, Jr.

Deputy Managing Director

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Office in Geneva	Edgar Jones, Director
Chief Editor	Roger V. Anderson

August 13, 1969

[1] Anwar Ali, Director (on leave).

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LETTER OF TRANSMITTAL
TO THE BOARD OF GOVERNORS

August 13, 1969

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, 1969.

Yours sincerely,

/s/

PIERRE-PAUL SCHWEITZER

Chairman of the Executive Board

Chairman of the Board of Governors

International Monetary Fund

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Part I

THE WORLD ECONOMY AND THE FUND

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Chapter 1

General Economic Survey

Introduction

RAPID expansion and financial imbalance were the main features of the performance of the world economy during 1968 and the first half of 1969. Output and trade in the industrial countries registered a sharp advance, imparting economic stimulus to the primary producing countries; at the same time, inflationary pressures intensified. Several of the industrial countries encountered severe balance of payments difficulties, and the international financial scene was marred by recurrent crises in foreign exchange markets. Heavy flows of speculative funds were related primarily to the strength of the deutsche mark as evident in Germany's very large surplus on foreign trade account, and to the relative weakness of some other currencies, notably the French franc following the events of May-June 1968. Pressure on the pound sterling continued during 1968 as a large outflow of short-term funds, aggravated by the disturbances in the exchange markets, accompanied the slow response of the U.K. current account to the November 1967 devaluation; the pound was generally stronger in the first part of 1969, although improvement was interrupted by the May exchange crisis. On August 10 the French franc was devalued by 11.11 per cent.

The upsurge of world economic activity in 1968 represented a turnaround in the cyclical situation. The slowdown of economic activity in the industrial countries that began about the middle of 1966 had brought the growth of world trade to a virtual standstill during the latter part of 1967. This development reflected not only a slackening of the import rise in industrial countries, but also the retarding effect of such slackening on the export earnings of many primary producing countries and the consequent need for those countries to reduce imports in order to protect the balance of payments position. The pickup of activity in industrial countries starting about the middle of 1967 generated a sharp upsurge in international trade—one that substantially benefited the export receipts of primary producing countries as it led both to an increase in export volume and, in the second half of 1968, to higher export prices.

The rapidity of expansion in world output and trade during 1968 stemmed in large degree from the continuation of excess demand conditions in the United States. Failure of the U.S. economy to cool off must be rated as a major disappointment of the year—entailing, as it did, a prolongation and acceleration of inflation and a drastic reduction in the U.S. trade surplus. By early 1969 inflationary pressures had again emerged in many countries of continental Europe, following absorption of the economic slack that had been created in the 1966-67 slowdown of activity, and prices already were advancing rapidly in France, the Netherlands, the United Kingdom, Canada, and Japan; only Italy among the industrial countries was not facing a problem of inflation.

The United States, the United Kingdom, and France are implementing programs of financial restraint aimed at the objectives of reducing inflationary pressures and redressing balance of payments deficits. Italy, on the other hand, is pursuing an expansionary economic policy—one that is appropriate to the situation of a large current account surplus and spare productive capacity. For Germany, where the existence of a large current account surplus is associated with high pressure of demand, the task for policy is more difficult; to a lesser degree, this consideration would seem to apply also to Japan.

In all these countries, the situation with respect to the current account is such that substantial equilibrating capital flows are required to prevent an imbalance in the over-all payments position. This calls for a high degree of policy coordination among the countries; in each of them, careful attention must be paid to the appropriate mix of fiscal and monetary policies. At present, the steep international escalation of interest rates over the past year—heavily influenced by developments in the United States—suggests that an undue emphasis on monetary policy for the purpose of managing domestic demand is again occurring in most industrial countries. An important by-product of this has been to raise the cost, and restrict the availability, of credit to many primary producing countries and even to cause an outflow of funds in some cases.

Trends in Industrial Countries

For most industrial countries, perspective on current economic trends and policies is enhanced by attention not only to very recent developments, but also to those extending back to about the end of 1965. The cyclical forces operative in the industrial world over the past three and a half years—a period encompassing successively widespread pressure on resources, a general economic slowdown, and rapid economic recovery and expansion—have had a profound influence on trends in international trade, on the working of the balance of payments adjustment process, and on the degree of inflation in the world economy.

By the end of 1965, a strong economic expansion lasting more than five years had brought the industrial countries as a group closer to full employment conditions than at any previous time in the postwar period. Indeed, the vigor of demand forces had generated overheating in Germany, in some other European countries, and—for the first time in almost a decade—in the United States and Canada. In a number of the major countries the authorities decided to restrain the growth of aggregate demand, principally through a tightening of monetary policy, in order to ease the pressures on domestic resources. The severe restrictiveness of this policy, together with some weakening of underlying expansionary forces, brought about a general slowdown of economic activity in the industrial countries. This slowdown, which lasted from about the middle of 1966 to the middle of 1967, is depicted in Chart 20 in terms of changes in real gross national product (GNP).

In Europe, the softening of economic activity during 1966-67 led to a marked easing of the pressure on domestic resources—especially in Germany, where recessionary tendencies were strongest—and in a number of countries unemployment rose sharply and rates of wage and price increases declined. In the United States, however, the slowdown in economic activity was reflected in only a limited abatement of inflationary pressures, as labor markets remained fairly tight and wage rates continued to increase strongly. In Canada cost and price pressures were severe throughout 1967, despite an increase in the unemployment rate. From the summer of 1967 the problem for policy in both of these North American countries again became one of restraining the expansion of aggregate demand, at a time when most countries on the European continent had considerable slack in the utilization of resources and were continuing to encourage expansion.

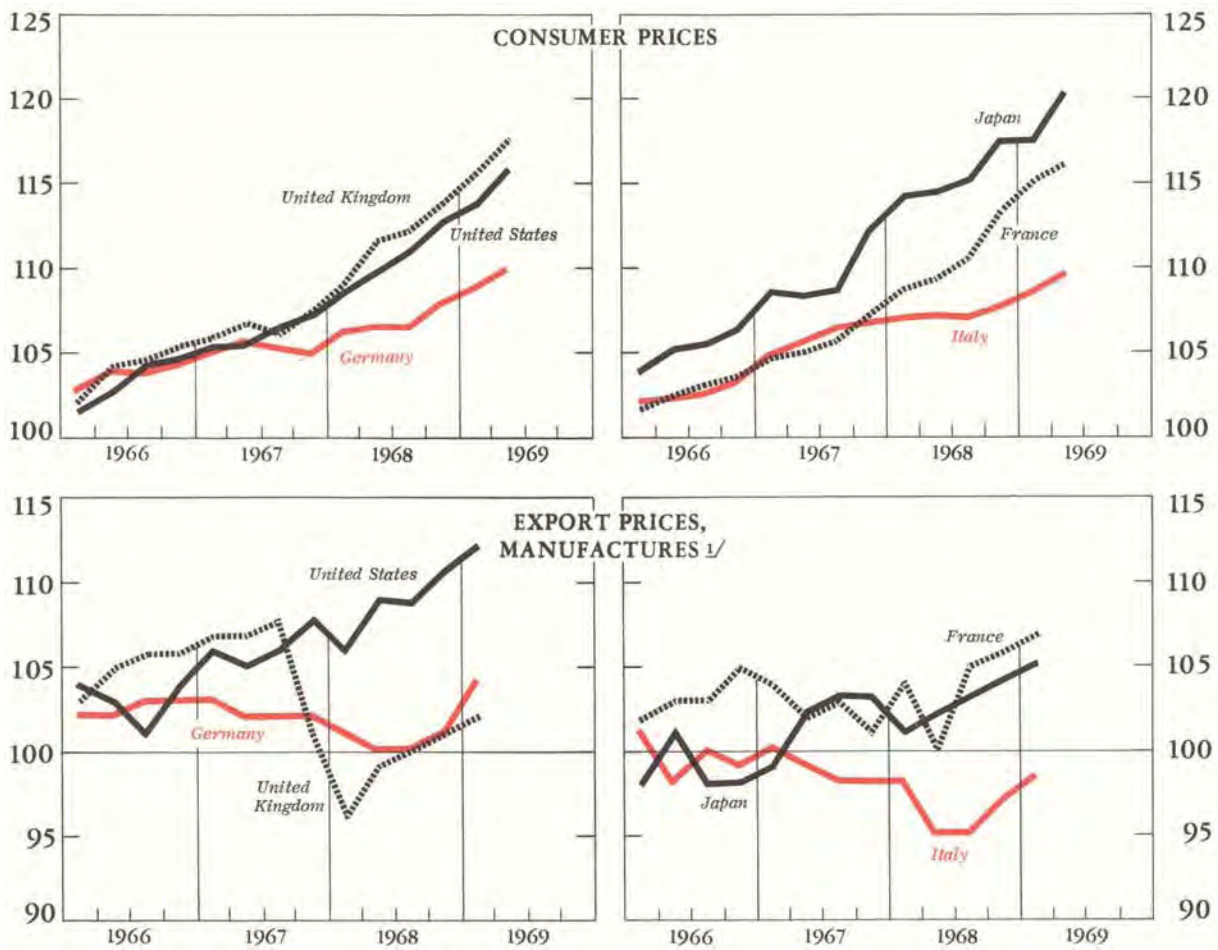
Economic activity expanded at a rapid rate in most industrial countries in the second half of 1967 and throughout 1968. The earlier part of this upswing was dominated by a sharp rise of demand and output in the United States and Germany, but the expansion spread quickly to other countries. In several industrial countries the rate of growth tended to accelerate during the course of 1968; and in the second half of the year real GNP was higher than in the corresponding period of 1967 by 7 per cent in the European Economic Community [1] and by 15 per cent in Japan. In the United States the growth of total output slowed down somewhat in the course of 1968, but real GNP in the second half of the year was still 5½ per cent above the level a year earlier. The combined industrial production of the industrial countries expanded at an annual rate of 9 per cent from the first half to the second half of 1968.

In continental European countries the cyclical upswing during 1968 led to a gradual absorption of excess capacity, as reflected in declining levels of unemployment. However, not until the latter part of 1968 and early 1969 did upward pressures on prices and costs begin to appear. In the United States the continued rapid expansion of demand throughout 1968 and the first half of 1969 occurred under conditions of full employment,

[1] Special factors in France and Germany accounted for much of the economic acceleration in Europe during the second half of 1968. In France the catching up in output after the strikes in May-June, together with the effects of the large wage increases and the expansionary fiscal measures, led to an extraordinarily rapid growth rate in the second half of 1968. In Germany the announcement of the border tax adjustment in November caused a sharp acceleration of exports (and output) in anticipation of the introduction of the new export levies toward the end of the year.

CHART 1. PRICE MOVEMENTS IN SELECTED INDUSTRIAL COUNTRIES, 1966–FIRST HALF 1969

(1965 = 100; quarterly data)



[1] Expressed in U.S. dollars.

and price and cost pressures were intense; the rise in average GNP prices and in consumer prices accelerated during this period (Chart 1).

Some decline in the industrial countries' over-all rate of growth in real GNP and in industrial production occurred in the first half of 1969. In continental Europe this slowing down from the exceptional growth rates in the second half of 1968 mainly reflected the disappearance of the special factors in France and Germany; an acceleration of growth in Italy partly offset these influences. Demand is continuing to expand at a vigorous pace in practically all European countries, and the growth of output is likely to remain high throughout 1969. The U.S. economy, which contrary to most projections continued to expand rapidly throughout 1968, registered a markedly smaller growth of real GNP—about 3 per cent—in the first half of 1969; and the authorities, in their endeavor to bring inflation under control and eliminate inflationary expectations, are projecting a still lower rate of growth for the rest of 1969 and the first part of 1970 on the basis of the restrictive policies now in effect.

The over-all increase of prices in the industrial countries[2] from 1967 to 1968 was noticeably larger than in the previous year, and substantially above any longer-run average based on postwar experience. In the first half of 1969, almost all industrial economies were operating at or close to full capacity. The rate of price increase in the United States had accelerated, after some moderation of inflationary pressures in the first half of

[2] As measured by the GNP deflator.

1967. In the United Kingdom the effects of the devaluation in November 1967, together with higher indirect taxes, also had led to an acceleration in the rate of price increase during 1968. Continental Europe, where the relatively rapid price increase in the earlier part of the 1960's was interrupted by the recession in 1966-67, had entered a cyclical phase of renewed upward pressure on prices. For France special circumstances connected with the strikes in the spring of 1968 had caused pressures on wage costs and prices; price indicators for the first several months of 1969 showed continued marked increases. In several European countries the change-over to value-added tax systems and increases in other indirect taxes contributed to the recent acceleration of price increases, notably in the Netherlands and France. In Italy price increases during early 1969 were still modest, relative both to other countries and to the historical record in Italy.

When account is taken of the behavior of prices in the first part of 1969, and of the current strength of demand forces, it seems probable that price increases will be larger in 1969 than in 1968 in almost every industrial country. On an over-all basis, however, the situation could begin to change significantly by late 1969 or early 1970 if official expectations of an easing of price pressures in the United States are realized.

At present, the control of inflation is a primary objective of stabilization efforts in the United States, the United Kingdom, Canada, and France—a task that is rendered particularly difficult by the existence of strong cost-push forces, generated in the first three countries by previous conditions of excess demand and in France by the special circumstances noted above. A sound evolution of the world economy over the next few years will depend crucially on the success of these countries' efforts, and on the timely application of appropriately restrictive financial policies in other industrial countries where renewed pressures on resources have reappeared in recent months, and where such pressures are still predominantly of a demand-pull character.

Differences in price movements among industrial countries over the past several years have not served to support the balance of payments adjustment process—tending to aggravate rather than to reduce disequilibria in international payments. The main point in this regard concerns the price performance of the United States compared with that of other countries. The continuing effort of the United States to overcome the sizable deficit in its basic external accounts has been made more difficult by the incurrence of price and cost increases that, on balance, have been at least as large as those in a number of European countries and Japan over the period since 1965 and have exceeded the increases in those countries since 1967. It is particularly noteworthy that unit labor costs in manufacturing went up at an average annual rate of 4 per cent in the United States from 1965 to 1968, but rose only slightly in such European countries as Germany and Italy, and declined in Japan. Again, the export unit value of manufactures (in U.S. dollars) increased marginally or declined in these latter countries and in the United Kingdom (because of the devaluation), while it rose substantially in the United States (Chart 1). In all the various price and cost comparisons, the showing of Canada has been similar to that of the United States.

The price and cost performance in recent years, relative to that in the first half of the 1960's, represented a deterioration for the United States and Canada and an improvement for most other industrial countries, especially those on the continent of Europe. In that earlier period, the U.S. economy had a substantial margin of unutilized resources whereas in continental Europe high rates of resource utilization were general. In the circumstances then prevailing, costs and prices were essentially stable in the United States but advanced markedly in Europe; this combination of developments worked in the direction of reducing the U.S. balance of payments deficit and of moderating European surplus positions.

The shift in recent years to fuller resource utilization and excess demand in the United States—while continental Europe was passing through a period of marked economic slowdown followed by absorption of the resultant spare capacity—has had income effects, as well as price effects, running counter to a reduction of the disequilibrium in international payments. Striking changes (discussed below) have occurred in current account positions.

Monetary conditions have tightened in all industrial countries over the past year, as indicated by the widespread increases in the levels of interest rates. The very pronounced tightening of monetary policy in the United States, beginning late in 1968 and continuing in the first half of 1969, brought about a substantial flow of short-term funds from Europe, especially from the Euro-dollar market. The swing toward monetary tightness in European countries, while largely justified by the need to control expanding demand, was also influenced by the impact on official reserves of the large outflow of funds from national money markets through the Euro-dollar market to the United States.

Fiscal policy was used actively in the course of 1968 in the United States and the United Kingdom, although in both countries the effects were weaker than expected and the restraint of aggregate demand is now relying more on monetary policy. Among other industrial countries, few have so far made an active use of fiscal instruments to counteract overheating. Thus, the present mix of financial policies, with a heavy dependence on monetary policy, has generally come to resemble that of 1965-66, when an interest rate escalation similar to the present one—but at considerably lower levels—also took place.

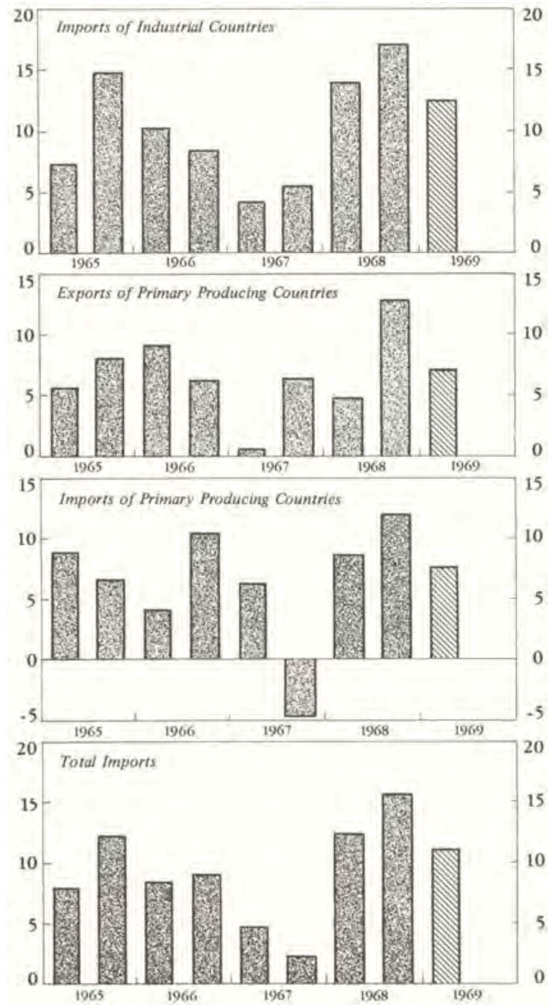
Trade and Payments

Shifts in the pace of economic activity in industrial countries during the past few years have had a marked impact on international trade flows. This is clearly evident from fluctuations in the growth of aggregate world trade, as well as from the varying movements that have occurred in the trade balances of individual countries and groups of countries. Among other things, the recent experience demonstrates anew the sensitivity of most primary producing countries—crucially dependent on external trade—to changes in demand conditions in the industrial world.

The cyclical recovery and expansion of demand in industrial countries that got under way about the middle of 1967 led to a remarkably strong upsurge in world trade (Chart 2); the 12 per cent increase in volume of trade from 1967 to 1968 was the highest on record. This upsurge was dominated in its earlier stage by a steep climb of imports into the United States, attributable primarily to rapid demand expansion under full-employment conditions. From late in 1967 through the summer of 1968, rising U.S. imports provided

CHART 2. WORLD TRADE, 1965–FIRST HALF 1969 [1]

(Value data at current prices; percentage changes from preceding half year, at annual rates, seasonally adjusted)



[1] Data for first half of 1969 are estimated.

a strong stimulus to the trade of many other countries throughout the world. Also of importance as a stimulus to international trade in the recent period was the vigorous cyclical advance of the German economy, with its particularly expansive effects on exports and business activity among the other EEC countries.

Prior to the recent upsurge in world trade, the over-all rise in exports of primary producing countries had moderated in the second half of 1966 and virtually ceased in the first half of 1967, as a result of the slowing down of output growth and imports in the industrial countries. (See Chart 2.) However, the exports of primary producing countries swung upward with the restoration of buoyant demand conditions in the major economies; this cyclical demand force was reflected not only in an enlarged volume of primary product exports but also in some strengthening of average commodity prices, reversing the decline that had been induced by the 1966-67 weakness of demand in industrial countries. In addition, the growth in export earnings of major primary producing areas from 1967 to 1968 was boosted by the abnormal rise in demand for certain commodities (copper, petroleum, rubber, etc.) because of strikes and political tensions or uncertainties. As a result of these influences, the exports of primary producing countries expanded at an annual rate of 13 per cent from the first to the second half of 1968; in the first half of 1969, the rate of expansion receded but was still relatively high.

The recovery in exports, together with more favorable weather conditions and improved crop yields in several regions, was instrumental in lifting the rate of output growth of primary producing countries in 1968 above that for the three preceding years. Particularly noteworthy were the record or near-record crops of rice and other foodgrains for the 1967/68 season in most of the countries of South Asia. This improvement in food supplies has had widespread economic effects in the area, contributing markedly to the restraint of inflationary pressures.

The revival of substantial export expansion in primary producing countries during 1968 was paralleled by an upswing in their imports. In the economic slowdown from mid-1966 to mid-1967, the trade balances of most primary producing countries had deteriorated as export receipts rose less, or actually declined, while imports increased rapidly. Many countries found it necessary to limit the expansion of domestic demand in order to protect their external positions; and this widespread move, together with some special factors, led to a marked downward adjustment in the level of primary producers' imports in the second half of 1967, causing a continued slowing down in the growth of world trade (Chart 2). Then, beginning with the first quarter of 1968, the renewal of import expansion in the primary producing countries was added to the upsurge of imports into the industrial countries.

The impact of the 1966-67 slowdown in demand and output of industrial countries upon the exports, and then the imports, of primary producing countries demonstrated again that the external position of the latter constitutes a periodic brake on their development efforts. This situation could be alleviated particularly by an expansion in the flow of capital and aid to the primary producing countries and by freer access of their exports to the markets of industrial countries. On their part, however, many primary producing countries need to achieve a greater degree of stability, which would serve to stimulate the inflow of foreign resources.

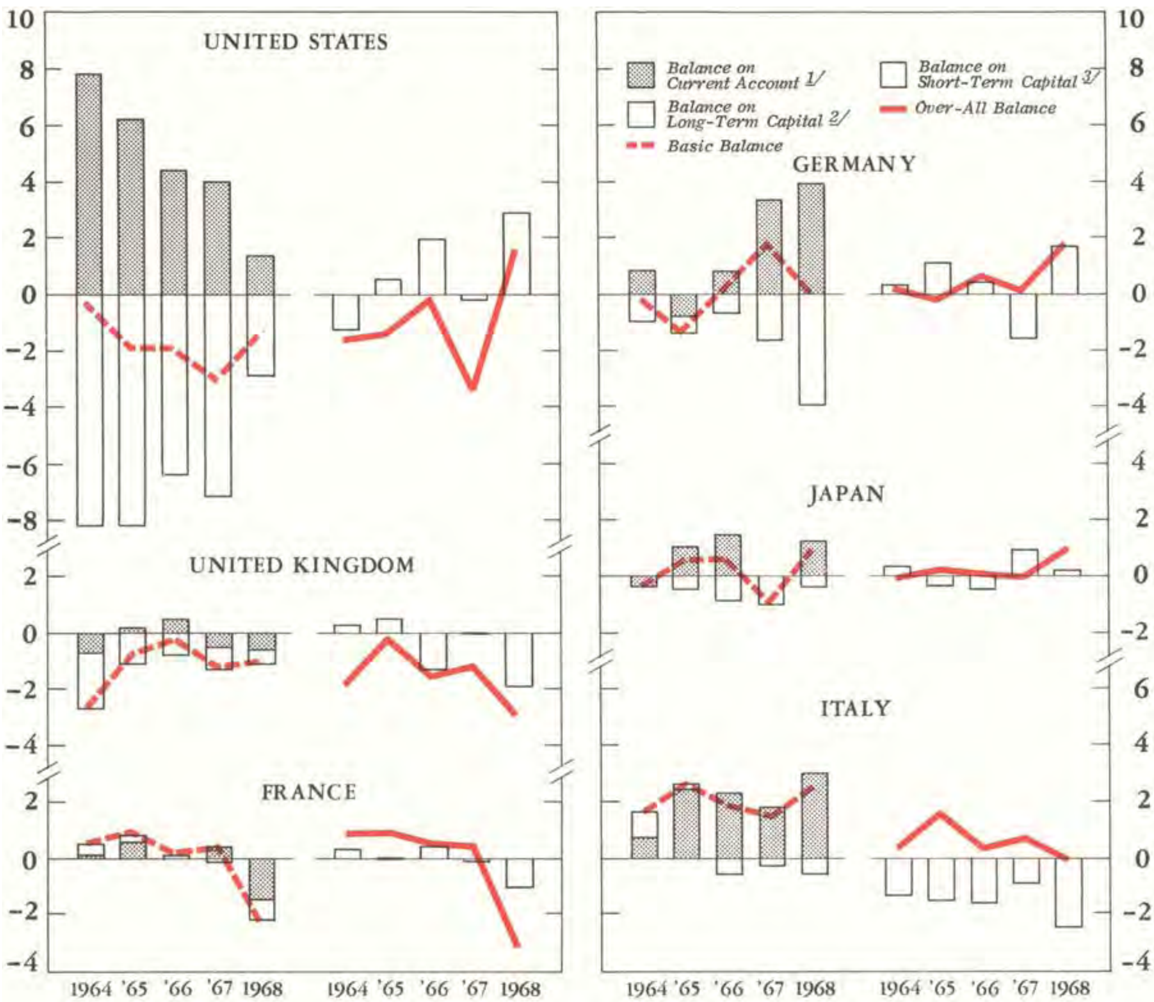
Among the primary producing countries, the more developed ones generally improved their external positions from 1967 to 1968, as the combined over-all balance shifted from a deficit of \$0.3 billion to a record postwar surplus of \$1.4 billion on the strength of an extraordinary rise in the inflow of capital. The group of less developed countries achieved a collective surplus of \$0.9 billion which, while moderately lower than that for 1967, was well above the \$0.2 billion average surplus recorded for the period 1958-67. Strengthening of the balance of payments position was fairly widespread among the less developed countries in 1968, whereas in 1967 the improvement recorded for the over-all surplus of this group was concentrated in a relatively few countries and stemmed in major part from official short-term borrowing in the face of balance of payments difficulties.[3]

Among the major industrial countries, balance of payments developments in 1968 were for the most part disappointing. Changes in current account balances generally ran counter to the aims and expectations of national authorities; major examples were the deteriorations in the U.S. and French balances, the increases in the already large surpluses of Italy and Germany, and a lack of improvement in the U.K. balance. (See Chart 3.) Flows of capital offset current account changes in a few countries but were disequilibrating in others, principally because of large-scale movements of funds during the recurrent speculative crises that flared up during the year. Short-term capital flows, dominated by speculative forces, were largely responsible for an over-all surplus in Germany and for large deficits in France and the United Kingdom. In the case of Germany, a

[3] For a more extensive discussion of balance of payments developments in the primary producing countries, see Chapter 6.

CHART 3. BALANCES OF PAYMENTS IN SELECTED INDUSTRIAL COUNTRIES, 1964-68

(In billions of U.S. dollars)



[1] Goods, services, and private unrequited transfers.
[2] Includes aid.
[3] Includes errors and omissions.

reverse (outward) movement of funds occurred after the November 1968 exchange crisis, but in late April and early May 1969 there was a renewed speculative inflow larger than that during any of the crises in 1968.

The speculative crises, together with the events of May-June 1968 that led to a sudden worsening of the French external position, imparted a special character to balance of payments developments in the main industrial countries in 1968. More basically, however, these developments were the product of forces that had been operative over a period of years—forces that produced marked differences among countries in the pressure of demand on resources, in price and cost performance, and in the tightness of financial markets. It is instructive, therefore, to view the 1968 payments experience of major countries in a somewhat longer perspective, as afforded by Chart 3.

The emergence of a sizable U.S. balance of payments surplus (on official settlements) in 1968 imparted a new and timely strength to the dollar in foreign exchange markets. At the same time, the multibillion dollar shifts that occurred from 1967 to 1968 in the balances on both current and capital flows left an unbalanced structure in the U.S. external accounts. The current account balance was sharply reduced, with the traditional trade surplus almost eliminated; and the capital account showed approximate balance, in contrast to the usual substantial outflow. Much of the positive swing of over $7 billion in net capital flows from 1967 to 1968 was in the short-term category, and the U.S. external accounts continued to show a deficit on "basic" transactions.

While striking and unusual, the U.S. balance of payments results for 1968 were in broad conformity with the trends of previous years. Deterioration in the current account after 1964 reflected primarily the transition from a situation of underutilization of resources to one of increasing strain on resources, as excessive expansion of aggregate demand generated an upsurge of imports. The associated mounting demands for credit, interacting with the response of policy, pushed up U.S. interest rates relative to those abroad and contributed to a major improvement in the balance on capital account. The U.S. programs of capital control also have been an important factor in the improvement. These programs—especially the mandatory, stiffer controls introduced at the beginning of 1968—have had the principal effect of inducing U.S. corporations to borrow heavily abroad to finance their overseas investments.

In addition to the U.S. balance of payments developments, also unusual in 1968 was the incurrence by the European Economic Community of a combined over-all deficit of about $2 billion, in contrast to an average annual surplus of $2 billion from 1958 to 1967. Over this ten-year period, an unbroken string of EEC surpluses and of U.S. deficits made for a structural disequilibrium in the international system.

Just as it would seem premature to reclassify the United States from a deficit to a surplus country on the basis of its 1968 over-all showing, so would this first EEC deficit in more than ten years appear to have limited meaning, or applicability, from a Community-wide standpoint. For one thing, the $3.2 billion deficit of France alone amounted to more than the over-all EEC deficit. Furthermore, developments in Germany and in Italy over the past several years command attention as being highly singular.

Germany's balance on current account, after slipping into deficit during the boom year 1965, shifted into large surplus during the recession of 1966-67 and then increased further in 1968 notwithstanding the vigorous domestic expansion and the economy's return to full utilization of resources by year end. As noted elsewhere in this Report, various measurements relating to the propensity to import, the performance of exports, and price and cost movements attest to Germany's increased competitiveness during recent years. In 1968 the current account surplus of about $4 billion was fully offset by the export of long-term capital, encouraged by the authorities' policy of monetary ease. However, the over-all surplus was extremely large ($1.7 billion) because of the temporary influx of short-term capital, largely of a speculative nature. In the first half of 1969, the outflow of long-term capital continued on an even larger scale than in 1968 and the "basic" balance of payments was in substantial deficit; this deficit, however, was offset by the speculative inflow of short-term capital mentioned earlier.

Italy has been running a current account surplus since 1964 that has largely been offset through capital outflows. The size of the current surplus, which in 1968 reached $3 billion, reflected growth rates below the economy's high potential during the period 1964-68, together with increased competitiveness in international markets. A feature of the Italian balance of payments for the past five years has been the large "basic" surplus (Chart 3).

Japan had a record over-all payments surplus in 1968, and its official reserves increased significantly. The current account surplus was large but, contrary to developments in 1966, it was not matched by a net capital outflow, since there was an unusually large inflow of foreign capital. The substantial improvement on current account from 1967 to 1968 took place in a setting of rapid economic growth, with real GNP advancing by about 14½ per cent. Japan, like Canada, was a particular beneficiary of rapid import expansion in the United States.

In the United Kingdom postdevaluation strategy called for a substantial shift of productive resources in 1968 through the reduction of domestic consumption, both public and private, and the encouragement of investment and exports. In the event, although there was a marked rise in the volume of exports, domestic demand proved stronger than expected, import growth was surprisingly high, and the shift of resources to the external sector was smaller than hoped for. The current account deficit worsened marginally from

1967 to 1968, but the underlying trend during 1968 was one of slow improvement. The outflow of short-term capital was much higher, however, and the over-all deficit of $3.0 billion in 1968 was more than twice the 1964-67 average of $1.3 billion. In the first quarter of 1969 a substantial reduction in the current account deficit was accompanied by large short-term capital inflows, and the balance of payments showed an over-all surplus.

A principal feature of international payments developments in the first part of 1969 was the increasing pressure of monetary stringency in the United States on money and capital markets throughout the world. Large U.S. banks stepped up their Euro-dollar borrowing through their overseas branches, and this was reflected in a U.S. balance of payments surplus (official settlements basis) of $1.7 billion in the first quarter—bringing the surplus for the year ended March 31, 1969 to $3.2 billion. Virtually all European countries raised domestic short-term interest rates, and many of them adopted a variety of other measures to stem capital outflows and protect official reserves.

These developments were mirrored in the figures on international liquidity. Countries' official reserves in the first quarter of 1969 declined by $2.1 billion, to a total of $74.3 billion. This decline was concentrated in foreign exchange holdings of industrial Europe and reflected largely a shift of short-term funds out of national currency markets into Euro-dollar claims. After adjustment to eliminate U.S. holdings of foreign exchange under swap transactions,[4] official reserves at the end of March 1969 amounted to $70.7 billion, compared with $69.8 billion a year earlier. Developments in reserve growth during recent years are discussed in Chapter 2.

For numerous primary producing countries, the stringent conditions in international money and capital markets prevailing so far in 1969 have had noticeable adverse effects in the form of very high interest rates and limited availability of credit. Although information on the over-all flow of capital and aid to the primary producing countries during 1969 is lacking, the tighter monetary environment in the industrial world is not conducive to expansion in the flow of financial resources to these countries.

[4] For an explanation of this adjustment, see page 21.

Adjustment Policies in Major Economies

The most disappointing aspect of international payments in the past several years has been the continuing lack of effective adjustment by the United States and the United Kingdom. In both countries the root difficulty has been the weakness of the current account position resulting mainly from insufficient control over the expansion of demand. At the same time, a full view of the matter requires recognition of the developing current account strength in other countries—notably in Germany, where policies to deal with the 1965-66 boom led to a severe recession, and in Italy, where until recently output was expanding less rapidly than the growth of productive capacity would have allowed.

At this juncture, assessment of the international payments situation is uncommonly difficult. A principal reason for this is the rapidity and magnitude of the balance of payments changes, including very large shifts on current and capital accounts, that have taken place in a number of the major economies over the past few years. In large degree, these changes have stemmed from broad cyclical forces—either forces which national authorities are seeking to control and reverse (e.g., excess demand expansion and inflation in the United States) or forces which already have entered into a new phase (e.g., the return to full utilization of resources in many European countries, after a period of slack).

In this connection, it should be noted, there is at least one consideration having significant policy implications; this relates to the uncertainty that must necessarily surround any view as to the appropriate and sustainable structure of the balance of payments in individual industrial countries. While it seems evident that the present structure is abnormal in certain important cases, it is very difficult to judge at all precisely what might be a desirable and sustainable norm. Because of the very big shifts that have occurred in current account and capital account balances during recent years, under varying cyclical conditions subject to further substantial change, only limited guidance on this matter can be derived from past experience. Nevertheless, it may be possible, within limits, for a country to maintain a viable over-all position on official settlements with various payments structures, depending on the mix of policies it is prepared to adopt. In particular, as experience has demonstrated, an active monetary policy can have a substantial effect on the over-all balance by influencing the direction and size of international capital flows.

When attention is turned to the economic and financial policies currently being pursued in the main industrial countries, it can be observed that in most cases these policies are set in the right direction for promotion of balance of payments adjustment and, at the same time, are consistent with objectives relating to domestic stabilization.

In the United Kingdom the crucial problem—now as in the past year and a half—is to achieve the release of a sufficient volume of resources from domestic use into the export and import-competing sectors. The successive moves to tighten fiscal policy during 1968 had an unexpectedly small effect in curbing the growth of domestic demand and of imports. At the same time, the large outflows of short-term capital during the year pointed to the need for a more restrictive monetary policy to supplement the earlier fiscal restraint. In early 1969, prices were continuing to advance rapidly and a high rate of capacity utilization was impeding further improvement in the balance of payments on current account. In this situation, after having raised indirect tax rates in November 1968, the authorities introduced additional measures of fiscal restraint in the April 1969 budget. Monetary policy was progressively tightened, and after the budget quantitative targets for the rate of credit expansion were laid down.

In the United States, as in the United Kingdom, there is no conflict between policies to achieve external equilibrium and to restore a reasonable degree of price stability. So far in 1969, U.S. fiscal and monetary policies have been working together in the direction of restraint for the first time since inflation became a problem some three and a half years ago. Fiscal policy was turned decisively toward restraint in the middle of 1968, upon enactment of income tax increases and expenditure cuts after a legislative delay of many months; a shift in the Government's budgetary position from a very large deficit to a moderate surplus has ensued. Despite this shift, which by early 1969 had run its course, the impact of the mid-1968 fiscal package in slowing the economy's inflationary pace and in dampening the rise of imports has been far less than was generally expected, partly because of an easing of monetary policy in the summer of 1968 that did not prove to be warranted in the circumstances. Late in 1968, however, the Federal Reserve System stiffened its posture and in the following several months monetary policy became stringent. Indeed, the current mix of U.S. financial policies includes a heavy reliance on monetary policy.

In France, stabilization policies have swung from expansion during most of 1968 to restraint during 1969. After the strikes in May-June 1968, the economy was faced with a large increase in wage costs, in a situation of excess capacity, and with a very heavy capital outflow. Expansionary fiscal and monetary policies were adopted, on the view that absorption of the wage increases by higher labor productivity would alleviate the pressures on profits and prices, and exchange controls were imposed. However, the speculative crisis in the exchange markets in November, together with the pronounced weakening of the external accounts that had occurred, brought a shift in policies; both fiscal restraints and quantitative ceilings on bank credit were introduced. Exchange controls, having been lifted early in September, were reimposed in strengthened form. Then in May 1969, during the crisis in exchange markets, the authorities decided upon a further tightening of bank credit restrictions and other measures to restrain the rapid advance of domestic demand and to check the large fall in reserves that had been occurring. In mid-July the new Government announced further anti-inflation measures, including notably the freezing of funds previously allocated to a large number of public investment programs. However, the drain on reserves was continuing. Devaluation of the franc on August 10 was accompanied by a first set of new measures, including a freeze on prices, and an announcement that the budget for 1970 would be balanced. It was also stated that credit ceilings would be strictly enforced. A comprehensive economic and financial program is due to be presented in mid-September.

Among the major surplus countries, Italy can serve both its domestic and external objectives by running a growth rate above that of its main trading partners. Indeed, under the impetus of measures recently taken by the authorities, the growth rate of the Italian economy has accelerated markedly. In Germany, where output expansion is continuing at a high rate and there is upward pressure on cost and price levels, domestic and external objectives seem less easy to reconcile. Measures to restrain inflationary pressures will have a tendency to keep the large current account surplus high, and the task for economic policy is thereby unusually difficult. It is evident that, to the extent feasible, such restraint as is found domestically essential should be exercised through fiscal rather than monetary policy. A somewhat similar situation would appear to obtain in Japan, but there the current account surplus is smaller than Germany's and is apparently of a less persistent nature.

One important point may be added, concerning the substantial improvement in their current account positions that the United States and the United Kingdom are seeking in the period ahead. This improvement would necessarily have to be mirrored in a deterioration of current account positions elsewhere in the payments system. In the present situation, a reduction in the combined current account surplus of the major surplus countries would be highly desirable—without, however, the resort to inflationary policies. Such an adjustment not only would help to deal with the existing disequilibrium in international payments, but it also would have the advantage of minimizing the impact on primary producing countries of strengthening in the U.S. and U.K. current accounts.

Chapter 2

International Liquidity and the Adjustment Process

Supply of International Liquidity

INTERNATIONAL liquidity in the broad sense consists of resources available to monetary authorities for the purpose of financing balance of payments deficits. Such liquidity ranges from assets that are readily available and freely usable to resources potentially available, subject to reconstitution and, in the case of Fund resources in the credit tranches, also subject to conditions relating to the policies of the drawing country.

The increasing importance that has been attached in recent years to the availability of international liquidity arises partly from its effects on confidence in the stability of exchange rates, which will influence the volume and direction of short-term capital flows and hence the magnitude of the payments disequilibria with which monetary authorities may have to cope. However, the main impact of international liquidity is exerted through its effects on countries' policies with respect to their balances of payments. These may include domestic demand policies, exchange rate policies, policies with respect to trade, capital flows, and aid, and, of course, policies with respect to the use of international liquidity itself to finance payments deficits. These policies affect the balance of payments; but they also affect employment, growth, inflation, the international division of labor, and the international distribution of capital. All such effects have to be taken into account in judging whether international liquidity is adequate, too large, or too small. However, it is in their balance of payments aspect that these policies are affected by international liquidity, and the problem of assuring adequate but not excessive international liquidity is bound up with that of promoting good balance of payments policies, or, as it is frequently expressed, promoting a good mechanism of balance of payments adjustment.

Concern with the question of international liquidity in recent years has eventuated in the setting up of a facility for deliberate reserve creation, the Special Drawing Account in the Fund, and is reflected in the importance attached to the Fifth Quinquennial Review of Quotas. This concern has arisen with respect to the prospective magnitude of international liquidity in relation to growing needs, its composition, and the nature of the factors that, up to now, have governed its supply.

The concept of international liquidity, as defined above, comprises a whole spectrum of official assets and borrowing possibilities. Those elements in it that are relatively clear cut and measurable are (a) reserves, (b) credit tranche positions in the Fund, and (c) unused drawing facilities under swap arrangements and related credit arrangements among central banks and treasuries. Reserves, which consist of official holdings of gold, foreign exchange, and reserve positions in the Fund, can be used unconditionally and do not for the most part have to be reconstituted.[1] Credit tranche positions in the Fund can be drawn upon by countries whose policies are considered adequate and the drawings have to be repurchased within 3 to 5 years. Use of drawing facilities under credit arrangements among central banks and treasuries is not as a rule subject to policy conditions, though some facilities can only be used for particular purposes; but use is generally limited to three or six months subject to renewal. The amounts of these various forms of international liquidity outstanding at year ends from 1951 to 1968 are shown in Table 1 and Chart 4. These reserve data are adjusted to exclude U.S. holdings

[1] Reserves subject to reconstitution requirements are currently confined to the regular gold tranche positions in the Fund, in the sense that a member that has a drawing outstanding is subject to a repurchase commitment until it has restored its gold tranche position to 25 per cent of its quota. The super gold tranche is not subject to repurchase. (A member's gold tranche position is equal to the amount, if any, by which its quota exceeds the Fund's holdings of its currency, the latter amount being taken exclusive of any holdings arising from drawings under the compensatory financing facility.) A limited reconstitution provision, subject to review, is also envisaged for use of special drawing rights.

TABLE 1. RESERVES, CREDIT TRANCHE POSITIONS, AND OTHER UNUSED CREDIT FACILITIES, END OF YEAR, 1951-68
(In billions of U.S. dollars)

End of Year	Gold	Foreign Exchange [1]	Reserve Positions in Fund	Total Reserves Adjusted [1]	Credit Tranche Positions in Fund	Other Unused Credit Facilities [2]
1951	33.9	15.1	1.7	50.8	6.5	—
1952	33.9	15.6	1.8	51.3	6.5	—
1953	34.3	17.0	1.9	53.2	7.1	—
1954	34.9	18.1	1.8	54.9	7.9	—
1955	35.4	18.4	1.9	55.7	7.9	—
1956	36.1	19.2	2.3	57.5	7.5	—
1957	37.3	18.4	2.3	58.0	7.2	—
1958	38.0	18.5	2.6	59.1	7.2	—
1959	37.9	17.5	3.3	58.7	12.8	—
1960	38.0	20.0	3.6	61.6	13.6	—
1961	38.9	20.6	4.2	63.6	12.8	1.7
1962	39.3	21.2	3.8	64.2	13.4	1.4
1963	40.2	23.4	3.9	67.6	13.5	2.0
1964	40.8	24.6	4.2	69.6	13.8	5.8
1965	41.9	23.8	5.4	71.0	12.5	3.8
1966	40.9	23.8	6.3	71.1	17.3	4.7
1967	39.5	25.9	5.7	71.2	18.3	5.7
1968	38.9 [3]	27.5 [3]	6.5	72.9	17.2	13.5
			Annual percentage changes			
1952	—	3.3	5.9	1.0	—	—
1953	1.2	9.0	5.6	3.7	9.2	—
1954	1.7	6.5	−5.3	3.2	11.3	—
1955	1.4	1.7	5.6	1.5	—	—
1956	2.0	4.3	21.1	3.2	−5.1	—
1957	3.3	−4.2	—	0.9	−4.0	—
1958	1.9	0.5	13.0	1.9	—	—
1959	−0.3	−5.4	26.9	−0.7	77.8	—
1960	0.3	14.3	9.1	4.9	6.3	—
1961	2.4	3.0	16.7	3.2	−5.9	[4]
1962	1.0	2.9	−9.5	0.9	4.7	−17.6
1963	2.3	10.4	2.6	5.3	0.7	42.9
1964	1.5	5.1	7.7	3.0	2.2	190.0
1965	2.7	−3.3	28.6	2.0	−9.4	−34.5
1966	−2.4	—	16.7	0.1	38.4	23.7
1967	−3.4	8.8	−9.5	0.1	5.8	21.3
1968	−1.5	5.8	14.0	2.4	−6.0	136.8
Annual average percentage change	0.8	3.7	8.8	2.2	7.4	[4]

Source: *International Financial Statistics.*
[1] Excluding U.S. holdings of foreign exchange and including U.K. dollar portfolio; see text.
[2] Unutilized drawing facilities under swap arrangements and related credit arrangements between central banks and treasuries.
[3] Partly estimated.
[4] A percentage change cannot be calculated for 1960 to 1961, the base number being zero.

of foreign exchange (which for the most part represent the counterpart of the use of swaps by other countries and cannot generally be drawn on to relieve any drain on U.S. reserves arising from gold conversions, as further explained on page 21), and to include throughout the period amounts incorporated in published U.K. reserves in 1966 and 1967 from the proceeds of liquidation of the U.K. official portfolio of dollar securities.

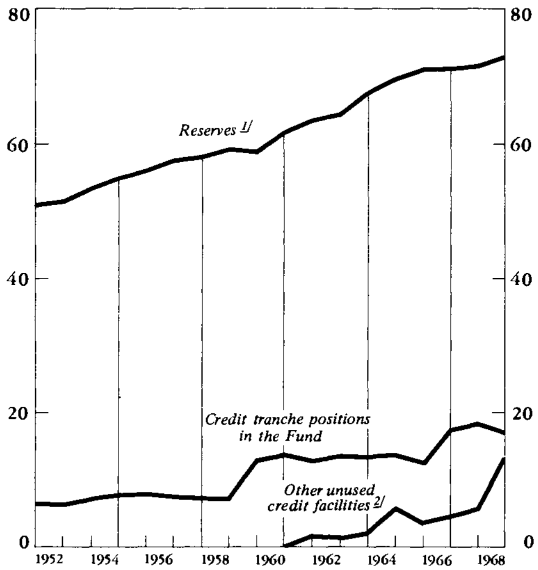
The increase of credit tranche positions, growing as they did by spurts in 1959 and 1966 as a result of general quota increases, at an over-all rate of 7.4 per cent per annum for the period as a whole, was much faster than that of adjusted reserves (2.2 per cent per annum), while unutilized swap facilities, which only made their appearance in 1961, have grown fastest of all (Chart 4).

Supply of Reserves

The composition of adjusted reserves—gold, foreign exchange, and reserve positions in the

CHART 4. RESERVES, CREDIT TRANCHE POSITIONS, AND OTHER UNUSED CREDIT FACILITIES, END OF YEAR, 1951-68

(In billions of U.S. dollars)



[1] Adjusted reserves; see Table 1.
[2] Unutilized drawing facilities under swap arrangements and related credit arrangements between central banks and treasuries.

Fund—is set forth in Table 1 and illustrated in Chart 5. The foreign exchange component is adjusted in the same way as total reserves. Reserve positions in the Fund consist of gold tranche positions and loans to the Fund, both of which can be drawn upon as required to meet any payments need that the holder may have.

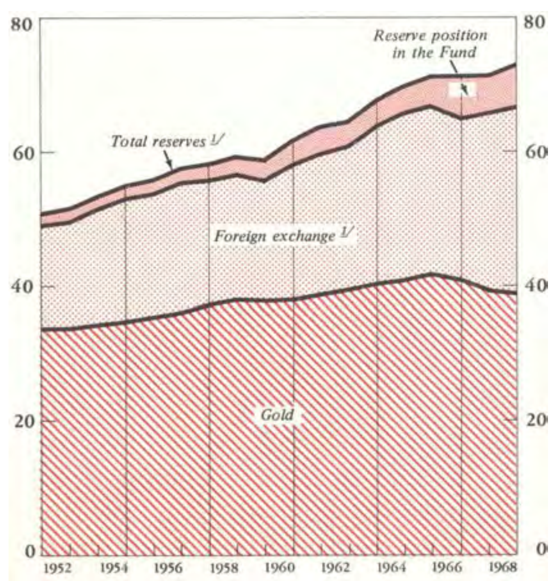
As can be seen from Chart 5, gold, though constituting the largest element in reserves, contributed a relatively small proportion (under 23 per cent) of the increase in reserves over the period since 1951. Gold reserves rose at an average rate of 0.8 per cent per annum. Foreign exchange reserves, which rose at 3.7 per cent per annum, contributed the major portion (56 per cent) of the increase. Reserve positions in the Fund, the expansion of which depended both on quota increases and on the extension of credit by the Fund, grew fastest of all (nearly 9 per cent per annum) and contributed about as much as gold reserves to the increase over the period. However, it must be borne in mind that subscriptions to new quotas and quota increases, *less* various uses of Fund gold for replenishment, investment, etc., involved a net transfer of monetary gold from countries to the Fund amounting to almost $800 million over the period.

As Charts 4 and 5 indicate, the rate of growth of adjusted reserves was far from uniform. It ran, during the years 1952 to 1956, at an average rate of 2½ per cent per annum, slowed down over the following three years to less than 1 per cent per annum, accelerated in the first five years of the 1960's to almost 3½ per cent per annum, then flattened out in 1965-68 to about 1 per cent per annum.

As Chart 5 also shows, the slowing down of reserve increases between the mid-1950's and the late 1950's and the speeding up between the late 1950's and the early 1960's resulted mainly from changes in the rate of growth of foreign exchange reserves. National gold reserves grew slightly faster in the late 1950's than in either of the other periods, and would have grown still faster had it not been for the transfer of gold to the Fund in connection with the general quota increase of 1959. Reserve positions in the Fund naturally varied a good deal from year to year as the counterpart of variations in drawings in the credit tranches, but showed no systematic medium-term variation in their rate of growth, apart from the sharp rise connected with the quota increase of 1959. However, official foreign exchange holdings,

CHART 5. COMPOSITION OF RESERVES, END OF YEAR, 1951-68

(In billions of U.S. dollars)



[1] Adjusted reserves; see Table 1.

which had been rising at an average rate of almost 5 per cent per annum during 1952 to 1956, declined by an average of 3 per cent per annum during 1957 to 1959, then rose again by over 7 per cent per annum during the period 1960 to 1964.

The expansion of foreign exchange reserves over the period 1952 through 1964 was overwhelmingly in the form of claims on the United States. While official foreign exchange holdings rose by some $9.5 billion, U.S. liabilities to official holders (including nonliquid liabilities and the U.K. dollar portfolio) rose by some $11.6 billion. U.K. sterling liabilities to official holders fell over the same period by some $1.0 billion.

The rate of expansion of U.S. liabilities to official holders, and therefore of foreign exchange holdings over the period, depended on (a) the size of the U.S. deficit on official settlements and (b) the manner in which the deficit was financed.

The slowing down in the growth of reserves in general and foreign exchange in particular that occurred during the period 1957-59 was attributable partly to the fact that, while the average annual U.S. deficit on official settlements was much the same (about $1.2 billion) in 1957-59 as in 1952-56, only some 40 per cent was financed through the accumulation of liabilities to foreign official holders in the later period, against 90 per cent in the earlier period. Another influence was the reduction of international liquidity through the demonetization of claims on the European Payments Union in 1959. The resumption of a higher rate of growth of foreign exchange reserves in the period 1960-64 was connected with the facts that the average annual U.S. deficit on an official settlements basis increased to about $2 billion a year and that part (56 per cent) of this increased deficit was financed by the accumulation of claims on the United States, including a small portion (13 per cent of the total U.S. deficit) by claims payable in foreign currencies.[2]

The slowing down in reserve growth after 1964 is entirely different in character from the slowdown that occurred in the period 1957-59. Gold reserves, which had been increasing at an average annual rate of almost 1.5 per cent per annum during the period 1952-64 with little sign of slowing down, declined over the ensuing four years by almost $2 billion on balance, or over 1 per cent per annum (see Table 1). The fall in gold holdings reflected net sales of $2.7 billion from official holdings owing to heavy speculative demand during the six months preceding the suspension of gold pool operations in March 1968. This speculative drain was, moreover, superimposed on a rising trend of gold purchases for industrial use. Foreign exchange holdings (other than the $3.1 billion, not here considered as having a reserve character, that was accumulated by the United States mainly as the counterpart of balance of payments assistance) rose by $2.8 billion over the four-year period (Table 2, line 3). This amount, however, was of unusual origin and composition. Though the United States had a cumulative deficit on official settlements of $2.8 billion over the period, and in addition, as indicated above, acquired $3.1 billion of foreign exchange, only $1.8 billion of this total of $5.9 billion was financed by the accumulation of official claims on the United States, the remainder being financed by a loss in gold holdings of over $4.6 billion, while the U.S. reserve position in the Fund rose by somewhat more than $500 million. If account is taken of the decline of $1.4 billion in the U.K. security portfolio, the contribution of increased claims on the United States to the total increase in "adjusted reserves" was only $300 million (Table 2, line 3(*a*)(iv)). Moreover, official claims on the United States payable in dollars actually declined by $800 million (Table 2, line 3(*a*)(vi)). Again, official holdings of sterling, other than holdings that arose mainly out of special assistance arrangements, showed a net decline over the period of $1.7 billion (Table 2, line 3(*b*)(ii)).

As a result, the contribution to the reserve change over the period 1965-68 from reserves held in a more or less "traditional" form—gold, claims on the United States payable in dollars, and "normal" sterling—was a *decline* of $4.4 billion (Table 3). That reserves showed even the small increase that they did was attributable to a rise of $2.3 billion in reserve positions in the Fund, reflecting the use of Fund credit, of which three quarters was in respect of the United Kingdom; a rise of $1.1 billion in official claims on the United States payable in foreign currencies, i.e., in exchange guaranteed form; a rise of almost

[2] U.S. Treasury securities: foreign currency series (mainly Roosa bonds); and Federal Reserve System swap commitments.

TABLE 2. SOURCES OF ADJUSTED GLOBAL RESERVES, 1960-68
(*In billions of U.S. dollars*)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	Change, End of 1960 to End of 1964	Change, End of 1964 to End of 1968
1. Reserve Positions in the Fund	3.6	4.2	3.8	3.9	4.2	5.4	6.3	5.7	6.5	0.6	2.3
(*a*) Reserve creation in the Fund	1.2	2.1	1.6	1.6	2.0	3.5	3.7	3.1	4.2	0.8	2.2
(*b*) Fund gold holdings	2.4	2.1	2.2	2.3	2.2	1.9	2.6	2.7	2.3	—0.2	0.1
2. Gold Holdings (countries)	38.0	38.9	39.3	40.2	40.8	41.9	40.9	39.5	38.9	2.8	—1.9
3. Foreign Exchange	20.0	20.6	21.2	23.4	24.6	23.8	23.8	25.9	27.5[1]	4.6	2.8[1]
(*a*) Official claims on United States											
(i) Liquid	11.1	11.8	12.7	14.4	15.4	15.4	13.7	15.7	12.5	4.3	—2.9
(ii) Certain nonliquid liabilities [2]	—	—	0.3	0.2	0.4	0.5	1.3	2.6	5.0	0.4	4.7
(iii) U.K. portfolio	1.4	1.4	1.4	1.4	1.4	1.4	0.5	—	—	—	—1.4
(iv) Total	12.5	13.2	14.4	16.0	17.2	17.3	15.5	18.3	17.5	4.7	0.3
of which:											
(v) Payable in foreign currencies [3]	—	—	0.5	1.1	1.4	1.4	1.2	3.0	2.5	1.4	1.1
(vi) Payable in dollars	12.5	13.2	13.9	14.9	15.8	15.9	14.3	15.3	15.0	3.3	—0.8
(*b*) Official claims on United Kingdom											
(i) In sterling, held by Western Europe	0.7	0.8	0.6	0.6	0.7	0.6	1.1	1.3	2.1	—	1.4
(ii) In sterling, held by other (excluding United States)	6.4	6.3	5.6	5.9	5.9	5.8	5.7	4.6	4.2	—0.5	—1.7
(iii) In non-sterling currencies	—	—	—	—	0.2	—	—	0.5	0.5	0.2	0.3
(*c*) Other	0.4	0.3	0.6	0.9	0.6	0.1	1.5	1.2	3.2	0.2	2.6
4. Adjusted Level of Reserves	61.6	63.6	64.2	67.6	69.6	71.0	71.1	71.2	72.9	8.0	3.2

Source: *International Financial Statistics*.
[1] Estimate.
[2] Liabilities other than liquid which enter into U.S. calculations of official settlements deficit.
[3] Covers U.S. Treasury securities: foreign currency series (mainly Roosa bonds); and outstanding Federal Reserve System swap commitments.

$1.4 billion in sterling liabilities to official institutions in Western Europe; and a rise of $2.6 billion in other foreign exchange holdings. The last two items reflected for the most part the extension of credit to the United Kingdom and, to a much smaller degree, to France by central banks and treasuries other than the United States within the framework of swap arrangements, together with an increase in official holdings of dollars through Euro-markets and of other currencies both directly and through Euro-markets.

TABLE 3. SOURCES OF RESERVE CHANGES, END OF 1964–END OF 1968: SUMMARY
(*In billions of U.S. dollars*)

"Traditional" sources	
Gold	−1.9
"Regular dollars" [1]	−0.8
"Regular sterling" [2]	−1.7
Total	−4.4
Other sources	
Reserve positions in the Fund	2.3
Official claims on United States payable in foreign currencies	1.1
Official claims on United Kingdom in sterling, Western European holders	1.4
Official claims on United Kingdom in non-sterling currencies	0.3
Other (including official claims on Euro-currency markets)	2.6
Total	7.7
Grand Total	3.2

Source: Table 2, last column.
[1] U.S. liabilities to official holders payable in dollars; excludes official holdings of dollars outside United States, in the Euro-dollar market.
[2] U.K. sterling liabilities to official institutions other than in United States and Western Europe.

The movements of official reserves during the period 1965-68 were accompanied by an increase of around $5 billion in the net spot foreign currency positions of commercial banks of leading industrial countries other than the United States, to a combined net creditor position of that magnitude at the end of 1968. The increase was concentrated in banks in Italy, Germany, Switzerland, and Canada. Short-term capital outflows in the form of increases in the net positions of commercial banks tend to be at the expense of official reserves. Where such balances are easily accessible to the monetary authorities of the countries in question, they can to that extent be regarded as a potential supplement to the official reserves. This tends to be so, for example, as recent experience has shown, where the commercial bank holdings are uncovered and can be recalled through exchange control action or moral suasion and where commercial bank holdings are covered forward by swap commitments vis-à-vis the monetary authorities, in which case it is open to the authorities not to renew such swaps as they mature. Some relocation of foreign currency holdings from central bank holdings to commercial bank holdings has at times been actively sought, e.g., by the German and Italian central banks, and promoted by the granting of official forward exchange cover on advantageous terms. Swap commitments of the Italian monetary authorities vis-à-vis commercial banks totaled $1.9 billion at the end of April 1969. Swap commitments of the Deutsche Bundesbank with German commercial banks at the end of October 1968, the last date for which data were published, totaled $1.3 billion.

Credit Tranche Positions in the Fund

Fund members may draw on their credit tranches in the Fund, subject to the observance of appropriate standards as to policy. Under Fund policies, such drawings may not normally exceed a total equal to a member's quota. Credit tranche positions are therefore defined as equivalent to quotas less drawings outstanding in the credit tranches, or credit tranche use.[3] Chart 6 shows that the expansion in credit tranche positions—and therefore the amount of conditional liquidity available—has been primarily determined by the expansion of quotas. There has been a tendency for credit tranche use to fall, and for credit tranche positions to increase, relative to quotas, in years of general quota increase, and for credit tranche use to increase, and credit tranche positions to fall, relative to quotas, in the periods between general quota increases.

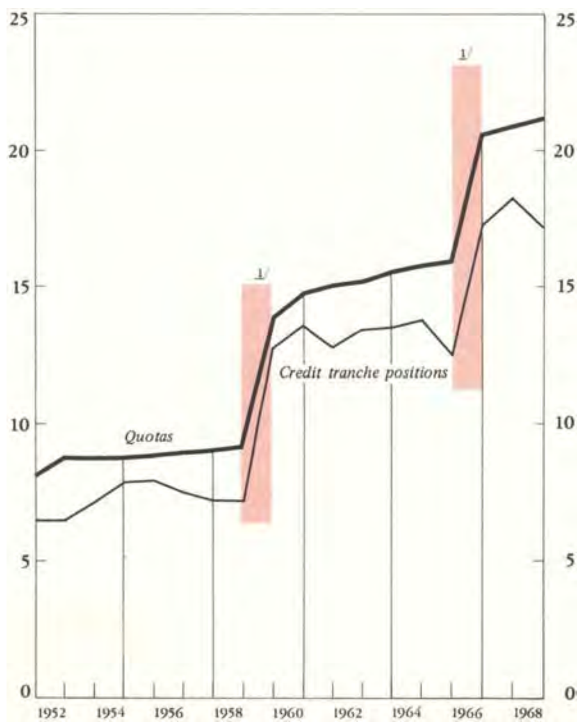
Other Credit Facilities

Unused drawing facilities under other credit arrangements (Chart 4) are measured by the difference between total credit lines and outstanding drawings under the variety of credit arrangements that have sprung up since 1961 among central banks and treasuries either directly or through group arrangements centering on the Bank for International Settlements.

The rapid growth and increasing utilization of such arrangements during the period 1961-68 are reflected in Table 4 and Chart 7, compiled from information available from a variety of public sources. The first such arrangements between industrial countries after World War II were made in 1961, to provide assistance to sterling. The same period saw the beginning of the network of swap facilities centered on the U.S. Treasury and Federal Reserve System and extended reciprocally to the central banks of major trading countries. Aggregate credit lines increased from $1.7 billion at the end of 1961 to $19.8 billion at the end of 1968. Gross drawings on these credits from the beginning of 1961 to the end of 1968—a figure that is swollen by the repayment and re-extension of credits at maturity after periods such as three or six months—reached $26.4 billion. Drawings outstanding at the end of 1968 were about one quarter of the cumulative gross total, or $6.2 billion; of these $4.8 billion were on account of the United Kingdom, $0.4 billion on account of the United States, and $1.0 billion on account of other countries. Swap drawings by countries other than the United Kingdom or the United States

CHART 6. QUOTAS AND CREDIT TRANCHE POSITIONS, END OF YEAR, 1951-68: ALL MEMBERS

(In billions of U.S. dollars)



[1] General increase in quotas.

[3] A member's credit tranche use is equivalent to the amount, if any, by which the Fund's holdings of its currency other than holdings arising from use of the compensatory financing facility, or of the recently established buffer stock financing facility, exceed its quota.

TABLE 4. SWAP FACILITIES AND RELATED CREDIT FACILITIES OF CENTRAL BANKS AND TREASURIES, 1961-68
(In millions of U.S. dollars)

	1961	1962	1963	1964	1965	1966	1967	1968	Total, 1961-68
Ceilings at the end of period [1]									
U.S. Treasury arrangements (1961) and Federal Reserve System swap network (1962-68)	575	900	2,050	2,350	2,800	4,500	7,080	10,505	
Other facilities (excluding credit lines under the regular FRS network)									
In support of the pound	900		(250)	(3,330)	1,710	1,980	3,455	5,775	
In support of the Canadian dollar		(500)						(900)	
In support of the Italian lira				925					
In support of the French franc								2,300	
U.S. Treasury ad hoc swap line with the Netherlands Bank							126		
Nordic swap facility (Denmark, Finland, Iceland, Norway, Sweden)		29	29	29	29	29	58	58	
U.S. Treasury foreign exchange agreements with Latin American countries and the Philippines	232	220	85	96	141	188	225	230	
Total	1,707	1,649	2,414	6,730	4,680	6,697	10,944	19,768	
Utilization									
U.S. Treasury arrangements of 1961: drawings	46	150							196
repayments	—46	—150							—196
Federal Reserve System swap network									
Drawings by System		420	767	475	690	710	2,046	1,207	6,315
Repayments by System		—190	—613	—564	—835	—565	—565	—2,551	—5,883
Drawings by United Kingdom			25	1,370	1,765	625	1,350	2,045	7,180
Repayments by United Kingdom			—25	—1,170	—1,490	—750	—650	—1,945	—6,030
Drawings by other countries		250	95	180		302	571	1,949	3,347
Repayments by other countries		—250	—45	—230		—102	—425	—1,777	—2,829
Total drawings		670	887	2,025	2,455	1,637	3,967	5,201	16,842
Total repayments		—440	—683	—1,964	—2,325	—1,417	—1,640	—6,273	—14,742
Net drawings		230	204	61	130	220	2,327	—1,072	2,100
Facilities in support of pound *(excluding regular swaps with FRS)* [2]									
Drawings	904		250	905	837	1,240	1,750	2,435	8,321
Repayments	—904		—250	—500	—957	—330	—1,000	—715	—4,656
Net drawings	—		—	405	—120	910	750	1,720	3,665
Facilities in support of Canadian dollar (1962), Italian lira (1964), and French franc (1968) *(all excluding regular swaps with FRS)*									
Drawings		100		250				600	950
Repayments		—100		—250				—150	—500
Net drawings		—		—				450	450
Other facilities [3]									
Drawings							126	3	129
Repayments							—	—126	—126
Net drawings							126	—123	3
Total facilities [3]									
Drawings	950	920	1,137	3,180	3,292	2,877	5,843	8,239	26,438
Repayments	—950	—690	—933	—2,714	—3,282	—1,747	—2,640	—7,264	—20,220
Net drawings	—	230	204	466	10	1,130	3,203	975	6,218
of which									
Drawings by United Kingdom	—	—	—	605	155	785	1,450	1,820	4,815
Drawings by United States	—	230	154	—89	—145	145	1,481	—1,344	432
Drawings by other countries	—	—	50	—50	—	200	272	499	971

Sources: U.S. Federal Reserve, *Bulletins* and *Annual Reports;* U.S. Treasury Department, *Bulletins* and *Annual Reports;* Bank of England, *Quarterly Bulletins;* U.K. *Financial Statement and Budget Report 1969/70;* Deutsche Bundesbank, *Monthly Bulletins* and *Annual Reports;* Banca d'Italia, *Annual Reports;* Conseil National du Crédit, *Annual Report;* Banque de France, *Balance Sheets;* official announcements; and other central bank reports and balance sheets.

[1] Parentheses indicate that part of the maximum ceiling represented by the figure in parentheses had been canceled before the end of the year; the entire amounts are included in the totals.

[2] Staff estimates compiled from data available in the sources indicated. Since the data are derived in a number of cases from amounts outstanding at the end of quarterly periods, gross drawings and repayments in particular may be subject to a significant margin of error.

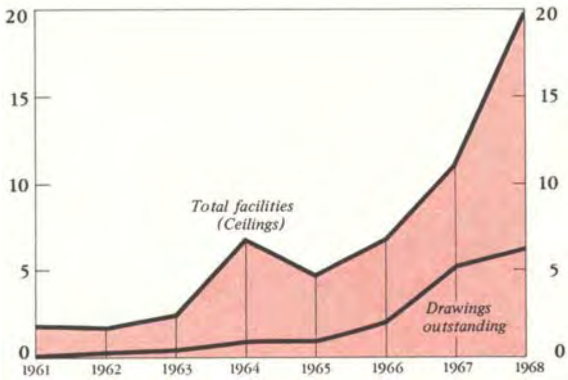
[3] Excluding transactions between the United States and the Latin American countries and the Philippines.

became more widespread in 1968. Net drawings on swap credits were made in each year from 1962 through 1968. (See Chart 8.)

Swap arrangements and related credit arrangements have expanded rapidly to meet a need for a form of international liquidity that could be used unconditionally and without immediate publicity to meet sudden payments needs. Typically, such needs are associated with payments flows that may be subject to early reversal, e.g., speculative capital movements, but that may in some cases prove to be enduring, or be accompanied by deficits in the basic balance of payments. Drawings on swap credits are designed to meet such part of payments outflows as prove to be temporary, and otherwise to provide temporary financing, to be replaced as may prove necessary by more permanent financing.

CHART 7. SWAP FACILITIES AND RELATED CREDIT FACILITIES OF CENTRAL BANKS AND TREASURIES, END OF YEAR, 1961-68

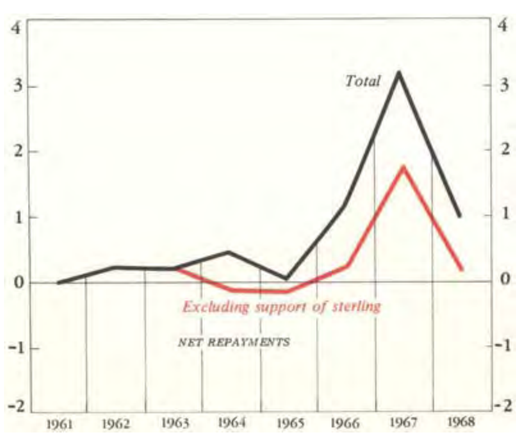
(In billions of U.S. dollars)



The increasing need that has been felt for this form of liquidity has reflected the increasing mobility and volatility of capital flows, as well as confidence movements related to the emergence of important payments disequilibria deemed capable of affecting the stability of the international monetary system. Other possible influences behind the increased use of swap credits include the slowing down in the growth of reserves and the limited recourse which countries in payments need have been able or willing to make to other loans or credits, in particular those to which policy conditions are attached. The network of swap facilities also includes special arrangements, which in 1968 were established on a more formal and medium-term basis, to cushion the impact of fluctuations in sterling balances; these arrangements are described on page 64.

CHART 8. NET ANNUAL DRAWINGS ON CENTRAL BANK AND TREASURY CREDITS, 1961-68

(In billions of U.S. dollars)



The willingness of countries to furnish credits on this scale without explicit conditions as to the policies to be pursued by the borrowing countries has been attributable to a number of influences. These include the emergency character of much of the assistance provided, the ability and willingness of the countries at the receiving end of speculative flows to offset such flows by short-term credit assistance, and the "monetized" character of these credits. Because of this latter quality, extension of such credits does not merely redistribute reserves but creates additional reserves. While the countries using the facilities add to, or prevent a decline in, their reserves, the reserves of the creditor countries do not as a rule decline, though their quality may be somewhat impaired. If the creditor is a country other than the United States, it will in general lose dollars from its reserves when the credit is drawn upon but it will receive in exchange a short-term claim on the debtor, with an exchange guarantee, which if it is itself in payments need it should in general be able to convert or transfer, or to redeem within a short time on maturity. If the United States is the creditor, however, the claims acquired are not usable in the same way to meet possible U.S. deficits, since the claims would be redeemed in U.S. dollars; on the other hand, the dollars lent are less likely in the short run to involve a drain in U.S. reserves. On these grounds, as indicated on page 15 above, data on reserves have been adjusted to exclude U.S. holdings of foreign exchange in the analysis undertaken in this chapter.

Reserves and Imports

While world reserves have grown over the years 1952 to 1968, albeit at a slower pace in the last few years, they have shown a continuous and substantial decline throughout the greater part of that period in relation to the magnitude of the world economy in value terms. This raises the questions whether the need for reserves has also been declining relative to various possible measures of the size of the world economy, or whether the supply of reserves has been declining in relation to the need for them, with a consequential decline in the degree of reserve ease [4] in the world.

[4] The term "reserve ease" is used throughout this chapter as a description of an existing reserve situation without any implication as to its adequacy or desirability.

TABLE 5. RATIOS OF RESERVES[1] AND RESERVE CHANGES[2] TO IMPORTS, 1952-68

(In per cent)

	Industrial Countries Excluding United States	United States	Other Developed Countries[3]	Less Developed Countries	Total, 60 Countries	World Total
			Ratio of reserves to imports			
1952	35.5	209.3	43.0	60.3	70.5	
1953	39.7	203.3	51.5	77.4	75.0	
1954	42.7	208.4	50.7	64.5	73.9	
1955	40.7	183.3	43.2	61.1	67.2	
1956	37.6	166.1	41.2	57.5	62.0	
1957	34.8	165.9	39.9	47.4	57.6	
1958	42.4	162.0	40.0	46.2	62 5	
1959	43.9	129.5	40.8	43.7	58.9	
1960	42.0	124.8	36.0	39.0	53.7	
1961	45.0	119.2	37.6	36.8	53.7	
1962	45.0	100.6	42.1	34.2	51.5	
1963	42.9	90.6	42.8	34.8	48.7	
1964	40.1	81.0	41.5	33.6	45.1	
1965	39.3	66.6	35.8	34.5	42.3	
1966	37.3	49.9	32.4	34.6	38.6	
1967	35.6	40.2	31.3	35.3	36.6	
1968	32.2	34.2	32.7	35.6	33.0	
			Ratio of reserve changes to imports			*Ratio of change in monetary gold to imports*[4]
1952	2.13	3.54	−3.00	−4.87	0.50	0.29
1953	5.85	−10.60	7.69	3.57	2.70	0.60
1954	5.28	−4.31	0.94	−0.63	2.26	0.85
1955	2.09	−1.45	−4.01	0.65	0.65	0.75
1956	1.30	6.21	0.75	1.75	2.11	0.50
1957	−0.09	7.98	2.61	−4.68	0.62	0.64
1958	8.70	−15.68	−3.25	−5.85	1.04	0.68
1959	0.56	−6.09	4.49	0.09	−0.34	0.72
1960	8.38	−13.10	−1.85	−0.66	2.68	0.25
1961	3.76	−4.53	7.87	−1.92	2.10	0.49
1962	2.32	−8.53	5.77	−1.78	0.43	0.28
1963	2.47	−2.63	6.59	4.82	2.47	0.57
1964	1.89	−1.93	3.96	0.45	1.38	0.44
1965	2.51	−6.78	−4.11	4.04	0.63	0.13
1966	0.18	−4.00	1.16	1.19	−0.25	−0.02
1967	0.58	−3.69	−1.43	3.56	0.07	−0.78
1968	−0.35	−0.84	6.54	2.38	0.55	−0.32

Source: *International Financial Statistics.*

[1] Adjusted reserves, averages of beginning and end of year.

[2] Adjusted reserves, changes from end of previous year to end of current year.

[3] Identified as primary producing countries—more developed areas in footnote 1, page 44.

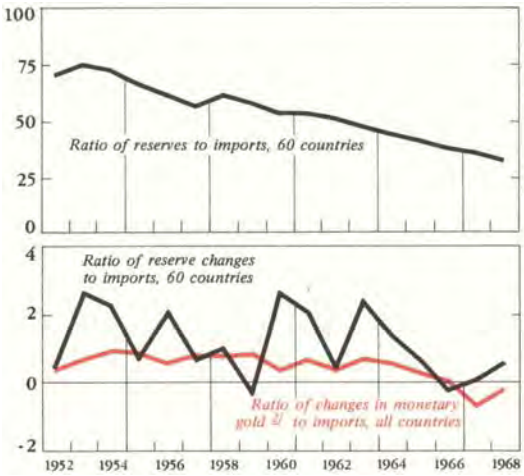
[4] The world monetary gold stock includes gold held by international organizations.

The indicator or economic magnitude most commonly used for purposes of comparison with reserves is the value of imports. In Table 5 and Chart 9 annual data for both the stock and the rate of growth of reserves have been expressed as ratios to imports. In order to permit comparison over time the data relate to 60 countries for which the necessary information is available over the period 1952-68 as a whole. These include all the developed countries and also countries accounting for some 75 per cent of the reserves of all less developed countries. For the purpose of comparison with imports, the reserves for any given year have been taken as an average of the reserves at the end of the year in question and at the end of the preceding year.

Chart 9 shows a steep and fairly regular decline in the ratio of reserves to imports over the period,

CHART 9. RATIO OF RESERVES,[1] AND RESERVE CHANGES, TO IMPORTS, 1952-68

(In per cent)



[1] Adjusted reserves, averages of beginning and end of years.
[2] Changes in world monetary gold, including gold held by international institutions, as a measure of changes in world net reserves.

broken only in 1952-53 and 1957-58 when temporary setbacks occurred in world trade.[5] The lower panel of the chart has been added to take account of the consideration that reserve ease, in the broad sense of balance of payments ease, may be held to be influenced not only by the stock of reserves but also by the rate of accumulation of reserves and in some part also by associated changes in short-term liabilities. Two measures are offered for this—the growth in gross reserves, with no deduction for any associated growth in short-term liabilities, and the growth of monetary gold stocks, which in the past has been equal to changes in "net" reserves for the world as a whole and has been the measure of the excess of payments surpluses over deficits, on an official settlements basis. As far as the effect of reserve growth on balance of payments ease is concerned something intermediate between these two measures is probably the relevant indicator. This reflects the view that an increase in gross reserves accompanied by an increase in short-term liabilities may be regarded as adding to reserve ease, but by less than the amount of the gross increase. The impression of decreasing reserve ease conveyed by the declining reserves-imports ratio is supported by a decline in reserve growth and in balance of payments surpluses, net of deficits, expressed as percentages of imports, which occurred over the period as a whole with a temporary interruption during the years 1960-63. A marked decline is apparent in the net measure of reserve growth (i.e., changes in monetary gold) in the most recent period from 1965 through 1968.

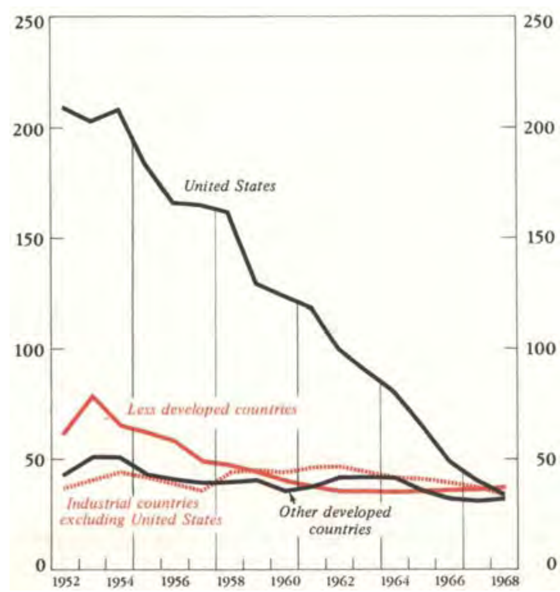
This statistical evidence, taken by itself, suggests a diminution of reserve ease in the period 1952-68. A number of additional considerations must, however, be taken into account. These include distributional or structural developments during the period influencing the degree of global reserve ease at any given global ratio to imports of reserve stocks or reserve changes. These two aspects are discussed in the next two sections.

Redistribution of Reserves

The first and most important set of considerations relates to the country distribution of reserves and of reserve growth. As can be seen from Table 5 and Chart 10, the period 1952-68 witnessed a

CHART 10. RATIOS OF RESERVES[1] TO IMPORTS, 1952-68

(In per cent)



[1] Adjusted reserves, averages of beginning and end of years.

[5] It may be noted that if reserves had been expressed as a ratio to the volume of imports, the decline would have been rather steeper. A weighted index of import prices of all countries shows a cumulative decline of 7½ per cent between 1952 and 1968. This decline occurred in the early years of the period; the index for 1968 was virtually unchanged from its level in 1958.

major redistribution of reserves and a remarkable convergence of the reserves-imports ratios of different country groups. To a predominant degree, the redistribution was from countries with initially high reserves, measured in relation to imports, to countries that were seeking to rebuild reserves from low levels. The redistribution on balance (though not of course in all its elements) served to increase global reserve ease, at least until the early 1960's. The largest redistribution was from the United States, whose reserves in the early 1950's exceeded 200 per cent of annual imports. This ratio dropped to about 120 per cent before this tendency began to be regarded as undesirable, toward the end of the 1950's, and had dropped further to 90 per cent before important measures to improve the U.S. payments balance were taken in 1963. For countries other than the United States, reserve growth from 1952 to 1964 averaged 5½ per cent per annum in contrast to the average growth of about 2¼ per cent in reserves of all countries including the United States in this period. By 1968 the U.S. ratio of reserves to imports had fallen to 34 per cent. A further redistribution, on a smaller absolute scale, took place through depletion of exceptionally large reserves accumulated by certain less developed countries during or immediately after World War II. On the receiving end, the main reserve gains were by the countries of industrial Europe. These gains were not, however, shared by the United Kingdom and the Scandinavian countries.

The redistribution of reserves discussed above was necessarily brought about through payments surpluses and deficits, a fact which, even by the early 1960's, may have begun to offset the positive redistribution effect on global reserve ease. By the mid-1960's the positive elements in this phase of reserve redistribution had broadly run their course. The continued redistribution of reserves away from the United States was now plainly reducing global reserve ease. In these circumstances, it was a factor mitigating the decline in global reserve ease that the reserves of continental Europe declined in relation to trade and even ceased to rise in absolute terms. The main counterpart of this movement was the marked rise in reserves of less developed countries, as noted below. Japan and Canada, as a result of a variety of influences, for a number of years maintained a static level of reserves in the face of rising trade and financial flows, though substantial reserve increases were achieved in 1968. The net reserve position of the United Kingdom suffered a major further deterioration, but this was predominantly in the form of increased liabilities.

The most striking reserve gains in the period 1964-68 were made by nonindustrial countries (Table 6). These included individual "high income" or "more developed" primary producing countries, notably South Africa. But among the major country groups, the largest absolute increase in reserves in the period 1964-68 was that of $3.9 billion, or 40 per cent, for the less developed

TABLE 6. CHANGES IN RESERVES:[1] ALL COUNTRIES, END OF YEAR, 1951-68

(In millions of U.S. dollars)

	1951–58	1958–64	1964–68	Reserves, 1968
Industrial countries	+9,010	+7,210	−1,190	52,100
United States	*−1,760*	*−6,300*	*−4,060*	*12,180*
United Kingdom	*+730*	*−790*	*+100*	*2,420*
Other industrial countries	*+10,040*	*+14,300*	*+2,760*	*37,500*
Other developed countries [2]	+160	+2,970	+530	7,140
Less developed countries	−820	+350	+3,900	13,620[3]
Major oil exporters [4]	*+970*[5]	*+380*[6]	*+890*	*3,040*
Other	*−1,790*	*−40*	*+3,000*	*10,580*
All countries	+8,350	+10,530	+3,240	72,870[3]

Source: *International Financial Statistics.*
[1] Excluding U.S. holdings of foreign exchange, and including U.K. dollar portfolio.
[2] Identified as primary producing countries—more developed areas in footnote 1, page 44.
[3] Estimated.
[4] Iran, Iraq, Kuwait, Saudi Arabia, Libya, and Venezuela.
[5] No data available for Saudi Arabia, Kuwait, and Libya.
[6] Partly estimated, to allow for unreported reserves of Kuwait and Saudi Arabia in 1958.

countries, and these increases were widely spread. In a period of relatively small additions to global reserves, the group of less developed countries raised its reserves-imports ratio on balance, against the steeply declining global trend, to a level slightly above the global average.

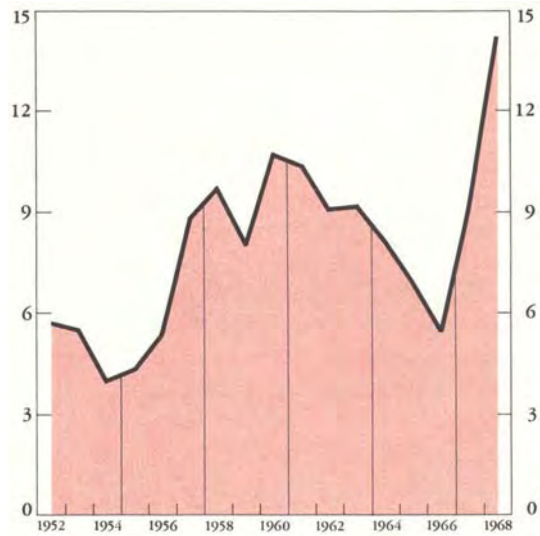
Payments Imbalances and Imports

The effect on reserve ease of the falling ratio of reserves to imports may have been offset, at least in part, not only by the improvement just described in the distribution of reserves but also by some decline in the need for reserves relative to trade. Countries' need for reserves is clearly related, inter alia, to their judgment as to the magnitude of the payments imbalances which they might have to face, making allowance for appropriate corrective action. These imbalances would give the measure of the financing required, if action to suppress them by undesirable measures is to be avoided. These imbalances, in turn, are affected by trends in the relative importance of different categories of international transactions, by the extent to which transactions in each category are liable to fluctuate, and by the extent to which these fluctuations are mutually offsetting or mutually reinforcing. Since the early 1950's there has been some increase, relative to merchandise trade, in current invisible transactions and a large increase in capital flows. Moreover, there is reason to think that capital flows, at any rate, are less stable than the trade items, and that balances of payments vary more than balances of trade. As far as these considerations are concerned one might expect potential payments imbalances to increase rather than to decline over time relative to imports.

Payments imbalances, that is over-all surpluses or deficits, for individual countries are subject to many influences originating in the domestic economy and abroad. It is hardly practicable to assess the trend in world payment imbalances from an inspection of the balance of payments data for individual countries. But it is possible to sum for a group of countries the surpluses of all those that in a particular year had surpluses and the deficits of those that had deficits. A measure of payments imbalances of a group of countries can be constructed by adding these two sums without regard to sign.

CHART 11. SUM OF PAYMENTS IMBALANCES: SIXTY COUNTRIES, 1952-68

(In billions of U.S. dollars)



In considering the following results one has to bear in mind that a decline in the amount of reserves available relative to trade might compel countries not merely to take measures, appropriate from an international standpoint, to rectify their payments imbalances, but also to suppress their underlying payments imbalances in a variety of ways, including restrictions. On the other hand, reserve stringency might, through its effect on public confidence, generate capital flows that increase such imbalances.

Chart 11 shows the sum of payments imbalances for the 60 countries under review. It is seen that payments imbalances have varied considerably over the time span shown in the chart (1952-68). From relatively low values in the mid-1950's they reached a peak in 1960 and dropped to a low value in 1966. Subsequently they rose very sharply and reached their highest peak for the whole period in 1968.

In view of the sharp variations in this time series, the data for payments imbalances must be interpreted with particular caution. Reserves should not be expected to respond to changes in payments imbalances in any one year or in a short period, but only to longer-run trends in this magnitude. To provide a firm basis for a judgment on the relation of the trend in payments imbalances to the trend in trade transactions, a longer period than is in fact available, uninterrupted by institutional or other structural changes (e.g., increased resort to restrictions), would have to be examined. In the presence of such changes, the indicated trend is subject to certain conceptual problems. If on the other hand the trend movement in aggregate imbalances is computed over a relatively short period, it is strongly influenced by the choice of beginning and end years.

For the period 1952-68 as a whole, it would appear that imbalances have risen more slowly than trade, though a similar calculation ending in 1964 suggested that they might have increased at the same rate as trade. If the results for the period 1952-68 are accepted as a general indicator, subject to the qualifications noted above, they would suggest that the slower growth of payments imbalances, compared with the growth of imports, could have partially offset the effect on reserve ease of the decline in the ratio of reserves to imports.

Indications of Reserve Adequacy

In the light of the evidence presented above, it seems probable that during the period examined some decline took place in the general degree of reserve ease in the world, though possibly from an initial level that was more than adequate. However, it was not until the last four or five years of the period that symptoms of possible reserve inadequacy began to appear and even then the signals were conflicting.

In order to evaluate the reserve situation prevailing in any given period it is necessary to make estimates, which can at best be highly uncertain, as to the probable effects of alternative levels or rates of growth of reserves on the behavior of governments and private individuals. It is necessary to weigh, one against another, the importance of different policy targets and the interests of different countries, some of which are likely to be in surplus positions and some in deficit positions over the period in question and beyond, though in many cases such positions may change within the period. The difficulties of evaluation are compounded by the fact that the characteristics of the world economy that might be indicative of an excess or a shortage of reserves are rarely if ever attributable to the reserve situation alone.

This observation applies in particular to the question whether the degree of inflation prevailing in the world can be considered as an important criterion of the existence of excessive reserves. To some extent more reserves, by relieving balance of payments pressures, will remove a barrier to more expansionary demand management policies in deficit countries and may even directly or indirectly affect the level of demand in surplus countries. Judged by this criterion alone, the period under review could scarcely be considered one of reserve inadequacy. In the years from 1965 onward, when payments difficulties were becoming more acute and widespread, the pressure of demand became more intense, and the growth of output accelerated in North America and continued to be fairly strong elsewhere. This situation was predominantly attributable to inadequate domestic demand policies in the countries concerned. In the postwar years, however, as was pointed out in the 1966 Annual Report, demand pressure as a criterion of reserve adequacy "has perhaps become less important since full employment has become a widely accepted policy objective, which countries are not likely to disregard over any long period for balance of payments reasons. Similarly, countries have become increasingly disinclined to yield to inflationary pressures emanating from their balance of payments surpluses" (page 10). A willingness on the part of the Fund to consider reserve creation in a situation where inflationary conditions persist does not, therefore, reflect a lack of concern about such conditions. The removal of inflationary pressures will require the firm determination of member countries to adopt and maintain the fiscal and monetary policies that are necessary to this end. But the Fund believes that reserve creation, if not carried beyond reasonable magnitudes, would not cause any significant change in demand pressures in the world.

The rise in interest rates that has taken place in many countries in the last few years, and particularly in 1968 and 1969, is to be regarded primarily as a reflection of prevailing inflationary conditions rather than as an indicator of reserve scarcity. However, the desire to defend reserves by discouraging outflows of liquid funds has in some countries led to an increase in rates above the level that the authorities considered appropriate for the domestic situation; the unwillingness of most countries, even some with relatively large reserves, to see a significant decline occur in their reserves could be taken as an indication of reserve stringency.

The passage from the 1966 Annual Report cited above continued as follows: "In these circumstances, any shortage of international liquidity is more likely to manifest itself, at least initially, in the form of intensification of restrictions on trade and capital movements, or in increased pressure on exchange rates, than in that of generalized deflationary symptoms in the world economy." Judged by these criteria, the evidence of recent years contains many indications pointing toward reserve inadequacy rather than the reverse. Admittedly, the liberalization of trade in manufactures, which was the great achievement of the 1950's, has been well maintained, and the Kennedy Round has carried still further the liberalization of such trade from tariff restrictions. Nevertheless, measures indirectly restricting or distorting international trade, in the form of nontariff barriers, aid-tying, and a strong preference for domestic production in the granting of government contracts, have been retained or imposed by many countries. Measures to control capital flows have been applied or intensified in recent years by a growing number of industrial countries. Admittedly, such measures are influenced in varying degree by factors other than the global reserve situation. The need for individual countries in certain cases to take strong measures affecting directly the balance of payments in order to improve their payments position can in any event be attributed only secondarily to the global reserve situation; thus, the sustained deficits of recent years have been associated with a failure to exercise timely control over domestic demand. But while it would seem unlikely that a rate of growth in reserves over the years 1965-68 more in line with that of earlier years would by itself have sufficed to prevent the growth of payments restrictions and the various exchange crises of these years, it might have had some effect in mitigating them, in particular with respect to the countries whose underlying positions were not seriously weakened by inadequate domestic policies.

While any evaluation of the reserve situation at a particular moment of time is a question on which reasonable judgments may differ, a case can be made for the view that by 1968 global reserve ease had not only been declining for a number of years but had also become less than adequate.

Reserves and the Adjustment Process

Reserves and reserve growth not only affect national policies; they also affect the way in which these policies respond to payments disequilibria. In other words, they affect the balance of payments adjustment process.

The nature of these effects follows from what has already been said. The more reserves a country has, the less likely it is, prima facie, to respond to payments deficits by monetary or fiscal contraction, or by devaluing its currency, or by restricting imports or capital exports, or by curtailing aid, or by borrowing from abroad, and the more likely it is to finance its deficit by the use of reserves. In short, the larger its reserves the more slowly it will tend to adjust to its deficit, the less it will tend to suppress it, and the more it will tend to finance it. The effect on surplus countries is different and, when surplus countries also have large reserves, normally probably less pronounced than the effect on deficit countries. The more reserves a country has the more likely it is, prima facie, to respond to payments surpluses by monetary or fiscal expansion, or by revaluing its currency, or by lending abroad—i.e., by measures to adjust its surplus—and the less likely it is to want to finance its surplus by acquiring still more reserves.

Whether greater reserve ease would in general promote or in general hamper the effective functioning of the adjustment process will therefore depend on the particular situation in terms of balance of payments, reserves, repayment obligations, etc., in which at the relevant point of time the main deficit and surplus countries find themselves. For example, increased reserves will tend to facilitate both the maintenance of overvalued currencies and the maintenance of exchange rates that are otherwise appropriate and that would prove viable in a climate of reduced pressure. Again, increasing reserve tightness will be likely to induce restrictive demand policies both in situations where demand is excessive and in those where it is already insufficient. In both cases the question therefore becomes one of judging which is the more predominant situation among the main deficit and surplus countries at any given time.

Some observations on the effect of reserve creation in present circumstances are presented in the next section. It would appear clear in any event that the creation or noncreation of unconditional liquidity in the form of reserves is an imperfect instrument for influencing the adjustment process and should be supplemented, first, by more direct action through a concerted effort to induce both deficit and surplus countries to adhere to principles of sound adjustment and, second, by an adequate supply of types of international liquidity, the use of which is conditional on the adoption of sound adjustment policies by deficit countries. The important connection between conditional liquidity and the adjustment process is taken up in a subsequent section.

Developments in the Adjustment Process

Concern for improvement in the adjustment process has been explicit in the Articles of Agreement of the Fund from the beginning; and recognition that any supplementation of reserves should proceed hand in hand with such improvement is contained in the provision of the Articles of Agreement that deals with the first activation of the new SDR facility. According to these provisions, the first decision to allocate SDR's should "take into account, as special considerations, . . . the attainment of a better balance of payments equilibrium, as well as the likelihood of a better working of the adjustment process in the future."

As was indicated in the Report by the Executive Directors to the Board of Governors Proposing Amendment of the Articles of Agreement, judgment as to the "attainment of a better balance of payments equilibrium" will necessarily be influenced predominantly by the situation of members that have a large share in world trade and payments. In this connection, the main attention is focused on the disequilibria of important deficit countries, particularly when their deficits tend directly or indirectly to generate additional global reserves. The persistence of excessive surpluses, while undoubtedly evidence of a less than satisfactory working of the adjustment process, does not constitute a relevant argument against any supplementation of world reserves that may otherwise be appropriate.

As will be clear from Chapter 1 and Part II of this Report, recent trends in international cost and price relationships and in current account balances leave much to be desired from the standpoint of a sustainable international equilibrium. Moreover, these undesirable trends have been attributable in part to the weakness of adjustment policies, notably in some countries a reluctance to apply demand management policies with sufficient vigor and flexibility in the light of the balance of payments situation and a failure to exercise adequate control over cost-push factors.

There are certain qualifying considerations of which account should be taken.

In the case of the United Kingdom in particular, the position and prospects for the balance of payments have been considerably improved by the November 1967 devaluation, the application of strong budgetary measures, and, latterly, the adoption of a more stringent monetary policy. In this case, the need to repay short-term and medium-term indebtedness is likely to enforce policies that even exceed the requirements of long-term adjustment.

In the United States, in spite of an underlying deficit in the basic balance, a massive influx on short-term capital account has brought the balance of payments on an official settlements basis into surplus in 1968 and so far in 1969, with the consequence that the supply of official dollars to the outside world has been and is declining. While the present structure of the balance of payments of the United States is almost certainly abnormal, and there are converse abnormalities on the part of other countries, notably Germany and Italy, it is extraordinarily difficult at the present time to gauge what a sustainable capital account pattern would be, and what in consequence might be the present degree of disequilibrium in countries' balances of payments on current account. Again, however, the need to contain domestic inflationary pressures would of itself be expected to induce the United States to pursue demand management policies tending to strengthen the current account of the balance of payments.

More recently, the devaluation of the French franc must be considered as a new step in the direction of a better international adjustment.

In these circumstances, it would seem appropriate that the supply of world reserves should be sufficient to ensure that the stabilization efforts currently being made by major deficit countries will not, as those countries move into surplus, be frustrated through defensive measures which might otherwise be taken by other countries. The resulting degree of reserve ease, however, should not be such as to impair those stabilization efforts.

In the light of these considerations, supplementation of world reserves in an appropriate amount could well contribute in present circumstances to the working of a sound adjustment process.

Prospective Need for Reserves

Now that the amendment to the Fund's Articles of Agreement has been adopted and the required participation in the Special Drawing Account has been attained, it is possible for the international community deliberately to supplement existing reserve assets by the creation of special drawing rights, in order to bring the stock and rate of growth of reserves up to whatever level is deemed desirable and prudent. In assessing the relevant quantitative considerations, one must bear in mind the fact that deliberate reserve creation is a novel task for the community of nations—a task for which existing economic knowledge provides only limited guidance.

As suggested earlier in this chapter, the degree of reserve ease at any moment of time can be thought of as dependent on two factors: the level of reserves in relation to imports (given the distribution of reserves) and the rate of reserve growth. The fact that reserve ease may have been less than adequate in 1968, therefore, does not rule out the possibility that, if reserves were to increase in the future at a rate corresponding to a normal rate of growth in the need for reserves, this of itself might go far toward raising the degree of reserve ease to a satisfactory level.

Attention can therefore primarily be directed to the provision of a desirable rate of reserve growth in the future. Assessments of any future needs are inevitably to a greater or less extent based on extrapolations from the past, but it should be kept in mind that such extrapolations do not necessarily provide a reliable indication of future needs.

If the desirable rate of reserve growth were taken as proportional to the rate of growth of world trade, and projecting for this purpose the rather steady growth of imports over the 1952-68 period, required reserves would rise at the rate of 7 per cent per annum. Other measures of desirable reserve growth are possible. For example, the unweighted average for 60 countries of the ratio of the annual reserve increase to the level of imports in that year over the 1954-68 period, if extrapolated ahead, would yield a proportionate rate of reserve change of 5 per cent per annum.[6]

These and other calculations of the trend growth of reserve needs provide a set of estimates for annual increases in world reserves starting from 1968. These estimates fall within a range of approximately $3.5 billion to approximately $6 billion a year, with most falling between $4 billion and $5 billion a year.

Account must also be taken of any prospective growth in the stock of reserves in forms other than special drawing rights, e.g., gold, reserve positions in the Fund, U.S. dollars, and other currencies. The total growth of these other reserve components could reasonably be estimated at between $1 billion and $1.5 billion a year.

The Adjustment Process and the Need for Conditional Liquidity

There can be little question that conditional liquidity (of which the most important instance is provided by drawing facilities in the credit tranches of the Fund) can make a major contribution to the working of the adjustment process. The Fund's resources are available to enable countries in deficit to defend exchange rates that are realistic, and to avoid measures, such as restrictions or deflation, that would be harmful to national or international prosperity while at the same time ensuring the adoption of measures designed to correct the disequilibria within a reasonable period of time. In other words, the aim is to bring about an optimal adjustment of payments disequilibria, at least as far as this can be achieved by actions of deficit countries. While the behavior of countries in payments surplus is not directly affected by the provision of these facilities, the fact that Fund assistance permits the deficit country to finance its deficit rather than to suppress it has an expansionary effect on the surplus countries and thus puts them under some pressure to play their part in correcting the situation.

[6] The unweighted average of countries was chosen in this measure on the theory that while for a few large countries reserve increases might have been constrained by the limitation on global reserves, this factor would be unlikely to have been important for the great majority of smaller countries. Accordingly, an unweighted average could be expected to correspond better than a weighted average to a measure of the *desired* increases in reserves.

It was already evident from Chart 4 that the total of credit tranche positions of all members rose considerably faster over the period 1952-68 than did reserves. From Table 7 and Chart 12 it can be seen that the ratio to imports of credit tranche positions and quotas declined relatively little over the 1952-68 period. The same chart also shows, however, that this was largely attributable to the fact that the Fund acquired many new members over these years; the quotas and credit tranche positions of countries that were members over the entire period show a steeper decline relative to their imports. Moreover, there was no initial maldistribution of quotas comparable to the initial maldistribution of reserves, the correction of which could in some measure compensate for the decline in the average ratio to imports.

The two types of international liquidity, conditional and unconditional, are, of course, interrelated, in particular in the sense that the one can to some extent serve the same purpose as the other so that the need for the one is not entirely independent of the availability of the other. At the same time, the composition of international liquidity is not a matter of indifference from an international standpoint. Any attempt to meet a growing shortage of international liquidity solely by expanding conditional liquidity might leave countries without the readily usable assets they require to meet the payments disequilibria that inevitably arise from time to time, irrespective of the policies pursued. It would also be a mistake to assume that the creation of additional reserves would serve in any substantial way to meet the growing need for conditional liquidity. The forthcoming Fifth Quinquennial Review of the Fund's quotas provides a welcome opportunity to enlarge the over-all size of the Fund by means of both general increases in quotas of a reasonable size and selective adjustments necessary to bring the quotas more into line with the present relative international economic importance of members.

The Mechanism of Exchange Rate Adjustment

In the last year there has been widespread discussion as to the role that changes in exchange rates should play in the working of the adjustment process. Some commentators have questioned whether the par value system and, more narrowly, the limited freedom for market rates to move on either side of parity are not unduly rigid and outmoded in the present world. This system was intended to provide a stable environment which, by encouraging international trans-

TABLE 7. RATIOS OF AGGREGATE FUND QUOTAS AND CREDIT TRANCHE POSITIONS TO IMPORTS,[1] 1952-68

(In per cent)

	Quotas/Imports		Credit Tranche Positions/Imports	
	All members [2]	48 members [3]	All members [2]	48 members [3]
1952	10.7	13.9	8.2	11.2
1953	11.6	14.5	9.0	11.8
1954	11.1	14.0	9.5	11.8
1955	9.9	12.6	8.9	11.1
1956	9.1	11.4	7.9	10.0
1957	8.4	10.6	6.9	8.8
1958	9.1	11.2	7.2	9.0
1959	10.9	13.1	9.5	11.5
1960	12.1	14.5	11.2	13.4
1961	12.0	14.6	10.6	13.1
1962	11.4	13.7	9.9	12.0
1963	10.7	12.6	9.4	11.2
1964	9.8	11.4	8.5	10.0
1965	9.1	10.7	7.5	8.6
1966	9.5	11.0	7.8	8.5
1967	10.3	11.7	8.8	9.7
1968	9.4	10.6	7.9	8.6

Source: *International Financial Statistics.*
[1] Quotas and credit tranche positions are averages of beginning-of-year and end-of-year figures.
[2] Imports are world totals from *International Financial Statistics* rather than imports of all Fund members.
[3] Forty-eight members whose membership extended from before January 1, 1952 to after December 31, 1968.

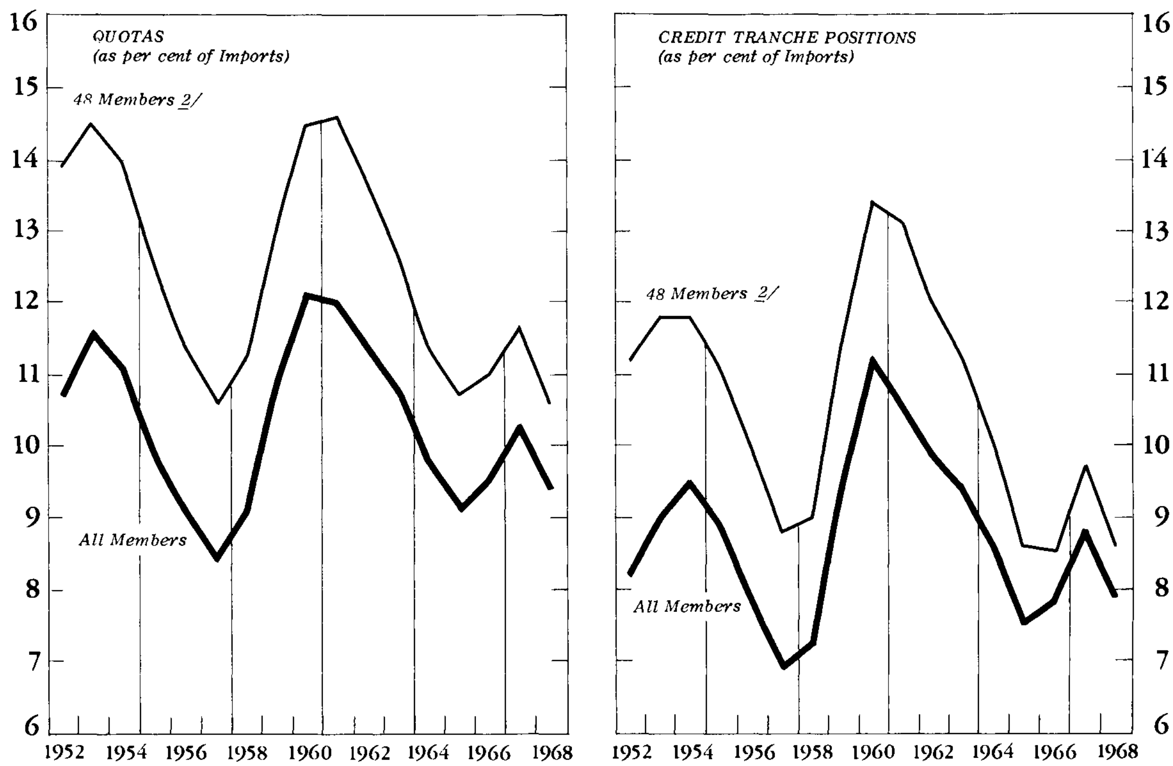
actions, would stimulate the growth and sharpen the efficiency of the world economy. Stability, as the Fund has stressed in the past, does not mean rigidity. In the Bretton Woods system, changes in par values were contemplated as one of the means of adjustment and elaborate provisions were written into the Articles of Agreement for them. Where countries—in deficit or surplus—can no longer maintain broad equilibrium over time in their external payments without having to incur undue unemployment or price inflation it is wholly proper that these provisions should be used.

If exchange rates that are no longer appropriate are nevertheless maintained, they contribute to the persistence of payments disequilibria, the encouragement of speculation, and crises in the exchange markets. Moreover, undue rigidity of exchange rates may lead to the very developments that the par value system is intended to avoid, including restrictions on current transactions, the imposition or intensification of capital controls, and the sluggish growth of development aid.

An important feature of the international monetary system as it has developed since nearly all major currencies became convertible some ten years ago has been an enormous expansion in the volume of short-term funds that can potentially move from currency to currency in response to expectations regarding rates of exchange. In this respect the framework within which countries can conduct policy differs importantly from that envisaged at the time of Bretton Woods and that was indeed reflected in the Articles of Agreement. The drafters were well aware that a country might have to alter its exchange rate in response to relative changes in its real economic position. But they did not envisage that a country would have to be so much concerned about the public's changing views on the strength of its currency. Speculative capital movements were expected to be suppressed rather than financed; indeed, limitations were put on members' access to the Fund to finance capital outflows and the Fund was empowered to request a member to impose capital controls as a condition for the use of its resources. The liberalization

CHART 12. RATIOS OF AGGREGATE FUND QUOTAS AND CREDIT TRANCHE POSITIONS TO IMPORTS,[1] 1952-68

(In per cent)



[1] Quotas and credit tranche positions are averages of beginning and end of years.
[2] Forty-eight members whose membership extended from before January 1, 1952, to after December 31, 1968.

of capital transactions in the last ten years has been a major factor tending toward an integrated world economy. But it has brought with it the greatly increased possibility of sudden pressures on exchange rates, notably when underlying economic developments give reason to suppose that an adjustment may occur.

The strains thus experienced by the system have led to suggestions that it might function better if there were more room for exchange rates to change. In the past year, Executive Directors have discussed extensively the mechanism by which exchange rates can be changed. They have considered this subject in the framework of the international adjustment process and with a view to a better working of the international monetary system. They have not, at this stage, reached conclusions as to whether the system could be improved by certain changes in the direction of greater flexibility in the adjustment of exchange rates or of par values. They intend to continue their study of this subject. They want to emphasize, however, that any changes that might be made should preserve the essential characteristics of the par value system, which remain as beneficial for the world as they were when written into the Fund's Articles of Agreement 25 years ago: that the stability of exchange rates at realistic levels is a key contribution to the balanced expansion of international trade, and that the determination of the rate of exchange for each currency is a matter of international concern.

Chapter 3

The Fund in 1968/69

THE decade that ended on April 30, 1969 was a most eventful period in the life of the Fund. It began with a substantial increase in members' quotas and, in successive years, this was followed by the decision to begin consultations with Article VIII countries on a voluntary basis; an important enlargement of the number of countries accepting the convertibility obligations of Article VIII of the Fund Agreement; the establishment of the General Arrangements to Borrow (GAB); the introduction of a new facility for the compensation of fluctuations in members' export proceeds; the expansion and strengthening of the Fund's technical assistance programs through the establishment of the Central Banking Service, the Fiscal Affairs Department, and the IMF Institute; a second increase in members' quotas; an extension of the compensatory financing facility; the establishment of new par values for the pound sterling and a number of other currencies; and the approval by the Board of Governors of an amendment to the Articles of Agreement for reform of the Fund and for the establishment of a facility based on special drawing rights.

Over the decade the Fund's membership rose from 68 to 111, and members' purchases from the Fund during this period accounted for more than four fifths of the total of such operations since the Fund's inception. Indeed, almost three fifths of total purchases have been concentrated in the last five years.

During the fiscal year ended April 30, 1969, the activities of the Fund continued at the high level of recent years. Both purchases and repurchases by members reached new records, technical assistance programs were both broadened and strengthened, Article VIII and Article XIV consultations were held with a record number of member countries, and Fund staff missions visited more countries than in any previous year. Also, during the year the Executive Directors conducted a review of policy on the use of Fund resources and stand-by arrangements and submitted, together with a joint Bank and Fund staff study, an interim report to the Board of Governors on stabilization of prices of primary products.

Since the end of the fiscal year, there have continued to be important transactions. The largest was the sale of currencies in the amount of $500 million [1] to the United Kingdom late in June under a new stand-by arrangement that had been agreed for that country. The total effect of transactions taking place was to raise outstanding purchases by member countries from $4.7 billion on April 30 to $5.0 billion on June 30, 1969.

Work on the problem of stabilization of prices of primary products continued beyond the fiscal year. On June 25, 1969 the Executive Directors adopted a report to the Board of Governors, transmitting Part II of the study by the Fund staff and the text of the Decision described in a later section (pages 38-40).

On July 28, 1969 the Amendment to the Fund's Articles of Agreement entered into force, following its acceptance by the required three fifths of the Fund's members having four fifths of the total voting power. This Amendment, establishing a new facility based on special drawing rights and making certain changes in Fund rules and practices, was described in Chapter 2 and Appendix I of the 1968 Annual Report. Under the amended Articles two separate Accounts will be maintained in the Fund: a General Account through which the Fund will carry on its present operations and transactions and a Special Drawing Account for functions related to special drawing rights. In order to become a participant in the Special Drawing Account a member country must deposit with the Fund an instrument setting forth that it undertakes all the obligations of a participant in accordance with the member's law, and that it has taken

[1] Throughout this Report, data on transactions (and positions in the Fund) are expressed in terms of U.S. dollars, regardless of the currencies in which they took place.

all steps necessary to enable it to carry out all of these obligations. However, no member could become a participant in the Special Drawing Account before instruments of participation had been deposited by members that have at least 75 per cent of total quotas in the Fund. This requirement was met on August 6, 1969.

It has been noted that the Fund enters the 1970's after a period of rapid expansion. It will face the problems of the future with established consultative and counseling procedures, wider membership, and increased financial strength. The Amendment to the Articles, a most important result of cooperation among members, means that a new function will be added to the Fund's activities by the establishment of the facility based on special drawing rights and that changes in the Fund's rules and practices will take account of its experience and of developments in world economic conditions.

Membership and Quotas

Membership again rose during the past fiscal year, with the admission of four countries—Botswana, Lesotho, Malta, and Mauritius—to bring total membership in the Fund to 111. At the close of the year, the terms and conditions for the membership of Swaziland had been approved by the Board of Governors, and applications for membership from Cambodia and Southern Yemen were under consideration in the Fund.

Total quotas in the Fund had risen to \$21,231 million by April 30, 1969, an increase of \$112 million in the fiscal year. Of the total increase only \$32 million was accounted for by the expansion in membership, with the balance resulting from adjustments in quotas of existing members. Sixteen of these adjustments were effected under the terms of the increase in quotas approved by the Board of Governors in 1965, mainly by countries that had opted to enlarge their quotas by installments. The quotas of 4 countries were increased during the year under the Compensatory Financing Decision, bringing the total number of quota adjustments effected under that provision to 30, for an aggregate increase of about \$430 million.

Transactions

Purchases

During the fiscal year members' purchases of currencies from the Fund, amounting to \$2,839 million, reached a new record. This large volume of transactions was made against the background of a vigorous expansion in world trade, a general firmness in the prices of primary products, and an improvement in the trading and reserve positions of developing countries. The high level of the Fund's financial assistance during the period was largely a reflection of the continuing payments imbalance among industrial countries and recurring uncertainties in foreign exchange markets. At the same time, the Fund's financial assistance continued to be important for a number of developing countries; the total amount of \$527 million purchased by these countries was a slight reduction from that in 1967/68.

The largest operation effected during the fiscal year was a purchase of \$1,400 million made in June 1968 by the United Kingdom, for the full amount provided for in the Fund's stand-by arrangement for that country. This purchase, which was made up of the currencies of 16 member countries, was financed by using \$559 million of the Fund's existing currency holdings, by \$365 million in currencies acquired from 12 members against sales of gold, and by \$476 million in currencies borrowed from 5 members under the terms of the GAB. This was the third occasion on which the GAB had been activated, the two previous being in December 1964 and May 1965, also in connection with large U.K. purchases.

A further activation of the GAB occurred in June 1968, when France purchased currencies amounting to \$745 million, the equivalent of its super gold and gold tranche positions in the Fund. This purchase, comprising the currencies of 14 member countries, was financed from the Fund's existing currency holdings to the extent of \$298 million, and the remainder was provided in currencies derived from sales of gold to 11 members amounting to \$182 million and through borrowing from 5 members under the GAB amounting to \$265 million. At this time, the Fund also agreed to a proposal by France for that country's claims on the Fund under the GAB, amounting to \$140 million, to be transferred to 4 other

GAB participants (Belgium, Germany, Italy, and the Netherlands).

With the activation of the GAB in connection with the transactions with France and the United Kingdom, Fund borrowings under the GAB rose to a new high level of $1,231 million, but subsequent repurchases by the United Kingdom of its 1965 purchase enabled the Fund to reduce outstanding GAB borrowings to $846 million by the end of the fiscal year. This amount was made up by claims on the Fund by Belgium ($80 million), Germany ($419.5 million), Italy ($208 million), Japan ($5 million), the Netherlands ($85 million), and Sweden ($48.5 million). At the same time, Italy had an additional claim on the Fund amounting to $250 million, representing the Fund's bilateral borrowing of lire in August 1966.

The purchases by France and the United Kingdom together accounted for three quarters of total purchases made in 1968/69. Purchases were also made by Iceland ($11 million), South Africa ($128 million), and Turkey ($27 million). All other purchases in the fiscal year were made by 31 countries in less developed areas and amounted to a total of $527 million, a modest reduction from the $557 million purchased by 29 countries in 1967/68. Three members—Korea, Mauritius, and Trinidad and Tobago—purchased for the first time in 1968/69, bringing to 68 the number of countries that have acquired currencies from the Fund since the inception of operations in 1947. The purchase by Trinidad and Tobago covered its gold subscription in connection with an increase in quota. By the end of the fiscal year, the cumulative total of purchases made by all members had exceeded $17.4 billion.

Nearly all purchases by less developed primary producing members were made under stand-by arrangements; during the year the Fund approved new arrangements for 25 of these countries in the total amount of $541 million. On April 30, 1969, amounts not drawn under these arrangements totaled $374 million.

Purchases under the facility for the compensatory financing of export fluctuations fell sharply during the year, reflecting the improvement in the export earnings of primary producing countries, particularly in the latter part of the period. Only two countries—Afghanistan and Iceland—used the facility in 1968/69, making purchases totaling $9 million. This compares with use of the facility by 12 member countries in 1967/68 (the first full year following the amendment of the facility in the previous September) with purchases amounting to $220 million.

Repurchases

The high level of purchases from the Fund in recent years has entailed a subsequent rise in members' repurchases. During 1968/69, repurchases rose to a record $1,542 million, of which repurchases by the United Kingdom accounted for 33 per cent of the total. As noted earlier, the repurchases by the United Kingdom enabled the Fund to repay its GAB creditors most of the amounts borrowed from them in May 1965.

Toward the end of 1968 the United States made repurchases of $284 million, or 18 per cent of the total by all members. Since its first purchase from the Fund in February 1964, the United States had made a number of purchases, amounting to $1,840 million. Purchases of U.S. dollars from the Fund by other members had the result that in all cases the purchases by the United States were within its gold tranche, and that outstanding U.S. purchases at their highest level in December 1966 were $964 million. The U.S. repurchases, together with further sales of U.S. dollars to other members, had the effect of fully restoring the U.S. gold tranche position in the Fund for the first time in five years.

Other repurchases during the year included those by Ghana and India, the former in part and the latter to the full extent as recommended in the Compensatory Financing Decision as amended in September 1966. Under this amendment the Fund had recommended that a member should repurchase at the end of each of the four years following the purchase an amount of its currency equal to one half of the amount by which the member's exports exceed the medium-term trend of its exports, as calculated for each successive 12-month period. Another member, New Zealand, which had made use of the compensatory financing facility in May 1967, made a repurchase of the full amount before the date applicable to this calculation.

Outstanding Purchases

Outstanding purchases rose to a record level during the fiscal year when they reached $5.7 billion in June 1968. Thereafter, a lower rate of new purchases from the Fund and large repurchases, particularly by the United Kingdom and the United States, reduced outstanding purchases to $4.7 billion on April 30, 1969, a small increase over the fiscal year. At the end of the year, 48 member countries had purchases outstanding, the United Kingdom ($2,396 million) accounting for more than half the total amount. Other members with outstanding purchases on April 30, 1969 included India ($322 million) and France, with purchases in its gold tranche outstanding at $244 million.

Outstanding purchases by countries in less developed areas declined slightly last year. On April 30, 1969, 40 less developed countries had outstanding purchases amounting to $1,660 million, compared with 38 such countries with outstanding purchases of $1,670 million a year earlier. Among the countries in this group, the largest change over the fiscal year was the reduction of $128 million in the outstanding purchases of India as a result of repurchases by that member.

Use of Currencies

The currencies of 20 member countries were purchased from the Fund in 1968/69, compared with 19 currencies that were used in the previous fiscal year. The inclusion, for the first time, of Finnish markkaa brought the total number of currencies purchased from the Fund since its inception to 23. In 1968/69, the deutsche mark was the currency purchased in the largest amount, accounting for 24 per cent of total purchases, followed by the U.S. dollar, with 22 per cent. In the past three years there has been a considerable diversification of the currencies used in purchases, with 7 currencies being used for the first time in this period. Nevertheless, purchases tend to be concentrated in a relatively few currencies at any one particular period of time. On April 30, 1969 the Fund's currency holdings were lowest (as a percentage of quota) for the following countries: Austria (9 per cent), Germany (24 per cent), the Netherlands (33 per cent), and Ireland (34 per cent). In accordance with the Fund's policy, currencies are recommended for purchase by the Managing Director after consultation with Executive Directors, taking into account the balance of payments and reserve positions of the members whose currencies are to be used, as well as the holdings of their currencies by the Fund. (The currency composition of Fund transactions—purchases, repurchases, and borrowing operations—is discussed more fully in Supplementary Note A.)

Distribution of Net Income

In 1968/69 the Executive Directors proposed and the Board of Governors approved the Fund's first distribution of net income to members. Net income earned in the fiscal year ended April 30, 1968 amounted to $55.7 million, of which $37.5 million was distributed to 33 members and the remainder was transferred to the General Reserve. The distribution to members was at the rate of 1½ per cent on the amount by which 75 per cent of each member's quota exceeded the average of the Fund's holdings of the member's currency during the fiscal year ended April 30, 1968, i.e., to members that had had a super gold tranche position in the Fund during the fiscal year. In accordance with the Fund Agreement, payment was made to each member in the member's own currency.

In the fiscal year ended April 30, 1969, the Fund's net earned income rose to a record level of $70.8 million. The Executive Directors have again recommended to the Board of Governors that part of this income be distributed, at the same rate and on the same basis as for the previous fiscal year. Accordingly, it is proposed to distribute $31.9 million among 36 members, and to transfer the remaining $38.9 million of last year's net income to General Reserve. This recommendation to the Board of Governors is being submitted for action at its Annual Meeting, September 29 to October 3, 1969.

Under a new provision of the Fund's Articles of Agreement as amended effective July 28, 1969 (Article V, Section 9), the Fund will in future be required to pay a return to members on the amount by which 75 per cent of a member's quota exceeds the average of the Fund's holdings of that member's currency. In making the calculation, holdings in excess of 75 per cent of the quota are ignored. This remuneration is to be paid at the uniform rate of 1½ per cent a year, but there are provisions for the Executive Directors to specify other rates.

Use of Fund Resources Under Stand-By Arrangements

Since stand-by arrangements were first conceived in 1952, the Fund has approved more than 250 of these arrangements for member countries. In September 1968 the Executive Directors concluded a detailed review of policy on the use of the Fund's resources, with particular emphasis on stand-by arrangements. This was the most comprehensive review of this major instrument of Fund policy in more than a decade and a half of evolution.

Originally, the stand-by arrangement was designed as a method for safeguarding the proper use of the Fund's resources, while giving members assurance that they could have access to those resources for a specified period and up to a specified amount. With the development of the Fund's policies, however, stand-by arrangements have tended to become more comprehensive in their approach, combining the aim of ensuring the proper use of the Fund's resources with the broader purpose of helping members to formulate and apply policies appropriate to their financial situation.

It has thus become normal practice for a member to present to the Fund, at the time that it requests a stand-by arrangement, a program describing the policies to be followed in the period ahead. Stand-by arrangements in recent years—especially those going into the upper credit tranches—have usually treated some of the key policies in the member's program as performance criteria and included them in a performance clause that makes the member's right to purchase contingent upon observance of the criteria. If a performance criterion is not observed, the member consults the Fund under this clause before requesting further purchases. The consultations may indicate either the need for an adjustment in the member's policies in order to achieve the objectives of the program or the need for the amendment of the performance criteria, without policy changes, to take account of altered circumstances. In the former instance, the right to purchase is restored when new understandings are reached on the circumstances in which further purchases may be made. Other provisions frequently included in stand-by arrangements cover the phasing of purchases under the arrangement and consultation between the member and the Fund under specified circumstances.

In the light of the Fund's experience with stand-by arrangements for countries at all stages of development and facing a diversity of financial problems, the review by the Executive Directors—as described more fully in Supplementary Note A—upheld the basic lines of approach as they had been developed. The Executive Directors underlined the need for the Fund to continue to apply its policy on such arrangements in a flexible manner, while ensuring uniformity of treatment among all members.

The review concluded that stand-by arrangements that did not go beyond the first credit tranche would in future not include phasing or performance clauses. Nor would such clauses be applicable to purchases not beyond the first credit tranche, even though the full amount of the stand-by arrangement involved higher tranches. Where use of Fund resources beyond the first credit tranche was involved, stand-by arrangements should in all cases include performance clauses. While the number and content of the performance criteria might vary depending upon the problems and circumstances of the member, such criteria should be confined only to those necessary to evaluate implementation of the program.

The review also concluded that phasing provisions are to be generally used in stand-by arrangements involving the use of higher credit tranches. It was recognized, however, that there might be exceptional cases where it was essential that the full amount of the stand-by arrangement be promptly available, making it necessary to dispense with phasing. In such arrangements performance clauses will nevertheless require the member to consult the Fund in order to reach understandings, if needed, on new or amended performance criteria even if there is no amount that could still be purchased under the stand-by arrangement.

The review generally reaffirmed the need for the use of appropriate consultation clauses in stand-by arrangements, both in the first and higher credit tranches, although such consultations need not involve limitations on the member's right to make purchases under the arrangement. It also concluded that periodic consultation with the member should take place as long as the member is making use of the Fund's resources beyond the first credit tranche, whether or not the use results from a stand-by arrangement.

Fund Policy on the Problem of Stabilization of Prices of Primary Products

Both in its regular consultations with members and in connection with the provision of its resources to members, the Fund has always been deeply concerned with primary commodity problems and policies. Commodity questions have arisen in particular in consultations with primary producing countries because of the bearing of such questions on the export proceeds and balance of payments prospects of these countries, their ability to reconcile stockpiling programs with fiscal and monetary stability, the appropriateness of their exchange policies, and their reliance on bilateral payments arrangements.

In 1962 and 1963 the Fund reviewed its policies to see how it could more readily assist members, particularly primary exporting countries, encountering payments difficulties produced by temporary export shortfalls, beyond the recourse they already had to Fund resources under ordinary tranche policies. As a result of this review, the Fund in 1963 established the special compensatory financing facility under which members suffering from fluctuations in receipts from exports of primary products could draw on the Fund whenever their exports fell below a medium-term trend. This facility, which was expanded in 1966 and which is separate from and additional to a member's general access to the Fund's resources, has been extensively used by primary producing members. Outstanding drawings under the facility rose in 1968 to the neighborhood of $300 million. It is anticipated that the facility will continue to perform a useful function in the wider approach, described below, that the Fund has adopted toward facilitating stabilization in the commodity field.

At their 1967 Annual Meetings in Rio de Janeiro, the Boards of Governors of the Fund and the World Bank called for the preparation by the staffs of the two institutions of a study of the problem of the stabilization of the prices of primary products. In response to this resolution, and pending completion of the entire study, a general and analytical section (Part I) of the study, prepared jointly by the staffs of the Fund and the Bank, was transmitted to the Governors of the Fund and the Bank in September 1968. At the 1968 Annual Meetings of the Fund and the Bank the Governors of both institutions requested that this study should be completed not later than June 30, 1969, particularly by the addition of a section that would consider specific financial measures and other ways in which the Fund and the Bank, respectively, might assist in finding feasible solutions to the problem. On the basis of a Part II of the study, dealing with the scope for action by the Fund and completed by the Fund staff in response to this request, the Executive Directors considered the ways and means whereby the Fund could make some further contribution toward a solution of the problems facing primary producers as the result of fluctuations in export prices and earnings. In June 1969 the Executive Directors adopted a Decision establishing a facility for assistance in connection with the financing of international buffer stocks, and transmitted a report to the Governors, broadly endorsing the general approach to Fund policy set out in Part II of the staff study.

One part of this Decision states that the Fund will pay increased attention in future to members' policies in the commodity field. Inasmuch as, in many instances, the policies of industrial countries are among the important causes of unfavorable trends in primary product prices and export markets, the Fund intends, in pursuit of its general objective of securing the expansion and balanced growth of international trade, to pay greater attention to commodity policies in the course of its consultations with producing and consuming countries alike. It is hoped that this approach will encourage action toward the removal of barriers to the exports of primary producers.

The Executive Directors have also concluded that, in certain circumstances, price stabilization of individual commodities may provide a suitable approach to the stabilization of export proceeds, as compensatory financing does more generally, and may in addition possess other advantages. Accordingly, as indicated above, they have decided to establish a new facility to assist in financing contributions to buffer stock arrangements when members, having a balance of payments need, participate in such arrangements under commodity agreements that meet appropriate criteria. The principal features of the new facility are outlined below.

Drawings from the Fund for the purpose of buffer stock financing may be made up to amounts equivalent to 50 per cent of quota, without any limit—such as exists in the compensatory financing facility—on the amount that may be drawn in any 12-month period. However, drawings outstanding for the purpose of buffer stock financing and for compensatory financing of export fluctuations together may at no time exceed a common upper limit of 75 per cent of quota. In view of the close relationship between the aims of buffer stock operations and compensatory financing, and in order to strike a reasonable balance between what members can draw under the Fund's general policies and the amount available under special facilities involving a special type of conditionality, it was considered appropriate to set this limit to the additional access to Fund resources resulting from the establishment of the new facility.

Other features of the facility are similar to, though not identical with, those that apply under the compensatory financing facility. Drawings under the new facility would be separate from, and additional to, general access to the Fund's resources, in the sense that they would be ignored in computing the amounts that members might normally be able to draw in accordance with the Fund's ordinary tranche policies, except that a member drawing under the facility at a time when it still had gold tranche drawing rights at its disposal would *pro tanto* lose such drawing rights. To the extent that drawings would raise Fund holdings of the member's currency above 200 per cent of quota, the Fund would be prepared to waive this limit on purchases. When making drawings, a member would undertake to cooperate with the Fund in an effort to find, where required, appropriate solutions to its balance of payments difficulties.

In accordance with established procedures regarding the temporary use of Fund resources, the standard three- to five-year rule on repurchase would apply to drawings for buffer stock financing. In addition, since these resources are in support of buffer stock operations of a revolving character, the Decision establishes a rule that a member would repurchase at an earlier date from the Fund to the extent that the buffer stock distributed cash to its members.

In judging the suitability of buffer stock arrangements for Fund assistance, the Fund would want to be satisfied that the arrangements are economically sound, and that the transactions it is helping to finance are compatible with its purposes and with the requirement that the use of Fund resources should be temporary. Consequently, certain general criteria would be taken into account in appraising stocking arrangements for which assistance is sought. For example, certain general principles of intergovernmental relations laid down by the United Nations would be expected to be observed in the conclusion and conduct of the international commodity agreements involving the buffer stock arrangements. In addition, the arrangements should take explicit account of the effects of price stabilization objectives on earnings stabilization. From the Fund's point of view, there would be serious reservations with regard to any scheme that appeared likely to destabilize export earnings for any considerable proportion of individual countries. The nature of the price objectives of a stockholding scheme are also considered to be of crucial importance. Schemes suitable for Fund financing would be those aiming at stabilization around a medium-term trend, so that stock transactions could be expected to balance out roughly in the medium term.

The Fund considers that an important test for any stabilization scheme would be the willingness of participating governments to commit the necessary resources, whether by drawing on their own reserves or on their general borrowing capacity. It would, therefore, be expected that an appropriate part of the initial and operating costs would be met from resources other than the international financial institutions.

National stock building, as a means to the temporary limitation of export supplies, may in certain circumstances be an appropriate method of stabilizing earnings. Such stock building may, however, put additional strains on the domestic economy and the balance of payments. Only analysis in each case can determine to what extent Fund support is appropriate, and account must be taken of the appropriateness of domestic financial arrangements as well as of repercussions in international commodity markets. The problems posed are clearly connected with those that arise in the general relations between the member and the Fund, and any assistance should be approached in the context of the Fund's general tranche policies. The Fund is, therefore, prepared, as in the past, to grant members access to its resources, within the framework of the normal tranche policies, in connection with payments problems arising from investment in stocks of primary products.

Consultations and Technical Assistance

The Fund's regular consultations with members have long been recognized as being important to the international role of the Fund and to its relation with individual members. Such consultations provide an opportunity for an exchange of views on members' problems and policies, and for the achievement of better international understanding. Consultations in 1968/69 were completed with 69 countries, of which 46 were Article XIV countries and 23 were Article VIII countries. During the year 3 additional countries—Argentina, Singapore, and Malaysia—accepted the obligations of Article VIII, Sections 2, 3, and 4, of the Fund's Articles of Agreement, bringing to 34 the number of countries that have formally made their currencies convertible under the Fund Agreement. In 1968 these countries accounted for about three fourths of world trade.

The considerable growth in the Fund's membership in recent years has been accompanied by increased efforts on the part of the Fund to expand the volume and scope of its technical assistance programs, particularly to meet the special needs of its more recent members, many of which are newly independent. In the past fiscal year the activities of the Central Banking Service, the Fiscal Affairs Department, and the IMF Institute were maintained at their previous high levels, while during the year the Bureau of Statistics inaugurated a new program to help members in the assembly and presentation of statistics.

The wide variety of technical services provided by the Fund has included assistance in the development and execution of general financial policies, institutional reforms in banking and fiscal systems, and improvements in statistical reporting and analysis. One aspect of this work has been the steadily growing number of Fund staff members who are being assigned to member countries for 12 months or more. Last year staff members, either individually or in teams, were thus assigned to 15 countries. Even so, the demand for experts from outside the Fund's staff continued, with 37 countries benefiting from such long-term assignments during the year. A major program of technical assistance to Indonesia was in operation throughout the year.

The IMF Institute, which has now been established for five years, has continued to organize training courses for officials from member countries, especially those coming from developing countries. For the greater part of 1968/69 the Institute again conducted two courses simultaneously and during the period provided training for a total of 95 participants from 60 countries. In addition to its main work in preparing and presenting courses on financial analysis and policy, given in English, French, and Spanish, the Institute again held courses on public finance and balance of payments methodology. The experience gained by the Institute is continually being applied toward the further improvement of its courses. It is felt that these courses have helped the individual participants and their countries. Such training has also been of assistance to the Fund in its work with member countries and has made a practical contribution to international cooperation.

Part II

REVIEW OF THE YEAR

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Chapter 4

World Trade, Payments, and Reserves

World Trade

Principal Changes

THE upswing in world trade that had begun late in 1967 continued unabated during 1968. From the second half of 1967 to the first half of 1968, the value of world trade expanded at a rate equaled in recent years only by the boom of 1963 to early 1964, and this rate was exceeded in the second half of 1968. On a calendar-year basis, world trade increased by about 11 per cent from 1967 to 1968—more than double the rate from 1966 to 1967 and virtually the same as that from 1963 to 1964 (Table 8).

The unit value of world trade, in U.S. dollars, declined somewhat from 1967 to 1968. This development reflected not only the devaluations of late 1967 but also declines in unit values of exports from a number of major countries, especially on the continent of Europe. The volume of world trade is estimated to have increased from 1967 to 1968 by 12 per cent, the highest rate of growth on record.

The early part of the recent upswing in world trade was dominated by a burst of imports into North America, starting in the fourth quarter of 1967. On a seasonally adjusted basis, North American imports increased at an annual rate of about 30 per cent from the second half of 1967 to the first half of 1968, after increasing only 6 per cent from 1966 to 1967. In the second half of 1968 the rise in North American imports slackened, but imports of the industrial countries in Europe accelerated further and Japan's imports recovered sharply after only a moderate increase earlier in the year. In total, industrial-country imports increased at least as rapidly in the second half of 1968 as in the first half.

The relationship between this development in industrial countries' imports and other major flows of world trade was broadly in line with the familiar pattern. Imports of industrial countries from

TABLE 8. GROWTH IN VALUE OF TRADE OF MAJOR AREAS, 1964-68

(In percentage changes from preceding year or half year, at annual rates) [1]

	1964	1965	1966	1967	1968	1966 First half	1966 Second half	1967 First half	1967 Second half	1968 First half	1968 Second half
World imports [2]	12	9	10	5	11	8	9	5	2	12	16
Imports of industrial countries [3]	12	9	11	6	13	10	8	4	5	14	17
Industrial Europe [4]	13	8	8	4	10	6	4	3	4	8	19
North America (United States and Canada)	10	15	19	6	21	18	16	1	5	30	13
Japan	18	3	17	22	11	19	22	22	19	4	17
Imports of industrial countries from primary producing countries	11	4	8	4	11	8	5	2	5	14	9
Exports of primary producing countries [5]	11	6	8	3	8	9	6	1	6	6	13
Imports of primary producing countries	12	10	6	4	6	4	10	6	−5	9	12
Exports of industrial countries to primary producing countries	11	10	7	3	9	2	15	5	−9	15	15
Exports of industrial countries to industrial countries	14	11	11	7	15	9	9	6	4	17	20
Exports of industrial countries [6]	13	10	10	6	13	8	11	5	—	16	19

Sources: Total trade data, *International Financial Statistics;* data on trade by origin and destination, Organization for Economic Cooperation and Development. *Over-All Trade by Countries;* Fund staff seasonal adjustments.

[1] Half-yearly figures are seasonally adjusted.

[2] Excludes imports into CMEA countries, mainland China, etc. (See footnote 1, page 44).

[3] Industrial countries here comprise the EEC countries, EFTA countries except Portugal, Canada, Japan, and the United States.

[4] EEC countries and EFTA countries except Portugal.

[5] Primary producing countries comprise all countries except industrial countries and CMEA countries, mainland China, etc.

[6] Excludes U.S. Department of Defense shipments.

primary producing countries [1] swung strongly upward early in 1968. Trade in the opposite direction—exports of industrial countries to the primary producing countries—also grew at an accelerated rate (Table 8). According to data that are still incomplete, trade among primary producing countries apparently did not respond as quickly to the cyclical upsurge as did the trade of these countries with industrial countries. In the course of 1967, the balance of primary producing countries' trade with industrial countries improved markedly, but this was partly reversed in 1968 as the growth of primary producing countries' imports from industrial countries accelerated.

Although industrial countries as a group increased their exports at about the same rate as their imports from 1967 to 1968, there were dramatic shifts over this period in the trade balances of certain industrial countries. The trade surplus of the United States was sharply reduced, while the trade positions of Canada, Italy, and Japan improved substantially. In other industrial countries, changes in trade balances were comparatively small. Especially noteworthy was the continuation of the large trade surplus of Germany. A moderate increase in the French trade deficit was due in part to the wave of strikes in May and June 1968, while a decline in the British trade balance reflected the initial adverse effect of devaluation, as well as a marked increase in domestic demand.

Cyclical Patterns of Economic Activity and Trade

Imports of industrial countries, after a year of small growth, responded quickly to the cyclical turnaround in mid-1967. In the fourth quarter of that year, a strong upsurge in imports began in the larger countries. Quarterly data on imports and production (Chart 13) illustrate these relationships even though the series are sometimes markedly affected by strikes, threats of strikes, and other temporary influences.

In the United States industrial production resumed an upward movement in mid-1967 and increased considerably during 1968 and early 1969. This expansion began during a period in which labor resources were already fully employed and prices and wages were rising markedly. The resumption of rapid growth in U.S. imports, beginning in the fall of 1967, was primarily influenced by these factors. However, the extraordinary upsurge of imports in the six months through March 1968 was also influenced by such special factors as the U.S. copper strike and stockpiling of steel products in anticipation of a possible strike in the domestic steel industry. Third-quarter imports were enhanced as a consequence of importers' anticipation of the strike at East and Gulf Coast ports which, scheduled to begin on October 1, actually began December 30. This strike caused a large drop in U.S. imports during the first quarter of 1969.

The rapid increase in U.S. imports starting in the fourth quarter of 1967 provided a strong stimulus to the trade of other industrial countries (Chart 14), as well as of primary producing countries. In the half year to March 1968, exports from industrial countries in Europe to the United States were no less than 20 per cent higher than in the preceding half year (on a seasonally adjusted basis). Canada and Japan experienced similar increases in their exports to the United States in the first half of 1968. The 1967-68 growth in the export markets of Canada and Japan was relatively high (Table 9), mainly because of their dependence on the U.S. market.

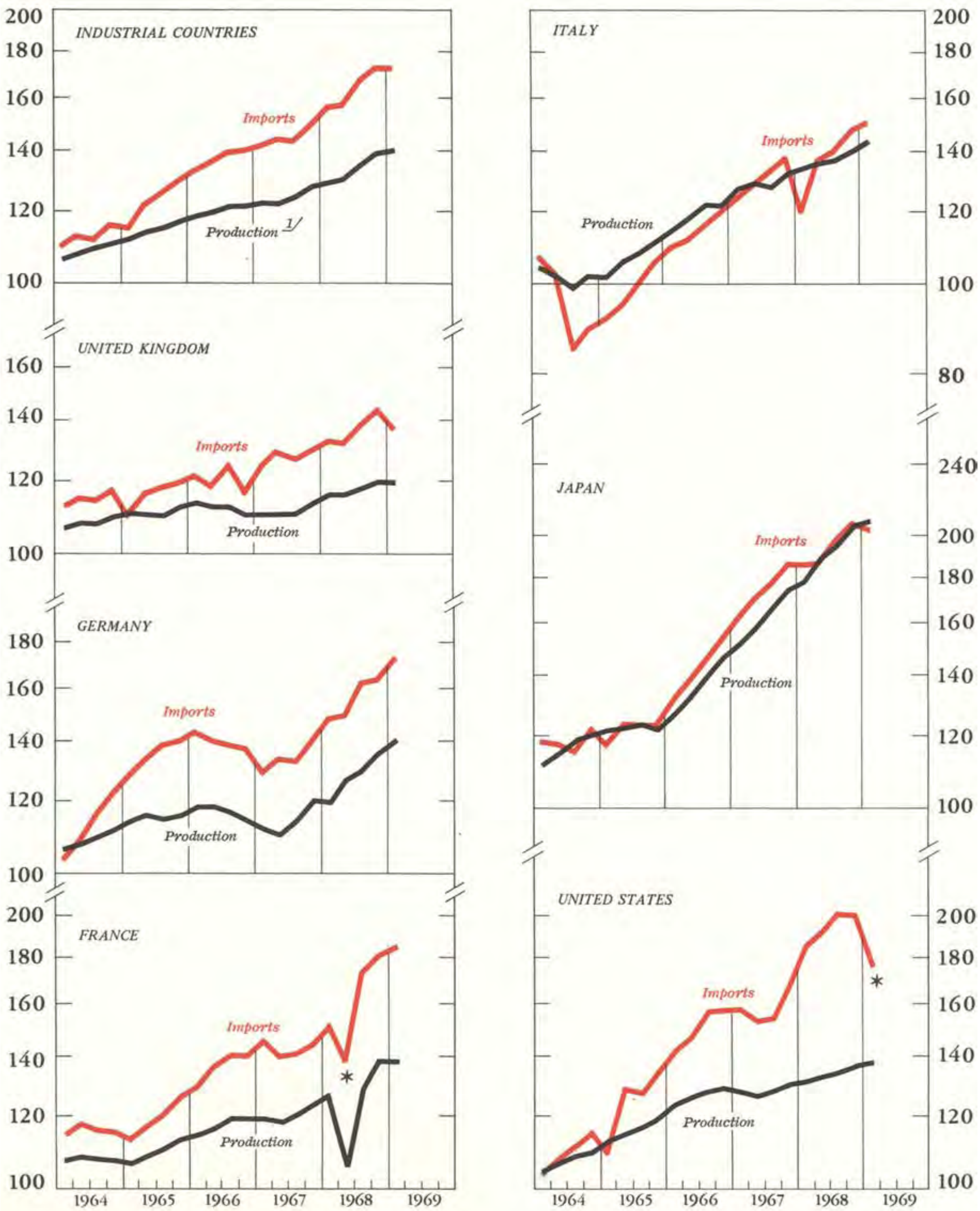
Another source of recent expansion in international trade came from the sharp advance of

[1] For convenience of analysis this Report employs the classification, industrial countries and primary producing countries. Industrial countries in this grouping are Austria, Belgium, Canada, Denmark, France, the Federal Republic of Germany, Italy, Japan, Luxembourg, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, and the United States; primary producing countries are all of the remainder with the exception of CMEA countries, mainland China, etc., generally not covered in the Report because of the absence of data. (Members of the Council for Mutual Economic Assistance are Albania, Bulgaria, Czechoslovakia, Eastern Germany, Hungary, Mongolia, Poland, Rumania, and the Union of Soviet Socialist Republics. In addition to these countries and mainland China, the territories generally not covered include Cuba, North Korea, and North Viet-Nam.) The category of primary producing countries is subdivided on the basis of more developed areas (including Australia, Finland, Greece, Iceland, Ireland, Malta, New Zealand, Portugal, South Africa, Spain, Turkey, and Yugoslavia) and less developed areas (all others).

It is recognized that no simple classification, such as that adopted in this Report, can reflect the full nature of each economy. For example, industrial countries, such as Canada and the United States, are also important producers and exporters of primary products; some countries classified as primary producers, such as Australia, have significant industrial capacity; and, in a few instances, some countries classified in less developed areas may have relatively high per capita incomes.

CHART 13. SELECTED INDUSTRIAL COUNTRIES: VALUE OF IMPORTS AND INDUSTRIAL PRODUCTION, 1964–FIRST QUARTER 1969

(1963 = 100; seasonally adjusted)

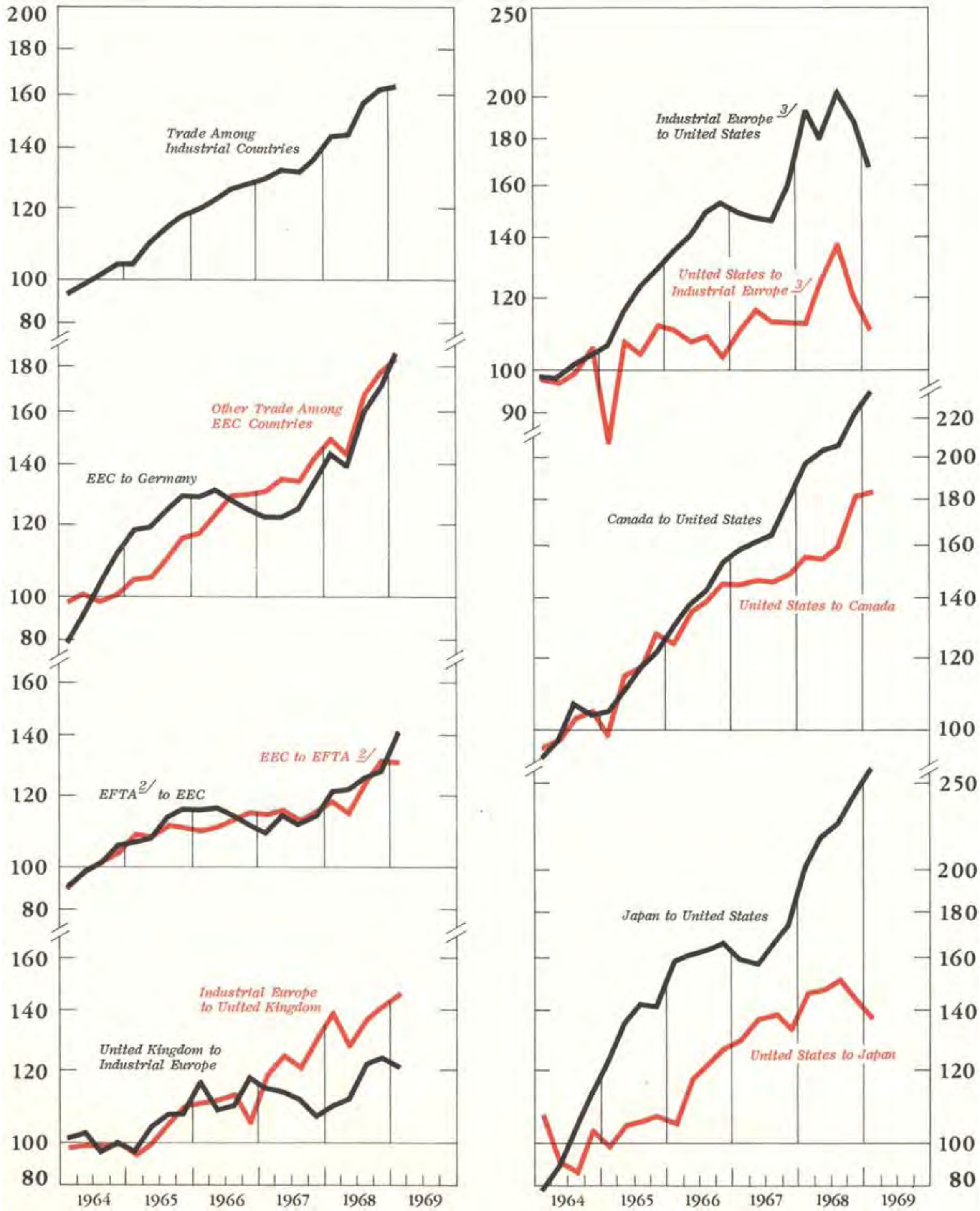


* Strike.

[1] Country indices weighted by total imports in 1963.

CHART 14. SELECTED TRADE FLOWS BETWEEN INDUSTRIAL COUNTRIES AND AREAS, 1964–FIRST QUARTER 1969 [1]

(1964 = 100; seasonally adjusted)



[1] Based on export data.
[2] Excluding the United Kingdom and Portugal.
[3] Includes the United Kingdom.

economic activity in Germany. The initial phase of the cyclical expansion, which began during the latter part of 1967, was followed by some hesitation early in 1968, but by the second quarter demand and output were moving ahead vigorously on a broad front and continued to grow very rapidly throughout the rest of the year. Imports into Germany followed much the same upward trend as output, after adjustment for the drop in imports from France during the period of the French strikes and also for the apparent postponement of imports from the fourth quarter of 1968 to the first quarter of 1969, in anticipation of the reduction in import levies that took effect January 1.

a pickup in other trade among the other EEC countries. The over-all resurgence of business activity in the EEC area brought about a relatively large rise from 1967 to 1968 in the export markets of Belgium-Luxembourg, Italy, and the Netherlands; these countries' total exports increased more rapidly over this period than did exports from the industrial countries as a group.

Exports from the continental EFTA countries to EEC markets tended strongly upward after the fourth quarter of 1967, while trade in the opposite direction also increased its pace, especially in the second half of 1968. Buoyant demand conditions on the Continent as a whole were reflected in sharp advances during 1968 in exports to Industrial

TABLE 9. INDUSTRIAL COUNTRIES: GROWTH OF EXPORT MARKETS AND EXPORTS, 1958-68
(Percentage changes at annual rates; countries ranked by growth of exports in 1968)

	1958-59 to 1962-63		1962-63 to 1966-67		1966 to 1967		1967 to 1968	
	Market growth [1]	Increase in exports	Market growth [1]	Increase in exports	Market growth [1]	Increase in exports	Market growth [1]	Increase in exports
All industrial countries	8	8	10	10	5½	5½	13	13
Japan	6½	13	11	18	4½	7	14½	24½
Canada	6	4½	13	13	5	10½	21½	19
Italy	10	15½	10	14½	4	8½	14½	16½
Belgium-Luxembourg	10	9½	10½	11	4½	3½	14½	15½
Netherlands	10½	9	10	10	4½	8	13½	14½
Switzerland	10½	9½	10½	10	5	7	13	14½
Germany	9½	10½	10½	10½	6½	8	12	14½
France	8	9½	9	9½	4½	4½	13	11½
Norway	8½	7½	9½	12½	5	11	11½	11½
Austria	12½	8	9	8	6	7½	10½	10
United States	6½	6	9½	8½	6	4	11½	9½
Sweden	9½	9½	10	9½	6½	6	9	9
United Kingdom	7½	5	9½	5½	5	−2	12	6½
Denmark	9	7½	9½	9	7	3½	10	4

Source: International Monetary Fund and International Bank for Reconstruction and Development, *Direction of Trade*.

[1] The growth rate that each industrial country's total exports would have achieved, had it exactly maintained its share in total industrial countries' exports to each one of the 30 geographic markets into which the world excluding CMEA countries, mainland China, etc., has been divided for the purpose of these calculations. The growth of the CMEA countries, mainland China, etc., market is taken to be the actual growth of each industrial country's exports to those areas.

The German expansion in 1968 and the concomitant rise in import demand created a rapidly expanding market for other countries' exports. The effect on the other EEC countries was quite pronounced; their sales in the German market rose by 10 per cent (seasonally adjusted) from the second half of 1967 to the first half of 1968, and by the last quarter of 1968 they were 27 per cent higher than a year earlier. British exports also benefited, although less, from the German upswing, while U.S. exports to Germany moved erratically around a slowly rising trend.

The turnaround in EEC exports to Germany in the fourth quarter of 1967 was associated, without any lag discernible in the quarterly data, with

Europe from both the United Kingdom and the United States.

The work stoppages in France during the second quarter of 1968 interrupted the rapid expansion of activity that had been under way in that country. The strikes were reflected not only in the imports of France but to an even greater extent in its exports, and hence in the second-quarter imports of other countries. French production in the third and fourth quarters accelerated sharply and imports recovered even more strongly.

Devaluation of the pound sterling in November 1967 occurred in the early phase of the international cyclical upswing; export markets of the

United Kingdom grew rapidly during 1968 (Chart 15). U.K. exports (in dollar value) rebounded in the first half of 1968 to about the predevaluation level and advanced strongly in the third quarter. In the fourth quarter of 1968 and the first quarter of 1969, however, there was little or no further progress. In the early part of 1969, exports of the United Kingdom—like those of most other countries—were restrained by the U.S. dock strike. The stimulus of rapidly expanding exports (in volume, the increase from 1967 to 1968 was 15 per cent),[2] together with a stronger-than-expected increase in domestic demand, caused the pace of production to accelerate, beginning in the fourth quarter of 1967. U.K. imports in the first two quarters of 1968 rose broadly in line with the growth in production (Chart 13), after allowance for special influences. After a new surge of imports, an import deposit scheme was imposed late in November 1968. The recorded drop of imports in the following months may have reflected this measure as well as the U.S. dock strike.

In Italy and Japan, rapidly expanding export markets provided an important stimulus to economic growth throughout 1968. However, in each of these countries a sharp break in import expansion occurred in the first part of 1968. In Italy this was clearly connected with sluggish growth in domestic demand. A stronger expansion in the second half of 1968 was paralleled by a marked recovery in imports. Similarly, the leveling out of imports into Japan in the first half of 1968, reflecting the impact of restrictive financial measures (see page 74), was followed by a resumption of rapid growth during the second half of 1968.

Buoyant demand conditions in the industrial countries, taken collectively, had a pronounced impact on the value of exports of primary producing countries. The 1967-68 increase in value of industrial-country imports from primary producing countries closely paralleled the industrial countries' intratrade (Charts 14 and 16). With allowance for the irregular nature of the quarterly series, and particularly for the sharp increase in oil exports from the Middle East after the cessation of hostilities there in 1967, the pattern of the upswing in industrial-country imports from the various primary producing regions was quite similar (Chart 16). The main exception was imports from primary producing countries in Europe, which have exhibited a relatively steady upward trend since 1965.

The cyclical development of imports into primary producing countries during 1967-68 was closely related to their exports, and the timing of the upswing was such as to contribute importantly to the extraordinary upsurge of world trade in 1968. During the economic slowdown from mid-1966 to mid-1967, the collective trade balance of the primary producing countries had deteriorated as export receipts slowed while imports continued to expand rapidly. Partly because of measures taken to meet weakening payments positions and partly because of various special factors,[3] the value of imports into primary producing countries showed a marked decline in the second half of 1967, causing a continued slowing down in the growth of world trade (Table 8). Then, beginning with the first quarter of 1968, a revival of import growth in these countries was added to the upsurge of imports into the industrial countries. As on the export side, the timing of the import upswing was similar from one region to another (as indicated by industrial countries' exports to these regions, Chart 16). Contrary to what happened in some earlier periods of upswing in world trade and activity, the trade balance of the primary producing countries tended to deteriorate after the second half of 1967, while the collective trade balance of the industrial countries improved substantially.

Chapter 6 includes a fuller discussion of the trade of primary producing countries in 1968.

Changes in Trade Balances of Industrial Countries

The broad expansion of world trade in 1968 was accompanied by extraordinarily large changes in trade balances[4] of some major industrial countries. A sharp fall of $3.3 billion in the U.S. trade surplus was reflected in improvements of more than $1 billion in the balances of Japan and Italy, and was also a major factor behind the increase of about $0.5 billion in the trade surplus of Canada.

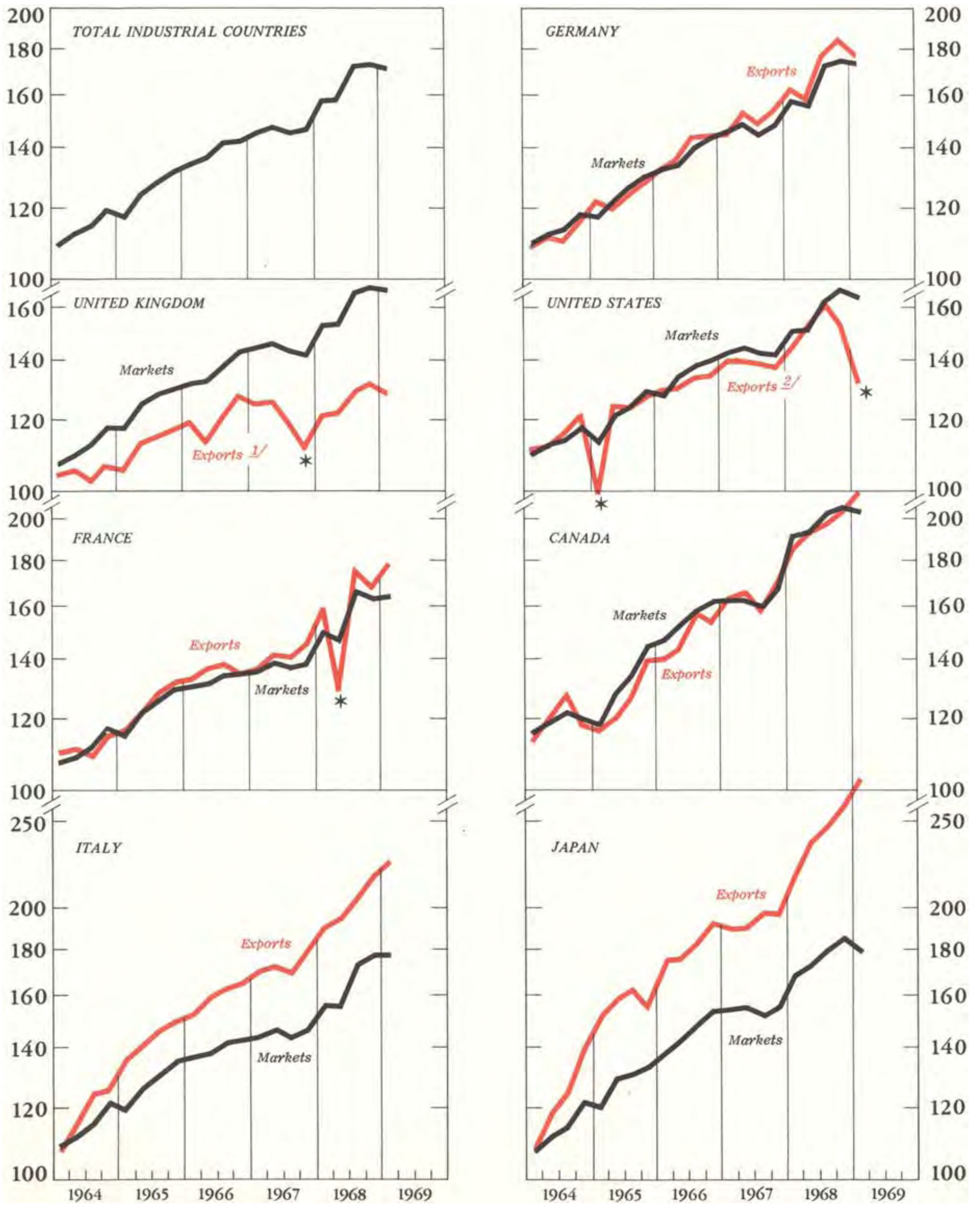
[2] This increase was to some extent influenced by the shift in export deliveries from 1967 to 1968 because of the dock strike in late 1967. A rough adjustment for this factor would lower the increase from 15 per cent to about 12 per cent. Even after this adjustment, however, the acceleration in export growth was considerable; in the period 1961-66 the volume of exports grew at an annual rate of only 4 per cent.

[3] See *Annual Report, 1968*, pp. 29-30.

[4] Exports f.o.b. less imports c.i.f., customs basis.

CHART 15. SELECTED INDUSTRIAL COUNTRIES: EXPORTS AND EXPORT MARKETS, 1964–FIRST QUARTER 1969

(1963 = 100; seasonally adjusted)



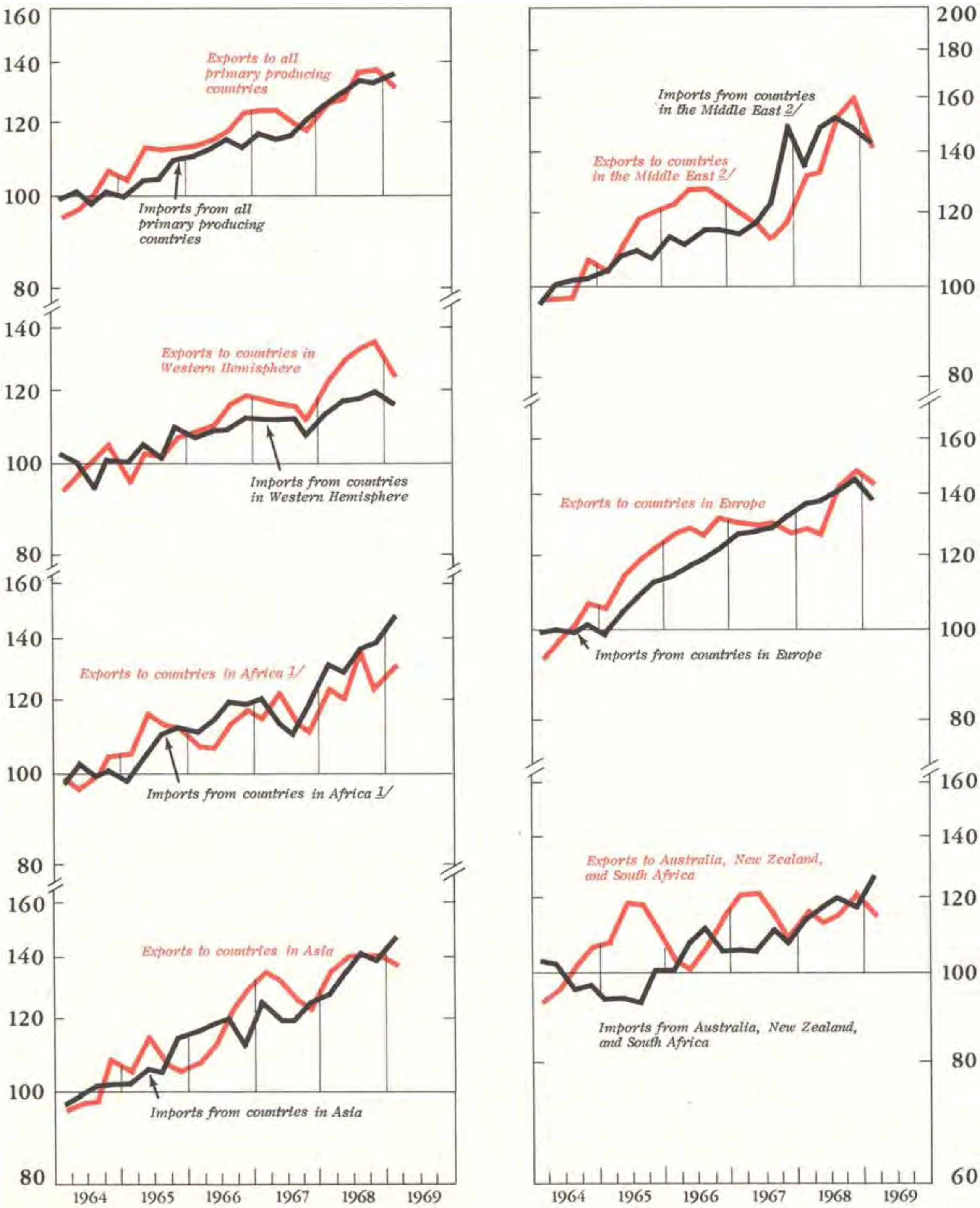
* Strike.

[1] This line is not adjusted for newly discovered underrecording of British exports. It should also be noted that the chart is based on data in dollar terms, and that the development of British exports therefore reflects, inter alia, a sharp fall in British export prices after the devaluation in November 1967.

[2] Excludes U.S. Department of Defense shipments.

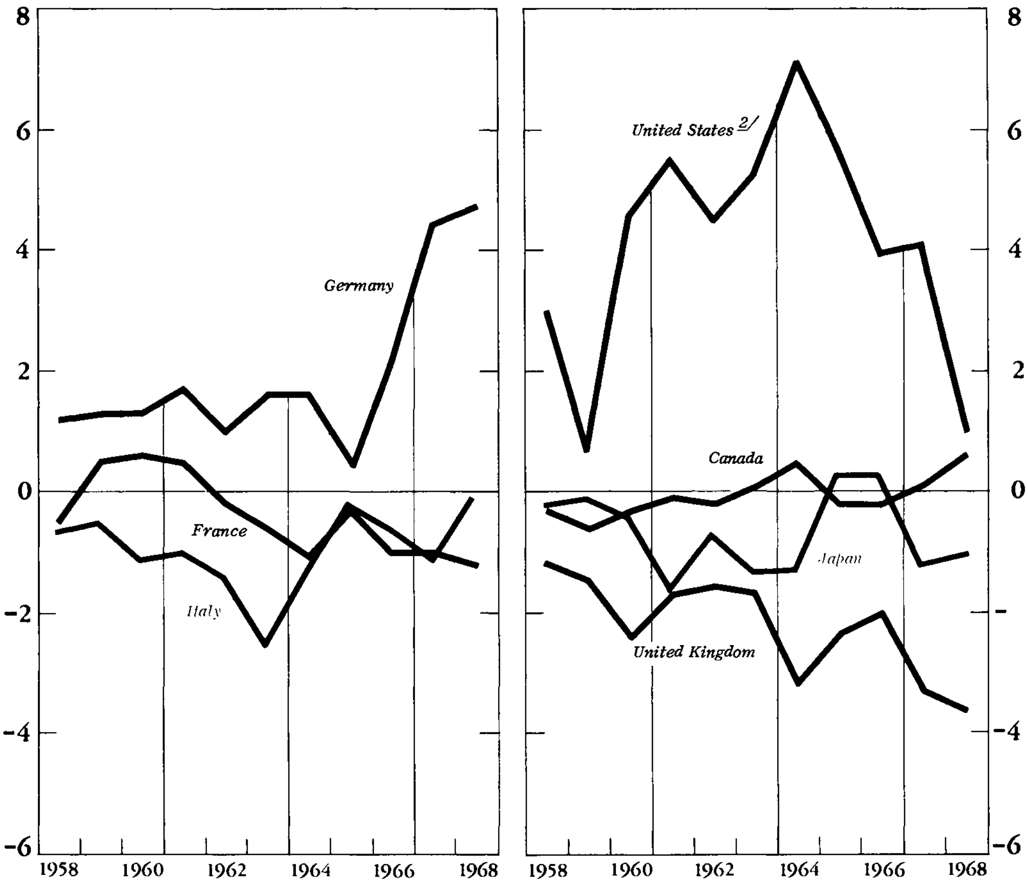
CHART 16. TRADE OF INDUSTRIAL COUNTRIES WITH PRIMARY PRODUCING COUNTRIES, 1964–FIRST QUARTER 1969

(1964 = 100; seasonally adjusted)



[1] Not including South Africa or the United Arab Republic.
[2] Including the United Arab Republic.

CHART 17. SELECTED INDUSTRIAL COUNTRIES: TRADE BALANCES, 1958-68 [1]
(In billions of U.S. dollars)



[1] Exports f.o.b. minus imports c.i.f., customs basis.
[2] Imports f.o.b., exports excluding U.S. Department of Defense shipments.

Apart from Italy, the important changes in trade positions among European countries were a further increase of $0.2 billion in the German surplus [5] and a deterioration in the U.K. trade balance of about the same magnitude (Table 10).

The factors that underlay these shifts in trade balances—such as differences in rates of economic growth, in demand pressures, and in export market growth and export performance—had been operating in most instances for several years. Thus, the more or less continuous decline in the U.S. trade surplus from a peak in 1964 (Chart 17) was associated with an uninterrupted economic expansion in the United States that resulted in increasing strains on resources and the emergence of cost and price pressures. In the event, there was a marked rise of imports in relation to gross national product (GNP). At the same time, the growth of U.S. export markets in 1968—as well as in most years during the previous decade—was below the average for all industrial countries. This unfavorable trend in U.S. export markets (as measured in Table 9) was partly a reflection of the effects of the formation of the Common Market. Moreover, actual exports from the United States did not keep pace with the growth in its export markets (Table 10); declines in the U.S. export share were partly attributable to the relative importance of agricultural products in total U.S. exports, but share losses were experienced in most classes of manufactured products. This

[5] This increase was mainly attributable to the actions of traders anticipating the tax changes that were announced in November and became effective by the end of the year. (See page 77.)

TABLE 10. INDUSTRIAL COUNTRIES: DEVELOPMENT OF TRADE BALANCES, WITH CHANGES IN RELATED VARIABLES, 1958-68

(In billions of U.S. dollars and in percentage changes at annual rates)

		Trade Balance [1]				
		Beginning of period [2]	End of period [2]	Industrial Production	Imports Relative to Production [3]	Exports Relative to Markets [4]
		←Billion U.S. dollars→		←Percentage changes at annual rates→		
United States	1967 to 1968	4.1	1.0	4½	18	—1½
	1962–63 to 1966–67	4.9	4.0	6½	5	—1
	1958–59 to 1962–63	1.9	4.9	5	—1½	—½
United Kingdom	1967 to 1968	—3.3	—3.6	4½	2½	—5
	1962–63 to 1966–67	—1.7	—2.7	3½	3	—4
	1958–59 to 1962–63	—1.4	—1.7	3½	2	—2
Canada	1967 to 1968	0.1	0.6	6	8	—2
	1962–63 to 1966–67	—	—0.1	7½	5	—
	1958–59 to 1962–63	—0.4	—	4½	—2	—1½
Japan	1967 to 1968	—1.2	—0.1	17½	—5½	8½
	1962–63 to 1966–67	—1.0	—0.5	12	2	6½
	1958–59 to 1962–63	—0.2	—1.0	16½	½	6
Italy	1967 to 1968	—1.1	—0.1	5½	—1½	2
	1962–63 to 1966–67	—1.9	—0.8	6½	1	4
	1958–59 to 1962–63	—0.5	—1.9	11½	7½	5
Germany	1967 to 1968	4.4	4.6	12½	3½	2
	1962–63 to 1966–67	1.3	3.2	4	4½	½
	1958–59 to 1962–63	1.3	1.3	7	5	1
France	1967 to 1968	—1.0	—1.2	4	9	—1
	1962–63 to 1966–67	—0.4	—1.0	4½	5½	½
	1958–59 to 1962–63	—	—0.4	6	5	1½
Belgium-Luxembourg	1967 to 1968	—0.2	—0.2	6	8	1
	1962–63 to 1966–67	—0.3	—0.3	4	6	½
	1958–59 to 1962–63	—0.1	—0.3	6½	3	—½
Netherlands	1967 to 1968	—1.1	—1.0	11	½	1
	1962–63 to 1966–67	—0.9	—1.2	6½	3	½
	1958–59 to 1962–63	—0.4	—0.9	7	3½	—1½
Austria	1967 to 1968	—0.5	—0.5	6	2	—½
	1962–63 to 1966–67	—0.3	—0.6	4½	5	—1
	1958–59 to 1962–63	—0.2	—0.3	5½	4	—3½
Switzerland	1967 to 1968	—0.6	—0.5	5	4	1
	1962–63 to 1966–67	—0.8	—0.7	4	2½	—
	1958–59 to 1962–63	—0.2	—0.8	7	7	—½
Denmark	1967 to 1968	—0.6	—0.6	. . .	. . .	—5½
	1962–63 to 1966–67	—0.3	—0.6	6 [5]	3½	—½
	1958–59 to 1962–63	—0.1	—0.3	7 [5]	2½	—1½
Norway	1967 to 1968	—1.0	—0.8	3	—4	—
	1962–63 to 1966–67	—0.7	—0.9	6½	4	3
	1958–59 to 1962–63	—0.5	—0.7	5½	1½	—1
Sweden	1967 to 1968	—0.2	—0.2	5½	4½	—
	1962–63 to 1966–67	—	—0.2	6½	2½	—½
	1958–59 to 1962–63	—0.2	—	5½	2½	—
All industrial countries	1967 to 1968	—2.3	—2.3	6½ [6]	6	—
	1962–63 to 1966–67	—2.2	—2.1	5½ [6]	4	—
	1958–59 to 1962–63	—1.1	—2.2	6 [6]	2½	—

Sources: *International Financial Statistics* and *Direction of Trade*.
[1] Exports f.o.b. minus imports c.i.f. (except for U.S. imports, which are f.o.b.); customs basis.
[2] Annual average, where applicable.
[3] Percentage by which the growth of imports differs from the growth of production, both growth rates having been expressed as index numbers.
[4] Percentage by which the growth of exports differs from the growth in export markets (from Table 9), both growth rates having been expressed as index numbers. The numbers in this column can also be interpreted as percentage changes in average export shares.
[5] Data relate to volume of sales by manufacturing industries. The series was discontinued in 1968.
[6] Each country's production growth is weighted by the country's imports at the beginning of the period.

development may to some extent have reflected domestic demand and price pressures.

In several respects the trade experience of the United States from the late 1950's to the early 1960's was conspicuously different from the more recent experience. In the earlier period U.S. industrial output expanded less rapidly than the average for all other industrial countries, and imports increased even more slowly than output. Export markets were—as mentioned—less buoyant than those of most other industrial countries, but losses of shares were minor, and the trade balance improved substantially.

Much of the impact of the strong demand developments in the United States in 1968 fell on the trade positions of Canada and Japan. Japan's trade balance had also improved over the period 1962-63 to 1966-67, when export markets grew rapidly and import expansion slowed down because of some abatement in the rate of economic growth. The export performance of Japan was, in fact, remarkably good throughout the 1958-68 decade, and the growth of imports relative to output was lower in Japan than in industrial countries as a group. Canada's export markets on average increased even faster than Japan's over most of the period from 1962 to 1968; however, Canada's average share in export markets, unlike that of Japan, remained virtually unchanged. From 1965 through 1968, Canada's over-all export share was supported through the favorable effects of the Automotive Trade Agreement with the United States. Over this period, Canada's balance of trade with the United States in automobiles and parts improved considerably.

Next to Japan, Italy recorded the largest improvement in trade balance from 1967 to 1968. Like Japan, Italy increased its exports at a significantly higher rate than export markets during the whole period 1958-68. The break in the trend of the Italian trade balance around 1963 and the subsequent decline in its trade deficit were attributable to a substantial slowing down in the growth of Italy's imports relative to output, as growth rates of actual output tended to fall below the rate of growth of potential output.

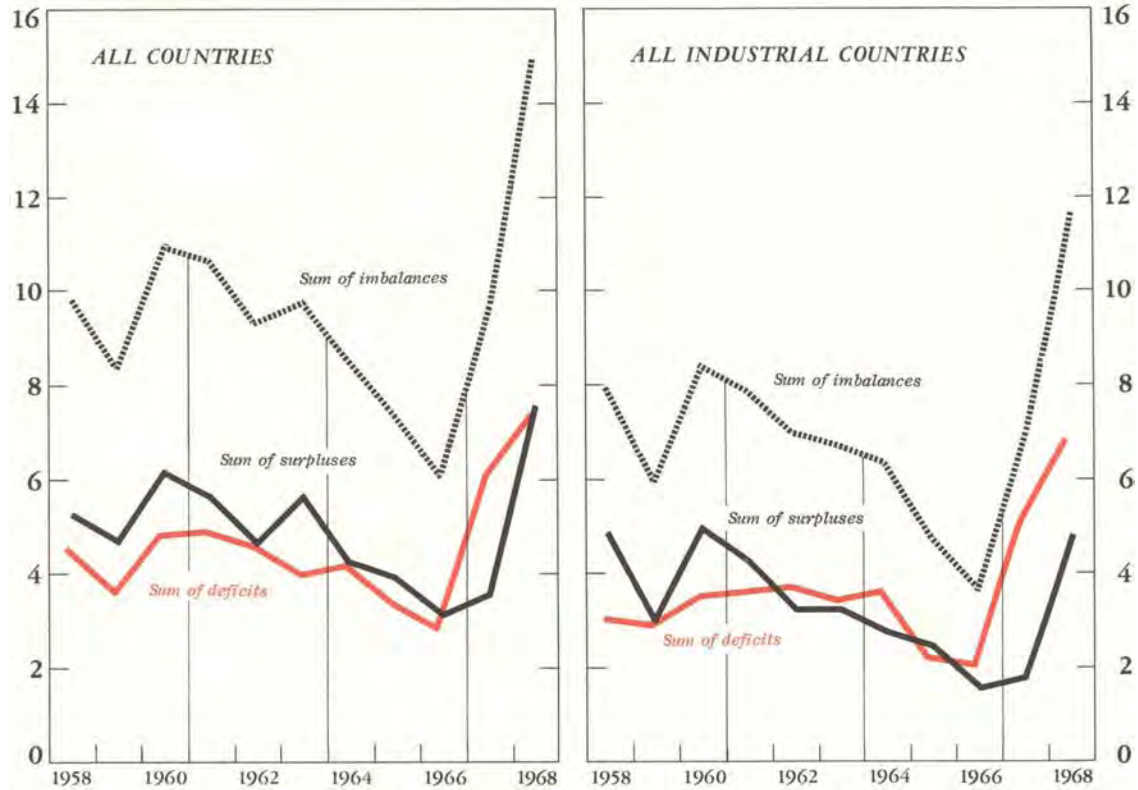
The trade surplus of Germany increased sharply in 1966 and 1967; in 1968 the surplus remained very high, despite the rapid domestic expansion. This strengthening of the German trade position stood in marked contrast to the development over earlier years, when the trade balance fluctuated around a virtually flat trend. The increase in the trade surplus in the three years to 1968 undoubtedly reflected to a large extent the recession of 1966-67. The growth of imports in relation to the growth of industrial production in this period dropped well below the average for other countries. At the same time the gains in export market shares that had been only marginal in earlier years became more pronounced. The fact that the relative growth of imports remained below the average for industrial countries in 1968, and that German exporters continued to increase their shares in export markets even though domestic demand expanded strongly and productive resources became nearly fully utilized, seemed to indicate an increasing competitiveness of the German economy.

The worsening of the French trade balance in 1968 was largely attributable to special circumstances. This decline nevertheless followed a downward movement that had occurred in most of the years from 1960 to 1967. (See Table 10 and Chart 17.) There were two main factors behind this weakening of the French trade position. First, the growth of imports in relation to production was slightly higher than in other EEC countries in the decade 1958-68; to some extent this probably reflected the greater relative reduction of tariffs in France. Second, despite the dynamism of EEC trade, the average growth in export markets of France was not as high as that of certain other industrial countries, chiefly because a relatively large share of France's exports went to primary producing regions, particularly in Africa. In the early part of the decade from 1958 to 1968, these two factors were offset by substantial gains in export market shares after the franc devaluations of 1957-58 (Table 10). In more recent years (1962-63 to 1966-67), France's export performance remained relatively satisfactory even though French export prices increased substantially more than those of other EEC countries.

The balance of trade of the Netherlands deteriorated slowly over most of the decade under consideration. This tendency reflected—apart from the somewhat higher trend rate of output growth in the Netherlands than in the industrial countries generally—a high pressure of demand during most years in this period and relatively rapid increases in costs and prices. In the early part of the decade this relative-growth factor was largely offset by the favorable development of export markets—partly stemming from the Netherlands export dependence on Germany; over the period 1958-59 to 1962-63, the Netherlands increased its exports faster than did the industrial countries in total, even though its average share in export markets tended to decline slightly. Later, the deterioration in the Netherlands trade balance came to a halt in reflection of a low growth of imports relative to output—low especially in comparison with the experience of other EEC countries (except Italy). During 1967 and 1968 the trade balance was strengthened, partly as a consequence of the exploitation of natural gas sources, which led both to savings on imports and to increases in exports. Total imports grew only marginally faster than production in 1968 despite the pronounced cyclical upswing, and a gain was recorded in the Netherlands average share in export markets.

CHART 18. SUMS OF PAYMENTS IMBALANCES, 1958-68

(*In billions of U.S. dollars*)



Output and import trends in Belgium-Luxembourg in the period 1958-59 to 1962-63 were similar to those in the Netherlands. The deterioration in the trade balance was more moderate, however, because of a less unfavorable development of export shares. The tendency for the balance of Belgium-Luxembourg's trade to improve since 1962-63, in spite of rather higher relative growth of imports than in other countries, has reflected both a relatively slow growth of production and some gains in export shares. The favorable development of Belgium-Luxembourg's exports in 1968 was due mainly to a large increase in U.S. imports of iron and steel products.

In large measure, the gains in export shares experienced by Japan and the EEC countries have been paralleled by substantial share losses of exports of the United Kingdom. Exports of the United Kingdom also suffered from an unfavorable geographical composition of export markets, with a heavy dependence on relatively slow-growing primary producing markets. Apart from cyclical fluctuations, the U.K. trade balance showed a deteriorating tendency over the whole decade to 1968, in spite of slow economic growth and a low relative increase of imports. Although trade data for 1968 are difficult to interpret, partly because of the effects of the dock strike in late 1967, it is clear that the devaluation and the supporting policies did not produce the expected turnaround in the U.K. trade balance. After adjustment for the distortions due to the dock strike, it appears that the United Kingdom's average share (by value) in export markets showed another decline from 1967 to 1968. In addition, there was a rather substantial and unexpected increase in imports.

Balance of Payments Developments

The degree of payments imbalances [6] in the world economy, which had shown a sharp increase in 1967 after following a generally downward trend for a number of years, rose even more markedly in 1968 (Chart 18). Aggregate sur-

[6] The sum of over-all balance of payments surpluses or deficits without regard to sign. The definition of over-all balances is given in footnote 3 to Table 11.

TABLE 11. BALANCE OF PAYMENTS SUMMARY, 1966-68 [1]
(In billions of U.S. dollars)

	Current Balance [2]			Capital Balance			Over-All Balance [3]		
	1966	1967	1968	1966	1967	1968	1966	1967	1968
Industrial countries	**7.7**	**8.7**	**8.4**	**—8.3**	**—12.0**	**—10.5**	**—0.5**	**—3.3**	**—2.1**
Primary producing countries	**—6.4**	**—8.3**	**—8.4**	**7.2**	**9.0**	**10.7**	**0.8**	**0.7**	**2.3**
Australia, New Zealand, and South Africa	—0.8	—1.2	—1.1	1.0	1.1	1.9	0.2	—0.1	0.8
European countries	—1.2	—0.9	—0.7	1.1	0.7	1.3	—0.1	—0.2	0.6
Total, more developed areas	—1.9	—2.1	—1.8	2.1	1.8	3.2	0.2	—0.3	1.4
Western Hemisphere	—1.2	—1.8	—2.3	1.2	2.2	2.7	—	0.4	0.4
Africa	—0.8	—0.8	—0.4	0.8	0.7	0.7	0.1	—0.1	0.3
Middle East	—0.5	—0.4	—0.7	0.7	0.8	0.8	0.2	0.4	0.1
Asia	—2.0	—3.2	—3.3	2.4	3.5	3.4	0.4	0.2	0.1
Total, less developed areas	—4.5	—6.2	—6.6	5.1	7.2	7.5	0.6	1.0	0.9
Excess of deficits (—)	1.3	0.4	—	—1.1	—3.0	0.2	0.2	—2.6	0.2
Change in monetary gold							—	—1.6	—0.7
Treatment of U.K. portfolio liquidation [4]				—	—0.5	—	—	—0.5	—
Other asymmetries and errors							0.2	—0.5	0.9

Sources: Data reported to the International Monetary Fund and staff estimates.
[1] For balance of payments details, see Supplementary Note B, Tables 54-68.
[2] Balance on goods, services, and private transfers; unrequited government transfers are included in capital account.
[3] In this statistical presentation the over-all balance of payments is generally that financed by changes in net Fund positions and in official gold and foreign exchange holdings, as shown in *International Financial Statistics*. In most cases foreign exchange holdings are net of liabilities arising from swap transactions with other central banks and with the Bank for International Settlements. Advance repayments of foreign debt by governments are also treated as a financing item. For the United Kingdom the over-all balance is that financed by the official monetary movements included in item H of Table 65 in Supplementary Note B; for the United States it is that financed by "official reserve transactions" as published by the U.S. Department of Commerce, and by advance repayments received on foreign debt; for Germany the constituent figures comprise the official monetary movements as given in item G of Table 59 and the advance repayment made on foreign debt.
Discrepancies that become evident when all countries' balances are added together result not only from errors in reporting and the lack of balance of payments data for a number of countries, but also from changes in world monetary gold holdings and from inconsistencies in the treatment of some important transactions, principally in reserve currencies, in the balance of payments statistics of the countries concerned. See, for example, footnote 4, below.
[4] Of the excess of deficits over surpluses in 1967 as shown in this table, $0.5 billion reflects asymmetrical treatment of the liquidation of the U.K. portfolio of U.S. securities. This transaction gave rise to a capital outflow and an increased over-all deficit in the U.S. accounts, but does not affect the accounts shown for the United Kingdom.

pluses more than doubled from 1967 to 1968 while deficits showed a further large increase. These developments, which were concentrated in the external positions of a few major industrial countries, reflected in large part disequilibrating flows of short-term capital generated by the uncertainties that were felt concerning existing exchange parities.

Collectively, the industrial countries in 1968 incurred an over-all deficit of $2.1 billion compared with one of $3.3 billion in the previous year (Table 11). With both the merchandise trade balance and net receipts from services and private transfers showing little change, the improvement reflected a reduction in the outflow of long-term capital. For the more developed primary producing countries, the combined current account deficit in 1968 was somewhat smaller than in the previous year while capital inflow almost doubled, to $3.2 billion; as a result, there was a record postwar surplus of $1.4 billion in the over-all payments position. The capital inflow to countries in the less developed areas, which showed a much more modest increase than in 1967, again more than offset the current account deficit. For all the reporting countries there was a small excess of surpluses of $0.2 billion for 1968, compared with an excess of deficits of $2.6 billion for 1967.[7]

Primary Producing Countries

Most of the more developed primary producing countries recorded marked improvements in their external positions in 1968. South Africa, which benefited from a sizable increase in exports and a substantially larger inflow of capital, had a record over-all surplus of $0.7 billion. Australia's trade deficit widened as imports expanded at a considerably faster pace than exports, but capital receipts at $1.3 billion were almost double the level of 1967 and more than offset the deficit on current account. The improvement in New Zealand's payments position stemmed entirely from developments in the trade account; imports

[7] The balance of payments information summarized above is affected by statistical errors and asymmetries. (See Table 11.) These may have impaired in particular the reliability of the data on capital flows, which have been defined here as the difference between the over-all and current account balances, based on data reported to the Fund by member countries.

were further reduced, while exports increased modestly. Among the primary producing countries in Europe, the improvement in over-all position was most marked in the case of Finland, where exports and receipts of capital increased while imports declined; Spain also improved its trade balance. Both of these countries had devalued their currencies and adopted policies of restraint during 1967. Elsewhere in Europe, countries' merchandise trade balances were generally weaker; this deterioration, however, was in most cases more than offset by an enlarged inflow of capital.

Although the collective surplus of the less developed areas declined modestly from 1967 to 1968, the surplus of $0.9 billion was well above the average of $0.2 billion recorded for the period 1958-67. In the Western Hemisphere, merchandise trade balances were generally weaker, but there was an increase in the flow of capital and aid and the over-all surplus for the area was unchanged (Table 11). Brazil, Chile, and Colombia improved their external positions in spite of a marked worsening in their merchandise trade accounts as a result of higher imports. Argentina's gross reserves rose only moderately in 1968; in the previous year, there had been a substantial increase in reserves because of the proceeds of large foreign borrowing and a favorable swing in short-term capital flows. In Africa, countries' payments positions were generally more favorable, reflecting a sharp increase in exports that benefited in particular Libya and the Democratic Republic of Congo. In the Middle East, however, oil producers except Iraq were in deficit in 1968, whereas in 1967 all had recorded over-all surpluses. Israel also experienced an unfavorable change in its external accounts, as a result of a marked increase in imports and some decline in the level of capital inflow. Among Asian countries, India, Pakistan, and Malaysia registered improvements in their payments positions in 1968. Higher imports resulted in substantial increases in the current account deficits of Korea, the Philippines, and Thailand; capital receipts of these three countries rose to more than $1.0 billion, and their payments positions were each close to balance.

TABLE 12. INDUSTRIAL COUNTRIES: BALANCE OF PAYMENTS SUMMARY, 1966-68 [1]
(In billions of U.S. dollars)

	Current Balance			Capital Balance			Over-All Balance		
	1966	1967	1968	1966	1967	1968	1966	1967	1968
United Kingdom	0.5	−0.5	−0.6	−2.1	−0.8	−2.4	−1.6	−1.3	−3.0
United States	4.4	4.0	1.4	−4.6	−7.4	—	−0.2	−3.4	1.4
Total	4.9	3.5	0.8	−6.7	−8.2	−2.4	−1.8	−4.7	−1.6
Germany	0.8	3.3	3.9	−0.2	−3.2	−2.2	0.6	0.1	1.7
France [2]	0.1	0.7	−0.8	0.4	−0.4	−2.4	0.5	0.3	−3.2
Italy	2.3	1.8	3.0	−2.0	−1.2	−3.1	0.3	0.6	−0.1
Belgium-Luxembourg	—	0.3	0.1	—	−0.1	−0.5	—	0.2	−0.4
Netherlands	−0.2	—	0.1	0.2	0.2	−0.2	—	0.2	−0.1
Total EEC Countries	3.0	6.0	6.3	−1.6	−4.7	−8.4	1.4	1.3	−2.1
Canada	−0.9	−0.3	—	0.6	0.3	0.3	−0.3	—	0.3
Japan	1.4	—	1.2	−1.4	−0.1	−0.3	—	−0.1	0.9
Switzerland	0.1	0.3	0.5	—	−0.1	−0.1	0.1	0.1	0.4
Austria	−0.2	−0.1	−0.1	0.2	0.3	0.1	—	0.2	—
Denmark	−0.2	−0.3	−0.2	0.2	0.2	0.1	—	−0.1	−0.1
Norway	−0.1	−0.2	0.2	0.2	0.4	−0.2	0.1	0.2	—
Sweden	−0.2	−0.1	−0.2	0.3	−0.1	0.2	0.1	−0.2	—
All industrial countries	7.7	8.7	8.4	−8.3	−12.0	−10.5	−0.5	−3.3	−2.1

Sources: Data reported to the International Monetary Fund and staff estimates.
[1] The classification of items differs in some cases from that used in national publications and other sources. For definitions of "current," "capital," and "over-all" balances, see notes to Table 11. Detailed balance of payments statements are given in Supplementary Note B.
[2] For 1966 transactions between France and countries outside the franc area; for 1967 and 1968 transactions between France and the rest of the world.

Industrial Countries

Changes in the current account positions of industrial countries from 1967 to 1968 reflected, in the main, developments in their merchandise trade accounts. For the group as a whole, net receipts from services and private transfers showed little change either in magnitude or in composition, but for a few countries there were significant shifts. In the United States, net earnings from invisibles, which had fallen in each of the preceding two years, increased strongly in 1968 and accounted for about half of the surplus on current account; receipts from U.S. investments abroad were appreciably higher and net travel outlays were reduced. In France, receipts from tourism fell sharply in the wake of the May-June events, and this aggravated developments in the merchandise trade account. Receipts from foreign investment increased by about one third for both Germany and Switzerland; these appear to have originated in the United States, which at the same time benefited from appreciably higher receipts from U.S. investments in the less developed countries. Outpayments for tourism by the industrial countries increased by about 3 per cent from 1967 to 1968, compared with an average growth rate of some 10 per cent over the previous five years. This slowing down in the growth of travel outlays, which coincided with a leveling of workers' remittances from the northern industrial countries in Europe, adversely affected the payments positions of the primary producing countries of Southern Europe and, to a lesser extent, of Italy.

Among the countries of the European Economic Community, the over-all positions of Italy and the Netherlands were close to balance in 1968. Italy's substantially higher surplus on current account ($3.0 billion) was more than offset by the increased outflow of capital. The over-all surplus of Germany in 1968 was very large, contrasting sharply with the nearly balanced position of the previous year. Throughout 1968 the German authorities pursued a policy of financial ease designed to encourage the export of capital and, in the event, the very substantial surplus on current account was fully matched by long-term capital outflows of almost $4 billion. However, the inflow of short-term capital, largely of a speculative nature, reached massive proportions in October-November before being partially reversed. (See Chart 19.) The inflow of short-term funds had its main counterpart in France, where the capital balance was unfavorable to the extent of $2.4 billion, compared with a deficit of $0.4 billion for 1967. The French external position weakened in the second quarter, and for 1968 as a whole there was a current account deficit of $0.8 billion and an over-all payments deficit of $3.2 billion; in the previous year, there had been a payments surplus of $0.3 billion. Belgium also incurred a relatively large deterioration in its external position from 1967 to 1968, mainly as a result of an outflow of capital. Collectively, the EEC countries incurred an over-all deficit of $2.1 billion in 1968, contrasting sharply with the region's long-standing surplus position.

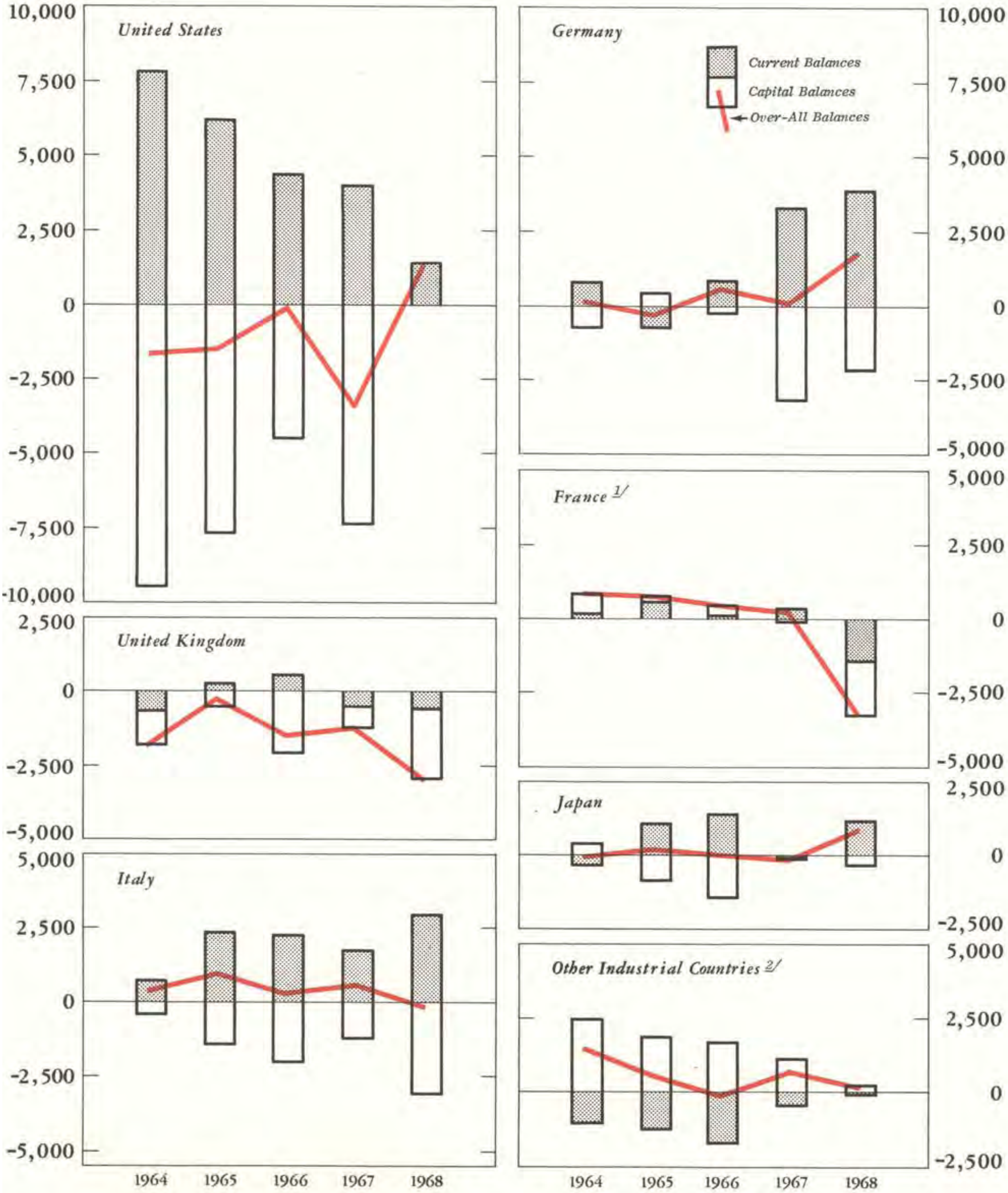
Apart from Switzerland, where there was a sizable surplus, over-all positions in other continental European industrial countries were closely balanced in 1968; in general, capital flows were equilibrating and offset current account deficits. Japan's over-all payments balance, which had been small in recent prior years, expanded to a record surplus of $0.9 billion in 1968. The current account surplus was large but, unlike developments in 1966, it was not matched by a substantial net outflow of capital.

The U.S. external accounts, as measured by official settlements, recorded a favorable swing of $5.0 billion from 1967 to 1968, that is, from a deficit of $3.4 billion to a surplus of $1.6 billion. As the current account worsened by some $2.6 billion, the turnabout in the capital accounts was exceedingly large, about $7.5 billion; the main factors underlying this sharp improvement were the more restrictive balance of payments program introduced at the beginning of 1968 and the tightening of U.S. monetary policy. On the "liquidity" basis the improvement in the external position was less pronounced—a surplus of $0.1 billion in 1968 following a deficit of $3.5 billion in the previous year.[8]

[8] The balance on official settlements is measured by the increase in U.S. official reserve assets and the decrease in liquid and certain nonliquid liabilities to foreign official agencies (see item H in Table 66 in Supplementary Note B). The over-all balance shown in Table 12 differs from the balance on official settlements by the advance repayments on foreign debt.

The balance on the liquidity basis is measured by the increase in U.S. official reserve assets and the decrease in liquid liabilities to all foreigners. This balance appears as the memorandum item in Table 66 in Supplementary Note B.

CHART 19. INDUSTRIAL COUNTRIES: CURRENT, CAPITAL, AND OVER-ALL BALANCES, 1964-68
(In millions of U.S. dollars)



[1] Transactions between France and countries outside the franc area.
[2] Austria, Belgium-Luxembourg, Canada, Denmark, the Netherlands, Norway, Sweden, and Switzerland.

In the United Kingdom, the widening of the over-all deficit from $1.3 billion in 1967 to $3.0 billion in 1968 reflected almost entirely an increased outflow of short-term funds. In 1967, a large reflux of such funds in the first part of the year was more or less matched by an outflow in the second half. The underlying trend in the U.K. current account was one of slow improvement; seasonally adjusted, the deficit fell from an annual rate of $0.8 billion in the first half of 1968 to $0.3 billion in both the third and fourth quarters. The sluggish response of the current account to devaluation, coupled with the gold crisis in March 1968 and the upheaval in foreign exchange markets in November, placed strains on sterling, and except in the third quarter short-term flows continued to be substantially adverse.

International payments developments in the first quarter of 1969 were strongly influenced by the further tightening of monetary policy in the United States. U.S. banks sought to overcome the squeeze on their liquidity by increasing the yield on the dollar liabilities issued by their foreign branches. These efforts induced investors to switch a portion of their portfolios from assets denominated in European currencies to dollar assets and made it increasingly difficult for the European monetary authorities to continue policies of financial ease. The over-all surplus of the United States in the first quarter was extremely large ($1.7 billion), but the current account position was little changed from the depressed level of the previous quarter. Germany's external accounts for the first quarter recorded a deficit of $1.8 billion as the outflow of private long-term capital reached a record quarterly rate of $1.4 billion and short-term flows were markedly adverse, reflecting in large part the reversal of speculative inflows of October-November. Elsewhere in continental Europe, payments positions early in 1969 were adverse. The United Kingdom's seasonally adjusted deficit on the current and long-term capital accounts declined from the fourth quarter of 1968 to the first quarter of 1969. This improvement was accompanied by a large favorable swing in the direction of short-term capital flow, and the external accounts showed an over-all surplus of $0.2 billion. Japan recorded a relatively large over-all surplus of $0.3 billion.

Payments developments in 1968 and the first part of 1969 thus differed sharply from the typical patterns in earlier years. While the U.S. current account position weakened substantially, that of the EEC countries as a group strengthened further; however, as a result of substantial shifts in capital flows, the traditional deficit in the U.S. balance of payments on official settlements was replaced by a sizable surplus, and the EEC recorded the first over-all deficit in a decade. Moreover, within the EEC, some marked imbalances appeared; on the one hand, the current account surpluses of Germany and Italy expanded further while, on the other hand, France's current balance deteriorated. For the United States, Germany, and Italy the large shifts on current account were accompanied by massive capital flows in an opposite direction.

Long-term capital. The outflow of long-term capital from the industrial countries in 1968 totaled some $8.2 billion, which was $1.6 billion less than in 1967 (Table 13). This development stemmed primarily from changes in the magnitude of flows from Germany and the United States; the net outflow of long-term capital from Germany rose by $2.3 billion, while that from the United States declined by $4.4 billion.

Exports of long-term capital from Germany increased from $1.6 billion in 1967 to almost $4 billion in 1968. The German authorities actively encouraged the export of long-term capital by permitting the current account surplus to raise domestic liquidity, thereby maintaining interest rates at a relatively low level in spite of increasing demands for credit. Restrictions imposed by the traditional capital-exporting countries, as well as the historically high level of interest rates in those countries, enhanced the attractiveness of the German capital market. Official transactions were largely unchanged and resulted in an outflow of $1.4 billion. The outflow on account of long-term capital transactions of the private sector increased by over $2 billion from 1967 to 1968. German residents purchased $1.4 billion of foreign securities in 1968, including about $0.9 billion of the $1.4 billion of DM-denominated bonds issued by foreigners on the German capital markets. At the same time, long-term loans extended by German enterprises and banks resulted in a net outflow of over $1 billion. Although newly issued foreign bonds offered a yield advantage over domestic bonds throughout 1968, this differential did not

TABLE 13. INDUSTRIAL COUNTRIES: BALANCES ON LONG-TERM CAPITAL ACCOUNT, 1966-68
(*In billions of U.S. dollars*)

	Private			Official [1]			Total		
	1966	1967	1968	1966	1967	1968	1966	1967	1968
United Kingdom	−0.1	−0.1	−0.1	−0.7	−0.6	−0.4	−0.8	−0.7	−0.5
United States	−2.5	−2.9	1.3	−3.4	−4.2	−4.0	−6.0	−7.1	−2.7
Germany	0.4	−0.4	−2.5	−1.3	−1.2	−1.4	−0.9	−1.6	−3.9
France [2]	0.2	0.1	−0.8	−0.2	−0.6	−0.5	—	−0.5	−1.3
Italy	−0.2	−0.1	−0.2	−0.4	−0.2	−0.4	−0.6	−0.3	−0.6
Belgium-Luxembourg	—	0.1	−0.1	−0.1	−0.2	−0.1	−0.1	−0.1	−0.2
Netherlands	0.1	—	—	−0.1	−0.1	−0.1	—	−0.1	−0.2
Canada	1.0	1.2	1.2	−0.2	−0.2	0.1	0.8	1.1	1.3
Japan	−0.7	−0.6	−0.1	−0.3	−0.4	−0.3	−0.9	−1.0	−0.4
Other industrial countries	0.5	0.6	0.1	—	—	0.1	0.4	0.6	0.2
Total	−1.3	−2.1	−1.2	−6.8	−7.7	−7.0	−8.1	−9.8	−8.2

Sources: Data reported to the International Monetary Fund and staff estimates.
[1] Includes aid and other central government transfers.
[2] For 1966 transactions between France and countries outside the franc area; for 1967 and 1968 transactions between France and the rest of the world.

induce foreign selling of German bonds, such as occurred in 1967.

At the beginning of 1968, restraints on capital flows from the United States were intensified and enlarged in scope. Mandatory curbs were placed on direct investment abroad with the view to reducing outflows to the developed countries, and further restraints were imposed on bank lending. In the event, the outflow of long-term capital from the United States fell from $7.1 billion in 1967 to $2.7 billion in 1968. Net official outflows were slightly lower, mainly as a result of larger unscheduled repayments on credits, which totaled $0.3 billion in 1968. Private long-term capital transactions, which had resulted in an outflow of almost $3 billion in 1967, yielded an inflow of $1.3 billion. Direct investment abroad declined only slightly, but a considerably higher proportion of these outlays was financed from new issues of securities abroad by U.S. corporations. Such issues resulted in a capital inflow of $2.1 billion in 1968, of which $0.8 billion was used to finance direct investments; most of the balance was invested abroad in liquid form but about $370 million was transferred to parent companies in the United States. Because of the tight conditions in the U.S. capital market throughout 1968, U.S. corporations were inclined to borrow abroad to meet part of their domestic financial requirements. The U.S. payments position also benefited from sizable purchases of existing corporate securities on U.S. markets; in 1968, the inflow from this source totaled $2.1 billion, more than double the level of the previous year.

The great bulk of the U.S. corporate issues placed on European capital markets was in the form of convertible bonds. In addition, these markets absorbed almost $3.7 billion of other issues, including $0.5 billion by primary producing countries. In all, European capital markets provided $5.9 billion in 1968, which was more than double the level of the previous year. It is not possible to trace the source of these funds through countries' external accounts, but Italy, Germany, and Switzerland seem to have again been important suppliers.

The outflow of long-term capital from the United Kingdom increased sharply from 1967 to 1968, but the increase was fully offset by higher investment from abroad. Canada borrowed about the same amount of long-term capital as in 1967; receipts from new issues of Canadian securities totaled about $1.8 billion, of which almost one quarter was raised in European capital markets. The decline in the net outflow of long-term capital from Japan reflected the substantially increased inflow of foreign capital, much of it from European sources, that was only partly offset by a modest increase in long-term lending. Among the continental countries other than Germany, France experienced a larger outflow of long-term funds in 1968, while there was a markedly lower inflow of capital into Norway. Otherwise, changes were small.

Short-term capital movements. On a number of occasions during 1968, exceptionally large flows of speculative funds posed serious problems for the monetary authorities in the major industrial countries and gave rise to substantial payments imbalances. Early in 1968 the Canadian dollar came under severe speculative pressure, and market uncertainties concerning the existing U.S. dollar price of gold manifested themselves in large-scale shifts into gold and the major European currencies. Toward the end of the second quarter, the events in France resulted in a very large outflow of speculative funds, mainly into Germany. This outflow continued on a reduced scale in the third quarter. During the final quarter, expectations of a revaluation of the deutsche mark and/or devaluations of other currencies triggered a massive flow of speculative funds into Germany from other European countries. Part of this flow was reversed in late November and December after concerted action had been taken by the monetary authorities of the major industrial countries.

Germany experienced large-scale inflows of speculative funds in June-August and again in November. Toward the end of 1968 the inflow was in part reversed, but over 1968 as a whole the net inflow amounted to $1.7 billion, compared with an outflow of $1.6 billion in 1967 (Table 14). Money market rates in Germany were below the level of comparable rates in other financial centers, but at most times the cost of forward cover left no incentive to shift funds out of DM-denominated assets. The Bundesbank intervened in March and from the end of August onward to counteract speculative inflows and to rechannel the funds to the international money markets. This intervention was mainly in the form of short-term swap facilities at concessional forward rates.

The inflow of short-term funds into the United States in 1968 totaled $2.9 billion, which exceeded the deficit on current and long-term capital accounts by $1.4 billion. The progressive tightening of financial conditions that was undertaken primarily on domestic grounds was also appropriate to the external payments position. U.S. banks sought to mitigate the impact of tighter monetary policy by borrowing from their foreign branches, which could meet these demands only by

TABLE 14. INDUSTRIAL COUNTRIES: PRIVATE SHORT-TERM CAPITAL FLOWS (INCLUDING ERRORS AND OMISSIONS), 1966–FIRST QUARTER 1969

(In millions of U.S. dollars)

				1967		1968				1969
	1966	1967	1968	Third quarter	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
United Kingdom (including adjustment)	—1,318	—5	—1,859	—798	—632	—684	—461	42	—756	537
of which Commercial banks	*—963*	...	*—792*	*—391*	...	*—179*	*—273*	*150*	*—490*	*—362*
United States	1,888	—247	2,937	1,372	—332	332	1,730	1,574	—699	1,522
of which Commercial banks	*2,798*	*1,034*	*3,842*	*1,340*	*560*	*858*	*2,489*	*956*	*—461*	*3,251*
Germany [1]	433	—1,565	1,746	—49	—425	58	546	886	256	—666
of which Commercial banks	*—144*	*—1,206*	*788*	*—120*	*98*	*—392*	*331*	*244*	*605*	*—1,137*
France [2]	341	115	—1,552	—21	226	—90	—1,309	—602	449	...
of which Commercial banks	*44*	*438*	*—560*	*118*	*425*	*23*	*—1,182*	*—248*	*847*	...
Italy	—1,494	—883	—2,536	—211	—326	—494	—541	—617	—884	—615
of which Commercial banks	*—408*	*195*	*—688*	*—83*	*7*	*18*	*—93*	*—390*	*—223*	*—26*
Banknotes	*—559*	*—801*	*—1,128*	*—123*	*—245*	*—342*	*—314*	*—155*	*—317*	*—484*
Japan	—497	943	59	39	196	365	—164	—135	—7	88
of which Commercial banks	*—389*	*510*	*—240*	*—63*	*87*	*206*	*—213*	*—165*	*—68*	*41*
Canada	—239	—720	—934	—413	—319	—582	—95	—504	227	—267
of which Commercial banks	*—556*	*—265*	*—345*	*—288*	*—325*	*—116*	*25*	*—138*	*—116*	*11*
Other industrial countries [3]	773	316	—507	—67	—	55	—61	—225	—276	—248
of which Commercial banks	*352*	*34*	*—614*	*—281*	*115*	*—201*	*31*	*—248*	*—196*	*—411*

Sources: International Monetary Fund, *Balance of Payments Yearbook*, and staff estimates; Bank of England, *Quarterly Bulletin;* U.S. Department of Commerce, *Survey of Current Business.*

[1] Includes some official short-term capital flows.

[2] For 1966 transactions between France and countries outside the franc area; for 1967 and 1968 transactions between France and the rest of the world.

[3] Excludes Switzerland.

increasing the attractiveness of their deposit liabilities. Such borrowings increased by about $2.8 billion in 1968. Some funds previously employed in European currencies were switched into dollars to take advantage of the interest rate differential, while part of the speculative outflows from France and the United Kingdom was also invested in U.S. dollar assets.

Over 1968 as a whole, the outflow of short-term funds from France amounted to some $1.6 billion, of which $1.3 billion was recorded in the June quarter. In spite of the very large speculative outflow in November, short-term capital flows over the fourth quarter were favorable to the extent of some $450 million; new regulations on forward exchange dealings and on commercial banks' foreign operations in late November resulted in an inflow of almost $850 million through the commercial banks in the last quarter of 1968. Over the previous two quarters, the banks had improved their net foreign positions by $1.4 billion.

Developments in U.K. short-term accounts were unfavorable except in the third quarter. In spite of the high level of interest rates prevailing in the United Kingdom, interest differentials generally favored other centers because of the wide discounts on forward sterling. Moreover, the waves of speculation that developed during the year quickly affected sterling and large outflows ensued. Private foreign holdings of sterling declined further, and there was a sharp increase in sterling claims on foreigners, the great bulk of which represented export credit extended to non-sterling area residents. The outflow from these operations amounted to some $850 million in 1968 as a whole.

Italy was a major exporter of short-term funds in 1968, and these flows brought the external accounts into near-balance. Yields on foreign claims became increasingly more attractive vis-à-vis domestic financial assets, and in 1968 as a whole the Italian banks increased their net foreign assets substantially. In Japan the inflow of short-term funds showed a sharp decline after the turn of the year. The margin between domestic interest rates and those in both the United States and international money markets widened progressively, and this encouraged Japanese enterprises and banks to switch to domestic financing of imports. At the same time, lending by banks to finance exports expanded appreciably. The outflow of short-term funds from Canada was particularly large in 1968 but did not offset the surplus from other transactions.

Developments in International Reserves

Changes during 1968 in countries' official reserves were more strongly influenced by special credit operations among monetary authorities and by movements of gold between private and official holders than in any previous year. The build-up of official claims on the United States, which had been the major factor underlying the increase in international reserves in 1967 and also in the years prior to 1965, was reversed in 1968 (Table 15). However, the U.K. deficit widened

TABLE 15. SUMMARY OF CHANGES IN COUNTRIES' OFFICIAL RESERVES, 1966–FIRST QUARTER 1969

(In billions of U.S. dollars)

				1967	1968				1969
	1966	1967	1968	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
Foreign exchange	1.5	3.6	2.7	2.3	0.8	—1.2	0.2	2.9	—1.8
U.S. liabilities	*—0.9*	*3.3*	*—0.7*	*1.6*	*—1.0*	*—1.4*	*0.5*	*1.2*	*—1.8*
U.K. liabilities	*0.7*	*0.4*	*1.4*	*0.4*	*1.4*	*—0.9*	—	*0.9*	*0.1*
Other	*1.6*	*—0.1*	*2.1*	*0.3*	*0.4*	*1.2*	*—0.3*	*0.9*	*—0.1*
Reserve positions in IMF	1.0	—0.6	0.7	—0.1	—	0.9	—	—0.1	—0.4
of which									
Reserve creation	*0.2*	*—0.6*	*1.1*	*—0.1*	—	*1.4*	*—0.1*	*—0.1*	*—0.4*
Gold holdings	*0.7*	*0.1*	*—0.4*	—	—	*—0.5*	*0.1*	—	—
Countries' holdings of gold	—1.0	—1.4	—0.6	—1.1	—1.7	0.8	0.1	0.3	0.1
Supply [1]	*1.4*	*1.4*	*1.4*	*0.4*	*0.4*	*0.3*	*0.4*	*0.3*	*0.3*
Less private purchases	*—1.4*	*—3.0*	*—2.1*	*—1.8*	*—1.8*	—	*—0.1*	*—0.1*	*—0.1*
Transactions with IMF, BIS, and the European Fund	*—0.9*	*0.2*	*0.1*	*0.3*	*—0.3*	*0.5*	*—0.2*	*0.1*	*—0.1*
Total	1.5	1.6	2.9	1.1	—0.9	0.5	0.3	3.1	—2.1

Sources: *International Financial Statistics* and staff estimates.
[1] New production plus sales by the U.S.S.R. ($15 million in 1967 and $11 million in 1968) less purchases by mainland China ($75 million in 1966, $20 million in 1967, and $43 million in 1968).

appreciably from 1967 to 1968. In financing this deficit, the United Kingdom relied heavily on credit; these transactions were the most important element underlying the increase in countries' foreign exchange holdings and the growth of reserve positions in the Fund. Gold holdings, on the other hand, declined as a reflection of the very large movement of gold from official to private hands during the first quarter of 1968, which was not fully matched by additions to official holdings over the remainder of the year.

Total official reserves increased by $2.9 billion in the aggregate during 1968; increases of $2.7 billion in foreign exchange holdings and of $0.7 billion in reserve positions in the Fund were partly offset by a fall of $0.6 billion in official gold holdings. However, much of the increase in the foreign exchange component accrued to the United States from swap transactions. As these U.S. holdings are, in the main, special in character—they are not regarded as available to meet payments and the reversal of the operation generally results in a reduction of liabilities rather than a recomposition of assets—they should be excluded in the determination of the level of reserves effectively available to monetary authorities to meet balance of payments needs. On this adjusted basis, official reserves at the end of 1968 amounted to $72.9 billion, compared with $71.2 billion a year earlier.

In the first quarter of 1969 official reserves declined by $2.1 billion, to a total of $74.3 billion; foreign exchange holdings fell by $1.8 billion, while reserve positions in the Fund contracted by $0.4 billion. The decline in official foreign exchange holdings was concentrated in industrial Europe, where there was a fall of $3.5 billion that reflected, in addition to the normal seasonal factors and the reversal of end-of-year operations, the shift of short-term funds out of national currency markets into Euro-dollar claims in response to higher yields. Repurchases by the United Kingdom

TABLE 16. COUNTRIES' OFFICIAL RESERVES, 1967 AND 1968 [1]

(In millions of U.S. dollars)

	Net Changes in Reserves [2]								Totals, End of 1968			
	Gold		Foreign exchange		Reserve position in IMF		Total					
	1967	1968	1967	1968	1967	1968	1967	1968	Gold	Foreign exchange	Reserve position in IMF	Total
Industrial Countries												
United States	—1,170	—1,173	1,024	1,183	94	870	—51	880	10,892	3,528	1,290	15,710
United Kingdom	—649	183	245	—456	—	—	—405	—273	1,474	948	—	2,422
Total, reserve centers	—1,819	—990	1,269	727	94	870	—456	607	12,366	4,476	1,290	18,132
France	—4	—1,357	367	—551	—102	—885	261	—2,793	3,877	323	1	4,201
Germany [3]	—64	311	393	1,022	—205	463	124	1,796	4,539	3,894	1,515	9,948
Italy [4]	—14	523	609	—697	—43	52	553	—121	2,923	1,524	894	5,342
Belgium-Luxembourg and Netherlands	—64	30	575	—707	—100	119	411	—558	3,221	631	802	4,654
Switzerland	248	—465	—17	842	—	—	231	377	2,624	1,308	—	3,932
Other Industrial Europe [5]	—1	48	61	—221	—9	112	51	—60	1,077	1,918	481	3,476
Total, Industrial Europe	101	—910	1,988	—312	—459	—137	1,630	—1,358	18,267	9,598	3,693	31,559
Canada	—31	—152	61	712	—15	—227	16	332	863	1,972	206	3,041
Japan	9	18	—15	807	—82	50	—89	876	356	2,261	289	2,906
Total, industrial countries	—1,740	—2,034	3,303	1,934	—462	555	1,101	456	31,852	18,307	5,478	55,638
Primary Producing Countries												
Other European countries [6]	51	234	5	251	—186	37	—127	523	2,144	1,813	96	4,057
Australia, New Zealand, South Africa	—46	686	—150	4	45	50	—153	742	1,501	1,267	315	3,083
Total, more developed areas	5	920	—145	255	—141	87	—280	1,265	3,645	3,080	411	7,140
Western Hemisphere	20	35	225	345	36	110	280	485	1,035	2,575	339	3,945
Africa	155	80	—135	330	8	1	30	410	375	1,695	96	2,165
Middle East	95	270	260	—230	—3	—8	350	35	1,090	2,050	88	3,230
Other Asia	60	40	90	95	—19	—5	135	130	750	3,280	77	4,105
Total, less developed areas	340	525	445	540	20	99	805	1,160	3,420	9,600	600	13,620
Grand Total	—1,400	—585	3,605	2,730	—582	740	1,625	2,880	38,920	30,990	6,488	76,395

Source: *International Financial Statistics.*

[1] Excluding CMEA countries, mainland China, etc. Totals may not add because of rounding and because some area totals include unpublished data.

[2] Positive figures are credits; negative figures are debits.

[3] Includes the Bundesbank's investment in U.S. and U.K. Treasury paper ($250 million in 1967 and $675 million in 1968) acquired in accordance with the U.S.-German agreements of 1967 and 1968 and the 1968 U.K.-German agreement.

[4] Includes swap claims and nonmarketable U.S. Government securities.

[5] Austria, Denmark, Norway, and Sweden.

[6] Finland, Greece, Iceland, Ireland, Portugal, Spain, Turkey, and Yugoslavia. Also includes unpublished gold reserves of Greece and an estimate of gold to be distributed by the Tripartite Commission for the Restitution of Monetary Gold.

were the main factor underlying the contraction in reserve positions in the Fund. On the adjusted basis, official reserves declined by $2.1 billion to $70.7 billion at the end of March 1969, compared with $69.8 billion a year earlier.

The reserve data given in Tables 15 and 16 exclude the unactivated portion of credit lines as well as the conditional credit available in the Fund. Credit arrangements among the central banks of the major industrial countries almost doubled during 1968 to a total of about $20 billion at the end of the year; the U.S. Federal Reserve reciprocal currency network was expanded to $10.5 billion; in addition, facilities totaling $2.3 billion were made available to France, and to the same amount to the United Kingdom, by monetary authorities other than the Federal Reserve. The new credit facilities for the United Kingdom included a $2.0 billion medium-term facility to offset reductions in the sterling balances of sterling area countries. This $2.0 billion facility was part of a package, which was negotiated during the summer. On the one hand, the U.K. authorities concluded agreements with individual sterling area countries whereby the United Kingdom agreed to maintain the dollar value of eligible official sterling reserves of sterling area countries; in return each of these countries agreed to maintain at all times a minimum sterling proportion in its reserves. On the other hand, in order to support these agreements, 12 industrial countries and the Bank for International Settlements (BIS) agreed to provide the United Kingdom with stand-by facilities totaling the $2.0 billion mentioned above, to meet any fall in the sterling balances of the overseas sterling areas below an agreed sterling level. Recourse to the stand-by facilities would be required only to the extent that short-term and medium-term borrowings in the markets by the BIS and foreign currency deposits made at the BIS by sterling area monetary authorities fall short of drawings by the Bank of England.

The growth of inter-central-bank assistance represented a pragmatic response to situations that represented actual or potential threats to the international financial system. Drawings outstanding against all inter-central-bank arrangements totaled more than $6 billion at the end of 1968, an increase of about $1 billion over the preceding 12-month period.

Composition of Reserves and Reserve Policies

Foreign exchange holdings.[9] Aggregate official holdings of foreign exchange in countries other than the United States increased by $1.5 billion during 1968, compared with $2.6 billion in the previous year. The 1968 increase was heavily concentrated in the last quarter when there were substantial shifts of dollar claims from private holders into the official reserves of Germany and Switzerland, reflecting both seasonal and speculative factors. Nevertheless, over 1968 as a whole, official holdings of foreign currency in Industrial Europe showed a moderate decline; Canada and Japan, on the other hand, recorded large increases in their official holdings, and those of the less-developed primary producing countries, as a group, expanded slightly.

Among the industrial countries other than the United States, the largest increase in official foreign exchange holdings was recorded by Germany. This increase would have been significantly larger had not the Bundesbank induced an outflow of short-term funds by offering the credit institutions swap contracts and outright forward cover at favorable rates. As a result of these inducements and a return to more normal conditions in the foreign exchange markets, less than $1.0 billion of the $4.0 billion of gross market purchases by the Bundesbank between late August and the Bonn meeting in mid-November were reflected in the end-of-year official reserve total. Moreover, the 1968 increase in official foreign exchange holdings of $1.0 billion (Table 16) did not result in any rise in liquid dollar assets; $675 million of liquid dollar claims were applied in the purchase of medium-term DM-denominated securities issued by the United States and the United Kingdom under agreements relating to the stationing of troops in Germany, while holdings of freely usable currencies other than U.S. dollars increased by $380 million. Almost all of this last-mentioned amount represented balances in French francs and pounds sterling acquired as the counterpart of swap transactions. In Switzerland the $842 million

[9] In a discussion of reserves, it should be recognized that changes in the level of countries' official reserves may reflect not only the financing of basic balance of payments positions but also institutional arrangements regarding the ownership of foreign exchange reserves and operations by the monetary authorities to influence the holdings of foreign assets by commercial banks and other institutions. These matters are discussed in Chapter 2.

increase in foreign exchange holdings in 1968 was strongly influenced by an inflow of speculative funds in November and by exceptionally large end-of-year operations which shifted dollars from the commercial banks to the National Bank. The fall of $697 million in Italy's foreign exchange holdings was mainly a reflection of a substantial outflow of funds through the commercial banks. At the same time, the liquid dollar balances of the Bank of Italy were reduced by purchases of medium-term lira-denominated securities issued by Canada and the United States and by the acquisition of sterling balances in support arrangements. In France foreign currency reserves declined by $551 million over 1968, but this was only a small element in the financing of the external deficit. Total official reserves fell by $2.8 billion during the year. In addition there was recourse to swap facilities with other central banks. Canada's large increase in exchange reserves did not result in any rise in liquid dollar holdings; $1,050 million was invested during 1968 in technically nonliquid U.S. Treasury notes. U.K. holdings of dollars declined toward the end of the year, when there were repayments on international credits and an outflow of funds.

Swap facilities. Inter-central-bank credit facilities were used on a larger scale in 1968 than in previous years. U.K. indebtedness outstanding under swap arrangements, which had amounted to an estimated $1.5 billion at the end of 1966 and $3 billion at the end of 1967, increased until June 1968 when the bulk of the $1,400 million purchase from the Fund was used to repay a portion of outstanding commitments. Further swap drawings in July, and on a larger scale in November, lifted the amount outstanding to $4.8 billion at the end of 1968, of which $2.8 billion was owed to the United States. A portion of these U.K. drawings was used to refinance shifts out of sterling by some sterling area central banks, which were diversifying their reserves (before the entering into effect of the Basle facility). Over the nine months to the end of September 1968, holdings of sterling by central monetary institutions of sterling area countries had declined by about $550 million, while their total foreign exchange holdings had tended to increase. Drawings by France on swap facilities financed a large part of that country's 1968 deficit, while Canada, Belgium, and to a lesser extent Denmark and the Netherlands, had recourse to their swap lines with the United States for short periods. The United States, on the other hand, made less use of such arrangements. At the end of 1967 outstanding U.S. drawings had amounted to $1.8 billion; by mid-July 1968 such drawings, together with those of March 1968, were completely repaid. Over the second half of the year, especially in October and November, the United States made drawings in Swiss francs and German marks, and at the end of 1968 outstanding commitments totaled $432 million.

Fund positions. The $1,400 million purchase by the United Kingdom was the major factor in the 1968 increase of $0.7 billion in countries' reserve positions in the Fund. The main offset to the credit created by this transaction was the $547 million sale of gold by the Fund to acquire currencies for the U.K. and French purchases. Although the substantial gold tranche purchases by France and Canada did not increase the aggregate level of reserve positions in the Fund, these purchases resulted in large changes in the ownership of such claims. Also noteworthy, the Fund's holdings of U.S. dollars were reduced to 75 per cent of the U.S. quota for the first time in almost five years.

Gold holdings. As noted in Chapter 7, official gold holdings of countries fell by about $1.7 billion in the first quarter of 1968 because of the continued large-scale speculative demand for gold; this demand was met by the seven actively participating members of the gold pool until they ceased selling gold to the market in mid-March. The increase of countries' gold holdings by $1.1 billion in the last nine months of the year included $501 million newly mined gold added to South Africa's holdings and $423 million from net sales by the Fund.

The largest decrease in gold holdings recorded for an individual country in 1968 was $1.4 billion for France. These gold sales added $0.8 billion to the holdings of other continental European countries and $0.6 billion to U.S. holdings. In 1968 as a whole U.S. gold holdings declined by $1.2 billion, mainly as a result of the large first-quarter loss of $0.9 billion through the gold pool. Details of U.S. monetary gold transactions are given in Chapter 7. In Switzerland the fall of $465 million resulted mainly from the fact that holdings at the end of 1967 included gold from swap transactions, which were absent at the end of 1968, and from sales undertaken through the gold pool. In Germany, Italy, and Belgium, however, the losses through the gold pool were more than offset by sales of gold by France and the Fund. Italy also purchased $209 million of gold from the United States in 1968 and acquired a further $77 million from an end-of-year swap with the BIS. The increase during 1968 in the U.K. gold reserves arose from the facts that the United Kingdom acted as banker for the gold pool and that the outflow of gold toward the end of 1967 was not replenished by some of the other members of the pool until the early part of 1968. Canada's $152 million decline in gold holdings during 1968 resulted from the use of gold to repurchase Canadian dollars from the Fund and from a sale of $50 million to the United States.

Among primary producing countries, Portugal's holdings rose by $157 million over 1968 as a whole, the bulk of which seems to have been of South African origin. As indicated in Table 41 several other primary producing countries increased the gold component of their reserves by purchasing gold from the United States; with the exception of Lebanon, the ratio of gold to total reserves for these countries had been low by the standard of most industrial countries. At the end of 1968 the industrial countries accounted for 82 per cent of world gold holdings, and gold made up 57 per cent of their total reserves.

Intervention in the Euro-Dollar Market

Throughout 1968, the Euro-dollar market provided an important mechanism by which monetary authorities sought to mitigate the impact of short-term capital flows on their domestic economies and on the international payments system. The flow of funds into the market was strongly influenced by the liquidity created by the United States through swap transactions and other financing arrangements. In addition, speculation against national currencies, mainly the pound sterling and the French franc, in favor of the dollar, shifted funds from official holdings into Euro-dollar assets. The contractionary impact on the market of shifts out of U.S. dollars into major European currencies was offset to a large extent by the monetary authorities in the recipient countries which actively encouraged the rechanneling of dollars back into the market. On the demand side, the progressive tightening of U.S. financial conditions resulted in heavy borrowings by U.S. banks from their foreign branches; Euro-dollar deposit rates rose and the yield incentive to shift funds from assets denominated in European currencies into those denominated in U.S. dollars widened.

During 1968, the authorities of Germany, Italy, Switzerland, and the United States, together with the BIS, intervened in the Euro-dollar market in order to offset seasonal and speculative withdrawals of dollars by private holders. The main techniques used by the European central banks were the provision of swap contracts and outright forward cover at favorable rates. The United States shared the exchange risks involved in these transactions, either by assuming part of the forward commitments as in the case of Italy, or by offering forward cover through swap drawings of dollars. For its part, the BIS drew dollars on its swap facility with the Federal Reserve System in order to place them in the market.

After the turn of the year the yield differential in favor of Euro-dollar deposits over comparable investments in European currencies widened, mainly as a result of increased demands from U.S. banks. As the flow of funds out of European currencies gained momentum, the authorities in these countries tightened financial policies and imposed restraints on their banks' participation in the Euro-dollar market.

Chapter 5

Developments in the Industrial Countries

IN 1968 there was a strong cyclical upswing in practically all the industrial countries. In most of these countries expanding export demand provided a major stimulus and, with the exception of Italy, the growth of real output considerably exceeded earlier forecasts.

These developments contrasted with the general slowdown in economic activity that had started around the middle of 1966. This slowdown had its origins in the adjustments experienced in the United States and the United Kingdom, and in the recession that occurred in Germany. From the first half of 1966 to the first half of 1967, the rate of growth in total output of these three countries—which together account for two thirds of industrial countries' output—fell from more than 5 per cent to less than 1 per cent. The widespread slackening of growth that occurred was especially pronounced in Europe, which experienced its slowest pace of economic expansion since the recession of 1957-58.

Notwithstanding the almost simultaneous weakening of demand and output in three major industrial economies, the slowdown of the world economy proved short lived (Chart 20). One reason why the forces of contraction proved so weak was the expansionary strength of government expenditure and private consumption in the United States; this, together with a rebuilding of inventories, was reflected in a marked acceleration of growth in domestic output from the third quarter of 1967 and a sharp increase of imports in the fourth quarter. Toward mid-1967 the German economy, responding to a substantial measure of fiscal stimulus, entered a phase of vigorous cyclical revival after a year of stagnation. In the United Kingdom also, there was a marked increase in domestic demand from mid-1967. Moreover, Italy and Japan continued to expand strongly throughout the period.

The growth of world demand and output had already gained strong momentum by the end of 1967. The upswing of economic activity was accompanied by marked differences in cost-price performance among the industrial countries (Chart 21). In the United States, Canada, the United Kingdom, and France, the rise in costs and prices tended to accelerate. In the United Kingdom and France this was due to the special circumstances to which these countries were subject —the aftermath of the November 1967 devaluation in the United Kingdom and of the strikes of May-June 1968 in France. In Canada, despite higher-than-average unemployment levels, costs and prices continued to rise rapidly. In the United States the achievement of a low level of unemployment was accompanied in 1966-68 by cost and price pressures—moderated briefly during 1967—not dissimilar to those that had characterized the European economies in the early part of the 1960's. In continental Europe, on the other hand, the economic slowdown in 1966-67 created conditions under which expansion in 1968 was accompanied by an absorption of excess capacity and, less rapidly, of unemployment. Sharp gains in productivity, therefore, tended to offset increases in wages and to bring about stable or lower costs.

Labor markets remained relatively easy in many of the European countries throughout the first half of 1968; in several countries, unemployment actually continued to rise (Chart 22). Roughly one year after the general recovery of output, labor markets began to tighten, particularly in the Netherlands, Sweden, and the United Kingdom. The only major exception to this pattern was Germany, where the upswing in the second half of 1967 was followed almost immediately by a decline in unemployment. Capacity utilization in Western European economies also reached high levels toward the end of the year. In the latter part of 1968 and early 1969, therefore, upward pressures on costs and prices were re-emerging in a number of countries.

In the first half of 1968, measures of fiscal restraint in the reserve countries were introduced with considerable delay, and interest rates reached

CHART 20. SELECTED INDUSTRIAL COUNTRIES: GROSS NATIONAL PRODUCT AT CONSTANT MARKET PRICES, 1961–JUNE 1969

(*Percentage changes from preceding half year at annual rates; seasonally adjusted*)

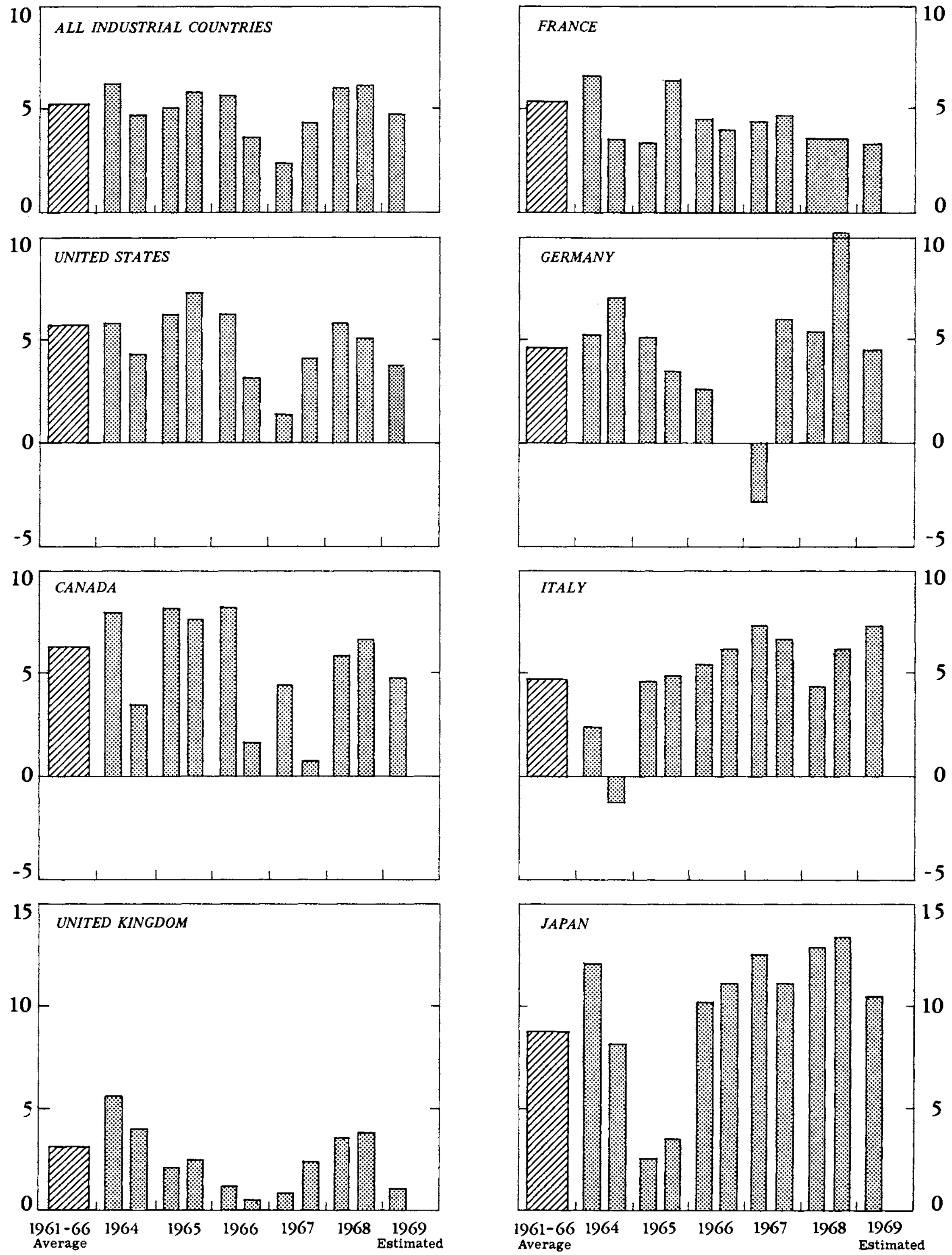
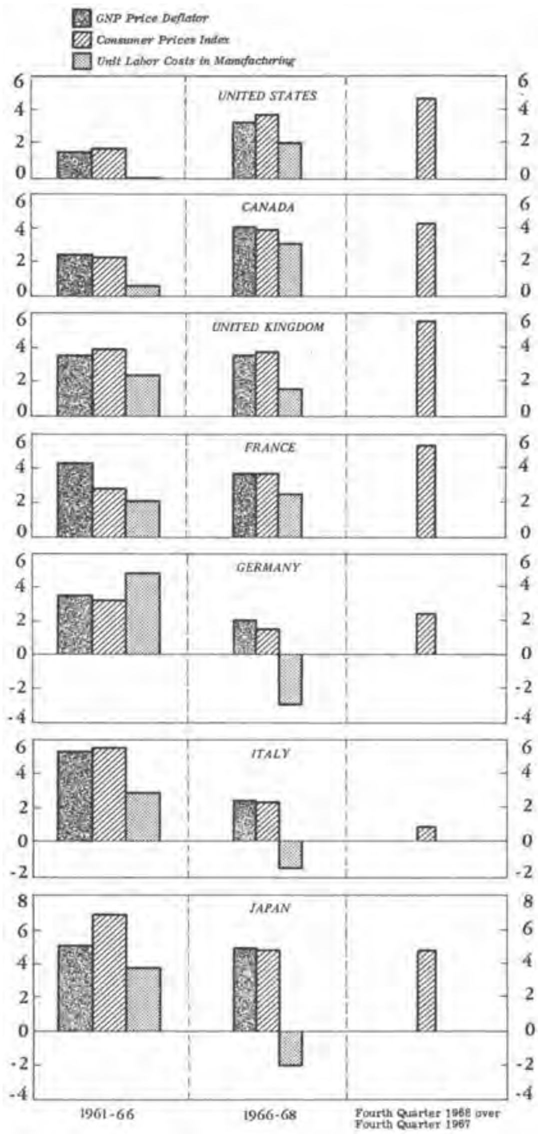


CHART 21. INDICES OF COSTS AND PRICES, 1961-68

(Annual percentage change)



high levels as monetary policy was faced with the tasks of stemming domestic inflation and stabilizing foreign exchange markets. The tax increase that had been proposed to the Congress by the U.S. Administration from the summer of 1967 was enacted only in late June 1968. The introduction of fiscal restraint was accompanied by relaxation of the monetary measures previously implemented, though this relaxation was temporary. The level of interest rates tended downward as a number of countries—Canada, Denmark, the United States, the United Kingdom, Sweden, and Japan—reduced their discount rates during the summer (Chart 23).

In late August and again in mid-November, the par value of the French franc and of the deutsche mark came into question, with turmoil in exchange markets and large flows of short-term funds. However, official parities emerged unchanged, although both France and Germany made tax changes in November to achieve small *de facto* modifications of the values of their currencies in foreign trade. The November crisis ushered in a period of tight monetary policy in most countries, to contain the domestic inflationary pressures that were by that time beginning to be generally prevalent as the industrial economies moved back to full employment, and also, in some cases, to mitigate reserve losses.

Throughout the year the international money and capital markets reflected the changing pressures in the domestic markets of the major industrial countries and often served as vehicles for the transmission of such pressures. In 1968 both the Euro-dollar market and the international bond market experienced their greatest expansion so far. The introduction of a mandatory capital restraint program by the United States was the principal factor responsible for the large increase in the bonds issued in Europe. Moreover, the tightening of monetary policy in the United States from late 1968 brought about substantial borrowing by U.S. banks in the Euro-dollar market in early 1969. Interest rate levels continued to rise rapidly in the United States and throughout Europe in the first six months of 1969. The rapid swing toward monetary tightness, while justified by the need to control expanding demand in various countries, was also strongly influenced by the large flow of Euro-dollars and of other short-term funds from national money markets to the United States.

The problems faced by the industrial countries and the policies followed by them during 1968 and early 1969 are reviewed below. The developments in international money and capital markets are discussed in the concluding sections of this chapter.

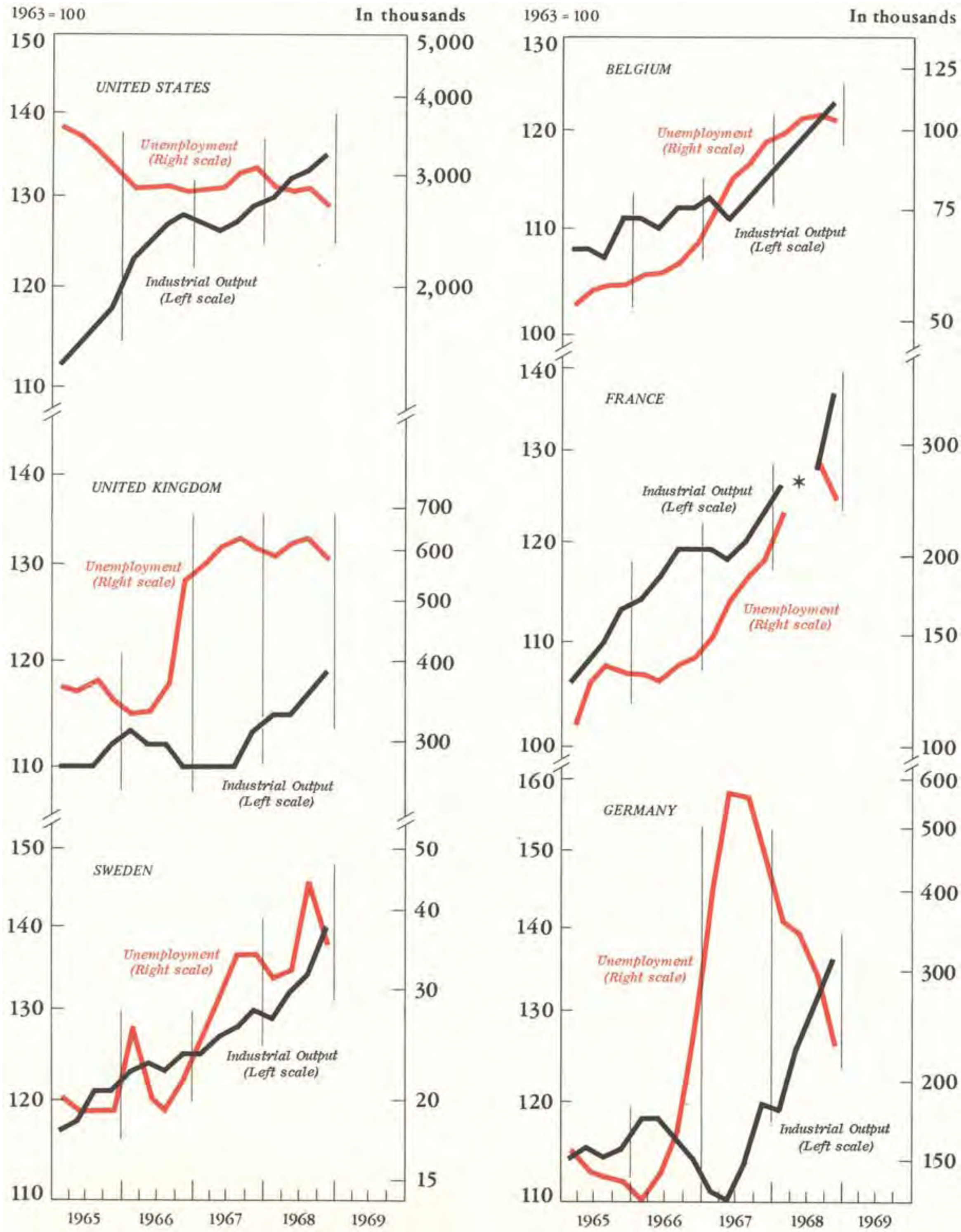
Problems and Policies

United States

During 1968, the United States faced an inflationary situation generated and sustained by a

CHART 22. INDUSTRIAL PRODUCTION AND UNEMPLOYMENT IN SELECTED INDUSTRIAL COUNTRIES, 1965-68

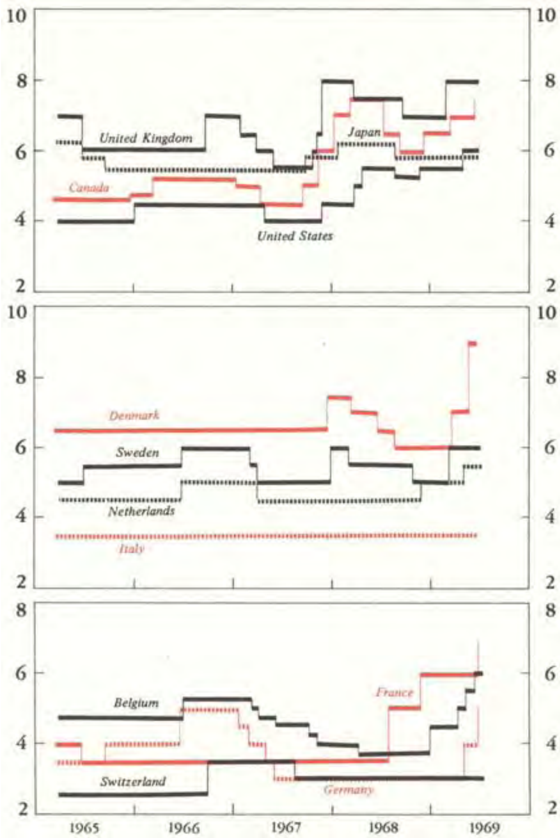
(*Seasonally adjusted*)



Source: Organization for Economic Cooperation and Development, *Main Economic Indicators*.
* General strike.

CHART 23. DISCOUNT RATES, 1965–JUNE 1969

(*In per cent per annum*)



combination of demand-pull and cost-push factors. Heavy deficit spending by the Government in the second half of 1967 and the first half of 1968, superimposed on a high level of private demand, generated intense pressures. The seasonally adjusted annual rate of growth in real gross national product (GNP) was over 5.5 per cent in the first half of 1968 and, despite fiscal restraint, fell only to 5 per cent in the second half because of increasing business fixed investment and a drop in the personal saving ratio. Unemployment, which had averaged 3.8 per cent of the labor force in both 1967 and 1966, declined in 1968 to an average of 3.6 per cent. The large gains in wages and fringe benefits in 1968 outran the year's strong advance in output per man-hour. Consequently, unit labor costs in the private sector rose by about 4 per cent in 1968, only slightly less than in the year before. The GNP price deflator, after an increase of 3.2 per cent in 1967, rose by 3.9 per cent in 1968, the largest annual increase since 1951 and well over twice the average for the period 1961-65. Consumer prices accelerated even more, rising by 4.7 per cent in the year to the fourth quarter of 1968, against 3.1 per cent during the previous year. These developments intensified the existing pressures on the balance of payments on current account; imports rose faster than exports and the traditionally sizable trade surplus was sharply reduced.

The U.S. Administration had requested the Congress in the summer of 1967 to enact tax increases to finance higher defense expenditures and to prevent a large and inflationary budget deficit. These tax increases were enacted only in the middle of 1968 and were accompanied by substantial planned cuts in government expenditure. In the meantime, the discount rate was raised from 4 per cent to 4.5 per cent in November 1967, to 5 per cent in March 1968, and to 5.5 per cent in April 1968. The required reserve ratio against demand deposits at large banks was raised by 0.5 percentage point in January. Open market operations reinforced the tight money policy and brought about a substantial fall in net free reserves to a moderately large negative amount. These measures served to fill part of the gap created by the delay in the adoption of the proposed tax measures.

With the passage of the tax and expenditure measures in mid-1968, the $11 billion government deficit on a national accounts basis for fiscal year 1968 (beginning July 1, 1967) was expected to turn into a $2 billion surplus in fiscal 1969. The prevailing level of monetary restraint was considered to be excessive in the new situation and the monetary authorities adopted a less restrictive stance. Open market policy became sufficiently easy to cause a reduction in the negative free reserves of banks in the face of a large rise in bank credit and deposits, and the official discount rate was reduced by 0.25 percentage point to 5.25 per cent in August 1968. Market interest rates declined through most of the summer.

In late 1968, as it was realized that the restrictive fiscal measures were not as yet having the desired effect, there was a return to a policy of greater monetary restraint. Open market policy was tightened and, with a heavy demand for funds, market interest rates—which had turned up in early autumn—rose further. In December the official discount rate was raised once again to the 5.5 per cent level that had prevailed until August.

However, output and employment continued to expand strongly, and in late 1968 and the first few months of 1969 the level of unemployment fell to a 15-year low of 3.3 per cent.

At the beginning of 1968 the U.S. authorities had announced a series of measures to reduce the country's over-all balance of payments deficit.[1] The principal measures were mandatory controls on capital exports; these controls represented a marked tightening of the existing voluntary restraints. In particular, direct foreign investments in developed countries out of funds obtained in the United States, borrowed at short term abroad or acquired in the form of profits from foreign activity, were required to be curtailed. The voluntary program for banks and other financial institutions was also tightened, with the restraints formulated in such a way that there would be a net repatriation of funds from continental Western Europe. The measures were expected to improve the balance of payments by $1 billion for direct investments and by $0.5 billion for financial institutions. In August 1968 the rates of the Interest Equalization Tax on new foreign portfolio investments by U.S. residents were increased by 25 per cent.

The impact of these measures cannot be easily distinguished from that of other factors operating during the year to improve the capital account. These included the extreme financial tightening of the U.S. economy from autumn onward, the greater awareness among Europeans of opportunities in the U.S. stock market, which was booming during this period, and the increased willingness of Europeans to acquire U.S. securities issued to finance foreign direct investments—a product partly of the uncertainties engendered by the French strikes and the Czechoslovak difficulties.

All these factors made for a sharp turnaround in the U.S. private capital account, which improved by over $7 billion. Moreover, special financial transactions were responsible for a net shift of over $2.3 billion in U.S. official liabilities from the liquid to the nonliquid category in 1968, against a similar shift of $1.3 billion in 1967. As a result, notwithstanding the marked deterioration of the current account, the U.S. balance of payments on a liquidity basis registered its first surplus of the decade. The surplus on the official reserve transactions basis amounted to $1.6 billion, compared with a surplus of $0.1 billion on the liquidity basis, the difference being mainly a reflection of increased borrowing by U.S. banks on the Euro-dollar market.

During the first quarter of 1969 the over-all balance of payments on the official settlements basis showed a huge surplus of $1.7 billion, chiefly reflecting a further increase in borrowing in the Euro-dollar market by U.S. banks. Such borrowing was induced in part by the strain on bank reserves created by withdrawals of time deposits, the maximum interest rate on which had become lower than that obtainable in the money market. This factor had operated in a similar fashion at times during 1968. When these inflows of Euro-dollar funds are excluded, as under the liquidity definition of the balance of payments, the first quarter of 1969 showed a large deficit of $1.4 billion.

These external developments were accompanied by a rapid growth of the economy. GNP advanced at an annual rate of a little more than 7 per cent, with prices accounting for about three fifths of the increase. Unemployment averaged 3.4 per cent in the first half of 1969, against 3.6 per cent in the first half of 1968. Interest rates rose substantially, and in April 1969 monetary policy was tightened further; the reserve requirements on demand deposits were raised by 0.5 percentage point for all banks, and the discount rate was increased from 5.5 per cent to 6 per cent. With respect to the federal budget, the Administration announced proposals for the fiscal year 1970 that encompassed downward adjustments in expenditures, repeal of the 7 per cent investment tax credit, and extension of the tax surcharge on individual and corporate incomes at the prevailing rate of 10 per cent during the second half of calendar 1969 and 5 per cent in the first half of calendar 1970. The budget was expected to yield a surplus of $6 billion.

Canada

The tempo of domestic economic activity in Canada accelerated markedly during 1968. While real GNP increased by 4.7 per cent from 1967 to 1968, the increase between the fourth quarters of these years was almost 7½ per cent. Unemployment, which had been rising gradually from early 1967, reached a seasonally adjusted peak of 5.4 per cent in the middle of 1968, but fell sharply thereafter. As a result of a marked improvement in productivity, unit labor costs in manufacturing rose

[1] For details, see *Annual Report, 1968,* pages 58-59.

by only 2 per cent in 1968, less than half the rate of increase in the previous two years. However, both the GNP price deflator and the consumer price index rose by about 4 per cent between the fourth quarters of 1967 and 1968.

During 1967 the Canadian cost-price performance had been unsatisfactory in spite of the slowdown in economic activity that had begun about the middle of 1966. The authorities shifted toward a policy of financial restraint in late 1967. Monetary conditions were tightened, with the Bank Rate being raised by 0.5 percentage point in September and 1 percentage point in November, to a level of 6 per cent. A distinctly restrictive budget for 1968/69, including tax increases, was proposed in November 1967. However, the tax proposals suffered parliamentary defeat in February 1968.

In early 1968 the Canadian dollar came under serious pressure, largely as a result of a succession of external events. These started with the sterling devaluation in November 1967, continued with the January 1968 announcement of the partly mandatory U.S. balance of payments program which gave rise to concern about substantial transfers of funds by U.S. corporations from Canada, and culminated with the March gold crisis. The defeat of the tax proposals in February contributed to the difficulties of the Canadian dollar. A drawing on the Fund and the repayment by the Fund of loans from Canada under the General Arrangements to Borrow, totaling $426 million, together with activation of the swap arrangement with the U.S. Federal Reserve to the extent of $250 million, helped the Canadian dollar through these difficulties. On March 7 Canada was exempted from the U.S. controls on capital outflows and this, together with the March 17 announcement concerning gold market arrangements, helped to restore confidence in the Canadian dollar.

A revised fiscal package, providing for slightly more restraint than the one rejected in February, was enacted in March 1968. Also during the first quarter, primarily in response to the external situation, the Bank Rate was raised to 7 per cent in January and to the all-time high of 7.5 per cent in March. In the two quarters ended March 1968, there was a marked deceleration of the rate of growth of the total money supply. With the return of confidence in the Canadian dollar, however, monetary policy was significantly eased from April onward, while the federal budgetary deficit, in part because of insufficient harmonization of federal and provincial policies, increased sharply from its planned level of Can$40 million to an anticipated Can$730 million for the fiscal year 1968/69. Interest rates dropped steadily from their peak level in line with developments abroad; the discount rate was reduced in two steps in July 1968 to 6.5 per cent, and in September it was further reduced, following the U.S. lead, to 6 per cent.

Influenced by the buoyancy of world trade, particularly the strong U.S. demand, Canadian exports increased by nearly 20 per cent from 1967 to 1968, while import growth lagged well behind as domestic demand grew slowly, particularly during the first half of the year. The substantial widening of the trade surplus offset the increased deficit on invisibles, most of which was accounted for by the subsidence of the previous year's receipts induced by Expo 67. The achievement of near-balance on current account in 1968 contrasted with the traditional large deficit. The inflow of long-term capital into Canada increased further in 1968, reflecting interest rates at a record high level. Official borrowing in Germany and Italy contributed to this inflow. However, the short-term capital outflow increased by roughly one third to nearly $1 billion. The over-all balance of payments registered a $325 million surplus, against near equilibrium in 1967. The improvement of the external account in the course of the year allowed the monetary authorities to complete by September the repurchase of the outstanding amount of their February drawing on the Fund and to repay the amount utilized from the Federal Reserve swap.

Monetary policy began to tighten from September 1968 and short-term interest rates rose. In December the Canadian authorities raised the Bank Rate to 6.5 per cent. Earlier, fiscal policy had been tightened in the October budget, which provided for increased taxes and cuts in government expenditure from January 1, 1969. As a result, the anticipated budget deficit for the fiscal year ended March 1969 was reduced by some Can$150 million and the fiscal year 1969/70 was expected to yield a small budget surplus. In March 1969 the Bank Rate was raised further to 7 per cent in sympathy with rising interest rates abroad. In April it was announced that the secondary reserve ratio of the chartered banks would be raised by 1 percentage point with effect from June 1. In the budget of June 3, a number of selective fiscal measures to contain cost and price increases were announced. These included extension of the existing surcharges on personal income tax and corporation tax until December 1970. The effect of these measures on the budget was generally offsetting, but the budget was nevertheless expected to yield a surplus of Can$400 million, mainly because of increases in revenue with rising money incomes. Between the budget deficit of 1968/69 and the budgeted surplus of 1969/70 there was thus a swing of almost Can$1 billion. On June 11 the Bank Rate was raised to 7.5 per cent.

Japan

In late 1965, under the stimulus of a sharp increase in exports and of expansionary monetary and fiscal policies, Japan resumed its rapid pace of economic growth. This was accompanied initially by external surpluses on current account. By late 1966, however, the current account began to weaken as continued domestic expansion was coupled with a general slackening of economic growth in Japan's major trading partners. This development prompted the Japanese authorities to adopt restrictive fiscal and monetary policies from early 1967. The Government deferred a substantial amount of planned public works expenditure, and in September 1967 the Bank of Japan raised the discount rate by 0.365 percentage point and reintroduced "window guidance" in the form of quarterly ceilings on increases in bank lending.

In view of the limited response of the economy to these policies during 1967, the developments abroad following the devaluation of sterling in November 1967, and the announcement of the U.S. balance of payments measures in January 1968, the Japanese authorities decided to strengthen their policies of restraint in early 1968. The discount rate was increased from 5.84 per cent to 6.205 per cent on January 6 and the system of quarterly ceilings on increases in lending by city banks was used to slow down the growth of bank credit. Further, the budget for the fiscal year that began in April 1968 provided for slower growth in government expenditure and in the amount of official bond issues.

The economic upswing in other industrial countries, especially the United States, brought about a sharp increase in Japanese exports during 1968. The stimulus provided by the external sector offset the moderately restrictive influence of monetary and fiscal policy in the first half of the year and economic growth continued at a rapid pace. As the external balance improved, the Japanese authorities adopted somewhat easier policies. In August 1968 the Bank of Japan cut the official discount rate by 0.365 percentage point, and in October 1968 it eased its restrictions on the rate of credit expansion. The authorities did not, however, relax their policies fully as they feared that excessive demand pressures might be generated. For 1968 as a whole real GNP increased by about 14½ per cent, compared with 13 per cent in 1967. Employment in manufacturing continued to grow. Productivity increased more than wages, and unit labor costs in manufacturing declined slightly.

The high rate of growth in 1968 was accompanied by a large surplus on current account, which was only partially offset by a net capital outflow. Japan's official external reserves increased sharply during 1968 and early 1969. In the financial year ended March 1969, Japan registered a record over-all balance of payments surplus of $1.2 billion, against a $130 million deficit in the previous financial year.

United Kingdom

The difficulties that the British authorities faced in the aftermath of sterling devaluation in November 1967 were compounded by the strong rise in consumers' expenditure that had begun in mid-1967. Such expenditure increased further after devaluation because of widespread expectations of price increases and of higher indirect taxes in the 1968/69 budget. There was a large increase in imports and some reduction of inventories.

In January 1968 additional measures were taken to restrain public expenditure. The main cuts were made in proposed spending on education, health and welfare, housing, and roads. The result was to reduce planned expenditure in 1968/69 by about £300 million and in 1969/70 by over £400 million. In March an early budget further tightened the restrictive stance of fiscal policy. Higher duties were imposed on alcoholic beverages, tobacco, and mineral oil. Moreover, purchase taxes and vehicle excise taxes were increased, as were the rates for the Selective Employment Tax. The total revenue from all increases in taxation was estimated at nearly £800 million in 1968/69 and at more than £900 million in a full year. Bank Rate, however, was lowered from 8 per cent to 7.5 per cent, mainly to boost confidence. Following the March budget, consumer expenditure fell and there was a substantial rebuilding of inventories. In the second half of the year, consumer demand regained its buoyancy, reflecting in the main a greater-than-expected increase in personal incomes and a smaller-than-expected rise in prices. Private consumption rose by 1.2 per cent between the second half of 1967 and the second half of 1968, whereas a decline of nearly 2 per cent had been forecast in the March 1968 budget. Real GNP increased as expected by about 4 per cent from the second half of 1967 to the second half of 1968, against the forecast of 3½ per cent.

Diversification of reserves by a number of sterling area countries had begun before devaluation but increased significantly in the second quarter of 1968. This rendered it necessary for the U.K. authorities to take steps to meet, and in some way forestall, further diversification. To help deal with this problem it was announced in early July 1968 that provisional agreement had been reached with the Bank for International Settlements and 12 industrial countries—the Basle Group—for a medium-term stand-by credit of $2,000 million, subject to the satisfactory outcome of consultations between the U.K. Government and sterling area countries. By September sufficient progress had been made to enable the Basle Group to announce their final decision to set up the facility. Under the general arrangements members of the sterling area have agreed to keep certain minimum proportions of their reserves in sterling for three (or in some cases five) years in return for a U.S. dollar value guarantee on the bulk of their sterling balances for the same period. The result of these arrangements was to reduce greatly the likely running down of accumulated sterling balances, while the stand-by credit could be drawn upon to meet any such rundown (including some of that which had already taken place).

As the exchange market became unsettled in November 1968, the U.K. authorities took further measures to reduce the level of aggregate demand. A surcharge of 10 per cent was placed on the purchase tax and on duties on tobacco, beer, wines, mineral oils, etc. An import deposit scheme was also introduced. Under this scheme, importers are obliged to deposit with the customs in advance of imports a sum equal to 50 per cent of the value of their imports, such deposits to be refunded after six months. The scheme affects mostly manufactured goods.

In November 1967, the Bank of England had asked British commercial banks to limit all but a few categories of their lending in sterling to the private sector and to borrowers abroad to their current levels. The intention to continue the restraint on bank credit to the private sector was reaffirmed during the March 1968 budget speech. Nevertheless, bank credit to the private sector rose by some £750 million in the first half of 1968, though a large part (probably about half) of this rise was due to seasonal or day-of-week factors or took the form of foreign currency borrowing for investment overseas and much of the remainder was in export finance. Credit policies were tightened in May 1968. The Clearing and Scottish banks were requested to limit their total lending in sterling to the domestic private sector (including export finance and other previously excepted categories) and to borrowers abroad to 104 per cent of the level obtaining in November 1967, after allowing for seasonal variations.

The renewed strength of consumer spending in the second half of 1968 prompted the authorities to tighten hire-purchase controls on November 1. On November 22, the Clearing and Scottish banks were instructed to reduce their restricted lending to 98 per cent of the November 1967 level by March 1969, but fixed rate lending for exports and shipbuilding were once more excluded from the ceiling. Despite this new ceiling, bank claims on the private sector, excluding foreign currency borrowing for overseas investment, rose by £240 million in the fourth quarter of 1968, compared with £130 million in the corresponding quarter of 1967. For the year as a whole, bank claims on the private sector, excluding foreign currency borrowing for overseas investment, rose by some £590 million, against some £530 million in 1967. At the same time, however, the Exchequer's net borrowing requirement fell from some £1,135 million in 1967 to some £750 million in 1968. Debt management operations provided considerable amounts of liquidity to the economy. The substantial expansionary impact of these domestic factors on the money supply was partially offset by the external deficit. As a result, in 1968 the money supply increased by only 6.5 per cent, against 10 per cent in the preceding year.

Despite the measures taken and the unexpected buoyancy of world trade during 1968, the trade deficit actually worsened by about $200 million. The volume of exports increased by 18.5 per cent, compared with the projected increase of 13.1 per cent, from the second half of 1967 to the second half of 1968, but exports at the new exchange rate did not quite maintain their share of world markets. Moreover, imports rose at an even faster rate than in 1967. From the second half of 1967 to the second half of 1968, imports increased by 8 per cent in contrast to the official projection of 0.6 per cent.

The widening of the trade deficit was largely offset by an increase in the surplus on invisibles. As a result, the current account worsened only marginally, and with a reduction in the long-term capital outflow the basic balance improved by $180 million. The change between the two halves of 1968 was even more marked—from a deficit of $1,025 million to one of $74 million. On the other hand, the short-term capital outflow (including errors and omissions) exceeded $1.8 billion. Consequently, the 1968 over-all deficit was more than twice the 1967 deficit of $1.3 billion.

In order to speed up the redeployment of resources from the domestic to the foreign sector, the April 1969 budget again aimed at reducing aggregate domestic demand. The Corporation Tax was raised by 2.5 percentage points to 45 per cent, the Selective Employment Tax was increased by 28 per cent, and a higher duty was imposed on gasoline. Moreover, government bond issues were declared exempt from the capital gains tax to make them more attractive to private investors and hence reduce the need for central bank support of the market. Other lesser measures were also implemented. It was estimated that all these measures would cut the growth rate for 1969/70 from 3½ per cent to just under 3 per cent. In addition, the Government decided in April to encourage local authorities and nationalized industries to cover part of their borrowing requirements outside the domestic capital market.

In the early part of 1969 there was a sharp fall in lending of Clearing banks. In the first quarter of 1969 the nonbank sector reduced its holdings of government paper by a further substantial amount, largely reflecting absorption by the authorities of short-dated government securities, maturing in 1969. However, the authorities did not resist the upward trend in yields on medium-term and long-term government securities.

There was little change in the visible trade deficit in the first quarter of 1969 but, thanks to a sharp improvement on invisible account, the current deficit at $48 million was substantially reduced. The basic balance registered a $300 million deficit. However, large short-term capital inflows permitted repayment of official debts and the building up of reserves totaling some $650 million. There was a further inflow in April, but in early May renewed disruptions in the international currency markets put severe pressure on sterling. In the following weeks there was some return of funds to London.

On June 20 the Fund agreed a $1,000 million stand-by arrangement for the United Kingdom in support of the Government's economic and financial program which aims at the achievement of a substantial and lasting balance of payments surplus. On June 27 the United Kingdom drew the equivalent of $500 million under the stand-by. This drawing raised the United Kingdom's outstanding purchases from the Fund to a total of $2,700 million.

Germany

Under the influence of expansionary fiscal and monetary policies, and a sharp rise in exports, the German economy began by the autumn of 1967 to recover strongly from the recession that had lasted from mid-1966 to mid-1967. Investment expenditure registered a marked increase in the last quarter of 1967 and rose further in the first half of 1968. Private consumption and construction activity also became buoyant in the first half of 1968, while all sectors of the economy participated in the strong cyclical upswing in the second half of the year. The volume of domestic demand increased by 7½ per cent in 1968, compared with a 2½ per cent decline in 1967; real GNP increased by 7 per cent, well beyond earlier expectations. These developments were reflected in a reduction in unemployment and an increase in rates of capacity utilization. The seasonally adjusted unemployment rate fell steadily from its peak of 2.5 per cent in the second and third quarters of 1967 to 1.2 per cent in the last quarter of 1968. The number of foreign workers, who provide a major element of cyclical flexibility to German labor markets, rose by nearly 0.2 million in the first three quarters of 1968 to 1.1 million, against 1.3 million in 1966. At the end of 1968 the number of vacancies was three times the number of unemployed, although the rate of unemployment was slightly higher than the cyclical low of the first quarter of 1966. By the end of 1968 capacity utilization in industry had already reached a level similar to the one reached in the 1965 boom.

The cyclical upswing brought a substantial increase in federal revenue from 1967 to 1968, and federal expenditure increased only marginally. Consequently, the federal cash deficit for 1968 was only about half the 1967 deficit, and the Länder deficit was slightly more than one third of that in 1967. Fiscal policy thus became somewhat contractionary, or at least less expansionary. Monetary policy was strongly expansionary until March 1968. Thereafter, even apart from the November measures discussed below, it became slightly restrictive as the economy continued to expand. During the year, the Bundesbank made net sales of bonds amounting to nearly DM 300 million, while it had made net purchases of DM 1.2 billion in 1967. The discount rate was, however, maintained at 3 per cent throughout the year with a view to encouraging capital outflows.

Contrary to expectations, the rapid expansion of the German economy during 1968 was accompanied by a rise in the external trade surplus from the already high level reached in 1967, when domestic demand pressures had been relatively low. German exports of goods and services, originally expected to rise by some 6½ per cent in 1968, rose in fact by 13 per cent, or, if adjusted for the acceleration of shipments in November and December, by about 11 or 12 per cent. This improvement was partly the result of developments within Germany—the halting and reversal of cost rises and further increases in the already large volume of saving in the economy. Unit labor costs in manufacturing declined by 3 per cent in 1968. However, developments abroad—the unexpected strength of demand and price inflation in some of the major economies, principally the United States—were also important in this connection.

The huge current account surplus of 1968 was matched by the export of long-term capital. However, it also created expectations of a revaluation of the deutsche mark. Although short-term interest rates in Germany were low relative to those prevailing elsewhere, short-term capital flowed into Germany in large amounts, particularly during the latter part of the year. The Bundesbank offered swap facilities to banks to encourage them to increase their short-term investments abroad, but the net inflow of short-term capital continued to be large, and this put heavy pressures on exchange markets at times, particularly in May, August, and November.

In an effort to reduce the external trade surplus as well as the inflow of short-term capital, the German authorities took a number of measures in November 1968. These measures included a reduction of 4 percentage points in the 11 per cent value-added tax on imports not subject to EEC agricultural arrangements, and an equal reduction in the refund of this tax on exports. It is estimated that these changes corresponded to a revaluation of the deutsche mark of over 3 per cent for trade purposes. The authorities also imposed a 100 per cent reserve requirement on the increases in foreign deposits with German banks. Moreover, the acceptance of deposits on nonresident account and the raising of loans and credits by German banks from nonresidents, with the exception of those related to normal current and capital transactions, were made temporarily subject to prior approval.

The November 1968 measures were expected to reduce the trade surplus, to exert a dampening influence on the domestic price level, and thereby to restrain investment plans. To ensure that the decline in external demand was replaced by additional domestic demand, the Government proposed an increase in the level of public expenditure in 1969, while the Bundesbank felt even more justified than before in continuing the policy of relatively easy money. However, by early 1969 the authorities apparently felt that various components of demand were showing greater strength than originally anticipated. In the light also of developing pressures on prices, they adopted some mildly restrictive fiscal and monetary policies. The fiscal measures taken in March 1969 involved the withholding of certain tax receipts and a selective suspension of expenditures affecting domestic investment. In addition, the local authorities agreed to use increased tax receipts for a reduction in their net borrowing. These measures of March 1969 in effect modified to some extent the domestic measures proposed after the export/import tax measures taken in November. The Bundesbank also took some measures of mild restraint. In March the Bundesbank's rate for advances against securities was raised from 3.5 per cent to 4 per cent and with effect from April 1 rediscount quotas of credit institutions were reduced by 20 per cent. On April 18 this advance rate was raised further to 5 per cent and the discount rate was raised from 3 per cent to 4 per cent. In March some import quotas were relaxed to permit increases in imports of up to DM 600 million.

A new and more severe exchange crisis occurred in early May 1969. There were large inflows of short-term capital within a short period (including inflows that resulted from changes in leads and lags); a large proportion of these funds left Germany subsequently. The German authorities did not consider a revaluation of the deutsche mark as an appropriate solution for the problem, preferring instead to adopt a series of other measures. These included a temporary blocking of additional budgetary revenues, e.g., by allocation of funds to a cyclical equalization reserve. The authorities proposed also to give the Bundesbank authority to impose a minimum reserve ratio of up to 100 per cent on all foreign deposits, whereas hitherto the 100 per cent reserve ratio against increases in foreign liabilities was only applicable subject to the provision that the over-all ceiling for minimum reserves was not exceeded. With effect from June 1, the Bundesbank raised the minimum reserve ratios against domestic liabilities by 15 per cent and against foreign liabilities by 50 per cent of their existing levels. In addition, on June 20 the Bundesbank raised the discount rate from 4 per cent to 5 per cent and the rate for advances against securities from 5 per cent to 6 per cent.

France

French economic policies had become progressively more expansionary during 1967 in response to the slowdown in activity that had originated mainly in the external sector. Shortfalls in revenue combined with increases in expenditure to widen budgetary deficits, while monetary policy was slightly eased. From the autumn of 1967, external demand began to rise and there was a spurt in French exports. Industrial production, therefore, began to expand markedly. However, unemployment continued to rise, as labor productivity tended to increase at a rapid pace. In early 1968 the Government took further fiscal measures to promote expansion, and at the beginning of the second quarter of 1968 the economy seemed well on its way toward achieving the desired 5 per cent annual rate of growth, although unemployment remained at a relatively high level and there was substantial spare capacity.

The events of May-June 1968 changed the picture quite radically. The loss in output as a direct result of the strikes is estimated to have been equal to about 2 per cent of GNP; the wage agreement concluded at this time resulted in an increase of hourly wage rates by some 12 per cent. The economy was also faced with a very heavy capital outflow. The authorities decided to meet the situation through an expansionary policy aimed at absorbing the new demand through increased utilization of capacity and to couple this with exchange controls. The 1968 budget deficit was to be nearly doubled to about F 14 billion, or 2.5 per cent of gross domestic product (GDP). Monetary financing of the deficit was to be some F 10 billion. Fiscal ease was combined with monetary ease. Rediscount ceilings with the Bank of France were raised, the ratio of banks' obligatory holdings of medium-term paper was lowered, and open market operations further increased the liquidity of the economy. Special discount rates for small firms and for exports were instituted. At the same time, the basic discount rate was raised to 5 per cent. Output recovered rather quickly in the fall, and by the end of the year industrial production was 10 per cent above the level of a year earlier. Real GNP increased by some 4 per cent in 1968. Unemployment, which had increased further after the strikes, declined in the last four months of 1968 and in early 1969. Output per man-hour in manufacturing rose by 6 per cent in 1968. With the large wage increases, unit labor costs rose, nevertheless, by 5 per cent; this was offset in part by the abolition of the payroll tax at the end of 1968.

From late August the difficulties of the French authorities were compounded by market expectations of exchange rate changes. In order to help restore confidence, the French authorities abolished the exchange controls previously imposed. At about the same time monetary restraints were introduced. In early October the previous increase in the banks' rediscount ceilings was abolished. The Bank of France also conducted large-scale open market operations to reduce bank liquidity and increase money market rates. In the following weeks, however, the capital flight continued unabated, leading to the crisis of November 1968.

The French authorities ruled out change in the par value of the franc as a reaction to the November crisis and adopted markedly restrictive economic and financial policies. Government expenditure was reduced, indirect taxes were increased, ceilings were imposed on commercial bank lending, and interest rates were raised. At the same time, exchange controls were reimposed. The over-all budget deficit for 1969 was sharply reduced. The discount rate was raised to 6 per cent and the penalty rate for rediscounts in excess of the banks' ceilings was increased to 8.5 per cent. Quantitative credit restrictions applying to some 80 per cent of total bank credit to the private sector were imposed to limit its increase for 1968 to 17 per cent, the same rate as in the preceding year. As many banks had already surpassed this target, bank credit to the private sector rose in fact by 21 per cent in 1968. The policies adopted in November 1968 involved a reduction in the rate of growth of real GDP to approximately 2 per cent from the end of 1968 to the end of 1969. This was expected to lead to a reduction in import demand and hence in the external trade deficit, encouraging in turn a reflux of capital.

New external difficulties arose during the early part of 1969, with reserves showing a sizable decline in the first six months. During the May crisis in international exchange markets, the authorities announced a series of measures to check domestic demand and stem the large fall in reserves. Existing quantitative restrictions on bank credit were extended beyond mid-1969 and tightened. Also, the minimum requirements of hire-purchase arrangements were made much stricter. On June 13, the Bank of France announced an increase in the discount rate from 6 per cent to 7 per cent, mainly in response to the rise in international interest rates.

Italy

Italian economic activity had been characterized by a strong expansion during the period from mid-1966 to mid-1967, when most other industrial countries had been passing through a slowdown in economic activity. Thereafter, however, the Italian expansion began to moderate. The growth of aggregate demand was particularly small in the first half of 1968 because of substantial destocking and reduced investment in plant and machinery. During the second half of the year, however, the rate of growth of the economy began to pick up again. For the year as a whole real GNP rose by 5.7 per cent, against 6.4 per cent in 1967.

During the first half of 1968, as a result of the slowdown in economic growth, Italian imports remained stationary. With rising foreign demand, exports increased at an annual rate of 17 per cent. As a result, a surplus of over half a billion dollars was registered in the first half of 1968, compared with the near balance of 1967. During the second half of 1968 as investment picked up again and some restocking took place, imports surged ahead at an annual rate of 10 per cent. However, exports increased at the same rate as in the first half because of the continued high levels of demand in other industrial countries and the tendency for labor productivity in Italy to increase more than wages. Unit labor costs declined by about 2 per cent from 1967 to 1968, while the GNP price deflator and the consumer price index both showed only marginal increases. For the year as a whole, exports grew by 17 per cent and imports by only 5 per cent. Consequently, the trade balance, which had been in small deficit in 1967, registered a surplus of over \$1.1 billion in 1968.[2] With the surplus on invisibles remaining almost unchanged, the current account surplus rose to \$3.0 billion in 1968, an increase of \$1.2 billion over 1967.

The additional stimulus provided by the foreign and government sectors did not quite succeed in offsetting the weakening of domestic demand during 1968. In July the authorities adopted additional expansionary fiscal measures, including

[2] Here as elsewhere in Chapter 5 the trade balance is shown on a balance of payments basis rather than on a customs basis, with imports f.o.b.

the introduction of a special tax allowance to encourage private investment, the reduction of the social security contributions of business enterprises in the South, and the approval of several projects for public works. Although the main impact of these measures was to be felt in 1969, they succeeded in bringing about a considerable widening of the government deficit during 1968.

During the year monetary policy, too, aimed at stimulating domestic demand. At the same time, the authorities wanted to promote capital exports to offset the large current account surplus. Open market operations and direct central bank financing of part of the government deficits were therefore used as instruments to keep Italian interest rates well below those prevailing elsewhere. As a result, capital exports from Italy during 1968 more than offset the $3 billion current account surplus. Official reserves thus declined by $120 million.

After the formation of a new Government in late 1968, more stimulative fiscal policies were adopted. In early 1969 substantial increases—nearly $1 billion in 1969 alone—in the social security pension scheme received parliamentary approval. Much of this increased expenditure was to be financed by government borrowing. Higher expenditures on education were also approved. On March 22 commercial banks were instructed to liquidate their net creditor positions abroad by June 30 to facilitate the financing of an expected increase in domestic investment and increased borrowing by the Treasury. The evolution of the balance of payments in early 1969 was not altogether favorable, mainly because of massive capital outflows. As a result, the over-all balance of payments showed a deficit of $300 million in the first quarter of 1969.

Netherlands

After a year of economic slowdown, an upswing in activity began in the Netherlands in mid-1967 and continued through 1968. A sharp increase in exports and in private and public investment were the main forces stimulating expansion. Dutch exports increased by over 13 per cent in 1968. As imports increased by about 9 per cent, the trade deficit declined from $558 million in 1967 to $325 million in 1968. Although the surplus on invisibles declined, the improvement in the trade balance was sufficient to cause the current account to register its first surplus since 1965.

Government expenditure had been increased in 1967, particularly during the latter half, with a view to stimulating domestic demand and alleviating regional unemployment. In order to promote economic recovery and to combat regional unemployment further, the Government in 1968 again increased its expenditure and financed the resulting deficit to a larger extent than in the previous year by short-term means. Monetary policy also remained easy for the major part of the year. The discount rate had been reduced in March 1967 to 4.5 per cent and was maintained at this level through most of 1968, in spite of the upward movement in interest rates in the reserve centers and some other industrial countries that had begun in the last quarter of 1967.

While government expenditure increased sharply in 1968, consumer demand increased at about the same rate as in 1967. The increase in housing investment dropped from its high 1967 rate of 15 per cent to only 9 per cent in 1968. For the year as a whole, real GNP increased by 6½ per cent, compared with 5½ per cent in 1967.

In the last quarter of 1968 signs of overheating appeared in the economy. Unemployment declined sharply and the pace of wage increases accelerated. In response to these developments and to the rising interest rate in other industrial countries, the Netherlands Bank reversed its monetary policy. The discount rate was raised from 4.5 to 5 per cent on December 20, 1968, and a few days later ceilings were imposed on commercial bank lending. Boom conditions continued to prevail in the early part of 1969. The introduction of the value-added tax on January 1 in these conditions led to an acceleration of price increases and to additional wage demands to compensate for the rise in the cost of living. In order to contain inflationary pressures, the Government announced a general price freeze on April 8, together with a suspension of tax incentives for private industry and cuts in government expenditure. At the same time the discount rate was raised to 5.5 per cent. During the May crisis in international exchange markets, there was only a relatively small outflow of funds from the Netherlands.

Belgium

In Belgium, as in many other industrial countries, recovery from the slowdown in economic activity that had begun in mid-1966 started from the third quarter of 1967 and continued through 1968. The recovery was led by exports, which constitute about 40 per cent of GNP; merchandise exports rose by 16 per cent in 1968. Inventory investment increased substantially, particularly during the first half of the year. Household consumption, which was sluggish in the first half of 1968, advanced sharply in the second half. Investment in plant and machinery picked up only in the fourth quarter of 1968, by which time spare capacity in industry had been considerably reduced. The spurt in inventory investment was responsible for a marked increase in imports of raw materials in the first half of 1968. By the time this tapered off, consumption and investment were rising rapidly and maintained imports at a high level. As a result, imports increased in 1968 at the same rate as exports. The balance of payments on current account registered a small surplus.

The economic recovery in Belgium was stimulated in part by the government sector. The Government had embarked on an expansionary program in late 1967, as a result of which its expenditure increased substantially. The impact of this increase was heightened by the fact that the resulting budgetary deficit was largely financed by borrowing from the central bank. For the first three quarters of 1968 fiscal ease was combined with monetary ease. On March 7, 1968, for the sixth time since early 1967, the National Bank reduced its discount rate by 0.25 percentage point, taking it to 3.75 per cent. Low interest rates in the short-term money market encouraged funds to move into Euro-dollars and into long-term securities, both domestic and foreign. While there was a significant decline in the National Bank's holdings of external reserves over this period, this was in part offset by increases in the net foreign holdings of the commercial banks.

The crisis of November 1968 resulted in a large outflow of capital from the private nonbank sector of the economy. This was reflected in a sharp fall in the net foreign assets of the central bank. In an effort to stem the outflow, the National Bank raised its discount rate on December 19, 1968 to 4.5 per cent. For the year as a whole, the deterioration of the capital account by some $400 million was the most important feature of the balance of payments. As a result, there was a fall of more than $400 million in official reserves in 1968, whereas they had risen by $240 million in 1967.

In the first five months of 1969, the arbitrage gap in favor of Euro-dollars remained substantial and the capital outflow continued. The National Bank raised the discount rate to 5 per cent on March 6 and to 5.5 per cent on April 10. It also instructed commercial banks to reduce their net foreign position by the end of June 1969 and set a ceiling on increases in bank credit to the domestic economy. Measures to moderate the growth of public expenditure were also announced as part of the shift toward a restrictive economic policy in view of the emergence of inflationary pressures. Following the international exchange market crisis of early May, when there was a sharp outflow of capital, the discount rate was raised further on May 29 to 6 per cent, in line with rising interest rates abroad.

Austria

The economic slowdown of the Austrian economy that had started in the second half of 1966, largely under the impact of the German recession, continued until the fall of 1967. In October 1967 the Government introduced an expansionary budget for 1968. This included for the first time a contingency budget for investment projects to be implemented if economic activity did not revive rapidly. One half of the contingency budget was released in early 1968, raising the 1968 federal government deficit to about the same level as in 1967. Monetary policy had been expansionary in 1967 and had placed the banks in a liquid position by the beginning of 1968. Demand for credit began to accelerate in the third quarter of 1968 and, although there was no further easing of monetary policy, credit expanded quite rapidly.

An upswing began in late 1967 and spread gradually through the Austrian economy in the course of 1968. For the whole of 1968 real GNP increased by 4 per cent, against 3 per cent in 1967. It would have been even higher had not agricultural production fallen because of adverse weather conditions. Substantial stockbuilding also supported the upswing. After virtual stagnation in 1967 and a slow response in the first half of 1968 to the cyclical upswing of the economy, investment by enterprises began to revive in the second half. For the whole of 1968, however, gross fixed asset formation declined moderately from 1967. Industrial production grew by 7 per cent in 1968, whereas it had not grown at all in the preceding year. The employment situation began to improve noticeably from the second quarter of 1968, and by the autumn of 1968 unemployment was back to the previous year's level.

In 1967 the index of consumer prices went up by 4 per cent, largely because of a reduction in price subsidies for certain foods and to an increase in controlled rents and transportation fares. In 1968 consumer prices rose by an estimated 2.8 per cent, largely on account of higher indirect taxes.

The 1967 cyclical downturn was associated with a substantial reduction of the trade deficit. A further decline in the trade deficit in the first half of 1968 was offset by the rapid growth of imports in the second half, so that for the year as a whole the trade balance showed only marginal improvement. The long-term capital inflow continued unabated, reflecting mainly official borrowing abroad to finance government deficits; by the end of 1968 nearly 30 per cent of the public debt was foreign debt. As a result, the 1968 basic balance again showed a relatively large surplus, which was, however, substantially offset by an outflow of short-term capital.

Sweden

In 1967, in spite of the adoption of moderately expansionary fiscal and monetary policies that were strengthened over the course of the year, the Swedish rate of growth had been only about 2 per cent. In part as a result of this sluggishness, the Swedish balance of payments on current account had shown only a small deficit in 1967. In 1968 the Government again adopted a cautious approach. The budget provided initially for an increase of 6.5 per cent in government expenditure with only minor adjustments in tax policy, yielding a deficit estimated at SKr 2.4 billion. The state of the economy did not improve quickly, and additional appropriations were made, mainly for public relief works and for measures aimed at increasing labor mobility. Government expenditure (excluding lending) increased by 8.5 per cent and the budget deficit became SKr 3 billion—or the same as in 1967; government revenues increased by 8 per cent as estimated. The easy monetary policy initiated in 1966 and pursued in 1967 was continued during 1968. To counter speculative outflows of short-term funds, the discount rate had been raised from 5 to 6 per cent in December 1967, but it was reduced to 5.5 per cent in February 1968. To stimulate business investment the rate was further reduced to 5 per cent in October 1968.

For the year as a whole public expenditure on consumption and investment rose by 7 per cent and private consumption showed some signs of buoyancy. Inventory accumulation had declined during 1967 and a further decline, although at a lower rate, seems to have taken place during the first three quarters of 1968. Owing to a large increase in 1967, residential construction increased only moderately in 1968. As in 1967, real business investment decreased by about 3 per cent in spite of releases of investment funds accumulated previously at the central bank. Exports increased at a faster rate from 1967 to 1968, but imports increased somewhat more and there was thus a worsening of the trade account as well as of the current account. With a capital inflow substantially offsetting the current account deficit, reserves fell only slightly. GNP increased by nearly 3½ per cent in 1968, much more than in the previous year. However, unemployment, having increased already in 1967, rose further in 1968. At the same time there was a gradual reduction in the standard workweek from 45 hours in 1966 to 42.5 hours in 1969. Productivity showed a sharp increase, reflecting the rationalization that has been proceeding in the industrial sector.

The Swedish authorities have for some years been taking measures aimed at reforming the tax system and improving the international competitiveness of the Swedish economy. These efforts were continued in 1969 and included the substitution of the value-added tax for the general sales tax combined with the imposition of a tax on wages and salaries to encourage substitution of capital for labor.

In terms of demand management for 1969, fiscal policies were being planned early in the year to exercise a mild degree of restraint. However, the upswing in demand and output, which had begun in the last quarter of 1968, accelerated in the first few months of 1969. The investment survey in February 1969 indicated an upward turn in business investment, and exports and industrial production showed a sharp rise. Unemployment fell to a point at which labor scarcities began to appear. Moreover, there was a capital outflow causing a decline in the foreign exchange reserves. In this situation, monetary policy was tightened. In February 1969 the discount rate was raised to 6 per cent in line with rising interest rates in international money and capital markets. Open market operations were used to reduce liquidity in the market. In March 1969 the liquidity ratio was made mandatory and banks which failed to observe this ratio had to pay a 4 per cent penalty on amounts corresponding to their liquidity deficiency. Furthermore, the penalty rate equal to the discount rate plus 3 per cent was reactivated for bank borrowing at the Riksbank beyond certain limits. However, the capital outflow continued and increased sharply during the early May crisis in exchange markets. Official reserves therefore fell substantially during the first half of the year.

Norway

In 1967 a record growth rate of 5.8 per cent had been accompanied in Norway by a deficit of $200 million on the current account of the balance of payments. In 1968, in anticipation of a sharp rise in exports and of a possible revival of business investment, the central government budget provided for an increase in expenditure of 9 per cent, compared with the 12½ per cent increase in 1967, and for a much larger surplus than that budgeted in 1967. However, as a result of a decline of 7½ per cent in private fixed investment in 1968 and a smaller increase in private consumption than in the previous year, the economy underwent a slowdown in economic growth even though a large increase in exports materialized as anticipated.

Supplementary appropriations later in the year and a slower than budgeted increase in revenue led to a smaller budget surplus in 1968 than in 1967. An expansionary factor was the release, in accordance with the 1962 law, of NKr 200 million from tax-free reserves derived from incomes earned during 1962-65. The Norwegian authorities also adopted a number of auxiliary measures designed to stimulate activity, including supplementary grants to finance special employment schemes. Monetary policy was also quite expansionary in 1968, with liberal ceilings being provided for credit expansion. For the year as a whole, these ceilings were slightly exceeded as a result of a sharp increase in bank lending in the latter half of the year. In spite of these expansionary policies, the growth rate in 1968 fell to less than 4 per cent. As a result, imports rose little, while exports increased by 12 per cent. The balance of payments on current account showed a surplus of $165 million in 1968 in contrast to the deficit incurred in 1967. The current account surplus was substantially offset by a net capital outflow and official reserves rose slightly in 1968.

Denmark

Boom conditions had prevailed in Denmark since mid-1966 and there had been large current account deficits. In July 1967 the Danish authorities introduced a 10 per cent value-added tax, covering about 85 per cent of private consumption expenditure, to replace the turnover tax that had covered only about 35-40 per cent of such expenditure. The effect of the change was therefore contractionary, although some relief was provided in direct taxation. In addition, investment in housing began slowing down in the second half of the year. In November 1967 the Danish kroner was devalued by 7.9 per cent in conjunction with the 14.3 per cent devaluation of sterling. In December the discount rate was raised from 6.5 per cent to 7.5 per cent.

In April 1968 fiscal policy was tightened further with a view to shifting resources away from consumption into export industries; the value-added tax was raised to 12.5 per cent and budget expenditure was curtailed. In line with this objective, and also influenced by a comparatively high level of unemployment, monetary policy was slowly relaxed at the same time, with the discount rate being reduced to 6 per cent in three steps of 0.5 percentage point each in March, June, and August. In September 1968 reserve requirements against increases in bank deposits were reduced from 20 per cent to 10 per cent. During the second half of 1968 the National Bank also supported the bond market heavily and by the end of 1968 the commercial banks had developed a highly liquid position.

For the year as a whole GDP increased by 3.6 per cent, marginally less than in 1967. Public investment rose by 9 per cent and public consumption by 5.3 per cent. However, private consumption increased by only 1.5 per cent and private investment declined. In the situation created by the upswing in other industrial countries, the slowdown in Denmark itself, and the devaluation of the Danish kroner, the volume of Danish exports of goods and services increased in 1968 by 10 per cent, while the volume of imports rose by only 4 per cent. There was, however, a deterioration in the Danish terms of trade and the current account deficit declined only slightly in 1968. This deficit was substantially covered by capital imports, but official reserves of gold and foreign exchange declined from $511 million at the end of 1967 to $425 million at the end of 1968.

While data for 1968 as a whole suggest a picture of sluggish growth in output and demand, there was a significant change in the pace of economic activity within the year. Monetary and fiscal ease together with buoyant foreign demand stimulated increases in residential and industrial investment in the private sector in the latter part of 1968. As private consumption also started increasing at a more rapid rate, the rate of growth of the economy picked up during the second half of the year.

The upswing in domestic activity proceeded more sharply than expected in early 1969. At the same time, interest rate differentials moved against Denmark and the external position showed a further weakening. The discount rate was raised on March 31, 1969, from 6 to 7 per cent. However, the National Bank continued to support the bond market on a large scale. During the international exchange crisis in the first week of May, Denmark's external position worsened sharply and official holdings of gold and foreign exchange fell to $143 million. The authorities took a number of measures to deal with the situation. A large government loan was raised in Germany and a drawing of $45 million, equal to Denmark's gold tranche position, was made on the Fund. Internally, both monetary and fiscal policies were tightened. The discount rate was raised from 7 to 9 per cent, National Bank support was withdrawn from the bond market, and reserve requirements for the commercial banks were raised. At the same time, indirect taxation was increased by an amount equivalent to about 1 per cent of private consumption and a cut of about 1 per cent was made in central government expenditure. These measures brought about some immediate improvement in the country's reserve position.

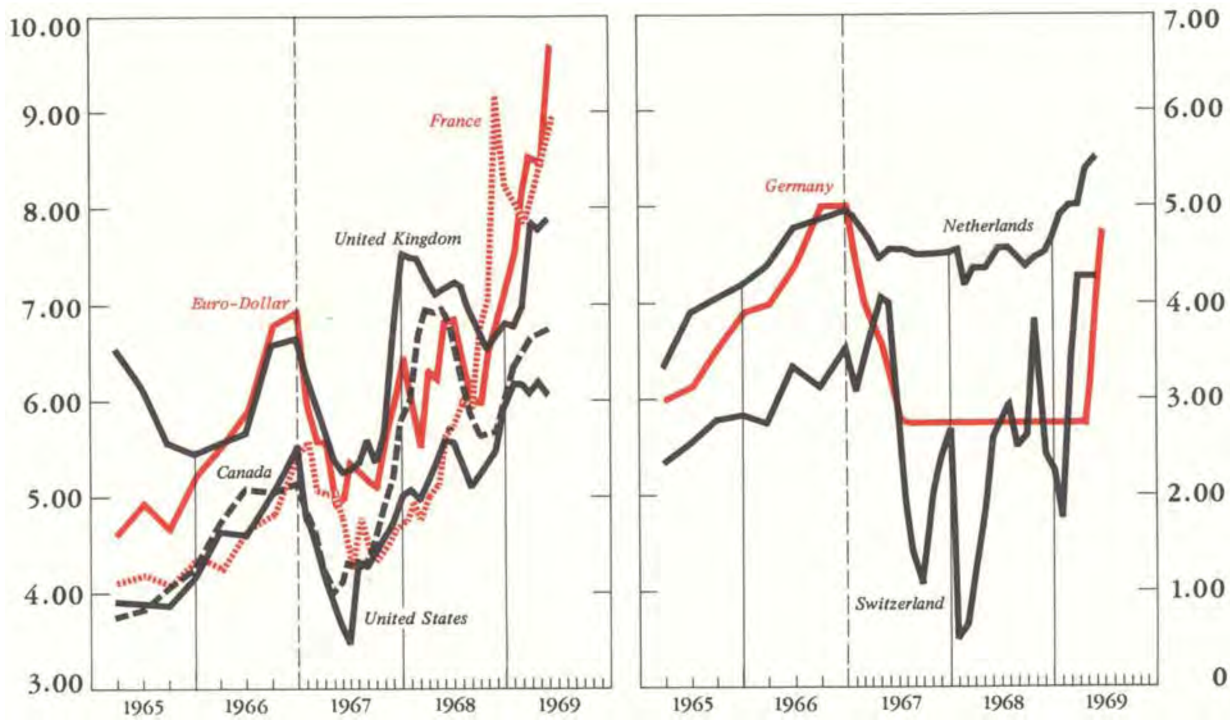
The Euro-Currency Market

Over the course of 1968 the Euro-currency market experienced its largest expansion so far, with the main factor being the great demand for Euro-dollar funds resulting from the tightening of credit in the United States. This demand was met from various countries and sources. Italy, Belgium, the Netherlands, Switzerland, and the Scandinavian countries exported large amounts of short-term funds to the Euro-currency market. The Bank for International Settlements also provided funds to the market. Moreover, until the September Basle Agreement, there was some diversification of reserve holdings by sterling area countries into Euro-dollar balances. In addition, France's reserve losses after the disturbances of May-June resulted largely from a flow of funds into the Euro-dollar market; foreign-held franc balances in France fell sharply and Euro-francs virtually disappeared from the market. Exceptionally large flotations of Euro-bonds also contributed to the market's expansion; normally some of the proceeds of such issues are temporarily deposited in the Euro-currency market. European commercial banks increased their purchases of dollars from their central banks for investment in the market. Some switching of assets between the U.S. market and the Euro-dollar market also occurred.

The first quarter is normally characterized by seasonal ease in the international money market. Accordingly, in the first two months of 1968 the three-month Euro-dollar rate dropped by over 1 percentage point to about 5.5 per cent (Chart 24). The March gold crisis caused rates to rise sharply but briefly, as speculators borrowed dollars to buy gold. The subsequent ease was short lived because of the restrictive monetary policy adopted by the United States. By May aggressive bidding by U.S. banks had raised the three-month Euro-dollar rate by 1.25 percentage

CHART 24. SELECTED COUNTRIES: SHORT-TERM INTEREST RATES, 1965–MAY 1969

(In per cent per annum)



points to a peak of 7.25 per cent. The French events of May-June brought fresh funds into the market, thereby easing rates. Toward the end of June, seasonal pressures on rates and a withdrawal of funds by German banks as the Bundesbank raised its forward currency swap rates were largely offset by placements of funds in the market by the Bank for International Settlements and the Swiss National Bank. The three-month Euro-dollar rate at the end of June was 6.875 per cent. In July the United States relaxed its restrictive monetary policy. Within a month, U.S. banks' liabilities to their foreign branches fell by nearly $1 billion, thus contributing to the easing of rates on the Euro-dollar market; rates fell steadily, reaching 6 per cent at the end of September. Thereafter, rates moved upward as expectations of a revaluation of the deutsche mark resulted in substantial borrowing of Euro-dollars for conversion into deutsche mark; during the mid-November crisis the flow of funds into Germany was very large.

By early December, when seasonal factors normally make for tight conditions as banks compete for funds for window-dressing purposes, the three-month Euro-dollar rate rose to about 7 per cent. Technical factors usually contribute to easier conditions in the second half of the month. Instead, in December 1968, as the large volume of funds repatriated by U.S. firms in connection with the requirements of the U.S. balance of payments restraint program more than offset the decline in U.S. banks' liabilities to their foreign branches, the market became progressively tighter.

At the end of 1968 liabilities of U.S. banks to their foreign branches were nearly $2 billion greater than the end-of-1967 figure of $4.2 billion. In the first two months of 1969, as monetary conditions in the United States tightened further, U.S. banks stepped up their Euro-dollar borrowing, increasing their liabilities to their foreign branches by a further $2 billion. In the first half of March increased U.S. pressures caused Euro-dollar rates for three and six months' deposits to rise to over 8.5 per cent. Developments in the Euro-dollar market from the beginning of 1968 were thus particularly responsive to the varying stance of U.S. monetary policy and to the succession of crises in foreign exchange markets.

Several factors contributed to further tightening of conditions in the market in early 1969. The Bank of France instructed French commercial banks to turn their net foreign assets into net liabilities. Similarly, on March 22 the Bank of Italy instructed Italian commercial banks to eliminate by the end of June 1969 the $800 million net foreign assets they had at the time. It also allowed the spot exchange rate to decline to close to its lower support point in order to discourage investment in the Euro-dollar market. In April the Bundesbank increased the cost of forward currency swaps to discourage capital outflows; also, the Belgian authorities instructed Belgian commercial banks to reduce their net foreign position to a specified level by the end of the second quarter. The reduced supply of Euro-dollars coupled with renewed speculation in favor of the deutsche mark caused interest levels on Euro-dollars to reach very high levels early in May. Thereafter, continued pressure of demand by U.S. banks for Euro-dollars raised rates further—the rate for three-month deposits reached a peak of 12.25 per cent on June 11.

The International Bond Market

Flotations of international bonds [3] on all capital markets in 1968 were, at $7.8 billion, 70 per cent greater than those of the preceding year. Relatively high interest rates in the United States combined with the enactment of mandatory restraints at the beginning of the year for U.S. direct investment abroad to make 1968 flotations of foreign issues in the United States less than one fourth of total issues of international bonds, against nearly 40 per cent in 1967. Easy monetary conditions coupled with strong current account surpluses in Switzerland and the EEC countries—with the exception of France—allowed a large

[3] International bonds are sold outside the country in which the borrower is domiciled; they are classified into Euro-bonds and foreign bonds. Issues of Euro-bonds are underwritten by an international syndicate and sold in a number of countries. Issues of foreign bonds are underwritten by a national syndicate and sold mainly in the country to which the banking syndicate belongs.

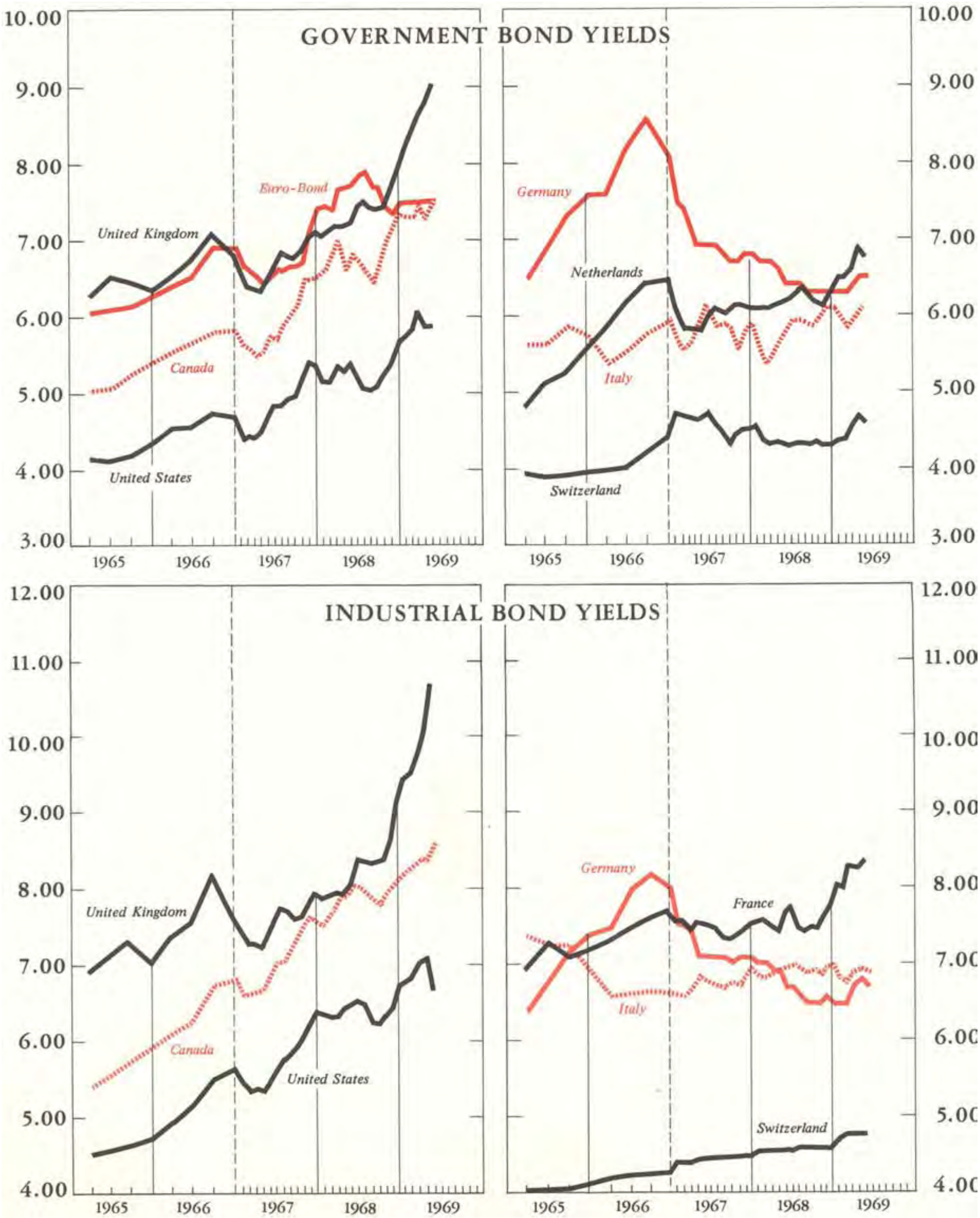
TABLE 17. NEW ISSUES OF INTERNATIONAL BONDS IN EUROPE AND NORTH AMERICA, 1963-68
(In millions of U.S. dollars)

Borrower	1963	1964	1965	1966	1967	1968
Issued in Europe						
Industrial countries	387	603	975	1,175	1,620	4,142
EEC countries	*153*	*100*	*247*	*153*	*348*	*829*
Scandinavian countries	*125*	*258*	*237*	*102*	*197*	*158*
Japan	*59*	*199*	*35*	—	—	*179*
Canada	—	—	—	—	—	*340*
Other industrial countries	*23*	*33*	*60*	*78*	*151*	*478*
U.S. companies	—	—	*372*	*564*	*651*	*2,122*
Other international companies [1]	*27*	*13*	*24*	*278*	*273*	*33*
Primary producing countries	142	181	187	230	537	546
of which						
Australia, New Zealand, and South Africa	*90*	*59*	*138*	*109*	*245*	*224*
International institutions	56	175	221	657	532	1,167
of which						
European institutions	*56*	*150*	*122*	*247*	*200*	*259*
Total	585	959	1,383	2,062	2,689	5,855
of which						
Foreign bonds	*375*	*330*	*267*	*645*	*458*	*1,738*
Euro-bonds and other international bonds	*210*	*629*	*1,116*	*1,417*	*2,231*	*4,115*
Issued in the United States						
Canada	734	725	781	943	1,018	1,132
Other developed countries	581	51	108	19	15	—
Less developed countries	126	375	281	130	239	285
International institutions	—	5	200	175	510	470
Total	1,440	1,155	1,370	1,266	1,782	1,887
Issued in Canada	—	5	32	40	20	17
Grand Total	2,025	2,119	2,785	3,368	4,491	7,757

Sources: IBRD and Fund staff estimates for bonds issued in Europe and Canada; U.S. Department of Commerce for bonds issued in the United States.
[1] Including German and Italian investment companies incorporated in Luxembourg.

CHART 25. SELECTED COUNTRIES: LONG-TERM BOND YIELDS, 1965–MAY 1969

(In per cent per annum)



increase of issues in international bonds in Europe. During 1968 flotations of international bonds outside North America were, at $5.9 billion, more than double the 1967 level. The increase in Euro-bond issues was particularly large, mainly as a reflection of greatly increased flotations of convertible bonds by U.S. companies (Table 17).

In 1968 flotations of foreign issues in the United States, at $1.9 billion, were only slightly greater than in 1967. Borrowing on the U.S. capital market by Canada and the less developed countries increased little while other countries stopped borrowing altogether and international organizations reduced their borrowing by 8 per cent. International organizations instead greatly boosted their flotations outside North America. In addition, Canadians borrowed for the first time in recent years outside North America ($340 million), while the Japanese returned to these markets for the first time since 1965. The EEC countries nearly tripled their flotations to $829 million, the highest level ever.

In 1968 flotations of Euro-bonds were $4.1 billion, against $2.2 billion in 1967. In order to meet their large capital requirements, U.S. corporations greatly increased their offerings of convertible bonds. Foreign investors were particularly attracted by the option of converting their bonds into U.S. shares, the market for which was relatively buoyant throughout most of 1968. Over the course of the year U.S. companies nearly quadrupled their 1967 flotations of Euro-bonds, reaching a level above the $2 billion mark, most of it accounted for by convertible bonds, which rose sharply to $1.9 billion, against $260 million in 1967. In early 1969, however, the proportion of convertible bonds to total offerings declined.

Flotations of foreign bonds in 1968, at $1.7 billion, were four times the 1967 flotations. Over half of this increase was accounted for by the increased borrowing of governments and international organizations. As a consequence of the relatively high interest rates prevailing over most of the year, medium-term bonds in 1968 accounted for a considerably larger proportion of total foreign bonds than in 1967.

In the first half of the year the U.S. balance of payments program, the tight U.S. monetary policy, and the uncertainties over existing exchange parities caused Euro-bond interest rates to rise by nearly 0.5 percentage point to 7.9 per cent (Chart 25). The interest yielded by DM-denominated issues was close to the low rates prevailing on domestic German issues. Interest rates on dollar-denominated issues issued in Germany were somewhat higher because of the exchange risk involved, particularly during the second half of the year. Issuers took advantage of the lower interest rates on DM-denominated issues, and over the year such issues amounted to $1.6 billion, nearly ten times as much as in 1967; nearly 60 per cent of nonconvertible international bonds were denominated in deutsche mark.

Beginning in July an easier U.S. monetary policy and a lull on foreign exchange markets allowed interest rates on Euro-bonds to ease; they reached 7.2 per cent in November. This was well above the comparable national rates. The November crisis, coupled with the tightening of U.S. monetary policy, which was followed by a similar tightening in most other industrial countries, brought a reversal in the previous downward trend of Euro-bond rates. In the first quarter of 1969 they reached the highest levels ever attained; flotations of international bonds, however, continued to rise, reaching $1.5 billion, up nearly 70 per cent from the first quarter of 1968. New issues in April and May, at $400 million, were well below the level of the preceding year. Moreover, in the first five months of 1969 convertible issues accounted for only 30 per cent of international bonds issued, against 50 per cent in 1968. This was due mainly to fewer issues by U.S. corporations, which normally account for a large proportion of convertible issues.

Chapter 6

Developments in Primary Producing Countries

THE year 1968 was relatively favorable for countries exporting primary products. The renewal of rapid expansion of demand and output in the industrial countries in the second half of 1967 was the major factor underlying the more satisfactory export growth of most primary products in 1968. The rise in exports, together with more favorable crop conditions in certain areas, lifted the rate of output growth of primary producing countries in 1968 above that for the preceding three years. The increased food production in 1968, which was most notable in Asia but was a feature also in other primary producing areas, reflected better weather conditions, extension of areas under cultivation, and increased productivity as a result of more widespread use of modern technology.

The cyclical movements over the last three years in industrial countries' demand and output were reflected not only in the volume of exports of primary producing countries, but also in the general level of commodity prices. About the middle of 1968, the index for all primary commodities began to increase from a level which had varied little over the preceding one and a half years.

Import developments in primary producing countries in 1968 varied greatly among groups of primary producing countries, as did the over-all balance of payments performance. There was some improvement in the current account position of the more developed primary producing countries as a group; the deficit on current account of less developed countries, after a substantial increase in 1967, was little changed in 1968. There was an increase in the inflow of capital into primary producing countries; this was concentrated in the more developed areas (Table 11).

Almost all the more developed primary producing countries recorded reserve increases in 1968. As a group, they raised their external reserves by nearly $1.3 billion; this is in sharp contrast with a moderate decline during 1967. An increase of close to $1.2 billion in the reserves of less developed countries during 1968 was mainly a reflection of increased reserve levels of countries in the Western Hemisphere and Africa.

The External Environment

Export Developments

A principal factor underlying the faster growth of primary producing countries' exports in 1968 was the resumption of strong import demand in the United States and Germany (Chart 26); these two countries account for about one quarter of all industrial countries' imports from primary producing countries. As the cyclical upswing spread among industrial countries, demand for primary producing countries' exports was reinforced. Industrial countries' imports from the nonindustrial world, which had scarcely increased in value between the third quarters of 1966 and 1967, rose by more than 14 per cent during the year to the third quarter of 1968; in the last quarter of 1968 they leveled out because of a sharp decline in U.S. imports, which had been raised in the third quarter in expectation of a dock strike. For 1968 as a whole, total exports of primary producing countries were about 8 per cent higher than in 1967, following a rise of a little over 3 per cent from 1966 to 1967. The improvement was concentrated in less developed areas (Table 18).

The degree to which various countries and areas were affected by the cyclical weakness of demand in 1966-67 and by the following upswing was determined for some by the commodity composition of their exports and for others by their reliance on certain geographic markets among industrial countries. The recession in Germany and slowdown in the United States had a severe impact upon certain areas' trade in 1967, notably that of Africa, South and Southeast Asia, and the Western Hemisphere. Exports from the Middle East, Far East Asia, and, to a lesser extent, nonindustrial Europe were little affected, partly

CHART 26. IMPORTS OF INDUSTRIAL COUNTRIES FROM PRIMARY PRODUCING AREAS, 1964-68

(1964=100; quarterly, seasonally adjusted)

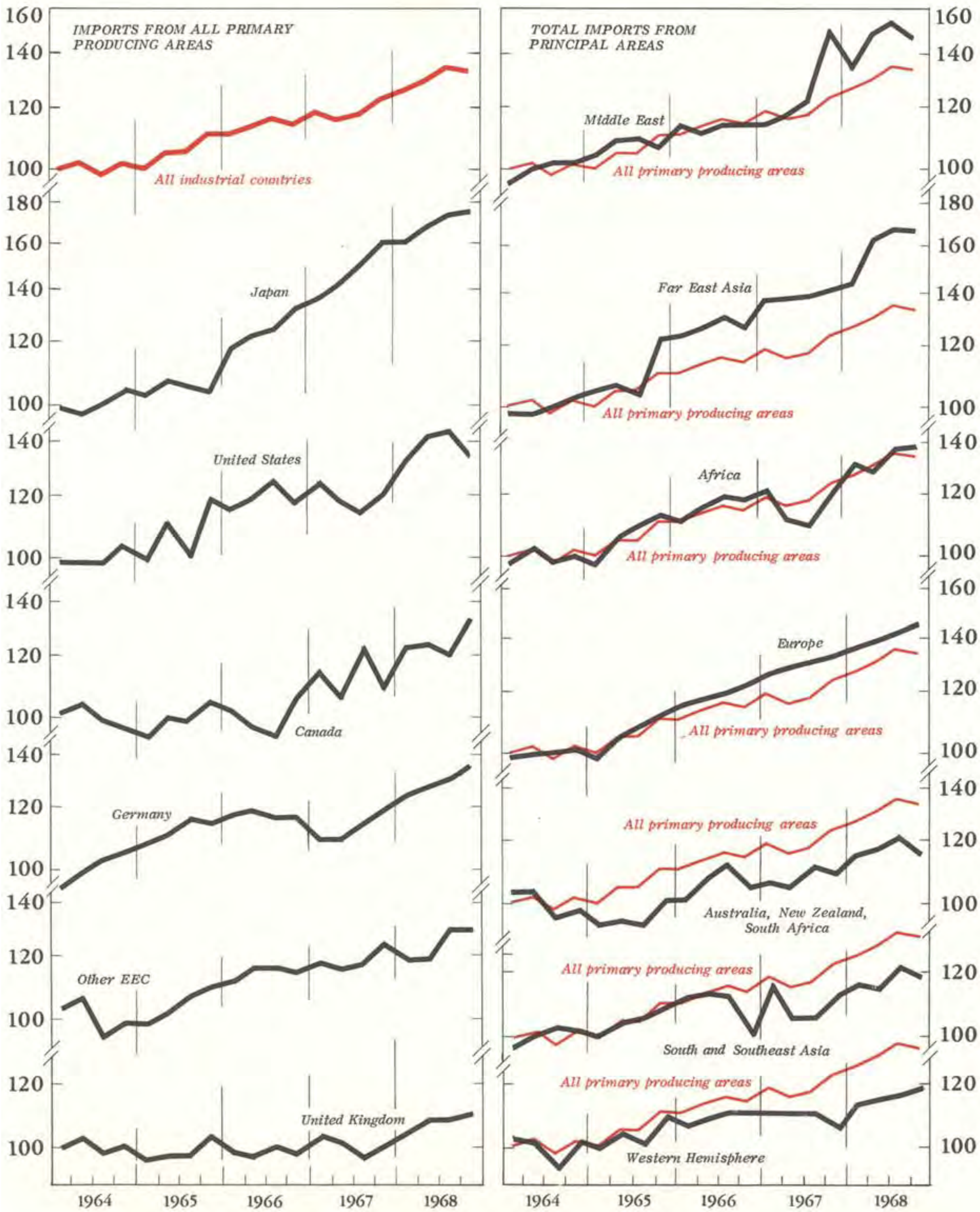


TABLE 18. TRADE OF PRIMARY PRODUCING AREAS, 1965-68
(Values in billions of U.S. dollars)

	1967 Value		Percentage Changes over Preceding Year					
			Exports			Imports		
	Exports (f.o.b.)	Imports (c.i.f.)	1966	1967	1968 [1]	1966	1967	1968 [1]
More Developed Areas	**13.17**	**18.85**	**11**	**7**	**4**	**6**	**3**	**4**
Northern Europe [2]	2.42	2.94	7	4	4	4	1	−1
Southern Europe [3]	4.35	8.10	16	9	5	17	—	5
Australia, New Zealand, and South Africa	6.40	7.81	8	7	4	−3	8	5
Less Developed Areas	**39.60**	**41.70**	**7**	**3**	**8**	**7**	**5**	**7**
of which Middle East [4]	8.50	6.01	9	9	9	11	−4	11
South Asia [5]	2.79	4.53	−3	−1	7	−4	3	−9
Southeast Asia [6]	4.00	5.40	4	—	7	9	5	7
Far East Asia [7]	3.30	4.79	16	12	17	17	18	19
North Africa [8]	2.48	1.89	15	9	31	5	7	13
Other Africa [9]	5.32	5.40	7	−1	8	1	1	5
Western Hemisphere	12.91	13.03	6	1	5	9	6	7
Northern countries [10]	*7.05*	*7.41*	*4*	*4*	*4*	*2*	*9*	*6*
Other countries	*5.86*	*5.62*	*9*	*−3*	*6*	*18*	*3*	*7*

Source: *International Financial Statistics.*
[1] Preliminary.
[2] Iceland, Ireland, and Finland.
[3] Greece, Portugal, Spain, Turkey, and Yugoslavia.
[4] Iran, Iraq, countries of the Arabian peninsula, Israel, Jordan, Lebanon, the Syrian Arab Republic, and the United Arab Republic.
[5] Afghanistan, Burma, Ceylon, India, and Pakistan.
[6] All other countries in Asia except those listed in footnotes 5 and 7.
[7] Republic of China, Hong Kong, Korea, and the Philippines.
[8] Algeria, Libya, Morocco, and Tunisia.
[9] All other countries in Africa except South Africa and the United Arab Republic.
[10] Mexico, Venezuela, and the countries of Central America and the Caribbean.

because of a favorable commodity structure [1] (Chart 26).

The fluctuations in the value of industrial countries' imports from Africa during the last few years reflected mainly the cyclical changes in import demand of the EEC countries, especially Germany (Chart 27). The European Economic Community now accounts for over 60 per cent of industrial countries' trade with this area—a much higher proportion than for any other major primary producing area (Table 19). In 1967, the slowing down in African exports to industrial countries was in part accounted for by the reduction in Nigeria's trade as a result of the Biafran conflict, and by the interruption of oil shipments from Libya following the Middle East war.[2]

[1] The regional groupings employed throughout this chapter are as defined in the footnotes to Table 18, unless otherwise noted.

[2] These two factors affected in particular exports to the United Kingdom; they account, together with the closure of the Suez Canal and a dock strike, for the extraordinary dip in the seasonally adjusted value of U.K. imports from primary producing countries in the third quarter of 1967.

The reduction in the value of industrial countries' imports from South and Southeast Asia in 1967 and the recovery in 1968 were strongly influenced by the fluctuations in U.S. imports (Chart 28). The United States and Japan each

CHART 27. IMPORTS OF INDUSTRIAL COUNTRIES FROM AFRICA (EXCLUDING SOUTH AFRICA), 1964-68
(1964=100; quarterly, seasonally adjusted)

TABLE 19. RELATIVE IMPORTANCE OF INDUSTRIAL COUNTRIES AS MARKETS OF PRIMARY PRODUCING AREAS[1] IN 1967

(Percentage shares in c.i.f. value of industrial countries' imports from each area[2])

Imports of	Far East Asia	Western Hemisphere	South and Southeast Asia	Australia, New Zealand, and South Africa	Middle East	Europe	Africa	All Primary Producing Areas
United States and Canada[2]	50	53	30	22	9	19	13	29
Japan	25	7	27	23	23	2	4	14
Industrial Europe	25	40	43	55	68	79	83	57
European Economic Community	12	19	21	20	46	37	61	32
Germany	*7*	*9*	*7*	*8*	*11*	*14*	*16*	*11*
United Kingdom	9	10	19	33	17	29	17	18
Other EFTA countries[3]	4	11	3	2	5	13	5	7
All industrial countries	100	100	100	100	100	100	100	100

Source: International Monetary Fund and International Bank for Reconstruction and Development, *Direction of Trade,* 1963-67.

[1] Areas are as defined in Table 18. The ordering of the columns is based on the relative dependence of primary producing areas upon markets in industrial Europe, indicated in the third line.

[2] In order to indicate the approximate c.i.f. value of imports into the United States and Canada, the f.o.b. values given in the source have been raised by 10 per cent except for imports from the Middle East, the value of which has been raised by 30 per cent to allow for the proportionately higher share of transportation costs in the c.i.f. value of petroleum imports.

[3] Excluding Portugal.

exceeds the EEC countries and the United Kingdom in importance as markets for this region. Japan's imports from South and Southeast Asia rose rapidly in the period 1966-68. Imports from this part of Asia into the United Kingdom fluctuated considerably in 1966 and 1967—declining very markedly at the time of the devaluation of the Indian rupee and recovering somewhat in 1968, although not enough to suggest a break in the unfavorable trend that had been noticeable for some years. U.S. purchases in Far East Asia rose very rapidly in 1967, in contrast to the decline in its imports from most other primary producing

CHART 28. IMPORTS OF INDUSTRIAL COUNTRIES FROM SOUTH AND SOUTHEAST ASIA, 1964-68

(1964=100; quarterly, seasonally adjusted)

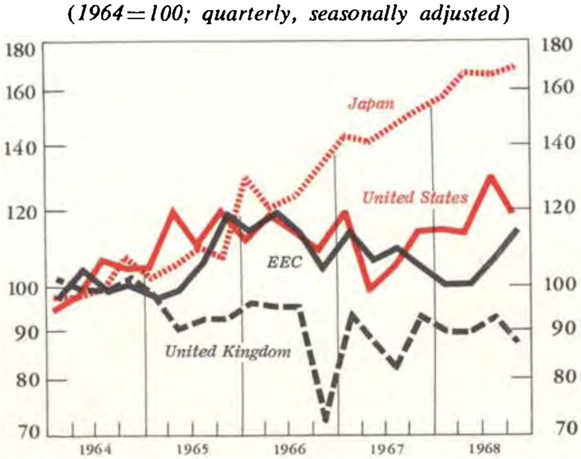
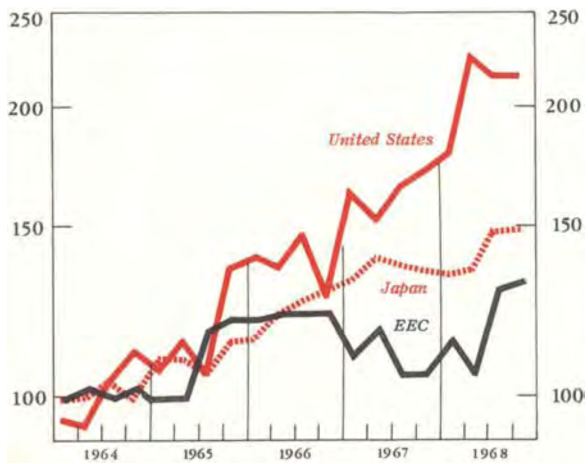


CHART 29. IMPORTS OF INDUSTRIAL COUNTRIES FROM FAR EAST ASIA, 1964-68

(1964=100; quarterly, seasonally adjusted)

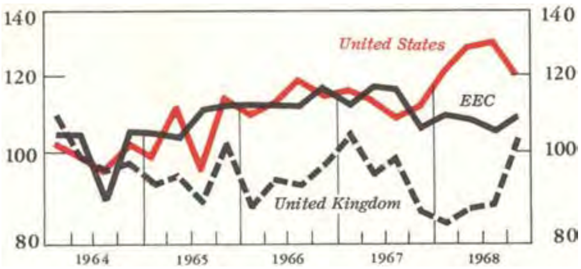


areas. The rise in U.S. imports largely offset the contraction in Japan's and the EEC countries' imports from this area (Chart 29).

U.S. imports from the Western Hemisphere showed a more pronounced downturn in 1967, and a less marked upswing in 1968, than total U.S. imports from primary producing countries. However, the fluctuation in the total value of industrial countries' imports from this region was moderated by an offsetting movement in U.K. imports (Chart 30). The changes in the last few years in U.S. imports from Australia, New Zea-

CHART 30. IMPORTS OF INDUSTRIAL COUNTRIES FROM PRIMARY PRODUCING COUNTRIES IN THE WESTERN HEMISPHERE, 1964-68

(1964=100; quarterly, seasonally adjusted)



land, and South Africa—a marked decline in 1967 and a recovery in 1968—account for most of the recent fluctuations in industrial countries' imports from that area (Chart 31).

Apart from the cyclical upswing in demand for primary producing countries' exports, the growth in export earnings of major primary producing areas from 1967 to 1968 was strongly influenced by the abnormal rise in demand for certain commodities in the industrial countries. Continued tension in the Middle East led to strong demand and higher prices for petroleum exports, and the strike in the U.S. copper industry gave rise to extraordinarily high copper prices. In the latter part of 1968, demand for industrial raw materials was strengthened by political uncertainties following the Czechoslovak crisis, and U.S. imports were speeded up in anticipation of the dock strike.

The strong demand for petroleum in Western Europe and Japan benefited not only the Middle East but also certain countries in North Africa. The strong rise in copper imports into industrial countries boosted particularly the export earnings of African copper producers, as production of the main copper exporter in the Western Hemisphere region—Chile—was restrained by limitations of capacity in part as the result of drought-induced power shortages. A marked increase in imports of

TABLE 20. INDUSTRIAL COUNTRIES' IMPORTS [1] OF MAJOR COMMODITY GROUPS FROM PRIMARY PRODUCING AREAS: GROWTH RATES 1967-68 AND VALUES IN 1967

	Total Less Developed Areas [2]	Of Which: Middle East [3]	Africa [3]	Far East Asia [4]	South and Southeast Asia [4]	Western Hemisphere	Australia, New Zealand, South Africa
	Percentage changes from January-September 1967 to January-September 1968						
Total imports from area	11	23	15	15	7	3	9
of which							
Petroleum	18	21	27	—	23	2	—
Copper	28	—	40	—	—	12	20
Other metals and ores, and precious stones	13	146	2	. . .	5	10	19
Manufactures excluding metals and textiles	32	110	7	28	28	42	12
Total, above groups	**19**	**25**	**24**	**25**	**17**	**8**	**19**
All other imports [5]	3	12	6	9	−2	−1	5
	1967 values in millions of U.S. dollars (rounded)						
Total imports from area	32,730	6,530	7,660	3,020	3,440	11,160	5,010
of which							
Petroleum	10,780	5,730	2,230	—	240	2,550	140
Copper	1,650	—	880	—	—	750	200
Other metals and ores, and precious stones	3,420	180	840	150	790	1,280	750
Manufactures excluding metals and textiles	1,845	90	100	950	350	210	330
Total, above groups	**17,700**	**6,000**	**4,050**	**1,100**	**1,380**	**4,790**	**1,420**
All other imports [5]	15,030	530	3,610	1,920	2,060	6,370	3,590

Sources: Organization for Economic Cooperation and Development, *Commodity Trade,* Series B, and *Over-All Trade by Countries,* Series A.

[1] Including primary producing countries in Europe. Since the imports of these European countries from other primary producing regions are quite small, the table gives a fair picture of the relative growth rates and importance of industrial countries' imports from the various regions.

[2] Includes imports from areas other than those distinguished here, or incompletely identified in importing countries' trade returns.

[3] The Middle East here excludes, and Africa includes, the United Arab Republic.

[4] Partly estimated.

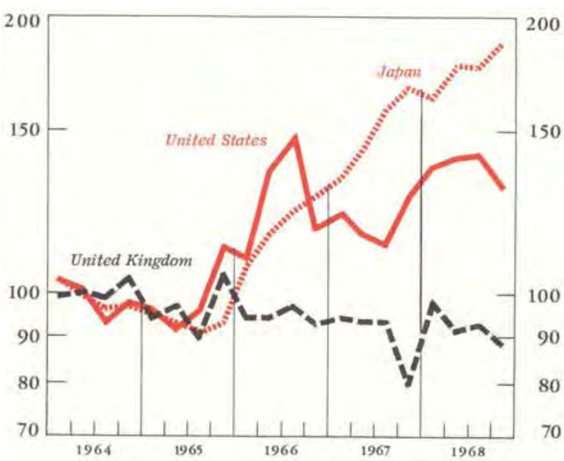
[5] Further information concerning the growth and value of imports of major commodities included in this group is given in Table 21.

light manufactures into the United States had a strong impact on exports from Far East Asia (Table 20).

Trade developments in other major commodity groups—mainly goods of agricultural origin and forest products—were on average less dramatic in 1968 (Table 21). Export earnings for most tropical staple products showed a marked expansion in 1968. By contrast, 1968 was an unfavorable year for temperate agricultural products originating in South America, Australia, New Zealand, and South Africa. Export earnings from meat, wool, coarse grains, and dairy products declined for a number of reasons—poor cereal crops in Argentina, low wool prices, the U.K. restriction on imports of meat from the Western Hemisphere (due to outbreak of foot-and-mouth disease), and the effect of sterling devaluation on import prices of dairy produce.

CHART 31. IMPORTS OF INDUSTRIAL COUNTRIES FROM AUSTRALIA, NEW ZEALAND, AND SOUTH AFRICA, 1964-68

(1964=100; quarterly, seasonally adjusted)



The development of trade in the principal commodities exported by each of the main primary producing regions since 1965 is further illustrated below, in the regional surveys.

Commodity Prices and Terms of Trade

In early 1968 prices for agricultural commodities other than food began to increase, thus reversing the declining trend of the preceding two years. Around the middle of 1968, food prices started to recover. At the same time, the price index for minerals and metals, which has continued to fluctuate sharply, turned upward again. As a result, the general index for commodities exported by primary producing countries, which had shown a slowly declining trend for some years, turned upward from the third quarter of 1968 (Chart 32). The index for 1968 as a whole, however, showed only a modest increase over the 1967 level.

The most notable movements in prices of foodstuffs were the further rise in cocoa prices from their already high level in 1967 and the recovery of the free market price of sugar following the conclusion of the new International Sugar Agreement in October 1968.

The price index for metals and minerals, which rose by close to 6 per cent from 1967 to 1968, was largely influenced by the exceptionally high copper prices during the first quarter of 1968. The immediate cause of this peak in copper prices was the strike in the United States, where nine months' production was lost between July 1967 and April 1968.

Higher commodity prices in 1968 were reflected in an increase of the average unit value of exports from less developed areas, and in a slight recovery of their terms of trade. However, more favorable terms of trade were by no means general for all less developed areas (Table 22), but were experienced mainly by the exporters of certain commodities, such as copper and cocoa. The more developed primary producing countries fared less well. The unit value of their exports in dollars in most cases declined from 1967 to 1968, as a result of recent adverse price movements for some staple exports (notably wool, wood pulp, and fish) and the devaluation of several countries' currencies late in 1967. The combined terms of trade for the Northern European countries (Iceland, Ireland, Finland) were less favorable than in any year since 1960. The Southern European countries also experienced a small decline in the average unit value of their exports in 1968 (largely as a consequence of the devaluation of the Spanish peseta) but their terms of trade continued to improve.

Problems of Stabilization of Export Earnings and Access to Markets

The slowing down in the growth of demand for primary products in the industrial countries during 1966-67 drew increased attention to the problem of fluctuations in commodity prices and pointed to the need to strengthen the trend growth of primary producers' export earnings by reducing restrictions on access to markets in the industrial countries. These questions were under active consideration by the various international organizations concerned during 1968.

Over the past several years, various efforts have been made—mainly in the form of international commodity agreements—to cope with the problem of instability of export earnings. Further studies of these matters were requested by the Boards of Governors of the Fund and the World Bank at their 1967 and 1968 Annual Meetings. In response to these requests, a joint study (Part I) was prepared by the staffs of the Fund and the Bank.

TABLE 21. INDUSTRIAL COUNTRIES' IMPORTS [1] OF AGRICULTURAL AND OTHER NONMINERAL PRODUCTS FROM PRIMARY PRODUCING AREAS: GROWTH RATES 1967-68 AND VALUES IN 1967

	Total Less Developed Areas	Of Which			Australia, New Zealand, South Africa
		Africa [2]	Asia [3]	Western Hemisphere	
	Percentage changes from January-September 1967 to January-September 1968 [4]				
Vegetable oils	15	−5	31	58	
Textiles other than cotton	14		12		
Coffee	13	16	—	12	
Wood and lumber	13	10	13	18	11
Fish and fish products	12		18	8	39
Cotton	10	4	77	4	
Cocoa	8	14		−10	
Cotton textiles	5		10		
Oilseeds, nuts, etc.	4	—	25	−44	
Fruit and vegetables	2	−6	12	4	7
Sugar and related products	1	6	−8	4	−3
Tea	−1	23	−7		
Feeding stuffs	−1	3	−23	1	26
Rubber	−7	−17	−6		
Wool	−7			−8	−6
Meat	−13			−15	5
Hard fibers	−18	−11			
Jute	−23		−22		
Maize	−37		−36	−44	5
Dairy products					−24
Total commodities listed above	1	—	6	5	2
	1967 values in millions of U.S. dollars (rounded)				
Vegetable oils	390	170	130	80	10
Textiles other than cotton	570	20	400	30	20
Coffee	2,050	570	90	1,390	10
Wood and lumber	930	290	530	80	210
Fish and fish products	350	40	100	180	70
Cotton	840	310	50	430	
Cocoa	520	400		120	10
Cotton textiles	190	10	150	10	10
Oilseeds, nuts, etc.	560	300	180	60	20
Fruit and vegetables	1,740	390	340	780	320
Sugar and related products	1,070	130	220	640	200
Tea	420	60	350		
Feeding stuffs	560	110	80	360	60
Rubber	610	70	540		
Wool	240		20	210	1,100
Meat	690	30		540	630
Hard fibers	120	50	40	30	
Jute	170		170		
Maize	480	40	60	340	100
Dairy products	20			10	360
Total commodities listed above	12,520	2,990	3,450	5,290	3,130

Source: Organization for Economic Cooperation and Development, *Commodity Trade*, Series B.
[1] Including primary producing countries in Europe; see Table 20, footnote 1.
[2] Includes the United Arab Republic.
[3] Excludes the Middle East.
[4] No percentage changes are shown for import groups valued at less than $50 million in 1967. Data on changes in the value of imports of selected commodities from 1965 to 1966 and from 1966 to 1967 are given in Tables 24 and 27.

In Part II of the study, the Fund staff proposed various means by which Fund policies might further contribute to the solution of commodity problems. A decision on these matters has been taken by the Executive Directors and transmitted to the Governors. (See Chapter 3.)

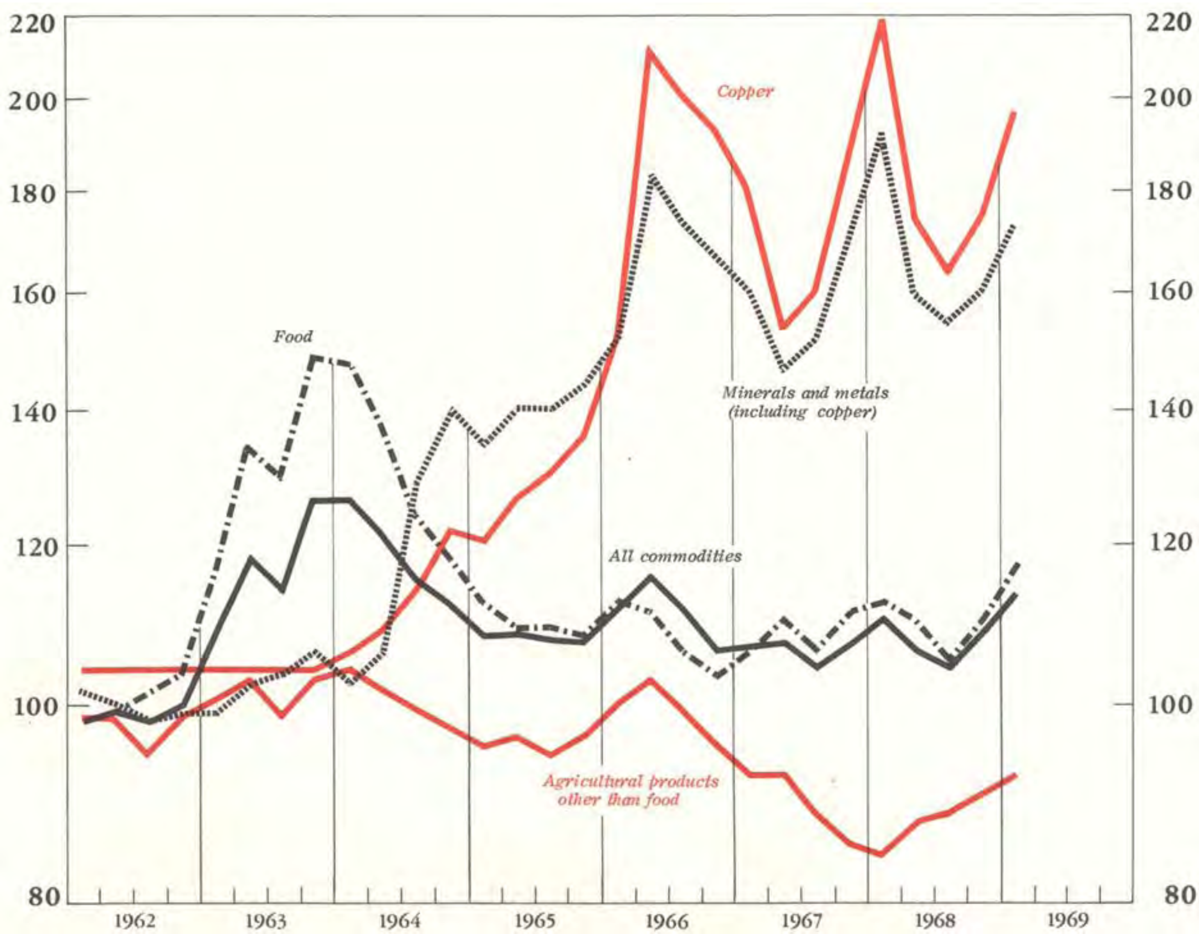
The problem of ensuring primary producing countries' access to markets in the industrial countries has been underlined by certain recent developments—such as the agreements providing for the limitation of exports by the primary producing countries of meat and cotton textiles; more stringent regulation of imports of meat in European markets; and the marketing difficulties experienced by some primary producing countries as a consequence of preferences by the EEC countries in favor of those developing countries associated with the Community. Industrial countries are becoming increasingly self-sufficient in many materials, as a result both of the increasing importance of synthetic products and of the rapid growth of their own production of natural products, especially of agricultural goods sheltered by protective barriers and subsidies. These matters remain under consideration in the competent international organizations.

Regional Surveys

The general patterns of developments outlined in the preceding section mask many differences

CHART 32. PRICES OF COMMODITIES[1] EXPORTED BY PRIMARY PRODUCING COUNTRIES, 1962–FIRST QUARTER 1969

(1961=100)



Source: National Institute of Economic and Social Research (London), except for copper index, which is a Fund staff estimate.

[1] Excluding petroleum.

TABLE 22. PRIMARY PRODUCING AREAS:[1] UNIT VALUE OF EXPORTS AND TERMS OF TRADE, 1956-68

(1963=100)

	Unit Value of Exports					Terms of Trade				
	Annual average					Annual average				
	1956-60	1961-65	1966	1967	1968	1956-60	1961-65	1966	1967	1968
More Developed Areas										
Northern Europe	100	103	110	108	102	100	102	106	106	100
Southern Europe	97	98	108	107	106	93	97	100	102	103
Australia, New Zealand, and South Africa	97	97	103	96	94	99	96	98	91	92
Less Developed Areas										
Middle East[2]	108	101	101	101	100	109	100	97	96	95
Asia	105	101	101	99	98	105	101	100	99	100
Africa[3]	108	101	108	109	112	110	101	104	103	106
Western Hemisphere	103	101	108	107	108	102	99	105	103	101

Source: United Nations, *Monthly Bulletin of Statistics.*
[1] Areas are as defined in Table 18, with the exceptions noted below.
[2] Excludes the United Arab Republic.
[3] Includes the United Arab Republic.

among areas and individual countries. Problems related to individual countries, in particular problems concerning stabilization policies and efforts to adjust external imbalances, are discussed in the regional surveys below.

Asia

India's current account deficit was sharply reduced in 1968, and both India and Pakistan strengthened their reserve positions. The year 1968 was, however, one of massive deterioration in the current and over-all balances of the countries in Far East Asia, and of continued deficits in the current account positions of the larger countries in Southeast Asia (Table 23).

The development of demand in the industrial countries for some major staple exports of countries in South and Southeast Asia—in particular jute and tea—was highly unfavorable over much of 1968, but there was a sharp increase in the value of trade in oilseeds and vegetable oils, following a decline from 1966 to 1967. Industrial countries' imports of wood and lumber and fruit and vegetables from Far East Asia continued to increase rapidly, and trade in textiles expanded strongly, in contrast to the modest increase from 1966 to 1967 (Table 24). An exceptionally favorable market for cotton principally benefited Pakistan.

A sharp improvement in the foodgrain supply situation was the outstanding development in most of the countries in South Asia during 1968. Record or near-record crops of rice and other foodgrains for the 1967/68 season in Ceylon, India, Nepal, and Pakistan resulted not only from more favorable climatic conditions but also from the growing use of higher-yielding varieties and fertilizers throughout the region. The 1968/69 crop season also appears to be a good one, and there seems every prospect of a continuing rise in yields over the next few years.

The improvement in food supplies has had widespread effects on these economies. Grain importing countries were enabled to cut back their imports substantially. India's dependence on foreign aid in the form of foodgrains was sharply reduced from the level of the two preceding years of severe drought, and Ceylon, which in recent years has imported one half or more of the rice consumed, imported only about one fourth of its consumption in 1968 and expects to become self-sufficient by the mid-1970's. The easier food situation has contributed to the success of efforts to restrain inflationary pressures in some of these countries. In India and Pakistan consumer prices changed little in 1968 after sharp increases for several years (Table 25).

Higher agricultural output in South Asia was reflected in satisfactory growth of real gross national product (GNP) and provided a stimulus to higher activity in nonagricultural sectors. In Ceylon and Pakistan real GNP rose by 8 per cent from 1967 to 1968, and there seems to have been an even larger increase in Burma. In India real national income rose by 9 per cent between the fiscal years (ended March 31) 1967 and 1968, and may have risen by 3 per cent in the year ended March 1969, when agricultural output apparently was maintained at its record 1967/68 level. After a rather long lag, the growth of agricultural output and incomes imparted some buoyancy to India's industrial sector; industrial production rose by about 6 per cent in 1968, following no increase from 1966 to 1967.

Financial policies in India, Pakistan, and Ceylon were characterized by increasing restraint in recent years. In India the deficit on the consolidated

TABLE 23. SELECTED ASIAN COUNTRIES: BALANCE OF PAYMENTS POSITIONS, 1965-68

(In millions of U.S. dollars)

	1965	1966	1967	1968	Change from 1967 to 1968
South Asian Countries					
Current balances [1]					
Burma	−18	−20	−31	−88	−57
Ceylon	−1	−74	−69	−65	4
India	−1,388	−969	−1,165	−682	483
Pakistan	−620	−413	−676	−437	239
Total	−2,027	−1,476	−1,941	−1,272	669
Over-all balances [2]					
Burma	−27	8	−37	−2	35
Ceylon	10	−41	−5	−33	−28
India	−30	−59	−22	101	123
Pakistan	−61	−22	−26	66	92
Total	−108	−114	−90	132	222
Southeast Asian Countries					
Current balances [1]					
Indonesia	−247	−123	−283	−253	30
Malaysia	−23	−24	−31	−4	27
Singapore	−45	3	−75	−171	−96
Thailand	−46	−8	−97	−242	−145
Viet-Nam	−221	−267	−341	−349	−8
Total	−536	−419	−827	−1,019	−192
Over-all balances [2]					
Indonesia	...	...	...	...	...
Malaysia	54	41	41	59	18
Singapore	...	...	...	...	...
Thailand	79	185	95	12	−83
Viet-Nam	37	128	28	−55	−83
Total	170	354	164	16	−148
Far East Asian Countries					
Current balances [1]					
China, Republic of	−81	−8	−45	−114	−69
Korea	−126	−225	−326	−577	−251
Philippines	111	117	−106	−305	−199
Total	−96	−116	−477	−996	−519
Over-all balances [2]					
China, Republic of	3	37	79	−36	−115
Korea	9	99	111	52	−59
Philippines	76	4	−15	−73	−58
Total	88	140	175	−57	−232

Sources: Data reported to the International Monetary Fund and staff estimates.

[1] Balance on goods, services, and private transfers; unrequited government transfers are included in capital account.

[2] Over-all balance is balance financed by changes in official gold and foreign exchange assets, and in the net Fund position.

TABLE 24. INDUSTRIAL COUNTRIES' IMPORTS[1] OF MAJOR COMMODITIES FROM ASIA, 1966-68

(Values in millions of U.S. dollars)

	1967 Value	Percentage Change from Preceding Year		
		1966	1967	1968[2]
Products predominantly imported from South and Southeast Asia				
Rubber	537	−1	−10	−6
Jute fiber	173	7	5	−22
Tea	353	−10	7	−7
Tea imports from Africa	*59*	*27*	*−6*	*23*
Total	1,063	−1	−2	−8
Other products				
Wood and lumber	527	31	11	13
Cotton textiles	150	2	4	10
Jute and other textiles	396	17	—	12
Fruit and vegetables	335	6	12	12
Oilseeds	177	2	−19	25
Vegetable oils	131	17	−12	31
Cotton	48	−12	−8	77
Total	1,764	13	2	17
Total imports from Asia[3]	6,461	9	4	11

Source: Organization for Economic Cooperation and Development, *Commodity Trade*, Series B.
[1] See Table 20, footnote 1.
[2] Change from January-September 1967 to January-September 1968.
[3] Excluding Japan.

budget of the Union and State Governments (as measured by the net increase in bank credit to government) was reduced from over Rs 5.1 billion in the fiscal year ended March 1966 to about Rs 2.7 billion in 1966/67 and Rs 2.6 billion in 1967/68. In Pakistan, which was granted a stand-by arrangement by the Fund in 1968 in support of its stabilization program, fiscal and monetary measures to curb credit expansion in the public and private sectors substantially lessened the growth of the net domestic assets of the banking system after 1967. In Ceylon (where the fiscal year ends September 30), the expansionary impact of the budget was more than halved between 1965/66 and 1966/67, and a further reduction had been hoped for in 1967/68. In the event, however, the budgetary position was adversely affected by devaluation, subsequent increases in wages and salaries of government employees, and a fall in nonbank borrowing.

TABLE 25. CHANGES IN CONSUMER PRICES IN SOUTH ASIAN COUNTRIES, 1964-68

(Per cent increases during the years shown)

	1964	1965	1966	1967	1968
India	16	5	14	9	−3
Pakistan	7	5	10	4	2
Ceylon	2	—	—	7	6

Source: *International Financial Statistics.*

The balance of payments positions of South Asian countries were strongly influenced by the easier domestic supply situation, and by measures taken to strengthen the external position, in particular the important changes in exchange policies recently implemented in a number of these countries. Nevertheless, these countries continue to face severe strains in their external accounts. In India a marked improvement in the trade and current account balances in 1968 permitted some rebuilding of foreign exchange reserves, even after substantial repayments to the Fund. An 11 per cent fall in the value of imports and a 9 per cent rise in exports were largely the result of the recovery of domestic agricultural supplies, the cumulative effects of the June 1966 devaluation, subsequent export promotion measures, the slow recovery of industrial production, and the existence of considerable idle capacity in the investment industries during 1968. The expansion of India's exports was led by manufactures such as engineering products, iron and steel, and chemicals, and by handicrafts. However, in view of the need to step up development expenditures and to service high and rising foreign debt, India's external position remains weak.

After losing reserves in every year since 1963, Pakistan secured a large improvement in its balance of payments and an increase in reserves in 1968. In addition to the slower expansion of credit and industrial activity, a number of exchange measures contributed to the improvement. Beginning in November 1967, the exchange system was simplified and strengthened. The shift of most imports of industrial inputs to lower rates was an important factor in curbing import demand. Export incentives were increased by eliminating export duties on jute and cotton and increasing the bonus entitlement for many items. The market price for bonus vouchers rose.

Ceylon has been especially hard hit by the unfavorable development of trade in tea and rubber in recent years, and (like Burma) its total exports have declined in value for several years in succession (Table 26). In an effort to overcome chronic payments difficulties, the currency was devalued by 20 per cent after the sterling devaluation in November 1967, and certain changes in exchange and trade policy were introduced. Subsequently, in May 1968, a multiple exchange system was introduced as a temporary measure

TABLE 26. TRADE OF SELECTED ASIAN COUNTRIES, 1966-68

(*Values in millions of U.S. dollars*)

	1967 Value		Percentage Changes from Preceding Year					
			Exports			Imports		
	Exports (f.o.b.)	Imports (c.i.f.)	1966	1967	1968	1966	1967	1968
South Asia								
Burma	123	124	−13	−37	−22	−36	−22	−9
Ceylon	348	360	−13	−3	−2	37	−16	1
India	1,613	2,807	−5	—	9	−3	−1	−11
Pakistan	645	1,101	14	7	12	−14	22	−10
Southeast Asia								
Indonesia [1]	770	892	13	8	13	3	33	3
Malaysia	1,217	1,086	−2	−3	10	1	−2	7
Singapore	1,140	1,440	12	−3	12	7	8	15
Thailand	685	1,060	9	1	−4	20	20	12
Viet-Nam [1]	38	754	38	50	−19	77	15	−5
Far East Asia								
China, Republic of	641	806	19	20	25	12	30	12
Hong Kong	1,527	1,818	16	15	14	13	3	13
Korea	320	996	43	28	42	55	39	47
Philippines	812	1,172	8	−2	4	7	23	9

Source: *International Financial Statistics.*
[1] Based on balance of payments data.

and restrictions on essential imports were lifted. Net receipts of capital declined, as a rise in official aid was more than offset by a reduction in the inflow of private capital. In the early months of 1969 external reserves fell sharply.

Afghanistan's balance of payments was severely strained in 1966 and 1967, as a consequence of weak demand for karakul and carpets and the unfavorable effective exchange rates for major export products. In early 1968 exchange rates were adjusted, and the payments position improved, as a result of increased exports of karakul and the start of exports of natural gas to the U.S.S.R. In Nepal the decision not to devalue when the value of the Indian rupee was lowered in 1966 led to payments difficulties, and the decision to devalue in December 1967 appears to have led to an improvement in 1968.

The recovery of rice production in Burma in 1967/68 was not matched by an improvement in exports, which fell to a very low level, partly as a consequence of reluctance on the part of farmers to sell to the Government in the expectation of higher procurement prices. In 1968/69 sales to the Government seem to have increased. However, Burma appears to be facing some difficulty in exporting rice because of the marked change in the world supply situation; world production in 1968 and expected production in 1969 was about 10 per cent higher than in the two preceding crop years.

The year 1968 was also characterized by a marked increase in the growth of real output in Southeast Asia. The most striking improvement was in Indonesia, where favorable weather led to a large increase in agricultural production. Industrial production, especially of textiles, rose partly because of an improvement in the supply of imported materials and components. In Malaysia real GNP was some 5 per cent higher than in 1967, following a rise of less than 4 per cent from 1966 to 1967; in Thailand real GNP is estimated to have risen by 8½ per cent from 1967 to 1968, somewhat more than in the preceding year.

In most of these countries price inflation has not been a major problem in recent years. Indonesia, however, suffered for several years from an extremely rapid inflation. As a consequence of the easier supply situation for rice in 1968 and of the marked improvement in the budgetary position, the rate of inflation was greatly reduced. During the 12 months ended in February 1969, consumer prices rose by 26 per cent, compared with a rise of about 150 per cent over the previous 12 months. Credit policy in 1968 was aimed at channeling funds into high-priority uses—notably rice procurement by the Government. While this operation was a principal factor underlying the

127 per cent increase in the money supply during 1968, it contributed to a desirable remonetization of the agricultural economy. Barter transactions, which had become very widespread during the period of hyperinflation, were substantially reduced, and real cash balances increased. To channel part of the increased liquidity into the banking system, interest rates were increased. This encouraged a large expansion of time deposits, but in March 1969 rates were lowered to their previous level as prices were no longer increasing as rapidly as they had earlier.

Malaysia's balance of payments showed a considerable improvement in 1968. This was mainly the result of a substantial strengthening in the trade balance that arose from a sharp increase in export volume at a time when the prices of the country's major export commodities were generally lower than in the previous year. There was some increase in the net inflow of private long-term capital, associated with larger foreign investment in manufacturing industries. The inflow of official long-term capital was, however, about one third lower than in 1967 in spite of the Government's increasing efforts to secure foreign financing for development projects. In Thailand the over-all balance of payments was in approximate equilibrium in 1968. Exports declined but imports continued to increase rapidly and the trade deficit rose sharply. This was largely offset by a rise in receipts for services, and a further large increase in official grants associated with the expansion of military bases in Thailand. Receipts of IBRD loans and private long-term capital also increased.

In Far East Asia very high rates of growth in 1968 were experienced in the Republic of China, Korea, and Hong Kong as a result of the steep rise in exports and industrial production; strong demand pressures were reflected in substantial price increases. In the Philippines, where exports increased moderately, the continued rapid growth of GNP was due mainly to the sharp rise in agricultural output, and consumer prices remained stable owing to a decline in rice prices; recorded imports rose much less than from 1966 to 1967.

In Korea real GNP increased by about 13 per cent from 1967 to 1968, reflecting the rapid growth of manufacturing output and the completion of several large industrial investment projects; agricultural production was adversely affected by drought. There was a sharp increase in money supply during 1968, including emergency credits to the agricultural sector; pressure on prices increased, and a substantial rise in imports resulted in a marked deterioration in the trade balance. The Korean authorities sought to check the expansion of bank credit by means of rediscount policy, sales of stabilization bonds, and blocked deposits in the Currency Stabilization Account. In the latter part of the year, increased import deposit requirements and action by the Government to control the inflow of short-term foreign capital helped to restrain the growth of liquidity.

Korea's current receipts from invisibles increased by over one fifth from 1967 to 1968, and service receipts connected with the conflict in Viet-Nam were equivalent to about one third of the value of merchandise exports. A very large increase in contractual debt outstanding reflected mainly a rise in debt of more than three years' maturity. This increase was indicative of the continuing reliance on both official and commercial credit from abroad for development purposes, and in part reflected the attractiveness of foreign borrowing owing to high domestic interest rates.

In the Republic of China real GNP rose by 10 per cent from 1967 to 1968, industrial output increasing by 19 per cent and agricultural production by 6 per cent. After several years of price stability, there was a marked acceleration of price increases in 1968; consumer prices rose by 7 per cent. A rapid growth of credit to the private sector led to a sharp rise of the money supply in the summer of 1968. Following an increase of the rediscount rate and other measures by the Central Bank, the pace of monetary expansion was reduced and prices tended to decline in the last quarter of the year following a good rice harvest. The budget showed a large cash surplus.

In the Philippines real GNP rose by about 6 per cent per annum in both 1967 and 1968. Agricultural output in the crop year 1967/68 increased by almost 10 per cent as a consequence of increased planting of high-yield varieties of rice. In 1968, for the first time in decades, the Philippines was a net exporter instead of an importer of rice.

The restrictive monetary policy in the Philippines initiated in mid-1967 was reinforced during 1968, and advance deposit requirements for imports were stiffened in mid-1968. There were, however, certain relaxations and exemptions from these measures, and credit to the private sector continued to increase rapidly. Borrowing by the Government and by public enterprises also rose substantially. Although the Government was able, for the first time since 1959, to secure the passage of several new tax laws, the fiscal deficit has continued to widen.

After sizable surpluses in 1965 and 1966, the Philippines experienced substantial current account deficits in 1967 and 1968. The weakening in the external position in 1967 was due largely to a sharp increase in imports which appears to have been occasioned by a speculative building up of inventories in anticipation of import restrictions. The further deterioration of the current account in 1968 occurred principally on invisible transactions.

Africa

Export markets were unusually favorable for North African exporters of petroleum and for the African copper producing countries in 1968. Exports of tropical agricultural products and timber from the region recovered sharply after declining in value in 1967; exports of coffee, cocoa, and tea were all considerably higher in value than in 1967, but 1968 was another poor year for West African exports of oilseeds and vegetable oils and for East African exports of hard fibers (Table 27).

In contrast to 1967, when a large number of African countries were heavily in deficit on the over-all balance of payments, most countries increased their reserves in 1968 (Table 28); Libya and the Democratic Republic of Congo showed the strongest increases, with a combined rise in their foreign reserve holdings of over $220 million. Libya recorded a current account surplus of $335 million in 1968, and the Democratic Republic of Congo had a substantial current account surplus. There appears to have been little change in the aggregate current account balance of the other less developed countries in Africa; the strengthening in their combined over-all payments balance apparently reflected a recovery of the net inflow of capital, which had been unusually low in 1967.

After a slowdown in 1967, Libya's exports rose by nearly 60 per cent in 1968 (Table 29). In some recent years the increase in oil revenues

TABLE 27. INDUSTRIAL COUNTRIES' IMPORTS [1] OF TROPICAL PRODUCTS AND MINERALS FROM LESS DEVELOPED AREAS OF AFRICA AND THE WESTERN HEMISPHERE, 1966-68

(*Values in millions of U.S. dollars*)

	Africa [2]				Western Hemisphere			
		Percentage change from preceding year				Percentage change from preceding year		
	1967 value	1966	1967	1968 [3]	1967 value	1966	1967	1968 [3]
Tropical Products								
Coffee	575	14	−9	16	1,387	−2	−6	12
Cotton	309	14	13	4	425	7	−22	4
Wood and lumber	290	1	−3	10	75	16	−13	18
Cocoa	397	−1	23	14	123	49	21	−10
Oilseeds	298	4	−16	—	57	27	24	−45
Vegetable oils	173	−6	−19	−5	75	−6	−11	58
Fruit and vegetables	391	10	1	−6	782	−3	3	4
Sugar, etc.	128	13	−10	6	644	11	9	4
Hard fibers	50	−15	−26	−11	25	−3	−19	−2
Total	2,611	5	−3	6	3,568	5	−4	7
Minerals								
Petroleum	2,234	11	15	25	2,553	−6	6	3
Copper	882	34	−1	40	751	27	7	12
Other metals and ores	624	1	−7	4	1,268	4	3	10
Nonmetallic minerals	221	—	15	−12	43	2	13	13
Total	3,961	13	7	25	4,615	2	5	6
Total imports from region	7,660	8	1	15	11,162	5	1	3

Source: Organization for Economic Cooperation and Development, *Commodity Trade,* Series B.
[1] See Table 20, footnote 1.
[2] Includes the United Arab Republic. Similar data on imports of tea from Africa are included in Table 24.
[3] Change from January-September 1967 to January-September 1968.

TABLE 28. SELECTED AFRICAN COUNTRIES AND MONETARY GROUPINGS: BALANCE OF PAYMENTS POSITIONS, 1965-68

(In millions of U.S. dollars)

	1965	1966	1967	1968	Change from 1967 to 1968
Current Balances [1]					
Libya	87	101	136	335	199
Morocco	−14	−69	−80	−100	−20
Tunisia	−178	−128	−137	−64	73
Ghana	−227	−130	−85	−46	39
Nigeria	−277	−283	−267	−249	18
Sierra Leone	−38	−29	−29	−7	22
Ivory Coast	−38	−46	−58	—	58
Congo, Democratic Rep. of	−109	−34	−1	59	60
Zambia	97	68	−1	. . .	. . .
Kenya	−20	−27	−58	−55	3
Tanzania	−7	—	4	−15	−19
Uganda	. . .	−16	−10	−5	5
Over-All Balances [2]					
Libya	74	94	76	153	77
Morocco	46	−12	−11	−37	−26
Tunisia	−8	−15	12	−1	−13
Ghana	20	−51	−28	2	30
Nigeria	−1	−23	−87	3	90
Sierra Leone	2	−2	−8	12	20
Congo, Democratic Rep. of	−19	1	45	70	25
Kenya [3]	3	20	12	20	8
Tanzania [3]	4	23	5	19	14
Uganda [3]	. . .	14	3	14	11
Ethiopia	15	1	−14	2	16
Sudan	−22	−15	−14	−9	5
West African Monetary Union	23	16	−5	8	13
Equatorial African Monetary Union	9	−9	−27	25	52

Sources: Data reported to the International Monetary Fund and staff estimates.
[1] Balance on goods, services, and private transfers; unrequited government transfers are included in capital account.
[2] Over-all balance is balance financed by changes in official gold and foreign exchange assets, and in the net Fund position.
[3] Owing to the distribution of the East African Currency Board's holdings to the Central Banks of Kenya, Tanzania, and Uganda it is not possible to ascertain the over-all payments balances of these countries. The data included are official monetary movements.

financed a steep rise in public expenditures. Credit expanded rapidly, and prices and wages rose considerably. Amended agreements with the oil companies resulted in government revenues from the industry rising even faster than output. Until 1967 government accounts were approximately in balance; in 1968, however, the public sector had a large surplus, despite a sharp rise in expenditures, mainly for current purposes.

Copper production in the Democratic Republic of Congo was maintained in 1968, and copper exports were more than one-third higher in value than in 1966 and 1967. Agricultural output also rose considerably in 1968, partly as a result of improved incentives to producers; the volume of agricultural exports increased markedly although prices declined. Higher revenues from copper exports and improved collection of profit taxes resulted in a relatively large surplus in the ordinary budget. However, government expenditure for other purposes increased sharply and led to some borrowing from the banking system. Foreign exchange expenditures for imports rose by almost 20 per cent, and in addition a substantial quantity of imports was financed by medium-term suppliers' credits.

There was also a marked rise in the value of copper exports from Zambia. During 1968 the Zambian Government took steps to supervise copper marketing and prices by establishing a joint government/private producer company in which it holds a majority of the stock. Agricultural output in 1968 remained about the same as in 1967, but manufacturing industries continued to expand rapidly. Prices increased during the year, partly on account of wage increases granted earlier

TABLE 29. TRADE OF SELECTED AFRICAN COUNTRIES, 1965-68

(Values in millions of U.S. dollars)

	1967 Value		Percentage Changes from Preceding Year					
			Exports			Imports		
	Exports (f.o.b.)	Imports (c.i.f.)	1966	1967	1968	1966	1967	1968
North Africa								
Algeria	724	639	12	1	5	–4	–1	...
Libya	1,178	476	25	18	59	27	18	36
Morocco	424	517	—	–1	6	6	8	6
Tunisia	149	261	17	6	6	2	4	–16
West Africa								
West African Monetary Union								
Ivory Coast	325	264	12	5	31	9	2	14
Togo	32	45	33	–11	21	5	–5	4
Mauritania	70	37	19	1	–2 [1]	–4	2	–5 [1]
Dahomey	15	48	–23	45	53 [1]	–3	44	1 [1]
Senegal	139	157	15	–7	9	–2	–2	15
Niger	33	46	37	–4	–17 [1]	20	2	–4 [1]
Upper Volta	18	36	16	11	19	1	–3	13
Total	632	633	15	1	19 [1]	5	3	11 [1]
Mali	20	51	–19	54	...	–16	42	...
Equatorial African Monetary Union								
Cameroon	158	188	4	9	20	9	29	—
Gabon	120	67	–4	20	11 [1]	6	2	–3 [1]
Congo (Brazzaville)	48	82	–8	10	–2 [1]	8	18	2 [1]
Central African Republic	29	44	17	–6	14 [1]	27	27	–7 [1]
Chad	26	40	–13	13	12 [1]	3	24	2 [1]
Total	381	421	—	11	12 [1]	3	21	–2 [1]
Ghana	263	212	–16	16	9	–21	–9	–4
Nigeria	680	626	6	–14	–13	–7	–13	–14
Liberia	159	126	11	6	7	26	–5	–6
Sierra Leone	70	90	–6	–16	37	–7	–10	1
Other African Countries								
Sudan	214	214	4	5	14	7	–4	–10
Ethiopia	101	143	–4	–9	5	8	–12	21
Kenya [2]	240	336	12	–6	4	22	–3	6
Tanzania [2]	247	227	27	–6	–5	19	–4	13
Uganda [2]	218	159	5	1	–1	3	–4	3
Congo, Democratic Rep. of	440	265	39	–7	31 [1]	7	–22	...
Zambia	658	483	30	–5	15	17	24	4

Source: *International Financial Statistics.*
[1] Estimate based on less than 12 months of 1967 and 1968.
[2] Data from national trade returns, including trade with other East African countries.

in the copper industry, and partly because of transportation difficulties affecting imports. The Government's current budget for 1968 was in surplus owing mainly to large receipts from mineral royalties and copper export taxes. Since revenues from copper were expected to decline in 1969, the Government proposed new income taxes and customs duties that, together with economies in current expenditures, were expected to maintain a sizable surplus, which would be available to assist in financing development expenditures.

Favorable climatic conditions, reflected in bumper cereal crops and increased production of citrus fruit and wine, together with rapidly rising mineral production, led to a substantial growth of real output in the North African countries in 1968. Algeria, Morocco, and Tunisia benefited from increased exports of petroleum or phosphates, substantially higher receipts from tourism (except in Algeria), and reduced import requirements for cereals. Tunisia secured a marked improvement in the balance of payments on current account as a result of lower food imports, strong efforts to hold back domestic demand, and the continuance of

TABLE 30. PRICES OF TROPICAL BEVERAGES AND SUGAR, 1963-68

(In U.S. cents per pound)

	Cocoa	Coffee			Tea	Sugar	
	Ghana	Brazil	Colombia	African	Ceylon	"Free market"	United States
1963	25.3	34.1	39.6	27.9	46.1	8.5	8.1
1964	23.4	46.7	48.8	35.6	46.4	5.9	7.0
1965	17.3	44.7	48.6	31.1	47.8	2.1	6.8
1966	24.4	40.8	47.4	33.6	43.4	1.9	7.0
1967	29.1	37.8	41.9	33.6	41.9	2.0	7.3
1968	34.4	37.4	42.6	34.0	39.0	2.0	7.5
1968							
I	30.6	37.3	42.2	34.6	39.1	2.1	7.4
II	29.9	37.7	42.6	34.1	39.6	1.9	7.5
III	32.5	37.5	42.7	34.0	39.8	1.6	7.6
IV	44.7	37.5	42.7	33.2	37.6	2.4	7.6
1969							
I	44.5	37.6	41.9	34.2	37.0	3.3	7.7
II	45.1	37.4	39.6	29.6	. . .	3.8	7.8

Source: *International Financial Statistics.*

import restrictions. Imports into Algeria increased substantially following the abolition in February 1968 of the temporary import restrictions introduced in July 1967, and the growth of exports was held down as France maintained the reduced quotas on wine imports. However, the strong over-all position in Algeria was maintained in 1968, and Tunisia again experienced a large net inflow of capital offsetting the current account deficit, but Morocco had to make substantial repayments of short-term loans used to finance emergency cereal imports in the preceding drought years.

The three major African producers of cocoa—Ghana, Nigeria, and Ivory Coast—were all favorably affected by the development of the supply/demand situation for cocoa in 1968; Ivory Coast also benefited from much higher receipts for its coffee. For the third year in succession, world cocoa output fell short of its 1964/65 level, and was again exceeded by rising world consumption. It had been anticipated that the crop would increase in 1968/69, but seasonally unprecedented rains between July and September caused severe crop damage and hindered transportation. By October 1968 stocks had been reduced to the equivalent of only two months' normal supply, and a further decline of West African output was foreseen in the 1968/69 season. Cocoa prices, which had risen steeply in 1966 and 1967, again rose sharply in the final months of 1968 and were on average 18 per cent higher for the year as a whole than in 1967 (Table 30). As a consequence, aggregate export receipts for cocoa again increased, after a rise of more than 20 per cent from 1966 to 1967.

While the total exports of Ghana and Ivory Coast increased considerably in value in 1968, Nigeria's exports declined mainly as a result of the internal conflict and its impact on the production and export of petroleum. Agricultural exports in total increased substantially, a slight reduction in receipts from cocoa and cotton being more than offset by higher earnings from groundnut and palm products. Exports of petroleum, Nigeria's largest and fastest growing export in recent years, were reduced to less than half of their 1967 level in 1968. However, in the last quarter of the year production was again approaching the level attained in the period immediately preceding the outbreak of hostilities. Despite the reduction in total exports, Nigeria was able to achieve a small improvement on current account, mainly by reducing imports through the intensification of controls and the imposition of higher duties. A reported substantial increase in the inflow of private capital also contributed to the improvement in the balance of payments as a whole, and an over-all surplus was recorded for the first time in several years.

Ghana's external balance has improved considerably in recent years; in particular, the trade account has strengthened and showed an estimated surplus of $59 million in 1968. There was a considerable over-all balance of payments surplus in the first three quarters of 1968, but in the fourth quarter the shortfall in export receipts and seasonal factors led to a very large deficit, so that there was little surplus for the year as a whole. In the three years to 1968, the scope of open general licenses for imports widened, transfers of profits were initiated, and reliance on bilateral trade and payments agreements was reduced. The improvement in Ghana's external position was achieved partly through tight financial policies. The main objective in 1968, as in the two preceding years, was to eliminate the inflationary impact of the budget, characteristic of earlier years. The government cash deficit was reduced from N₵ 134 million in 1965 to N₵ 56 million in the fiscal year 1967/68, with less reliance on borrowing from the banks. This improvement was achieved in part through a marked cut in development expenditures, the renegotiation of external debt repayments, and the devaluation of the Ghanaian currency, which resulted in a rise of export and import duties. The deficit had been expected to decline further in 1968/69 and to be financed mainly by foreign borrowing, but the outturn in the first half of the fiscal year was not as good as expected owing to the floods. Revenue from the cocoa export duty was affected by delayed shipments, and the increase expected from import duties did not materialize. Expenditures rose more than foreseen. In early 1969 the Government took a series of measures to improve the fiscal situation and the over-all budget position strengthened in the first half of 1969. The policies followed from 1966, especially the reduction in public expenditures and consequent decline in construction activity, had the effect of slowing down the rate of growth of real output and raising the level of unemployment.

The sharp improvement in Ivory Coast's trade balance and current account position in 1968 was the principal factor in the increase in the combined reserves of the West African Monetary Union. Togo also experienced a marked improvement in its external balance, as a result of the recovery of its exports of coffee and palm nuts from an abnormally low level in 1967 and of a substantial further increase in exports of phosphates (Table 29). In the combined accounts of this group of countries, these improvements were in part counterbalanced by some weakening of the external balance of Mauritania in 1968 and by a further deterioration of the external accounts of Senegal and Niger. Senegal, Dahomey, and Niger are heavily dependent on exports of groundnuts and oils, production of which was affected by drought in 1968. Moreover, prices of the main export products of these countries declined, further limiting their export earnings. Ivory Coast enjoys a relatively favorable position by reason of the diversity of its exports (coffee, timber, and cocoa); in recent years production of manufactured goods has developed rapidly, largely financed by French capital. Output has risen more rapidly than population there and in Mauritania, where heavy investment in iron ore and copper mines has been taking place in recent years. In the other countries of the West African Monetary Union, the growth of real output has barely kept up with the growth of population. The inland countries, Mali,[1] Niger, and Upper Volta, are hampered by their inaccessibility and have very small exports.

While the slight improvement in the over-all balance of the West African Monetary Union countries seems to have been due largely to an improvement in the current balance occasioned by the sharp rise in the total exports of the group, the appearance of a substantial surplus in the combined accounts of the Equatorial African monetary union countries for 1968 seems to have been due to a substantially larger inflow of official transfers and private capital than in 1967. There was a continued deterioration of the budgetary positions of governments in the area in the fiscal year ended September 1968. In contrast to the sharp expansion in the exports and imports of the West African Monetary Union in 1968 following a marked slowdown in 1967, the Equatorial group of countries experienced about the same growth in exports in 1968 as in 1967, and total imports into the majority of these countries seem to have been reduced in 1968. Exports from Cameroon and the Central African Republic expanded very considerably, mainly as a result of increased earnings for coffee and diamonds, but the very rapid expansion of petroleum exports from Gabon in 1967 was not maintained in 1968.

A broad harmonization of customs tariffs and fiscal systems has been proceeding within the Equatorial African monetary union countries. However, in April 1968 the Central African Republic and Chad gave notice of withdrawal

[1] Mali has its own Central Bank, but since March 1968, when the Mali franc became fully convertible into French francs through the mechanism of the Operations Account, its payments system has been the same as that of countries in the West African Monetary Union.

from the union, and formed a new regional grouping with the Democratic Republic of Congo; in December 1968 the Central African Republic rescinded its decision to withdraw from the union.

In East Africa adverse weather in the 1967/68 season affected the output of several crops, notably coffee and medium-staple cotton; however, there was a recovery of tea production in Kenya. The closure of the Suez Canal continued to hamper exports from Ethiopia and Somalia, but export receipts of the majority of countries in the area were improved by higher prices (Table 29).

For a number of years prior to 1966, a combination of favorable coffee export seasons and substantial receipts of foreign aid made possible a high level of activity in Ethiopia, combined with a strong budgetary position and balance of payments. However, in 1967 the decline of coffee exports and rise in transportation charges, together with a reduction in external assistance, caused an over-all payments deficit for the first time since 1959. In 1968 the trade balance deteriorated further as a result of a very sharp increase in imports due to delivery of commercial aircraft from the United States. However, because of increased receipts of foreign aid, the external position was again in over-all balance. To curtail the demand for imports, the authorities imposed, in March 1968, an import deposit requirement of at least 100 per cent of the c.i.f. value; this was subsequently reduced to 25 per cent.

The Sudan's cotton exports reached a new high in 1968, exceeding those of 1967 by 23 per cent in volume terms and by more than 30 per cent in value; this was mainly the consequence of a record crop coinciding with relatively small crops of staple cotton elsewhere, but it also reflected in part an improvement in the quality of the Sudan's cotton and the more flexible marketing policies adopted in recent years. Nevertheless, the stabilization program introduced in September 1966 suffered a setback during 1968 and the balance of payments came under further pressure. The Government approved substantial pay increases for all public sector employees in August 1968; in order to meet the resulting rise in expenditure, the budget called for a number of tax increases. However, partly because of delays in enacting revenue measures, receipts fell short of forecasts, while expenditures exceeded the budget estimates. As a result, there was a sharp rise in public sector reliance on the banking system. Import demand remained strong in the latter half of 1968, despite restrictive credit measures, selective increases in customs duties, and an increase in the import surcharge.

Kenya, Tanzania, and Uganda—the countries formerly parties to the East African Currency Board—decided not to alter their exchange rates when sterling was devalued, because it was thought that the value of their exports and imports would be only slightly affected. The newly established independent central banks took steps to discourage speculative capital outflows and the outward movement of capital was soon reversed in a context of improving trade balances and rising receipts from tourism. The three countries together had a considerable over-all surplus in 1968.

The combined real output of the three countries is estimated to have risen by about 3 per cent, the same as in 1967 but considerably less than the rise in 1966. In Kenya measures to encourage cereal production, including high producer prices, have led to a very rapid increase in maize output since 1965 and the Government has been forced to dispose of surpluses abroad at a loss. The authorities have realigned prices to bring them closer to world market prices. In Uganda, where in earlier years similar problems had been encountered in regard to prices paid to cotton and coffee producers, the Cotton Lint Marketing Board realized surpluses during the last two years, and the Coffee Marketing Board maintained a satisfactory financial position following a sharp reduction in producer prices. It is expected that the latter Board will be able to finance the bumper coffee crop in the 1968/69 season from its own resources. Sisal plantations in Tanzania have faced severe difficulties in recent years, as labor costs have risen steeply while prices have been declining in the world market. Following recommendations by the International Labor Organization, the Government introduced a new wage policy toward the end of 1967 under which wage increases in the future are to be related to increases in productivity.

The Treaty for East African Cooperation among Kenya, Uganda, and Tanzania, which became effective in December 1967, provides for establishment of a number of institutions to ensure the functioning of a common market. In accordance with the treaty, Tanzania and Uganda removed quantitative restrictions on imports of manufactures from Kenya in 1968 but imposed transfer taxes on certain goods. In 1967 more than 30 per cent of Kenya's exports went to Tanzania and Uganda.

Conditions remained difficult in Mauritius. Exports from Mauritius have stagnated for many years. The sugar industry has encountered difficulties similar to those of sisal and tea plantations in Tanzania. Nearly one fifth of the country's labor force is unemployed, and the rising expenditure on unemployment compensation and social services has not been matched by increases in tax revenues. The balance of payments has been supported during the last two years by the use of nonrecurrent receipts and aid from the United Kingdom and the drawing down of foreign exchange reserves.

Middle East

Oil production picked up sharply in most Middle East oil producing countries other than Iran, which had already experienced an exceptional increase in 1967. With the exception of Iran, the current balances of these countries were strengthened by the large rise in exports in relation to the moderate growth of their imports. However, the combined over-all balance of the group was much less favorable than in earlier years, largely as a consequence of increased aid to other Arab countries by Saudi Arabia and Kuwait and of a marked weakening in Iran's current account position. The traditional surplus of Saudi Arabia's over-all balance of payments was replaced in 1968 by a deficit of $100 million (Table 31), reflecting a marked increase in the outflow of official capital and aid.

In Iraq, which was particularly affected by the Middle East conflict, real GNP is estimated to have risen by 8 per cent in 1968, following no increase in 1967. The upturn in 1968 was the result of a large increase in oil output, which had declined in 1967, and of an excellent harvest. The balance of payments surplus was substantially higher than in 1967. The deterioration in public finance during 1967 prompted the authorities to introduce a series of austerity measures, including increases in taxation and a major tightening of import and exchange policies. Pressure on domestic resources was considerably reduced in 1968, and depressed conditions prevailed in the private sector apart from the oil industry. A very substantial rise in the Government's oil income

TABLE 31. MIDDLE EAST COUNTRIES: BALANCE OF PAYMENTS POSITIONS, 1965-68
(*In millions of U.S. dollars*)

	1965	1966	1967	1968	Change from 1967 to 1968
Oil Producers					
Over-all balances [1]					
Iran	38	19	64	−13	−77
Iraq	−17	91	53	101	48
Kuwait	14	40	29	−10	−39
Saudi Arabia	141	22	14	−100	−114
Total	176	172	160	−22	−182
Other Countries					
Current balances [2]					
Cyprus	1	3	2	−3	−5
Israel	−219	−158	—	−255	−255
Jordan	−68	−92	−71	−120	−49
United Arab Republic	−252	−176	−286	−240	46
Over-all balances [1]					
Cyprus	18	14	4	52	48
Israel	99	−22	103	−52	−155
Jordan	63	27	102	40	−62
Lebanon	19	31	−1	52	53
United Arab Republic	−17	−9	39	−47	−86
Total	182	41	247	45	−202

Sources: Data reported to the International Monetary Fund and staff estimates.
[1] Over-all balance is balance financed by changes in official gold and foreign exchange assets, and in the net Fund position.
[2] Balance on goods, services, and private transfers; unrequited government transfers are included in capital account.

resulted mainly from higher receipts on account of oil shipments to Mediterranean ports and reflected a change in the geographic pattern of oil production. Production in the northern fields with lower unit costs increased to capacity, while production in the high-cost southern fields declined.

In Kuwait oil production in 1968 rose at the same moderate rate, about 3 per cent, as from 1966 to 1967. Because of a reduction in public expenditure on current and capital items, the growth of the gross national production slowed down in 1968. The financial structure of Kuwait was strengthened during 1968 by an improvement in commercial banking facilities and the Government's decision to set up a central bank.

In Iran a very high growth rate over the four years to 1968 reflected rapidly increasing oil production and good harvests. The volume of public and private investment rose briskly, supported by a high rate of domestic saving and a substantial inflow of foreign capital. The price level remained stable, and the external payments position was not strained until 1968, when some overheating of the economy was experienced. This was largely the result of stimulative measures taken in 1967, when private investment tended to slow down. Thus, the central bank expanded its lending to the public sector in support of a substantial rise in development expenditures. Later in 1967 credit to the private sector also increased in response to a resurgence of activity in that sector. The resulting inflationary pressure first gave rise to a large balance of payments deficit in the second and third quarters of 1968 and subsequently led to price increases. The current account deficit for 1968, at more than $330 million, was $200 million larger than in 1966 and 1967. In November 1968 the central bank adopted a more restrictive credit policy, raising the bank rate and the deposit reserve requirements for commercial banks; later, steps were taken to strengthen government finances by curbing the growth of current expenditures and increasing revenue through improvements in the collection of taxes and increases in import duties and other taxes.

Economic conditions during 1968 differed widely in the four countries directly involved in the 1967 war. With the exception of Jordan, which suffered the most severe consequences of the conflict, developments in all these countries were less unfavorable than might have been expected. One important factor in this connection was the very large sums received in foreign assistance. All four countries experienced a marked strengthening of their payments positions in 1967, and with the exception of the Syrian Arab Republic they added substantially to their reserves in that year. They were thus in a position to finance large current account deficits in 1968 (Table 31).

Despite the economic consequences of the war, there was some progress toward stabilization of the economy in the United Arab Republic during 1968. From early 1967 the Government cut back nonmilitary expenditure and imposed substantially higher taxes; credit to the private sector was curtailed and pricing policy was overhauled. The slower growth of GNP and aggregate demand in 1967/68 was associated with more moderate increases in wages and salaries, which in earlier years had considerably exceeded productivity gains. The public sector's bank borrowing was kept within moderate limits in 1968, as financial assistance from certain other Arab countries largely compensated for the worsening of the budgetary position because of the war. This assistance also served to offset the impact upon the balance of payments of the loss of foreign exchange earnings due to the closure of the Suez Canal, the reduction of tourism, and the loss of Sinai's oil production. Although the volume of cotton exports was small in the 1967/68 season, higher prices for medium-staple and long-staple cotton helped to raise export earnings in 1968. Encouraged by rising exports and a continuing decline in imports, especially of consumer goods, the Government took some cautious steps in early 1969 to stimulate activity and encourage investment.

Jordan experienced a sharp decline in national income from 1967 to 1968, owing to the occupation of the West Bank, the disruption of economic activity by continuing hostilities and political uncertainty, and drought conditions affecting agriculture. As a result of the continuance of a high level of foreign assistance, the balance of payments remained in surplus, despite the sharp reduction in invisible receipts.

In the Syrian Arab Republic a substantial deterioration of public finances during 1967 was occasioned by rising military expenditures and a sharp increase in capital spending. The 1968 budget called for a further large increase in defense expenditure, but the over-all budget deficit apparently was reduced by the introduction of a special defense tax and increases in certain other taxes. The Syrian Arab Republic recently began to export oil on a small scale; production amounted to one million tons in 1968 and is expected to quadruple in 1969. The external position improved from 1966 to 1967 as the result of a reduction in the trade deficit in consequence of a better harvest, higher receipts from oil companies, and aid transfers by other Arab countries. The trade deficit rose sharply in 1968. A temporary intensification of restrictions on current payments after June 1967 was largely reversed during 1968.

In Lebanon during the recent period there was a high level of economic activity, the most dynamic sectors being those, such as food processing and textiles, geared primarily to export markets. Exports of industrial products increased very rapidly and totaled about $40 million in 1968, nearly twice the level recorded in 1966. By mid-1968 capacity was fully utilized in many industries, and requests for licenses to import capital equipment had increased considerably. Tourist receipts also recovered and substantially exceeded their 1966 record level.

In Israel the war was followed by a period of rapid economic growth induced by a massive increase in public expenditure and an easing of monetary policy. Real GNP in 1968 was 14 per cent higher than in 1967, and unemployment dropped from 10 to 5 per cent of the civilian labor force. A striking feature of developments in 1968 was the sharp revival of gross investment, following large declines in 1966 and 1967; both public and private consumption rose much less sharply than investment. Wages and prices remained relatively stable. In order to limit the pressures on costs and prices after the devaluation of the Israel pound in November 1967, the Government introduced a freeze on the price of certain basic foodstuffs and altered tariff rates so as to offset part of the rise in the cost of imports from countries that did not devalue. Through open market operations, the Bank of Israel sought to reduce the expansionary impact of the growth in lending to the Government and in commercial bank credit to the private sector; the decline in foreign exchange reserves worked in the same direction. In mid-1968 the Bank introduced several measures aimed at slowing down the monetary expansion, and toward the end of the year there was a marked tightening of liquidity.

Exports of goods and services rose by some 20 per cent in volume from 1967 to 1968, but imports rose still more, and the deficit on goods and services increased by $220 million to $655 million. Despite a continued heavy inflow of transfers and long-term capital, reserves declined somewhat in 1968.

Western Hemisphere

The export experience of Western Hemisphere countries in 1968 was conditioned by the disparate development of trade in the various staple primary products of the region. As in Africa, there was a marked recovery of exports of tropical products; the value of industrial countries' imports of coffee from the region rose substantially after declining in 1966 and 1967 and there was a moderate increase in the value of trade in cotton, sugar, and fruit and vegetables (Table 27). There was little change in the value of their imports of petroleum from the region, and imports of temperate agricultural products (meat, wool, and feeding stuffs, including maize) declined. A number of the countries experienced a very marked expansion of exports—among them Brazil, Colombia, Costa Rica, Ecuador, Honduras, Mexico, Peru, and Uruguay—but exports from Argentina, Paraguay, and Venezuela stagnated or declined (Table 32). The marked rise in exports from Peru and a slight increase in those of Chile were influenced by the supply situation in the mining sectors of those countries. The devaluation of sterling had the effect of depressing the dollar value of exports from sterling area countries, notably Guyana and Jamaica.

The further expansion of the large net capital inflow into primary producing countries of the Western Hemisphere in 1968 again permitted a substantial accumulation of reserves by countries in the area, despite the fact that their combined imports rose more rapidly than their exports, and the aggregate current account deficit of the region rose to almost $2.3 billion from $1.8 billion in 1967 and $1.2 billion in 1966 (Table 11). More than half the increase in the net inflow of private and official capital and official transfers from 1967 to 1968 appears to have been due to the rise in U.S. Government long-term lending. In total,

TABLE 32. TRADE OF WESTERN HEMISPHERE COUNTRIES, 1965-68

(Values in millions of U.S. dollars)

	1967 Value		Percentage Changes from Preceding Year					
			Exports			Imports		
	Exports (f.o.b.)	Imports (c.i.f.)	1966	1967	1968	1966	1967	1968
Mexico	1,145	1,746	7	−5	10	3	9	12
Central American Countries								
Costa Rica	144	191	21	6	−19	—	7	12 [1]
El Salvador	207	224	2	8	2	9	2	−4
Guatemala	199	247	22	−13	20 [1]	10	19	...
Honduras	156	164	13	9	25 [1]	22	10	12 [1]
Nicaragua	146	204	−4	6	7	14	12	−9
Caribbean Countries								
Dominican Republic	156	201	9	15	4	85	8	9
Guyana	113	129	15	1	−3 [1]	13	9	−7 [1]
Haiti	34	36	−5	−3	6	12	−5	6
Jamaica	224	348	7	−2	−2	13	6	10
Trinidad and Tobago	441	417	6	3	6	−5	−8	1
South American Countries								
Argentina	1,464	1,096	7	−8	−7	−6	−2	7
Brazil	1,654	1,667	9	−5	14	36	11	28
Bolivia	145	151	15	15	6	10	9	...
Chile	910	868	28	4	3	25	15	...
Colombia	510	497	−5	—	10 [1]	48	−26	28 [1]
Ecuador	200	191	3	8	5 [2]	−2	16	18 [2]
Panama	93	271	13	4	2	13	7	6
Paraguay	48	71	−14	−2	—	7	20	3
Peru	774	833	15	1	12	10	2	−24
Uruguay	159	170	−3	−15	13	9	4	−3
Venezuela	2,886	1,464	−1	6	...	−8	10	8 [1]

Source: *International Financial Statistics.*
[1] Estimate based on less than 12 months of 1967 and 1968.
[2] Based on balance of payments data.

U.S. private investment in the area remained unchanged; a very sharp increase in direct investment (from $217 million to $610 million) and a considerable increase in portfolio investment were offset by a shift to heavy withdrawals of banking and other private long-term funds. U.S. private short-term lending remained about the same as in 1967.

The Central American countries experienced improvements in both their current accounts and over-all balances of payments from 1967 to 1968 (Table 33). The deficit in Mexico's current balance increased somewhat, but the inflow of private and official capital and official transfers, which had risen sharply from 1966 to 1967, again increased in 1968.

The current accounts of almost all other Western Hemisphere countries worsened. Much larger net inflows of capital permitted many South American countries to finance their larger current account deficits without reducing their gross reserves (Table 34). There appears to have been a marked increase in direct foreign investment in Bolivia and Venezuela, and a substantial rise in long-term government lending to Chile and Colombia. Brazil's balance on capital transactions and official transfers improved by $436 million, reflecting largely short-term foreign borrowing by the commercial banks, as well as borrowing by subsidiaries of foreign companies from their head offices. There was also a marked increase in the inflow of short-term funds into Chile, Colombia, and Venezuela. Argentina, which had a surplus on capital transactions of over $350 million in 1967, reflecting mainly the repatriation of funds following the devaluation of the peso, recorded only a small over-all surplus in 1968. Bolivia, Ecuador, and Peru lost reserves in 1968. In the former two countries, the current account continued to weaken, but in Peru a substantial reduction in the inflow of capital more than offset a large improvement in the current account.

For the Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) 1968 was generally a year of recovery from a rather slow growth in 1967. With the exception of El Salvador, these countries experienced a somewhat faster rate of growth of total output in 1968 than in the previous year and at least a modest increase in per capita product. Agricultural production was somewhat higher (except, again, in El Salvador) as climatic conditions were more favorable, and industrial production continued to expand under the stimulus of growing intraregional trade. The financial performance of the public sector tended to strengthen and budgetary deficits were reduced or eliminated. All of the countries enacted new tax measures, in part to offset the revenue losses inherent in the duty-free regime that now applies to most intra-Central American trade. Tax collection procedures were tightened, and efforts were made to restrain government expenditures, though at times at the expense of a curtailment of investment projects. Although the balance of payments on current account remained in deficit in all five countries, capital inflows led to modest over-all surpluses. The authorities endeavored to strengthen the balance of payments positions by supporting the fiscal tightening with restrictive credit policies.

There was further progress in the integration of the Central American Common Market (CACM), in which all of the five countries participate, although the speed of progress of the earlier stages could not be maintained as the process of trade liberalization was reaching an advanced stage. By now free trade has been established between the CACM members for nearly all products originating in their territories except for special treatment of certain commodities, mainly certain primary goods. As to the common external tariff, agreement has been reached on 95 per cent of the tariff categories, representing about 85 per cent of the total value of imports.

Intraregional trade within the CACM continued to expand in 1968, although at a slower pace than in previous years, and represented 22 per cent of the total trade of the members. In absolute terms, its value was seven times as large as in 1961, when the Integration Treaty took effect. Manufactured and processed goods have played a rapidly increasing part and in 1968 accounted for

TABLE 33. CENTRAL AMERICAN COUNTRIES AND MEXICO: BALANCE OF PAYMENTS POSITIONS, 1965-68

(In millions of U.S. dollars)

	1965	1966	1967	1968	Change from 1967 to 1968
Current Balances [1]					
Central American Countries					
Costa Rica	−71	−48	−55	−44	11
El Salvador	−16	−44	−27	−18	9
Guatemala	−38	−17	−62	−52	10
Honduras	−10	−23	−32	−25	7
Nicaragua	−27	−54	−67	−42	25
Total	−162	−186	−243	−181	62
Mexico	−397	−367	−640	−692	−52
Over-All Balances [2]					
Central American Countries					
Costa Rica	−6	−4	2	9	7
El Salvador	2	−15	−2	4	6
Guatemala	8	−12	−6	2	8
Honduras	6	4	−6	7	13
Nicaragua	18	3	−17	1	18
Total	28	−24	−29	23	52
Mexico	−46	28	22	72	50

Sources: Data reported to the International Monetary Fund and staff estimates.

[1] Balance on goods, services, and private transfers; unrequited government transfers are included in capital account.

[2] Over-all balance is balance financed by changes in official gold and foreign exchange assets, and in the net Fund position.

TABLE 34. SOUTH AMERICAN COUNTRIES: BALANCE OF PAYMENTS POSITIONS, 1965-68

(*In millions of U.S. dollars*)

	1965	1966	1967	1968	Change from 1967 to 1968
Current Balances [1]					
Argentina	220	257	184	8	−176
Bolivia	−38	−32	−41	−50	−9
Brazil	247	−67	−302	−490	−188
Chile	−39	−68	−96	−167	−71
Colombia	−19	−290	−89	−190	−101
Ecuador	−27	−22	−36	−67	−31
Panama	−40	−48	−40	−43	−3
Paraguay	−8	−17	−22	−29	−7
Peru	−159	−239	−272	0	272
Uruguay	68	50	−16	22	38
Venezuela	−29	−45	−32	−187	−155
Total	176	−521	−762	−1,193	−431
Over-All Balances [2]					
Argentina	127	26	541	34	−507
Bolivia	13	4	−3	−12	−9
Brazil	233	−51	−178	70	248
Chile	50	47	−30	71	101
Colombia	30	−8	−28	68	96
Ecuador	11	8	9	−2	−11
Panama	11	6	−13	16	29
Paraguay	3	—	—	—	—
Peru	15	−20	−28	−25	3
Uruguay	8	2	−15	—	15
Venezuela	−14	−41	95	51	−44
Total	487	−27	350	271	−79

Sources: Data reported to the International Monetary Fund and staff estimates.
[1] Balance on goods, services, and private transfers; unrequited government transfers are included in capital account.
[2] Over-all balance is balance financed by changes in official gold and foreign exchange assets, and in the net Fund position.

52 per cent of the total intraregional trade, compared with 37 per cent in 1961. Efforts are also under way to achieve closer coordination of monetary and fiscal policies. In the face of the recurrent fiscal difficulties referred to above, the common market members in mid-1968 signed a Protocol which called for the imposition of a 30 per cent surcharge on the tariffs of many imports from outside the area, mainly of nonessential items, and authorized the introduction of additional consumption taxes on certain goods regardless of origin. Most of the countries have partially implemented the surcharge. Agreement has also been reached in principle on the coordination of tax incentives for new and expanding industries, with a view to establishing more uniform practices and to minimizing competition among the countries in this field.

Strong growth with financial stability was maintained in the Mexican economy. GNP rose by 7 per cent, slightly more than in 1967, mainly as a result of better crops after unfavorable climatic conditions in the previous two years; nonagricultural output maintained its upward trend at a roughly unchanged pace. Demand was strengthened by rising fixed investment associated with the Olympic Games and with public reinvestment programs. Pressure on prices, however, appears to have increased little despite the rapid economic expansion. The monetary authorities continued the policy of selective direction of bank credit and investment into high-priority areas of activity, and reserve requirements remained unchanged. The centralized control of public sector finances and investment introduced in preceding years was further improved. The Federal Government and public sector agencies succeeded in placing medium-term and long-term bond issues of more than $125 million in international financial markets in 1968. In the process, the Mexican authorities were able to improve the maturity structure of the external public debt and reduce their reliance on the U.S. capital market by increasing borrowing in Europe.

Those Fund members in the Caribbean that belong to the sterling area (Guyana, Jamaica, and Trinidad and Tobago) followed the devaluation of the pound in November 1967 by adjusting their currencies in the same proportion. In the ensuing 12 months, the foreign assets of all three countries recorded extraordinary increases, mainly attributable to capital flows. It appears that many institutions and individuals transferred funds from London to their site of operation in the area, where they are now partly held in the form of bank deposits or short-term government paper. Commercial bank branches appear to have aimed at reducing their assets held abroad. The movement of funds has loosened the link of local interest rates with those in London and has driven down certain interest rates in the Caribbean countries when rates in London were rising. For instance, by early 1969 the treasury bill rate in Jamaica was below 3½ per cent, against nearly 5½ per cent at the time of devaluation.

The devaluations in late 1967 also had some special effects upon the trade accounts. Prices of some major export commodities declined substantially in terms of U.S. dollars as a result of the devaluation. This applied particularly to sugar, since most of the production of these countries is sold to the United Kingdom under the Commonwealth Sugar Agreement at a price fixed in sterling, which remained unchanged following the sterling devaluation. One of the major considerations of these countries in devaluing their currencies in line with the devaluation of sterling was to ensure the continued viability of their sugar industries.

The Caribbean Free Trade Area, which includes Guyana, Jamaica, Trinidad and Tobago, and several smaller islands, began to function on May 1, 1968. It appears to have resulted in some trade shifts during the remainder of the year and some consequent loss of customs revenue, which the countries are in the process of offsetting by other revenue measures.

In Panama the fiscal situation deteriorated in 1968 as the growth in revenue weakened while current expenditures surged, partly at the expense of investment. The financing of the government deficit by the banking system did not result in any significant pressures on the balance of payments, and in early 1969 the fiscal situation began to improve. However, a political crisis in 1968 caused a marked slowdown from the rapid rate of expansion registered in the preceding years.

In Ecuador also, there was a weakening of the fiscal situation in 1968; more than half of the large government deficit had to be financed by the Central Bank. The deficit in the balance of payments on current account almost doubled in spite of a substantial export rise, and the net international reserves held by the Bank declined by almost 20 per cent. In the free exchange market, which serves as a safety valve, the currency depreciated during much of the year, largely because of the weakening fiscal situation. In February 1969 the authorities took steps to dampen import demand, including increases in prior import deposits, advance payment of import duties, and bank deposit reserve requirements. Later a broader stabilization program was developed, based on a policy of restraining current fiscal expenditures and increasing revenue from the existing tax structure.

A number of South American countries—among them Colombia, Peru, Brazil, Chile, Argentina, and Uruguay—have at different times adopted stabilization policies in order to overcome domestic inflationary pressures and strengthen their balance of payments positions. Since many of these countries were faced with low international reserves and heavy short-term foreign indebtedness, the programs have been designed to provide for an improvement in the net foreign reserve position of the monetary authorities. To achieve the price and balance of payments objectives, reliance has been placed on credit and fiscal policies attuned to these goals, coupled with varying degrees of support from incomes policies. Specifically, limits consistent in each case with the specified stabilization objectives have been placed on the credit operations of the central banks. The observance of these limits was to a major extent dependent on the pursuit of fiscal policies designed to reduce or eliminate public sector reliance on domestic bank credit, and thus an important part of stabilization policy has been the adoption of major tax measures and the placing of curbs on the growth of public expenditures. Efforts have been made, where appropriate, to reduce the deficits of the public enterprises and other autonomous agencies by curtailing excess employment and by increasing efficiency.

Exchange rate policy has been accorded an important role in the financial programs aimed at stabilization. Colombia adopted a flexible exchange rate policy by which the exchange rate was adjusted in response to market forces. This made possible the unification of the former two exchange markets in mid-1968, and the process of flexible exchange rate adjustment has continued in the unified market. Chile adopted a policy of frequent adjustments in the exchange rate (recently averaging two changes a month). In the first four years of its stabilization effort, Brazil followed a policy of adjusting the exchange rate in large steps, at intervals ranging from 8 to 15 months, but since August 1968 the exchange rate has been revised by smaller steps at intervals ranging from 3 to 8 weeks. The Argentine authorities chose to effect a major adjustment of the exchange rate at the beginning of the stabilization period, aimed at providing a margin within which financial stability could be achieved. Uruguay depreciated the peso substantially in November 1967 to initiate its recent stabilization effort, and 6 months later another sizable adjustment was made in response to cost, price, and balance of payments developments.

TABLE 35. CHANGES IN CONSUMER PRICES IN SELECTED SOUTH AMERICAN COUNTRIES, 1963-68

(*Percentage increases during the years shown*)

	1963	1964	1965	1966	1967	1968
Argentina	28	18	38	30	27	10
Brazil	81	87	45	41	25	24
Chile	45	39	26	17	21	28
Colombia	45	2	16	14	7	6
Peru	10	12	15	9	19	10
Uruguay	45	35	88	50	135	66

Source: *International Financial Statistics;* for Brazil, Getúlio Vargas Foundation.

The recent results attained under the stabilization programs have varied considerably among countries. During the last two years, Colombia has continued the successful implementation of stabilization policies, including, besides flexible exchange rate management, other measures designed to accelerate the diversification of production and exports. Strong fiscal policies have made an important contribution to Colombia's satisfactory economic and financial performance in 1967 and 1968; the central government budget surplus on current account increased and, together with external loans, financed a rapidly expanding public investment program. Financial policies have been successful in bringing about a gradual reduction in the rate of domestic inflation. These policies, together with the progressive adjustment of the exchange rate, have been instrumental in bringing about a strengthening of the balance of payments and a growing diversification of exports, while at the same time permitting a gradual and substantial liberalization of imports. The central bank was able to secure a much needed improvement in its net international reserves, from a negative position of $95 million at the end of 1966 to a positive balance of $35 million at the end of 1968. Colombian foreign trade grew rapidly in 1968 and real output rose by about 6 per cent, substantially faster than in the previous year. Several institutions and schemes were established in 1967/68 to improve the channeling of savings into investment. For instance, the new Urban Development and Industrial Financing Funds will, on the basis of bonds of six months' duration, contribute to the financing of urban improvement and extend short-term and medium-term loans to industry.

For Peru 1968 was a year of economic slowdown. Gross domestic product (GDP) in real terms is estimated to have expanded by only 2-3 per cent, compared with an average growth rate of over 5½ per cent in the preceding four years. A main factor in the 1968 slowdown was the sharp downturn in public and private investment, reflecting efforts to improve the fiscal position as well as continued financial uncertainties. Progress was made during 1968 in narrowing the fiscal gap, as major tax measures were enacted, involving a modernization of direct taxation and the generation of new revenues equivalent to 1½ per cent of GDP. The new tax measures and restraint in government spending enabled the authorities to abstain from net central bank financing in the second half of the year. As a result, despite a reduction in legal reserve requirements and the substantial government recourse to the central bank during the first half of the year, total bank credit expanded at a slightly lower rate than in 1967, and there was a reduction in the rate of price increase. Imports declined sharply following the devaluation of the sol in 1967 and the application of an import surcharge and import prohibitions. The worsening of the capital account was somewhat mitigated by a renegotiation of a large part of Peru's foreign obligations.

Brazil initiated stabilization policies in mid-1964 when the balance of payments was severely strained and the annual rate of inflation was approaching 100 per cent. The Brazilian authorities have sought to reduce inflation gradually over a period of several years through the pursuit of progressively tighter wages, fiscal, and credit policies. The wage formula adopted aims at a gradual deceleration of the rate of increase of money wages, consistent with the trend being sought in prices. At the same time, emphasis has been given to the objective of spurring the growth of economic activity and exports, which had declined to an unsatisfactory rate in the prestabilization period.

It is in this area that the most favorable results were shown in 1968. Spearheaded by industrial production, real GDP rose by 7 per cent, after an increase of nearly 5 per cent in the previous year, against a 3½ per cent average in the preceding three years. Export earnings increased by 14 per cent in 1968; in the first half of 1969 they were 16 per cent higher than in the same period of 1968. The marked deceleration in the rate of price inflation in earlier years was interrupted in 1968. In part this may have reflected the change in the system of exchange rate adjustment, which during that year involved a larger relative increase than in earlier years in the cruzeiro cost of exchange. In the first part of 1969 the rate of increase in prices again abated. On the side of costs, a downward trend in the rate of increase of money wages that had been evident for several years was temporarily reversed in the second half of 1968, as a consequence of an official decision to grant workers once-and-for-all compensation for reductions in real wages that had occurred in previous years, as an unintended effect of the application of the official wage formula.

The Brazilian Government's fiscal position improved in 1968 but a much larger part of its deficit was financed by the banking system, including the Central Bank. However, in the first few months of 1969, substantial further progress was made in reducing both the deficit and the recourse to banks. Partly as a result of the financing of the budget deficit, but mainly of sharp increases in credit to the private sector, total bank credit continued to expand at a high rate in 1968 but the expansion appears to have slowed down considerably in the early part of 1969. While there was a recovery in Brazil's official net foreign reserve position in 1968, the net reserve position of the banking system as a whole deteriorated, since there was a sharp rise in the short-term foreign indebtedness of the commercial banks under a new arrangement that permitted them more liberal access to foreign credit subject to official supervision. In the first half of 1969, however, the net reserve position of the banking system rose markedly, by $245 million.

Goals broadly similar to those in Brazil have been pursued in the current stabilization program in Chile introduced in late 1964. The annual rate of inflation was then around 40 per cent after having been considerably higher; partly owing to the earlier introduction of a flexible exchange rate, the balance of payments was in approximate equilibrium. Stringent exchange and trade restrictions introduced in response to the balance of payments crisis of 1962 remained in effect.

In Chile the general principle of wages policy has been to allow wages and salaries to rise in line with the increase in the cost of living in the preceding year; however, wages have tended to rise faster than this. After a substantial reduction in the rate of price inflation over the several preceding years, the rise in prices accelerated in 1968 and the first part of 1969. With the progressive disappearance of excess capacity, the continued large increases in wages and salaries were more fully translated into higher prices, and pressures on prices were further intensified by the severe drought. The finances of the public sector were supported in 1968 by the utilization of large foreign credits, and for the first time in many years there was an internal surplus. This improvement, together with substantially increased inflows of short-term and medium-term private capital, helped the monetary authorities to follow a more restrained credit policy. These factors, together with continued exchange rate flexibility, helped produce a marked improvement in the balance of payments, notwithstanding a deterioration of the current account due largely to a sharp rise in capital equipment imports.

In Argentina the rate of inflation prior to the initiation of the stabilization scheme early in 1967 averaged about 30 per cent a year. While the balance of payments situation was not strong, it had been showing an improving trend, reflecting the policy of frequent adjustments of the exchange rate. The Argentine authorities aimed at securing an early termination of inflation and therefore undertook comprehensive action at the beginning of the program. At the start of the program, wages in some sectors were adjusted so as to avoid disparities resulting from the differences in the timing of wage settlements, and the authorities then imposed a wage freeze for a period of more than one and a half years. An impressive reduction in the rate of price inflation was achieved in Argentina in 1968 by the maintenance of such a restrained incomes policy and the resultant stabilization of costs and by the limitation of central bank credit expansion. Deceleration of the rise in prices continued in the first half of 1969.

Industrial activity in Argentina recovered sharply from the recession that had developed in 1967, and in the fourth quarter of 1968 real GDP was 11 per cent higher than in the corresponding period of 1967; the year-to-year increase was just under 5 per cent. The successful stabilization efforts were accompanied by a further strengthening of the official net international reserves.

Uruguay was faced with rapid inflation—with price increases running over 100 per cent a year—and severe balance of payments difficulties when the stabilization program was adopted late in 1967. While the objective of policy was to secure a major reduction in the rate of inflation, it was recognized that a high rate of price increase was likely to continue during the first year or two of the stabilization program. However, the 64 per cent rise in the cost of living in the first half of 1968 was much larger than had been foreseen; it occurred despite the pursuit of a fairly restrained credit policy, and was apparently mainly influenced by the steep rise in private sector wages during the period. In mid-1968 the authorities decreed a wage and price freeze, and recorded prices showed only a very small further rise during the rest of the year. Owing to poor crops, there was little increase in real GDP from 1967 to 1968, and large imports of cereals were required. Nevertheless the exchange rate actions taken, combined with credit restraint, helped produce an improvement in the official international reserve position.

Australia, New Zealand, and South Africa

There was some recovery in the value of industrial countries' imports of staple agricultural products from Australia, New Zealand, and South Africa in 1968, following their marked decline from 1966 to 1967, and the industrial countries' total imports from the region expanded strongly. However, while exports from South Africa again increased substantially, in part as a result of an exceptionally good harvest, exports from Australia and New Zealand were held back by the continued unfavorable price of wool. In addition, a severe drought in Australia limited the growth of that country's exports. The year was marked by an exceptionally heavy inflow of private long-term capital into Australia and South Africa (Table 36).

The Australian economy was strongly affected by drought in the 1967/68 season, causing a drastic reduction in farm output. Real GNP rose by only 3.5 per cent, against 6.1 per cent from 1965/66 to 1966/67 (fiscal year ending June 30), although the high rate of expansion continued in nonfarm sectors. The impact on other sectors of lower farm incomes and the related slowing down of exports of goods and services was counterbalanced by a rise of almost 9 per cent in private fixed investment (building and construction outlays other than for housing went up by nearly 20 per cent mainly because of the rapid expansion of the mining sector) and by a resumption of faster growth in public sector investment. Private consumption and public current expenditure continued to expand rapidly. The rise in private sector investment was supported by a record inflow of foreign capital, stimulated by the extensive discoveries of minerals and fuels. As a consequence, the sharp deterioration in the balance on current account was more than offset by the improvement on capital account.

Financial policies followed a moderately expansionary course during 1967/68. The August 1967 budget did not impose any new limitations on the growth of consumption and subsequently there was some easing of restraints on the banking system. Early in the fiscal year 1968/69, however, more restrictive policies were adopted in response to rising demand pressures. Tax rates were increased and the reserve requirements of the commercial banks were raised. Nevertheless, the high level of activity continued in nonagricultural sectors, and agricultural production revived. Real GNP is estimated to have risen by about 8 per cent from 1967/68 to 1968/69. In 1968/69 the current account deficit was reduced as exports expanded and imports leveled off, and, though

TABLE 36. AUSTRALIA, NEW ZEALAND, AND SOUTH AFRICA: BALANCE OF PAYMENTS POSITIONS, 1965-68

(In millions of U.S. dollars)

	1965	1966	1967	1968	Change from 1967 to 1968
Current Balances [1]					
Australia	–995	–549	–749	–1,161	–412
New Zealand	–135	–121	–145	78	223
South Africa	–452	–77	–333	14	347
Capital Balances [2]					
Australia	637	569	737	1,269	532
New Zealand	35	119	111	–37	–148
South Africa	329	285	283	678	395
Over-All Balances [3]					
Australia	–358	20	–12	108	120
New Zealand	–100	–2	–34	41	75
South Africa	–123	208	–50	692	742

Sources: Data reported to the International Monetary Fund and staff estimates.
[1] Balance on goods, services, and private transfers; unrequited government transfers are included in capital account.
[2] The capital balance is here defined as the difference between the over-all and current account balance.
[3] Over-all balance is balance financed by changes in official gold and foreign exchange assets, and in the net Fund position.

there was some slowing down in the inflow of capital, the over-all balance of payments surplus increased.

By late 1967 the excessive expansion of demand in New Zealand had abated in response to restrictive financial policies adopted earlier in that year. The November 1967 devaluation of the New Zealand dollar by 6 per cent more than sterling, bringing the New Zealand dollar into parity with the Australian dollar, contributed strongly to the consequent improvement in the balance of payments. The current account showed a considerable surplus in 1968 following the deficit of $145 million in 1967, and New Zealand was able to repay more than half the $240 million in balance of payments assistance received in 1966 and 1967. Indications of a faster growth in domestic activity were apparent in the latter part of 1968, and the authorities introduced some mildly restraining measures, primarily to discourage expectations of a very rapid expansion in 1969.

South Africa has enjoyed a period of sustained and balanced growth since mid-1967. The excessive demand pressures which had characterized the economy during the three preceding years were brought under control by a combination of vigorous fiscal measures, monetary restraint, and substantial liberalization of import restrictions. The process of adjustment was greatly assisted by the exceptionally good harvest in 1967 and a large net capital inflow in 1968. Although the rise in foreign reserves caused a substantial expansion in liquidity, there were no excessive pressures on domestic resources and prices increased only slightly. Real GDP was 3½ per cent higher in 1968 than in 1967 with nonfarm output rising substantially more. Private consumption and public sector expenditure grew rapidly but private fixed investment remained almost unchanged and inventories declined. Imports were slightly below the level of the previous year, while exports grew considerably, partly because of the bumper harvest in 1967. The balance of payments on current account registered a substantial improvement from 1967 to 1968. A record inflow of foreign capital in 1968 was due in part to exceptional foreign demand for gold equities; official reserves almost doubled in the course of 1968, amounting to $1,470 million at the end of the year—the equivalent of seven months' imports at the 1968 rate.

Primary Producing Countries in Europe

Although developments in the primary producing countries of Europe varied widely in 1968, the year was marked by policies of restraint in a number of these countries, and by a strengthening of economic activity toward the end of the year, notably in Ireland, Finland, Spain, Portugal, and Yugoslavia. Disappointing catches and declining prices of fish products caused a decline in Iceland's national income for the second year in succession.

Unfavorable agricultural conditions limited the growth of GNP in the Eastern Mediterranean countries—Greece and Turkey—as well as in Yugoslavia. In Greece, however, the decline in agricultural production was outweighed by a resumption of economic growth in other sectors and total output, spurred by a sharp rise in fixed investment, began to recover after a period of stagnation in the preceding two years. All three countries experienced a weakening of their balance of payments on current account in 1968 (Table 37).

The deterioration of Greece's current account, occasioned by a sharp increase in the trade deficit, was more than offset by a recovery in the inflow of long-term capital. Turkey's exports declined and the deficit on current account was almost three times as large in 1968 as in 1967. Although disbursements of foreign assistance increased and debt repayments were reduced, the increasing strain on external reserves led the authorities to strengthen restrictions on imports. Exports from Yugoslavia scarcely increased, partly because of marketing difficulties for meat in the EEC countries, and although income from services continued to rise the current balance deteriorated moderately. The deficit was more than covered by net foreign borrowings by monetary institutions and reductions of clearing claims under bilateral payments agreements with eastern European countries. The gold and convertible foreign currency holdings and the net Fund position together rose by $70 million.

The most severe balance of payments difficulties were experienced by Iceland. Exports declined in value by over 40 per cent from 1966 to 1968. The effects of this reduction on the national income were somewhat moderated by substantial investment in aluminum production being undertaken

TABLE 37. PRIMARY PRODUCING COUNTRIES IN EUROPE: BALANCE OF PAYMENTS POSITIONS, 1965-68

(In millions of U.S. dollars)

	1965	1966	1967	1968	Change from 1967 to 1968
Current Balances [1]					
Finland	−187	−193	−140	68	208
Ireland	−122	−68	33	−48	−81
Iceland	5	−8	−53	−48	5
Spain	−489	−566	−457	−261	196
Portugal	−38	38	115	131	16
Greece	−279	−238	−191	−236	−45
Yugoslavia	35	−52	−90	−109	−19
Turkey	−19	−88	−64	−185	−121
Capital Balances [2]					
Finland	93	92	73	164	91
Ireland	86	151	−22	154 [3]	176
Iceland	5	12	27	37	10
Spain	384	364	300	307	7
Portugal	93	75	22	−2	−24
Greece	248	260	204	272	68
Yugoslavia	−41	78	22	179	157
Turkey	31	79	49	162	113
Over-All Balances [4]					
Finland	−94	−101	−67	232	299
Ireland	−36	83	11	106	95
Iceland	10	−4	−26	−11	15
Spain	−105	−203	−157	46	203
Portugal	55	113	137	129	−8
Greece	−31	22	13	36	23
Yugoslavia	−195	26	−68	70	138
Turkey	−6	−9	−15	−23	−8

Sources: Data reported to the International Monetary Fund and staff estimates.
[1] Balance on goods, services, and private transfers; unrequited government transfers are included in capital account.
[2] The capital balance is here defined as the difference between the over-all and current account balance.
[3] Includes a transfer of $96 million of foreign assets from commercial banks to official reserves.
[4] Over-all balance is balance financed by changes in official gold and foreign exchange assets, and in the net Fund position.

with foreign capital and by the emergence of a large government deficit. In order to strengthen the external balance and improve the budgetary position, the Government in September 1968 imposed a temporary levy of 20 per cent on the value of imports and a corresponding tax on foreign travel expenditures. These taxes were rescinded when the króna was again devalued in November 1968 by 35 per cent. This last devaluation, together with that in November 1967, resulted in a halving of the external value of the currency. At the same time, the budgetary position was strengthened by the elimination of subsidies to the fishing industry and efforts were made to prevent the upward adjustment of wages.

Finland, Spain, and Ireland benefited in varying degrees from the devaluations of their respective currencies in the autumn of 1967. In both Finland and Spain domestic activity was at a low level in the first half of 1968, and unemployment remained comparatively high. The authorities of both countries made strenuous efforts to maintain the competitive improvement secured by devaluation. In Spain a price freeze prevented retail prices from rising by more than 3 per cent from November 1967 to November 1968, despite the cost-increasing impact of devaluation. In the previous two years retail prices had risen by more than 6 per cent annually. The wage freeze had only limited effects; average hourly wage rates rose by close to 10 per cent in 1968, compared with more than 12 per cent in 1967. The formal wage freeze was terminated in November 1968, but a wage increase guideline was introduced. In Finland the authorities secured the elimination of the clause in the then current wage agreement providing for compensation for increases in the cost of living at the end of 1968, agreement to limit increases in hourly wages in 1969, and agreement to a smaller increase in agricultural prices in the crop year 1968/69 than provided for under existing legislation. The Government was also empowered to control prices, rents, and wages and to abolish price index linkages in rent and wage agreements and most financial contracts. In addition, a temporary levy was imposed on most exports; the proceeds were deposited with the central bank and were to be used for the financing of special growth-promoting projects in the government budgets for 1968 and 1969.

In both Spain and Finland the balance of trade improved sharply as a result of slack conditions at home and increasing demand in foreign export markets. Spain's exports, which had started to expand more rapidly in 1967, rose by nearly 15 per cent in dollar value from 1967 to 1968, while the value of imports scarcely increased. The trade balance improved by $170 million and the inflow of long-term capital increased, owing mainly to increased government borrowing. In 1968, for the first time since 1964, the over-all balance of payments was in surplus.

The dollar value of Finnish exports rose by 7 per cent from 1967 to 1968, while imports declined by much the same proportion. Exports of wood products benefited from improved world demand, and exports of metal and engineering industry products also rose strongly. As a result of the attainment of a surplus of about $70 million on current account (compared with a deficit of $140 million in 1967) and of a pronounced increase in the inflow of long-term and short-term capital, there was a substantial improvement in the reserve position.

Fiscal and monetary policies in Ireland were mildly expansionary during 1968, and real GNP rose by a record 5 per cent. There were signs toward the end of the year that the economy was reaching full capacity. Increasing demand pressure led the authorities to introduce a supplementary budget late in the year. As a reflection of the accelerated growth rate in 1968, the external position weakened somewhat; the current account swung from a surplus in 1967—the first in ten years—to a deficit. However, a moderate inflow of long-term capital, together with a large-scale transfer of commercial banks' foreign assets into official holdings, led to a substantial increase in official reserves.

CHAPTER 7

Foreign Exchange and Gold Markets

Foreign Exchange Markets

The foreign exchange markets were frequently in a highly disturbed condition in the year following the devaluation of sterling in November 1967. On four occasions—March, May-June, August, and November 1968—severe strains affected the markets and led to periods of acute crises. For the period November 20–25, 1968, most European foreign exchange markets were closed. Thereafter, following the meeting of the Ministers and Governors of the Group of Ten in Bonn in November 1968, when announcements were made that the par values of the deutsche mark and the French franc were not to be altered, the markets calmed until the last week of April and early May 1969, when some currencies were again subject to heavy speculative pressure. The German Government announced on May 9, 1969 that it would not revalue the deutsche mark and immediately following its announcement the exchange markets again calmed.

With the exception of the crisis of March 1968, which affected mainly the U.S. dollar and sterling and arose largely because of widespread expectations of a change in the official price of gold, the foreign exchange markets were influenced throughout most of 1968 and early 1969 by continuing expectations of changes in the par values of various European currencies. The extent to which developments in the gold market affected the foreign exchange markets was comparatively small after the March 1968 gold crisis. That crisis led to a major change in the organization of the international gold market, which had the effect of allowing the price of gold in the private market (i.e., other than for transactions among monetary authorities) to fluctuate freely.[1]

The focal points of strain in the foreign exchange markets after the gold crisis were the weakness of the French franc, consequent on the disturbances and strikes of May-June 1968, and the comparative strength of the deutsche mark as exemplified in massive surpluses on foreign trade account. However, throughout 1968 and early 1969 considerable pressure on the European foreign exchange markets arose following the measures announced on January 1, 1968 by the U.S. authorities to reduce sharply the U.S. balance of payments deficit. In addition, the extraordinarily large rise in interest rates in the United States was an important factor in inducing a large inflow of short-term funds into the United States, which led to a sharp rise in international short-term interest rates, especially in the Euro-dollar market. Generally, the various pressures in the foreign exchange markets were associated with massive movements in the flows of short-term capital among various money market centers. On occasion the flow of capital was largely of a speculative nature and its volume reached unprecedented proportions.

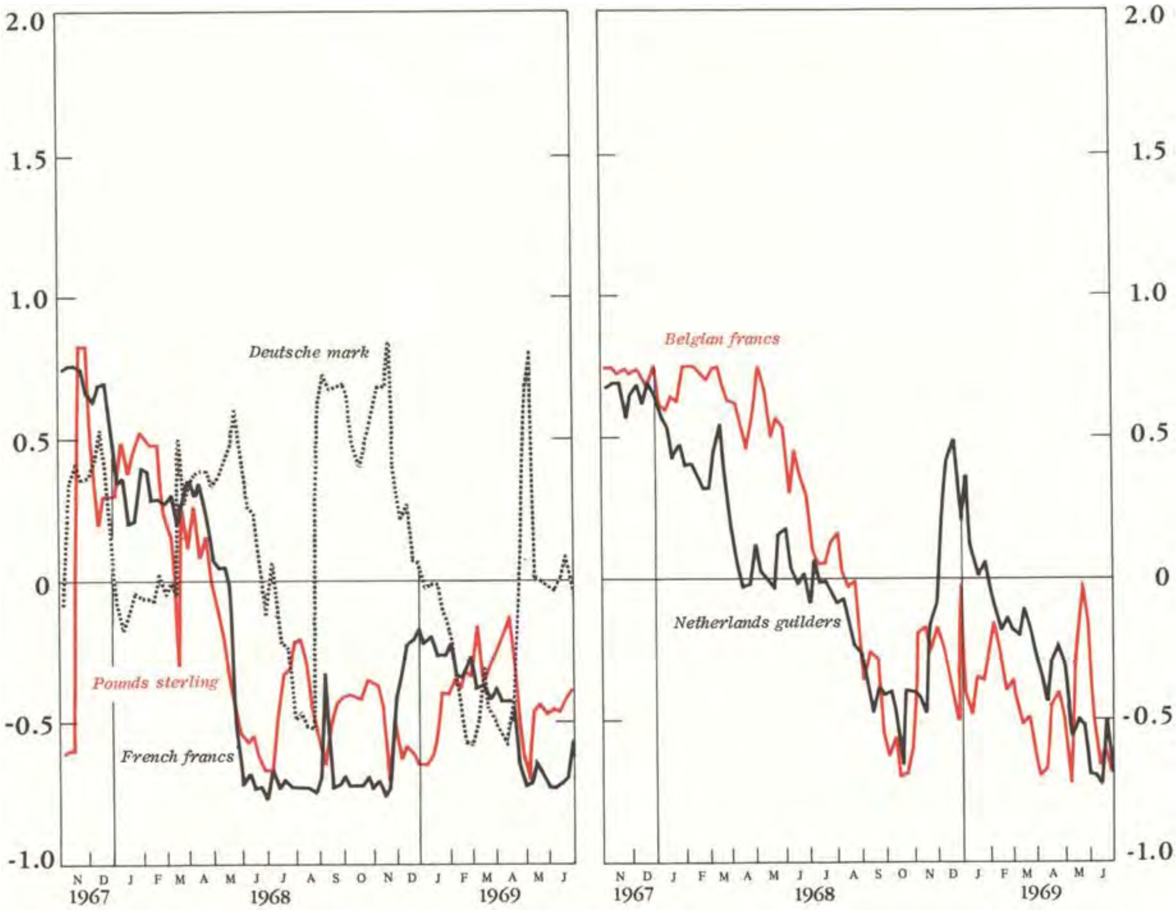
The pressures in the foreign exchange markets, and the associated speculative capital flows, led not only to the adoption of new exchange control measures, for example, in France,[2] but also to quantitative measures aimed at preventing unduly large outflows of capital, as, for example, those that were adopted by Belgium and Italy in the spring of 1969 and by the Netherlands in early July 1969. Furthermore, there was resort to measures that directly influenced exchange rate quotations as a means of bringing about changes in the flows of capital. These measures included alterations in domestic short-term interest rate policies, the introduction of policies whereby monetary authorities entered into swap transactions with their commercial banks for forward currency contracts, and also changes in the levels at which

[1] Details were included in the *Annual Report, 1968*, pages 83–84.

[2] See *Twentieth Annual Report on Exchange Restrictions* (Washington, 1969), page 160.

CHART 33. SPOT EXCHANGE RATES:[1] SELECTED CURRENCIES AGAINST U.S. DOLLAR, NOVEMBER 1967–JUNE 1969

(Spread from par in per cent)



[1] Based on Wednesday noon quotations in New York.

monetary authorities were prepared to intervene in the exchange markets to support the exchange rate.

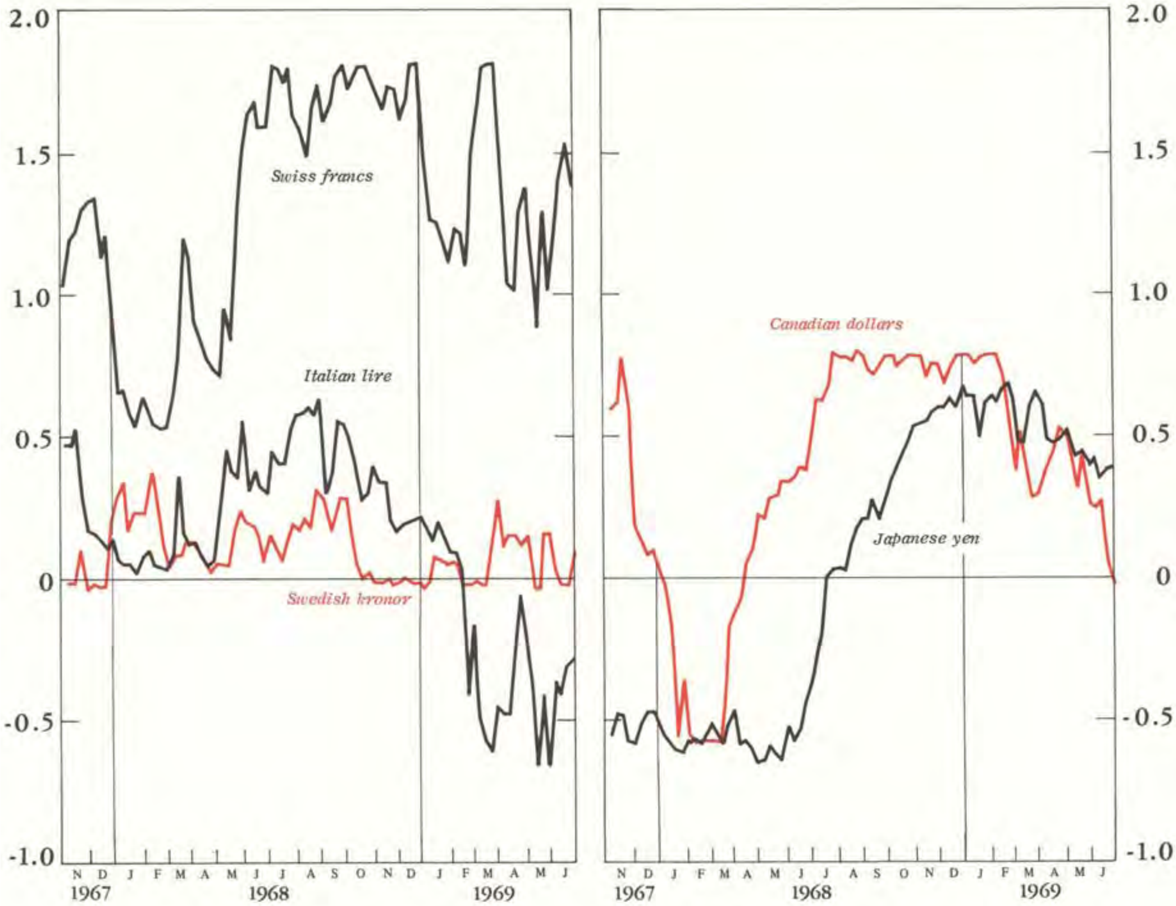
Consequently, movements in foreign exchange quotations during 1968 and the first half of 1969 were unusually sharp, as a result both of expectations that the pattern of international exchange rates might change and of the associated flows of short-term capital among centers, together with the various policies followed by monetary authorities to relieve pressure in the exchange markets. Furthermore, the pattern of exchange rates as quoted against the U.S. dollar showed a wide divergence, with sterling, French francs, Belgian francs, and later, Italian lire showing considerable market weakness, and deutsche mark, Netherlands guilders, Swiss francs, Canadian dollars, and Japanese yen being quoted at considerable premiums.

Spot Foreign Exchange Markets

The movements in the spot foreign exchange quotations of some of the leading currencies, as percentage deviations from their parities against the U.S. dollar, are shown in Chart 33. Spot sterling was quoted at a discount at the time of the gold crisis in March 1968, and for the year following May 1968 there were discounts on spot sterling and on spot French francs. Both these currencies were, for considerable periods of time, subject to intense speculative activity. From about August 1968 the spot Belgian franc moved

CHART 33 (*concluded*). SPOT EXCHANGE RATES: [1] SELECTED CURRENCIES AGAINST U.S. DOLLAR, NOVEMBER 1967–JUNE 1969

(*Spread from par in per cent*)



[1] Based on Wednesday noon quotations in New York.

from a substantial premium to a discount, which was usually in excess of 0.5 per cent of its parity in the latter half of the year and through early 1969. In mid-May 1969 the rate moved, for a short period, to parity; it then declined in June to a discount in excess of 0.5 per cent of parity. The premium on the spot Swiss franc increased markedly from about March 1968; at that time the Swiss National Bank raised the ceiling of the Swiss franc against the U.S. dollar from the equivalent of 1.32 per cent above parity to 1.78 per cent above parity. Quotations for the Swiss franc have shown substantial fluctuations but have generally been in excess of 1½ per cent above parity. During the course of 1968 the Canadian dollar and Japanese yen moved from spot discounts to premiums. The deutsche mark, the Netherlands guilder, and the Italian lira showed considerable fluctuations during the course of 1968 and the first half of 1969, fluctuations which to a large extent reflected official policies of influencing the flows of short-term capital through exchange market intervention. The deutsche mark was periodically subject to intense buying pressure—as in August 1968, November 1968, and April-May 1969—and on these occasions the rate rose very sharply, with subsequent declines being due at least partly to changes in the Bundesbank's exchange market policies as well as to a natural outflow of funds to cover short positions.

The prolonged discount on spot sterling in the foreign exchange markets throughout most of 1968 and early 1969 reflected not only a slower improvement in the balance of payments of the United Kingdom than had been generally expected but also the fact that for some months up to September 1968 some countries of the overseas sterling area had begun to diversify their international reserves, of which a large proportion had traditionally been held in sterling. Movements in the sterling exchange rate were also influenced by developments in other foreign exchange rates, in particular those for the French franc and the deutsche mark, as well as by the sustained rise in interest rates in the United States and the Euro-dollar market.

The weakness of the French franc in the markets arose largely because of an outflow of capital following the wave of strikes in France in May-June 1968 and thereafter related to the deterioration of the current account and the potentially inflationary impact of substantial wage increases that were granted in the course of 1968. Quotations for the Belgian franc were not only influenced by the considerable and virtually continuous pressure on the French franc after May 1968 but also by the continued heavy outflow of short-term capital that arose partly because of the substantial differential between interest rates in the Belgian and Euro-dollar markets.

The sharp strengthening of the Canadian dollar, particularly after March 1968, and of the Japanese yen after July 1968, was, to a considerable extent, a consequence of their strong balance of payments positions. The strength of the Canadian dollar in the exchange market also reflected the comparatively high level of interest rates maintained by the authorities and an improvement in confidence following the exemption of Canada from measures taken by the United States to restrict the outflow of capital.

The comparative strength of the Swiss franc and deutsche mark reflected not only their strong balance of payments positions but also very large but periodic inflows of short-term speculative capital. The lira was also in a strong position, reflecting Italy's comparatively large basic balance of payments surplus; despite the substantial outflow of funds that occurred during 1968 and early 1969, the quotations for spot lire were at a premium until February 1969; subsequently they were at a substantial discount through June 1969.

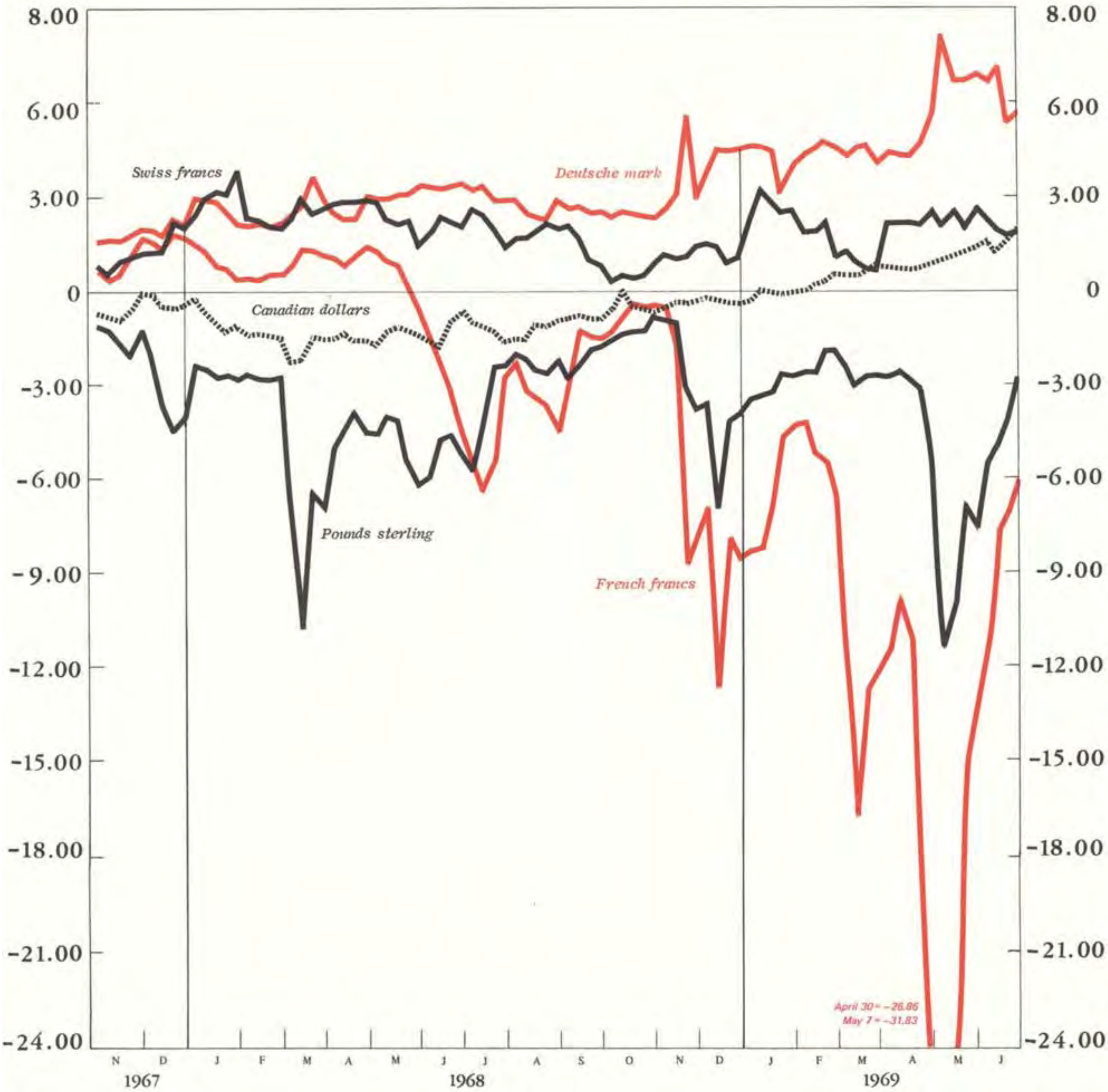
Both as a means of financing the substantial balance of payments surpluses of a number of countries and, in some cases, also to ward off inflows of speculative short-term capital, various monetary authorities took steps at certain periods in 1968 to encourage the outflow of short-term capital, for example, by pursuing a comparatively low domestic interest rate policy (as in Germany, Italy, the Netherlands, and Belgium) and by offering commercial banks favorable rates at which the monetary authorities would swap forward dollars (as in Germany and Italy). However, during the early part of 1969 a number of monetary authorities (especially in Italy and Belgium) endeavored to reduce the outflow of short-term funds not only by reversing some of their earlier policies but also by placing quantitative limits on commercial banks' net overseas positions and by letting the spot rate for their currencies fall sharply in the market. The German authorities also took steps to reduce the outflow of funds at certain times, for example, by suspending swap transactions with the banks, raising the cost of such transactions for the banks, and also letting the rate of exchange drop sharply. In addition, a number of European monetary authorities raised short-term domestic rates in April and May 1969 as a means of limiting the outflow of short-term funds.

Forward Exchange Markets and Interest Arbitrage

Quotations on three-month contracts for some of the leading currencies, expressed as annual percentage discounts or premiums on their spot quotations, are shown in Chart 34. Throughout 1968 and early 1969 the pattern of forward quotations remained fairly stable. Forward sterling and forward French francs were quoted for most of the year at substantial though fluctuating discounts on their spot rates; forward deutsche mark were quoted at substantial premiums, which rose from about 2½ per cent per annum to 4½ per cent during the latter half of 1968 and the first four months of 1969, rose further in May 1969, and were generally in excess of 5½ per cent during June 1969. Quotations for forward Swiss francs fluctuated, with an average premium of about 2 per cent per annum. To a certain extent, the generally wide discounts on forward sterling and

CHART 34. THREE-MONTH FORWARD EXCHANGE RATES:[1] SPREAD OF SELECTED CURRENCIES AGAINST SPOT U.S. DOLLAR, NOVEMBER 1967–JUNE 1969

(*In per cent per annum*)



[1] Based on Wednesday noon quotations in New York.

forward French francs not only reflected changes in confidence arising from developments affecting the respective economies but also reflected the comparatively high levels of interest rates in the United Kingdom and France. During the course of 1968 and particularly in the first half of 1969, interest rates in the Euro-dollar market rose to record highs and at certain times in early 1969 exceeded interest rates in most other European markets. However, the discounts on forward sterling and French francs remained and net margins on covered arbitrage, which ought to have been minimal, have, in fact, been comparatively large. To some extent the unusually large covered arbitrage differential in favor of Euro-dollar investments has continued because of exchange controls and possibly because of other constraints on outflows of funds from London and Paris to the Euro-dollar market.

Forward sterling was quoted at a discount throughout 1968 and the first half of 1969. With the exception of the periods between July and mid-November 1968 and between late January and late April 1969, the discount was about 3 per cent per annum or greater. Furthermore, the fluctuations in the quotations for three-month sterling were considerable; for example, at the time of the Budget in April 1968 the discount on forward sterling narrowed sharply from about 7½ per cent per annum to 4½ per cent. After May 1968 the discount generally narrowed until the crisis of November 1968 (falling below 1 per cent per annum in October). During the first months of 1969 the discount narrowed until late April and again widened to over 12 per cent per annum at the time of the April-May crisis. During the latter part of May and throughout June, the discount narrowed and by the end of June was just over 3 per cent per annum.

The average discount on forward French francs has not only been substantially larger than that on sterling but has fluctuated more widely. During the events of May-June 1968 the forward franc moved from a premium of over 1 per cent to a discount equivalent to about 14 per cent per annum on the spot rate. Thereafter the discount narrowed until November, when it again widened substantially and fluctuated between 6 per cent and 10 per cent per annum. Subsequent movements in the discount were influenced by the imposition of exchange control and domestic interest control in November 1968, which had the effect of splitting the domestic and foreign forward exchange markets. In general, the discount on forward francs quoted in the domestic market has been very much smaller than on the foreign forward exchange markets. In early March 1969 the discount on forward francs in the foreign (New York) market widened; on May 7 the discount on the spot rate was over 30 per cent per annum, but it then narrowed very sharply to less than 5 per cent per annum at the end of June 1969.

The comparatively high premium on forward deutsche mark can be partly accounted for by changing expectations stemming from the strong underlying balance of payments position of Germany, and also because a considerable volume of foreign short-term capital was invested in Germany on an uncovered basis; the premium on forward deutsche mark also reflected the comparatively low level of interest rates in Germany. To a considerable extent, however, the German authorities adopted policies that would equilibrate, as far as possible, the international flow of funds—i.e., induce an outflow of funds. The German authorities encouraged outflows of funds through offering favorable swap rates to their commercial banks for forward dollar transactions, but at certain times, when they wished to limit the rate of outflow, they have suspended such operations, for example, in November 1968 and May 1969, and also raised the cost of swap transactions. In the absence of such swaps there would have been little incentive to invest abroad on a short-term basis, taking into account the cost of forward cover. The Italian authorities also pursued, over much of 1968 and early 1969, a policy similar to that of the German authorities.

Developments in other forward quotations also reflected underlying balance of payments positions and domestic interest rate policies. Furthermore, taking into account the level of domestic interest rates in Europe, as well as the cost of forward cover, short-term international investment was generally in favor of U.S. dollar or Euro-dollar investments rather than in investments in most of the domestic money markets. Details on the flows of funds among the various markets have been presented in Chapter 4.

GOLD

Between November 1967 and March 1968, the seven selling members of the gold pool sold gold on a massive scale to the private market; for the first quarter of 1968 such sales are estimated at $1.7 billion (including sales of newly mined gold) and resulted in a drop of $1.4 billion in the official monetary gold stock. Subsequent developments in the international gold market have been largely determined by the decision, taken at the March 16-17 meeting in Washington of these members of the pool, to establish a two-tier price system for gold transactions; this meant that transactions among monetary authorities would be undertaken at a price of $35 a fine troy ounce [3] plus or minus a margin that does not exceed 1 per cent as prescribed by the Fund, and that other transactions would be carried out at free market prices. At the Washington meeting the Governors of the seven central banks concerned decided to refrain from supplying the private market with gold and, at the same time, stated that they no longer felt the necessity to buy gold from the market. In the course of the year following the Washington decision, a considerable number of other central banks indicated that they would not buy or sell gold in the free market and also instituted marketing procedures that have effectively separated their official gold transactions from other gold transactions.

During the last nine months of 1968 and early 1969 there occurred a substantial and continued rise in the price of gold in the main international gold markets. The market price of gold (in London and Zurich) rose from about $35.20 a fine ounce in mid-March 1968 to a peak of $43.82½ on March 10, 1969. In Paris the market price of gold has been for most of the time since March 1968 considerably higher than in London and Zurich, owing to the imposition of exchange controls on international gold dealings in the Paris market. Gold prices in other free markets also rose to generally record high levels.

The sharp rise in free market gold prices reflected not only considerable speculative activity in the markets but also substantial demand for gold for industrial, artistic, and traditional hoarding purposes at a time when only a comparatively small amount of newly mined gold was placed on the market. During most of 1968 and early 1969, demand has been met largely out of an overhang of stocks accumulated by private investors at the time of the crises in November 1967 and March 1968. This overhang in the market in mid-March 1968 has been estimated at almost 90 million fine troy ounces, which is the equivalent of over $3 billion when valued at $35 a fine ounce; given the rise in the free market price of gold, the market value of the initial overhang become considerably higher. The size of the overhang has, of course, been considerably reduced since March 1968 because of continuing demand for gold for industrial and other purposes.

The amount of newly mined gold placed on the market can only be estimated. Gold output, other than that of South Africa and the U.S.S.R., can be estimated at about 10 million ounces in the 13 months to the end of April 1969, and it may be assumed that this gold was sold in the free market. South Africa, which accounts for over 75 per cent of the world's gold output excluding that of the U.S.S.R., has not announced the quantity of its new production sold on the free market, although on a number of occasions it announced that such sales had taken place. However, of its total production of 33.5 million ounces in the 13 months to April 1969, possibly 8 million ounces might have been sold to the free market. Taking into account free market sales by producers other than South Africa and the estimate of sales by South Africa, it would seem unlikely that, in total, more than 18 million ounces were placed on the market in the 13 months to April 1969. The average free market price of gold was about $41 during that period; it would, therefore, seem that the total value of newly mined gold sold on the free market would have been about $740 million during these 13 months.

As noted, the stock of gold held by official monetary institutions fell sharply in the first quarter of 1968, but it rose thereafter, largely because of the increase in South Africa's holdings. Official gold transactions resulted in a considerable redistribution of gold holdings. After March 17, 1968, transactions reflected settlements among monetary authorities, largely for balance of payments reasons, whereas earlier official gold stocks were also used to supply private demand. As a result, the decline in official holdings of gold has been effectively stopped. The private demand for gold over the period has continued to be strong, resulting in a price ranging up to 25 per cent above the official price and also in a marked reduction of the initial overhang.

Gold Production

Gold production for all countries (excluding the CMEA countries, mainland China, etc.) [4]

[3] One troy ounce is equal to 31.103481 grams.

[4] See footnote 1, page 44.

increased fractionally in 1968, by less than 1 per cent to about 40.6 million ounces valued, on the basis of $35 a fine ounce, at $1,421 million. In 1967 production had fallen for the first time in 14 years.

Gold production in South Africa rose by 2.5 per cent in 1968 over the level of 1967 to reach 31.17 million ounces (equivalent to $1,091 million at $35 an ounce), about 77 per cent of world production (again excluding the CMEA countries, mainland China, etc.). In contrast to 1967, when both tonnage and average grade of ore declined, gold output during 1968 surpassed the level of 1966. Combined working profits from gold, uranium, and other products rose slightly, from R 307.9 million ($431.1 million) in 1967 to R 309.2 million ($432.8 million) in 1968. However, the amount of gold mined at a loss in 1968 increased to 3.5 per cent of total production, compared with 2 per cent in 1967. Output of the ten largest producers rose by 3 per cent, while profits of these producers rose only marginally, and average working costs per fine ounce of gold increased by 3 per cent. The country's largest gold mine, West Driefontein, maintained its high production level in 1968 despite disruption of operations during much of November owing to serious flooding in the mine shafts.

Two large new gold mining projects in South Africa were initiated during 1968. Estimates for one, East Driefontein, indicate 75 million tons of ore containing an average yield of 10.5 dwt. per ton. The mine is expected to attain its full production level in 1976. Three new mines began operations in 1968, and it is expected that their output should tend at least to maintain production at the 1968 level over the next few years.

Canadian gold production totaled 2.99 million ounces in 1968, the same level as in 1967. Canadian gold production had been declining over the previous seven years, and, although new mines are being opened and operated, old mines are closing and ore reserves are diminishing. In the United States, gold production was virtually stable at about 1.4 million ounces. As seen in Table 38, gold production declined in other countries taken as a group.

Gold explorations are being undertaken in many countries, although the deposits located are small in most instances. New gold deposits have been discovered or worked in Brazil, Ecuador, El Salvador, Fiji, the Philippines, and Venezuela. In the United States gold exploration has been intensive in Alaska and on the sea floor just off the Pacific shore; alluvial gold area workings are also being considered in California.

Gold Holdings

Official Holdings

Total recorded official gold stocks amounted to $40.9 billion at the end of 1968, compared with

TABLE 38. GOLD: VALUE OF WORLD PRODUCTION,[1] 1940, 1945, AND 1964-68
(In millions of U.S. dollars at US$35 a fine ounce)

	1940	1945	1964	1965	1966	1967	1968
South Africa	492	428	1,019	1,069	1,081	1,068	1,091
Canada	186	95	133	126	115	104	104
United States	170	32	51	59	63	53	53
Australia	57	23	34	31	32	28	25
Ghana	31	19	30	27	24	27	26
Rhodesia	29	20	20	19	18	18	18
Japan [2]	30	3	16	18	19	24	22
Philippines	39	—	15	15	16	17	18
Colombia	22	18	13	11	10	9	8
Congo, Dem. Rep. of	20	12	8	2	6	5	5
Mexico	31	17	7	8	8	7	6
Other [3]	157	69	60	55	50	50	45
Total [3]	1,264	736	1,406	1,440	1,442	1,410	1,421

Source: *International Financial Statistics.*
[1] Excluding the output of CMEA countries, mainland China, etc.
[2] Figures in the table include gold obtained in refining imported copper ore, which is returned to the ore-exporting countries. Excluding these re-exports of gold the figures would be 30, 3, 12, 13, 16, 18, and 19.
[3] These figures include estimates for data not available.

$41.6 billion at the end of 1967; this was the third consecutive year of decline in official gold holdings. During the first quarter of 1968, monetary gold stocks held by national authorities declined by $1,680 million, which was $280 million larger than the decline recorded for the entire year 1967. For the last three quarters of the year, however, these gold holdings increased by $1,100 million, reducing the net loss for the calendar year to $580 million. Gold holdings of international organizations increased by $308 million during the first quarter of 1968 but decreased by $439 million during the remaining three quarters. (See Table 39 and Chart 35.)

The total supply of gold in 1968 (recorded and estimated production plus sales by the U.S.S.R. less purchases by mainland China) was slightly lower than in 1967, despite increased production in the area covered, as sales from the U.S.S.R. declined and purchases by mainland China more than doubled in 1968 over 1967.[5] Changes in the distribution of gold reserves during the year are discussed in Chapter 4.

Gold holdings of the Fund decreased during the calendar year 1968 by a net of $394 million to total $3,359 million. This total includes $800 million invested in U.S. Government securities and $272 million held under general deposit. The total amount of gold received by the Fund in respect of subscriptions amounted to $48 million, of which $14 million was placed on general deposit with the Fund's gold depositories in New York and London, in accordance with the arrangements provided for in the Report of the Executive Directors to the Board of Governors concerning Increases in Quotas of Members—Fourth Quinquennial Review, dated February 26, 1965. However, the amount of gold held on general deposit declined by $6 million over the year, as the Fund made withdrawals of $20 million. Gold received by the Fund in respect of charges amounted to $32 million, which was offset in part by interest paid in gold by the Fund amounting to $19 million in respect of borrowings by the Fund of members' currencies under the General Arrangements to Borrow and through bilateral borrowing arrangements with Italy. Repurchases of members' currencies from the Fund against gold amounted to $86 million. Fund sales of gold for currencies amounted to $547 million during the calendar year.

During the first quarter of 1969 the gold holdings of the Fund increased by a net $7 million. Gold received in respect of subscription amounted to $6 million, of which $1 million was placed on general deposit. An amount of $6 million in gold was received in respect of charges, while the Fund paid interest in gold of $5 million on borrowing under the General Arrangements to Borrow and the bilateral borrowing arrangement with Italy.

TABLE 39. GOLD: MARKETED STOCKS AND DISTRIBUTION BY USE, 1966–FIRST QUARTER 1969

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

	1966	1967	1968	First Quarter 1969
Production [1]	1,440	1,410	1,421	340 [2]
Sales by the U.S.S.R.	—	15	11	—
Purchases by mainland China	—75	—20	—43	—
Total new supplies	1,365	1,405	1,390	340
Change in countries' monetary gold stock [1]	—950	—1,400	—580	65
IMF gold transactions [3, 4]	783	30	—394	7
BIS and EF gold transactions [3]	121	—209	263	74
Total added to official monetary gold stock [1] (rounded)	—45	—1,580	—710	145
Residual: supplies absorbed by industry, arts, and private hoarding	1,410	2,985	2,100	195

Sources: *International Financial Statistics* and staff estimates.
[1] Excluding CMEA countries, mainland China, etc.
[2] Staff estimates.
[3] Minus sign denotes net outflow of gold from the International Monetary Fund, the Bank for International Settlements, and the European Fund.
[4] Excluding gold placed on general deposit in London and New York totaling $254 million at the end of 1966, $278 million at the end of 1967, and $272 million at the end of 1968.

Private Absorption

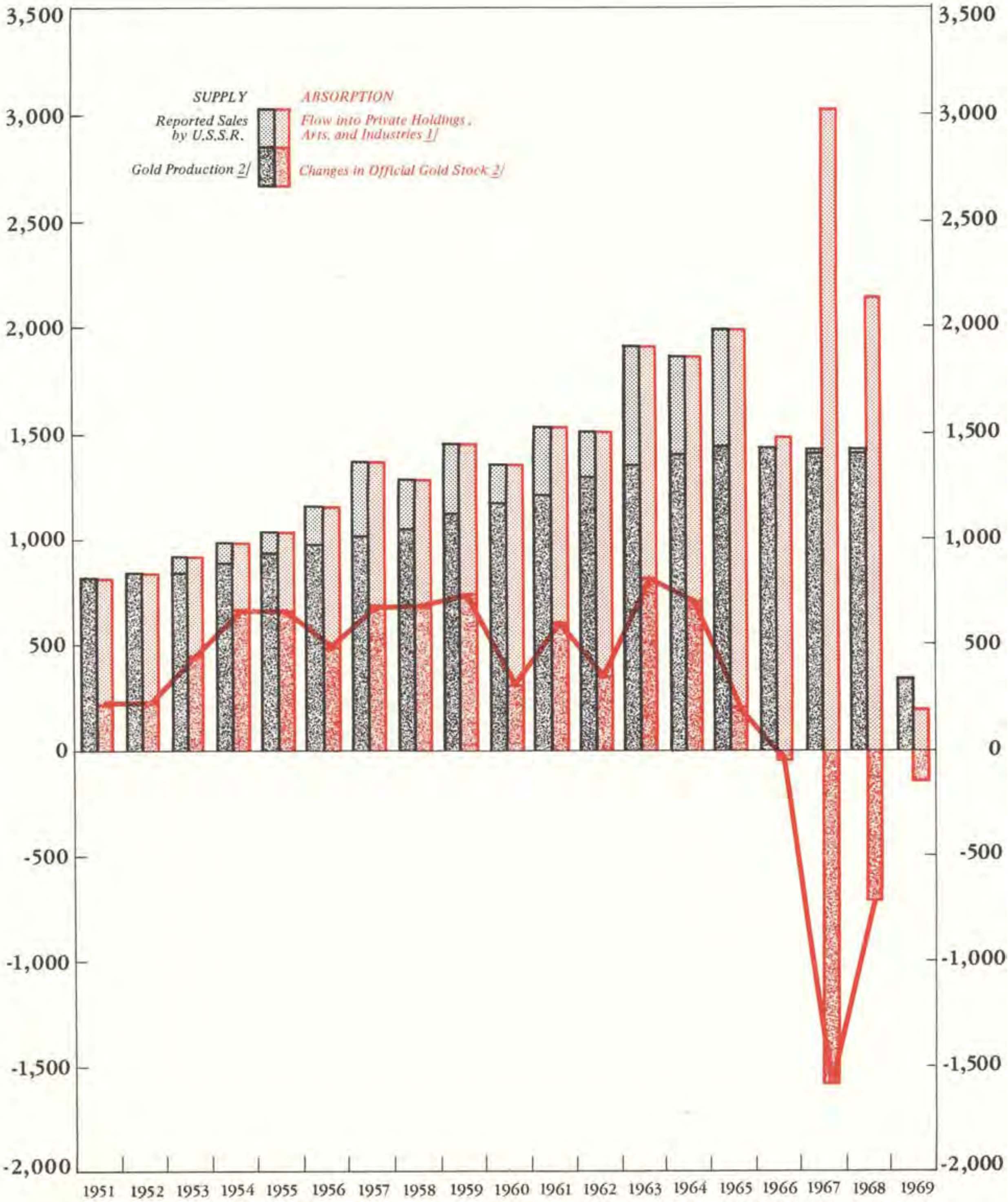
During 1968 absorption of gold by industry, the arts, and in the form of private hoarding—i.e., total private net acquisition—appears to have been of the order of 60 million ounces, compared with 85 million ounces in 1967 and 40 million ounces in 1966.[6] The first quarter of 1968 saw the highest rate of absorption of gold ever recorded

[5] The U.S.S.R. sold the equivalent of about $11 million, reportedly on behalf of some Eastern European countries. The United Kingdom's export figures indicate $63 million of gold was shipped to China in 1968, $20 million of this was sent in the opening days of the year. It is assumed that this latter figure represents purchases made during the later weeks of 1967 and, therefore, this amount has been included in the 1967 statistics.

[6] Valued at US$35 a fine troy ounce, these figures represent about $2.1 billion, $3 billion, and $1.4 billion, respectively. For 1968 the figure should be higher because gold placed on the market after mid-March 1968 was sold at prices in excess of $35.

CHART 35. GOLD: ESTIMATED NEW SUPPLIES AND ABSORPTION, 1951–FIRST QUARTER 1969

(In millions of U.S. dollars)



[1] Including purchases by mainland China amounting to the equivalent of $150 million in 1965, $75 million in 1966, $20 million in 1967, and $43 million in 1968.
[2] Excluding CMEA countries, mainland China, etc.

TABLE 40. GOLD: MARKETED STOCKS AND DISTRIBUTION BY USE, 1956–FIRST QUARTER 1969
(In millions of U.S. dollars at US$35 a fine ounce)

Year	(A) Newly Available Gold [1]	(B) Additions to World Monetary Stock [2]	(C) Estimated Industrial and Artistic Use [3]		(D) Estimated Private Hoarding [4]
			BIS	U.S. Bureau of the Mint	
1956	1,125	490	165	80	390
1957	1,275	690	195	45	345
1958	1,285	680	200	65	340
1959	1,380	750	220	60	350
1960	1,378	310	265	110	695
1961	1,540	615	285	95	545
1962	1,515	355	330	60	770
1963	1,906	825	325	65	690
1964	1,856	715	430	90	620
1965	1,840	210	465	95	1,070
1966	1,365	–45	725 [5]		685
1967	1,405	–1,580	805 [6]		2,180
1968	1,390	–710	930 [6]		1,170
1969					
First Quarter	340 [6]	145	275 [6]		–80

[1] New production plus sales by the U.S.S.R. less purchases by mainland China.
[2] Data from *International Financial Statistics.*
[3] Based on series published by the Bank for International Settlements (BIS), *Annual Report, 1966,* for 12 countries and by the U.S. Bureau of the Mint for an additional 29 countries not covered by the BIS series. For the definitions of these terms, see *Annual Report, 1967,* pp. 118-20; it might be noted that artistic demand includes use of gold for minting coins.
[4] The residual amount, Columns A–(B+C)=D.
[5] This estimate has been derived from an estimate of $500 million given by the BIS, *Annual Report, 1968,* an estimate of $113 million given by the U.S. Bureau of the Mint for an additional 29 countries, and by information received in the Fund from member countries.
[6] Fund staff estimate.

for industrial and artistic uses, and, in particular, for private hoarding. During the remaining three quarters the rate of private absorption of gold declined sharply—10 million ounces, compared with 50 million ounces in the first quarter of 1968.[7] Indeed, net private absorption was limited to releases from new production to the market. The decline of private absorption in the latter part of 1968 resulted, of course, from the large stocks acquired at the beginning of 1968 and also from the fact that, following the abandonment of the gold pool operations that had been used to restrain the rise in gold prices, private demand for gold was no longer met out of official gold stocks; at the same time the bulk of South African gold production was not sold on the free market. Consequently, the main effect of continued private demand for gold by industry, the arts, and traditional hoarding purposes was to cause a redistribution of privately held gold, and to increase the free market price rather than to deplete official gold stocks.

Information on nonofficial absorption of gold remains scarce and inadequate. Estimates have been used to update Table 40. The sharp increase for industrial and artistic use in 1966 reflects an estimate made by the Bank for International Settlements of $500 million for 12 countries and a Fund estimate, of $225 million, which encompasses not only the additional countries covered by the U.S. Bureau of the Mint series but also a considerably larger number of countries that have provided information to the Fund. The figure of $930 million for industrial and artistic use in 1968 represents an estimated increase of 16 per cent per annum over the previous year, and $275 million for the first quarter of 1969 represents an 18 per cent increase from 1968. These rates are slightly higher than the estimated increase in 1967 over 1966 in view of the reportedly substantial increase in stocks held for industrial purposes, for example, in the United States. Estimated private hoarding, Column D, is a residual amount.

The estimates of private hoarding and industrial

[7] Private absorption in 1968 can be valued at $1,730 million during the first quarter and approximately $415 million (at $40 a fine ounce) for the remaining three quarters.

and artistic use of gold in 1968 and 1969 are more than usually subject to substantial error. It is probable that a considerable amount of gold acquired as a speculative investment in late 1967 and early 1968 has since been absorbed for industrial use, but measurement is difficult because of the lack of records on how much gold was taken out of the free market for these purposes since March 1968. It is probable that the relatively large volume of gold acquired partly as a speculative investment at the end of 1967 and early 1968 was used in the course of 1968 and early 1969 to meet longer-term needs which, under former gold marketing arrangements, would have been met out of official reserves.

Gold Movements

United States

During 1968 net official sales of gold by the U.S. Treasury, excluding domestic transactions, totaled $1,121 million (Table 41). Such operations during the first quarter of the year, however, amounted to $1,309 million, almost 70 per cent of which represented transfers to the United Kingdom in respect of the U.S. share in the gold pool operations. These operations ceased as of the close of business on March 14, 1968. During the last three quarters of the year operations resulted in net purchase of gold equivalent to $188 million. Furthermore, the U.S. Treasury refused to sell gold to private dealers after March 17, 1968, so that the $188 million represented a net addition to the official gold stock.

TABLE 41. UNITED STATES: NET GOLD TRANSACTIONS, 1966–FIRST QUARTER 1969

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

	1966	1967	1968	First Quarter 1969
Purchases from				
Canada	200.0	150.0	50.0	—
France	—	—	600.0	50.0
Peru	—	35.0	—	—
United Kingdom	79.8	—	—	—
Other countries	33.1	19.0	11.9	10.8
Domestic transactions	—	—	—	0.8
Total	312.9	204.0	661.9	61.6
Sales to				
Algeria	—	149.6	49.9	—
Belgium	—	—	57.6	—
France	600.9	—	—	—
Iraq	—	21.3	42.2	—
Ireland	1.7	1.9	52.4	—
Italy	60.0	85.0	209.0	76.0
Lebanon	10.8	—	94.5	—
Netherlands	—	—	18.5	—
Saudi Arabia	—	—	50.0	—
Singapore	—	—	81.0	—
Switzerland	2.0	30.0	50.0	25.0
United Kingdom	—	878.5[1]	834.6[1]	—
Other countries	68.3	47.1	226.4	15.7
Domestic transactions	140.6	160.2	52.3	—
Total	884.3	1,373.6	1,818.4	116.7
Transfer to International Monetary Fund	—	—	17.0	—
Total	884.3	1,373.6	1,835.4	
Net decrease in stocks	571.4	1,169.6	1,173.5	55.1

Source: U.S. Treasury Department, *Foreign Gold Transactions.*
[1] These totals largely reflect the U.S. share in the gold pool arrangements for which the Bank of England acted as agent.

Purchases of gold from abroad amounted to $662 million in 1968, of which $600 million were made from France and $50 million from Canada. Over the year, net sales to the United Kingdom amounted to $835 million, almost entirely for settlement of gold pool operations for which the Bank of England acted as agent. Other sales of gold by the U.S. Treasury included $209 million to Italy, $95 million to Lebanon, $81 million to Singapore, $58 million to Belgium, $52 million to Ireland, and $50 million each to Algeria, Saudi Arabia, and Switzerland. In addition, 18 Fund members purchased gold from the United States to enable them to pay gold subscriptions to the Fund in respect of increases in quotas. These sales are not included in Table 41, as the Fund placed an equivalent amount of gold on general deposit with the Federal Reserve Bank of New York. The transfer to the Fund of $17 million represents a withdrawal by the Fund from its general gold deposit that occurred in the second quarter of 1968. On April 30, 1969, the Fund's general gold deposit with the Federal Reserve Bank of New York amounted to $232.8 million. Under similar arrangements, an amount of $41.4 million was on general deposit with the Bank of England as of April 30, 1969, following a withdrawal of the equivalent of $3 million in the second quarter of 1968.

The amount of gold held under earmark by Federal Reserve Banks for accounts of foreign governments, central banks, and international organizations decreased in 1968 by $187 million, to $13,066 million.

During the first quarter of 1969 the United States purchased $61 million of gold from 3 countries, of which $50 million was from France. Net sales during the quarter amounted to $117 million, primarily to Italy and Switzerland. Small sales were made to 28 other countries. Two Fund members purchased gold from the United States in order to pay gold subscriptions to the Fund; an equivalent amount was placed on general deposit by the Fund with the Federal Reserve Bank of New York.

United Kingdom

During 1968 the gold reserves of the United Kingdom increased by the equivalent of $183 million, most of the increase occurring during the first quarter of the year. Exports of gold bullion during 1968 from the United Kingdom amounted to $1,607 million ($1,777 million in 1967), while imports totaled $1,599 million ($1,179 million in 1967). Switzerland and France received $786 million and $419 million of gold, respectively, from the United Kingdom. The bulk of the exports occurred during the first quarter of the year and largely reflected gold pool operations during the first ten weeks of the year.

Gold Prices and Markets

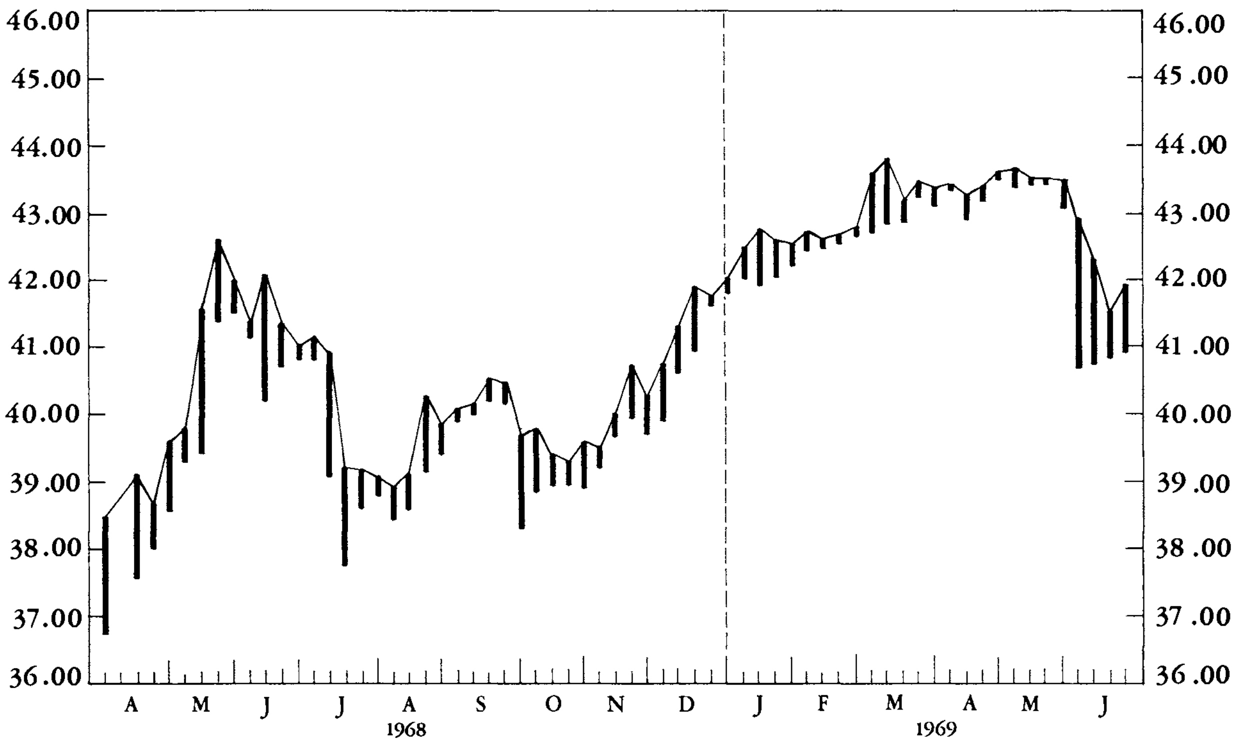
Since March 18, 1968, gold transactions for nonmonetary purposes have been at prices that have varied, in the leading international gold markets, between $37 and $44 a fine ounce, or at an average premium based on monthly averages of 16 per cent above the official price of $35.

The basic trend of gold prices has been upward in both London and Zurich, the two leading international gold markets, since the cessation of official sales to the free market in March 1968. Gold prices have risen similarly in other free gold markets, such as Beirut and Hong Kong. Prices have risen considerably faster in important markets that have been subject to exchange or other controls, such as Paris and Bombay. In these latter centers the accelerated rise in gold prices reflected not only local demand conditions but also the limited supplies of new gold entering those markets.

The price of gold in London since April 1968, which has been taken as representative of the free market price, is presented in Chart 36. Gold price movements have followed two broad patterns since April 1968. Between April and the end of September 1968 prices fluctuated considerably, and within this six-month period there were three

CHART 36. GOLD: PRICES IN LONDON, APRIL 1968–JUNE 1969

(*Weekly high and low quotations: U.S. dollars a fine ounce*)



distinct movements—first upward, then downward, and again upward. In sharp contrast, in the period from October 1968 through April 1969, gold prices showed a steady upward trend, with remarkably little fluctuation. In June 1969 the price declined sharply to the level that had prevailed at the end of 1968.

Between April and September 1968 the sharp fluctuations in gold prices occurred largely because of substantial changes in market expectations resulting from differing assessments concerning future supplies of gold (in particular, market reactions to various statements concerning the prospects for the sale of South African gold), the effects of currency crises, changes in international interest rates, and availability of funds that could be used to maintain speculative positions in gold. Furthermore, during this period a comparatively large volume of gold held on short-term account was actively traded in the market on a speculative basis; this induced sharp, and sometimes divergent, price movements. From the early autumn of 1968, the main cause of the upward trend of prices would seem to have been a substantial reduction of gold stocks in the hands of those who had acquired them late in 1967 and early in 1968. As the overhang of gold on the market has been gradually reduced since April 1968, through purchases by industrial and artistic users and traditional hoarders, those holding gold as a short-term investment have been prepared to release it only at rising prices. The lack of substantial or regular sales of gold by South Africa and the fact that other monetary authorities (including CMEA countries) did not place monetary gold on the market has, of course, caused prices to rise further. The amount of newly mined gold produced by countries other than South Africa has met only a small fraction of current demand, and the bulk of demand has been met from the large private stocks acquired before March 1968. The growing shortage of supplies in the private market is now a decisive factor in determining the free market price of gold.

London and Zurich Markets

The first business day under the two-tier gold system was March 18, 1968, with Zurich and Paris open for business. The price in Zurich was first quoted at $43 to $45 a fine ounce and then profit taking by short-term speculators depressed the price to about $38 by the end of the month.

The London gold market reopened on April 1, 1968, following a two-week closure. The first price quotation on April 1 was $38 but the level soon declined to $36.70, the lowest price that has been recorded since the establishment of the two-tier price system.

Between early April and the third week of May prices rose very sharply to $42.60 on May 21, 1968. This was the highest price in the market until March 1969. By mid-July 1968 the price had fallen by $4.85, to $37.75, presumed largely as a result of gold sales, later announced by the South African authorities as having been made at about that time, and rumors of those sales but also as a reaction to the rapidity and speculative nature of the previous rise in prices. A premium of 20 per cent over the official gold price was not, at that time, regarded as sustainable.

Between mid-July and the end of September 1968, gold prices rose fairly steadily, except for a sharp rise and fall at the time of the Czechoslovak crisis in late August. For four business days after September 26 the price declined by a total of $2.15 a fine ounce on further expectations of gold sales on the free market by South Africa and on the possibility of an agreement at the time of the Fund-Bank Annual Meetings on future policy for sales of gold by South Africa.

Conditions in the main gold markets were comparatively calm during October, but the international currency crisis of November 1968 was reflected in a rise of $1.75 in gold prices, to $40.75 a fine ounce, in less than three weeks. Demand for gold was, however, on a much more reduced scale than during the crises of November-December 1967 and March 1968. After it had been announced that the parities of the French franc and deutsche mark were not to be changed, the gold price returned to about $40.

Thereafter, gold prices rose steadily until the end of April 1969; the average price increase per fixing in London was 3½ U.S. cents a fine ounce. Mainly as a result of heavy demand for gold from France the price in London rose from $42.70 on March 3 to a record high for the market of $43.82½ on March 10. The price then declined by almost $1 over the next few days as a result of profit taking by speculative holders. Steady pressure of demand for generally dwindling supplies again caused a gradual rise in gold prices. At the end of April the price was $43.60. This price level was maintained during May, but in the first week of June the price declined by $2.32½. The price at the end of June was $41.20.

Paris Market

The same factors influencing the London and Zurich markets also broadly affected gold prices in Paris. However, additional factors were in operation for the greater part of the year, setting this market apart from the others. On May 9, 1968, bullion representatives in Paris established a "fixing" price for the 12.5-kilo bar, thus providing a price comparable to the London and Zurich quotations. Until May 21 prices in Paris paralleled those in London and Zurich. On that day, however, in view of domestic difficulties, the authorities closed the market until June 7. During this period exchange controls were enacted, effectively closing the Paris gold market to international transactions by forbidding the import and export of gold. During June the margin over the prevailing prices in London and Zurich averaged over the equivalent of $3.50 a fine ounce; in July and August the differential increased to $5.10, representing a 12½ per cent premium over the price in London and Zurich.

On September 4 the exchange controls were lifted, thereby re-establishing Paris as an international gold market. By mid-month the differential of gold prices in Paris over London and Zurich had virtually disappeared, as the price of gold in Paris moved to within the equivalent of 5 cents of that in London.

Exchange controls and restrictions on imports and exports of gold were reimposed in November 1968; the markets were closed between November 20 and November 24. On November 25 the price of bar gold exceeded the price in London by about the equivalent of $2 a fine ounce. By early December the average price differential had increased to $3 over London, but this narrowed to about $2.50 until mid-February. By mid-March this differential had risen to about $5 over London and Zurich, but by the end of June had declined again to about $1.25.

The greatest volume of bar gold transactions in the Paris market occur in the 1-kilo ingot rather than the standard 12.5-kilo ingot. However, gold coins, particularly the napoleon (F 20 piece), were in special demand. The price for the napoleon rose momentarily at the end of April to a new record high of F 76.30, equivalent to $82.20 a fine ounce of gold, representing a premium of 68 per cent and the equivalent price for the 1-kilo ingot. By the end of June, however, the price was quoted at F 68.10, equivalent to $73.41, representing a premium of 72 per cent over the 1-kilo ingot.

The extremely heavy trading in both coins and the small gold bar, which was characteristic of the Paris gold market, is a reflection of the strong demand of the small investors for gold for hoarding purposes, which increased markedly in 1968 and early 1969.

Other Markets

The price of gold in New York moved in close correspondence with the London price, at a premium of about 50 cents; this differential can be regarded as essentially to meet the costs of transporting and receiving gold bought in the free markets to meet domestic U.S. industrial needs.

During the period March 17, 1968 to April 30, 1969, the prices for bar gold fluctuated within wide ranges in the free markets of Beirut and Hong Kong. In Beirut the low price was $37.42 a fine ounce in April 1968, and the high was $43.75 in April 1969. The Hong Kong price moved between $41.70 (November) and $47.18 (April 1969). The price in this market carries about a $3 premium over the London price to cover costs of transportation and of reduction in bar size to the smaller units preferred by Hong Kong buyers.

In the Bombay gold market prices moved within an extremely wide range, the extremes of which were the equivalents of $59.72 in October and $75.48 in April 1969, the latter price being the highest recorded since the beginning of 1968.

Gold Subsidy Program

The gold subsidy programs of Canada,[8] the Philippines,[9] and South Africa,[10] discussed in

[8] See *Annual Report, 1959,* pages 149-50; *1961,* pages 125-26; *1964,* page 109; *1968,* page 92.

[9] See *Annual Report, 1962,* page 164; *1963,* page 181; *1967,* page 124.

[10] See *Annual Report, 1964,* page 109; *1968,* page 92.

previous Annual Reports, have continued in operation during the past year.

Australia consulted with the Fund with regard to an amendment to the Gold-Mining Industry Assistance Act.[11] The Government proposed that when a producer sells gold at a price in excess of the official price of $A 31.25 an ounce, 75 per cent of the excess will be deducted from the subsidy otherwise payable. The Act, before amendment, specified that the full amount of excess be deducted from subsidy payments. The reason for the amendment was that, while unsubsidized producers received full benefit of sales at premium prices, subsidized producers did not receive any benefit from such sales.

The Fund has deemed the amendment by Australia to be not inconsistent with the objectives of the Fund's statement on gold subsidies dated December 11, 1947.

[11] See *Annual Report, 1960,* page 144; *1963,* page 181; *1965,* page 103.

SUPPLEMENTARY NOTES

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A. Activities of the Fund

THIS note supplements the information given in Chapter 3 on the activities of the Fund during the past year other than those related to the acceptance of the Amendment of the Fund's Articles of Agreement and to the stabilization of prices of primary products. For some aspects of its operations, data covering the period since the Fund's inception are included.[1]

Membership

Membership in the Fund rose to 111 during the year under review, with the addition of Botswana on July 24, 1968, with a quota of $3 million; Lesotho, on July 25, 1968, with a quota of $3 million; Malta, on September 11, 1968, with a quota of $10 million; and Mauritius, on September 23, 1968, with a quota of $16 million. The Board of Governors approved the terms and conditions for the admission of Swaziland to membership. Applications for membership from Cambodia and Southern Yemen were under consideration at the end of the fiscal year. The aggregate of Fund quotas on April 30, 1969, including the quotas of new members and increases in quotas shown in Table 43, was $21,231 million, compared with $21,119 million a year earlier.

Executive Directors

A list of the Executive Directors and Alternate Executive Directors and their voting power as of April 30, 1969 is given in Appendix II; changes in membership of the Executive Board during 1968/69 are shown in Appendix III.

Managing Director

Mr. Pierre-Paul Schweitzer was appointed to a second five-year term as Managing Director and Chairman of the Board of Executive Directors of the Fund, effective September 1, 1968.

Article VIII

Three countries accepted the obligations of Article VIII, Sections 2, 3, and 4, of the Fund Agreement during 1968/69: Argentina, with effect from May 14, 1968; Singapore, with effect from November 9, 1968; and Malaysia, with effect from November 11, 1968. There are presently 34 members that have rendered their currencies convertible under the Articles of Agreement, as listed in Table 42.

TABLE 42. COUNTRIES THAT HAVE ACCEPTED ARTICLE VIII, APRIL 30, 1969

Member	Effective Date of Acceptance
Argentina	May 14, 1968
Australia	July 1, 1965
Austria	August 1, 1962
Belgium	February 15, 1961
Bolivia	June 5, 1967
Canada	March 25, 1952
Costa Rica	February 1, 1965
Denmark	May 1, 1967
Dominican Republic	August 1, 1953
El Salvador	November 6, 1946
France	February 15, 1961
Germany	February 15, 1961
Guatemala	January 27, 1947
Guyana	December 27, 1966
Haiti	December 22, 1953
Honduras	July 1, 1950
Ireland	February 15, 1961
Italy	February 15, 1961
Jamaica	February 22, 1963
Japan	April 1, 1964
Kuwait	April 5, 1963
Luxembourg	February 15, 1961
Malaysia	November 11, 1968
Mexico	November 12, 1946
Netherlands	February 15, 1961
Nicaragua	July 20, 1964
Norway	May 11, 1967
Panama	November 26, 1946
Peru	February 15, 1961
Saudi Arabia	March 22, 1961
Singapore	November 9, 1968
Sweden	February 15, 1961
United Kingdom	February 15, 1961
United States	December 10, 1946

[1] This note does not present data beyond April 30, 1969, the end of the Fund's last fiscal year. Some more recent developments are commented upon elsewhere in the Report.

Quotas

During the year under review, four members—Burma, Cyprus, Panama, and Trinidad and Tobago—increased their quotas under the Compensatory Financing Decision. That Decision specifies that the Fund is willing to give sympathetic consideration to requests for adjustment of quotas of certain primary exporting countries, and in particular countries with relatively small quotas, where adjustment would be appropriate to make them more adequate in the light of fluctuations in export proceeds and other relevant criteria. The increase in the quota of Panama under the Compensatory Financing Decision took into account the increase provided for under the First Resolution of the Board of Governors relating to Increases in Quotas of Members—Fourth Quinquennial Review, and which it had not taken up before the period for consent lapsed on April 30, 1968.

In addition, the quotas of Burma and 15 other members were increased under the First Resolution of the Board of Governors relating to Increases in Quotas of Members—Fourth Quinquennial Review, adopted March 31, 1965, which provided for a general increase of 25 per cent for all members.[2] Of those increases, 14 were for members that had elected to increase their quotas in five equal annual installments, and one completed the total increase for a member that had initially elected to pay in five installments but decided, after payment of three installments, to accelerate payment as provided in the Resolution. Further, Burma consented to the increase in its quota authorized under this Resolution within the period specified for consent; the increase became effective upon payment of the increased subscription.

Increases in quotas during the fiscal year 1968/69, shown in Table 43, together with the quotas of the four new members, aggregated $112 million.

Par Values

In contrast with the previous year, when 17 member countries changed their par values in accordance with the provisions of the Fund Agreement, only one such change took place in 1968/69: on the proposal of the Government of Iceland, in which the Fund concurred, the par value of the Icelandic króna was changed from IKr 57 per U.S. dollar to IKr 88 per U.S. dollar, effective November 12, 1968. This represented a devaluation of 35.2 per cent and followed by a year a devaluation of 24.6 per cent in the króna, when Iceland altered its par value in agreement with the Fund after the devaluation of the pound sterling.

An initial par value for the Gambian pound, at the rate of £G 1 equals US$2.40, was established by agreement between the Government of The Gambia and the Fund, effective July 8, 1968. This did not involve any change in the existing exchange rate. In accordance with a proposal by the Government of Lesotho for an initial par value for its currency, which is the South African rand, the Fund noted on December 20, 1968 that the par value of the South African rand, as established in agreement with the Fund effective February 14, 1961, was R 1 equals US$1.40.

The United Kingdom communicated to the Fund proposals for par values for certain non-metropolitan territories in respect of which the

Table 43. Increases in Quotas, Fiscal Year Ended April 30, 1969

(In millions of U.S. dollars)

Member	Quota on May 1, 1968	New Quota in Accordance with: General Increase in Quotas	New Quota in Accordance with: Compensatory Financing Decision	Effective Date of Change
Algeria	69.00	72.00[1]		Apr. 25, 1969
Burma	30.00	38.00		May 27, 1968
			48.00	Aug. 19, 1968
Cameroon	16.60	17.40[2]		May 14, 1968
Central African Republic	8.50	9.00[2]		May 11, 1968
Chad	8.50	9.00[2]		May 2, 1968
Congo (Brazzaville)	8.50	9.00[2]		June 24, 1968
Cyprus	15.00		20.00	June 19, 1968
Dahomey	8.50	9.00[2]		June 17, 1968
Dominican Republic	29.20	32.00[3]		Jan. 2, 1969
Gabon	8.50	9.00[2]		June 4, 1968
Ivory Coast	17.40	18.20[1]		Mar. 25, 1969
Luxembourg	16.60	17.40[2]		Aug. 16, 1968
Malaysia	115.00	120.00[1]		Mar. 24, 1969
Mauritania	9.00	9.50[1]		Apr. 22, 1969
Morocco	82.80	86.40[1]		Apr. 15, 1969
Niger	8.50	9.00[2]		Aug. 30, 1968
Panama	11.25		28.00[4]	Feb. 17, 1969
Trinidad and Tobago	25.00		44.00	May 17, 1968
Upper Volta	8.50	9.00[2]		May 22, 1968

[1] After payment of fourth of five annual installments.
[2] After payment of third of five annual installments.
[3] After completion of payment under the general increase in quotas, subsequent to earlier payment of three installments.
[4] Increase under the Compensatory Financing Decision and in the light of the First Resolution of the Board of Governors on Increases in Quotas of Members—Fourth Quinquennial Review.

[2] See *Annual Report, 1965,* pages 31-34 and 124-32.

TABLE 44. PURCHASES OF CURRENCIES FROM THE FUND, FISCAL YEAR ENDED APRIL 30, 1969
(In millions of U.S. dollars)

Member Purchasing	Under Stand-By Arrangements	Under Decision on Compensatory Financing	Other Purchase Transactions	Total
Afghanistan	5.25	4.80	—	10.05
Bolivia	11.00	—	—	11.00
Brazil	75.00	—	—	75.00
Burma	—	—	4.50	4.50
Burundi	3.00	—	—	3.00
Ceylon	19.50	—	—	19.50
Chile	27.00	—	—	27.00
Colombia	33.50	—	—	33.50
Dominican Republic	—	—	6.00	6.00
Ecuador	7.00	—	—	7.00
El Salvador	3.00	—	—	3.00
France	—	—	745.00	745.00
Ghana	12.00	—	—	12.00
Guatemala	3.00	—	—	3.00
Iceland	—	3.75	7.50	11.25
Indonesia	35.75	—	—	35.75
Iran	—	—	15.27	15.27
Korea	12.50	—	—	12.50
Liberia	3.90	—	—	3.90
Mali	5.00	—	—	5.00
Mauritius	—	—	4.00	4.00
Morocco	60.00	—	—	60.00
Nicaragua	19.00	—	—	19.00
Pakistan	40.00	—	—	40.00
Panama	5.20	—	4.19	9.39
Peru	40.00	—	—	40.00
Philippines	27.50	—	—	27.50
Rwanda	3.00	—	—	3.00
Somalia	1.20	—	—	1.20
South Africa	—	—	128.19	128.19
Sudan	7.50	—	—	7.50
Trinidad and Tobago	—	—	4.75	4.75
Tunisia	4.11	—	—	4.11
Turkey	27.00	—	—	27.00
United Kingdom	1,400.00	—	—	1,400.00
Uruguay	20.00	—	—	20.00
Total	1,910.91	8.55	919.39	2,838.85

United Kingdom had accepted the Articles of Agreement. The Sheikdoms of Qatar and Dubai had introduced a new currency known as the Qatar/Dubai riyal to replace the Indian rupee, which they had used as local currency until the devaluation of the Indian rupee on June 6, 1966. The Fund agreed to the proposal for an initial par value, effective March 11, 1969, of 1 Qatar/Dubai riyal equals US$0.21, the same exchange value as the Indian rupee prior to June 6, 1966. The Fund also concurred in the proposal for a par value for the new decimal currency unit, the pa'anga, introduced by Tonga to replace the Tongan pound. This par value is 1 pa'anga equals US$1.12 and became effective March 11, 1969. The new unit re-established the one-for-one relationship that had existed between the Tongan and Australian currencies before the introduction of decimal units.

Fund Transactions

Purchases

During the past fiscal year 36 members purchased currencies from the Fund amounting to $2,839 million.[3] This was more than double the amount of $1,348 million purchased in 1967/68 and established a new record. Table 44 sets out

[3] As in Chapter 3, data on transactions (and positions in the Fund) are expressed in terms of U.S. dollars, regardless of the currencies in which they took place.

members' purchases of currencies during the fiscal year ended April 30, 1969.

The figure of $2,839 million includes $1,911 million purchased by 28 members under the terms of stand-by arrangements, $9 million by 2 members under the Decision on Compensatory Financing, and $919 million by 9 members in other transactions. The last includes a purchase by South Africa of $62 million in July 1968, the first purchase made exclusively in a member's super gold tranche.[4] Three members—Korea, Mauritius, and Trinidad and Tobago—purchased currency from the Fund for the first time, the last covering the payment of the gold subscription consequent upon an increase in quota. Purchases by France and the United Kingdom made up about 75 per cent of total purchases during the year and accounted for the sharp increase over 1967/68.

The largest purchase during the fiscal year, $1,400 million, was made by the United Kingdom in June 1968 and was for the full amount available under the stand-by arrangement for the United Kingdom. The purchase was comprised of the currencies of 16 member countries. In connection with this purchase the Fund replenished its holdings of currencies of 12 member countries in the amount of $365 million by the sale of gold and borrowed $476 million in currencies of 5 member countries under the General Arrangements to Borrow (GAB).

The second largest purchase, made by France for an amount of $745 million and equivalent to its gold tranche position[5] at the time, also took place in June 1968; it was comprised of the currencies of 14 member countries. Again, the Fund replenished its resources by sales of gold, this time to 11 members, totaling $182 million, and by borrowing 5 currencies to a total of $265 million under the GAB. The Fund also agreed to a proposal by France to transfer its claim on the Fund under the GAB, $140 million, to four other GAB participants (Belgium, Deutsche Bundesbank, the Netherlands, and Italy).

Stand-By Arrangements

During the past fiscal year the Fund approved stand-by arrangements authorizing purchases up to $541 million for 25 developing countries in support of programs of economic stabilization, and $1,911 million was purchased by 28 members under stand-by arrangements in effect during the fiscal year (including those approved in the previous year). Table 45 gives data on these arrangements. Some particulars of arrangements approved during 1968/69 for members that did not have such arrangements approved in the previous year are given below.

Afghanistan. In July 1968 the Fund approved a stand-by arrangement for Afghanistan, authorizing purchases up to $7 million, representing 24 per cent of Afghanistan's quota. The arrangement was in support of a program to reduce the deficit in the country's balance of payments in the current year and to achieve external equilibrium over the longer term. An amount of $5.25 million had been purchased by April 30, 1969. This was the third stand-by arrangement agreed by the Fund for Afghanistan.

Ceylon. A stand-by arrangement for Ceylon, effective in May 1968, authorized purchases up to $19.5 million, representing 25 per cent of Ceylon's quota. The arrangement was in support of exchange reform measures which came into effect at the same time. By the end of the fiscal year the total amount available under the arrangement had been purchased. This was the third stand-by arrangement agreed for Ceylon.

Ecuador. The stand-by arrangement for Ecuador, which became effective in April 1969, was for $18 million, representing 72 per cent of Ecuador's quota. The arrangement was in support of a stabilization program centered on a fiscal policy of restraint in expenditures combined with administrative measures to boost the yield of the existing tax structure. One purchase of $7 million was made under the arrangement during the fiscal year. This was the seventh stand-by arrangement agreed for Ecuador.

Pakistan. The stand-by arrangement for Pakistan, which became effective in October 1968, authorized purchases up to $75 million, representing about 40 per cent of Pakistan's quota.

[4] A super gold tranche position is the difference between the Fund's holdings of a member's currency and 75 per cent of the member's quota when the holdings are less than 75 per cent.

[5] A gold tranche position is the difference between the Fund's holdings of a member's currency and 100 per cent of the member's quota when the holdings are less than 100 per cent of quota. A gold tranche position may include a super gold tranche position.

TABLE 45. FUND STAND-BY ARRANGEMENTS FOR MEMBERS, FISCAL YEAR ENDED APRIL 30, 1969
(In millions of U.S. dollars)

Member	Total Number of Stand-Bys Agreed for Member	Date of Inception	Date of Expiration	Amount Approved 1967/68	Amount Not Drawn at Expiration	Amount Approved 1968/69	Amount Not Drawn April 30, 1969
Afghanistan	3	July 10, 1968	July 9, 1969			7.00	1.75
Argentina	7	Apr. 15, 1968	Apr. 14, 1969	125.00	125.00		
Bolivia	11	Dec. 2, 1967	Dec. 1, 1968[1]	20.00	8.00		
		Jan. 16, 1969	Jan. 15, 1970			20.00	9.00
Brazil	7	Apr. 29, 1968	Apr. 28, 1969	87.50	12.50		
		Apr. 29,1969	Apr. 28, 1970			50.00	50.00
Burundi	5	Mar. 28, 1968	Mar. 27, 1969	6.00	1.00		
		Apr. 19, 1969	Apr. 18, 1970			4.00	2.00
Ceylon	3	May 6, 1968	May 5, 1969			19.50	—
Chile	11	Mar. 1, 1968	Feb. 28, 1969	46.00	—		
		Apr. 19, 1969	Apr. 18, 1970			40.00	40.00
Colombia	11	Apr. 19, 1968	Apr. 18, 1969	33.50	—		
		Apr. 19, 1969	Apr. 18, 1970			33.25	33.25
Congo, Dem. Rep.	1	July 6, 1967	July 5, 1968	27.00	27.00		
Costa Rica	5	Aug 17, 1967	Aug. 16, 1968	15.50	12.75		
Ecuador	7	Apr. 7, 1969	Apr. 6, 1970			18.00	11.00
El Salvador	8	Dec. 5, 1967	Dec. 4, 1968	10.00	2.00		
Ghana	3	May 25, 1967	May 24, 1968	25.00	—		
		May 28, 1968	May 27, 1969			12.00	—
Guatemala	5	Apr. 16, 1968	Apr. 15, 1969	10.00	7.00		
Guyana	3	Feb. 15, 1968	Feb. 14, 1969	4.00	4.00		
		Mar. 29, 1969	Mar. 28, 1970			4.00	4.00
Honduras	10	Jan. 1, 1968	Dec. 31, 1968	11.00	11.00		
		Feb. 1, 1969	Jan. 31, 1970			11.00	11.00
Indonesia	4	Feb. 19, 1968	Feb. 18, 1969	51.75	—		
		Apr. 4, 1969	Apr. 3, 1970			70.00	70.00
Korea	5	Apr. 11, 1968	Apr. 10, 1969	25.00	12.50		
		Apr. 15, 1969	Dec. 31, 1969			25.00	25.00
Liberia	6	Jun. 1, 1967	May 31, 1968	4.40	—		
		Jun. 1, 1968	May 31, 1969			3.20	0.40
Mali	3	Aug. 21, 1967	Aug. 20, 1968[2]	6.50	3.50		
		Aug. 12, 1968	Aug. 11, 1969			5.00	—
Morocco	5	Oct. 27, 1967	Oct. 26, 1968	50.00	—		
		Oct. 27, 1968	Oct. 26, 1969			27.00	17.00
New Zealand	1	Oct. 25, 1967	Oct. 24, 1968	87.00	27.00		
Nicaragua	7	Mar. 1, 1968	Feb. 28, 1969	19.00	—		
Pakistan	3	Oct. 17, 1968	Oct. 16, 1969			75.00	35.00
Panama	3	May 8, 1968	May 7, 1969[3]			3.00	—
		Jan. 16, 1969	Jan. 15, 1970			3.20	1.00
Paraguay	9	Jan. 1, 1968	Dec. 31, 1968	8.00	8.00		
		Jan. 1, 1969	Dec. 31, 1969			7.50	7.50
Peru	15	Aug. 18, 1967	Aug. 17, 1968	42.50	—		
		Nov. 8, 1968	Nov. 7, 1969			75.00	35.00
Philippines	7	Mar. 27, 1968	Mar. 26, 1969	27.50	—		
Rwanda	4	Apr. 20, 1968	Apr. 19, 1969	3.00	—		
		Apr. 28, 1969	Apr. 27, 1970			2.00	2.00
Sierra Leone	3	Jan. 17, 1968	Jan. 16, 1969	3.60	3.60		
		Mar. 28, 1969	Mar. 27, 1970			2.50	2.50
Somalia	6	Jan. 19, 1968	Jan. 18, 1969	7.00	5.30[4]		
		Jan. 20, 1969	Jan. 19, 1970			6.00	6.00
Sudan	3	Sept. 14, 1967	Sept. 13, 1968	10.00	—		
		Dec. 5, 1968	Dec. 4, 1969			12.00	4.50
Tunisia	5	Dec. 27, 1967	Dec. 26, 1968	9.61	—		
		Jan. 1, 1969	Dec. 31, 1969			6.00	6.00
Turkey	8	Apr. 1, 1968	Dec. 31, 1968	27.00	—		
United Kingdom	8	Nov. 30, 1967	Nov. 29, 1968	1,400.00	—		
Uruguay	4	Mar. 1, 1968	Feb. 28, 1969	25.00	5.00		
Total				2,227.36	275.15	541.15	373.90

[1] Extended to January 15, 1969.
[2] Canceled by Mali on August 12, 1968.
[3] Canceled by Panama on January 16, 1969.
[4] Including augmentations totaling $2 million.

The arrangement was in support of measures aimed at sustained economic growth and the fuller utilization of the country's productive capacity. Under the arrangement one purchase of $40 million took place during the fiscal year 1968/69. This was the third stand-by arrangement agreed for Pakistan.

Panama. A stand-by arrangement for Panama, effective in May 1968, authorized purchases up to $3 million. This arrangement was canceled as from January 16, 1969 and was replaced by a new arrangement effective on the same date for $3.2 million, representing about 28 per cent of Panama's quota at that time. Both arrangements were in support of efforts to ensure Panama's continued economic growth under conditions of financial stability. The first arrangement was fully utilized, and $2.2 million had been purchased under the current arrangement by April 30, 1969. Apart from these two stand-by arrangements, Panama has had one earlier, which expired unutilized in July 1966.

Stand-by arrangements approved during 1968/69 for Bolivia, Brazil, Burundi, Chile, Colombia, Ghana, Guyana, Honduras, Indonesia, Korea, Liberia, Mali, Morocco, Paraguay, Peru, Rwanda, Sierra Leone, Somalia, the Sudan, and Tunisia continued to provide financial support that the Fund had made available to those members in the form of stand-by arrangements in the preceding year; those for Bolivia, Guyana, Honduras, and Korea were for the same amounts; those for Indonesia, Peru, and the Sudan were for larger amounts; all the others were for smaller amounts. All but one of the stand-by arrangements approved during the year were for a period of 12 months; that for Korea was approved in April 1969 for approximately 8 months, in order to place the arrangement on a calendar-year basis.

Compensatory Financing of Export Fluctuations

The marked upturn in export earnings experienced by primary producing countries in 1968 was accompanied by diminishing recourse to the facility for compensatory financing of export fluctuations as the year progressed. The data presented in Table 46 cover transactions under the facility since the amendment of the Compensatory Financing Decision in September 1966. By comparison with the relative large and frequent use of the facility in the fiscal year 1967/68, only two members (Afghanistan and Iceland) made purchases in 1968/69; the latter availed itself of the extension of purchasing limits from 25 per cent to 50 per cent of quota provided for in the amended Decision. The export sectors of both of these economies are concentrated on commodities of a special character and were affected by production difficulties (particularly in Iceland) and by developments running counter to the general trend in world markets for primary products.

Repurchases relating to purchases under the Decision were made by several members during the past fiscal year. In addition to repurchases under the standard 3- to 5-year rule with respect to purchases made prior to September 1966, two members made repurchases, in part or to the full extent as recommended in paragraph (7) of the amended Decision. Under this provision, the Fund recommends that, as soon as possible after the end of each of the four years following a purchase, the member repurchase an amount approximately equal to one half of the amount by which exports may exceed the medium-term trend in exports; such repurchases also contribute to reduction in fluctuations in export availabilities for members. One member repurchased an amount equivalent to an outstanding compensatory purchase in advance of the expiry of the 12-month period for calculation of an export excess.

TABLE 46. PURCHASES AND REPURCHASES UNDER THE AMENDED DECISION ON COMPENSATORY FINANCING OF EXPORT FLUCTUATIONS, FISCAL YEARS ENDED APRIL 30, 1967-69

(In millions of U.S. dollars)

Member	Date of Purchases	Amount of Purchases	Repurchases
Fiscal year 1966/67			
Dominican Republic	Dec.	6.60	
Ghana	Dec.	17.25	0.75[1,2]
Ceylon	Mar.	19.50	
Colombia	Mar.	18.90	
Total		62.25	
Fiscal year 1967/68			
New Zealand	May	29.20	29.20[2]
Haiti	Aug.	1.30	
	Dec.	1.00	
Syrian Arab Republic	Sept.	9.50	
Burma	Nov.	7.50	
Iceland	Nov.	3.75	
Iraq	Nov.	17.50[3]	17.50
India	Dec.	90.00	30.50[1,2]
Guatemala	Feb.	6.25[3]	
Uruguay	Feb.	9.50	
United Arab Republic	Mar.	23.00	
Ceylon	Apr.	19.30	
Colombia	Apr.	1.90[3]	
Total		219.70	
Fiscal year 1968/69			
Afghanistan	June	4.80	
Iceland	Nov.	3.75	
Total		8.55	
Cumulative Total		290.50	77.95

[1] Repurchases in accordance with paragraph (7) of the amended Decision.
[2] Repurchases during fiscal year 1968/69.
[3] Reclassification. See *Annual Report, 1968,* pages 101-102.

Repurchases in respect of purchases under the facility consequently exceeded new purchases in the fiscal year 1968/69, and the total use of Fund resources outstanding under the Decision declined after November 1968. At April 30, 1969, the amount outstanding, including $5 million under the Decision before amendment, was $218 million, compared with $285 million a year earlier.

Fund Policy with Respect to the Use of Its Resources and Stand-By Arrangements

During the past year the Executive Directors undertook a detailed review of Fund policy with respect to the use of its resources and stand-by arrangements. The review confirmed the usefulness of the stand-by technique and underlined the need for the Fund to continue to apply its policy, including the tranche policy,[6] in a flexible manner while ensuring uniformity of treatment among all members. A set of conclusions was reached and it was decided that future Fund policies and practices on the use of its resources should be guided by the approach in these conclusions. The texts of the relevant Board Decision and the conclusions are reproduced in Appendix I. These conclusions are briefly explained below. However, in order to put them in the proper perspective, it may be useful to outline some aspects of the development of the Fund's policies regarding stand-by arrangements.

The stand-by arrangement, as a form of Fund financial assistance, is not mentioned in the Articles of Agreement. It was established in 1952 in response to a general feeling that a technique was needed whereby members that did not have an immediate need to use the Fund's resources, but felt that they might need to make use of them in the near future, could be assured of prompt financial assistance from the Fund if and when the need arose. A problem that engaged considerable attention from the outset was how the use of such a technique could be reconciled with the need to provide appropriate safeguards against improper use of Fund resources. It should be recalled that in the early days of the Fund the question was considered whether the Fund could challenge a representation made under Article V, Section 3(*a*), by a member that was not ineligible to use the Fund's resources on the ground that the representation was not consistent with the Articles.[7] It was decided that if the Fund finds, after reviewing a purchase request, that the member's representation is not consistent with the Articles it may reject or postpone the request or accept it subject to conditions. As far as the stand-by technique was concerned, this clearly meant that any unqualified commitment to refrain from the exercise of its rights of review and challenge whenever requests were made would involve an invalid abdication by the Fund of its responsibility. However, it was concluded that the Fund could give a limited commitment, e.g., an assurance that a member that was not ineligible to use the Fund's resources could make purchases during a specific period and up to a specified amount without further review by the Fund at the time of a request, if the member's position, policies, and prospects, including any understandings reached with the member, were such as to satisfy the Fund that there would be no improper use of the Fund's resources during the specified period.[8] Stand-by arrangements going beyond the gold tranche have thus from the beginning incorporated understandings to safeguard the proper use of the Fund's resources. These understandings have also served another and associated purpose. It soon became evident that a stand-by arrangement need not be confined to serving a precautionary need but that, with the incorporation of appropriate understandings, it could be an effective instrument for the provision of financial and technical assistance to members experiencing balance of payments difficulties and having both an immediate and a prospective need for financing. These understandings have taken many forms but may be grouped into three types, namely, provisions that (1) phase

[6] The tranche policy was stated on page 16 of the *Annual Report, 1963* as follows:

> 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.

Prior to the Amendment of the Articles of Agreement that became effective on July 28, 1969, requests for gold tranche purchases enjoyed *de facto* automaticity. One of the effects of the modifications in Article V, Section 3, was to make the use of the Fund's resources in the gold tranche legally automatic.

[7] One of the conditions set forth in Article V, Section 3(*a*), is that the member desiring to purchase another member's currency from the Fund must represent that it presently needs that currency for making payments in it that are consistent with the provisions of the Articles.

[8] The general framework for stand-by arrangements was established by Decision No. 155-(52/57) of October 1, 1952 and Decision No. 270-(53/95) of December 23, 1953 which revised and replaced it. See *Selected Decisions of the Executive Directors and Selected Documents* (third issue, Washington, 1965) pages 24-28.

the resources committed under the stand-by arrangement, (2) limit the member's right to purchase by performance clauses, and (3) call for consultation between the member and the Fund but without limiting the right of the member to purchase. These provisions are explained below.

Before a stand-by arrangement is concluded, discussions are normally held between the member's authorities and a Fund staff mission in the member country, following which the member presents to the Fund in a letter of intent a program setting out the policies to be followed during the period of the stand-by arrangement and the over-all result expected to be achieved by the program. A previous Annual Report [9] discussed these programs at some length. Here it will suffice to emphasize that it has always been regarded as important for these programs to be as specific as possible in order to maximize their effectiveness as a guide for action. In particular, this has involved the formulation in quantitative terms of the targets for the main policy variables which lend themselves to measurement.

At least for stand-by arrangements going into the upper credit tranches, it has been normal practice, especially since 1960, to treat some of the key policies in the member's program as performance criteria and to cover them by a performance clause in the stand-by arrangement that makes the member's right to purchase contingent upon observance of the performance criteria. The number of performance criteria covered by performance clauses has varied considerably in the past. Most commonly they have included the extent of credit expansion by the central bank or, at times, the banking system. Other performance criteria frequently used relate to the extent of reliance on the banking system by the government, the amount of new short-term and medium-term foreign borrowing, the minimum level of net foreign reserves that must be maintained, as well as the avoidance of specified restrictive measures in the exchange and trade fields.

Failure to observe the performance criteria is a signal that the position, policies, and prospects of the member should be reviewed, and therefore the member undertakes to consult with the Fund before requesting further purchases. The deviation may be justified in the light of developments not expected at the inception of the program and may not be inconsistent with its objectives. In these circumstances the restoration of the right to purchase need not involve a change in policies but only the amendment of the performance criteria. Alternatively, the deviations may indicate the need for stronger or additional measures, in which case the member and the Fund review the nature of such action. The right to purchase is restored when new understandings are reached on the circumstances in which further purchases may be made, and amended performance criteria are established.

It has also been the practice in all but a few stand-by arrangements to include phasing, i.e., a provision that the total specified amount should become available at quarterly or other periodic intervals, although the Fund may accelerate the availability at the member's request. Because programs designed to strengthen the balance of payments require implementation over a period of time, it is logical that the amount that the member is permitted to purchase should be phased so as to ensure that resources will be available as needed in accordance with the interests of the program. The existence of phasing also reinforces the importance of the performance clauses.

The recent review concluded that stand-by arrangements that did not go beyond the first credit tranche and thus involved only a moderate use of the Fund's resources would in future not include phasing or performance clauses. Nor would phasing or performance clauses be applicable to purchases not beyond the first credit tranche, even though the full amount of the stand-by arrangement involved higher tranches. These conclusions will serve to make practice fully uniform in an area where in the past there had been some inconsistency of treatment.

The review also concluded that, where use of Fund resources beyond the first credit tranche was involved, stand-by arrangements should include phasing and performance clauses. The availability of Fund resources in the higher credit tranches requires a greater degree of assurance that the disequilibrium in the balance of payments is being rectified, and the stand-by arrangement is granted to support particular policies that the member has stated it would maintain. If these policies are changed so as to impair the character of the program, there should be an opportunity for the Fund to review with the member the

[9] *Annual Report, 1966*, Chapter 3.

situation and the possible need for amended policies before further use of the Fund's resources is made.

It was recognized, however, that there might be exceptional cases when it was essential that the full amount of the stand-by arrangement be promptly available, making it necessary to dispense with phasing. In these instances the stand-by arrangement will nevertheless include performance clauses, and the member will be required to consult the Fund in order to reach understandings, if needed, on new or amended performance criteria even if there is no amount that could still be purchased under the stand-by arrangement. This consultation will include a discussion by the Executive Directors that could culminate in a communication of their views to the member under Article XII, Section 8, of the Fund Agreement.

The review by the Executive Directors also dealt with the question of the number and content of performance criteria. It was considered highly undesirable that there should be any unnecessary proliferation of performance criteria. However, it was considered impracticable to adopt any general rule as to their number or content in view of the diversity of problems and institutional arrangements of members. It was concluded that performance clauses should cover those performance criteria necessary to evaluate implementation of the program with a view to ensuring the achievement of its objectives, but no others.

A stand-by relationship implies the maintenance of close consultation during the period of the stand-by arrangement; this is reflected in a standard paragraph included in the text of each arrangement. In addition, clauses calling for consultation between the member and the Fund in certain circumstances have been included; unlike performance clauses discussed above, they do not, however, limit the member's right to make purchases under the stand-by arrangement. Such consultations are useful when the member's policies prove to be inadequate to achieve the objectives of the program, indicating a need for additional measures. The review by the Executive Directors reaffirmed the need for the use of appropriate consultations clauses in stand-by arrangements, both in the first and in the higher credit tranches. In the past, however, the application of consultation clauses has, with some exceptions, been limited to use of the Fund's resources under stand-by arrangements and to the period of the stand-by arrangement. It was concluded that, in future, periodic consultation with the member should take place as long as the member is making use of the Fund's resources beyond the first credit tranche, whether or not the use results from a stand-by arrangement.

Finally, it was considered desirable that stand-by documents (i.e., the stand-by arrangement itself and the letter of intent which describes the member's program) do not include language having a contractual flavor. This is in order to avoid the misconception that stand-by arrangements are international agreements between members and the Fund. Stand-by arrangements are Fund decisions that are adopted after the member has declared its intentions and that prescribe the circumstances in which specified amounts may be purchased by the member in the future. Failure to adhere to the performance criteria, for example, will mean that for the time being the circumstances in which purchases may be made no longer exist but it does not in any sense constitute a violation by the member of an international obligation.

Waivers

Any purchase or stand-by arrangement that would result in an increase in the Fund's holdings of a member's currency by more than 25 per cent of its quota during any 12-month period (except to the extent that the Fund's holdings of the member's currency are less than 75 per cent of its quota) requires a waiver under Article V, Section 4, of the Articles of Agreement. A waiver is also required for any purchase or stand-by arrangement the use of which would increase the Fund's holdings of a member's currency beyond 200 per cent of its quota.

In the fiscal year 1968/69, such waivers were granted for the purchase of currency by Burma and Iceland and for all stand-by arrangements, except those for Brazil, Liberia, Rwanda, Sierra Leone, the Sudan, and Tunisia. Waivers relating to Fund holdings of members' currencies exceeding 200 per cent of their quotas were granted in connection with stand-by arrangements approved for Ceylon and Ghana. The arrangements for these two member countries were for amounts equivalent to 25 per cent and 17.4 per cent of quota, respectively. The Fund's holdings of these

TABLE 47. REPURCHASES OF CURRENCIES FROM THE FUND, FISCAL YEAR ENDED APRIL 30, 1969

(In millions of U.S. dollars)

Member Repurchasing	Repurchases in Respect of: Purchases under stand-by arrangements	Schedule approved by Fund	Article V, Section 7(*b*)	Voluntary Repurchases	Other Repurchases	Total
Afghanistan	—	2.73	—	—	—	2.73
Argentina	—	—	7.62	—	—	7.62
Bolivia	8.00	—	—	—	—	8.00
Brazil	25.00	55.00	—	—	—	80.00
Burundi	2.00	—	—	—	0.19	2.19
Canada	—	—	64.79	—	—	64.79
Ceylon	—	10.00	—	—	—	10.00
Chile	—	28.00	—	—	—	28.00
Colombia	13.50	3.50	—	—	6.25	23.25
Costa Rica	5.00	4.50	—	—	0.25	9.75
Cyprus	—	—	0.11	0.08	—	0.20
Dominican Republic	—	7.50	—	—	—	7.50
Ecuador	8.00	—	—	—	0.25	8.25
Finland	89.69	—	—	—	—	89.69
Ghana	—	—	—	—	0.75	0.75
Guatemala	2.65	—	1.24	3.35	—	7.25
Haiti	—	1.80	—	—	0.19	1.99
Honduras	2.49	—	—	—	—	2.49
India	—	90.00	—	30.50	7.50	128.00
Indonesia	—	27.40	—	—	—	27.40
Iran	—	—	15.27	—	—	15.27
Jordan	—	—	0.29	—[1]	—	0.29
Liberia	3.00	—	—	—	1.40	4.40
Mali	—	4.00	—	—	1.00	5.00
Morocco	—	4.80	—	—	—	4.80
Nepal	—	—	1.54	—	—	1.54
New Zealand	0.09	—	0.08	29.11	34.99	64.27
Nigeria	—	—	—	3.08	—	3.08
Pakistan	—	14.00	—	—	1.90	15.90
Panama	—	0.81	—	—	—	0.81
Peru	42.44	—	—	—	—	42.44
Rwanda	3.00	—	—	—	—	3.00
Somalia	7.40	—	—	—	0.94	8.34
Sudan	—	6.25	—	—	0.60	6.85
Syrian Arab Republic	—	10.00	—	—	2.42	12.42
Tanzania	—	—	0.12	0.03	—	0.15
Tunisia	5.80	—	—	—	0.81	6.61
Turkey	—	—	−3.06[2]	—	—	−3.06[2]
Uganda	—	—	0.42	—	—	0.42
United Arab Republic	—	24.00	—	—	—	24.00
United Kingdom	—	385.00	—	—	122.50	507.50
United States	—	—	—	284.25	—	284.25
Yugoslavia	—	22.50	—	—	1.50	24.00
Zambia	—	—	0.22	—	—	0.22
Total	218.07	701.79	88.63	350.41	183.42[3]	1,542.33

[1] Less than $5,000.
[2] Reversal of part of the amount repurchased in 1967/68, which was included among repurchase data for that year.
[3] Of which $155.68 million was in respect of quota increases.

members' currencies prior to the stand-by arrangements were at 205 per cent and 192.5 per cent of quota, including nearly 50 per cent and 24 per cent, respectively, on account of purchases under the Compensatory Financing Decision.

Repurchases

Total repurchases made by 43 members during the fiscal year ended April 30, 1969 amounted to $1,542 million. (See Tables 47 and 48.) This represented the largest amount repurchased in any fiscal year since the beginning of the Fund's operations. The repurchases made by the United Kingdom and the United States, amounting to $792 million, accounted for 51 per cent of the total.

The sum of $218 million, or 14 per cent of the total, was repurchased in respect of purchases under *stand-by arrangements;* of this amount $34 million was repurchased before the expiration of one year, $114 million before or at the expiration of two years, and the remainder of $70 million before or at the expiration of three years from the date of purchase.

An amount of $702 million was repurchased in accordance with *schedules approved by the Fund,* which provided for repurchase within five years from the date of the drawing. Repurchases in this group include those by the United Kingdom—$85 million, $100 million, and $200 million in August and November 1968 and in February 1969—in respect of the purchase of $1,400 million in May 1965. These repurchases, together with sales of sterling by the Fund to other members in December 1967 and April 1969, reduced the outstanding balance of this purchase by $404 million to $996 million. As a result of the U.K. repurchases the Fund repaid its GAB creditors nearly all the amounts borrowed from them in May 1965. Coincidental with the aforementioned repurchases, the United Kingdom also reduced proportionately its commitment to Switzerland in respect of the amount equivalent to $40 million made available by that country in May 1965.

Voluntary repurchases were made in accordance with Executive Board Decision No. 7–(648) by 8 members and amounted to $350 million.[10] Of this amount $284 million was repurchased by the United States in November and December 1968, reducing the Fund's holdings of U.S. dollars to 75 per cent of the U.S. quota. Guatemala and Nigeria also repurchased the balance of outstanding gold tranche purchases made in August 1965 and April 1968, respectively. Voluntary repurchases of $30.5 million and $29.1 million were

[10] A voluntary repurchase may be defined as one that is voluntary on both sides of the transaction, i.e., the member is not obligated to make the repurchase and the Fund is not obligated to accept it. (See Decision No. 7-(648) of March 8, 1951—*Selected Decisions of the Executive Directors and Selected Documents* (third issue, Washington, 1965), pages 51-52.)

TABLE 48. COMPARATIVE TABLE OF REPURCHASES FROM THE FUND, FISCAL YEARS ENDED APRIL 30, 1968 AND 1969

	Fiscal Year 1967/68		Fiscal Year 1968/69	
	Number of repurchases	Amount in millions of U.S. dollars	Number of repurchases	Amount in millions of U.S. dollars
Repurchases in respect of				
Purchases under stand-by arrangements	31	704.49	23	218.07
Schedules approved by Fund	66	258.67	95	701.79
Article V, Section 7(*b*)	8	26.46	13	88.63
Voluntary repurchases	5	46.01	8	350.41
Other repurchases	21	79.87	19	183.42
Total	131	1,115.51	158	1,542.33

made by India and New Zealand, respectively, on account of purchases under the Compensatory Financing Decision.

Total repurchases also included $89 million in discharge of obligations incurred *under Article V, Section 7(b)*, of the Fund Agreement. This Article provides that, subject to certain limitations, a member shall repurchase an amount of the Fund's holdings of its currency equivalent to one half of any increase in the Fund's holdings of its currency that has occurred during the Fund's financial year, plus or minus one half of any increase or decrease in its monetary reserves during the same period.

Repurchases in respect of purchases made in connection with *quota increases* amounted to $156 million.

The Executive Directors agreed to the requests of 6 members to schedule their repurchases for payment over periods up to five years from the date of purchase. The Directors also agreed to one member's request for postponement of the discharge of its repurchase obligation incurred under Article V, Section 7(*b*), of the Fund Agreement, to coincide with scheduled repurchases.

In January 1969 Cuba completed payment of the fifth and final installment due under the settlement agreement between Cuba and the Fund.

Summary of Members' Purchases and Repurchases, 1947-69

Since the beginning of Fund operations in 1947 until April 30, 1969, 68 member countries purchased currencies from the Fund and 4 were granted stand-by arrangements without making purchases. Aggregate purchases of currencies from the Fund amounting to $17.4 billion and repurchases of $9.2 billion are listed in Table 49.

Purchases made by 61 members have been fully or partly repaid, either through repurchases with gold, with convertible currencies, or as a result of purchases of their currencies by other members. On April 30, 1969, the total amount of members' purchases not yet repurchased was \$4.7 billion.[11] Purchases above 75 per cent of quota amounting to \$2.3 billion and involving 35 members had been outstanding for one year or less, \$0.9 billion concerning 35 members were in their second and third years, and \$1.5 billion, in respect of 20 members, in their fourth and fifth years. Outstanding purchases, above 75 per cent of quota, by time period outstanding at the end of each fiscal year, for the last ten years, are shown in Chart 37. The significant increases in the balances outstanding for one year or less in the fiscal years 1961/62, 1964/65, 1965/66, and 1968/69 reflect purchases by the United Kingdom and, for 1968/69, also by France.

Purchases outstanding as of April 30 of each year and amounts not drawn under stand-by arrangements in effect on the same date are shown in Chart 38.

TABLE 49. SUMMARY OF MEMBERS' PURCHASES AND REPURCHASES, FISCAL YEARS ENDED APRIL 30, 1948-69

(In millions of U.S. dollars)

	Total Purchases by Members	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	184.96
1954	231.29	145.11
1955	48.75	276.28
1956	38.75	271.66
1957	1,114.05	75.04
1958	665.73	86.81
1959	263.52	537.32
1960	165.53	522.41
1961	577.00	658.60
1962	2,243.20	1,260.00
1963	579.97	807.25
1964	625.90	380.41
1965	1,897.44	516.97
1966	2,817.29	406.00
1967	1,061.28	340.12
1968	1,348.25	1,115.51
1969	2,838.85	1,542.33
Total	17,434.45[1]	9,206.64[2]

[1] Includes purchases that raised the level of the Fund's holdings of the drawing members' currencies to no more than 75 per cent of quota. These drawings are not subject to repurchase.

[2] Includes repurchases that reduced the Fund's holdings of members' currencies below the amounts originally paid on subscription account and repurchases of members' currencies paid in settlement of charges. Excludes sales of currencies of members held by the Fund in excess of 75 per cent of quota, as a result of previous drawings, and adjustments due primarily to settlement of accounts with countries that have withdrawn from the Fund; these sales and adjustments have the effect of repurchases.

Currency Composition of Purchases, Repurchases, Borrowing, and Repayment of Borrowing

In accordance with Decision No. 1371-(62/36) of the Executive Directors regarding the use of currencies in purchases and repurchases adopted in July 1962, members that are purchasing from the Fund, discharging a repurchase commitment, or making a voluntary repurchase are required to consult with the Managing Director on the currencies to be purchased or to be used in repurchase. The Managing Director bases his advice to members on the currency or currencies to be used in a particular transaction with the Fund on consultations with Executive Directors, which take place shortly before each quarter of the Fund's fiscal year and as the need arises to deal with a particular transaction. As a basis for the quarterly consultations, a tentative "currency budget" is drawn up taking account of the Fund's anticipated requirements for currencies, the distribution of its currency holdings, and the positions in the Fund of the member countries concerned. In addition, whenever the need arises for the use of currencies in larger transactions that had not been foreseen, the Managing Director holds special consultations with Executive Directors.

In selecting currencies to be used for purchases by members, account is taken of the balance of payments and reserve positions of members whose currencies are considered for use, as well as the level of the Fund's holdings of their currencies. In order to be usable in repurchase a currency must be convertible under the Fund Agreement[12] and its use must not cause the Fund's holdings of such currency to rise above 75 per cent of the respective member's quota.

[11] The relationship between the concept of purchases not yet repurchased (or outstanding purchases) and various Fund transactions was explained on pages 18-19 of the *Annual Report, 1968*.

[12] A member's currency is convertible within the meaning of the Articles of Agreement when the member has accepted the obligations of Article VIII, Sections 2, 3, and 4. See page 139 above.

CHART 37. LENGTH OF TIME FOR WHICH PURCHASES HAVE BEEN OUTSTANDING ON APRIL 30, 1960-69

(In millions of U.S. dollars)

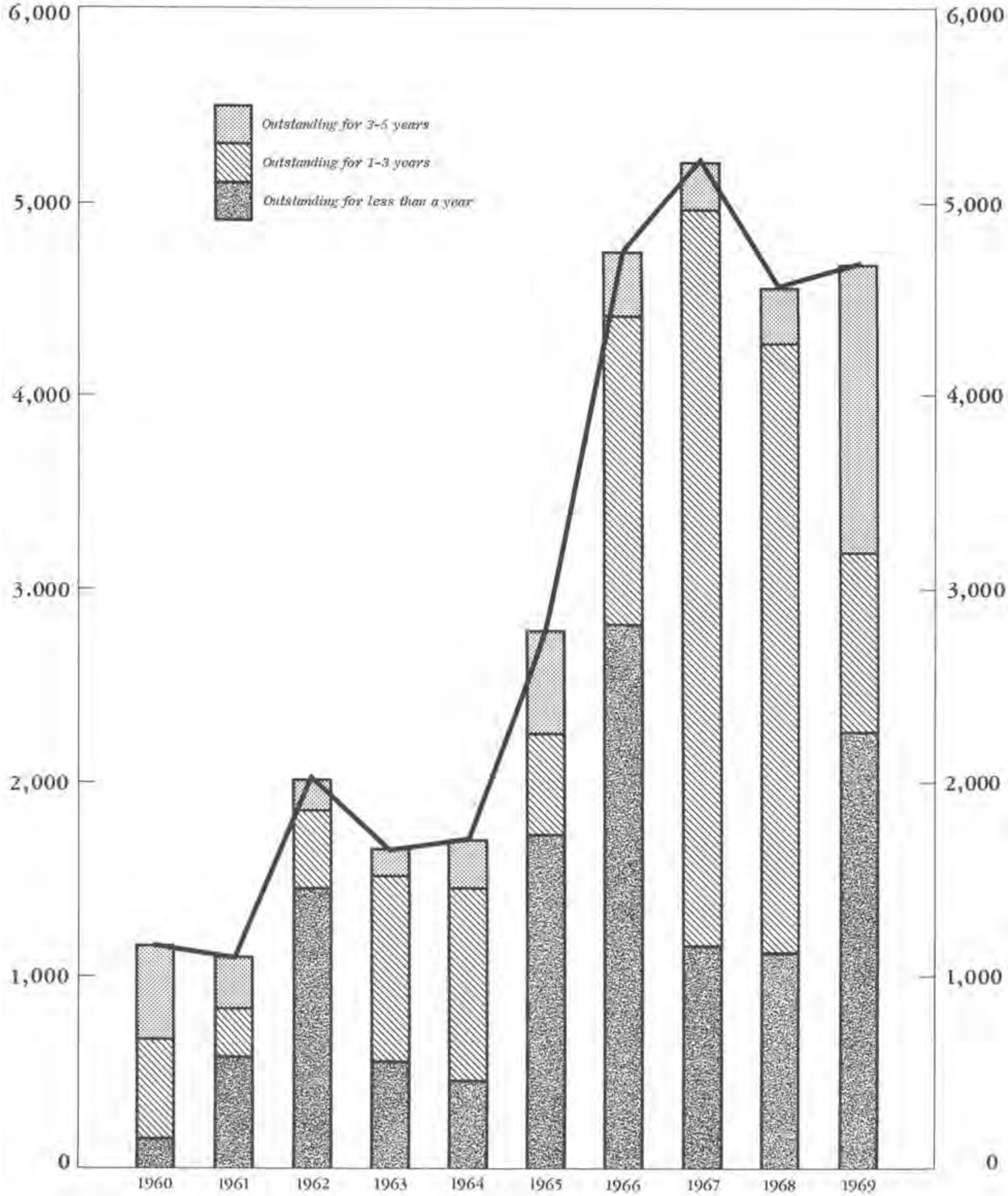
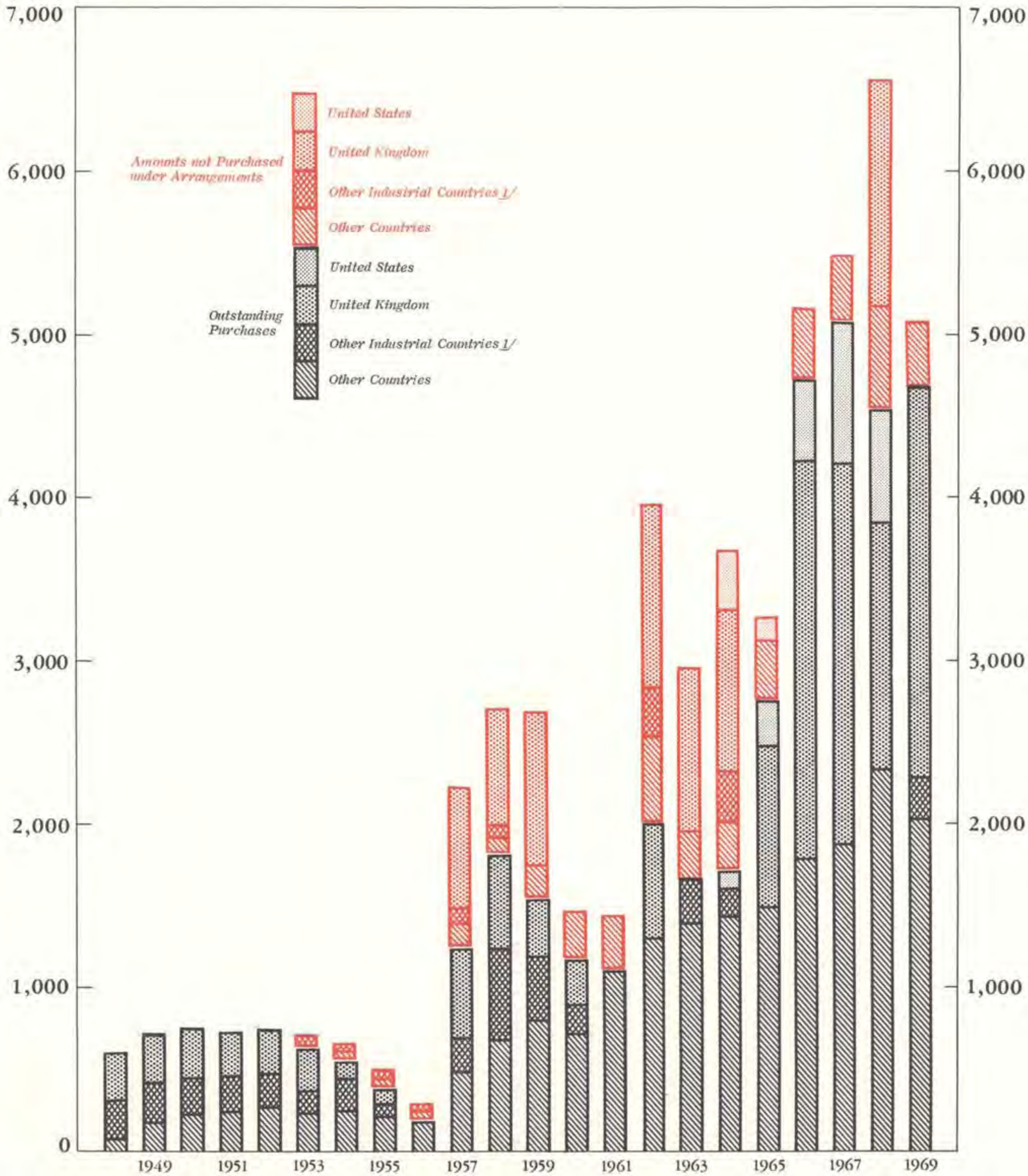


CHART 38. OUTSTANDING PURCHASES FROM THE FUND AND AMOUNTS NOT PURCHASED UNDER EXISTING STAND-BY ARRANGEMENTS, ON APRIL 30, 1948-69

(*In millions of U.S. dollars*)



[1] Belgium, Canada, Denmark, France, Italy, Japan, the Netherlands, and Norway.

In selecting the currencies to be used in repurchase by members, primary importance is attached to the level of the Fund's holdings of particular currencies but account is also taken of the balance of payments positions of the members whose currencies are considered for repurchase. In addition, factors relevant to the particular countries whose currencies may be involved, such as the closeness of trade and payments relations, are taken into account. In practice, the ratio of the member's reserve position in the Fund to its holdings of gold and foreign exchange is also taken into account.

During the fiscal year 1968/69 the currencies of 20 member countries were sold by the Fund to members purchasing from the Fund and the currencies of 11 members were used in repurchases. Table 50 shows amounts and currencies used in purchases and repurchases effected in the fiscal year. The currency composition of large transactions and those of repurchases in discharge of obligations incurred under Article V, Section 7(*b*), of the Articles of Agreement are presented in separate columns. The currency of Finland was sold for the first time in the year ended April 30, 1969. The Fund's holdings of this currency, when it was sold, were above 75 per cent of Finland's quota; the sale and a subsequent repurchase by Finland in March 1969 reduced the Fund's holdings of Finnish markkaa to 75 per cent of quota.

Purchases of deutsche mark, $694 million, accounted for about 25 per cent of total purchases in 1968/69; purchases made in U.S. dollars, $634 million, represented about 22 per cent of the total; and purchases of 18 other currencies accounted for the remaining 53 per cent. The sales of U.S. dollars, together with the voluntary repurchases referred to on page 149 above, reduced the Fund's holdings of that currency from 91 per cent of the U.S. quota at the beginning of the fiscal year to 73 per cent at the end. The United States had not had a net creditor position in the Fund since February 1964. Repurchases with deutsche mark and Italian lire, $396 million and $392 million, respectively, each constituted about 25 per cent of total repurchases. The lowest level of the Fund's holdings of a member's currency used for a drawing in the fiscal year was registered by Austrian schillings; expressed as a per cent of Austria's quota on April 30, 1969, the holdings were equivalent to 9 per cent.

Transactions under the General Arrangements to Borrow (GAB) in the year ended April 30, 1969, which are briefly described below, involved the borrowing of $741 million from five countries

TABLE 50. PURCHASES AND REPURCHASES IN GOLD AND BY CURRENCY, FISCAL YEAR ENDED APRIL 30, 1969

(*In millions of U.S. dollars*)

	Purchases				Repurchases					
Currency	France	United Kingdom	Other Countries	Total	United Kingdom	United States	Other countries (not under Article V, Section 7(*b*))	Under Article V, Section 7(*b*)[1]	Total	Net Purchases(—) Repurchases(+)
Gold	—	—	—	—	—	—	8.1	61.7	69.8	+69.8
Argentine pesos	—	25.0	19.5	44.5	—	—	—	—	—	—44.5
Australian dollars	28.5	56.0	11.0	95.5	—	—	61.0	—0.1	61.0	—34.5
Austrian schillings	—	33.0	23.5	56.5	—	—	18.4	—[2]	18.4	—38.1
Belgian francs	54.0	107.0	29.5	190.5	73.5	159.3	50.7	2.7	286.2	+95.7
Canadian dollars	35.0	86.0	42.5	163.5	—	—	—	—	—	—163.5
Danish kroner	12.0	14.0	5.0	31.0	14.5	—	25.5	—	40.0	+9.0
Deutsche mark	204.0	347.0	142.9	693.9	220.0	—	166.2	10.1	396.3	—297.6
Finnish markkaa	—	—	4.0	4.0	—	—	—	—	—	—4.0
French francs	—	—	27.0	27.0	—	—	29.1	9.3	38.4	+11.4
Irish pounds	16.5	—	8.0	24.5	—	—	—	—	—	—24.5
Italian lire	108.0	221.0	54.5	383.5	108.0	100.0	182.0	—1.8	391.8	+8.3
Japanese yen	15.0	49.0	55.0	119.0	20.0	—	13.1	0.5	33.7	—85.3
Mexican pesos	13.5	27.0	—	40.5	—	—	4.6	—[2]	4.6	—35.9
Netherlands guilders	57.0	83.0	8.3	148.3	47.5	25.0	66.9	2.0	141.4	—6.9
Norwegian kroner	6.5	19.0	—	25.5	—	—	—	—	—	—25.5
South African rand	23.0	19.0	16.0	58.0	—	—	—	—	—	—58.0
Swedish kronor	22.0	54.0	9.5	85.5	24.0	—	36.3	0.5	60.8	—24.7
Pounds sterling	—	—	4.0	4.0	—	—	—	—	—	—4.0
U.S. dollars	150.0	250.0	233.8	633.8	—	—	—	—	—	—633.8
Venezuelan bolívares	—	10.0	—	10.0	—	—	—	—	—	—10.0
Total	745.0	1,400.0	693.9	2,838.9	507.5	284.3	662.0	88.6	1,542.3	—1,296.6

[1] Including discharge of repurchase obligations incurred in previous years.
[2] Less than $50,000.

TABLE 51. FUND BORROWING AND REPAYMENT
(*In millions of U.S. dollars*)

	Under the General Arrangements to Borrow										Other Borrowing
	Borrowing			Repayment					Transfer of claims	Unutilized	
	Dec. 1964	May 1965	June 1968	May 1967	Feb. 1968	Aug. 1968	Nov. 1968	Feb. 1969	June 1968	Apr. 30, 1969	Aug. 1966
Belgium	30.0	37.5	70.0	30.0	—	8.0	10.0	19.5	+10.0	70.0	—
Canada	15.0	35.0	—	15.0	35.0	—	—	—	—	200.0	—
France	100.0	140.0	—	100.0	—	—	—	—	−140.0	550.0	—
Germany	180.0	167.5	366.0	180.0	—	43.0	50.0	101.0	+80.0	580.5	—
Italy	5.0	65.0	185.0	5.0	—	18.0	21.0	43.0	+40.0	342.0	250.0
Japan	20.0	25.0	—	20.0	—	5.0	5.0	10.0	—	245.0	—
Netherlands	40.0	37.5	75.0	40.0	—	8.0	10.0	19.5	+10.0	115.0	—
Sweden	15.0	17.5	45.0	15.0	—	3.0	4.0	7.0	—	51.5	—
United Kingdom	—	—	—	—	—	—	—	—	—	857.1 [1]	—
United States	—	—	—	—	—	—	—	—	—	2,000.0	—
Total	405.0	525.0	741.0	405.0	35.0	85.0	100.0	200.0	—	5,011.1	250.0

[1] Since commitments to lend are expressed in national currency, the U.K. commitment fell from $1,000 million to $857 million with the devaluation of sterling in November 1967.

in June 1968 and repayments totaling $385 million made to six countries on three occasions during the course of the fiscal year. In each instance the borrowing or repayment was in the currency of the country concerned (see Table 51) and associated with Fund sales or repurchase transactions in the same currencies. The $140 million transfer of claims in June 1968 did not involve transactions by the Fund, although it altered the currency composition of the Fund's liabilities.

Resources Available for the Financing of Fund Transactions

In assessing the resources that are readily available to the Fund against possible use by member countries, the Fund's holdings of gold and of usable currencies, on the one side, and the reserve positions of members, on the other, are of major relevance. Beyond that, the gross positions of members in the Fund, that is, for each member the sum of its reserve position in the Fund and its credit tranche position, are of importance in measuring potential demands on the Fund's resources. In this connection, account must be taken of amounts that have not been drawn under existing stand-by arrangements. However, the elements that have a direct bearing on the actual use of its resources and on the Fund's ability to supply these resources at a particular time are more numerous than these factors; they include the changes in the balance of payments positions of members and, in particular, the distribution of deficits and surpluses among the members of the Fund, the extent to which member countries use the Fund's resources to finance deficits, and the extent to which surpluses are accumulated in the form of reserve positions in the Fund. The size of these reserve positions is limited by the size of the quotas of the countries in surplus; however, the resources that are available to the Fund from countries with strong reserve and balance of payments positions have been enlarged by loans from those countries to the Fund under the General Arrangements to Borrow (GAB) or, in one instance, bilaterally. The holdings of usable currencies are, of course, augmented to the extent that the Fund receives such currencies in repurchases on a net basis.

A member whose currency the Fund holds in excess of 75 per cent of quota may experience a substantial improvement in its balance of payments position, and the Fund may sell the member's currency to another member, thus increasing the use of its resources. Whether the Fund's liquidity is affected by this depends, of course, on the balances available in that currency, the strength of its recovery, and the extent to which this is accompanied by deficits elsewhere that are wholly or partially financed by the Fund.

The Fund's holdings of usable currencies have also been augmented, in accordance with the provisions of Article VII of the Fund Agreement, by borrowings of currencies from members. The General Arrangements to Borrow, which enable the Fund to supplement its resources by borrowing up to $6 billion [13] in currencies of ten industrial

[13] See footnote 1, Table 51.

member countries, first went into effect on October 24, 1962 and were renewed on October 15, 1965 for an additional four-year period, subject to review in the light of further experience in October 1968. After that review the Executive Directors concluded that there was no need for amendment or modification of the arrangements.

In connection with the purchases by the United Kingdom in December 1964, May 1965, and June 1968, the Fund borrowed $405 million, $525 million, and $476 million, respectively, under the provisions of the GAB. Also in June 1968, the Fund borrowed $265 million in connection with the purchase by France and consented to the transfer of that member's claim on the Fund under the GAB, in the amount of $140 million, to four other GAB participants. In May 1967 the Fund repaid the total amount borrowed in December 1964; subsequent repayments on four occasions since February 1968, totaling $420 million, reduced the indebtedness resulting from the May 1965 borrowing to $105 million. The total of the Fund's indebtedness under the GAB outstanding as of April 30, 1969 was $846 million. Details are shown in Table 51, together with borrowing under the arrangement concluded with Italy in August 1966.

The amount unutilized under the GAB, amounting to $5,011 million, does not appear in the Fund's balance sheet. Gold holdings, including general deposits of gold and investments in U.S. Government short-term securities (which, upon termination of the investment can be used to acquire the same quantity of gold used in the investment) amounted to $3,371 million. On the same date members' reserve positions in the Fund amounted to $6,078 million.

On a number of occasions, mainly in connection with larger purchases, the Fund has sold gold in order to replenish its holdings of currencies. In the past fiscal year sales, amounting to a total of $547 million, were made in connection with purchases by France and the United Kingdom in June 1968. These sales of gold were equivalent to 24 per cent of the purchase by France and 26 per cent of that by the United Kingdom.

The Fund's gold holdings showed a net decrease of $445 million during the year. In addition to sales of gold of $547 million, interest payments in gold under the loan agreement with Italy and the GAB were $17 million, and transfer charges paid on these borrowings amounted to about $4 million. The amount of gold received during 1968/69 was $123 million. Of this total $70 million was acquired from members in discharge of their repurchase obligations under Article V, Section 7(*b*), of the Fund Agreement and of other repurchases, about $22 million was paid to the Fund in connection with quota subscriptions, and the remainder, $31 million, was received in payment of charges levied by the Fund.

In recent years members have increasingly been willing to establish and maintain reserve positions in the Fund. Such positions are created by the sale of a member's currency when the Fund's holding of that currency is below 100 per cent of quota. For most countries the sale of their currency leads to a conversion of that currency into a reserve currency, and this conversion tends to bring about a substitution of a reserve position in the Fund for foreign exchange reserves previously held by the member whose currency is purchased from the Fund. For a reserve currency country, the reserve position in the Fund acquired by the sale of its currency usually gives rise to a corresponding increase in the liabilities in its own currency to the purchasing member.

Consultations with Members

Member countries that avail themselves of the transitional arrangements of Article XIV, Section 2, of the Fund Agreement are required to consult annually with the Fund on the need for the continued retention of their exchange restrictions. During the fiscal year 1968/69, Article XIV consultations were completed with 46 countries; with others consultation procedures had been initiated but were not complete by the end of the fiscal year. Several of the consultations under Article XIV were combined with discussions of new financial programs or included reviews of such programs already being implemented. Consultations were also held with 23 member countries that have accepted the obligations of Article VIII, Sections 2, 3, and 4, of the Fund Agreement. Executive Board Decision No. 1034–(60/27) of June 1, 1960 [14] laid stress on the merit of holding periodic

[14] *Selected Decisions of the Executive Directors and Selected Documents* (third issue, Washington, 1965), pages 81-83.

discussions between the Fund and individual members even though no questions arise involving action under Article VIII.

These periodic exchanges of views are of key importance to both the Fund and the members and serve as a valuable instrument of international monetary collaboration. The consultations keep member authorities advised on the Fund's current policies and on developments of interest in other areas and help to make members' policies more responsive to the aims of the international community. At the same time, the procedure provides opportunities for detailed review by the Fund of the economic and financial problems and policies of its individual members, and when such matters arise enables the Fund to deal more expeditiously with a member's request for financial assistance or proposals for changes in par value or the exchange system.

Technical Assistance

The Fund continued to provide extensive technical assistance to member countries in fields closely related to its work during the year and there was some further broadening in the forms of assistance made available. As in earlier years, much of the work carried on under the technical assistance programs was aimed at providing advice in the development and execution of appropriate financial policies, institutional reforms in banking and fiscal systems, and improvements in statistical reporting and analysis. Representatives of the Fund continued to serve abroad assisting countries in carrying out stabilization programs, while experts in monetary and fiscal management drawn in large part from outside the Fund's own staff served as in earlier years in advisory, technical, or executive positions in a number of countries.

The Fiscal Affairs Department provided technical assistance during the year to 22 countries, an increase of 5 over 1967/68. Actual assignments totaled 44, an increase of 14. Most were undertaken by members of the Fund's panel of fiscal experts but 17 were fulfilled by staff members. Slightly more than half of these assignments were for periods of six months or more. In meeting two of the requests, the innovation of teams of fiscal experts was introduced, with a senior staff member being assigned to coordinate relations between the experts and the government, as well as between the fiscal assistance program and other institutions providing technical assistance in allied fields.

The assistance given covered a wide range of fiscal issues, including all aspects of the budget, government accounting, tax policy, tax legislation, and tax administration. Its coverage extended to local government programs in the area of financial relations with the central government, as well as to central government areas proper. As in earlier years it involved a continuous three-way dialogue among the host countries, the experts, and the Fund staff. Since the commencement of these activities in 1964 the Department has provided technical assistance to 35 countries.

Technical assistance provided through the Central Banking Service program continued to be made available on a scale comparable to that of preceding years. During the year ended April 30, 1969, 39 countries (6 more than in 1967/68) received assistance in the form of either advisory missions, made up generally of staff members sent to provide aid on specific problems, or through the assignment of experts to serve in executive, advisory, or technical positions in the central banks of member countries.

The topics covered by advisory missions included studies related to the uses of monetary policy instruments, the mobilization of financial savings, the regulation and control of bank credit, and central bank reorganization and reform. In several instances, advisory missions helped to prepare legislation in the banking field and also carried out extensive investigations both *in situ* and at headquarters. Since the establishment of the Central Banking Service in 1964, such missions have visited 33 countries—including 7 for the first time in 1968/69.

Assignments of experts for extended periods to assist in the organization and development of monetary institutions continued to be an important aspect of the technical assistance program of the Central Banking Service, with 60 assignments manned by outside experts during the year. This was an increase from 57 assignments in the year ended April 30, 1968. However, past progress in getting some of the newer institutions through their initial organization stages has begun to be reflected in a gradual shift in the demand for experts toward more specialized and technical assignments instead of senior management positions. The gradual replacement of Fund-supported experts by local officials has reinforced this shift as the outside experts are freed from general administrative and current duties to focus on specific problems that can be attacked only when the basic institutional structure has sufficiently evolved.

Although hampered to some extent by the necessarily independent nature of the executive and operating responsibilities to which many of the experts serving under the Central Banking Service program are assigned, there has been a significant increase in efforts to foster closer contacts between experts—usually senior officers recruited from relatively more experienced institutions—and the Fund staff. A number of inspection visits during the year supplemented the advisory support that has been available on an informal basis to the experts from the staff and that has increasingly been drawn upon by the experts.

Closer contacts between staff members and the officials of countries receiving technical assistance have proved to be both necessary and valuable, and on-the-spot identification and evaluation of requests for technical assistance through preliminary staff visits as well as visits during the course of the project have become a routine operating procedure of both the Fiscal Affairs Department and the Central Banking Service.

Assistance to member countries in the field of statistics was provided by the Bureau of Statistics through 4 staff missions and through assistance in recruiting statistical advisors who could be made available to serve in member countries under the Fund's regular technical assistance programs. A major new direction of the technical aid activities of the Bureau is a program to establish or improve central bank bulletins, i.e., bulletins that bring together the statistics necessary for the analysis of the balance of payments and other aspects of the countries' economies. The Bureau began the operational phases of this work early in 1969 with visits to 13 countries, half the number contemplated as eventual participants in this program.

Efforts to improve the compilation and reporting of balance of payments statistics were continued during the past fiscal year. Technicians from the Balance of Payments Division undertook short-term assignments ranging up to a month's duration in 11 countries in Africa and the Middle East, and an advisor on balance of payments statistics was provided to an Asian country under the technical assistance program.

The IMF Institute

During the past fiscal year, the IMF Institute continued its training activities, making full use of its facilities. Two courses that had started in 1967/68 were completed in 1968/69. In addition, the Institute conducted four new courses, which were attended by 95 officials from Fund member countries. As a consequence, the Institute again ran two courses simultaneously during the greater part of the year.

The main task of the Institute remained the preparation and presentation of the courses on financial analysis and policy. These courses were given in English, in French, and in Spanish, and each lasted 20 weeks. The first course, which started on September 30, 1968, was conducted in French, and was attended by 21 officials from 17 member countries, mostly French-speaking African countries. The course that began on December 2, 1968 was presented in Spanish; of the 23 participants, 22 came from member countries in the Western Hemisphere. The third course, which began on March 3, 1969, was given in English to 28 participants from 28 member countries. The courses on financial analysis and policy draw extensively on the experience gained by the Fund in its contacts with member countries, and they are geared to the needs of developing countries. These courses cover the use of various instruments of financial policy on the basis of modern tools of economic analysis and explain Fund procedures and policies.

From September 9 to November 15, 1968, the Institute presented its second course on public finance to a group of 23 participants coming from 18 different countries. This course, which was given in English with the collaboration of the Fiscal Affairs Department, consisted of a survey of the field of public finance, with emphasis on the problems of developing countries.

The eight-week course on balance of payments methodology, given in English, ended on June 7, 1968. The next course on this subject, also in English, was held from May 5 to June 27, 1969. These courses, which are given in cooperation with the Fund's Balance of Payments Division, describe the principles and methods of compiling balance of payments statistics.

In addition to its regular courses, the Institute provided lectures to a number of other institutes.

During the past fiscal year, two staff members gave lectures in the training program of the Center for Latin American Monetary Studies (CEMLA) in Mexico City. The Fund also arranged a program of lectures for the participants in the above program during their visit to Washington. Several staff members were assigned to give lectures at the Latin American Institute for Economic and Social Planning in Santiago, Chile, at the African Institute for Economic Development and Planning in Lomé, Togo, and at the Asian Institute for Economic Development and Planning in Bangkok, Thailand.

The Institute also received during the past year groups of officials, bankers, professors, and students from member countries, and provided them with lectures and source material.

The program of the IMF Institute for the period August 1969 to July 1970 includes six courses: three courses on financial analysis and policy (in English, French, and Spanish), two courses on balance of payments methodology (in English and French), and a course on public finance (in English).

Relations with Other International Organizations

Cooperation with other international and regional organizations in the economic field constitutes an important aspect of Fund activities and is reflected in attendance of Fund staff at meetings of these organizations at the plenary, committee, and working group levels, by the reciprocal exchange of information and pertinent documents, and by other staff contacts at the working level. Those organizations with which the Fund has common interests were also represented at the joint Annual Meetings of the Boards of Governors of the Fund and the International Bank for Reconstruction and Development (IBRD) and affiliates, held in September-October 1968.

The Fund continued to maintain close relations with the United Nations and its relevant organs, including the General Assembly, the Economic and Social Council (ECOSOC) and its Committee for Development Planning, the regional Economic Commissions, the United Nations Development Program, and the United Nations Conference on Trade and Development (UNCTAD). The Managing Director addressed the Forty-Fifth Session, resumed, of the ECOSOC on the occasion of his presentation of the Annual Report of the Fund in November 1968. He also attended the joint meeting of the UN Administrative Committee on Coordination (ACC) and the Committee for Program and Coordination, held in Bucharest in July 1968. The Deputy Managing Director attended a meeting of the ACC in New York in October 1968, and staff members have participated in the activities of ACC subcommittees.

At the invitation of the UNCTAD at its Second Session in New Delhi, the Fund is preparing a study on commercial credits—their adaptation to promote development as well as trade, control of their acceptance and use, and the possible implications of a softening of their terms for development aid. The Fund's interest in problems related to foreign indebtedness and the financing of exports was also reflected in the attendance of a staff representative at the meetings of the Union d'Assureurs des Crédits Internationaux (Berne Union) and at a United Nations Round Table on Export Credits in March 1969. Fund representatives have also participated in meetings of the Trade and Development Board and various committees of UNCTAD.

Members of the staff attended meetings of two of the UN Specialized Agencies—the International Labor Organization and the Food and Agriculture Organization—including meetings of the latter's subsidiary bodies and study groups concerned with jute, kenaf, and allied fibers; hard fibers; and bananas. Also in the commodity area, the Fund was represented at the first and second sessions of the UN Sugar Conference held in Geneva in 1968 and meetings of the UNCTAD Committee on Commodities.

The Fund has continuing close contacts with the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade (GATT); the Organization for Economic Cooperation and Development (OECD), including its Economic Policy Committee, Economic and Development Review Committee, Development Assistance Committee, the Board of Management of the European Monetary Agreement, Committee for Invisible Transactions, and the Ad Hoc Group of Financial Statisticians; the Organization of American States, especially its Inter-American Committee on the Alliance for Progress (CIAP) in connection with CIAP's country reviews and other matters of mutual interest; the African, Asian, and Inter-American Development Banks; and the Bank for International Settlements (BIS). The Managing Director continued to participate in the Ministerial Meetings of the Group of Ten and the OECD, and took part in discussions on monetary problems with officials and members of the Board of Directors of the BIS.

As in previous years, consultations took place with the CONTRACTING PARTIES to the GATT in connection with their consideration of import restrictions, import surcharges, and import deposit requirements maintained for balance of payments reasons by 13 countries. Fund representatives also attended the Twenty-Fifth Session and meetings of various subsidiary bodies of the GATT.

In the course of its collaboration with the IBRD, with which it has a special relationship, the Fund participated in meetings convened under the auspices of the Bank relating to the coordination of aid to developing countries—the India and Pakistan Consortia, Consultative Groups for Colombia, Korea, and Tunisia, preconsultative groups for certain other countries, and the Aid Group for Ceylon—and the IBRD participated in the meetings on aid to Ghana convened and chaired by the Fund. Similarly, the Fund participated in meetings of the Inter-Governmental Group on Indonesia convened by the Netherlands Government to coordinate aid to that country, in the OECD-sponsored Consortium on Turkey, and also in meetings convened by the Governments of France and the United Kingdom on the debts of Indonesia and Ghana, respectively. As noted in Chapter 3, the two organizations cooperated on a joint study on Stabilization of Prices of Primary Products, pursuant to Resolutions adopted by the respective Boards of Governors at their 1967 and 1968 Annual Meetings. The Fund and Bank have also extended the scope of their joint administrative services to include the operation of a Joint Computer Center, which commenced operations in November 1968.

Staff

At the end of the fiscal year, the Fund's regular staff numbered 927, compared with 858 a year earlier. During the year 181 new staff members, both regular and temporary, were appointed from 47 member countries. Nationals of 78 countries were on the staff on April 30, 1969. These figures do not include Assistants to Executive Directors.

Income, Expenditures, and Reserves

Except for income from investment, which is credited directly to the Special Reserve, almost all the income of the Fund is operating income. It is derived from the charges paid by members in gold or currencies. The charges levied on the Fund's holdings of members' currencies in excess of their quotas, the service charge due on purchases of currency from the Fund, and the stand-by charge are all payable in gold, except that the stand-by charge may, at the members' option, be paid in U.S. dollars. However, the provisions of Article V, Section 8(*f*), of the Fund Agreement permit total or partial payment in national currencies, if members' monetary reserves are equal to less than one half of the value of their quotas.

The rate of charges levied on the Fund's holdings of members' currencies in excess of their quotas is based on the amount by which the quota level is exceeded by the holdings and also on the time period during which balances have been outstanding. The present schedule of charges, set forth in Table 52, has been in effect since May 1,

TABLE 52. CHARGES ON TRANSACTIONS EFFECTED AFTER MAY 1, 1963

Charges in per cent per annum [1] for period stated and for portion of holdings in excess of quota by (per cent)			
More than	0	50	100
But not more than	50	100	
Service charge	0.5	0.5	0.5
0 to 3 months	0.0	0.0	0.0
3 to 6 months	2.0	2.0	2.0
½ to 1 year	2.0	2.0	2.5
1 to 1½ years	2.0	2.5	3.0
1½ to 2 years	2.5	3.0	3.5
2 to 2½ years	3.0	3.5	4.0 [2]
2½ to 3 years	3.5	4.0 [2]	4.5
3 to 3½ years	4.0 [2]	4.5	5.0
3½ to 4 years	4.5	5.0	
4 to 4½ years	5.0		

[1] Except for service charge which is payable once per transaction and stated as per cent of amount of transaction.
[2] Point at which the Fund and the member consult.

1963. The last annual review of this schedule was made in April 1969; it remains in effect without change. In addition to the foregoing, a service charge is levied equal to ½ of 1 per cent on any amount purchased from the Fund. Further, there is a stand-by charge equivalent to ¼ of 1 per cent per annum on the amount of a stand-by arrangement the use of which would increase the Fund's holdings of the member's currency above the level of its quota. The proceeds of stand-by charges are considered income by the Fund only after the expiration or cancellation of the stand-by arrangement, because of possible refunds and other adjustments that may have to be made during the life of the arrangement.

The largest portion of the Fund's income has been provided by payments of charges on balances of members' currencies held by the Fund in excess of their respective quotas. On April 30, 1969, 35 members were subject to such charges, compared with 32 members on April 30, 1968. Aggregate payments of these charges during the fiscal year 1968/69 amounted to $107 million, of which $84 million was paid by 7 members in their own currencies in accordance with the provisions of Article V, Section 8(*f*); the remainder was paid in gold. During the preceding fiscal year similar charges amounted to $82 million, of which $61 million was paid in members' own currencies and the balance in gold. Since the beginning of Fund operations 57 members have been subject to such charges. The remainder of the Fund's income stems mainly from service charges payable on all purchases from the Fund. These charges amounted to a total of $14 million for the fiscal year ended April 30, 1969, compared with $7 million during 1967/68. Stand-by charges account for only a small portion of the Fund's annual income and such charges totaled $1 million during the fiscal year 1968/69, compared with $5 million in 1967/68. The actual income derived from stand-by charges in the fiscal year under review, after cancellation or expiration of the arrangements, amounted to $0.4 million, whereas in 1967/68 the amount was $0.6 million.

Since the year ended April 30, 1965, the Fund's expenditures have included those incurred in connection with borrowings under the General Arrangements to Borrow (GAB) and a borrowing from Italy. The Fund's payments in gold of transfer charges in connection with the activation of the GAB in respect of two purchases in June 1968 amounted to $4 million. Interest payments, also in gold, in accordance with paragraph 3(b) of the loan agreement with Italy and paragraph 9(b) of the GAB amounted to a total of $17 million, compared with $12 million in the preceding year. Income is shown in Table 53, together with the manner of its disposal.

TABLE 53. INCOME AND EXPENDITURE, FISCAL YEARS ENDED APRIL 30, 1960-69
(In millions of U.S. dollars)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Income [1]										
Operational—service and stand-by charges, etc.	4.1	3.5	11.7	6.6	4.9	11.8	15.6	7.1	7.4	14.6
On balances in excess of quotas	16.9	11.0	21.4	24.4	31.5	35.9	65.7	82.5	82.0	107.5
Total	21.0	14.6	33.1	31.0	36.4	47.7	81.3	89.6	89.4	122.1
Expenditure										
Administrative (and property)	6.9	7.4	8.2	9.6	13.1	17.6	20.7	21.4	21.8	28.9
Operational	—	—	—	—	—	4.6	16.1	17.8	11.9	22.3
Total	6.9	7.4	8.2	9.6	13.1	22.2	36.8	39.2	33.7	51.3
Net Income [2]	14.1	7.2	25.0	21.5	23.2	25.5	44.5	50.4	55.7	70.8

[1] Excludes income from investments transferred to the Special Reserve.

[2] Transferred to General Reserve until the fiscal year ended April 30, 1968. Of the $55.7 million net income in that year, $18.3 million was transferred to General Reserve and $37.5 million was distributed under the provisions of Article XII, Section 6(*a*) and (*b*), of the Fund Agreement at the rate of 1½ per cent to members that had a super gold tranche position in the Fund during the 1968 fiscal year. (See *Annual Report, 1968,* page 22.) Pending Board of Governors' action, the net income for the fiscal year ended April 30, 1969 has been provisionally transferred to the General Reserve. The Executive Directors have submitted to the Board of Governors, for action at its Annual Meeting, September 29 to October 3, 1969, a recommendation that, of the $70.8 million net income earned in the fiscal year ended April 30, 1969, $38.9 million be transferred to General Reserve and $31.9 million be distributed to members at the same rate and on the same basis as for the previous fiscal year.

Reserves

Except in the year ended April 30, 1948, the Fund operated with annual losses each year from the beginning of operations in 1946 until the fiscal year 1956/57. These operating losses were charged to the Fund's capital, which is the sum of members' quotas. On April 30, 1956, the total of these charges amounted to $14.2 million. In order to raise current revenue the Executive Directors decided on January 28, 1956 to invest part of the Fund's gold holdings in U.S. Government securities, with the guarantee that the same quantity of gold can be reacquired at any time upon termination of the investment.

The Executive Directors decided on November 27, 1959 to continue the investment program in order to build up a reserve against future deficits and to establish a Special Reserve to which the income from investments earned from November 1, 1957 would be placed. During the fiscal year 1968/69 the Fund continued to invest $800 million of its gold holdings in U.S. Government securities. The income derived from such investments amounted to $47 million, which was credited to the Special Reserve. On April 30, 1969, the Special Reserve amounted to $309 million.

Since 1957/58 the Fund has had a surplus of income over expenditure in each fiscal year. In April 1958 the Executive Directors decided to establish a General Reserve, and beginning with that month, and at the end of each month thereafter, the Fund's net income has been transferred provisionally to the General Reserve, pending action by the Board of Governors with respect to each fiscal year at the following Annual Meeting.

At the end of the Fund's fiscal year ended April 30, 1968, the General Reserve amounted to $291.3 million. The Executive Directors recommended to the Board of Governors in August 1968 that $37.5 million be distributed to members that had had a super gold tranche position in the Fund at a rate of 1½ per cent on the amount by which 75 per cent of each member's quota exceeded the average of the Fund's holdings of its currency during the fiscal year ended April 30, 1968, and that the remainder of the net income of that fiscal year, namely, $18.3 million, be allocated to the General Reserve. On October 4, 1968 the Board of Governors approved this recommendation and payments were made to 33 member countries. In accordance with the provisions of Article XII, Section 6(*b*), of the Articles of Agreement, payment to each member was made in the member's own currency. This was the first occasion on which a distribution of the Fund's net income was made.

For the fiscal year 1968/69 the Fund's operating income was $122 million. The increase of $33 million over the income of $89 million in the previous year reflected the service charges on large purchases and charges paid on the increased amount of currencies held by the Fund in excess of members' quota levels. Total expenditure for the same period, at $51 million, reflected the effect of the increased use of the GAB. The net income of $71 million, the highest in the history of the Fund, was provisionally transferred to the General Reserve pending action by the Board of Governors. The balance in that account was $325 million on April 30, 1969.

Administrative Budget and Audit

The administrative budget approved by the Executive Directors for the period May 1, 1969 to April 30, 1970 is presented in Appendix IV. Comparative income and expenditure figures for the fiscal years ended April 30, 1967, 1968, and 1969 are given in Appendix V.

The Executive Directors requested the Governments of Costa Rica, Ethiopia, and France to nominate members of the Audit Committee for 1969. The following nominations were made and confirmed: Mr. Claudio Guerrero, Deputy Director, Accounting Department, Central Bank of Costa Rica; Mr. Teferra Liben, Chief Auditor, Inland Revenue Department of Ethiopia; Mr. André Valls, Inspecteur des Finances, Ministry of Economy and Finance of France. The report of the Committee is submitted separately. Appendix VI gives the Auditors' Certificate, together with the audited Balance Sheet as at April 30, 1969 and the audited Statement of Income and Expenditure for the fiscal year.

Publications

During 1968/69 the Fund continued to add to the range of its publications with the issuance of the first two volumes in its new series of books on African economies, the publication of three new pamphlets, and the issuance of an interim, consolidated version of the Fund's Articles of Agreement, as amended by the proposals approved by the Board of Governors in May 1968. At the end of the fiscal year preparations were well advanced for the publication of a 20-year history of the Fund, to be issued in three volumes, and of a further volume in the series on African economies.

Regular publications issued during the fiscal year were as follows:

Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1968 (with French and Spanish editions and a shorter German edition).

Balance of Payments Yearbook, Volume 20, 1963-67, also available in a hardbound edition.

Direction of Trade, monthly, issued jointly with the International Bank for Reconstruction and Development, with an annual edition covering 1963-67.

Finance and Development, quarterly, issued jointly with the International Bank for Reconstruction and Development (English, French, and Spanish editions).

International Financial News Survey, weekly.

International Financial Statistics, monthly (in an English edition and in a combined English, French, and Spanish edition).

Nineteenth Annual Report on Exchange Restrictions.

Schedule of Par Values, 46th issue.

Staff Papers, Volume XV, Nos. 2 and 3, and Volume XVI, No. 1.

Summary Proceedings of the Twenty-Third Annual Meeting of the Board of Governors.

As noted, the first two volumes in the Fund's new series of books on African countries, *Surveys of African Economies,* were published during the fiscal year. Volume 1 covered five countries in Equatorial Africa (Cameroon, the Central African Republic, Chad, Congo (Brazzaville), and Gabon); and Volume 2 included four countries in East Africa (Kenya, Tanzania, Uganda, and Somalia). These new books, which describe the economies of selected African countries and their arrangements for regional cooperation, are being issued in English and French editions.

The number of publications in the Fund's Pamphlet Series was raised to 13 with the issuance of 3 new pamphlets, *Interpretation by the Fund, Reform of the Fund,* and *Special Drawing Rights.* All the pamphlets in this series have been, or are in the process of being, issued in English, French, and Spanish.

In September 1968 the Fund published *Articles of Agreement of the International Monetary Fund, as Modified by the Proposed Amendment,* a consolidated version of the Fund Articles incorporating the proposals approved by the Board of Governors in May 1968. This interim edition of the Articles of Agreement, published in French and Spanish as well as in English, was prepared in a form to show the changes that would be made to the text of the Agreement by the Proposed Amendment.

The Fund has continued its policy of making available to universities in developing countries one free copy of each of its four subscription publications—*Balance of Payments Yearbook, Direction of Trade, International Financial Statistics,* and *Staff Papers.* These publications are also available to university libraries, faculty members, and students at a reduced subscription rate of $10 a year for all four periodicals, or $3 a year for any one of them. The normal annual rates for each publication range from $6 to $10, for a total subscription of $33.50 a year. Except for the *Surveys of African Economies,* other publications mentioned above are available free of charge.

B. Balance of Payments Statements

THE following Tables 54-66 present balance of payments statements, for 1967 and 1968 and for the first quarter of 1969, for Austria, Belgium-Luxembourg, Canada, Denmark, France, Germany, Italy, Japan, the Netherlands, Norway, Sweden, the United Kingdom, and the United States. Less detailed statements for 1966 and 1967 are presented in Tables 67 and 68 for the primary producing countries. For some countries the tables reflect revisions of the data which could not be incorporated elsewhere in the Report.

TABLE 54. AUSTRIA: BALANCE OF PAYMENTS SUMMARY, 1967–FIRST QUARTER 1969 [1]

(*In millions of U.S. dollars*)

			1968 [2]				1969 [2]
	1967	1968 [2]	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
A. Goods, Services, and Unrequited Transfers							
Exports f.o.b.	1,810	1,983	454	487	491	551	527
Imports f.o.b.	–2,283	–2,437	–613	–575	–607	–642	–625
Trade balance	–473	–454	–159	–88	–116	–91	–98
Services and unrequited transfers	355	358	81	93	170	14	107
Total	–118	–96	–78	5	54	–77	9
Memorandum item: Goods, Services, and Private Unrequited Transfers	*–113*	*–92*	—	—	—	—	—
B. Long-Term Capital, n.i.e.							
Private	136	48	32	12	14	–10	–15
Official	121	188	60	72	61	–5	74
Total	257	236	92	84	75	–15	59
C. Total (A plus B)	139	140	14	89	129	–92	68
D. Short-Term Capital, n.i.e. (including net errors and omissions)							
Private nonmonetary	21	–20	4	–3	–8	–13	2
Net errors and omissions	8	39	33	–4	26	–16	5
Total	29	19	37	–7	18	–29	7
E. Commercial Bank Capital							
Liabilities	84	–63	–94	–40	–48	119	–41
Assets (increase —)	–96	–63	–29	51	–60	–25	–73
Total	–12	–126	–123	11	–108	94	–114
F. Total (C through E)	156	33	–72	93	39	–27	–39
G. Official Monetary Movements							
Net IMF accounts	–14	–43	–19	–23	–2	1	—
Short-term liabilities	—	—	—	—	—	—	—
Other short-term assets (increase —)	–142	23	91	–57	–37	26	39
Monetary gold (increase —)	—	–13	—	–13	—	—	—
Total	–156	–33	72	–93	–39	27	39

Source: Austrian National Bank.

[1] Positive figures are credits; negative figures are debits.

[2] Preliminary.

TABLE 55. BELGIUM-LUXEMBOURG: BALANCE OF PAYMENTS SUMMARY, 1967–FIRST QUARTER 1969[1]
(*In millions of U.S. dollars*)

	1967	1968	1968 First quarter	1968 Second quarter	1968 Third quarter	1968 Fourth quarter	1969[2] First quarter
A. Goods, Services, and Unrequited Transfers							
Exports[3]	5,970	6,670	1,568	1,644	1,616	1,842	1,844
Imports[3]	–5,848	–6,698	–1,596	–1,620	–1,640	–1,842	–1,832
Trade Balance	122	–28	–28	24	–24	—	12
Services (net)	130	102	54	6	–12	54	36
Unrequited transfers (net)	–50	–42	–12	–4	–4	–22	–22
Total	202	32	14	26	–40	32	26
Memorandum item: Goods, Services, and Private Unrequited Transfers	*288*	*126*	*46*	*42*	*–22*	*60*	*62*
B. Long-Term Capital							
Private[4]	108	–56	–50	36	–56	14	–30
Official	–96	–30	–20	–16	14	–8	–20
Total	12	–86	–70	20	–42	6	–50
C. Total (A plus B)	214	–54	–56	46	–82	38	–24
D. Short-Term Capital, n.i.e. (including net errors and omissions)							
Treasury short-term certificates	–40	–40	4	–6	–30	–8	—
Net errors and omissions	18	–10	8	6	–2	–22	54
Total	–22	–50	12	—	–32	–30	54
E. Commercial Bank Capital	56	–184	–30	–28	24	–150	–126
F. Total (C through E)	248	–288	–74	18	–90	–142	–96
G. Official Monetary Movements							
Net IMF accounts	39	27	–29	–119	8	167	79
Foreign exchange (increase —)[5]	–324	420	–10	248	120	62	–4
Other claims, net (increase —)	–7	–115	51	–53	–26	–87	19
Monetary gold (increase —)	44	–44	62	–94	–12	—	2
Total	–248	288	74	–18	90	142	96

Source: National Bank of Belgium.
[1] Positive figures are credits; negative figures are debits.
[2] Preliminary.
[3] Partly f.o.b.; partly c.i.f.
[4] Includes short-term capital, appropriate to Group D.
[5] Includes holdings of nonmarketable U.S. Treasury bonds and notes.

Table 56. Canada: Balance of Payments Summary, 1967–First Quarter 1969 [1]

(In millions of U.S. dollars)

	1967	1968	1968 First quarter	1968 Second quarter	1968 Third quarter	1968 Fourth quarter	1969 [2] First quarter
A. Goods, Services, and Unrequited Transfers							
Exports f.o.b.	10,533	12,577	2,793	3,275	3,100	3,409	3,226
Imports f.o.b.	−10,088	−11,379	−2,579	−2,947	−2,668	−3,185	−3,028
Nonmonetary gold	104	124	27	31	37	29	25
Trade balance	549	1,322	241	359	469	253	223
Investment income (net)	−829	−898	−207	−217	−203	−271	−206
Other services (net)	−169	−588	−265	−154	18	−187	−310
Unrequited transfers (net)	−53	17	2	14	6	−5	5
Total	−502	−147	−229	2	290	−210	−288
Memorandum item: Goods, Services, and Private Unrequited Transfers	*−335*	*−24*	*−216*	*37*	*338*	*−183*	*−273*
B. Long-Term Capital							
Direct investment in Canada	574	541	9	190	171	171	120
Canadian direct investment abroad	−83	−157	−79	9	−13	−74	−46
Transactions in Canadian securities							
New issues	1,203	1,814	385	659	451	319	600
Retirements and other transactions	−353	−326	−152	−90	−39	−45	−14
Columbia River Treaty (net)	40	81	—	—	—	81	—
Other transactions in foreign securities	−387	−429	−81	−118	−122	−108	−53
Other loans by Canadian Government (net)	−4	−68	−7	−6	−14	−41	−10
Other	249	−28	28	23	−71	−8	−76
Total	1,239	1,428	103	667	363	295	521
C. Total (A plus B)	737	1,281	−126	669	653	85	233
D. Short-Term Capital (including net errors and omissions)	−720	−954	−582	−95	−504	227	−267
E. Total (C plus D)	17	327	−708	574	149	312	−34
F. Official Monetary Movements							
Net IMF accounts	15	230	436	−121	−65	−20	−15
Reciprocal swap facility with U.S. Federal Reserve System	—	2	250	−124	−124	—	—
Official gold and foreign exchange (increase —)	−32	−559	22	−329	40	−292	49
Total	−17	−327	708	−574	−149	−312	34

Source: Dominion Bureau of Statistics.
[1] Positive figures are credits; negative figures are debits.
[2] Preliminary.

TABLE 57. DENMARK: BALANCE OF PAYMENTS SUMMARY, 1967–FIRST QUARTER 1969 [1]
(In millions of U.S. dollars)

	1967	1968 [2]	1968 [2] First quarter	1968 [2] Second quarter	1968 [2] Third quarter	1968 [2] Fourth quarter	1969 [2] First quarter
A. Goods, Services, and Unrequited Transfers							
Exports f.o.b.	2,505	2,609	636	627	643	703	710
Imports f.o.b.	–2,963	–3,045	–732	–749	–724	–840	–832
Trade balance	–458	–436	–96	–122	–81	–137	–122
Services and unrequited transfers	172	210	63	42	54	51	45
Total	–286	–226	–33	–80	–27	–86	–77
B. Capital Movements (excluding Group D) and Net Errors and Omissions							
Private capital	202	95	23	8	31	33	–31
Official capital	23	73	–17	14	64	12	–9
Net errors and omissions	23	40	4	9	5	22	10
Total	248	208	10	31	100	67	–30
C. Total (A plus B)	–38	–18	–23	–49	73	–19	–107
D. Commercial Bank Capital							
Liabilities	49	71	–21	22	4	66	–56
Assets (increase —)	–64	–139	20	–46	–41	–72	45
Total	–15	–68	–1	–24	–37	–6	–11
E. Total (C plus D)	–53	–86	–24	–73	36	–25	–118
F. Official Monetary Movements							
Net IMF accounts	5	–24	—	–18	–5	–1	40
Short-term liabilities	{48	—	–1	31	–20	–10	2
Other short-term assets (increase —)		116	25	66	–11	36	76
Monetary gold (increase —)	—	–6	—	–6	—	—	—
Total	53	86	24	73	–36	25	118

Source: Danish Government Statistical Office.
[1] Positive figures are credits; negative figures are debits.
[2] Preliminary.

TABLE 58. FRANCE: BALANCE OF PAYMENTS SUMMARY, 1967 AND 1968 [1]

(In millions of U.S. dollars)

	1967	1968 [2]	1968 [2] First quarter	Second quarter	Third quarter	Fourth quarter
A. Goods, Services, and Unrequited Transfers						
Exports f.o.b.	11,515	13,706	3,471	3,118	3,424	3,693
Imports f.o.b.	−11,134	−13,864	−3,350	−3,151	−3,491	−3,872
Trade balance	381	−158	121	−33	−67	−179
Services (net)	376	−600	5	−66	−419	−120
Unrequited transfers (net)	−524	−462	−91	−130	−116	−125
Total	233	−1,220	35	−229	−602	−424
Memorandum item: Goods, Services, and Private Unrequited Transfers	*730*	*−819*	*132*	*−107*	*−519*	*−325*
B. Long-Term Capital						
Private						
Liabilities	618	409	220	19	13	157
Assets (increase −)	−539	−1,236	−246	−322	−256	−412
Official	−80	−69	−9	—	−28	−32
Total	−1	−896	−35	−303	−271	−287
C. Total (A plus B)	232	−2,116	—	−532	−873	−711
D. Short-Term Capital, n.i.e. (including net errors and omissions)						
Private nonmonetary	−309	−956	−261	−179	−204	−312
Net errors and omissions	−14	−36	148	52	−150	−86
Total	−323	−992	−113	−127	−354	−398
E. Commercial Bank Capital						
Liabilities	1,244	1,024	427	−562	−1	1,160
Assets (increase −)	−806	−1,584	−404	−620	−247	−313
Total	438	−560	23	−1,182	−248	847
F. Total (C through E)	347	−3,668	−90	−1,841	−1,475	−262
G. Official Monetary Movements						
Net IMF accounts	102	885	3	883	—	−1
Foreign exchange (increase −)	−367	551	86	10	570	−115
Other claims, net (increase −)	−86	875	—	453	332	90
Monetary gold (increase −)	4	1,357	1	495	573	288
Total	−347	3,668	90	1,841	1,475	262

Source: Data provided by the French authorities.
[1] Positive figures are credits; negative figures are debits.
[2] Preliminary.

TABLE 59. FEDERAL REPUBLIC OF GERMANY: BALANCE OF PAYMENTS SUMMARY, 1967–FIRST QUARTER 1969 [1]
(In millions of U.S. dollars)

			1968				1969 [2]
	1967	1968	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
A. Goods, Services, and Unrequited Transfers							
Exports f.o.b.	21,741	24,854	5,826	5,700	6,163	7,165	6,398
Imports c.i.f.	−17,352	−20,166	−4,701	−4,823	−5,112	−5,530	−5,683
Other merchandise	−223	−200	−54	−34	−60	−52	9
Trade balance	4,166	4,488	1,071	843	991	1,583	724
Paid services to foreign troops	1,310	1,340	321	330	344	345	313
Other services	−1,436	−1,191	−207	−281	−497	−206	−333
Total goods and services	4,040	4,637	1,185	892	838	1,722	704
Unrequited transfers (net)	−1,577	−1,761	−402	−413	−380	−566	−372
Total	2,463	2,876	783	479	458	1,156	332
Memorandum item: Goods, Services, and Private Unrequited Transfers	*3,292*	*3,899*	*1,024*	*710*	*631*	*1,534*	*505*
B. Long-Term Capital							
Private liabilities	414	445	63	54	105	223	52
Private assets	−830	−2,946	−457	−679	−1,023	−787	−1,454
Government long-term capital	−385	−386	−65	−63	−117	−141	−78
Total	−801	−2,887	−459	−688	−1,035	−705	−1,480
C. Total (A plus B)	1,662	−11	324	−209	−577	451	−1,148
D. Short-Term Capital, n.i.e. (including net errors and omissions)							
Government short-term capital	49	329	63	38	213	15	−36
Other short-term capital	−408	121	16	−32	127	10	126
Net errors and omissions	—	508	371	209	302	−374	381
Total	−359	958	450	215	642	−349	471
E. Commercial Bank Short-Term Capital							
Liabilities	297	1,487	−27	180	590	744	−735
Assets (increase —) [3]	−1,503	−699	−365	151	−346	−139	−402
Total	−1,206	788	−392	331	244	605	−1,137
F. Total (C through E)	97	1,735	382	337	309	707	−1,814
G. Official Monetary Movements							
Net IMF accounts	205	−463	−82	−466	44	41	161
Bundesbank investment in U.S. and U.K. Treasury paper (increase —) [4]	−250	−675	−125	−175	−125	−250	—
Miscellaneous claims, net (increase —) [5]	27	59	4	7	−3	51	71
Freely usable assets (increase —) [3]	−143	−345	−435	637	−81	−466	1,584
Monetary gold (increase —)	64	−311	256	−340	−144	−83	−2
Total	−97	−1,735	−382	−337	−309	−707	1,814

Source: Deutsche Bundesbank, *Monthly Report,* June 1969.
[1] Positive figures are credits; negative figures are debits.
[2] Preliminary.
[3] U.S. dollars put at the disposal of the commercial banks by the Bundesbank through swap arrangements are included in the commercial banks' assets in Group E and excluded from the Bundesbank assets in Group G.
[4] Made in accordance with the U.S.-German agreements of 1967 and 1968, and the 1968 U.K.-German agreement.
[5] Covers mainly claims on the IBRD and post-EPU claims, as well as liabilities of the Bundesbank and liabilities resulting from the sale of German money-market paper to foreign monetary authorities.

TABLE 60. ITALY: BALANCE OF PAYMENTS SUMMARY, 1967–FIRST QUARTER 1969 [1]

(In millions of U.S. dollars)

	1967	1968 [2]	1968 [2] First quarter	1968 [2] Second quarter	1968 [2] Third quarter	1968 [2] Fourth quarter	1969 [2] First quarter
A. Goods, Services (net), and Unrequited Transfers (net)							
Exports f.o.b.	8,605	10,095	2,351	2,476	2,469	2,799	2,808
Imports f.o.b.	−8,626	−8,964	−2,095	−2,167	−2,239	−2,463	−2,619
Trade balance	−21	1,131	256	309	230	336	189
Travel	1,126	1,109	155	289	454	211	142
Other services	166	142	−9	−44	129	66	74
Unrequited transfers	328	291	36	62	76	117	75
Total	1,599	2,673	438	616	889	730	480
Memorandum item: Goods, Services, and Private Unrequited Transfers	*1,761*	*2,951*	*520*	*700*	*966*	*765*	*538*
B. Capital Movements (excluding Groups D and E) and Net Errors and Omissions							
Loans received by private sector	−106	−35	−28	2	−22	13	−31
Loans extended by private sector	−144	−166	−59	8	−32	−83	−162
Trade credits	14	−263	−160	−31	73	−145	12
Other private investment in Italy	323	366	77	107	60	122	111
Other private investment abroad	−179	−333	−66	−77	−59	−131	−160
Advance debt redemption	—	−73	−37	—	−36	—	—
Miscellaneous government capital	−53	−33	8	−37	—	−4	−4
Repatriation of Italian banknotes [3]	−801	−1,128	−342	−314	−155	−317	−484
Other net errors and omissions and other capital [4]	−291	−457	−10	−103	−145	−199	−117
Total	−1,237	−2,122	−617	−445	−316	−744	−835
C. Total (A plus B)	362	551	−179	171	573	−14	−355
Total, excluding advance debt redemption	*362*	*624*	*−142*	*171*	*609*	*−14*	*−355*
D. Commercial Bank Capital							
Liabilities	484	875	20	150	64	641	116
Assets (increase —)	−289	−1,563	−2	−243	−454	−864	−142
Total	195	−688	18	−93	−390	−223	−26
E. Total (C plus D)	557	−137	−161	78	183	−237	−381
F. Official Monetary Movements							
Net IMF accounts	43	−52	−52	−207	11	196	103
Short-term liabilities	1	−25	−18	1	24	−32	99
Foreign exchange (increase —)	−610	697	189	424	−102	186	184
Other claims (increase —)	−5	40	18	1	−5	26	−4
Monetary gold (increase —)	14	−523	24	−297	−111	−139	−1
Total	−557	137	161	−78	−183	237	381

Sources: Ufficio Italiano dei Cambi, *Movimento Valutario,* and Bank of Italy.

[1] Positive figures are credits; negative figures are debits. Some data in Group A and all data in Group B are on a payments (exchange record) basis.

[2] Preliminary.

[3] Part of the foreign investment in Italy is believed to be financed from the proceeds of Italian banknotes remitted abroad and subsequently repatriated; to that extent foreign investment in Italy may be overstated. See also footnote 4.

[4] In the standard presentation of Italy's balance of payments, the repatriation of banknotes forms a part of net errors and omissions.

TABLE 61. JAPAN: BALANCE OF PAYMENTS SUMMARY, 1967–FIRST QUARTER 1969 [1]
(In millions of U.S. dollars)

			1968 [2]				1969 [2]
	1967	1968 [2]	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
A. Goods, Services, and Unrequited Transfers							
Exports f.o.b.	10,228	12,754	2,569	3,112	3,327	3,746	3,283
Imports f.o.b.	−9,070	−10,223	−2,451	−2,566	−2,482	−2,724	−2,671
Trade balance	1,158	2,531	118	546	845	1,022	612
Government special receipts [3]	523	592	130	147	147	168	145
Other services and unrequited transfers (net)	−1,873	−2,075	−543	−502	−489	−541	−571
Total	−192	1,048	−295	191	503	649	186
Memorandum item: Goods, Services, and Private Unrequited Transfers	*−38*	*1,196*	*−261*	*234*	*530*	*693*	*211*
B. Long-Term Capital							
Direct investment	−77	−147	−22	−15	−8	−102	−13
Trade credits and loans extended	−702	−828	−192	−215	−196	−225	−231
Other	−33	730	103	211	212	204	289
Total	−812	−245	−111	−19	8	−123	45
C. Total (A plus B)	−1,004	803	−406	172	511	526	231
D. Short-Term Capital, n.i.e. (including net errors and omissions)							
Nonmonetary sectors	507	202	115	−20	31	76	−10
Net errors and omissions	−74	97	44	69	−1	−15	57
Total	433	299	159	49	30	61	47
E. Commercial Bank Capital							
Liabilities	987	484	169	7	1	307	−63
Assets (increase —)	−477	−724	37	−220	−166	−375	104
Total	510	−240	206	−213	−165	−68	41
F. Total (C through E)	−61	862	−41	8	376	519	319
G. Official Monetary Movements							
Net IMF accounts	82	−51	13	−46	−7	−11	3
Short-term liabilities (net)	−28	14	−1	5	3	7	−7
Foreign exchange (increase —)	16	−807	32	47	−372	−514	−314
Monetary gold (increase —)	−9	−18	−3	−14	—	−1	−1
Total	61	−862	41	−8	−376	−519	−319

Sources: Bank of Japan, *Balance of Payments Monthly* and *Economic Statistics Monthly.*
[1] Positive figures are credits; negative figures are debits.
[2] Preliminary.
[3] Includes sales of goods and services to foreign military forces.

TABLE 62. NETHERLANDS: BALANCE OF PAYMENTS SUMMARY, 1967–FIRST QUARTER 1969 [1]

(In millions of U.S. dollars)

			1968 [2]				1969 [2]
	1967	1968 [2]	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
A. Goods, Services, and Unrequited Transfers							
Exports f.o.b.[3]	6,865	7,784	1,798	1,888	1,940	2,158	2,111
Imports f.o.b.	–7,423	–8,110	–1,922	–1,983	–2,007	–2,198	–2,235
Trade balance	–558	–326	–124	–95	–67	–40	–124
Services (net)	537	431	91	80	127	133	70
Unrequited transfers (net)	–63	–43	–21	—	–20	–2	9
Total	–84	62	–54	–15	40	91	–45
Memorandum item: Goods, Services, and Private Unrequited Transfers	*–26*	*96*	*–35*	*–16*	*57*	*90*	*–62*
B. Long-Term Capital, n.i.e.							
Private	–43	–35	–11	–43	36	–17	56
Advance debt redemption	—	–65	—	—	—	–65	—
Other official	–22	–30	–6	–7	–3	–14	–4
Total	–65	–130	–17	–50	33	–96	52
C. Total (A plus B)	–149	–68	–71	–65	73	–5	7
Total, excluding advance debt redemption	*–149*	*–3*	*–71*	*–65*	*73*	*60*	*7*
D. Short-Term Capital, n.i.e. (including net errors and omissions)							
Private nonmonetary	30	–27	–30	–17	–29	49	–22
Net errors and omissions	162	39	75	–38	24	–22	89
Total	192	12	45	–55	–5	27	76
E. Commercial Bank Capital							
Liabilities	140	447	153	187	–32	139	3
Assets (increase –)	–12	–559	–189	–141	–18	–211	–142
Total	128	–112	–36	46	–50	–72	–139
F. Total (C through E)	171	–168	–62	–74	18	–50	–56
G. Official Monetary Movements							
Net IMF accounts	61	–145	–126	–78	20	39	43
Other short-term liabilities	1	1	—	55	–27	–27	—
Other short-term assets (increase –)	–252	298	131	139	–10	38	13
Monetary gold (increase –)	19	14	57	–42	–1	—	—
Total	–171	168	62	74	–18	50	56

Source: Data provided by the Netherlands Bank.
[1] Positive figures are credits; negative figures are debits.
[2] Preliminary.
[3] Including the balance of merchandise transactions abroad.

TABLE 63. NORWAY: BALANCE OF PAYMENTS SUMMARY, 1967–FIRST QUARTER 1969 [1]
(In millions of U.S. dollars)

			1968 [2]				1969 [2]
	1967	1968 [2]	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
A. Goods, Services, and Unrequited Transfers							
Exports f.o.b.	1,747	1,948	467	479	443	559	577
Imports f.o.b.	–2,709	–2,660	–664	–685	–614	–697	–668
Trade balance	–962	–712	–197	–206	–171	–138	–91
Services and unrequited transfers	759	877	221	212	242	202	178
Total	–203	165	24	6	71	64	87
Memorandum item: Goods, Services, and Private Unrequited Transfers	*–188*	*189*	*28*	*9*	*75*	*77*	*96*
B. Long-Term Capital, n.i.e.							
Private	398	48	36	43	–12	–19	–53
Official	–52	–12	—	–5	–2	–5	–3
Total	346	36	36	38	–14	–24	–56
C. Total (A plus B)	143	201	60	44	57	40	31
D. Short-Term Capital, n.i.e. (including net errors and omissions)							
Private nonmonetary [3]	–23	–72	–18	–26	–30	2	–27
Net errors and omissions	44	39	17	16	7	–1	10
Total	21	–33	–1	–10	–23	1	–17
E. Private Monetary Institutions							
Liabilities	–5	—	–52	2	11	39	–72
Assets (increase –)	–24	–138	–30	7	–45	–70	–14
Total	–29	–138	–82	9	–34	–31	–86
F. Total (C through E)	135	30	–23	43	—	10	–72
G. Official Monetary Movements							
Net IMF accounts	–9	–20	—	–20	—	—	—
Liabilities	14	–4	–2	–1	–1	—	5
Other claims (increase –)	–140	—	25	–16	1	–10	67
Monetary gold (increase –)	—	–6	—	–6	—	—	—
Total	–135	–30	23	–43	—	–10	72

Source: Central Bureau of Statistics of Norway.
[1] Positive figures are credits; negative figures are debits.
[2] Preliminary.
[3] Includes official short-term capital.

TABLE 64. SWEDEN: BALANCE OF PAYMENTS SUMMARY, 1967–FIRST QUARTER 1969 [1]

(In millions of U.S. dollars)

	1967	1968 [2]	1968 [2] First quarter	1968 [2] Second quarter	1968 [2] Third quarter	1968 [2] Fourth quarter	1969 [2] First quarter
A. Goods, Services, and Unrequited Transfers							
Exports f.o.b.	4,507	4,875	1,154	1,202	1,175	1,344	1,307
Imports f.o.b.	−4,651	−5,051	−1,274	−1,184	−1,211	−1,382	−1,377
Trade balance	−144	−176	−120	18	−36	−38	−70
Services and unrequited transfers	−1	−73	−15	−12	−40	−6	−60
Total	−145	−249	−135	6	−76	−44	−130
Memorandum item: Goods, Services, and Private Unrequited Transfers	*−87*	*−180*	*−123*	*17*	*−49*	*−25*	*−100*
B. Long-Term Capital, n.i.e.							
Private	100	123	−7	36	55	39	−40
Official	9	−10	−1	1	−9	−1	7
Total	109	113	−8	37	46	38	−33
C. Total (A plus B)	−36	−136	−143	43	−30	−6	−163
D. Short-Term Capital, n.i.e. (including net errors and omissions)							
Private nonmonetary	24	−3	1	2	8	−14	—
Official nonmonetary	−15	−1	−3	−2	2	2	1
Net errors and omissions	−11	123	161	−29	50	−59	32
Total	−2	119	159	−29	60	−71	33
E. Commercial Bank Capital							
Liabilities	−37	72	−13	64	—	21	124
Assets (increase −)	−120	−73	69	−37	−31	−74	−62
Total	−157	−1	56	27	−31	−53	62
F. Total (C through E)	−195	−18	72	41	−1	−130	−68
G. Official Monetary Movements							
Net IMF accounts	27	−26	—	−54	5	23	23
Short-term liabilities	8	−8	−3	5	−6	−4	7
Other short-term assets (increase −)	160	74	−69	30	2	111	38
Monetary gold (increase −)	—	−22	—	−22	—	—	—
Total	195	18	−72	−41	1	130	68

Source: Sveriges Riksbank.
[1] Positive figures are credits; negative figures are debits.
[2] Preliminary.

TABLE 65. UNITED KINGDOM: BALANCE OF PAYMENTS SUMMARY, 1967–FIRST QUARTER 1969 [1]
(In millions of U.S. dollars)

			1968 [2]				1969 [2]
	1967	1968 [2]	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
A. Goods, Services, and Unrequited Transfers, seasonally adjusted							
Exports f.o.b.	13,882	14,647	3,578	3,446	3,761	3,862	3,842
Imports f.o.b.	−15,298	−16,296	−4,003	−3,996	−4,128	−4,169	−4,147
Payments for U.S. military aircraft	−265	−261	−55	−74	−84	−48	−79
Trade balance	−1,681	−1,910	−480	−624	−451	−355	−384
Services and unrequited transfers (net)	635	904 [3]	156	303	275	170	336
Total	−1,046	−1,006	−324	−321	−176	−185	−48
Memorandum item: Goods, Services, and Private Unrequited Transfers, seasonally adjusted	*−540*	*−574*	*−197*	*−218*	*−77*	*−82*	*65*
B. Long-Term Capital Movements, n.i.e., seasonally adjusted							
Official	−147	55	−53	77	48	−17	−125
Private investment (net)							
Abroad (increase −)	−1,162	−1,490	−439	−401	−245	−405	−399
In United Kingdom	1,072	1,342	166	271	658	247	274
Total	−237	−93	−326	−53	461	−175	−250
C. Total (A plus B), seasonally adjusted	−1,283	−1,099	−650	−374	285	−360	−298
Total (A plus B), unadjusted	−1,283	−1,099	−710	−252	153	−290	−338
D. Net Errors and Omissions	425	−144	−212	12	53	3	662
E. Short-Term Capital Movements, n.i.e.							
Miscellaneous capital		−89	26	77	−67	−125	221
Foreign currency liabilities (net) of banks	−430	−26	81	125 [4]	−69 [4]	−163	−103
Sterling liabilities (net) other than to central monetary institutions, BIS, and IMF							
Sterling area countries		−148	41	−211	211	−189	−29
Other		−840	−323	−265	−31	−221	−214
Total	−430	−1,103	−175	−274	44	−698	−125
F. Total (C through E)	−1,288	−2,346	−1,097	−514	250	−985	199
G. Exchange Adjustments	— [5]	−612	−297	−199	−55	−61	—
H. Official Monetary Movements							
Net IMF accounts, including gold deposit liability	−850	1,259	10	1,410	−75	−86	−305
Sterling liabilities (net) to central monetary institutions and BIS							
Sterling area countries	819	−207	204	−533 [4]	−209 [4]	331	497
Other		1,590	902	−400	413	675	−211
Official liabilities in non-sterling currencies	424	43	305	197	−290	−169	−132
Transfer of securities from dollar portfolio to reserves	490	—	—	—	—	—	—
Convertible currency reserves (increase −)	−244	456	175	20	−22	283	−45
Gold reserves (increase −)	649	−183	−202	19	−12	12	−3
Total	1,288	2,958	1,394	713	−195	1,046	−199

Source: U.K. Central Statistical Office, *Economic Trends,* June 1969, gives these statistics in pounds sterling.
[1] Positive figures are credits; negative figures are debits.
[2] Preliminary.
[3] Excluding loan service due but not paid to the United States and Canada under waiver provisions ($86 million for interest and also for principal). Although these payments were due in the final quarter, the effect, in these seasonally adjusted figures, has been applied equally to all four quarters of the year.
[4] The effects of the redenomination of certain official balances of the Government of Hong Kong from pounds sterling to Hong Kong currency in the second quarter of 1968, and the reversal in the third quarter of 1968, are eliminated from this table.
[5] Exchange adjustments are included in the figure for Group E.

TABLE 66. UNITED STATES: BALANCE OF PAYMENTS SUMMARY, SEASONALLY ADJUSTED, 1967–FIRST QUARTER 1969[1]
(In millions of U.S. dollars)

			1968[2]				1969[2]
	1967	1968[2]	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
A. Goods, Services, and Unrequited Transfers (excluding aid)							
Exports f.o.b.	30,681	33,598	7,941	8,395	8,879	8,383	7,474
Imports f.o.b.	–26,821	–32,972	–7,817	–8,131	–8,566	–8,458	–7,577
Trade balance	3,860	626	124	264	313	–75	–103
Net military expenditures	–3,139	–3,102	–797	–763	–737	–805	–782
Investment income	4,510	4,769	1,100	1,231	1,270	1,168	1,181
Other services, remittances, and pensions (excluding aid and military transfers)	–1,249	–931	–232	–165	–262	–272	–214
Total	3,982	1,362	195	567	584	16	82
B. Aid and Nonmonetary Sectors' Selected Capital							
Advance repayments on U.S. Government loans	6	269	42	3	55	169	44
Other government capital and grants	–4,228	–4,224	–1,139	–1,058	–1,023	–1,004	–827
Direct investment abroad	–3,153	–3,026	–472	–1,009	–1,262	–283	–776
Portfolio investment abroad	–1,292	–1,083	–137	–147	–229	–570	–277
Foreign direct and portfolio investment in United States	1,517	5,408	1,184	1,311	1,136	1,777	1,680
Total	–7,150	–2,656	–522	–900	–1,323	89	–156
C. Total (A plus B)	–3,168	–1,294	–327	–333	–739	105	–74
D. Net Errors and Omissions	–1,007	–716	–410	–540	286	–52	–1,398
E. Short-Term Capital, n.i.e.							
Foreign nonliquid capital	494	814	8	429	130	247	–124
Foreign liquid capital	200	434	90	20	73	251	–106
U.S. private assets (increase –)	–1,209	–1,049	–197	–381	–377	–94	–148
Total	–515	199	–99	68	–174	404	–378
F. Liquid Liabilities to Foreign Commercial Banks	1,272	3,450	457	2,358	724	–89	3,001
G. Total (C through F)	–3,418	1,639	–379	1,553	97	368	1,151
H. "Official Settlements"[3]							
Liabilities to foreign official agencies							
Nonliquid liabilities	1,346	2,341	363	777	537	664	43
Liquid liabilities	2,020	–3,100	–888	–2,193	–63	44	–1,146
Net IMF accounts	–94	–870	–57	–426	–23	–364	–31
U.S. convertible currency holdings (increase –)	–1,024	–1,183	–401	267	–474	–575	–73
Monetary gold (increase –)	1,170	1,173	1,362	22	–74	–137	56
Total	3,418	–1,639	379	–1,553	–97	–368	–1,151
Main Categories, without seasonal adjustment							
Trade balance			263	444	–166	85	116
Service and unrequited transfers (excluding aid)			243	332	–382	543	453
Aid and nonmonetary sectors' selected capital			–745	–955	–953	–3	–265
Subtotal			–239	–179	–1,501	625	304
Unrecorded transactions			–332	–455	505	–436	–1,418
Short-term capital, n.i.e.			24	–82	92	167	–356
Liquid liabilities to foreign commercial banks			638	2,266	976	–430	3,181
Subtotal			330	1,729	1,573	–699	1,407
"Official Settlements"			–91	–1,550	–72	74	–1,711
Memorandum item: Change (increase –) in monetary reserve assets net of liquid liabilities							
Seasonally adjusted			564	51	162	–870	1,704
Without seasonal adjustment			267	–45	431	–746	1,316

Source: U.S. Department of Commerce, *Survey of Current Business,* June 1969.
[1] Positive figures are credits; negative figures are debits.
[2] Preliminary. Yearly figures are totals of quarterly data.
[3] In this group the series for U.S. reserve assets (net IMF accounts, convertible currency holdings, and monetary gold) are *not* seasonally adjusted.

TABLE 67. PRIMARY PRODUCING COUNTRIES—MORE DEVELOPED AREAS: BALANCE OF PAYMENTS SUMMARIES, 1967 AND 1968 [1, 2]

(*In millions of U.S. dollars*)

		Exports f.o.b. (1)	Imports f.o.b.[3] (2)	Trade Balance (Cols. 1+2) (3)	Services and Private Unrequited Transfers (4)	Goods, Services, and Private Unrequited Transfers (Cols. 3+4) (5)	Central Govern-ment Capital and Aid (6)	Private Long-Term Capital (7)	Basic Balance (Cols. 5 through 7) (8)	Other Short-Term Capital and Net Errors and Omissions (9)	Total [4] (Cols. 8+9) (10)
Australia	1967	3,388	−3,340	48	−797	−749	−45	671	−123	83	−40
	1968	3,426	−3,687	−261	−900	−1,161	−102	930	−333	465	132
Finland	1967	1,524	−1,704 [5]	−180	40	−140	7	79	−54	−14	−68
	1968	1,627	−1,602 [5]	25	43	68	46	66	180	65	245
Greece	1967	488	−1,161 [5]	−673	482	−191	16	169	−6	29	23
	1968	483	−1,249 [5]	−766	530	−236	16	193	−27	34	7
Iceland	1967	99	−152	−53	—	−53	6	13	−34	11	−23
	1968	82	−132	−50	2	−48	21	7	−20	6	−14
Ireland	1967	756	−1,048 [5]	−292	325	33	1	73	107	−105	2
	1968	775	−1,152 [5]	−377	329	−48	—	29	−19	125	106
Malta	1967	23	−99	−76	70	−6	13	−1	6	2	8
	1968	28	−110	−82	75	−7	21	−7	7	59	66
New Zealand	1967	959	−826	133	−278	−145	68	20	−57	1	−56
	1968	1,018	−738	280	−202	78	25	−6	97	−16	81
Portugal	1967	769	−1,147	−378	493	115	21	85	221	−71	150
	1968	815	−1,178	−363	494	131	15	67	213	−79	134
South Africa	1967	2,899	−2,764	135	−468	−333	10	279	−44	33	−11
	1968	3,164	−2,701	463	−449	14	115	286	415	230	645
Spain	1967	1,419	−3,200	−1,781	1,324	−457	38	508	89	−213	−124
	1968	1,667	−3,242	−1,575	1,314	−261	150	436	325	−264	61
Turkey	1967	530	−608	−78	14	−64	125	16	77	−65	12
	1968	498	−687	−189	4	−185	169	18	2	−41	−39
Yugoslavia	1967	1,253	−1,707 [5]	−454	364	−90	158	—	68	−11	57
	1968	1,259	−1,796 [5]	−537	428	−109	165	—	56	−97	−41
Total	1967	14,107	−17,756	−3,649	1,569	−2,080	418	1,912	250	−320	−70
	1968	14,842	−18,274	−3,432	1,668	−1,764	641	2,019	896	487	1,383

Source: International Monetary Fund, *Balance of Payments Yearbook*.

[1] Positive figures are credits; negative figures are debits.

[2] Data for 1968 are preliminary and include Fund staff estimates.

[3] F.o.b. unless otherwise noted.

[4] Reflects net official reserve movements, i.e., changes in foreign liabilities of countries' central monetary institutions in addition to changes in their official gold holdings, Fund positions, and foreign assets. Positive figures indicate surpluses; negative figures indicate deficits.

[5] C.i.f.

TABLE 68. PRIMARY PRODUCING COUNTRIES—LESS DEVELOPED AREAS: BALANCE OF PAYMENTS SUMMARIES, 1967 AND 1968 [1, 2]

(In millions of U.S. dollars)

	1967									
	Exports f.o.b. (1)	Imports f.o.b.[3] (2)	Trade Balance (Cols. 1+2) (3)	Services and Private Unrequited Transfers (4)	Goods, Services, and Private Unrequited Transfers (Cols. 3+4) (5)	Central Government Capital and Aid (6)	Private Long-Term Capital (7)	Basic Balance (Cols. 5 through 7) (8)	Other Short-Term Capital and Net Errors and Omissions (9)	Total[4] (Cols. 8+9) (10)
Western Hemisphere										
Argentina	1,464	—1,095[5]	369	—185	184	—48	—38	98	278	376
Bolivia	155	—152	3	—44	—41	26	7	—8	—2	—10
Brazil	1,654	—1,441	213	—515	—302	122	159	—21	—106	—127
Chile	886	—788[5]	98	—194	—96	108	39	51	—74	—23
Colombia	558	—464	94	—183	—89	58	72	41	10	51
Costa Rica	143	—174	—31	—24	—55	7	26	—22	38	16
Dominican Republic	157	—174	—17	—47	—64	28	11	—25	20	—5
Ecuador	201	—177	24	—60	—36	12	35	11	—2	9
El Salvador	208	—205	3	—30	—27	6	24	3	—4	—1
Guatemala	204	—227	—23	—39	—62	14	35	—13	10	—3
Guyana	121	—131[5]	—10	—22	—32	14	20	2	3	5
Haiti	32	—40	—8	3	—5	3	1	—1	—1	—2
Honduras	156	—152	4	—36	—32	6	12	—14	15	1
Jamaica	226	—296	—70	6	—64	1	89	26	—17	9
Mexico	1,152	—1,767[5]	—615	—25	—640	104	394	—142	209	67
Nicaragua	148	—172	—24	—43	—67	6	20	—41	23	—18
Panama	109	—232	—123	83	—40	11	10	—19	4	—15
Paraguay	50	—61	—11	—11	—22	5	17	—	—1	—1
Peru	755	—801	—46	—226	—272	135	64	—73	39	—34
Trinidad and Tobago	431	—409[5]	22	—39	—17	2	25	10	—6	4
Uruguay	160	—146	14	—30	—16	13	7	4	4	8
Venezuela	2,462	—1,337	1,125	—1,157	—32	—11	119	76	24	100
Subtotal, Western Hemisphere	11,432	—10,441	991	—2,818	—1,827	622	1,148	—57	464	407
Asia										
Burma	127	—137	—10	—21	—31	15	—	—16	—21	—37
Ceylon	340	—409[5]	—69	—	—69	36	—1	—34	4	—30
China, Republic of	655	—716	—61	16	—45	1	137	93	—45	48
India	1,640	—2,774[5]	—1,134	—31	—1,165	1,243	13	91	—105	—14
Indonesia	771	—806	—35	—248	—283	211	56	—16	9	—7
Korea	335	—909	—574	248	—326	147	193	14	43	57
Malaysia	1,202	—1,029	173	—204	—31	—13	67	23	—40	—17
Pakistan	570	—1,115	—545	—131	—676	532	87	—57	25	—32
Philippines	829	—1,062	—233	127	—106	42	—2	—66	—65	—131
Singapore	1,058	—1,355	—297	222	—75	5	34	—36	135	99
Thailand	668	—1,052[5]	—384	287	—97	72	74	49	47	96
Viet-Nam	38	—754[5]	—716	375	—341	362	—3	18	10	28
Subtotal, Asia	8,233	—12,118	—3,885	640	—3,245	2,653	655	63	—3	60
Middle East										
Cyprus	78	—142	—64	66	2	—1	10	11	5	16
Iran	1,662	—1,181[5]	481	—615	—134	129	47	42	—10	32
Iraq	828	—425[5]	403	—345	58	22	10	90	—64	26
Israel	533	—673	—140	140	—	246	12	258	—33	225
Jordan	32	—152[5]	—120	49	—71	149	1	79	15	94
Saudi Arabia	1,516	—576	940	—886	54	15	95	164	—104	60
United Arab Republic	595	—955[5]	—360	74	—286	230	—14	—70	—15	—85
Subtotal, Middle East	5,244	—4,104	1,140	—1,517	—377	790	161	574	—206	368
Africa										
Congo, Democratic Republic of	470	—254	216	—217	—1	50	—8	41	6	47
Ethiopia	103	—126	—23	—19	—42	15	12	—15	1	—14
Ghana	284	—265	19	—104	—85	20	35	—30	—12	—42
Ivory Coast	337	—298[5]	39	—97	—58	15	12	—31	39	8
Kenya	222	—326[5]	—104	46	—58	16	35	—7	19	12
Libya	1,175	—480[5]	695	—559	136	—78	19	77	—31	46
Malawi	56	—69	—13	—23	—36	28	9	1	3	4
Mali	20	—37	—17	—20	—37	35	—	—2	—4	—6
Mauritius	63	—69	—6	—11	—17	6	—	—11	1	—10
Morocco	424	—480	—56	—24	—80	70	12	2	—22	—20
Nigeria	669	—612[5]	57	—324	—267	58	141	—68	—19	—87
Sierra Leone	68	—78	—10	—19	—29	11	12	—6	—	—6
Somalia	29	—74[5]	—45	22	—23	19	2	—2	—	—2
Sudan	219	—239[5]	—20	—29	—49	28	—	—21	—5	—26
Tanzania	244	—244[5]	—	4	4	25	—7	22	—16	6
Tunisia	148	—262	—114	—23	—137	97	31	—9	1	—8
Uganda	212	—184	28	—38	—10	17	10	17	—14	3
Subtotal, Africa	4,743	—4,097	646	—1,435	—789	432	315	—42	—53	—95
Grand Total	29,652	—30,760	—1,108	—5,130	—6,238	4,497	2,279	538	202	740

TABLE 68. (*concluded*). PRIMARY PRODUCING COUNTRIES—LESS DEVELOPED AREAS: BALANCE OF PAYMENTS SUMMARIES, 1967 AND 1968 [1, 2]

(*In millions of U.S. dollars*)

	1968									
	Exports f.o.b. (1)	Imports f.o.b.[3] (2)	Trade Balance (Cols. 1+2) (3)	Services and Private Unrequited Transfers (4)	Goods, Services, and Private Unrequited Transfers (Cols. 3+4) (5)	Central Govern-ment Capital and Aid (6)	Private Long-Term Capital (7)	Basic Balance (Cols. 5 through 7) (8)	Other Short-Term Capital and Net Errors and Omissions (9)	Total [4] (Cols. 8+9) (10)
Western Hemisphere										
Argentina	1,365	—1,135 [5]	230	—222	8	60	—3	65	94	159
Bolivia	161	—166	—5	—45	—50	53		3	—5	—2
Brazil	1,890	—1,856	34	—524	—490	229	254	—7	156	149
Chile	915	—869 [5]	46	—213	—167	159	156	148	—31	117
Colombia	603	—601	2	—192	—190	98	64	—28	74	46
Costa Rica	174	—191	—17	—27	—44	—1	27	—18	25	7
Dominican Republic	162	—192	—30	—37	—67	17	30	—20	30	10
Ecuador	210	—209	1	—68	—67	17	46	—4	—10	—14
El Salvador	212	—218 [5]	—6	—12	—18	5	15	2	—6	—4
Guatemala	233	—237	—4	—48	—52	17	34	—1	—3	—4
Guyana	119	—115 [5]	4	—22	—18	10	14	6	—1	5
Haiti	36	—40	—4	1	—3	4	1	2	3	5
Honduras	184	—171	13	—38	—25	16	14	5	—	5
Jamaica	222	—330	—108	6	—102	12	...	—90	130 [6]	40
Mexico	1,254	—1,969 [5]	—715	23	—692	78	499	—115	186	71
Nicaragua	159	—165	—6	—36	—42	8	27	—7	6	—1
Panama	115	—250	—135	92	—43	8		—35	30	—5
Paraguay	50	—70	—20	—9	—29	14	12	—3	4	1
Peru	846	—663	183	—183	—	71	—24	47	—62	—15
Trinidad and Tobago	472	—427 [5]	45	—48	—3	4	22	23	14	37
Uruguay	179	—162	17	5	22	29 [6]	...	51	—16	35
Venezuela	2,462	—1,448	1,014	—1,201	—187	73	64	—50	100	50
Subtotal, Western Hemisphere	12,023	—11,484	539	—2,798	—2,259	981	1,252	—26	718	692
Asia										
Burma	109	—175	—66	—22	—88	36	—	—52	46	—6
Ceylon	332	—394 [5]	—62	—3	—65	44	—2	—23	—12	—35
China, Republic of	826	—900	—74	—40	—114	21	85	—8	29	21
India	1,799	—2,434	—635	—47	—682	943	—18	243	—168	75
Indonesia	868	—830	38	—291	—253	197	41	—15	7	—8
Korea	486	—1,326	—840	263	—577	147	400	—30	156	126
Malaysia	1,328	—1,098	230	—234	—4	15	65	76	—46	30
Pakistan	646	—970	—324	—113	—437	453	47	63	—15	48
Philippines	866	—1,150	—284	—21	—305	158	24	—123	164	41
Singapore	1,172	—1,553	—381	210	—171	—	39	—132	231	99
Thailand	640	—1,183	—543	301	—242	96	75	—71	84	13
Viet-Nam	41	—672	—631	282	—349	378	—12	17	—16	1
Subtotal, Asia	9,113	—12,685	—3,572	285	—3,287	2,488	744	—55	460	405
Middle East										
Cyprus	82	—145	—63	60	—3	4	10	11	46	57
Iran	1,860	—1,499 [5]	361	—695	—334	352	60	78	—182	—104
Iraq	1,031	—403 [5]	628	—491	137	—	14	151	—37	114
Israel	650	—960	—310	55	—255	211	10	—34	—49	—83
Jordan	40	—160 [5]	—120	—	—120	163	—	43	—3	40
Saudi Arabia	1,728	—812 [5]	916	—866	50	—85	—16	—51	—5	—56
United Arab Republic	664	—856 [5]	—192	—48	—240	253	...	13	—60 [6]	—47 [7]
Subtotal, Middle East	6,055	—4,835	1,220	—1,985	—765	898	78	211	—290	—79
Africa										
Congo, Democratic Republic of	587	—279	308	—249	59	37	—8	88	—18	70
Ethiopia	110	—145	—35	—7	—42	38	5	1	1	2
Ghana	320	—61	59	—105	—46	13	19	—14	7	—7
Ivory Coast	438	—34 [5]	97	—97	—	38	9	47	—42	5
Kenya	235	—339 [5]	—104	49	—55	34	35	14	6	20
Libya	1,867	—649 [5]	1,218	—883	335	—85	—81	169	—14	155
Malawi	48	—70	—22	—23	—45	28	11	—6	6	—
Mali	18	—34	—16	—21	—37	26	—1	—12	—	—12
Mauritius	65	—65	—	—6	—6	9	—1	2	4	6
Morocco	450	—511	—61	—39	—100	77	10	—13	—11	—24
Nigeria	584	—523 [5]	61	—310	—249	32	148	—69	72	3
Sierra Leone	112	—106 [5]	6	—13	—7	11	9	13	—	13
Somalia	31	—47 [5]	—16	—6	—22	23	2	3	—	3
Sudan	237	—277	—40	—24	—64	19	—2	—47	33	—14
Tanzania	238	—264 [5]	—26	11	—15	23	...	8	11 [6]	19
Tunisia	157	—218	—61	—3	—64	69	18	23	—7	16
Uganda	208	—184 [5]	24	—29	—5	13	2	10	4	14
Subtotal, Africa	5,705	—4,313	1,392	—1,755	—363	405	175	217	52	269
Grand Total	32,896	—33,317	—421	—6,253	—6,674	4,772	2,249	347	940	1,287

Source: International Monetary Fund, *Balance of Payments Yearbook*.
For footnotes 1-5, see Table 67.
[6] Including private long-term capital.
[7] Not comparable with corresponding total for 1967.

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APPENDICES

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Appendix I. EXECUTIVE BOARD DECISION

Use of Fund's Resources and Stand-By Arrangements

The Executive Board has reviewed the Fund's policy with respect to the use of its resources under stand-by arrangements and agrees that the Fund shall be guided by the approach in the conclusions set forth [below].

Decision No. 2603-(68/132)
September 20, 1968

Conclusions

In the light of experience over the past years and taking into consideration the necessity of adequate safeguards for the Fund and the need for flexibility while ensuring uniform and equitable treatment of all members, it is proposed that Fund policies and practices on the use of its resources, including tranche policies, shall continue to apply subject to the following:

1. Appropriate consultation clauses will be incorporated in all stand-by arrangements.

2. Provision will be made for consultation, from time to time, with a member during the whole period in which the member is making use of the Fund's resources beyond the first credit tranche whether or not the use results from a stand-by arrangement.

3. Phasing and performance clauses will be omitted in stand-by arrangements that do not go beyond the first credit tranche.

4. Appropriate phasing and performance clauses will be used in all stand-by arrangements other than those referred to in paragraph 3, but these clauses will be applicable only to purchases beyond the first credit tranche.

5. Notwithstanding paragraph 4, in exceptional cases phasing need not be used in stand-by arrangements that go beyond the first credit tranche when the Fund considers it essential that the full amount of the stand-by arrangement be promptly available. In these stand-by arrangements, the performance clauses will be so drafted as to require the member to consult the Fund in order to reach understandings, if needed, on new or amended performance criteria even if there is no amount that could still be purchased under the stand-by arrangement. This consultation will include a discussion by the Executive Directors which could culminate in a communication of their views to the member under Article XII, Section 8.

6. Performance clauses will cover those performance criteria necessary to evaluate implementation of the program with a view to ensuring the achievement of its objectives, but no others. No general rule as to the number and content of performance criteria can be adopted in view of the diversity of problems and institutional arrangements of members.

7. In view of the character of stand-by arrangements, language having a contractual flavor will be avoided in the stand-by documents.

Appendix II. EXECUTIVE DIRECTORS AND VOTING POWER on April 30, 1969

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes [1]	Per Cent of Total
APPOINTED				
William B. Dale *John S. Hooker*	United States	51,850	51,850	22.09
E. W. Maude *Guy Huntrods*	United Kingdom	24,650	24,650	10.50
Guenther Schleiminger *Lore Fuenfgelt*	Germany	12,250	12,250	5.22
Georges Plescoff *Bruno de Maulde*	France	10,100	10,100	4.30
B. K. Madan *S. S. Marathe*	India	7,750	7,750	3.30
Francesco Palamenghi-Crispi *Carlos Bustelo (Spain)*	Italy [2]	6,500	6,500	2.77
ELECTED				
Ahmed Zaki Saad (United Arab Republic) *Albert Mansour (United Arab Republic)*	Afghanistan	540		
	Ethiopia	440		
	Iran	1,500		
	Iraq	1,050		
	Jordan	410		
	Kuwait	750		
	Lebanon	340		
	Pakistan	2,130		
	Philippines	1,350		
	Saudi Arabia	1,150		
	Somalia	400		
	Syrian Arab Republic	630		
	United Arab Republic	1,750	12,440	5.30
Hideo Suzuki (Japan) *Seitaro Hattori (Japan)*	Burma	730		
	Ceylon	1,030		
	Japan	7,500		
	Nepal	350		
	Thailand	1,200	10,810	4.61
Robert Johnstone (Canada) *Maurice Horgan (Ireland)*	Canada	7,650		
	Guyana	400		
	Ireland	1,050		
	Jamaica	550	9,650	4.11
J. O. Stone (Australia) *G. P. C. de Kock (South Africa)*	Australia	5,250		
	Lesotho	280		
	New Zealand	1,820		
	South Africa	2,250	9,600	4.09
Pieter Lieftinck (Netherlands) *Tom de Vries (Netherlands)*	Cyprus	450		
	Israel	1,150		
	Netherlands	5,450		
	Yugoslavia	1,750	8,800	3.75

Appendix II (*continued*). Executive Directors and Voting Power on April 30, 1969

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes [1]	Per Cent of Total
ELECTED (continued)				
Byanti Kharmawan (Indonesia) *Malek Ali Merican (Malaysia)*	Algeria	970		
	Ghana	940		
	Indonesia	2,320		
	Laos	325		
	Libya	440		
	Malaysia	1,450		
	Morocco	1,114		
	Singapore	550		
	Tunisia	600	8,709	3.71
Leonard A. Williams (Trinidad and Tobago) *Maurice Peter Omwony (Kenya)*	Botswana	280		
	Burundi	400		
	Gambia, The	300		
	Guinea	440		
	Kenya	570		
	Liberia	450		
	Malawi	362		
	Mali	420		
	Nigeria	1,250		
	Sierra Leone	400		
	Sudan	820		
	Tanzania	570		
	Trinidad and Tobago	690		
	Uganda	570		
	Zambia	750	8,272	3.52
André van Campenhout (Belgium) *Jacques Roelandts (Belgium)*	Austria	2,000		
	Belgium	4,470		
	Luxembourg	424		
	Turkey	1,330	8,224	3.50
Alfredo Phillips O. (Mexico) *Marcos A. Sandoval (Venezuela)*	Costa Rica	500		
	El Salvador	500		
	Guatemala	500		
	Honduras	440		
	Mexico	2,950		
	Nicaragua	440		
	Venezuela	2,750	8,080	3.44
Eero Asp (Finland) *Sigurgeir Jónsson (Iceland)*	Denmark	1,880		
	Finland	1,500		
	Iceland	400		
	Norway	1,750		
	Sweden	2,500	8,030	3.42
Alexandre Kafka (Brazil) *Eduardo da S. Gomes, Jr. (Brazil)*	Brazil	3,750		
	Colombia	1,500		
	Dominican Republic	570		
	Haiti	400		
	Panama	530		
	Peru	1,100	7,850	3.34

Appendix II (*concluded*). EXECUTIVE DIRECTORS AND VOTING POWER on April 30, 1969

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes [1]	Per Cent of Total
ELECTED (concluded)				
Luis Escobar (Chile)	Argentina	3,750		
Ricardo H. Arriazu (Argentina)	Bolivia	540		
	Chile	1,500		
	Ecuador	500		
	Paraguay	400		
	Uruguay	800	7,490	3.19
Beue Tann (China)	China	5,750		
Nguyên Huu Hanh (Viet-Nam)	Korea	750		
	Viet-Nam	640	7,140	3.04
Antoine W. Yaméogo (Upper Volta)	Cameroon	424		
Léon M. Rajaobelina (Malagasy Republic)	Central African Republic	340		
	Chad	340		
	Congo (Brazzaville)	340		
	Congo, Democratic Rep. of	820		
	Dahomey	340		
	Gabon	340		
	Ivory Coast	432		
	Malagasy Republic	440		
	Mauritania	345		
	Mauritius	410		
	Niger	340		
	Rwanda	400		
	Senegal	500		
	Togo	362		
	Upper Volta	340	6,513	2.77
			234,708 [2]	100.00

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

[2] This total does not include the votes of Greece, Malta, Portugal, and Spain, which did not participate in the 1968 Regular Election of Executive Directors. These members have designated the Executive Director appointed by Italy to look after their interests in the Fund.

Appendix III. Changes in Membership of Executive Board

Changes in the membership of the Executive Board between May 1, 1968 and April 30, 1969 were as follows:

Guenther Schleiminger (Germany) was appointed Executive Director by Germany, effective May 1, 1968.

Horst Ungerer (Germany), formerly Alternate Executive Director to Ernst vom Hofe (Germany), was appointed Alternate Executive Director to Guenther Schleiminger (Germany), effective May 1, 1968. He resigned, effective August 25, 1968.

Albert Mansour (United Arab Republic) resigned as Alternate Executive Director to Ahmed Zaki Saad (United Arab Republic), effective July 31, 1968. He was reappointed, effective December 26, 1968.

Paul Mentré (France) resigned as Alternate Executive Director to Georges Plescoff (France), effective August 15, 1968.

Bruno de Maulde (France) was appointed Alternate Executive Director to Georges Plescoff (France), effective August 16, 1968.

Miss Lore Fuenfgelt (Germany) was appointed Alternate Executive Director to Guenther Schleiminger (Germany), effective August 26, 1968.

A. M. de Villiers (South Africa) resigned as Alternate Executive Director to J. O. Stone (Australia), effective August 31, 1968.

G. P. C. de Kock (South Africa) was appointed Alternate Executive Director to J. O. Stone (Australia), effective September 1, 1968, and was reappointed November 1, 1968.

Costa P. Caranicas (Greece) completed his term of service as Alternate Executive Director to Francesco Palamenghi-Crispi (Italy), October 31, 1968.

C. L. Chow (China) completed his term of service as Alternate Executive Director to Beue Tann (China), October 31, 1968.

Adolfo C. Diz (Argentina) completed his term of service as Executive Director for Argentina, Bolivia, Chile, Ecuador, Paraguay, and Uruguay, October 31, 1968.

Yamandú S. Patron (Uruguay) completed his term of service as Alternate Executive Director to Adolfo C. Diz (Argentina), October 31, 1968.

Paul L. Faber (Guinea) completed his term of service as Executive Director for Burundi, Guinea, Kenya, Liberia, Malawi, Mali, Nigeria, Sierra Leone, the Sudan, Tanzania, Trinidad and Tobago, Uganda, and Zambia, October 31, 1968.

Torben Friis (Denmark) completed his term of service as Executive Director for Denmark, Finland, Iceland, Norway, and Sweden, October 31, 1968.

Jorge González del Valle (Guatemala) completed his term of service as Executive Director for Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Venezuela, October 31, 1968.

S. J. Handfield-Jones (Canada) completed his term of service as Executive Director for Canada, Guyana, Ireland, and Jamaica, October 31, 1968.

Patrick M. Reid (Canada) completed his term of service as Alternate Executive Director to S. J. Handfield-Jones (Canada), October 31, 1968.

Amon Nikoi (Ghana) completed his term of service as Executive Director for Algeria, Ghana, Laos, Libya, Malaysia, Morocco, Singapore, and Tunisia, October 31, 1968.

Eero Asp (Finland) was elected Executive Director by Denmark, Finland, Iceland, Norway, and Sweden, effective November 1, 1968.

Jorma Aranko (Finland), formerly Alternate Executive Director to Torben Friis (Denmark), was appointed Alternate Executive Director to Eero Asp (Finland), effective November 1, 1968. He resigned, effective December 12, 1968.

Luis Escobar (Chile) was elected Executive Director by Argentina, Bolivia, Chile, Ecuador, Paraguay, and Uruguay, effective November 1, 1968.

Ricardo H. Arriazu (Argentina) was appointed Alternate Executive Director to Luis Escobar (Chile), effective November 1, 1968.

Robert Johnstone (Canada) was elected Executive Director by Canada, Guyana, Ireland, and Jamaica, effective November 1, 1968.

Maurice Horgan (Ireland) was appointed Alternate Executive Director to Robert Johnstone (Canada), effective November 1, 1968.

Alexandre Kafka (Brazil) was re-elected Executive Director by Brazil, Colombia, the Dominican Republic, Haiti, Panama, and Peru, effective November 1, 1968.

Eduardo da S. Gomes, Jr. (Brazil) was reappointed Alternate Executive Director to Alexandre Kafka (Brazil), effective November 1, 1968.

Byanti Kharmawan (Indonesia) was elected Executive Director by Algeria, Ghana, Indonesia, Laos, Libya, Malaysia, Morocco, Singapore, and Tunisia, effective November 1, 1968.

Abdoel Hamid (Indonesia) was appointed Alternate Executive Director to Byanti Kharmawan (Indonesia), effective November 1, 1968. He resigned, effective December 4, 1968.

Pieter Lieftinck (Netherlands) was re-elected Executive Director by Cyprus, Israel, the Netherlands, and Yugoslavia, effective November 1, 1968.

H. M. H. A. van der Valk (Netherlands) was reappointed Alternate Executive Director to Pieter Lieftinck (Netherlands), effective November 1, 1968. He resigned, effective November 31, 1968.

Francesco Palamenghi-Crispi (Italy) completed his term of service as Executive Director for Greece, Italy, Portugal, and Spain, October 31, 1968. He was appointed Executive Director by Italy in accordance with Article XII, Section 3(*c*), effective November 1, 1968. He was also designated by Greece, Malta, Portugal, and Spain, which did not participate in the 1968 Regular Election of Executive Directors, to look after their interests in the Fund.

Carlos Bustelo (Spain) was appointed Alternate Executive Director to Francesco Palamenghi-Crispi (Italy), effective November 1, 1968.

Alfredo Phillips O. (Mexico), formerly Alternate Executive Director to Jorge González del Valle (Guatemala), was elected Executive Director by Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Venezuela, effective November 1, 1968.

Marcos A. Sandoval (Venezuela) was appointed Alternate Executive Director to Alfredo Phillips O. (Mexico), effective November 1, 1968.

Ahmed Zaki Saad (United Arab Republic) was re-elected Executive Director by Afghanistan, Ethiopia, Iran, Iraq, Jordan, Kuwait, Lebanon, Pakistan, the Philippines, Saudi Arabia, Somalia, the Syrian Arab Republic, and the United Arab Republic, effective November 1, 1968.

J. O. Stone (Australia) completed his term of service as Executive Director for Australia, New Zealand, and South Africa, October 31, 1968, and was elected Executive Director by Australia, Lesotho, New Zealand, and South Africa, effective November 1, 1968.

Hideo Suzuki (Japan) was re-elected Executive Director by Burma, Ceylon, Japan, Nepal, and Thailand, effective November 1, 1968.

Seitaro Hattori (Japan) was reappointed Alternate Executive Director to Hideo Suzuki (Japan), effective November 1, 1968.

Beue Tann (China) was re-elected Executive Director by China, Korea, and Viet-Nam, effective November 1, 1968.

Nguyên Huu Hanh (Viet-Nam) was appointed Alternate Executive Director to Beue Tann (China), effective November 1, 1968.

André van Campenhout (Belgium) was re-elected Executive Director by Austria, Belgium, Luxembourg, and Turkey, effective November 1, 1968.

Herman Biron (Belgium) was reappointed Alternate Executive Director to André van Campenhout (Belgium), effective November 1, 1968. He resigned, effective November 15, 1968.

Leonard A. Williams (Trinidad and Tobago), formerly Alternate Executive Director to Paul L. Faber (Guinea), was elected Executive Director by Botswana, Burundi, The Gambia, Guinea, Kenya, Liberia, Malawi, Mali, Nigeria, Sierra Leone, the Sudan, Tanzania, Trinidad and Tobago, Uganda, and Zambia, effective November 1, 1968.

Maurice Peter Omwony (Kenya) was appointed Alternate Executive Director to Leonard A. Williams (Trinidad and Tobago), effective November 1, 1968.

Antoine W. Yaméogo (Upper Volta) completed his term of service as Executive Director for Cameroon, the Central African Republic, Chad, Congo (Brazzaville), the Democratic Republic of Congo, Dahomey, Gabon, Ivory Coast, the Malagasy Republic, Mauritania, Niger, Rwanda, Senegal, Togo, and Upper Volta, October 31, 1968, and was elected Executive Director by Cameroon, the Central African Republic, Chad, Congo (Brazzaville), the Democratic Republic of Congo, Dahomey, Gabon, Ivory Coast, the Malagasy Republic, Mauritania, Mauritius, Niger, Rwanda, Senegal, Togo, and Upper Volta, effective November 1, 1968.

Léon M. Rajaobelina (Malagasy Republic) was reappointed Alternate Executive Director to Antoine W. Yaméogo (Upper Volta), effective November 1, 1968.

Jacques Roelandts (Belgium) was appointed Alternate Executive Director to André van Campenhout, effective November 16, 1968.

P. C. Timmerman (Netherlands) was appointed Alternate Executive Director to Pieter Lieftinck (Netherlands), effective December 1, 1968. He resigned, effective January 14, 1969.

Malek Ali Merican (Malaysia) was appointed Alternate Executive Director to Byanti Kharmawan (Indonesia), effective December 5, 1968.

Sigurgeir Jónsson (Iceland) was appointed Alternate Executive Director to Eero Asp (Finland), effective December 13, 1968.

Tom de Vries (Netherlands) was appointed Alternate Executive Director to Pieter Lieftinck (Netherlands), effective January 15, 1969.

Arun K. Banerji (India) resigned as Alternate Executive Director to B. K. Madan (India), effective January 31, 1969.

S. S. Marathe (India) was appointed Alternate Executive Director to B. K. Madan (India), effective February 1, 1969.

The following served at certain times as Temporary Alternate Executive Directors to the Executive Directors indicated during 1968/69:

Temporary Alternate Executive Director	Executive Director for whom Temporary Alternate Served
Ricardo H. Arriazu (Argentina)	Adolfo C. Diz (Argentina)
Abelardo Brugada (Paraguay)	Luis Escobar (Chile)
Jean Carrière (France)	Georges Plescoff (France)
Guillermo Castañeda (Peru)	Alexandre Kafka (Brazil)
J. M. Chona (India)	B. K. Madan (India)
C. L. Chow (China)	Beue Tann (China)
Ian A. Craik (United Kingdom)	E. W. Maude (United Kingdom)
P. D. Fells (Australia)	J. O. Stone (Australia)
Dieter Frommel (Germany)	Guenther Schleiminger (Germany)
J. Grooters (Netherlands)	Pieter Lieftinck (Netherlands)
W. Y. Hui (China)	Beue Tann (China)
Erik Karlsson (Sweden)	Torben Friis (Denmark)
Craig T. MacDonald (Canada)	S. J. Handfield-Jones (Canada)

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

Temporary Alternate Executive Director	Executive Director for whom Temporary Alternate Served
Jean Malaplate (France)	Georges Plescoff (France)
Guillermo Márquez (Venezuela)	Jorge González del Valle (Guatemala)
Riccardo Patti (Italy)	Francesco Palamenghi-Crispi (Italy)
Julián Sáenz Hinojosa (Mexico)	Alfredo Phillips O. (Mexico)
H. G. Schneider (Austria)	André van Campenhout (Belgium)
Hugo Spechar (Bolivia)	Luis Escobar (Chile)
Willy Stoop (Belgium)	André van Campenhout (Belgium)
Tetsuo Tanaka (Japan)	Hideo Suzuki (Japan)
Abderrahman Tazi (Morocco)	Amon Nikoi (Ghana)
P. C. Timmerman (Netherlands)	Pieter Lieftinck (Netherlands)

Appendix IV. Administrative Budget

Letter of Transmittal

August 13, 1969

My dear Mr. Chairman:

The administrative budget of the Fund approved by the Executive Board for the Fiscal Year ending April 30, 1970 is presented herewith, in accordance with Section 20 of the By-Laws. The presentation also shows actual expenditure for the past two fiscal years.

I should like to point out 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/
P.-P. Schweitzer
Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

Appendix IV (*concluded*)

ADMINISTRATIVE BUDGET AS APPROVED BY THE EXECUTIVE BOARD FOR THE FISCAL YEAR ENDING APRIL 30, 1970, COMPARED WITH ACTUAL EXPENDITURE FOR THE FISCAL YEARS 1967/68 and 1968/69

Category of Expenditure	FY 1969/70 Budget	FY 1968/69		FY 1967/68 Actual Expenditure
		Budget	Actual Expenditure	
I. BOARD OF GOVERNORS	$ 662,000	$ 617,000	$ 581,523	$ 835,961
II. EXECUTIVE DIRECTORS				
Salaries	1,596,000	1,449,000	1,447,539	1,324,075
Other compensations and benefits	440,000	446,000	405,476	294,829
Travel	365,000	477,000	393,177	333,076
Total	$ 2,401,000	$ 2,372,000	$ 2,246,192	$ 1,951,980
III. STAFF				
Salaries	11,470,000	10,258,000	10,240,699	8,955,035
Other compensations and benefits	4,465,000	3,976,000	3,923,257	3,080,731
Travel	2,935,000	2,580,000	2,480,911	2,226,981
Total	$18,870,000	$16,814,000	$16,644,867	$14,262,747
IV. SPECIAL SERVICES TO MEMBER COUNTRIES	$ 2,400,000	$ 1,995,000	$ 1,944,966	$ 1,774,917
V. OTHER ADMINISTRATIVE EXPENSES				
Communications	695,000	658,000	655,101	626,683
Office occupancy expenses	712,000	580,000	527,714	478,960
Books and printing	665,000	526,000	507,238	351,673
Supplies and equipment	570,000	610,000	604,486	494,556
Miscellaneous	925,000	778,000	672,429	521,962
Total	$ 3,567,000	$ 3,152,000	$ 2,966,968	$ 2,473,834
TOTAL	$27,900,000	$24,950,000	$24,384,516	$21,299,439

Appendix V. Comparative Statement of Income and Expenditure

	Year Ended Apr. 30, 1967	Year Ended Apr. 30, 1968	Year Ended Apr. 30, 1969
INCOME [1]			
Service charges			
Received in gold	$ 2,488,125	$ 4,843,963	$ 7,028,772
Received in members' currencies	2,818,250	1,897,287	7,165,482
Total	$ 5,306,375	$ 6,741,250	$ 14,194,254
Charges on Fund's holdings of members' currencies and securities in excess of quotas			
Received in gold	$19,599,214	$21,076,076	$ 23,700,696
Received in members' currencies	62,925,472	60,952,605	83,751,450
Total	$82,524,686	$82,028,681	$107,452,146
Other operational income	$ 1,780,394	$ 663,353	$ 432,853
Miscellaneous income	7,101	9,472	11,267
TOTAL INCOME	$89,618,556	$89,442,756	$122,090,520
EXPENDITURE			
Administrative	$18,082,335	$21,299,439	$ 24,384,516
Operational	17,804,327	11,945,077	22,335,693
Fixed property	3,305,352	454,515	4,532,489
TOTAL EXPENDITURE	$39,192,014	$33,699,031	$ 51,252,698
NET INCOME	$50,426,542	$55,743,725	$ 70,837,822

[1] Excludes income from investments transferred to Special Reserve for the fiscal years ended April 30, as follows:

1967	$40,959,870
1968	39,750,857
1969	46,589,710

Appendix VI. Financial Statements of International Monetary Fund and Staff Retirement Fund

Letter of Transmittal

August 13, 1969

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, 1969, 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, Costa Rica, Ethiopia and France nominated auditors to serve on this Committee. They respectively nominated Mr. Claudio Guerrero, Deputy Director, Accounting Department, Central Bank of Costa Rica; Mr. Teferra Liben, Chief Auditor, Inland Revenue Department of Ethiopia; and Mr. André Valls, Inspecteur des Finances, Ministry of Economy and Finance, France. The Auditors thus nominated were confirmed by the Executive Directors.

It will be noted that, in the period under review, ordinary income amounted to $122,090,520, and expenditure amounted to $51,252,698, resulting in a net income of $70,837,822, which has been transferred provisionally to General Reserve pending action by the Board of Governors. In addition, income of $46,589,710 from the Fund's investment program has been transferred to the Special Reserve.

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

Yours sincerely,
/s/
P.-P. Schweitzer
Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

Memorandum by the Audit Committee

June 27, 1969

To the Managing Director
and the Executive Directors
International Monetary Fund

The report of the Audit Committee, dated June 27, 1969, 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, 1969, includes the following paragraphs relating to the scope of the audit and the audit certificate given:

Scope of the Audit

The audit was conducted in accordance with the requirements of Section 20(b) of the By-Laws that the audit 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 considering the authority for financial transactions, reference was made to the Articles of Agreement, the By-Laws and Rules and Regulations of the Fund, the resolutions of the Board of Governors, the minutes of the Executive Board and the General Administrative Orders of the Fund. The Committee applied such tests to the accounting and other financial records as it considered necessary to establish the adequacy of the system of accounting and internal control. In determining the Committee's program of test examination, consideration was given to the work carried out by the Internal Auditor, as reported by him, and to the standard of his work as observed by the Committee.

Audit Certificate

We have examined the Balance Sheet of the International Monetary Fund as at April 30, 1969, the Statement of Income and Expenditure and the Statement of Reserves for the year then ended, and the schedules related to these statements. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the Balance Sheet and 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, 1969, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Audit Committee:

/s/ Teferra Liben, Chairman (Ethiopia)

/s/ Claudio Guerrero (Costa Rica)

/s/ André Valls (France)

Appendix VI (*continued*)
Exhibit A

BALANCE

as at April

Values expressed in U.S. dollars on the

ASSETS

GOLD ACCOUNT			
Gold with depositories (See Note 1)			
(73,458,620.708 fine ounces at $35 per ounce)			
Bars	$2,296,861,786		
General deposits	274,189,938	$2,571,051,724	
Investments (See Note 2)			
U.S. Government securities maturing within 12 months at cost (face amount $835,910,000)	$799,911,912		
Funds awaiting investment	79,599	799,991,511	$ 3,371,043,235
CURRENCIES AND SECURITIES (See Note 3)			
With depositories			
Currencies		$ 3,775,135,732	
Securities		15,026,661,187	18,801,796,919
(nonnegotiable, noninterest-bearing demand obligations, payable at face value by members in their currencies)			
SUBSCRIPTIONS TO CAPITAL—RECEIVABLE			
Balances of original quotas—not due		$746,680,687	
Balances of increases in quotas—not due (Contra)		22,730,000	769,410,687
OTHER ASSETS (See Note 4)			48,510,669
TOTAL ASSETS			$22,990,761,510

NOTES:

1. Excludes 40,216.779 fine ounces held under earmark for members.
2. 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.
3. Total outstanding drawings of members amount to $4,678 million. Currency holdings in excess of members' quotas subject to Fund charges amount to $3,292 million.
4. The assets and liabilities of the Staff Retirement Fund are not included in this Balance Sheet.
5. Represents currencies borrowed under Article VII, Section 2(i), of the Articles of Agreement.
6. The charge for a stand-by arrangement is credited against the service charge for funds drawn under that arrangement which raise the Fund's holdings of currency above 100 per cent of the member's quota. A member that cancels a stand-by arrangement will be paid a refund, which will be the prorated portion of the remaining stand-by charge.

SHEET

30, 1969

basis of established parities or provisional rates

CAPITAL, RESERVES, AND LIABILITIES

CAPITAL		
Subscriptions of members		$21,230,900,000
RESERVES (Exhibit C)		
Special reserve	$309,482,267	
General reserve	324,646,839	634,129,106
SUBSCRIPTIONS IN RESPECT OF INCREASES IN QUOTAS CONSENTED TO BUT NOT YET EFFECTIVE		
Balances not due (Contra)	$22,730,000	
Partial payment	370,000	23,100,000
INDEBTEDNESS (See Note 5)		
To Participants under General Arrangements to Borrow	$846,000,000	
Other	250,000,000	1,096,000,000
PROVISION FOR POTENTIAL REFUNDS OF STAND-BY CHARGES (See Note 6)		859,972
OTHER LIABILITIES (See Note 4)		5,772,432
TOTAL CAPITAL, RESERVES, AND LIABILITIES		$22,990,761,510

/s/ WALTER O. HABERMEIER
Treasurer

/s/ P.-P. SCHWEITZER
Managing Director

Appendix VI (*continued*)
Exhibit B

STATEMENT OF INCOME AND EXPENDITURE

for the year ended April 30, 1969

INCOME

Operational charges		$ 14,627,107	
Charges on balances in excess of quotas		107,452,146	
Other		11,267	
TOTAL INCOME (See Note 1)			$122,090,520

EXPENDITURE

Administrative expenditure			
Board of Governors		$ 581,523	
Executive Directors			
Salaries and expense allowances	$1,447,539		
Other compensations and benefits	405,476		
Travel	393,177	2,246,192	
Staff			
Salaries	$10,240,699		
Other compensations and benefits	3,923,257		
Travel	2,480,911	16,644,867	
Special services to member countries		1,944,966	
Other administrative expenses			
Communications	$655,101		
Office occupancy expenses	527,714		
Books and printing (See Note 2)	507,238		
Supplies and equipment	604,486		
Miscellaneous (See Note 3)	672,429	2,966,968	
Total administrative expenditure		$24,384,516	
Operational expenditure			
Transfer charges on amounts borrowed under General Arrangements to Borrow	$ 3,705,000		
Interest on indebtedness			
Under General Arrangements to Borrow	14,872,792		
Other	3,750,000		
Gold handling and sundry other costs (net)	7,901		
Total operational expenditure		22,335,693	
Fixed property expenditure		4,532,489	
TOTAL EXPENDITURE			51,252,698
NET INCOME (Transferred provisionally to General Reserve pending action by Board of Governors) (Exhibit C)			$ 70,837,822

NOTES:

1. Excludes income from investments amounting to $46,589,710 transferred to Special Reserve (Exhibit C).
2. After deduction of $78,384 for sales of Fund's publications.
3. After deduction of $299,195 for food service sales.

Statement of Reserves

for the year ended April 30, 1969

Special Reserve (See Note 1)		
Balance, April 30, 1968	$262,892,557	
Add		
Income from investments in U.S. Government securities	46,589,710	
Balance, April 30, 1969		$309,482,267
General Reserve		
Balance, April 30, 1968 (See Note 2)	$291,267,499	
Deduct		
Distribution of net income for fiscal year 1968 in accordance with Board of Governors' Resolution No. 23-12	37,458,482	
	$253,809,017	
Add		
Net income (Exhibit B), transferred provisionally pending action by Board of Governors	70,837,822	
Balance, April 30, 1969		324,646,839
Total Reserves (per Balance Sheet)		$634,129,106

Notes:
1. Consists of income from investments in U.S. Government securities from November 1, 1957.
2. Includes net income of $55,743,725 for the fiscal year ended April 30, 1968 transferred provisionally to the General Reserve pending action by the Board of Governors. In accordance with Board of Governors' Resolution No. 23-12, $18,285,243 was allocated to the General Reserve and $37,458,482 was distributed to members pursuant to Article XII, Section 6(b).

Staff Retirement Fund

Memorandum by the Audit Committee

June 27, 1969

To the Managing Director
and the Executive Directors
International Monetary Fund

The report of the Audit Committee, dated June 27, 1969, 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, 1969, includes the following paragraphs relating to the scope of the audit conducted, and the audit certificate given with respect to the Staff Retirement Fund:

Scope of the Audit

The Audit Committee has examined the separate accounts and financial statements relating to the Staff Retirement Fund for the year ended April 30, 1969. 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 of the Internal Auditor, whose report to the Committee showed that a detailed examination had been made of the participants' accounts.

Audit Certificate

In our opinion, the Balance Sheet, Statement of Source and Application of Funds, and the related Schedules of Participants' Account, Accumulation Account, Retirement Reserve Account and Reserve Against Investments present fairly the financial position of the Staff Retirement Fund at April 30, 1969 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Audit Committee:

/s/ Teferra Liben, Chairman (Ethiopia)

/s/ Claudio Guerrero (Costa Rica)

/s/ André Valls (France)

Staff Retirement Fund

Balance Sheet
as at April 30, 1969

Assets

Cash at Banks			$ 115,712
Investments			
Bonds at amortized cost			
United States Government (including de facto guaranteed)	$6,244,341		
(*market value, $5,045,768*)			
International Bank for Reconstruction and Development and Inter-American Development Bank	3,686,552		
(*market value, $2,984,465*)			
Corporate	5,130,253		
(*market value, $4,177,758*)			
Corporate Convertible	30,000	$15,091,146	
(*market value, $36,863*)			
Stocks, at cost			
Preferred Convertible	$ 19,212		
(*market value, $38,735*)			
Common	13,256,228	13,275,440	28,366,586
(*market value, $17,272,479*)			
Accrued Interest on Bonds and Contributions from Participants and Employer			243,346
Total Assets			$28,725,644

Liabilities and Reserves

Participants' Account	$ 5,713,271
Accumulation Account	17,738,832
Retirement Reserve Account	3,925,194
Reserve Against Investments	1,347,659
Accounts Payable	688
Total Liabilities and Reserves	$28,725,644

/s/ Walter O. Habermeier
Treasurer

/s/ P.-P. Schweitzer
Managing Director

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Numbers refer to pages. An asterisk (*) denotes a table, a dagger (†) denotes a chart.