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1957

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September 24, 1957

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C.

ANNUAL REPORT

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INTERNATIONAL MONETARY FUND

ANNUAL REPORT OF THE EXECUTIVE DIRECTORS FOR THE FISCAL YEAR ENDED APRIL 30, 1957

WASHINGTON, D.C.

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INTERNATIONAL MONETARY FUND

Per Jacobsson
Managing Director and Chairman of the Executive Board

H. Merle Cochran
Deputy Managing Director

Executive Directors	Alternate Executive Directors
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Andre van Campenhout	Maurice Toussaint
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Octavio Paranagua	Helvecio Xavier Lopes
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Torben Friis	Jouko J. Voutilainen
Jorge Sol	Jorge Hazera
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Louis Rasminsky	Alan B. Hockin

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Gabriel Ferras	Director, European Department
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J. E. S. Fawcett	General Counsel
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E. M. Bernstein	Director, Research and Statistics Department
Jorge Del Canto	Director, Western Hemisphere Department
Phillip Thorson	Director, Office of Administration
Roman L. Horne	Secretary
Y. C. Koo	Treasurer
J. V. Mladek	Director, European Office (Paris)

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LETTER OF TRANSMITTAL
TO THE BOARD OF GOVERNORS

June 28, 1957

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, 1957. As in previous years, the Report also includes references to developments that occurred and information that has become available between the end of the fiscal year and the date of this letter of transmittal.

Yours sincerely,

/s/

PER JACOBSSON

Chairman of the Executive Board

Chairman of the Board of Governors

International Monetary Fund

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I

Current International Financial Position

The Struggle for Stability

BOOM conditions continued throughout 1956, sustained by an undercurrent of private business investment sufficiently strong to compensate for such weaknesses as appeared in some individual sectors. Any apprehensions which might have been entertained in the early months of the year that the upward trend of business was soon to be reversed were thus shown to be without foundation. Nearly everywhere the intensity of the demand for capital increased, accompanied by a great volume of economic activity which, with only brief interruptions, has continued throughout the entire postwar period. Many of the economic and financial problems of that period have had their origin in this great demand for capital, and the means taken to satisfy it, which have not always been desirable or effective and have sometimes endangered balance of payments equilibrium and internal monetary stability.

In the years immediately following World War II, the most urgent problem was that of rebuilding the economies that had been devastated during the war. Even when economic life had not been subjected to widespread physical destruction, the maintenance of existing assets had often had to be neglected, and for some time production in Western Europe and the Far East was even less than it had been before the war. In the countries of these regions the resources which could be made available in the form of savings were not adequate to provide all the capital needed to raise production within a reasonable period to a more satisfactory level. For many of these countries the gap was filled by generous aid from abroad—and thus the foundations were laid for continued dynamic development, such as has never before been seen after any great war.

Even after reconstruction in most sectors was completed, there was a further great expansion of activity, and the effort to raise the output of goods and services well above prewar levels brought with it a continued pressing need for capital. In 1956 industrial production in Western Europe was about 75 per cent greater than before the war; during the three preceding years, it had been growing at an average annual rate of about 8 per cent. This large and growing volume of production would not have been possible without substantial increases in business investment, which expanded to a level considerably higher than that of the depressed years of the 1930's. In the United Kingdom, for instance, gross fixed capital formation has been nearly 50 per cent greater than immediately before World War II; and in most other Western European countries there was also a substantial expansion. In the United States, postwar private domestic investment has risen even more, to around three times the prewar volume.

The causes of the continued pressing demand for capital are complex. New inventions have led not only to the introduction of new techniques in production, but to an almost complete transformation in the methods of manufacturing in many branches of industry; there have also been important changes in the methods used in agriculture and in certain other sectors of primary production. An outstanding feature in the development of recent years has been the persistent spirit of optimism which has characterized the business world in the planning of new industrial investment. The growth in population, which has also expanded the labor force, has been another factor of great importance. In 1956 the population of Western Europe was about 15 per cent, and the labor force about 20 per cent, greater than before the war. The population and the total labor force of the United States at the end of 1956 were nearly 30 per cent greater than in 1938. To the great capital requirements for expanding industrial and agricultural production and for power, transport, and communication facilities, there has been added an insistent demand for increased public and private investment in social services and amenities. Investment in housing is far greater than before the war, not only because of the increase in population, but also because of higher housing standards. And large amounts of capital are being used for investment in hospitals, schools, and public roads and buildings. Moreover, there is no indication that in the industrial countries as a whole the intensity of these demands is diminishing.

In the less developed countries, the urgency of the need for capital is no less conspicuous than in the highly industrialized countries, when account is taken of the volume of investment required to raise the current low standard of living of a large and often rapidly growing population. It is, indeed, this low level of income which often makes it so hard in these countries to obtain from the domestic economy an adequate flow of savings. At the same time, the pressure for capital in North America and Europe adds to the difficulties of attracting foreign investment on a strictly business basis. Moreover, in some countries, restrictions on the remittance of profits and amortization, associated with recurring exchange difficulties and other uncertainties, make private foreign investment appear to be a hazardous business. The less developed countries have come increasingly to look for the satisfaction of their capital demands to loans and grants from other governments, to long-term loans from the International Bank for Reconstruction and Development, or to short-term or medium-term credit from the suppliers of their capital imports.

The rate of saving in most countries has kept up very well in the postwar period, and has often exceeded previous records, even in relation to the increased national income. It is not surprising, however, that with such vast claims as have been made upon the national product the supply of capital has been unable to grow as rapidly as would be necessary if all the demands for investment were to be satisfied. Attempts to meet such deficiencies by the creation of bank credit result in a persistent inflation, with rising prices and with risks of recurring difficulties in the balance of payments, which, in their turn, encourage the use of restrictions, discrimination, and other undesirable exchange policies. In 1956 indeed there was no further significant extension of restrictions, but the inflation which has been generated in many parts of the world in the way described above is still a problem of the first importance.

On the other hand, it is noteworthy that in some European countries, and especially in those which within a single generation had passed through two periods of unbounded inflation, the public was so determined to avoid any similar experience that it was willing to support, even in the years immediately following the war, very harsh measures which circumscribed the issue of new money and thus checked the rise of prices. But in a number of other countries—and they probably formed the majority—the prevailing mood at the end of the war was different. Influenced by the memories of the devastating depression of the 1930's, public opinion in those countries fought shy of any policies that might be thought to carry with them a risk of widespread unemployment. It has, however, gradually come to be understood that the desire to avoid another depression is not by itself an adequate guide for policy in the postwar world. The depression which so many had prophesied for the postwar decade has not materialized; this experience has made it easier to take a more balanced view of the proper relations between monetary stability and the maintenance of high and stable levels of employment, and in these countries, too, there is increasing understanding of the disruptive effects of inflation.

Once the Korean boom had been effectively checked, and those sensitive commodity prices which had been most affected by the boom had fallen to a level some 10 per cent above that prevailing before the outbreak of the conflict, the general level of commodity prices in many countries—in Europe, in the Americas, in Asia, and in Australia and Africa—remained relatively stable for some three to four years. The excessive liquidity which had been generated during the war had by that time been almost fully absorbed so that more normal relations had been established between the money supply and gross national product.

The reason for the interruption in 1955 and 1956 of this period of stability is to be found in the reappearance of those economic trends which are typical of a peacetime boom. This, together with a rising level of earnings and an often expanding volume of government expenditure—due as a rule less to armaments than to other purposes, and frequently to economic development—produced a state of affairs in which overspending in relation to available resources was an outstanding characteristic.

The measures taken to cope with the resulting inflationary pressures were sometimes inadequate, or they were not applied sufficiently early to provide the checks on overspending which were needed; most countries have been embarrassed by rising prices and some also by growing balance of payments difficulties. World trade continued to expand, and until well into the second half of 1956 the changes in gold and foreign exchange reserves were broadly a continuation of the trend of previous years.

Boom conditions still prevailed in the second half of 1956 when the Suez Canal crisis introduced a new disturbing element. A good test of the firmness and soundness of any economy is the way in which it reacts to crisis conditions. Judged by this criterion, the behavior of many countries in the face of the strains and stresses of the 1956–57 disturbance was generally encouraging. There was evidence of much more basic strength than could have been expected a few years earlier. Difficult internal adjustments were made with considerable success, and it proved possible—in some cases with assistance from the Fund—to absorb the shock imposed by temporary balance of payments disequilibrium without any significant tendency to revive the restrictive practices which had been gradually relaxed or abolished during the last ten years. It is, therefore, reasonable to expect that, despite the tribulations of the past year, the movement toward the re-establishment of a fully multilateral world trading system will at no distant date again acquire increased momentum.

The experience of the past year also justifies the expectation that the Fund will be able to play an effective part in this movement. The great expansion in the volume of its financial transactions, which is recorded in detail later in this Report, has shown both that the Fund can act promptly and efficiently when its members have a need for such financial support as it is in accordance with the principles of the Fund to supply, and that its members in general are able to associate the financial backing of the Fund with such effective monetary and fiscal policies as they themselves are prepared to adopt in order to ensure or restore balance of payments equilibrium.

In all countries the maintenance or re-establishment of internal stability continues to be an essential condition for the attainment both of this and of other legitimate economic objectives. Inflationary pressures are commonly associated today with balance of payments deficits; they are often the result of efforts to push forward too rapidly with economic development. The concern which is widely felt for progress and development must command general approval. But if development is to proceed smoothly, positive steps are needed to encourage an increase in savings and the most effective use of savings in production. For this purpose, the elimination of the risks of inflation by effective credit and fiscal policies has particular importance, since savings can be expected to respond to the protection which monetary stability would ensure for any amounts saved. If inflationary development finance leads to substantial drawings upon monetary reserves, the rate of expansion will indeed have to be at least temporarily reduced in many cases. To limit this reduction, and if possible to make more capital available for domestic needs—and in some countries also for foreign investment—it will be necessary in many countries to reduce the share of the national income devoted to current government expenditure, and to accept a slower rate of increase in private consumption.

In quite a number of countries today there is great unwillingness to accept higher interest rates. It should be understood, however, that in an economy free from inflation, and with institutional facilities adequate to ensure the conversion of savings into investment, current interest rates will tend to be a true indicator of the degree of scarcity of capital—a scarcity which is now more pronounced than it was in the low interest period of the 1930's. With the relative scarcity value of capital thus truly measured by the level of interest rates, the available supplies of capital would tend to be invested in closer conformity with basic economic criteria.

Attention has been drawn in earlier Annual Reports to other long-range factors which hamper the efforts of many countries to establish a strong balance of payments position. To emphasize the importance of monetary stability is not to be taken as implying that these influences have lost any of their importance. Last year, there were again several countries with difficult balance of payments problems that originated in the chronic instability of the prices of some primary products. No satisfactory means has yet been discovered for solving the problems of the accumulation of agricultural surpluses, which are largely the result of the widely practiced policies of subsidizing agricultural production, and the disposal of which tends as a rule to affect adversely the current and prospective foreign exchange earnings of a number of countries. Progress is also slow in building effective machinery for lowering tariff barriers and removing other impediments to trade that still seriously limit the earning capacity of the exporters of many countries.

In this connection, reference must also be made to another circumstance to which attention has been drawn in earlier Annual Reports, namely, the responsibility not only of deficit countries but also of surplus countries to contribute to the maintenance of general monetary equilibrium. The domestic financial policies of countries with large and persistent surpluses in their balances of payments will also necessarily have an effect upon the economies of other countries. It is proper that account should be taken of the whole resulting complex situation. Therefore, countries in a strong surplus position, whilst applying such anti-inflationary policies as are appropriate to their circumstances, should seek not to apply them in such a way as to make it more difficult for other countries to correct their positions. They should, accordingly, pay special attention to the contribution which they can make to the removal of both their own difficulties and those of other countries through such measures as the reduction of trade barriers and the encouragement of capital exports. In this latter connection, the expenditure of the U.S. Government outside the United States has been an equilibrating factor of first-rate importance. But while the true evaluation of the economic and monetary trends of recent years cannot be made without due weight being given to its useful effects, it would be rash to take for granted its indefinite continuance on the scale of recent years.

The speed of the movement which may reasonably be expected toward a sound multilateral trading system depends to an important extent on all the considerations which determine the availability of capital, as well as on the progress made in solving the other problems briefly noted above, but none of these problems should be regarded as a pretext for delaying the adoption of the indispensable policy measures for which, within each country, the responsibility rests with the government and the central bank.

Balance of Payments Trends in 1956

During the three years between the end of 1952, when the Korean crisis had, for all practical purposes, spent its force, and the end of 1955, the official gold and dollar reserves of countries outside the United States steadily increased, though at a gradually declining rate, which moved from $2.45 billion in 1953 to $1.43 billion in 1955. These annual increases were fairly widely distributed among individual countries. In 1956, the net addition to the gold and dollar holdings of countries outside the United States was $1.5 billion, but this was to a considerable extent a result of the support given to certain countries by access to the Fund's resources. Only a small number of countries added substantially to their reserves in 1956, and without the support given by the Fund, the distribution of the increase would have been still more lopsided.

The U.S. merchandise trade surplus with the rest of the world, which had increased steadily from $1.3 billion in 1953 to $2.7 billion in 1955, increased further in 1956 to $4.5 billion. On the other hand, there was a continued expansion of U.S. Government spending abroad, and net exports of U.S. private capital increased from $1.2 billion in 1955 to $3 billion in 1956. These were important factors in the maintenance of international balance, the net result of these and other transactions being that about $550 million accrued to official holders in other countries from their transactions with the United States, compared with more than $1 billion in 1955. During the year the gold holdings of the United States increased by $306 million. These holdings had declined in each of the three preceding years, and most of the increase in 1956 was accounted for by purchases of gold from the Fund, which amounted to $200 million.

The net increase in 1956 of about $1.5 billion in the official gold and dollar reserves of countries outside the United States was the combined result of several causes, of which three stand out as having special significance. The value of gold production for all countries, except the U.S.S.R., Mainland China, and other countries closely associated with them—for which statistics are not available—is estimated to have been about $985 million in 1956. Much of this gold was used for industrial or hoarding purposes, but, including some sales of gold by the U.S.S.R., the total amount of new gold which was added to monetary reserves in 1956 in countries other than the United States was about $350 million. A net amount of some $580 million was obtained from the Fund, and these two items, together with the $550 million which became available to other countries from their transactions with the United States, account for the increase in the gold and dollar reserves of countries outside the United States.

The increase in the gold and dollar reserves of the Federal Republic of Germany in 1956 was about $1 billion, a figure which greatly exceeded the aggregate net amount accruing in that year to the reserves of the industrial countries of Europe. By the end of 1956, West German reserves of gold, dollars, and other currencies amounted to $4.3 billion, a situation which was the result of a large trade surplus and of leads and lags in making current payments. A fuller analysis of the causes of the persistent increase in West German reserves, which has gone on practically without interruption since 1952, and which has of course affected the payments positions of other countries, will be found in other sections of this Report. Here it may be pointed out that the accumulation of such reserves forms part of a country's investment. In this particular instance, the savings of the West German economy involved in this increase in reserves are broadly related to the net national savings of public authorities partly resulting from the fact that defense appropriations were not actually spent but were accumulated with the central bank.

Reserve developments in other countries varied widely, in response both to shifting external market conditions and to fluctuations in the relative intensity of domestic and external demand. The Suez Canal conflict added to the dollar commitments of a number of countries, and reduced the foreign exchange earnings of the oil producing countries in the Middle East. In general, however, its effects upon world trading conditions were less serious than had been expected. Its most important economic consequences were the stimulus which it gave to the movement of short-term funds, and in particular the crisis of confidence, which put pressure on the sterling exchange rate and led to the U.K. drawing and stand-by arrangement with the Fund. The current account surplus of the United Kingdom for 1956 as a whole was £233 million, but there was a considerable outflow of short-term capital in the second half, and particularly in the fourth quarter, of the year. After drawing $561.5 million from the Fund, U.K. gold and dollar reserves at the end of 1956 were practically the same as they had been at the beginning of the year.

In France, there was a large current account deficit in 1956 and reserves declined by nearly $800 million. Under the conditions of a pronounced boom, industry continued to expand at a rapid rate during the year; at the same time, an increasing part of the private savings of the economy was absorbed by expanding government expenditure that was not covered by corresponding increases in government revenue, so that other activities, including house construction, had to be financed to a larger extent by recourse to bank credit. Part of the decline in French reserves was the result of leads and lags in current payments and of increases in the exchange holdings of banks.

While the reserve movements of the three European countries just mentioned attracted most attention during 1956, changes in the reserve positions of several other countries were also of importance. In Europe there were considerable declines in the reserves of Finland

and the Netherlands, and both countries had to face the problem of taking appropriate remedial steps. Austria was able to register a gain in reserves, profiting from the introduction in 1955–56 of rather far-reaching measures of fiscal and credit policy.

In other continents, also, the movements of reserves—as reflected in balance of payments positions—varied widely in both magnitude and direction. The variations were closely connected with differences in the rate of expansion, with the degree of success attained in keeping inflationary forces under control, and with the effects of movements of staple export prices. While in many countries the stimulus given by the government continued to be an important factor in economic expansion, the permeating influence of the world-wide boom was an overriding factor that made itself felt everywhere. Thus in India, alongside the government expenditure under the Five Year Plan, there was also a considerable increase in private investment in 1956, which contributed to the mounting import figures. The Indian current deficit in 1956 exceeded $400 million, and early in 1957 India was given access to the Fund's resources to the extent of $200 million. In Japan, under the strain of an intense industrial expansion, mainly on private account, the payments surplus which had been realized in 1955 dwindled in the course of 1956 and was followed by a deficit in early 1957. In Canada, too, private investment has been the most active factor of expansion; the possibility of developing natural resources and setting up new industries attracted a considerable flow of foreign capital to Canada, which more than offset the deterioration on current account.

Among the other countries whose reserves continued to increase, or whose balance of payments positions showed substantial improvement in 1956, are Argentina, Australia, Mexico, and Venezuela. Notwithstanding the burdens imposed by efforts to reconstruct its economy and improve its trading position, the current account deficit of Argentina was smaller than in 1955, though there were still considerable difficulties to be overcome. Australia, with its policy of rapid development and continuous large-scale immigration, is particularly susceptible to balance of payments pressures. But in contrast to 1955, when there was a large deficit, Australia had in 1956 a balance of payments surplus of $117 million, as the result of favorable export market conditions and of the application of monetary and fiscal measures which made possible the relaxation of some import restrictions. In Venezuela, with its steadily expanding oil exports and considerable direct investment of U.S. capital, there was again a substantial increase in exchange reserves. Mexico, too, strengthened its reserve position; under the influence of the measures taken during the previous two years, domestic savings rose, there was a substantial inflow of foreign capital, and production increased.

Progress Toward the Fund's Objectives

Although there are still important unsolved problems in the fields of public policy with which the Fund is particularly concerned, considerable progress has been made in dealing with these issues. The authorities responsible for determining policy have become increasingly aware of the importance of monetary stability as part of the primary objectives which they wish to pursue. They realize more and more that economic expansion with a high level of employment cannot for long be achieved if it is not sustained by confidence in the monetary unit and developed under a price and cost system which is free from artificial distortions impairing the production and distribution of goods and services. The public itself is also now more concerned with the danger of inflation, and shows greater willingness to accept the consequences of the policies which are necessary if monetary stability is to be ensured. The adoption of policies of monetary restraint, however, sometimes encounters opposition, particularly in those sectors of the economy likely to be most immediately affected, and a high degree of understanding is required if these policies are to obtain the broad public support that is needed.

While for some time after the war it was rather widely believed that many of the so-called classical methods of credit policy—for example, those relating to changes in interest rates—no longer had the same range of application as before, it is now generally recognized that, even in these respects, the experience of the past has useful lessons to offer. However, institutions and practices which have once served admirably are certain to require adjustment and adaptation from time to time if, as is very likely to be the case, the background out of which they originally grew has in the meantime undergone important changes. It is a matter for satisfaction that in several countries the intention has been announced of undertaking thorough investigations of the workings of the credit system in the modern world, with a view to a more systematic exposition of basic principles in the light of the experience of recent years. Even if the results that will thus be obtained will be immediately applicable only to the countries in which the investigations have taken place, such an exposition will no doubt also prove useful from a more general point of view.

Much of the Fund's practical work consists in the adaptation of general policies and principles to the varying circumstances and requirements of its members. By the ever closer contact that is developing between the Fund and its members, much experience has been gathered, which it is hoped will contribute to the gradual solution of monetary and exchange problems. In the state of tension characteristic of the boom conditions in which many countries find themselves today, there is some hesitation about entering into formal undertakings which the authorities fear might limit their freedom of action in the international financial field. At the same time, the increased attention given to the monetary aspects of current problems, both by the authorities and by the general public, gives ground for confidence that monetary stability will be more effectively preserved than in the past, and that a steady movement toward a fully multilateral system of international payments will be maintained.

II

World Payments Situation in 1956

Main Trends in World Trade

WORLD industrial production (excluding countries of the Soviet area) rose between 1955 and 1956 by about 4½ per cent. Limitations of capacity and of labor supply made it almost inevitable that the rate of growth of 10 per cent from 1954 to 1955, when the United States and some other countries were recovering from the minor setback of 1954, would not be maintained. The rate in 1956 was in fact somewhat less than the average for the past six years. In some countries, demand was pressing against the ceiling of physical resources; elsewhere, before the limits of physical resources were actually reached, limitations were imposed on demand with a view to checking an overrapid increase in prices and wages or to correcting a deficit in the balance of payments.

The slackening in industrial growth was most pronounced in the United Kingdom, where there was no expansion of output but a considerable increase in productive capacity, and in the United States, where output rose by 3 per cent. In continental Europe, production rose by about 8 per cent, a relatively small decline from the previous year's high rate of 11 per cent. In Japan, with ample labor supply and booming domestic and export demand, the rate of industrial expansion advanced sharply; and in some of the primary producing countries which have embarked upon programs of industrial development, e.g., India, the rate of growth was also higher than in 1955.

The expansion of world trade has tended in the last few years to exceed the growth of industrial production, and in 1956 it was again very considerable. From 1955 to 1956 the volume of world exports rose by some 8 per cent, against 10 per cent from 1954 to 1955. The reasons for the rise in the ratio of trade to production can best be seen when the trade between particular categories of country is considered. In the last six years, the volume of trade between the industrial countries has been rising more rapidly than the industrial production of these countries. This is to be explained mainly by reference to the progressive liberalization of trade by the OEEC countries—a movement which has affected both intra-OEEC trade and imports from the United States—and to the gradual penetration of the U.S. market by the exports of other industrial countries. From 1955 to 1956, the volume of trade between the industrial countries increased by 12 per cent, or 7–8 per cent more than industrial production. In part this was attributable to increased U.S. sales of fuels and foodstuffs, but, even when U.S. exports of nonmanufactured goods are excluded, trade between the industrial countries shows a substantial increase.

The imports of industrial countries from primary producing countries, on the other hand, rose during the six-year period 1950–56 slightly less than in proportion to industrial production. Raw material imports were affected by the increasing importance of engineering relative to textile production and by the growing use of synthetic raw materials; the secular growth of food consumption is slower than that of industrial production, and the need of the industrial countries for imports was further reduced by the recovery of European agriculture. From 1955 to 1956, however, industrial countries' imports from primary producing countries rose slightly more than industrial production. This was accounted for mainly by sharply rising imports of crude oil, a considerable increase in U.S. purchases of newsprint from Canada, and some U.S. restocking of coffee.

Exports from industrial countries to primary producing countries are determined largely by the export earnings of the latter and any other foreign exchange receipts that may accrue to them. Because of

TABLE 1. VALUE OF WORLD TRADE, 1953-56[1]

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

	1953	1954	1955	1956	Percentage Increase 1954 to 1955	Percentage Increase 1955 to 1956
World exports f.o.b.[2]	70.4	74.5	82.1	90.6	10	10
Exports of industrial countries[3]	38.5	41.7	47.2	53.9	13	14
Exports of nonindustrial countries	31.9	32.8	34.9	36.8	6	5
Trade of industrial countries[3]						
With each other						
Total	16.1	17.8	21.1	24.5	19	16
Between industrial OEEC countries	10.5	11.9	14.1	15.7	18	12
Exports from industrial OEEC countries to U. S.	2.0	1.7	2.1	2.6	22	23
Exports from U. S. to industrial OEEC countries	2.5	2.9	3.5	4.4	21	25
With nonindustrial countries[4]						
Exports to nonindustrial countries	21.8	23.3	25.3	28.4	9	12
Imports f.o.b. from nonindustrial countries[5]	23.1	22.8	24.1	25.5	6	6
With Soviet area[6]						
Exports to Soviet area	0.56	0.68	0.80	0.93	18	15
Imports f.o.b. from Soviet area[5]	0.61	0.68	0.87	1.02	27	18

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

[1] Excluding U. S. special category exports.

[2] Excluding exports of the Soviet area.

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

[4] Not including trade with countries of the Soviet area.

[5] F.o.b. values estimated by reducing c.i.f. import values by 12, 13, 16, and 18 per cent for 1953, 1954, 1955, and 1956, respectively.

[6] Not including Mainland China.

increased receipts from private investment and government aid, the imports of primary producing countries from industrial countries grew rather more rapidly from 1950 to 1956 than their exports to these countries. From 1955 to 1956, the volume of these imports rose by 8 or 9 per cent, largely as a result of increased receipts from U.S. private investment.

World export prices advanced by about 2–3 per cent between 1955 and 1956, the first significant rise since 1952. While there was in general little change in the average export prices of primary producers, the export prices of industrial countries rose by some 3–4 per cent. Though there were some price increases in the primary producing countries, their effect upon the export sector was less than in industrial countries. Owing to a rise in ocean freights, world import prices rose slightly more than export prices.

These changes in volume and prices in international trade combined to produce the changes in the interarea pattern of world trade shown in Table 1. The value of the exports of industrial countries increased from 1955 to 1956 much more than that of nonindustrial countries. This is accounted for in part by the sharp advance in the value of trade between industrial countries and particularly of trade between Europe and the United States. The value of exports from industrial to nonindustrial countries, however, also rose much more than that of exports in the opposite direction. Most of the resulting increase from 1955 to 1956 in the trade surplus of the industrial countries in relation to the nonindustrial countries was recorded in the trade of the United States and of the United Kingdom.

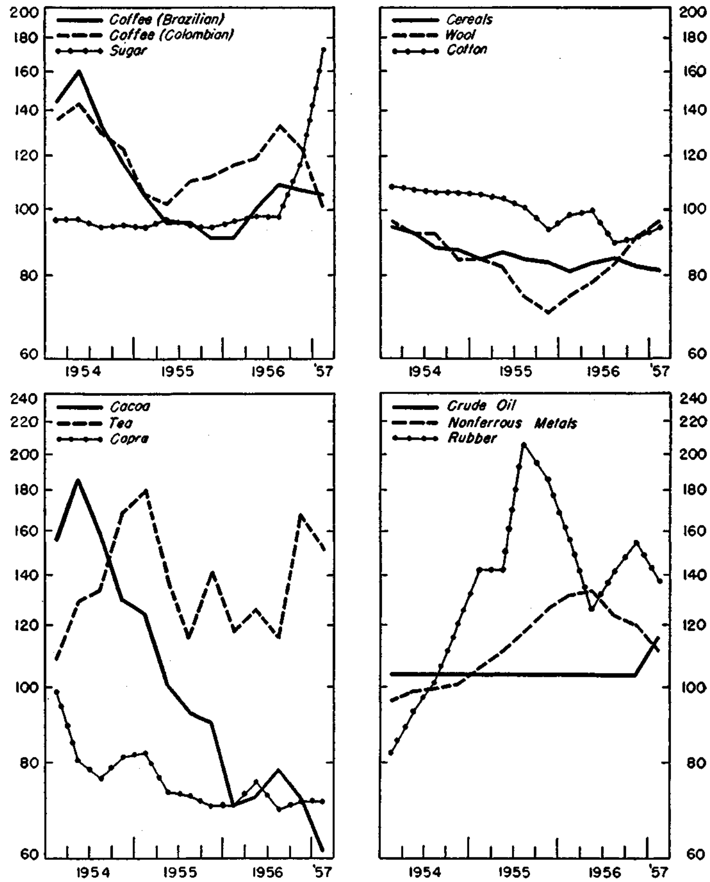
Price Developments and Export Earnings of Primary Producers

During the first three quarters of 1956, average export prices of primary producing countries were somewhat lower than in the preceding year. Prices started to rise, however, in the third quarter, and the closing of the Suez Canal accelerated this movement. For the year as a whole, average export prices of primary producing countries were much the same as in 1955. The rise in the export prices of manufacturing countries and the increase in transportation costs produced a deterioration in the terms of trade of primary producing countries which probably amounted to some 4–5 per cent, with considerable differences between individual countries.

Restocking demand for coffee, together with a shortage of the mild varieties early in 1956 and a smaller Brazilian crop in 1956–57, resulted in steadily rising prices, which reached their peak in the third quarter of 1956 (Chart 1). Average prices for both mild and Brazilian coffee were higher in 1956 than in 1955. Cocoa prices in 1956 were about 30 per cent less than in 1955; they remained weak

Chart 1. Indices of Prices of Major World Commodities, First Quarter of 1954–First Quarter of 1957[1]

(1953 = 100; logarithmic vertical scale)



[1] Indices are based on data from International Monetary Fund, *International Financial Statistics*, and U.S. Department of Agriculture, *The Cotton Situation.*

Coffee, Santos No. 4, Santos; coffee, Colombia, Medellin, New York; sugar, Cuba, f.o.b. price to countries other than the United States; cereals (wheat and rice), IMF compilation; wool, Australia, average price at Sydney auctions; cotton, Mexican Matamoros, f.o.b. Brownsville, Texas; cocoa, London, good fermented Gold Coast type; tea, unit value of U.K. imports; copra, Philippines, f.o.b. Manila; crude oil, price on field, East Texas; nonferrous metals, IMF compilation; rubber, Malaya, No. 1 ribbed smoked sheets, f.o.b. Singapore.

through most of the year as supplies were increased by two consecutive good crops. Tea prices weakened through the first three quarters of 1956, and in spite of a sharp advance after the closing of the Suez Canal, the average price for the year was below the high 1955 level. Sugar prices were firm through most of 1956, with rising demand greatly intensified by scare buying late in the year and smaller crops in some importing areas; they rose sharply at the end of the year when Cuban stocks were nearly exhausted. Continued high demand for copra, palm kernels, and their oils tended to raise the prices of these products toward the end of the year, but the average prices for the year as a whole were lower than in 1955.

As a result of these demand and price developments, most of the exporting countries which depend largely on coffee, sugar, and other tropical foodstuffs (with the exception of cocoa) increased their export receipts in 1956. With higher prices and larger volumes, the aggregate value of the exports of these countries exceeded their value in 1955 by 4 per cent, and thus recovered to the level of 1954 (Table 2).

A sharp rise in the latter part of the year raised average wool prices in 1956 above the 1955 average. This, together with a larger volume of trade in both wool and other livestock products, resulted in increased export earnings for the major exporters of these products.

TABLE 2. TRADE OF PRIMARY PRODUCING AREAS, 1955 AND 1956

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

	Exports f.o.b.			Imports c.i.f.		
	1955	1956	Percentage change	1955	1956	Percentage change
Major countries exporting						
Tropical foods[1]	5.34	5.56	+4	5.73	5.85	+2
Other agricultural products[2]	7.12	7.40	+4	8.65	8.47	−2
Petroleum[3]	5.30	5.58	+5	2.98	3.29	+10
Rubber and metals	3.78	3.91	+4	3.14	3.57	+14
Major countries with diversified exports	9.76	10.55	+8	11.41	13.42	+18
Total[4]	31.29	32.99	+5	31.90	34.60	+9

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

[1] Coffee and cocoa, other tropical foods, and oilseeds and vegetable oils.

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

[3] Including exports, but not imports, of Kuwait.

[4] Totals and percentage changes from unrounded figures.

The cotton market in 1956 was dominated by the U.S. decision to dispose of surplus stocks by offering cotton for export after August 1 at prices below the domestic level. Demand for non-U.S. cotton fell in the second half of the year, and except for long-staple varieties, average cotton prices in 1956 were lower than in 1955. For the year as a whole, jute prices were slightly higher than in 1955. Prices of bread grains and rice did not rise, in spite of poor crops in several importing areas, as there were ample supplies, particularly of wheat, in exporting countries. Such increased earnings as occurred in countries exporting mainly vegetable fibers and/or grain were the result of a greater volume of exports.

In spite of a sharp decline in copper prices in the second half of the year, the average prices of nonferrous metals and the earnings of their major exporters were higher in 1956 than in 1955. Tin alone was markedly, though only temporarily, affected by the Suez crisis. Rubber prices began to rise in June, but their average level was lower than in 1955. As a result of these price movements and a smaller volume of trade, export earnings from rubber were also less than in 1955.

As a result of the closing of the Suez Canal and the damage done to oil pipelines, increases from 1955 to 1956 in the export receipts of countries depending largely on petroleum were smaller than from 1954 to 1955.

Exports of Industrial Countries

Since 1953 there have been considerable changes in the relative shares of the main industrial countries in world exports of manufactured goods. The exporting countries that have shown the largest proportionate increases in exports of manufactures are Japan and Germany, followed by Italy, Belgium, and Sweden. On the other hand, the shares of the United Kingdom and the United States in these exports have diminished. Some of the relevant information is presented in Table 3, which illustrates the extent to which relative

TABLE 3. PERCENTAGE CHANGES FROM 1953 TO 1956 IN VOLUME AND UNIT VALUE OF MANUFACTURED EXPORTS OF MAJOR INDUSTRIAL COUNTRIES

	Volume	Unit Value		Volume	Unit Value
Japan	+122	−6	Netherlands	+31	—
Germany, Federal Republic of	+70	+2	Switzerland	+26	−4
Italy	+59	−2	France	+21	+1
Belgium-Luxembourg	+48	−3	United States (nonmilitary finished manufactures)	+20	+5
Sweden	+45	+1	United Kingdom	+19	+5

Sources: Data supplied by Statistical Office of the United Nations, except those for the United States, which are from U. S. Department of Commerce, World Trade Information Service, *Statistical Reports.*

movements in export prices have been correlated with differences in the expansion of the volume of exports.

The relationship between quantity and price of exports shown in the table appears to imply that demand for each country's exports was rather highly sensitive to supply price. Such an inference would, however, be hazardous, since factors originating from the side of demand, such as variations in the impact of customs duties, or elements of competitive strength other than price, may also exert a significant influence on the relative increases of exports of particular countries, and sometimes this influence has tended to reinforce that of price competitiveness.

The competitive position of Japan, for example, has been strengthened by the short delivery dates which Japanese exporters can offer. There has been a diminution of the discrimination formerly practiced against Japanese goods in various parts of the world, and the quality of the supplies readily available for export has improved with the progress of Japan's industrial rationalization. The availability of goods was also an important factor in the expansion of Germany's exports from 1948 to 1953. Even in the period covered in Table 3 it may still have helped to promote German exports. More important, however, have been the relatively strong increase in world demand for the products of the machinery and metals industries and the relatively rapid expansion of the market in OEEC countries for the manufactured goods that constitute a large part of German exports.

The exports of both the United Kingdom and the United States have been unfavorably affected by the fact that a comparatively large proportion of their exports—62 per cent for the former and 54 per cent for the latter—go to primary producing areas where the over-all expansion of imports has been less than in industrial areas. However, U.S. exports have benefited from a reduction in the discrimination formerly practiced against them, while U.K. exports have been affected by the decline in the degree of discriminatory preference formerly accorded to them in the sterling area and elsewhere.

TABLE 4. PERCENTAGE CHANGES FROM 1955 TO 1956 IN VOLUME AND UNIT VALUE OF MANUFACTURED EXPORTS OF MAJOR INDUSTRIAL COUNTRIES

	Volume	Unit Value		Volume	Unit Value
Italy	+23	−3	Switzerland	+11	0
Japan	+20	+4	United Kingdom	+6	+4
Germany, Federal Republic of	+16	+4	Netherlands	+4	0
Belgium-Luxembourg	+14	+1	Sweden	0	+3
United States (nonmilitary finished manufactures)	+12	+4	France	−3	+1

Sources: Data supplied by Statistical Office of the United Nations, except those for the United States, which are from U. S. Department of Commerce, World Trade Information Service, *Statistical Reports.*

From 1955 to 1956 there were considerable changes in the export shares of the main industrial countries in world markets for manufactures. It is true that short-term changes in these shares are never very closely associated with contemporary changes in relative export prices, but in the past year the connection was looser than usual, as shown by Table 4. Changes in demand and in availability appear to have had some importance. A further reason for the lack of any clear correlation between changes in export shares and changes in relative export prices may be the absence during this short period of any marked price changes.

Balance of Payments Developments and Reserves

The principal changes in the world's payments pattern and in world reserves between 1955 and 1956 are shown in Tables 5, 6, and 7. Despite an impressive increase in U.S. private investment abroad, the acquisition of gold and dollar reserves by the rest of the world from transactions with the United States was cut almost in half. The over-all payments surplus of the industrial countries other than the United States taken together fell sharply and almost disappeared. Both of these major changes were concentrated in the last quarter of the year and were partly, but not entirely, attributable to the Suez conflict. The primary producing areas, for which there had been a net deficit in 1955, showed a small surplus in 1956. There was considerable diversity between the payments experiences of individual industrial countries, and also between those of particular groups of primary producers (Table 5).

The difficulties of individual countries led to considerably increased recourse to the resources of the Fund. As these countries were able

TABLE 5. PAYMENTS BALANCES[1] OF COUNTRIES OUTSIDE THE UNITED STATES, BY MAJOR GROUPS, 1954-56

(In millions of U. S. dollars)

	1954	1955	1956
Industrial countries			
United Kingdom	584	−646	−564
Industrial continental OEEC countries	1,426	1,579	514
Japan	127	379	168
Total	2,137	1,312	118
Nonindustrial countries			
Exporters[2] of			
Tropical foods	−85	−103	145
Other agricultural products	−315	−668	109
Petroleum	51	122	360
Metals and rubber	−4	86	−87
Exporters of diversified commodities[3]	410	251	−396
Total	57	−312	131

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

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

[2] Based on balances for individual countries shown in Tables 14, 16, and 18 and including estimates for Paraguay, Lebanon, and Korea.

[3] Based on balances for individual countries shown in Table 20.

to meet part of their deficits from the resources of the Fund, the aggregate reserves of all countries outside the United States increased in 1956 at much the same rate as in 1955 (Table 6). Since 1954, however, they have been declining in relation to the value of world trade.

The acquisition of gold and dollar reserves by other countries in their transactions with the United States, after having declined from almost $2 billion in 1953 to $1 billion in 1955, was further reduced to about $550 million in 1956; there was actually a net outflow of reserves from these countries to the United States in the last quarter of 1956 and the first quarter of 1957. The relatively greater demand pressure in other countries, compared with the United States, which had been the main cause for the steady rise in the U.S. trade surplus from $1.3 billion in 1953 to $2.7 billion in 1955, was again largely responsible for a sharp advance in this surplus to $4.5 billion in 1956. The greater part of the increase in the surplus was offset by a very large increase in the net export of private capital and by the continued

TABLE 6. OFFICIAL RESERVES OF COUNTRIES OUTSIDE THE UNITED STATES AND THE SOVIET AREA, 1953-56

	Official Reserves at End of Year (*billion U. S. dollars*)				Official Reserves as Per Cent of Imports c.i.f.			
	1953	1954	1955	1956	1953	1954	1955	1956
United Kingdom	2.55	2.80	2.16	2.17	27	30	20	20
Industrial continental OEEC countries and Japan	10.43	11.91	13.67	14.37	48	49	50	45
	12.98	14.71	15.83	16.53	42	44	41	38
All other countries[1]	12.46	12.56	12.36	12.49	50	49	44	42
Total	25.43	27.27	28.19	29.02	45	46	43	40
Gold reserves	11.78	12.60	13.10	13.45				
Dollar reserves[2]	6.40	7.37	8.30	9.46				
	18.18	19.97	21.40	22.91				
Credit balances in EPU	1.27	1.11	0.97	1.08				
Credit balances in BIS	0.35	0.46	0.41	0.42				
Other reserves (including sterling)	5.63	5.73	5.41	4.61				
Total	25.43	27.27	28.19	29.02				

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

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

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

growth of U.S. Government spending abroad. The steep rise in the trade balance and in capital exports between 1955 and 1956 took place in relation to both industrial and primary producing countries, the additional capital flow, however, being directed mainly toward the latter.

As can be seen from Table 6, the gold and dollar reserves of countries outside the United States increased in 1956 by about $1.5 billion, almost as much as in 1955. Of this addition, about $550 million, a much smaller amount than in the year before, was earned from transactions with the United States. Some $580 million came from net drawings on the Fund—a figure which contrasts with net repayments of $200 million in 1955. Some $20 million in gold and dollars went into holdings of the European Payments Union and the Bank for International Settlements, and $350 million became available for reserves from current gold production and Soviet gold sales.

Nearly 80 per cent of the increase in gold and dollar holdings in 1956 was accumulated in the form of dollars, an even larger proportion than in previous years. Credit balances in the EPU and in the BIS changed little between 1955 and 1956. Sterling liabilities continued to decline, and the statistical record suggests that bilateral balances were considerably reduced in 1956. Aggregate reserves of gold and foreign exchange held by countries other than the United States have grown more slowly in recent years than the value of their imports; between December 1953 and December 1956, the ratio of reserves to imports declined from 45 per cent to 40 per cent.

The changes in 1956 in the payments balances of individual industrial countries outside the United States were influenced to some extent by conditions in export markets as well as by domestic cost developments. However, the governing factor determining the trend of the payments balance was in most cases the evolution of internal demand in comparison with movements of foreign demand. This was primarily responsible for both the abrupt deterioration in the position of France and the sharp rise in the surplus of the Federal Republic of Germany. Even in Japan, where the volume of exports increased by 20 per cent, there was a decline in the payments surplus which was the result of a revival of domestic demand.

In the United Kingdom, disinflationary policies, by curbing import demand and promoting exports, brought about a sizable current account surplus in 1956 in lieu of a deficit the year before. There was, however, at the same time a substantial outflow of capital, reflecting, in part, a temporary loss of confidence in sterling provoked by the Suez crisis. The resulting drain on U.K. reserves was largely made good by a drawing from the Fund in December 1956.

In the Federal Republic of Germany, a restrictive monetary policy, adopted with a view to preserving internal stability, had the effect of lessening the pressure of domestic demand, compared with demand conditions in many other countries, and thus further increasing the German trade and payments surplus in 1956. The restraint imposed upon German domestic demand in recent years has been supported by the persistently high cash surpluses accumulated by the Federal Government mainly as balances with the central bank, most of which were the result of a low actual level of defense expenditure which was substantially below the amounts appropriated. These factors meant that, compared with other industrial countries, a greater proportion of Germany's increasing productive capacity was available to meet export orders. In 1956, the balance of payments position was also affected by some inflow of foreign funds attracted by higher interest rates or as a result of speculation relating to various European exchange rates, including that of the deutsche mark. The great influence on the trade balance of the relatively slight lessening in the pressure of demand in Germany seems to be due partly to the fact that this lessening of demand affected, to a greater extent than in some other countries, the types of product (notably investment goods) most easily exportable.

The sharp deterioration in the French payments balance, though aggravated by some special factors discussed below, is to be explained mainly by a continued sharp rise in domestic demand for both consumption and investment.

Countries whose chief exports are primary products showed a net deterioration on trade account (imports c.i.f.) of about $1 billion between 1955 and 1956 (Table 2), but they improved their aggregate payments balance by nearly $450 million (Table 5). The greater part of this discrepancy is to be explained by the considerable increase in these areas in both receipts of U.S. private capital and U.S. Government spending, including grants.

For countries exporting chiefly metals and rubber, the payments position tended to deteriorate, as the development of their trade followed the familiar pattern whereby imports increase sharply in response to a rise in export receipts in the previous year. On the other hand, there was a marked recovery in the payments positions of countries exporting chiefly agricultural products (other than rubber), their export receipts improving while, as a result of the restraining measures undertaken by many countries in the group, their imports remained virtually the same as in 1955. An increased inflow of investment capital was mainly responsible for the rise in the payments surplus of petroleum exporters.

Payments Effects of the Suez Canal Closure

Apart from the effects of delays in the arrival of and payments for goods involved in the initial rerouting of trade which followed the closing of the Suez Canal and of the Syrian oil pipelines in October 1956, these events were expected to have other more far-reaching balance of payments effects. The increase in the amount of shipping required to transport goods, and particularly oil, between the countries east of Suez and Europe was expected to raise freight rates and to create a physical shortage of tankers. Import costs (c.i.f.) would thus be increased and/or the export prices actually received reduced, particularly for goods normally transported through the Canal, while the earnings of countries providing shipping would rise. The shortage of tankers would necessitate a diversion of European oil imports from Middle Eastern to more expensive Western Hemisphere sources, and higher freight rates might cause similar shifts in the sources from which other imports were drawn. The earnings of Middle Eastern oil companies would decline, with repercussions on the foreign exchange income both of the countries where the companies operated and of those where they were owned. Even with additional supplies of oil from the Western Hemisphere, the total supply of oil available to Europe would be severely reduced and there might be significant repercussions on production with indirect and unpredictable effects on the balance of payments.

In the event, most of the reactions outlined above have been less severe than had been anticipated, as far as their effects on Western Europe are concerned. For that area the most important result of the closure of the Suez Canal was the movement of short-term funds out of sterling, described elsewhere in this Report.

Industrial activity in Western Europe appears to have been little restricted through lack of fuel or of other raw materials. The shortage of tankers was met by the elimination of cross hauls and the concentration of tanker shipping on the shorter North Atlantic routes. Oil production in the United States and in the Caribbean area was increased to compensate for the reduction of supplies from the Middle East. By January 1957, world oil production was back to the precrisis level; and by March 1957, when the Iraq Petroleum Company's (IPC) pipeline across Syria was restored to partial operation, oil supplies to Western Europe were almost fully restored to normal volume. With a mild winter in Europe, it was possible to meet the temporary shortage of oil by drawing on stocks which had been increased to storage capacity after the nationalization of the Suez Canal Company in July, by consumer rationing of petrol and heating oil, and by reasonable fuel economy in industry. In countries such as the United Kingdom and France, where restrictions on petrol for private motoring were fairly severe, the consumer demand for automobiles, which had already been showing signs of slackening, was markedly depressed, and this had more effect than any shortage of fuel on the general level of activity.

The closing of the Canal was followed by sharp, though temporary, increases in tramp freight rates, which, however, apply to only a small proportion of seaborne trade. The average freight cost for transporting oil over different routes is estimated to have been more than 30 per cent higher at the beginning of the first quarter of 1957 than at the beginning of the preceding quarter. During the first quarter of 1957 it declined slightly. Liner freight rates for dry cargo are believed to have risen some 15–20 per cent during the period, but this increase was in part an adjustment to cost increases which had occurred before the Canal was closed.

As has been noted above, speculative and scare buying in some countries after the closing of the Suez Canal led to some short-lived f.o.b. price advances for a number of materials. There was no general change in crude oil prices, even in the Western Hemisphere, to which demand for oil had been diverted, until January 1957, when U.S. prices were raised by 12 per cent; similar changes were made in Caribbean prices shortly afterward. Early in March, when the operation of the IPC pipeline was partly restored, Middle Eastern oil prices, ex Mediterranean pipeline terminals, were raised by 9 per cent.

Partly as a result of these price and freight increases, U.K. average import prices, after a slight decline in the third quarter of 1956, advanced by about 6 per cent between September 1956 and March 1957. Import prices of food reached their peak about the end of 1956, while those of raw materials and fuel continued to rise until March. Import prices in other Western European countries do not appear to have risen so much. Import costs also increased for countries outside Europe, and especially for countries such as Brazil and Argentina, whose oil imports are considerable. Some European countries, notably Norway, had a net increase in receipts from shipping, depending on the type of shipping service they supply. Net importers of shipping services—i.e., some industrial countries and practically all the primary producing countries—were adversely affected by higher shipping costs.

The partial shift in the sources of oil supply from the Middle East to the Western Hemisphere raised the value of U.S. exports of petroleum and products from a monthly rate of $54 million in the first three quarters of 1956 to a monthly average of $105 million between October 1956 and March 1957. Shifts in sources of supply may also have slightly increased some other U.S. exports, but of the increase of $250 million in the monthly rate of U.S. exports from the first three quarters of 1956 to the following six-month period, only a minor part can be attributed to this cause.

The most serious adverse impact of the Suez crisis was felt by the Middle Eastern oil producing countries and by Egypt. Egypt's payments position was first affected in July by the blocking of a large part of its foreign assets following the nationalization of the Canal. The closing of the Canal later in the year also had important effects upon Egypt's foreign exchange receipts. Earnings from canal fees ceased, and in the last quarter of 1956 and the early months of 1957 export earnings declined sharply in comparison with the same period of 1955–56. However, this decline in export earnings may have been due in large part to other factors.

Since storage facilities in the oil producing countries in the Middle East are limited, the interruption of the operations of the Canal and the pipelines forced a 50 per cent reduction in their petroleum output from October to November 1956; by January 1957 output was about two thirds of normal, and by April, when the Canal had been reopened and the pipelines partially restored, it was still below the precrisis level. The loss in receipts to the countries concerned will probably exceed $150 million. Although the decline in output affected most of the producing countries of the Middle East, it was most serious in Iraq, because of that country's heavy dependence on the IPC pipeline. The impact on Iraq's oil receipts was mitigated by a special credit of £25 million granted to the Iraqi Government by the Iraq Petroleum Company in March 1957. The decline in Middle Eastern oil production affected the balance of payments not only of the producing countries concerned, but also of the countries to which the profits of the oil companies are normally remitted, particularly the United Kingdom. The United Kingdom may also have been affected by a decline in the sterling holdings of those Middle Eastern oil producing countries that are members of the sterling area.

Measures to Correct Payments Disequilibria

In 1956, world market demand for the export products of most countries remained high. Payments difficulties were usually, though not invariably, associated with a state of excessive internal demand, and conditions continued to be favorable to the correction of external deficits, without undue internal difficulties, by the application of disinflationary policies alone. Most countries in deficit or in a weak reserve position did in fact seek to apply such policies. Since increases in wages appeared in many countries to be assuming greater importance as a cost factor and as a source of demand, more and more attention was paid in some of these countries to measures acting directly or indirectly on wage rates. Import restrictions, though intensified in a few countries, are now used much less than in earlier years as a method of dealing with payments difficulties; in many countries, measures tending to raise the cost of imports in the domestic market were applied by adjusting the exchange rates applicable to imports, or by shifting some import goods to higher rate categories within existing multiple rate structures. Frequently, these measures were accompanied by adjustments of export exchange rates and were thus more analogous to devaluation than to import restriction.

European countries in deficit or in a weak reserve position have, in general, sought to influence the balance of payments by disinflationary measures acting on demand or on money costs, without any extension of restrictions. Bank rates were raised in 1956, partly, though not exclusively, for balance of payments reasons, in the United Kingdom, Ireland, the Netherlands, Belgium, Turkey, and Sweden, and in 1957, in France and Switzerland. In many countries action of this kind has been accompanied by more direct action to reduce commercial bank liquidity or to limit bank advances or by measures to limit the financing of home building and installment purchases. In some countries—for example, France—efforts have been made by fixing prices and other means to hold down the cost of living as reflected in certain key indices to which wage movements are linked, so that wage increases which might have repercussions on the general level of prices could be held in check. Some liberalization of imports, despite its adverse effect on the balance of payments, was used in France as a means of checking an increase in the cost of living and in wage rates. In the Netherlands, the movement of wage rates is subject to some measure of centralized control, and the Government is endeavoring to ensure that certain cost increases are not passed on in the form of higher prices.

Outside Europe as well, only a few countries, mainly in the sterling area, resorted to direct import controls or to more stringent restrictions as a means of correcting their payments disequilibria. In Australia, where import restrictions had been intensified twice in 1955 and again in 1956, monetary and fiscal measures were also employed to restrain domestic demand, and following an improvement in the payments situation, the import restrictions were relaxed in several stages early in 1957. In India, import restrictions were intensified and the effective bank rate was raised early in 1957.

A number of countries, mostly in Latin America, raised the domestic prices of import goods by adjusting their import exchange rates or import taxes, usually applying, at the same time, some degree of credit restriction. Brazil continued to restrict import demand by means of foreign exchange auctions, varying the amounts of exchange offered for various import categories and shifting goods within these categories. Colombia attempted to restrain imports by placing more goods, formerly admitted at the official rate, in the free rate category. Uruguay removed some quantitative restrictions while simultaneously depreciating import rates and requiring advance payments from prospective importers. In Indonesia, the system of import surcharges was revised in September 1956.

Measures which had the effect of raising the domestic cost of imports were frequently accompanied by measures tending to reduce the external, or raise the internal, prices of exports, with a net effect similar to devaluation. Thus exchange rates for exports other than coffee were raised in Brazil in the course of 1956, while in Colombia coffee exporters were allowed to sell in the free market a higher proportion of their export proceeds. In Indonesia, a system of negotiable export certificates, which had to be surrendered in making certain import and transfer payments, was introduced in 1956. Similarly, in Uruguay a new exchange certificate system was used which depreciated its multiple effective export rates.

More thoroughgoing measures of exchange devaluation and reform were undertaken by Argentina in late 1955, by Chile in April 1956, and by Bolivia in December 1956. In Chile a complex multiple rate system was replaced by two flexible rates, one applying to trade and the other to tourist and capital transactions, while in Bolivia a single flexible exchange rate was adopted for all transactions.

Of the countries in external surplus or in a strong reserve position, only the United States and the Federal Republic of Germany are large enough for their policies to have a significant effect on the payments problems of other countries. In both, domestic financial policy was applied primarily with a view to the maintenance of internal stability, which involved restraining rather than stimulating demand. In the United States, however, interest rates, though rising throughout the greater part of 1956, remained below those of Canada and other countries, and this facilitated the sharp rise in the outflow of private capital that has been a major factor in providing dollars to the rest of the world.

In the Federal Republic of Germany, on the other hand, the relatively high level of interest rates in 1956 was probably partly responsible for an influx of short-term funds from other countries. Short-term market rates declined and the discount rate was reduced in the second half of the year and at the beginning of 1957, but bond yields continued to rise. Efforts to mitigate the problem of Germany's external surplus were concentrated upon further liberalization of imports, lowering of tariffs, purchases of defense materials abroad, and some acceleration of foreign debt redemption. Special steps were also taken to discourage the inflow of short-term capital and to relax restrictions on private capital exports. These measures have not so far had any significant effect on the size of Germany's current surplus, which has continued at its previous high level. It is possible that the present trend toward a substantial rise of domestic expenditure in Germany, as a result of a changed budget position, higher wages, and social security payments, will lead to a reduction of the current surplus. Steps taken in other countries may also help to reduce the surplus to more manageable proportions.

III

Payments Developments in Selected Countries and Groups of Countries

United States

THE current surplus on private account in the U.S. balance of payments increased markedly from 1955 to 1956 as exports expanded much more than imports. For imports, the increase was slightly greater than in 1955; but for exports the increase was much greater as a result of high income abroad, an increased outflow of capital from the United States, active disposal of agricultural surpluses, and, in the last quarter of 1956, requirements arising out of developments in the Middle East. U.S. Government expenditure abroad rose moderately. While foreign capital continued to move to the United States in increasing amounts, the increase was not nearly so great as the increase in the outflow of U.S. private capital; capital outflow exceeded that in any other year in the postwar period. Nevertheless, the increase in the net outflow of private capital, together with the increase in government expenditure abroad, was less than the rise in the surplus on goods and services, and the gold and dollars accruing to official holders abroad through transactions with the United States fell from about $1 billion in 1955 to some $550 million in 1956 (Table 7), the reduction being due mainly to trade developments in the last quarter of the year. As has been explained above, the great increase in drawings from the Fund

TABLE 7. UNITED STATES: SUMMARY OF BALANCE OF PAYMENTS, 1954-56[1]

(In millions of U. S. dollars)

	1954	1955	1956	Change from Previous Year 1955	Change from Previous Year 1956
Private transactions					
Merchandise: Exports f.o.b.	12,785	14,237	17,296	1,452	3,059
Imports f.o.b.	−10,354	−11,516	−12,791	−1,162	−1,275
Trade balance	2,431	2,721	4,505	290	1,784
Services, net[2]	1,214	1,324	1,532	110	208
Balance, goods and services[2]	3,645	4,045	6,037	400	1,992
Capital movements					
Domestic	−1,619	−1,153	−2,980	466	−1,827
Foreign[3]	336	467	1,018	131	551
Balance, private capital	−1,283	−686	−1,962	597	−1,276
Government transactions, net[4]	−3,993	−4,844	−5,312	−851	−468
Errors and omissions	178	451	692	273	241
Gold and dollar transfers to official holders[5]	1,453	1,034	545	−419	−489

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

[1] Excluding military aid and commodity transfers financed by it.

[2] Including private donations.

[3] Including estimated private holdings of U. S. Government securities and change in U. S. short-term liabilities to private foreign holders, including international organizations other than the International Monetary Fund, the European Payments Union, and the Bank for International Settlements.

[4] U. S. military expenditures (including offshore purchases), grant aid other than military, net U. S. Government foreign lending, net income from U. S. Government investments abroad, miscellaneous government services, and pension transfers.

[5] Including official holdings of gold and short-term dollar balances and estimated official foreign holdings of U. S. Government securities. Official holders include the International Monetary Fund, the European Payments Union, and the Bank for International Settlements.

in the latter part of 1956 made it possible, despite the falling off in transfers of gold and dollars from the United States, for the gold and dollar reserves of countries other than the United States, taken as a whole, to continue to increase by about the same amount as in the previous year.

The volume of U.S. imports rose by 8 per cent from 1955 to 1956, compared with 11 per cent from 1954 to 1955. The growth in imports was thus better maintained than the growth in production and in aggregate demand, and the proportion of domestic expenditure devoted to imports increased. Imports of finished manufactures showed the sharpest increase, 21 per cent in volume, the competitive strength of European and Japanese exporters making possible their continuing penetration into the U.S. market for a wide range of goods. For the entire year 1956, the volume of foodstuffs imported increased by some 4 per cent; the increase was greater than this in the first three quarters of the year, owing mainly to the replenishment of coffee stocks drawn down during the 1954 price boom, but there was a considerable decline in the fourth quarter.

The demand for nonmilitary U.S. exports, whose volume increased by 17 per cent from 1955 to 1956, was one of the factors helping to increase the general demand for U.S. products. When both military exports and exports out of U.S. Government stocks of agricultural surpluses are excluded, the increase in the volume of U.S. exports amounted to some 18 per cent of the increase in real gross national product.

The rise in exports extended to all classes of commodities. The most substantial increase, amounting to 35 per cent, was in foodstuffs, for which foreign demand, particularly for grains, was swollen because of reduced crops in Europe and in some Far Eastern countries. Moreover, exports of foodstuffs, as of other agricultural products, were greatly facilitated by the intensification of the surplus disposal programs providing for sales from government stocks on favorable terms. The increase in sales under these programs accounted for some 60 per cent of the total expansion of agricultural exports. The decision to sell cotton for export at prices below the domestic level did much to revive cotton exports, which had fallen off in 1955; their volume in 1956 was about 80 per cent greater than in the preceding year.

Exports of coal, mainly to Western Europe, continued to expand rapidly both in volume and, still more, in value. Shipments of petroleum and its products increased sharply after the closing of the Suez Canal, and in the five months November 1956-March 1957 their value amounted to over $580 million, or more than twice that in the corresponding 1955-56 period.

Exports of finished manufactures, which had increased only moderately from 1954 to 1955, rose by some 12 per cent from

1955 to 1956. In the conditions of investment boom prevailing in most countries and with a large increase in U.S. direct investment, the expansion of U.S. exports was concentrated heavily on capital goods, while exports of certain categories of consumer goods either remained unchanged (e.g., textile manufactures) or declined (e.g., automobiles).

U.S. export prices rose by 4 per cent, while import prices (f.o.b.) rose by only 2 per cent. Prices for certain imported materials, particularly nonferrous metals, were much higher than in 1955, but lower prices were paid for imported foodstuffs.

Net payments by the U.S. Government, consisting mainly of expenditure for troops and military installations abroad, grants, and loans, rose slightly. A small decline in grants was more than offset by increased military and other expenditure and loans. Government loans expanded as local currencies received from the sale of surplus agricultural commodities were reloaned to the countries in which these sales had been made.

Foreigners, particularly in Europe and Canada, continued to add to their holdings of long-term assets in the United States in 1956, and there seems to have been a substantial increase in the influx of short-term funds, particularly in the last quarter of the year.

The outstanding feature of the capital account in 1956, however, was the massive increase in U.S. private investment abroad, which reached $3 billion, more than twice that in 1955 and by far the highest annual figure in the postwar period.

The recorded net outflow of U.S. short-term funds, which had fallen off in 1955, more than doubled in 1956 (Table 8), most of the increase occurring in the last quarter of the year. Short-term credits went to Japan and continental Western Europe, mainly the Federal Republic of Germany. In the Western Hemisphere, Mexico, Venezuela, Brazil, and Canada were the main recipients. U.S. portfolio investment abroad, which had leveled off in 1955, more than doubled in 1956, mainly on account of an increase in new issues. More than 80 per cent of the new issues on foreign account consisted of Canadian stocks and bonds. The larger

TABLE 8. UNITED STATES: PRIVATE CAPITAL MOVEMENTS, 1954-56

(In millions of U. S. dollars)

	1954[1]	1955[1]	1956[1]	Increase (+) or Decrease (−) from Previous Year in Capital Flow to Foreign Countries: 1955	1956
Long-term capital, net					
Direct investment	−664	−679	−1,839	+15	+1,160
Portfolio investment					
New issues	−309	−124	−457	−185	+333
Redemptions	124	203	169	−79	+34
Other	−135	−359	−319	+224	−40
Total	−984	−959	−2,446	−25	+1,487
Short-term capital, net	−635	−194	−534	−441	+340
Total long-term and short-term capital, net	−1,619	−1,153	−2,980	−466	+1,827

Source: U. S. Department of Commerce, *Survey of Current Business.*
[1] No sign indicates inflow; minus sign indicates outflow.

part of the remainder took the form of Israeli securities, and there was also an Australian bond issue. U.S. purchases of outstanding securities, particularly in Canada and continental Europe, continued at the high level of 1955. As the deterioration in portfolio investment and short-term lending from 1954 to 1955 had been partly attributable to the combination of a tighter credit position in the United States with some slackening in foreign markets, so the revival of these forms of capital export in 1956 was probably influenced by the fact that in other countries interest rates rose more, and shortage of capital funds became more acute, than in the United States.

By far the most important element contributing to the steep rise in U.S. capital outflow was the steady increase of direct investment throughout the year until a total was reached that was nearly two and a half times the 1955 total. Direct investment in the last quarter of 1956 amounted to almost $700 million. Nearly two thirds of the year's total went to the Western Hemisphere, Latin America receiving some $600 million and Canada about $550 million. Countries in the sterling area received nearly 20 per cent of the total. By far the greater part of the investment was in the oil industry for such purposes as oilfield development and the laying of pipelines in Canada, the construction of refineries in continental Europe, and the purchase of a U.K. oil company.

Canada accounted for roughly one third of the increase in the U.S. current surplus on private account, but there was also an increase of almost equal magnitude in the recorded net outflow of U.S. private capital to Canada. The increased current surplus on private account with non-sterling Asian and African countries was offset by increased U.S. Government expenditure, mainly in the form of grants and loans; private capital movements to these areas were also larger than in 1955. A deficit in direct transactions with Latin America reappeared in 1956, owing to an increase in net private capital outflow to the area, mainly in the form of direct investment—an increase heavily concentrated in Venezuela, Peru, Chile, Brazil, and the Caribbean area.

The changes in the payments balances of the United Kingdom and of continental Western Europe from direct transactions with the United States were much more far-reaching. The former balance, which had deteriorated sharply for the United Kingdom from 1954 to 1955, showed a substantial U.K. surplus in the first three quarters of 1956. In the last quarter of the year, the U.K. current account deteriorated,[1] but the export of private capital from the United States to the United Kingdom continued. On all transactions, therefore, the United Kingdom was only slightly in deficit in the last quarter, and for the year as a whole its surplus with the United States amounted to more than $500 million.

The surplus of continental Western Europe in its transactions with the United States fell from nearly $900 million in 1955 to about $170 million in 1956, the deterioration being particularly marked in the last quarter of the year. The deterioration was accounted for largely by a sharp rise in Europe's deficit on private current transactions, which increased by nearly $650 million, mainly in the fourth quarter. But there was also a decline of

[1] Excluding interest of $81 million on the intergovernmental loan of 1945, which was paid into a special account.

nearly $250 million in U.S. Government expenditure, which was partly offset by a larger capital flow. Most of the accrual of gold and dollars to continental Western Europe appears to have resulted from transactions with countries other than the United States.

The payments deficit of the rest of the world in transactions with the United States, which had already appeared in the last quarter of 1956, continued at an accelerated rate in the first quarter of 1957. Preliminary data indicate that net payments to the United States from official gold and dollar holdings outside that country amounted during the six months October 1956–March 1957 to well over $1 billion, or somewhat more than had been earned from transactions with the United States during the first three quarters of 1956. This change was due to the persistent rise in U.S. exports, which reached $5 billion in the first quarter of 1957, compared with $3.9 billion in the same period of 1956. Imports continued at about the same level as in early 1956. The rates of U.S. private capital export and U.S. government expenditure during these six months were above those in each of the preceding quarters of 1956.

The high level of U.S. exports during the period beginning October 1956 is to some extent attributable to increased oil shipments to relieve shortages after the closing of the Suez Canal. More important, however, was the sharp rise in agricultural exports, particularly of cotton, partly for stock replenishment, and of wheat, influenced by poor crops in some importing areas. Exports of other categories of goods also continued to increase.

The drain upon dollar reserves was heaviest in Western Europe and the Far East. In Western Europe the most marked advances in imports from the United States went to France, the United Kingdom, and Italy, all heavy importers of crude oil and cotton. The sharp rise in exports to Japan is largely explained by the acceleration in Japan's economic activity.

Other Industrial Countries

In the industrial countries other than the United States, taken as a group, production and foreign trade continued to expand fairly strongly from 1955 to 1956 (Table 9). As a result of developments in the last quarter of the year, however, their total payments surplus declined considerably in 1956. The growth of output in all these countries except Japan and France was less than it had been from 1954 to 1955.

Except in Switzerland, where export prices declined, and in Sweden, there was a general tendency for the terms of trade of the industrial countries to be more favorable in the first three quarters of 1956—with export prices rising more than import prices—than they had been in the corresponding period of 1955. The sharp rise in freight rates following the Suez crisis caused a deterioration in the terms of trade in the last quarter, which for some countries offset the earlier gain.

TABLE 9. INDUSTRIAL CONTINENTAL OEEC COUNTRIES, UNITED KINGDOM, AND JAPAN: PERCENTAGE INCREASE OR DECREASE (−) FROM PREVIOUS YEAR IN VOLUME OF INDUSTRIAL PRODUCTION, IMPORTS, AND EXPORTS, 1955 AND 1956

	Production		Imports		Exports	
	1955	1956	1955	1956	1955	1956
Austria	17	4	39	7	12	18
Belgium-Luxembourg[1]	9	6	11	11	17	7
France	8	12	14	16	14	10
Germany, Federal Republic of	14	8	21	11	15	15
Italy[2]	9	8	10	12	15	13
Netherlands	7	5	12	13	10	5
Norway	7	4	4	8	2	14
Sweden	7	2	10	6	4	12
Switzerland	..	..	14	15	10	10
United Kingdom	6	0	12	0	8	6
Japan[3]	9	18	5	27	30	20
Total[4]	9	6	13	10	12	8

Source: Based on data from International Monetary Fund, *International Financial Statistics*.
[1] Production data refer to Belgium only.
[2] Volume of trade data have been estimated on the basis of value and price data.
[3] Production covers manufacturing production only.
[4] Change in weighted averages for all the countries shown.

For the group as a whole, both imports and exports expanded less rapidly from 1955 to 1956 than from 1954 to 1955; since the slackening was less for imports than for exports, the trade balance deteriorated by some $900 million. Despite some rise in invisible earnings, the aggregate payments balance declined even more severely, by $1,200 million, and the surplus in 1956 was very small (Table 10).

The deterioration in the payments balance was confined to the last quarter of the year; the surplus in the first three quarters was slightly greater than that in the corresponding period of 1955. About half of the deterioration between the fourth quarters of the two years was in the trade balance—the remainder presumably being on capital account.

TABLE 10. INDUSTRIAL CONTINENTAL OEEC COUNTRIES, UNITED KINGDOM, AND JAPAN: TRADE AND PAYMENTS BALANCES AND OFFICIAL RESERVES, 1955 AND 1956

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

	Trade Balance		Payments Balance[1]		Official Reserves, End of 1956[2]	Official Reserves as Per Cent of Imports, 1956
	1955	1956	1955	1956		
Austria	−188	−125	−51	45	406	42
Belgium-Luxembourg	−54	−110	100	31	1,177	36
France	172[3]	−1,015[3]	921	−772	1,356	24[3]
Germany, Federal Republic of	342	741	440	1,215	4,291	65
Italy	−855	−1,012	132	91	1,308	41
Netherlands	−520	−850	1	−205	1,072	29
Norway	−457	−438	10	35	179	15
Portugal	−113	−142	16	19	690	156
Sweden	−271	−264	−8	3	473	21
Switzerland	−182	−324	18	52	1,907	108
United Kingdom	−2,399	−1,598	−646	−564	2,168	20[4]
Japan	−460	−729	379	168	1,507	47
Total	−4,985	−5,866	1,312	118	16,534	38

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

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

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

[3] Trade balance with foreign and overseas areas. The ratio of reserves to imports relates to total imports of Metropolitan France and not to imports of the franc area; the ratio of reserves to imports of the franc area was 24 per cent.

[4] In this ratio, imports are total imports of the United Kingdom and not those of the sterling area. The ratio of reserves to sterling area imports from non-sterling area countries was 17 per cent.

Germany's payments surplus, which had been declining since 1953 because of rising domestic demand, increased outflow of capital, and import liberalization, increased in 1956 to $1.2 billion. The increase in the surplus in 1956 was due mainly to a further sharp expansion in the value of exports, reflecting the pressing world-wide demand for capital goods, while imports did not increase quite as much as in the two preceding years. A minor factor in the development of the payments surplus was the virtual disappearance of net capital exports under the influence mainly of the disinflationary measures taken in the first half of the year.

The rise of German exports by 20 per cent above their value in 1955 was facilitated by a slowing down in the expansion of internal demand, particularly in the investment goods sector. Despite a continuing influx of refugees, which made possible an increase of about 5 per cent in the labor force from 1955 to 1956, some slowing down of the growth of output was probably inevitable in view of the attainment by 1955 of a high level of employment; also, there were some shortages of skilled labor. The decline in overtime work, the rather sharp decrease in the rate of productivity growth, and the slackening of new domestic orders, however, indicate that demand also was a factor that limited activity in 1956. The decrease in the rate of growth of domestic demand for investment goods was particularly sharp; the main restraining factor was probably the increasing scarcity of investment funds brought about by the disinflationary policy of the German authorities.

Export demand, on the other hand, continued to rise; export orders for industrial goods were some 20 per cent higher than in 1955. The continued expansion of exports (Table 9) was facilitated by the concentration upon the investment goods sector of the effects of both domestic disinflation and foreign demand. The fact that imports again increased faster than output or domestic demand, though somewhat more slowly than in 1955, is probably attributable to increased import liberalization, to the full utilization of some domestic capacities, to increased dependence on outside supplies of fuel, and to a certain extent to a poor harvest. The same factors also helped to change the geographical distribution of imports; the share of German imports from North America rose from 17 per cent in 1955 to 20 per cent in 1956, while that from the OEEC countries of Europe declined from 65 per cent to 60 per cent.

The net outflow of capital from Germany in 1956 was very small, in contrast to 1955 when it amounted to over $130 million (Table 11). There was, indeed, an increase in German long-term investment abroad, mostly in the form of direct investment; and other causes of increased capital outflow were official advances to the Saar and prepayments for defense materials to be shipped from the United States. The movement of foreign capital as a whole, which had been in approximate balance in 1955, showed a net inflow in 1956. As far as direct imports of foreign funds are concerned, foreign long-term investment in the Federal Republic of Germany is subject to some restrictions as to the channels of payments; but net foreign investment in Germany via liberalized capital accounts increased from 1955 to 1956. Finally, there was a substantial increase in short-term inflows in the form of trade credits and the accumulation of deutsche mark balances. In addition to these recorded capital movements, an increased

TABLE 11. FEDERAL REPUBLIC OF GERMANY: SUMMARY OF BALANCE OF PAYMENTS, 1955 AND 1956

(In millions of U. S. dollars)

	1955	1956	Change
Goods and services	701	1,309	608
Unilateral transfers[1]	−194	−263	−69
Capital movements (excluding reserves)			
Long-term			
Redemption under London Debt Agreement	−123	−108	15
Other foreign	64	111	47
German	−77	−137	−60
Short-term			
Foreign	60	228	168
German	−60	−97	−37
Errors and omissions	69	172	103
Change in official gold and foreign exchange holdings	440	1,215	775

Sources: Balance of payments reports from the Federal Republic of Germany to the International Monetary Fund; changes in official gold and foreign exchange holdings, from International Monetary Fund, *International Financial Statistics.*

[1] Mainly indemnification under agreement with Israel and other indemnification payments.

influx of short-term funds, e.g., prepayments for German export deliveries, is probably reflected in the increased "errors and omissions" item. The main factors responsible for the influx of foreign capital were the tightening of credit conditions, which led to a relatively steep rise of interest rates in Germany compared with those in other countries, and speculation relating to various European exchange rates, including the rate of the deutsche mark.

While the German payments surplus was in part due to nonrecurrent or reversible factors, i.e., an influx of funds which was either speculative or motivated by interest rate considerations, a substantial part of it was the result of more durable factors. A very large part of the surplus was with other EPU countries, and in accordance with the current practice for all EPU settlements, 25 per cent of it is financed by credit and 75 per cent by payment of gold. The measures taken by the German authorities to mitigate Germany's balance of payments problems, and the influences that might be expected to ease the position in the future, are examined elsewhere in this Report.

In the first four months of 1957 the payments balance of Germany continued to develop in much the same way as in 1956. Both exports and imports expanded further and the monthly trade surplus was slightly higher than that in 1956. The same applies to earnings on services, mainly on account of increased income from U.S. troops stationed in Germany. Gold and foreign exchange gross reserves rose by another $360 million between the end of 1956 and April 1957. Industrial production continued to expand, and there was a revival of domestic orders for capital goods, which had slackened in the second half of 1956.

The sharp change from surplus to deficit in the payments balance of *France,* which was accentuated in the fourth quarter of the year, was due to a combination of adverse factors, of which the principal was intensified pressure of aggregate demand. The substantial deterioration from 1955 to 1956 on account of invisibles (which can be roughly estimated by comparing the first four columns of Table 10) is attributable to a reduction in U.S. grants formerly received on account of operations in Indo-China, a decline in net earnings from services (notably in foreign military expenditures on French territory), and an increase in the outflow of French short-term capital. During the first six months of 1956, grants received were some $50 million, against $315 million in the same period of 1955; earnings on services declined by about $100 million; and the net outflow of French short-term private funds increased from $60 million to over $130 million.

A substantial trade deficit in 1956, involving a 17 per cent rise in the value of imports and a decline of some 7 per cent in the value of exports, was due, to some degree, to a poor wheat harvest. Exports of grain in 1956 were lower by over $70 million and imports higher by nearly $150 million; these changes accounted for one fifth of the deterioration in the trade balance. The main factor in this deterioration, however, was the increased import demand for raw materials, fuel, and equipment, which arose from the continued rapid expansion of industrial output. In contrast to all the other industrial countries of Western Europe, industrial production in France was not slowed down either through physical limitations to the expansion of supply or through the imposition of restraints on the expansion of demand, but continued to grow at an even higher rate than in 1955. Any shortages of domestic material and equipment were made good by rapidly increasing imports. Although real national product appears to have risen by 4-5 per cent, real expenditure rose even faster, partly on account of military commitments and partly because of the rapid growth of private investment, sustained by credit expansion.

At the end of 1955, French reserves were sufficient to make it possible for the external deficit to play, to some extent, a useful role in absorbing inflationary pressure and in holding down the cost of living; at first no attempt was made to check the deficit either by applying disinflation or by the intensification of import restrictions. Indeed some import duties were reduced. Later, however, the continued decline in reserves led France to conclude in October 1956 a stand-by arrangement with the Fund for $262.5 million. The Suez crisis added to the drain, partly through raising the cost of imported fuel and through a speculative rise in imports of materials, and $160 million was drawn from the Fund during the first four months of 1957. The tax on liberalized imports was raised to a uniform rate of 15 per cent, advance deposits were required for imports, and there was also some intensification of restrictions in the early months of 1957 in the form of less liberal licensing of imports of equipment goods and a reduction of the tourist allowance.

In the first half of 1957, the payments balance of France deteriorated rapidly, mainly as a result of a considerable rise in imports while the rate of exports was only slightly higher than in 1956. The stand-by credit arranged with the Fund was fully utilized and there was a further increase in the French EPU debt.[2]

The sizable deficit in the *Netherlands* balance of payments in 1956 is accounted for by a sharp deterioration in the trade balance, some decline in net earnings on services, and an outflow of capital. In contrast to the capital movement in 1955, which consisted largely of an accelerated redemption of government debt, offset to some extent by foreign purchases of Netherlands securities, the outflow in 1956 took the form of short-term private credits while foreign purchases of Netherlands securities declined. The sharp rise in imports, extending to both consumer and capital goods, is explained largely by the continued expansion of investment and consumption, sustained by a reduction in taxes in the fall of 1955 and by wage increases early in 1956. The high level of domestic demand also put a brake on the expansion of exports. The minor reduction in the rate of industrial expansion was not the result of a slowdown in demand but is attributable rather to an increasing shortage of skilled labor. Steps were taken early in 1957 to lessen demand for both consumption and investment purposes.

In *Belgium-Luxembourg,* exports rose much less from 1955 to 1956 than from 1954 to 1955. Labor shortages in various fields and the approach to full capacity operation in the steel industry appear to have been the main factors behind the leveling

[2] In mid-June all measures of import liberalization were temporarily suspended in France.

off of exports. The rise of incomes, together with shortages of fuel and materials, contributed to an expansion of imports which became particularly marked in the last quarter of 1956. The reserve position was adversely affected, in particular toward the end of the year, by the deterioration in the trade balance and by net capital outflow, which was largely the result of repayment of short-term treasury bills issued abroad.

The payments surplus of *Italy* was smaller in 1956 than in 1955 (Table 10). There was some acceleration in the expansion of imports, mainly of fuel and materials for the metals and engineering industries, where the rapid growth in 1955 may have reduced inventories. Imports of foodstuffs continued to rise, partly on account of two consecutive poor olive crops. A sharp rise in food prices early in 1956 raised the cost of living; partly for this reason, wage rates for the year averaged some 6 per cent more than in 1955, despite the persistence of serious unemployment. The effect of these wage increases on the cost of production and on the competitive position in export markets was offset, however, by rising productivity. Exports continued to increase at a high rate. Apart from a revival in agricultural exports, which had changed little for several years, there were sharp advances in exports of steel and of industrial products, mainly machinery, vehicles, and durable consumer goods. Earnings from services, largely tourism, were also higher, but the net inflow of capital, estimated at $130 million in 1956, fell short of the previous year's figure of $172 million.

Although the policy of monetary restraint which has been in operation in *Sweden* since the end of 1954 was helpful in reducing domestic demand and strengthening the balance of payments in 1956, its effects were limited by a number of counteracting influences. Owing to increases in rents and excise duties and associated increases in money wage rates, domestic prices were higher than in 1955 by 5 per cent. Nevertheless, the slackening of real demand made more resources available for exports and, despite a decline in timber exports for which world market conditions were adverse, the volume of exports rose by some 12 per cent. Gross national product was about 2.5 per cent greater than in 1955, a rate of growth slightly below that of the previous year.

Largely because of greatly increased demand for machinery and fuel oil, the volume of imports rose by 6 per cent, although there was less inventory accumulation than in 1955. As Sweden's terms of trade also deteriorated somewhat, the trade balance improved very little between 1955 and 1956. With an improvement on shipping account, however, the current account deficit fell by about $50 million. On the other hand, while general credit scarcity continued to attract funds from abroad, money market rates were not high enough to deter commercial banks from investing liquid funds abroad, and there was a net outflow of private and commercial bank capital. The net reserve position of the Riksbank was about the same as in 1955.

In the *United Kingdom,* a deficit of £79 million on current account in 1955 was followed in 1956 by a current account surplus of £233 million (excluding £37 million of interest on U.S. and Canadian loans, payment of which was later postponed). This improvement resulted from the application in 1955 and 1956 of a number of restrictive financial measures which reduced the pressure of domestic demand. Real domestic expenditure in 1956 remained about the same as in 1955, but despite greater credit stringency, fixed investment by business continued to rise, though less rapidly than from 1954 to 1955. The reduced pressure of demand brought about an improvement in the balance of trade by checking the increase of imports and promoting exports. Imports remained stable, partly as a result of the leveling off of production and partly from a decline in the rate of inventory accumulation, which was particularly marked for raw materials.

Although U.K. wage costs appear to have risen somewhat faster than those of its principal competitors, this was not fully reflected in export prices, and the volume of exports increased by 6 per cent in 1956, compared with about 4½ per cent in 1955.[3] Exports

[3] These percentages have been calculated after excluding exports in 1956 of £22 million worth of silver bullion sent to the United States in repayment of lend-lease borrowing, and shipments in 1955 delayed by the dock strike of October 1954.

took an increasing share of industrial production, although they did not keep pace fully with the rapid growth of demand in the world as a whole, so that there was a further slight fall in the share of the United Kingdom in world trade in manufactures. The important expansion in exports actually achieved consisted mainly of capital goods for which home demand was also strong. Furthermore, during 1956, U.K. exports were particularly affected by import restrictions in certain sterling area markets, as well as by some loss of exports to Egypt. Between 1955 and 1956 the U.K. share of the exports of industrial countries to the overseas sterling area declined from 51 per cent to 49 per cent; on the other hand, its share of the exports of non-American industrial countries to North America rose from 28 per cent to 31 per cent.

There was little change in net receipts on account of invisibles. An increase in net government expenditure and a decline in net receipts on shipping account were offset by changes in other items. Net receipts from oil rose slightly, despite a falling off in the second half of the year. Interest charges on the North American loan of 1945 were paid into special accounts; after amendments of the Loan Agreements were agreed with the U.S. and Canadian Governments, the amounts were retransferred to U.K. reserves in April 1957.

The U.K. deficit on current account with non-sterling area countries fell from £304 million in 1955 to £51 million in 1956, while the surplus with the sterling area increased from £225 million to £284 million. While imports from sterling area countries fell, exports to them fared much less well than those to other countries, partly because of the relatively small expansion of imports in the overseas sterling area as a whole. There was also a decline in the share of sterling area imports supplied by the United Kingdom.

There was a surplus on current account in both the first and the second half of the year. Instead of showing the usual seasonal increase, the trade deficit in the second half was about the same as in the first; the immediate effect of the Suez crisis was a temporary reduction in both exports and imports at the year-end.

However, a falling off in net invisibles caused some decline in the current surplus in the second half of the year.

Although the net outflow of private long-term capital from the United Kingdom was somewhat larger in 1956 than in 1955, despite the sale of the Trinidad Oil Company to a U.S. firm for £63 million, the balance of current and long-term capital transactions in 1956 showed a surplus (excluding interest on the U.S. and Canadian loans) of £42 million, against a deficit of £242 million in 1955.

In the second half, and particularly in the fourth quarter, of 1956, however, severe pressure was placed upon the U.K. gold and dollar reserves by a substantial outflow of short-term capital, which was largely the result of a decline in confidence in sterling associated with the Suez crisis. Short-term capital movements and unidentified transactions,[4] which had brought an influx of £146 million in 1955 and of £33 million in the first half of 1956, resulted in the second half of the year in an outflow of £85 million. Virtually all of this deterioration took place vis-à-vis non-sterling countries. In addition, the non-sterling countries continued the process, evident since the middle of 1954, of reducing their sterling holdings; after falling by £82 million in 1955, these holdings declined by £48 million in the first half, and by £84 million in the second half, of 1956. A major part of this decline appears to have been in the holdings of non-sterling countries in the Far East, including Japan, whose balance of payments with the sterling area shifted from surplus to deficit.

The over-all payments deficit of the independent countries of the overseas sterling area (after account is taken of their gold production) appears to have been slightly smaller in 1956 than in 1955; the substantial deterioration in India's payments position was more than outweighed by the improvement in that of Australia and some other countries. At the same time, the surplus of the

[4] These transactions reflect the discrepancy between the current balance and the total of identified investment and financing items. They should not be assumed to consist entirely or even mainly of unidentified capital transactions.

TABLE 12. INTERNATIONAL TRANSACTIONS OF THE UNITED KINGDOM AND THE OVERSEAS STERLING AREA, 1955 AND 1956[1]

(In millions of pounds sterling)

	Total U.K. Transactions			U.K. Transactions With: Overseas sterling area			U.K. Transactions With: Non-sterling countries		
	1955	1956	Change	1955	1956	Change	1955	1956	Change
Current and investment accounts									
Visible trade	−359	−59	300	2	80	78	−361	−139	222
Invisibles[2]	280	292	12	223	204	−19	57	88	31
Special "waiver" account[3]	—	−37	−37	—	—	—	—	−37	−37
Investment accounts									
Long-term government	−53	−51	2	−19	−10	9	−34	−41	−7
Long-term private	−110	−140	−30	−100	−140	−40	−10	—	10
Short-term	60	−50	−110	40	10	−30	20	−60	−80
Errors and omissions	86	−2	−88	31	−3	−34	55	1	−54
Changes in overseas sterling holdings[4]	−134	−152	−18	−45	−19	26	−89	−133	−44
Total				132	122	−10	−362	−321	41
Overseas sterling area transfers	—	—	—	−132	−122	10	132	122	−10
Equal									
Overseas sterling area gold production, net[5]							215	230	15
Plus									
Other current and investment accounts of overseas sterling area with non-sterling countries, net							−36	−117	−81
Plus									
Changes in overseas sterling area gold and dollar reserves and net IMF position							−47	9	56
U.K. payments balance[6]	−230	−199	31	—	—	—	−230	−199	31

Sources: *United Kingdom Balance of Payments, 1946 to 1956, No. 2* (Cmnd. 122), and Fund estimates.

[1] The data for 1956 are preliminary.

[2] Including defense aid of £44 million in 1955 and £23 million in 1956.

[3] Payments of interest on U.S. Government loan into Special Account.

[4] Excluding change in IMF sterling holdings.

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

[6] Changes in official gold and foreign exchange reserves, change in EPU debit balance, and change in net IMF position (drawing in 1956 of £201 million).

colonies fell sharply, as their imports, especially those from the United Kingdom, substantially increased. Therefore, the payments deficit of the overseas sterling area as a whole showed a net deterioration between the two years. Its deficit with non-sterling countries increased from £36 million in 1955 to £117 million in 1956. Most of this, however, was offset by a continued increase in gold production and by the countries ceasing to accumulate gold and dollar reserves or to make net repayments to the Fund as they had done in 1955 (Table 12).

Consequently, net transfers of gold and foreign exchange from the overseas sterling area to the United Kingdom declined by only £10 million over the year as a whole. As in 1955, however, the deterioration between the first and second halves of the year was much larger than can be accounted for by seasonal factors. Transfers in the second half amounted to only £9 million (first half, £113 million) and, as the United Kingdom's own deficit in direct transactions with the non-sterling countries increased from £17 million to £303 million, strong pressure on the reserves was built up in the second half of the year, especially in the fourth quarter.

In view of this pressure, arrangements were made with the Fund under which the U.K. authorities were able to reinforce their reserves by drawing $561.5 million from the Fund. In addition, a stand-by credit of $738.5 million was arranged with the Fund and a line of credit of $500 million with the Export-Import Bank of Washington. In view of this massive mobilization of reserves and reserve potential, testifying to the determination of the U.K. authorities to maintain the value of sterling, adverse speculation was practically halted by the end of the year. U.K. gold and dollar reserves were about the same at the end of the year as at the beginning. If it had not been for the drawing on the Fund, they would have fallen in 1956 by nearly the same amount as in 1955.

Despite the pressure on reserves, no steps were taken by the United Kingdom to restore or intensify restrictions of any kind. The disinflationary policy was continued but, in view of the fact that the payments weakness was of a capital rather than a current nature, it was not intensified.

The drain on U.K. reserves stopped in the early part of 1957. A small reduction of gold and dollar holdings during January was followed by a moderate but steady rise in subsequent months. Excluding the retransfer to reserves of the $104 million previously paid into special accounts, there was a net addition to gold and dollar reserves, between the end of January and April, of some $130 million. Moreover, the United Kingdom's EPU debt declined during the same period by about $20 million. There was no drawing on either the stand-by credit arranged with the Fund or the line of credit opened by the Export-Import Bank.

The trade deficit of some $700 million in the first four months of 1957 was greater by $78 million than the deficit in the same period of 1956; both imports and exports were higher. The rise in the value of imports was due partly to higher prices and partly to the effects of the rerouting of import deliveries after the closure of the Suez Canal. The volume of exports was some 4–5 per cent larger than in the first four months of 1956, expanding at a rate slightly less than the 1956 average of 6 per cent.

Japan's payments surplus, which had risen to a high level in 1955, showed a decline from 1955 to 1956 (Table 10). Despite the fact that its export prices ceased to fall relative to those of competing countries, Japan's share in world export markets increased only a little less rapidly than in preceding years. The biggest increase was in the export of ships. As world demand rose and shipyards elsewhere faced rising costs and lengthening delivery periods, Japan became the world's largest shipbuilder, output in 1956 being three times that in 1955. Most other exports also increased substantially, but there was some falling off in exports of metals, owing to the pressure of domestic requirements. In certain cases, Japan has found it necessary to limit its exports, either to prevent the accumulation of illiquid credit balances or to forestall protective action by the importing country.

While imports of food declined in response to favorable harvests, imports in general increased more than exports (Table 9).

This was attributable to a sharp increase in domestic demand, based not only on the expansion of exports but also on a very substantial rise in home investment and bank credit expansion. The expansion of demand from 1955 to 1956 affected production and employment more than prices, since there had been considerable surplus capacity in the Japanese economy in 1955. Manufacturing production rose by some 18 per cent between the two years, necessitating substantially increased imports of raw materials and fuels. In order to help counteract inflationary tendencies, exchange controls were liberalized, and the total value of imports rose by 30 per cent, compared with a rise of only 3 per cent from 1954 to 1955.

There were considerable shifts from 1955 to 1956 in the geographical pattern of Japanese trade. Imports from the United States and Canada, which had declined between 1954 and 1955, increased sharply between 1955 and 1956. Exports to these countries also increased substantially. Exports to Latin America declined, especially those to Argentina. There was a large increase in imports from sterling area countries, but exports to these countries increased only slightly. Consequently, Japan's balance of payments with the sterling area deteriorated markedly, and official sterling holdings declined sharply in 1956, following a rise in 1955. Dollar holdings, however, rose more than in 1955. Partly because of a widening trade deficit, reserves declined by about $300 million in the first four months of 1957, compared with an addition of $170 million during the whole year 1956.

Countries Exporting Tropical Foods, Oilseeds, and Vegetable Oils

Changes between 1955 and 1956 in the trade and reserve positions of exporters of tropical foods, oilseeds, and vegetable oils are summarized in Tables 13 and 14. *Brazil's* trade and payments balances continued to improve in 1956. Some $129 million was added to its reserves, and cruzeiros equivalent to US$28 million were repurchased from the Fund, while at the same time other foreign medium-term obligations were reduced. The improvement in the trade balance from 1954 to 1955 had been achieved entirely by a sharp cut in imports; that from 1955 to 1956 resulted from a rise in exports accompanied by a further, though much more moderate, import cut. Higher receipts from coffee, resulting partly from restocking in the United States, were responsible for the expansion of export earnings; earnings from exports of cotton and cocoa were less than in the previous year. Domestic inflation continued, but imports, which had been reduced by some 20 per cent between 1954 and 1955, continued to decline at nearly the same rate during the first half of 1956, when they were 17 per cent

TABLE 13. TRADE OF EXPORTERS OF TROPICAL FOODS, OILSEEDS, AND VEGETABLE OILS, 1955 AND 1956

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

	Exports f.o.b.			Imports c.i.f.		
	1955	1956	Percentage change	1955	1956	Percentage change
Exporters of coffee						
Brazil	1,423	1,482	+4	1,306	1,234	−6
Colombia	582	600	+3	669	657	−2
Others[1]	474	466	−2	467	495	+6
Total	2,479	2,548	+3	2,442	2,386	−2
Exporters of other tropical foods[2]						
Cuba	607	666	+10	633	714	+13
Dominican Republic	115	126	+10	114	127	+11
Other Central America and Caribbean[3]	183	214	+17	278	328	+18
Ecuador	123	124	+1	108	96	−11
Gold Coast	244	216	−11	246	249	+1
Ceylon	407	364	−11	307	343	+12
China (Taiwan)	123	118	−4	201	194	−3
Total	1,802	1,828	+1	1,887	2,051	+9
Exporters of oilseeds and vegetable oils						
French West Africa	304	353	+15	384	387	+1
Nigeria	370	377	+2	380	426	+12
Philippine Republic	389	451	+16	641	598	−7
Total	1,063	1,181	+11	1,405	1,411	—
Total	5,344	5,557	+4	5,734	5,848	+2

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

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

[2] Sugar (cane), cocoa, tea, bananas.

[3] Honduras, Jamaica, and Panama.

less than in the first half of 1955. The intensification of import restrictions was made effective primarily by reducing the amounts of foreign exchange offered on the import certificate market. This led to a sharp rise in the certificate rates between the first half of 1955 and of 1956; effective import exchange rates, including the premium on certificates, increased by some 35-40 per cent. The rates reached their maximum and imports their minimum in May 1956; thereafter, the rates declined as increasing amounts of foreign exchange were auctioned and bank credit was subjected to increased restraints. By December 1956 the average rate was some 20 per cent below its peak, and imports in the last quarter of the year were some 15 per cent above those in the corresponding quarter of 1955.

The total export receipts of *Colombia* were greater in 1956 than in 1955, mainly because of increased earnings from petroleum and some minor exports. Although the export price for coffee was higher, a decline in the recorded export volume kept receipts from coffee exports lower than they had been in 1955. Growing domestic expenditure, supported by credit expansion, and an over-

TABLE 14. TRADE AND PAYMENTS BALANCES AND OFFICIAL RESERVES OF EXPORTERS OF TROPICAL FOODS, OILSEEDS, AND VEGETABLE OILS, 1955 AND 1956

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

	Trade Balance		Payments Balance[1]		Official Reserves, End of 1956	Official Reserves as Per Cent of Imports, 1956
	1955	1956	1955	1956		
Brazil	117	248	3	157	612	50
Colombia	−87	−57	−117	−8	132	20
Other coffee producers[2]	7	−29	15	−2	128	34
Cuba	−26	−48	39	−27	479	67
Dominican Republic	1	−1	0	2	37	29
Ecuador	15	28	−5	−1	32	33
Other Western Hemisphere[3]	−64	−65	−11	−1	60	36
Ceylon	100	21	35	18	221	64
Philippine Republic	−252	−147	−62	1	161	27

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

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

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

[3] Honduras and Panama.

valued currency promoted a continual increase in import demand, a deterioration of the reserve position, and further accumulation of commercial arrears. To counteract this tendency, the Government introduced a number of modifications into the Colombian exchange system.

Cuba's receipts from both sugar exports and minor exports increased substantially between 1955 and 1956. But preliminary estimates indicate that imports, including those admitted duty free in connection with the Government Social and Economic Development Program, rose somewhat more than exports, and the trade deficit therefore widened. In 1955, loans amounting to $92 million had made it possible to avoid drawing on reserves. In 1956, reserves declined slightly, and $12.5 million was drawn from the Fund in December of that year.

Ecuador, by means of a small increase in exports and a considerable cut in imports, increased its trade surplus and slightly improved its payments balance. Increased earnings from coffee offset the decline in receipts from bananas, cocoa, and rice. Imports were reduced partly by shifting certain import commodities from the official to the "free" rate category and partly by extending import prohibitions. These prohibitions were relaxed to some extent in the second half of the year, when export earnings showed a seasonal rise.

Export receipts in *Ceylon* were less in 1956 than in 1955, mainly because of lower prices for tea. Imports, however, exceeded those of the previous year, largely because of increased demand for consumer goods, particularly rice and textiles, and higher prices for imported capital goods. There was therefore a considerable decline in the trade surplus. The payments balance, however, declined only slightly, in part because commercial banks' short-term balances that had been built up in 1955 were drawn down in 1956.

The *Philippine Republic* reduced its trade deficit in 1956 and had a small payments surplus. The improvement was achieved mainly by a substantial expansion of exports (roughly 16 per cent for both value and volume), chiefly copra and coconut oil but also timber and abaca. Sugar exports declined by a small amount. Imports were reduced in part by intensified restrictions, but also because import requirements diminished as domestic food production expanded.

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

The trade and payments balances of the four main exporters of wool and livestock products—Australia, New Zealand, Argentina, and Uruguay—after having deteriorated seriously from 1954 to 1955 improved from 1955 to 1956 (Tables 15 and 16). In each of these countries, exports increased and imports fell. The sharp advance in wool prices at the beginning of the 1956–57 season was most pronounced for merinos, and particularly benefited *Australia,* whose receipts were considerably higher in 1956 than in the preceding year. Australia's export receipts were further enhanced by a greatly increased volume of wheat exports and by a continued advance in exports of manufactured goods. The rise in domestic prices was more pronounced in 1956 than in the preceding two years, but toward the end of the year there were indications of a better balance between over-all demand and supply. The great improvement in Australia's trade and payments balance in the latter part of 1956 continued through the first quarter of 1957 and permitted several relaxations of import restrictions early in the year. The rise in *New Zealand's* export receipts was due mainly to larger receipts for livestock products; earnings from wool were slightly less than in 1955.

The smallness of the increase in *Argentina's* exports was due principally to adverse price movements. Meat exports more than doubled in volume, but the increase in value was only 20 per cent. Exports of agricultural products did not increase significantly, largely owing to a short wheat crop, and their value fell by 10 per cent with lower prices for cereals. The effects of the substantial devaluation of the peso in October 1955 were not fully reflected in the trade balance in 1956, as it came too late to affect the planting of many of the 1955–56 crops. Rising exports in the first quarter of 1957 were due, however, in part to increased exportable supplies from expanded production in 1956–57. Despite a substantial reduction of quantitative restrictions, imports were less in 1956 than in 1955. As a result of the Paris Club arrangements some discriminatory features in the organization of Argentina's export trade were eliminated, and this was one factor that helped to expand exports in late 1956 and early 1957. The institution of a free market for capital transactions and the re-establishment of normal credit relations with the United States and Europe stimulated a substantial net inflow of capital. The over-all payments position thus showed a considerable improvement over 1955.

TABLE 15. TRADE OF EXPORTERS OF TEXTILE FIBERS, LIVESTOCK PRODUCTS, GRAIN, AND TOBACCO, 1955 AND 1956

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

	Exports f.o.b.			Imports c.i.f.		
	1955	1956	Percentage change	1955	1956	Percentage change
Exporters of wool and livestock products						
Australia	1,749	1,896	+8	2,160	1,937	−10
New Zealand	724	770	+6	804	752	−6
Argentina	929	944	+2	1,172	1,128	−4
Uruguay	183	211	+15	225	206	−8
Ireland	309	301	−3	572	507	−11
Denmark	1,056	1,111	+5	1,178	1,311	+11
Total	4,950	5,233	+6	6,111	5,841	−4
Exporters of vegetable fibers, grain, and tobacco						
Egypt	419	408	−3	537	534	−1
Sudan	145	192	+32	139	130	−6
Greece	183	190	+4	382	464	+21
Turkey	313	305	−3	498	407	−18
Syria	144	158	+10	179	188	+5
Pakistan	401	339	−15	290	351	+21
Total	1,605	1,592	−1	2,025	2,074	+2
Exporters of rice						
Burma	227	240	+6	180	197	+9
Thailand	335	335	0	334	362	+8
Total	562	575	+2	514	559	+9
Total	7,117	7,400	+4	8,650	8,474	−2

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

TABLE 16. TRADE AND PAYMENTS BALANCES AND OFFICIAL RESERVES OF EXPORTERS OF TEXTILE FIBERS, LIVESTOCK PRODUCTS, GRAIN, AND TOBACCO, 1955 AND 1956

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

	Trade Balance		Payments Balance[1]		Official Reserves, End of 1956	Official Reserves as Per Cent of Imports, 1956
	1955	1956	1955	1956		
Australia	−411	−41	−284	117	952	49
New Zealand	−80	18	−60	15	194	26
Argentina[2]	−243	−184	−223	−43	173	15
Uruguay[3]	−42	5	−37	52	193	94
Ireland	−263	−206	−17	−9	234	46
Denmark	−122	−200	−6	14	131	10
Egypt	−118	−126	−91	−83	573	107
Greece	−199	−274	11	2	210	45
Syria	−35	−30	1	14	62	33
Pakistan	111	−12	42	3	373	106
Burma	47	43	−29	14	121	61
Thailand	1	−27	25	13	311	86

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

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

[2] Official reserves are net and exclude holdings of Spanish pesetas. Payments balances shown are based on changes in net reserves, excluding Spanish pesetas.

[3] Payments balance and official reserves for 1956 are as of November.

There was, however, a substantial dollar deficit, which was in part the result of increased imports of dollar oil.

In *Uruguay,* where the introduction of exchange bonuses in the fall of 1955 had revived wool exports, the disposal of accumulated stocks in the first part of 1956 raised earnings from wool, though average prices were lower than in 1955. Greatly reduced stocks and a smaller 1956–57 clip, however, prevented Uruguay from taking full advantage of the price advance that occurred in the last quarter. Meat exports showed some recovery from their severe 1955 decline, but exports of wheat decreased on account of smaller crops. Total export receipts, though greater than in 1955, remained considerably below those in earlier years. To improve its payments position, Uruguay revised its exchange system and depreciated its effective import and export exchange rates. At the same time, imports were liberalized and importers required to make advance payments. The contractionary effect of these advance payments was offset, however, by expansion of bank credits. Actual imports in the second half of 1956, as well as in the entire year, remained below the corresponding 1955 levels, but tended to recover in early 1957.

There was a slight improvement in *Denmark's* balance of payments from 1955 to 1956; there was no decline in the country's slender reserves during the year, and liberal treatment of imports was continued. The volume of exports was only slightly greater in 1956 than in 1955. Output of meat and dairy products was reduced because of unfavorable prices, but there was a fairly rapid growth in the output of industrial and of other agricultural export goods. Although real consumption and investment did not rise, the volume of imports increased by some 7 per cent; this included a substantial increase in imports of petroleum products and fertilizers. The consequent increase in the trade deficit was compensated by higher shipping earnings, tourist income, and capital imports.

Denmark has sought to meet its balance of payments difficulties, which arise in part from its inability to find expanding markets for staple agricultural exports, mainly by applying a policy of monetary restraint, although at some cost to the progress of the domestic economy. The curtailment of demand in 1956 kept production, both industrial and agricultural, slightly below that in 1954 and 1955. Unemployment rose from an annual average of 8 per cent in 1954 to 10 per cent in 1956. This degree of deficiency in demand would presumably have had a more powerful effect in rectifying the current balance had it not been for the persistent upward pressure of wages and costs. From 1955 to 1956, wages rose by more than 6 per cent. Danish wage contracts provide for adjustments based on an annual cost of living assessment which takes into account both direct and indirect taxation. Thus, not merely increases in rents or food prices but also any attempts at disinflation by fiscal means are likely to generate wage increases. This may make it difficult to raise investment to the level required to achieve the necessary adjustment in the pattern of exportable production. In early 1957 there was a recurrence of balance of payments difficulties.

There was little change from 1955 to 1956 in *Egypt's* trade and payments balances. Exports, which had been running high in the first half of 1956, mainly on account of large cotton shipments to the Soviet area and Mainland China, declined markedly in the second half. For the year as a whole, export receipts were slightly less than in 1955, increases in minor exports partly offsetting reduced earnings from cotton. The decline in cotton exports appears to have been related to higher prices and a decline in demand in some European countries for Egyptian cotton. The considerable import surplus resulted largely from government purchases abroad, mainly for development purposes. While a large government deficit was the main expansionary force, credit expansion to the private sector also contributed to the inflationary pressure, which was reflected in considerable advances of domestic wholesale prices. The blocking of Egyptian assets which followed the nationalization of the Suez Canal and the decline in foreign exchange earnings—canal fees as well as merchandise exports—prompted the Government to curb imports by imposing strict direct controls, reducing expenditure for development, and licensing construction. As a result, imports in the last quarter of 1956 were kept at the level of exchange earnings. Reserves were strengthened by drawing from the Fund and by financial assistance from Mainland China and Saudi Arabia.

The trade and payments balances of *Pakistan* deteriorated in 1956. With a decline in exports and an increase in imports, there was a change from a substantial trade surplus in 1955 to a small deficit in 1956. A considerable increase in total imports in the second half of 1956 was due entirely to an increase in government imports, largely of staple foods, which proved necessary as flood damage led to a sharp rise in domestic prices of rice and wheat. Since these food imports were derived largely from U.S. surplus stocks, financed under grants or long-term loans, the worsening in the trade balance was reflected only to a minor degree in the payments balance. Exports recovered and there was a trade surplus in the first quarter of 1957.

Burma increased its export receipts from rice by selling not only its current crop but also large quantities of inferior rice from stocks accumulated earlier. Though demand and prices advanced in the latter part of 1956, average values received for the year as a whole were less than in 1955. The increase in Burma's imports, facilitated by liberalization, partly reflected rising requirements of materials and equipment for development purposes. Reserves increased until August 1956 but subsequently declined, mainly because of the fall in inconvertible balances arising from payments agreements with Eastern European countries and Mainland China. The pressure of development expenditure on internal prices and on reserves is likely to be mitigated by recent long-term loans, including a loan of Rs 200 million from India and one of $25 million from the U.S. International Cooperation Administration. In *Thailand,* on the other hand, with no stocks on hand, earnings from rice exports were less in 1956 than in 1955; receipts from rubber also declined, and total export receipts were barely maintained at the 1955 level. Imports, however, rose considerably and, instead of a small export surplus, as in 1955, there was a deficit, covered in part by grants from the United States. Large rice crops in both Burma and Thailand and the continued high demand for rice in importing countries are likely to maintain export earnings in 1957 at, or somewhat above, the 1956 level. In the first quarter of 1957, Thailand's exports were greater than in any quarter in 1956.

Countries Exporting Metals, Rubber, and Petroleum

The higher average prices for metals in 1956, compared with 1955, were reflected in the export values of countries whose export trade consists mainly or largely of metals (Table 17). The greatest increases in export receipts were in the Belgian Congo and Chile. Increased receipts for copper were responsible for the rise in Rhodesian export earnings; and higher receipts for tin helped to maintain the value of Malaya's exports despite much lower prices for rubber.

The foreign exchange position of *Bolivia,* however, deteriorated further from 1955 to 1956 (Table 18). Total export receipts rose only slightly, although world prices increased for tin and most of Bolivia's other exports. Earnings from tin declined because of a sustained decline in output; earnings from other metals rose somewhat, on account of higher prices. Although petroleum production continued to rise, lack of transportation facilities limited the expansion of exports. Acute inflation continued at an accelerated rate. Imports were kept at their 1955 level only by means of strict controls. With exchange holdings nearly exhausted, the goods and services deficit was met by U.S. aid and by borrowing from private sources. In December 1956 a comprehensive stabilization program was adopted to cope with internal inflation and to correct the foreign balance.

Chile's trade balance improved in 1956, mainly as a result of a considerable expansion in the value of exports resulting from higher receipts for copper. Imports, after having reached a peak in the first quarter of the year, declined temporarily, following the introduction in April of a comprehensive stabilization program and exchange reform, including replacement of a complex multiple rate structure by a single free rate for trade and a second free rate for tourist and most capital transactions. Inflationary pressure continued, though at a reduced pace. Subsequently, imports increased again, and in the last quarter of 1956 they were almost as high as they had been twelve months earlier. Reserves, which had been rising up to September, declined thereafter, and the free exchange rate, which had remained fairly stable through the first five months after its introduction, gradually depreciated.

Indonesia's trade and payments position deteriorated considerably between 1955 and 1956, much larger imports being accompanied by some decline in export earnings. The export decline resulted mainly from a slackening of demand and falling prices for rubber after the short-lived boom in 1955. Some advances in other exports, including petroleum, were insufficient to offset the

TABLE 17. TRADE OF EXPORTERS OF RUBBER, METALS, AND PETROLEUM, 1955 AND 1956

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

	Exports f.o.b.			Imports c.i.f.		
	1955	1956	Percentage change	1955	1956	Percentage change
Exporters of rubber and metals						
Bolivia	75	76	+1	95	95	0
Chile	472	543	+15	376	354	−6
Belgian Congo	454	535	+18	379	413	+9
Rhodesia [1]	484	510	+5	435	499	+15
Malaya	1,358	1,361	—	1,249	1,357	+9
Indonesia	932	883	−5	604	854	+41
Total	3,775	3,908	+4	3,138	3,572	+14
Exporters of petroleum						
Venezuela [2]	1,912	2,124	+11	1,092	1,270	+16
Netherlands Antilles	803	841	+5	996	1,062	+7
Trinidad	167	193	+16	172	176	+2
Brunei and Sarawak	255	267	+5	178	188	+6
Iraq	519	478	−8	273	321	+18
Kuwait	830	840	+1	...	...	....
Saudi Arabia [3]	811	835	+3	265	270	+2
Total	5,297	5,578	+5	2,976	3,287	+10

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

[1] Federation of Rhodesia and Nyasaland.

[2] Including estimate for 1956 of imports by air.

[3] Imports for 1956 are estimated on the basis of data for the first three quarters.

loss from rubber. The expansion of imports, which started late in 1955, was in part the result of additional requirements for imported food, mainly rice, arising out of two consecutive poor crops. These requirements were met in part by imports from U.S. surplus stocks; much of the rupiah proceeds from the sale of these imports was reloaned to Indonesia for development purposes. Imports of manufactures—capital as well as consumer goods—were also larger in 1956 than in 1955. The heavy drain on reserves was temporarily checked by drawing $55 million from the Fund in August 1956; this was followed by a series of changes in the exchange system, which are described in detail elsewhere in this Report. With a steadily expanding note circulation and declining exchange reserves, the monetary cover ratio fell continuously from December 1956, and the legal requirements for monetary cover were suspended for six months from May 1, 1957.

TABLE 18. TRADE AND PAYMENTS BALANCES AND OFFICIAL RESERVES OF EXPORTERS OF RUBBER, METALS, AND PETROLEUM, 1955 AND 1956

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

	Trade Balance		Payments Balance[1]		Official Reserves, End of 1956	Official Reserves as Per Cent of Imports, 1956
	1955	1956	1955	1956		
Bolivia	−20	−19	−5	−2	4	4
Chile	96	189	44	−7	76	21
Indonesia	328	29	59	−81	254	30
Venezuela	820	854	51	283	809	64
Iraq	246	157	61	59	353	110
Iran	...	...	10	18	230	...

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

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

The value of exports of countries depending largely on petroleum continued to increase steadily through the first three quarters of 1956. In *Venezuela* there was also an even steeper increase in receipts from other exports, though their share in the total is still small. The considerable rise in Venezuela's payments surplus resulted, in part, from increased U.S. investment, mainly in oil concessions. Petroleum production in *Iran* rose by almost 65 per cent between 1955 and 1956, and during the second half of 1956 approached the rate of output before the nationalization of the oil refinery in 1951. Other exports, which had accounted for somewhat less than one third of the total in the year ended March 1956, subsequently declined somewhat. The payments balance continued to improve.

Other Countries, Including Countries with Diversified Exports

The current account deficit and capital inflow which have characterized *Canada's* international accounts in recent years were further increased in 1956. The investment boom, which gathered strength during the year, had a dual effect on the balance of payments. The effects of the boom on real expenditure included an increase in merchandise imports which far exceeded the continuing rise in exports, thus doubling the deficit on current account. At the same time, the attractiveness of investment opportunities in Canada led to a doubling of the foreign capital inflow. The net result was a slight appreciation of the Canadian dollar in 1956, while reserves were allowed to increase a little, in contrast to the slight depreciation of the exchange rate and a decline in reserves in 1955.

Fiscal and monetary restraints slowed down the growth of the money supply, but increased velocity of circulation made it possible for money expenditure to rise substantially. Residential construction grew less than in other postwar years, but the value of business investment rose some 35 per cent above the 1955 level, the biggest increases occurring in the utilities, manufacturing, and extractive industries. In 1956 both real gross national product and industrial production were greater than in 1955 by about 7 per cent.

Owing, for the most part, to the high import-intensity of investment demand in Canada and to an active consumer demand for automobiles, the value of imports was greater than in 1955 by 21 per cent (Table 19). The value of exports rose by about

TABLE 19. TRADE OF COUNTRIES WITH DIVERSIFIED EXPORTS, 1955 AND 1956

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

	Exports f.o.b.			Imports c.i.f.		
	1955	1956	Percentage change	1955	1956	Percentage change
Canada	4,763	5,252	+10	5,165	6,262	+21
Union of South Africa	1,059	1,184	+12	1,485	1,524	+3
India	1,276	1,269	−1	1,413	1,711[1]	+21
Mexico[2]	810	890	+10	885	1,072	+21
Peru	268	308	+15	299	361	+21
Finland	788	774	−2	769	884	+15
Yugoslavia	257	323	+26	447	474	+6
Israel	90	107	+19	326	364	+12
Spain	446	440	−1	617	767	+24

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

[1] Preliminary; includes only part of government imports, which for 1956 are estimated at $438 million.

[2] Exports are adjusted for undervaluation of customs figures.

10 per cent, with an increase of one third in the volume of wheat shipments. The trade deficit (imports c.i.f.) of $1 billion was more than double that of 1955 (Table 20), and net expenditures on account of services were also higher, resulting in a current account deficit of $1.4 billion, some $700 million more than in 1955.

This deterioration on current account, however, was more than offset by an increase of $780 million in net capital imports. Less than 15 per cent of this increase consisted of an increase in direct investments in Canada by foreigners. For short-term capital movements, which are affected by such varied considerations as the financing of foreign trade, the accumulation of proceeds of new issues abroad, and exchange rate anticipations, the inflow was about $100 million less than in the preceding year. The largest increase in net inflow, amounting to almost $820 million, was in portfolio capital. This movement, which was found in both government and corporation securities, seems to have been attributable partly to the widening of the spread between U.S. and Canadian interest rates, following the abnormally narrow spread observed in 1955. About 75 per cent of the additional long-term net capital inflow in 1956 came from the United States, but there was also a substantially increased inflow from the United Kingdom and other countries.

TABLE 20. TRADE AND PAYMENTS BALANCES AND OFFICIAL RESERVES OF COUNTRIES WITH DIVERSIFIED EXPORTS, 1955 AND 1956

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

	Trade Balance		Payments Balance[1]		Official Reserves, End of 1956	Official Reserves as Per Cent of Imports, 1956
	1955	1956	1955	1956		
Canada	−402	−1,010	−44	44	1,939	31
Union of South Africa	−426	−340	−48	4	372	24
India	−137	−442	50	−418	1,360	79
Mexico	−75	−182	226	53	470	44
Peru	−31	−53	−4	15	67	19
Finland	19	−110	11	−40	174	20
Israel	−236	−257	26	5	59	16
Spain	−171	−327	34	−62	89	12

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

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

The short-term capital inflow in 1956 was exceptionally heavy during the first half of the year, following several months when the exchange rate for the Canadian dollar was relatively low; as the exchange rate rose, the capital movement dwindled and turned outward. These events again illustrated the tendency for a comparatively low exchange rate to evoke stabilizing inflows of short-term capital to supplement the basic credits associated with the movement of trade. Much of this supplementary inflow, however, typically occurs in the form of accelerated trade receipts or delayed payments, so that its impact upon the payments position is limited both as to quantity and as to duration. The experience of the last year has again illustrated the significance of comparative interest rates as a key factor affecting important elements in the capital flow. These indications reinforce the conclusion which might also be drawn from the experience of other countries that, whether a country adopts a fixed par value or a free exchange rate policy, reasonable balance cannot be maintained in its payments position unless its monetary and fiscal policies take account of external developments as well as internal business conditions.

The payments balance of the *Union of South Africa,* which had deteriorated in 1955, improved in 1956, mainly as a result of an improvement in the trade balance. Steadily rising exports of uranium, which has become its second largest export, and larger earnings from wool, owing mainly to higher prices in the second half of the year, raised export receipts by 12 per cent. Imports, on the other hand, advanced only slightly as the pace of internal expansion declined. A rise of 9 per cent in gold production also contributed to the improvement. Net capital inflow, which had been large prior to 1955, mainly for investment in gold and uranium mines, appears to have ceased in 1956. The movement of South African private capital to London, which had occurred in 1955 under the stimulus of interest rate differentials, was checked early in 1956 by the imposition of restrictions on certain movements of resident capital to other sterling area countries. With the fall in U.K. short-term rates, the controls became unnecessary and were abandoned early in 1957.

After three years in which reserves had been accumulated steadily, *India's* trade and payments balances deteriorated sharply in 1956, chiefly because of a steep rise in imports associated with the intensified pressure of its development program. There was a small decline in exports and some worsening of the terms of trade, the prices of India's main export goods being lower than in 1955 and those of imports higher, partly on account of rising freight rates. Tea exports increased both in volume and in value, despite a fall in price. Exports of jute goods decreased, however, owing to a decline in foreign demand that affected both volume and price. The volume of cotton textile exports declined, influenced by both increasing competition from Japan and growing demand in the domestic market. In order to curb domestic demand, the excise tax on cotton cloth was raised, effective September 1, 1956. The main cause of the worsening of the trade balance and of the drain on reserves was the sharp advance in imports, particularly of material and equipment purchased in connection with the Second Five Year Plan that came into operation early in 1956. Advance payments for some of these imports that were expected to arrive later added to the pressure on reserves. Moreover, somewhat smaller crops and rapidly rising food prices prompted the Government to increase staple food imports. The increase in imports and the resulting drain on reserves continued through the first quarter of 1957. The latter was relieved through drawings on the Fund in February and March 1957, totaling $127.5 million. In addition, a stand-by arrangement was agreed with the Fund, under which India might draw an additional $72.5 million during a twelve-month period commencing March 11, 1957.[5] The more fundamental measures adopted by the Indian authorities are described in a later chapter.

Mexico had a sizable payments surplus in 1956, though it was not as large as the 1955 surplus. The value of exports increased, partly on account of higher earnings from coffee and metals but mainly as a result of a sharp rise in the volume of cotton exports,

[5] India drew the entire amount permitted by this arrangement on June 12, 1957.

which raised earnings by well over 20 per cent in spite of lower world prices. The effect upon producers and exporters of the reduced cotton prices was offset in mid-1956 by a 30 per cent reduction of the export duty. In addition to increased receipts from merchandise exports, there was a rise in net earnings from travel and border transactions. The sharp rise in imports, consisting largely of materials and capital equipment, was closely connected with the continuance of the growth in production and with development activity; in view of the steady rise in domestic output of food, imports of foodstuffs have been gradually declining. In spite of substantial amortization payments, there was a net inflow of investment funds, largely private capital in the form of direct investment, supplemented by drawing on IBRD and Export-Import Bank credits.

Peru's payments balance improved in 1956. There was some increase in the trade deficit, and a substantial change in the movement of private short-term balances held in the United States—an outflow of $8 million in 1955 being followed by an inflow of $14 million in 1956. A rise in exports was due mainly to a larger volume of metal and cotton exports, but higher prices for metals as well as for sugar also contributed to the rise. The sharp increase in imports was largely in materials and capital goods, financed by foreign companies operating in Peru and by loans from the IBRD and other sources. While increased food imports also were made necessary by drought conditions, much of these imports were provided under grants or loans from U.S. surplus stocks. Increased demand for other consumer goods, stemming in part from considerable wage increases in the first part of the year, also contributed to the expansion. Some slowing down in the pace of government investment outlay combined with monetary restraints imposed in the summer of 1956 reduced inflationary pressure in the latter part of the year. This may have contributed to the inflow of short-term funds, mainly through the repatriation of Peruvian deposits in U.S. banks. The strength of Peru's payments position was shown by the movement of the free market exchange rate, which rose from approximately 19.50 soles per

U.S. dollar at the beginning of the year to 19.00 soles at the end. This development may have been in part responsible for the repatriation of short-term Peruvian capital.

After several years of export surpluses and rising reserves, both the trade balance and the payments balance of *Finland* showed deficits in 1956, as exports declined slightly while imports continued to rise. The sharp rise in imports was related to a cost-induced increase in prices and incomes, which emerged after the settlement of a prolonged general strike in March 1956. The reduction in export receipts was accounted for mainly by a substantial fall in sawn timber and plywood exports. This decline was in part the result of weakening foreign demand and lower prices and partly of rising domestic costs which reduced the competitive power of exporters. Exports of other products increased as new production facilities came into use. Toward the end of 1956 the authorities found it necessary, in view of increasing pressure on the balance of payments, to intensify import restrictions.

IV

Domestic Financial and Economic Policy

THE characteristic features of a business boom which had already gone on for fully two years were evident during 1956 both in the more highly industrialized and in many of the less developed countries. There was still a large, and in some countries even an expanding, volume of private business investment. The rate of expansion, indeed, was generally somewhat reduced, and this was not surprising, for in most countries the available labor and other resources were already almost fully employed. Total output continued to increase, but also at a somewhat reduced rate. In many countries, the pursuit of ambitious development plans added substantially to the total volume of investment.

There was, as a rule, a growing demand for long-term funds to finance this expanding volume of investment. Since the demand often exceeded the flow of current savings, it led to an increase in interest rates in the long-term market. At the same time there was a growing demand for short-term capital to finance an expanding volume of trade; and the movement in long-term rates placed additional pressure on short-term interest rates, since in many countries both public authorities and private enterprises turned increasingly to the banks and other sources of liquid funds for short-term accommodation. In a number of countries, the expansion of credit increased the demand for goods and services with consequent rising prices.

The bargaining position of wage earners became stronger as the demand for labor was stimulated by general boom conditions and expanding credit, and there was a tendency for money wages to increase more rapidly than productivity. Both as a cost element and as a source of increased demand, higher money wages became in turn an additional factor in the upward movement of prices.

The authorities in most countries realized the dangers of further inflationary developments, and often found public opinion increasingly critical of rising prices and ready to accept appropriate anti-inflationary measures. The story of the year is to a large extent a record of the endeavors of governments and central banks, and to some extent of responsible leaders in trade unions and other economic organizations, to devise and apply suitable means for dealing with the recurrent problem of inflationary pressure. The financial authorities have resorted both to traditional methods of fiscal and credit policy and to techniques developed in recent years that involve various types of intervention in particular sectors of the economy. It has been widely recognized that, in times of intense private business investment, speculative and other excesses in the private sector of the economy ought to be resisted and cautious policies pursued in the public sector.

During the course of the current boom, the flow of voluntary savings has generally been well maintained, and there has also been an expansion of bank credit. The demand for both long-term and short-term capital has been so intense, however, that interest rates generally have tended to rise. Now that hardly any central bank seeks to peg government bond prices, the effects of variations in the interplay of supply and demand are more clearly seen in the long-term capital market. It is now generally understood that the expansion of central bank credit for the purpose of holding down long-term interest rates is likely to lead to rising prices and a balance of payments deficit. Moreover, before long, rising prices, which lower the purchasing power of the monetary unit, will reduce the real value of the amounts available for investment, and if such a movement is not checked in time, the volume of real investment may clearly be diminished. If the balance of payments deficit that is likely to appear in these circumstances is financed by drawing on reserves, there is no real net increase in investment, but one form of investment is substituted for another, an increase in domestic investment being offset by disinvestment in exchange reserves. If all these developments are allowed to persist, there will be anxiety among the general public, wage earners will press for increased remuneration, the discouragement to thrift will make people hesitate more about making savings in the form of money or of assets with a fixed value in terms of money, the allocation of the available capital resources will be distorted, and the flow of resources into the money and capital market will shrink, with drastic effects upon the volume of investment.

A rising long-term interest rate, as determined by market forces, is a most significant indicator of increasing demand for funds to finance an expanding volume of investment. There is also normally some connection between the short-term and the long-term markets, but the short-term market is of course affected more particularly by the increasing demand for working capital which arises in the course of a business boom. The stiffer credit policies recently applied by the monetary authorities in most countries, including increases in interest rates, and other forms of restraint placed upon the expansion of credit, should be regarded as essentially the result of real pressures upon the supplies of loanable funds. In their decisions with regard to official discount rates, central banks have to take account of these pressures. A willingness to use more promptly the powers of the monetary authorities to check inflationary trends by stiffening credit conditions might indeed have been helpful in not a few countries during the current boom.

In the more industrialized countries the increase in bank credit in 1956 was generally much greater than the expansion of industrial production (Table 21). Nevertheless, there was considerable tightness in many money markets, and interest rates rose during the year.

The tendency for wage rates to rise more rapidly than productivity was becoming a cause of concern in several countries in 1956. Owing to boom conditions and growing labor shortages, the bargaining position of labor was strong, and in nearly all of the more industrialized countries money wages rose more than the cost of living.

TABLE 21. CHANGES IN BANK CREDIT TO THE PRIVATE SECTOR AND IN INDUSTRIAL PRODUCTION, SELECTED COUNTRIES, 1955 AND 1956

	Bank Credit to Private Sector		Industrial Production	
	Percentage change from end of previous year		Percentage change from previous year (annual average)	
	Dec. 1955	Dec. 1956	1955	1956
United States	18[1]	9[1]	12	3
Canada	27	12	9	7
United Kingdom	−2[1]	4[1]	6	0
Austria	14	13	17	4
Belgium-Luxembourg	13	7	9[2]	6[2]
Denmark	2[3]	6[3]	1[4]	−2[4]
France	16	22	8	12
Germany, Federal Republic of	23	13	14	8
Italy	14	16	9	8
Netherlands	17[5]	11[5]	7	5
Norway	5	1	7	4
Sweden	−5	1	7	2
Japan	20[6]	29[6]	9[4]	18[4]

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

[1] Changes in "other" banks' (in the United States, all commercial banks; in the United Kingdom, London clearing banks) claims on business and individuals.

[2] Belgium only.

[3] Claims on the private sector of the National Bank plus domestic assets of the deposit money banks.

[4] Manufacturing production.

[5] Changes in commercial banks' claims on the private sector (domestic). Based on data from De Nederlandsche Bank N.V., *Report for the Year 1956*.

[6] Changes in other banks' (i.e., other than the Bank of Japan) claims on the nongovernment sector.

This was a continuation of the trend evident in the period 1950–55, when real wages had increased in most of these countries. However, in these years wages had in many countries risen at a slower rate than productivity. In 1956 indeed productivity hardly increased in Austria, Finland, and the United States. In the United Kingdom it declined, and in most of the other countries the rate of increase was slower than in 1955.

Partly as a result of these developments and partly because of the uncertainty whether the boom would last throughout 1957, businessmen began more strongly to resist further wage increases, and there were several labor disputes in early 1957. In the United Kingdom, for example, there was pressure for higher wages in nearly all major industries toward the end of 1956. By early 1957, major disputes affecting more than 6 million workers were under negotiation in most of the basic industries, such as building, electricity, engineering, transport, and shipbuilding.

Many governments were concerned about the danger of a wage-cost spiral, especially where wages and prices are closely linked as they are, for example, in Denmark, Finland, and France and in some major industries in the United States. Temporary wage and price freezes were introduced in Belgium, France, Finland, and Iceland during the second half of the year, but were not in all cases rigidly enforced. One purpose of these controls was to give time to governments to enable them to find a way of effectively combating inflation. In Italy and Sweden in the first quarter of 1957, workers and employers reached new agreements for adjusting wages to prices, the agreement in Sweden being for a two-year period.

Under the influence of the boom, prices rose in virtually all of the more industrialized countries during 1956. In a number of countries the price increases, though moderate in size, threatened to disturb the financial stability of the economy, especially when they marked the continuation or the acceleration of an upward trend.

Supply of Credit

Despite the policy of credit restraint which was widely adopted, the supply of bank credit to business increased in 1956 in most countries in response to increasing demands for funds. In Austria, France, and Italy, credit expansion was facilitated by increased central bank lending to the commercial banks. In Canada, the Netherlands, and the United States, the commercial banks reduced their holdings of government securities to finance credit expansion to the private sector.

The rate of expansion of commercial bank credit to the private sector in the United States in 1956 was no more than half of what it had been in 1955, but it substantially exceeded the rate of growth in industrial production and gross national product. Since there was little net change in Federal Reserve Bank holdings of U.S. Government securities, the reduction in commercial bank holdings of government paper did not increase the reserves of the banking system as a whole, and the increase in money supply was held to slightly less than 1 per cent, compared with 3 per cent in both 1954 and 1955.

The effect of credit restraint on expenditures was partly offset in both 1955 and 1956 in most of the more industrialized countries by increased velocity of circulation of money (Table 22). Business firms and individuals responded to the shortage of credit and rising interest rates by economizing in the use of their cash holdings, and there were also some shifts of deposits to time and saving accounts. In most of the 15 countries listed in Table 22, there was a noticeable increase in velocity in 1955 compared with 1954, and in 1956 there seems to have been a tendency for velocity to rise farther. So long as confidence in the currency is maintained, there is of course a limit beyond which velocity of circulation will not increase.

TABLE 22. INDICES OF TURNOVER OF DEPOSITS AND OF INCOME VELOCITY OF MONEY,[1] SELECTED COUNTRIES, 1955 AND 1956

(1954 = 100)

	Turnover of Deposits		Income Velocity	
	1955	1956	1955	1956
Australia	111[2]	119[2]	107[2]	114[2]
Austria	104	119	104	115
Canada	98	116	101	110
Denmark	106	107	106	...
France	...	...	95	92
Germany, Federal Republic of	105	108	102	102
Italy	...	...	97[3]	95[3]
Japan	...	...	99[4]	91[4]
Netherlands	...	...	102	...
Norway	104	113	107	...
Sweden	109[5]	120[5]	106[5]	...
Switzerland	...	...	103[3]	...
Union of South Africa	112[6]	127[6]	106[6]	112[6]
United Kingdom	...	...	105	112
United States	104	111	105	109

Sources: Based on data from International Monetary Fund, *International Financial Statistics;* United Nations, *Monthly Bulletin of Statistics; Monatsberichte des Österreichischen Instituts für Wirtschaftsforschung* (Vienna); Dominion Bureau of Statistics, *Canadian Statistical Review* (Ottawa); Bank deutscher Länder, *Monthly Report* (Frankfurt am Main), January 1957; Ministero del Tesoro, *Relazione Generale sulla Situazione Economica del Paese, 1955* and *1956* (Rome, 1956 and 1957); The Mitsui Bank, Ltd., *Monthly Review* (Tokyo), March 1957; *Economic Survey, 1957* (London, Her Majesty's Stationery Office, 1957).

[1] Turnover of deposits is the ratio of the monthly average of bank debits or bank clearings to deposit money (average of end-of-month data). Income velocity is the ratio of gross national product to money supply (average of end-of-month data).

[2] Year ended June 30.

[3] Average of end-of-quarter data used for money supply.

[4] Year beginning April 1.

[5] Averages of end-of-quarter data used for deposit money and money supply.

[6] National income used in place of gross national product. See also footnotes 2 and 5.

Before World War II, consumer credit was generally not an important element determining the level of consumer demand, except in the United States. Although still a comparatively small part of total credit, it has been expanding rapidly in many countries since the end of the war. In Canada, outstanding installment credit to consumers has nearly quadrupled in the last five years and in 1956 was equal to about one quarter of the personal and nonfinancial business loans made by commercial banks. In the United Kingdom, France, the Netherlands, Australia, and some other countries, consumer credit has also been growing in the postwar period.

The expansion of the operations of consumer finance companies, which are not subject to the same kind of control that is exercised by central banks over commercial banks, has led to some difficulties in the implementation of monetary policy. These finance companies are in most countries not subject to legal reserve requirements, and they may be less responsive than the commercial banks to moral suasion by the central bank. They cannot indeed create credit in the same manner as the banking system, but the expansion of their operations may have the effect of increasing aggregate demand. In several countries, including the United Kingdom and the United States, there has been public discussion of the desirability of bringing these companies and other nonbank financial intermediaries under control.

In 1956, many countries, including Austria, France, the Netherlands, and the United Kingdom, introduced new regulations, or tightened existing ones, on installment credit for the purchase of consumer goods. The regulations generally related to downpayments and maturities; but in France the lending capacity of each consumer credit institution was restricted by reducing the permissible limit of its loans from ten times to eight times its own resources.

Interest Rates

Market rates of interest rose everywhere during 1956 (Table 23), as a result of market forces and the firm money policy that was being

TABLE 23. MARKET INTEREST RATES, SELECTED COUNTRIES, 1955 AND 1956

(In per cent per annum)

	December 1955	June 1956	December 1956
United States			
Treasury bill rate	2.56	2.53	3.23
Government bond yield (medium-term)	2.83	2.91	3.69
Government bond yield (long-term)	2.88	2.89	3.43
Canada			
Treasury bill rate	2.56	2.52	3.67
Government bond yield	3.38	3.38	4.01
United Kingdom			
Treasury bill rate	4.09	5.06	4.93
Government bond yield (short-term)	4.58	4.65	5.10
Government bond yield (long-term)	4.39	4.74	4.90
Corporate bond yield (debentures)	5.36	5.66	5.85
Australia			
Government bond yield (short-term)	4.19	5.13	4.69
Government bond yield (long-term)	4.53	5.34	5.09
New Zealand			
Government bond yield	4.38	4.63	4.78
Union of South Africa			
Treasury bill (tap) rate	3.00	3.25	3.25
National Finance Corporation (deposit) rate	2.88	3.12	3.12
Government bond yield	4.62	4.75	4.75
Belgium			
Government bond yield	4.17	4.18	4.42
Denmark			
Government bond yield	....	5.69	5.79
France			
Government bond yield	5.15	5.35	5.62
Call money rate	2.99	3.02	3.55
Germany, Federal Republic of			
Call money rate	4.09	5.52	4.94
Mortgage bond yield	4.6	4.9	5.5
Italy			
Government bond yield	6.38	6.74	7.21
Netherlands			
Treasury bill rate	1.06	2.38	3.48
Government bond yield	3.40	3.90	4.21
Norway			
Government bond yield	3.14	3.19	3.21
Sweden			
Government bond yield	3.75	3.74	4.05
Industrial bond yield	4.78	4.73	4.96
Commercial banks' discount rate (three-month bills)	4.25	4.25	4.50

Sources: International Monetary Fund, *International Financial Statistics;* Central Statistical Office, *Monthly Digest of Statistics* (London); Institut National de la Statistique et des Etudes Economiques, *Bulletin Mensuel de Statistique* (Paris); Skandinaviska Banken, *Quarterly Review* (Stockholm); and Konjunkturinstitutet, *Konjunkturjournalen* (Stockholm).

followed in many countries. The central banks of eight[1] of the more industrialized countries raised their discount rates at least once during 1956. Of these countries, Germany alone lowered its discount rate during that year, though not to the level from which it had been raised earlier in 1956. In the first quarter of 1957, the discount rate was lowered again in Germany from 5 per cent to 4.5 per cent, and the rate in the United Kingdom was also reduced. The Bank of France increased its discount rate from 3 per cent to 4 per cent in April 1957, the first increase in that rate since 1951.

The discount rate in the United Kingdom was lowered from 5½ per cent to 5 per cent in February 1957. Official statements emphasized that this step was not intended as a signal for the relaxation of credit or for the easing of restrictions on lending. The treasury bill rate had been declining since December 1956, and the reduction in the discount rate was regarded as a technical move designed to keep the bank rate in close touch with the market. It was also expected to continue to provide favorable conditions for funding part of the public debt, with the objective of diminishing the liquidity of commercial banks. The fall in short-term interest rates will, moreover, reduce interest payments on the sterling holdings of overseas countries and will also lower the cost of servicing government securities held domestically.

A new practice of fixing the bank rate every week at a fixed margin of ¼ per cent above the latest weekly average tender rate for 91-day treasury bills was adopted in Canada, effective November 1, 1956. According to the Canadian authorities, this was a step to make the bank rate more flexible and responsive to changing conditions in the short-term money market. The Bank of Canada has indicated that it will feel free to change the ¼ per cent margin between the treasury bill rate and the bank rate or to depart from the system of automatic adjustment of the bank rate if changing circumstances seem to justify such a move.

In the United States, growing investment demand in relation to the supply of loanable funds raised market rates of interest further in

[1] United States, Canada, United Kingdom, Belgium, Germany, Ireland, Netherlands, and Sweden.

1956. Average rates charged by banks on large business loans rose from 3.75 per cent to 4.20 per cent. The rise was in conformity with the policy of credit restraint adopted by the monetary authorities. The Federal Reserve Banks increased their discount rates by ¼ per cent in April and again by ¼ per cent in August, when all such rates reached 3 per cent.

Other Restraints on Credit

In addition to raising discount rates and placing restrictions on installment purchases, the authorities in many countries took further steps to limit credit expansion. In some countries the reserve requirements for commercial banks and other credit institutions were increased. Thus in Austria, the liquidity requirements and credit ceilings previously enforced on only part of the banking system were extended toward the end of 1955 to additional groups of credit institutions; and in November 1956, credit restrictions were further reinforced by a substantial downward adjustment of the previously established credit ceilings and by other restrictive measures. In Norway, the earlier gentlemen's agreement on credit expansion was extended in 1956. Changes in reserve requirements in France had some effect in tightening restrictions on commercial bank credit to the private sector, but might also make possible an increase in the amount of funds made available to the Treasury.

In Finland, on the other hand, the cash reserve requirement agreement between the Bank of Finland and the private banks was not renewed when it expired in June 1956, and advance deposit requirements for obtaining import licenses were lowered from 20 per cent to 10 per cent. In view of the continuing inflationary pressures, however, the Bank of Finland expressed the hope that private banks would reduce the amount of rediscounts outstanding.

Other monetary measures included moral suasion and selective credit controls. Many central banks, especially those in the Scandinavian countries, have relied heavily on a general understanding with commercial banks to check any undue credit expansion. In the

United Kingdom, moral pressure was used by the Chancellor of the Exchequer when he appealed to the banking community to prevent excessive credit expansion. In July 1956, in a communication to the chairmen of the London clearing banks and other banks, he asked that "contraction of credit should be resolutely pursued."

Fiscal Policy and Budgetary Developments

The government sector today is a substantial fraction of the economy of practically all countries. In Sweden and the United Kingdom, central and local government expenditures on goods and services equaled approximately one quarter of the gross national product in 1955; and in nearly all the other more industrialized countries, the ratio was between 15 and 20 per cent. Partly because of this fact and partly because in many countries a budget deficit has been one of the expansionary factors, increased attention has been given in recent years to the desirability of supplementing an active monetary policy with measures to reduce the budget deficit or to achieve a surplus.

In the United States, the federal cash budget showed a surplus of $5.5 billion in the calendar year 1956, in contrast to a deficit of $740 million in the calendar year 1955. In 1956 there were smaller budget deficits than in 1955 in Austria, Belgium, Finland, Italy, and Sweden, and in Norway there was a larger surplus. In France, however, the budgetary situation deteriorated in 1956. Many countries, including Canada, Denmark, Italy, Norway, Switzerland, and the United Kingdom, plan in their 1957 budget estimates to reduce the deficit or increase the surplus to help contain inflationary pressures.

Governments have faced many difficulties in attempting to reduce budget deficits. One problem has been presented by the need for an increase in the salaries of civil servants in view of increases in the cost of living and in wages and salaries in the private sector. Another difficulty is presented by the need to maintain large military expenditures in many countries, especially the United States, the United Kingdom, and France. In the United Kingdom, however, steps were being taken to reduce such expenditures in 1957. Another charge which in some countries complicates the problems of cutting the budget is the increased cost of servicing the public debt because of higher interest rates.

In addition to attempting to achieve a smaller budget deficit or a budget surplus, many governments have adopted selective fiscal measures designed to reduce consumption or private investment. Subsidies have been curtailed not only to reduce government expenditures but also to lessen distortions in the consumption pattern attributable to the artificial cheapening of subsidized goods. For example, the Government of Finland substantially reduced subsidies in October 1956. In the Netherlands, in the spring of 1957 the Government decided, as part of a general stabilization program, to reduce the subsidies on milk, to abolish those on sugar, and to increase the rates charged for certain public services; in addition, rents were to be raised by 25 per cent in mid-1957.

In order to restrict private investment, many countries increased taxes on profits or lowered tax deductions for depreciation and investment allowances. In Belgium, for example, a bill was passed in March 1957 imposing a special tax of 5.5 per cent on profits made in 1956 and 1957 beyond a certain level. The proceeds of the tax are to be sterilized in a special central bank account until their final disposition is decided by the Government. In the Netherlands, the Government proposed an increase in the rate of tax on corporate profits and the abolition of tax deductions for investment outlays.

North America

In the *United States*, resources were already almost fully utilized at the beginning of 1956, and real national output increased by only 2½ per cent from 1955 to 1956, compared with 7 per cent from 1954 to 1955, when the economy had been recovering from a previous mild recession. Despite a large addition to the working population, unemployment remained close to the low level of 1955. The increase in output per man-hour was less rapid than in 1955, but wage rates continued to rise. The general level of prices turned upward after a four-year period of virtual stability. Between December 1955 and December 1956, consumer prices rose by 3 per cent and wholesale prices by 4½ per cent. The decline in wholesale prices of farm products, which had been going on since 1951, was reversed.

Two important U.S. industries in which activity declined during 1956 and early 1957 were automobiles and residential construction. The 1956 output of 7 million passenger cars and trucks was almost 2½ million less than in 1955. Housing starts fell from 1.3 million in 1955 to 1.1 million in 1956.

Gross business savings rose substantially less than business investment and, despite an increase in individual savings and a government surplus, competition for funds through the money and capital markets was intensified. Both short-term and long-term interest rates, which had risen sharply in 1955, continued to increase in 1956. The monetary authorities placed some restraints on credit expansion by increasing the discount rate and by other means. The banks, however, expanded loans by reducing their holdings of U.S. Government securities. Business corporations drew heavily on their cash reserves to finance their investment programs. Furthermore, there was some tendency to shift to share issues in raising new funds, as the spread between the costs of equity and of debt financing (as reflected in yields of shares and bonds) continued to narrow. The shortage of funds affected the terms and availability of mortgage loans, which, together with rising construction costs, were an important factor in the smaller volume of residential construction in 1956.

In *Canada*, private business investment expanded rapidly during 1956. The monetary authorities had adopted a policy of credit restraint in the summer of 1955. Interest rates rose in the second half of that year, and continued to increase in 1956. Higher interest rates and ample investment opportunities attracted additional foreign capital. Capital inflow reached record levels in 1956; the net inflow of portfolio capital was more than twice the previous record amount, in contrast to a net outflow in 1955. Inasmuch as the private capital inflow was roughly equal to the balance of payments deficit on current account, it had little direct effect on the domestic monetary situation.

The Government realized a considerable budgetary surplus, and through large sales of government securities by the commercial banks, bank claims on the government sector were substantially reduced. Bank loans to the private sector were considerably expanded, but largely from the proceeds of these sales, as the money supply was almost unchanged.

Despite the fact that the money supply did not increase significantly, there were signs of inflationary pressures. Unemployment fell, and wage rates in manufacturing industry increased by 5½ per cent. This increase in wage rates exceeded the growth in productivity and caused some upward pressure on prices. After four years of stability, both the wholesale price index and the cost of living index rose, and in the last quarter of 1956 they were about 3 per cent higher than in the last quarter of 1955.

Sterling Area

Although there was some critical pressure upon the balance of payments toward the end of 1956, the basic economic position of the *United Kingdom* for the year as a whole improved in response to the disinflationary policies pursued by the authorities. Progress toward financial stability was assisted by the monetary measures of 1955 and early 1956. The increase during the latter year in commercial bank credit to the private sector was small, and installment purchase debt fell by 20 per cent. As a result, consumer expenditure as a whole hardly increased despite larger personal incomes. Total industrial outlay on fixed capital increased by 11 per cent, compared with as much as 18 per cent in 1955. Wages, however, increased more than the cost of living, and labor costs per unit of output appear to have risen more than in 1955.

Partly because of the effectiveness of domestic credit restrictions, but also in some cases because of increased trade and credit restrictions in overseas markets, certain British industries curtailed their production in 1956; in particular, production of automobiles had to be substantially reduced. The easing of total demand was also reflected in the labor market. Unemployment increased toward the end of 1956, reaching 1.9 per cent of the working force by January 1957, and the number of unfilled vacancies at the end of the year was, for the first time since March 1954, slightly smaller than the number of unemployed; the slackened demand for labor was also evident in shorter hours of work. These symptoms were interpreted as indicating that inflationary pressures had been brought under better control rather than as evidence of incipient recession; the authorities continued to emphasize that policies of restraint had to be maintained so as to secure further improvement in the balance of payments.

The budget for the fiscal year ended March 31, 1957 showed an over-all deficit of £331 million, which was substantially above the over-all deficit of £141 million in 1955–56. (The budget for 1956–57 included a large amount of loans to nationalized industries, which previously borrowed directly in the market. There was, however, an almost equivalent offsetting decrease in loans to local authorities, which previously borrowed from the Public Works Loan Board but now obtain in the market most of the funds that they require.)

The 1957–58 budget provides for reduced expenditures, especially for defense purposes, and reductions were made in both direct and indirect taxes, amounting to about £100 million in 1957–58, or to £130 million in a full year. Despite these tax reliefs, revenue was expected to increase as a result of higher incomes. The over-all deficit for 1957–58 was estimated at £125 million.

In *Australia* and *New Zealand*, market rates of interest rose during 1956 in response to measures taken by the authorities in late 1955 and early 1956. In the *Union of South Africa*, interest rates remained stable after February 1956, when the South African Government, instead of following the movement of the bank rate in London, placed restrictions on certain movements of resident capital to other sterling area countries. These restrictions were removed early in 1957, when short-term interest rates in London had fallen. In Australia and New Zealand, commercial bank credit to the private sector declined in 1956, while in the Union of South Africa it remained more or less unchanged. In each of these countries cautious fiscal and monetary policies were followed; the central banks relied to a large extent on cooperation with the commercial banks, while in New Zealand obligatory reserve ratios were also varied during the year, being on the whole stricter than in 1955.

Continental Europe

Boom conditions continued and inflationary tendencies reappeared during 1956 in most countries of continental Europe. These tendencies were most noticeable in Finland and France, where there were both a rise in prices and a fall in foreign reserves. In several other countries, strong demands for long-term and short-term funds were allowed to result in excessive credit expansion, generally accompanied by increases in wages, which also helped to push prices up.

The reappearance of inflationary pressures in *France* in 1956, after three years of comparative stability, reflected increased demand by both the government sector and the private sector. Government expenditures rose, largely as a result of military outlays, and, notwithstanding some increases in taxes, the budget deficit increased. Private investment, already high in 1955, increased still further, and private consumption rose as substantial wage increases occurred. Domestic credit of the banking system expanded by 15 per cent, and despite a decline in foreign assets the money supply rose by 11 per cent. The upward movement of the cost of living was kept in check by a substantial import surplus and a rise in industrial production, as well as by measures specifically intended to hold down the index. The special measures affecting the index included a freeze of prices of manufactured goods, reductions of indirect taxes on a number of commodities, and larger subsidies. The budget for 1957, voted by Parliament in December 1956, showed a reduction in expenditure from 1956 but did not include any estimate for certain items of military expenditure. With allowance for this expenditure, it seemed likely that the treasury deficit in 1957 would be at least as large as in 1956. The discount rate of the Bank of France, which had been unchanged at 3 per cent since December 1954, was raised to 4 per cent in April 1957, and the interest rate for borrowing by the banks above the ceiling fixed for each bank was raised from 5 per cent to 6 per cent.

In the *Federal Republic of Germany*, the rate of growth of domestic output tended to slacken in 1956, mainly because of a slowing down of investment activity which was only partly compensated by higher export demand. There was a substantial rise in domestic demand for consumer goods because of increased purchasing power from rising wages and high employment and, toward the end of the year, also because of tax reductions and increased public spending.

The discount rate was lowered to 5 per cent in September 1956 and again to 4½ per cent in January 1957. The main reasons for these decreases were the slowing down of the investment boom, the seasonal decline of economic activity during the winter months, the moderate lending policy of the banks, and the desire to reduce the differentials between interest rates in Germany and in other countries. At the same time, however, the Bank deutscher Länder engaged in extensive open market operations to counteract the excessive liquidity of commercial banks resulting from the balance of payments surpluses. Restrictions on capital exports were relaxed, and the inflow of short-term capital from abroad was discouraged. In April 1957, further measures of monetary policy were taken to counteract in part the effects of the increased liquidity of the banking system.

Economic and financial conditions in *Finland* deteriorated considerably during 1956. There was an increased budget deficit as subsidies rose and higher salaries were paid to civil servants. Wages rose by 10 per cent and farm income by about 30 per cent, while the gross national product in real terms increased by only about 2 per cent. The cost of living index increased by 17 per cent. In March 1957 a two-year stabilization program was proposed. The fiscal measures which were implemented immediately included reductions of subsidies and increases in taxes. The realization of the rest of the program is dependent upon the passage of certain legislation. Recommendations for the renewal of wage agreements were rejected by the wage earners' organizations, and for the time being no new wage agreements have been concluded. In the meantime, an emergency program is being prepared to alleviate the Treasury's cash difficulties. The Bank of Finland has announced that it will introduce rediscount ceilings for each individual bank beginning August 1.

Japan

In *Japan* there was a major investment boom in 1956 which was stimulated by a rise in both foreign and domestic demand. Manufacturing production increased by 18 per cent, compared with an increase of 9 per cent in 1955. National income in 1956 is estimated to have increased by more than 10 per cent in real terms. The rapid increase in output was made possible because of unemployed labor and the existence of surplus capacity in many industries. Despite heavy demand for credit, the money market eased and interest rates continued to fall in the first half of the year. Although imports increased, foreign exchange reserves continued to rise until the end of the year. From the fourth quarter of 1955 to the fourth quarter of 1956, the cost of living index increased by only 2 per cent; the wholesale price index rose by 7 per cent, largely because of increases in prices of capital goods.

Strains on domestic resources showed themselves in early 1957 in the form of a decline in foreign exchange reserves and a further rise in consumer prices. Market interest rates had begun to increase toward the end of 1956, and in early 1957 the monetary authorities acted to ease the tightness of the money market by purchasing debentures from the commercial banks, apparently on the ground that the investment boom was not dangerous in view of the increases in production. The Bank of Japan raised its basic interest rate from 7.30 per cent to 7.67 per cent on March 20, 1957, but at the same time it reduced the scope of application of the penalty rates on its lending and relaxed the eligibility criteria for the rediscount of trade bills. With the declared objective of pruning excess investment demand, the bank rate was again raised from 7.67 per cent to 8.40 per cent on May 8, 1957.

The Less Industrialized Countries

As in earlier years, inflationary problems in 1956 were most acute in some of the less industrialized countries. Of 31 such countries for which information is available, 8 showed an increase of more than 10 per cent in the cost of living, and in 7 the money supply increased by more than 20 per cent (Table 24). These results are somewhat better than those of 1955, but the improvement was by no means uniform. In several countries, inflationary pressures became more intense in 1956.

The stronger tendency to inflation in the less industrialized countries arises in large part from efforts to increase real income through development. Unfortunately, the low level of income of most of these countries means that the resources available for developmental investment are small. Consequently, governments are led to strain to the limit all sources of financing, and in particular the finance available from the banking system. Although the banking system can provide some finance, the amount that can be obtained through this channel without giving rise to inflationary pressures is strictly limited. After safeguarding the maintenance of essential foreign exchange reserves and providing for working capital for business, the banking systems of most of the less developed countries can offer little or no noninflationary finance for long-term investment.

The objective of combining development and internal financial stability has not been achieved in all the countries where development is an important element in economic policy. The belief is sometimes expressed that rapid development and financial stability are alternative objectives, with the implication that greater development can be obtained by sacrificing price stability. This has not been supported by experience. Inflation discourages savings in the form of money, distorts the production pattern, and usually leads to a capital flight. Its inequities often provoke increasing political unrest and lead governments to adopt many forms of wasteful consumer subsidies in an effort to quiet popular discontent. Disillusionment with inflationary financing has led most countries with a history of inflation to attempt to stabilize.

Some aspects of the general problem of combining economic development with financial stability can be illustrated by the widely varying experiences of a few countries in 1956.

India had conspicuous success in combining development with stability during the period of its First Five Year Plan, from the fiscal year 1951–52 to fiscal 1955–56. National income in real terms is estimated to have risen by 18 per cent, and prices were relatively stable or somewhat declining. There was also a net addition to foreign

TABLE 24. PERCENTAGE INCREASE OR DECREASE (−) IN MONEY SUPPLY AND COST OF LIVING, SELECTED COUNTRIES, 1955 AND 1956

Countries Classified by Percentage Increase in Money Supply, 1956	Money Supply[1]		Cost of Living[1]	
	1955	1956	1955	1956
Increase below 5 per cent				
Nicaragua	3	−2	. . .	−7
Costa Rica	4	1	2	−1
Increase of 5–10 per cent				
Ceylon	12	5	−1	0
Dominican Republic	14	6	−1	1
India	11	6	0	12
Lebanon	17	6[2]	5	3
Thailand	14	6[3]	15	5
Uruguay	3	8[2]	10	6
Cuba	4	9	1	−2
Indonesia	17	9	36	−2
Pakistan	18	9	−3	4
Increase of 11–20 per cent				
Honduras	−12	11	1	−1
Mexico	20	11	16	−2
Philippine Republic	9	12	−2	2
Iraq	6	13	6	6
Ecuador	−6	14	−2	0
El Salvador	3	14	2	2
Peru	5	14[4]	4	6
Venezuela	11	14	−1	1
Egypt	3	16	0	4
Argentina	18	17[5]	8	16
Iran	9	17	−2	11
Burma	28	17	14	9
Guatemala	11	20	3	0
Increase above 20 per cent				
Brazil	17	22	17	28
Israel	20	23	5	5
Colombia	4	24	2	7
Paraguay	33	35	27	17
Korea	60	37	35	46
Chile	70	38	84	38
Bolivia	103	258	68	473

Sources: Based on data from International Monetary Fund, *International Financial Statistics*, and United Nations, *Monthly Bulletin of Statistics*.

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

[2] Change from November 1955 to November 1956.

[3] Change from May 1955 to May 1956.

[4] Change from September 1955 to September 1956.

[5] Change from October 1955 to October 1956.

exchange reserves during the last four years of this period. Against this favorable background, a more ambitious Second Five Year Plan was prepared for the years from 1956–57 to 1960–61; in this Plan, development expenditures, especially for industry and transport, were increased substantially. This increase has led to heavier reliance on bank financing; in fact, credits of the banking system to the government and private sectors expanded by more than one fifth in 1956. The impact was accentuated by a slight fall in agricultural production as a result of unfavorable weather and by a decline in export prices. Foreign exchange reserves were reduced perceptibly, while consumer prices rose by 12 per cent. To cope with the problems which thus arose, the Indian authorities have taken a number of measures. They have attempted to obtain more finance from abroad. They have improved internal financing by substantial increases in taxes and by some rephasing of the expenditure program. Finally, the central bank's control over the banking system has been strengthened by giving the bank the power to vary reserve requirements and, in February 1957, by increasing the effective interest rate at which it makes advances to the commercial banks. The evident intention of the Indian authorities to maintain financial stability has apparently discouraged speculation, and prices were relatively stable in late 1956 and early 1957. Import controls have been made more restrictive, however, in order to conserve foreign exchange reserves, and this measure may tend to put additional pressure on prices.

Despite the gains that stabilization will ultimately bring, it is by no means easy, either technically or politically, especially in an economy with a long record of inflation, to take the steps necessary for this purpose. Political conditions must also be sufficiently stable to permit the authorities to overcome the transitional difficulties which may threaten severe short-run losses to some sections of the business community, and to carry the stabilization program through to the point at which longer-run benefits will be clearly seen. The political strains may be greatly increased by the apparent harshness of the consequences of stabilization for wage earners. In addition to fiscal and monetary measures, an essential element in any stabilization program must be a limit to wage increases, for prices cannot be stabilized if the major cost element, wages, continues to rise. If stabilization is to be effective, it is usually necessary to hold wage increases to a figure well below the percentage increase in the cost of living that has occurred since the last preceding wage adjustment. Often the wage rates established at the last adjustment will have reflected unrealistic hopes for increases in wage earners' real income rather than the restoration of a previous level of real wages. A wage adjustment that is to form part of a successful stabilization program should reflect a realistic appraisal of the share of the national product that can be allotted to wage earners. Although the restriction of demand by appropriate fiscal and monetary measures can eliminate speculative profits, and halting the inflation may bring about some immediate increase in output, it is unlikely that a major increase in real wages can be effected at the time of stabilization. Beyond a certain point, higher money wages will not add to the real earnings of labor but will only raise the price level.

Limitation of wage increases was an essential part of the stabilization plan adopted in *Chile* in 1956. Money wages, in fact, increased by 47 per cent, which was about one-half the rise in the cost of living in the previous year. This was undoubtedly the most important single cause of the reduction in the rate of price increase in Chile in 1956—the increase in the cost of living was substantial, 38 per cent, but it was less than half the increase in the previous year. For 1957, it was decided that further adjustment in wages in general should be limited to 80 per cent of the 1956 cost of living advance, with a somewhat smaller increase for civil servants. The budget, which was still in substantial deficit in 1956, was to be strengthened by increases in sales and exchange taxes. The loss of revenue resulting from lower prices of copper, however, is likely to offset the effects of higher tax rates, and there will continue to be a sizable budget deficit.

While control of wages is usually an essential condition for ending chronic inflation, the core of almost all stabilization plans is the reduction of the deficit of the government sector to a level that can be financed without resort to inflationary credit. The true deficit of that sector is often not revealed by the budget accounts of the government proper. Sometimes the budget deliberately excludes some items; frequently, the deficit arises from the operations of autonomous government agencies or state enterprises. In these circumstances, stabilization requires the establishment of firm central government control over the autonomous agencies, so that the over-all budget deficit can be effectively reduced.

In *Bolivia*, after a year of very rapid price and wage increases, a comprehensive stabilization program was adopted in December 1956. As in Chile, steps were taken to limit increases in money wages. The exchange system was simplified and exchange controls removed (see Chapter VII). With the help of counterpart funds derived from sales of U.S. aid goods, plans were elaborated for over-all balance in the government sector. The reform of the exchange system also played a major part in the improvement of the finances, for half the deficit of the government sector had originated in the excess of the average payment in local currency for foreign currency earned by exports over the average charge in local currency for foreign currency spent on imports. The financial reform required a thorough review of the budget of the government-owned Mining Corporation, which is responsible for two thirds of Bolivia's exports, resulting in the elimination of subsidies for the company commissaries and a program for the gradual release of a large number of redundant employees. The other government agencies were subjected to a similar review, with major revisions in their pricing policies, some diminution of their labor force, and substantial reductions of their imports.

Control of inflation of course requires not only that the extension of credit to the government and its agencies be limited, but also that credit to the private sector be controlled. In countries which have suffered from severe inflation, the latter may prove to be a secondary problem, for, unless the liquid resources of the banking system are being continually augmented by a government deficit, the expansion of private credit is more or less automatically limited in most monetary systems. Nevertheless, the control of private credit always has an important part in a stabilization program, and it is often difficult to maintain control of this sector during stabilization. In an inflation, the industrial pattern of production is often badly distorted. For example, in Bolivia the distortion of the exchange rate structure made profitable a sizable export of cotton textiles, which disappeared with stabilization. In Chile inflation greatly stimulated building construction, and this activity dropped sharply with stabilization. Appeals for credit relaxation were made by those who were damaged by the correction of the distorted pattern of production, but in general the authorities were able to resist such pressures.

Stabilization should not be regarded as impossible for any country; however great its difficulties may be, they are exceeded by the gains to be derived from it. *Mexico* in 1956 provided convincing evidence of the benefits made possible by firm monetary and fiscal policies. In the postwar years to 1954 Mexican prices had doubled, and in April 1954 Mexico had to devalue the peso for the third time. The instability of the currency caused a large capital flight and slowed down the pace of development. The Government was determined to end the previous excessive credit expansion, and in January 1955 it instituted stringent monetary restraints, including a reserve requirement imposed on private banks which sterilized 75 per cent of the increases in their deposits. Credit to government banks—previously the main recipients of central bank credit—was restricted to funds obtainable from outside the banking system. Tax receipts were raised. By the end of 1955, not only was the price rise halted, but foreign exchange reserves had risen to record levels. In 1956, Mexican prices were stable or falling despite the tendency toward higher prices in the United States. Foreign exchange reserves continued to rise, although at a much slower rate than in 1955. The success of the program was attributable largely to restraint in government finance, the government sector continuing in 1956 to reduce on balance its indebtedness to the banking system. A firm monetary policy did not check production, but preserved the favorable cost relationships resulting from the devaluation so that industrial production was able to rise continuously at a rate exceeding the average of previous years. With increased domestic savings and a substantial inflow of foreign capital, investment rose to new high levels.

V

Exchange Practices and Payments Arrangements

Current Position with Respect to Exchange Restrictions and Discrimination

THERE have been some further relaxations in exchange restrictions and discrimination since the date of the Fund's last Annual Report, when it was said that "foreign exchange restrictions impose a less serious obstacle to international commerce today than at any time since the outbreak of World War II." Progress during the past year was widespread, although not universal; with some limited setbacks, it continued in spite of the economic difficulties created in some countries by the intensification of the boom and the international tension that developed during the year. Partly as a result of these difficulties, the progress made was not as great as that in preceding years.

The current position may be summarized as follows: Most countries still maintain exchange restrictions, and during the last year no member of the Fund ceased to avail itself of its postwar transitional arrangements applied under Article XIV of the Articles of Agreement. Many countries which have reduced their restrictions to a minimum, with almost complete freedom for transfers, maintain the machinery of exchange control with the intention of having it available in the event of a general deterioration of payments conditions. Restrictions against dollar transactions continue to be the most common form of exchange restriction, but further progress in reducing their restrictions on dollar payments was reported by several countries. Discriminatory restrictions against non-dollar countries were also reduced, by new moves to give wider transferability to inconvertible currencies and by related steps to reduce the discriminatory practices of bilateral payments arrangements. Except in Bolivia, the experience of which is reported elsewhere in this Report, there has been no fundamental change in respect of the use of multiple currency practices.

During the past year, the most important steps in the direction of reducing dollar discrimination were taken by a number of OEEC countries, which continued their joint endeavor to liberalize the importation of dollar goods and to free payments to dollar countries for invisibles. Outside Europe, Ceylon was also able virtually to end its discrimination against imports of dollar goods.

In addition to the areas of transferability introduced in earlier years for the deutsche mark and sterling, such areas were established during the past year for the Belgian franc, the Italian lira, the Netherlands guilder, and the Swedish krona. The facilities thus provided, which left unchanged the relations between the European currencies concerned and fully convertible currencies, especially the U.S. and Canadian dollars, have been associated with a continued movement to ease the requirements for means of payments in bilateral arrangements, both in arrangements where one partner country has made its currency transferable and in those in which the two partners agree to conduct transactions in the transferable currency of a third country.

Although the 49 members of the Fund which consult under Article XIV continued in January 1957 to maintain a total of more than 300 restrictive bilateral payments arrangements, of which over half were agreements concluded with the U.S.S.R., other Eastern European countries, or Mainland China, a significant reduction had been made in the number and restrictiveness of such arrangements in the two preceding years. This reduction had been achieved either by terminating the payments arrangements or by reducing their bilateral effect by permitting the transferability of current accruals of the partner's currency. In the two years 1955 and 1956, such liberalization measures resulted in a decline of about 25 per cent in the number of restrictive bilateral payments arrangements between countries that are members of the Fund. The major participants in this movement include the OEEC countries, Argentina, Brazil, and Japan, countries which together account for an important part of world trade. While no similar decrease can be recorded with respect to bilateral payments arrangements between members and nonmember countries—in fact, the number of these arrangements increased by some 18 per cent in the two years ended January 1957—the restrictive effect of all these arrangements certainly diminished substantially in the two-year period.

The Hague Club and the Paris Club

In July 1956 a new regime of trade and payments, the so-called "Paris Club," was established between Argentina and a number of European countries, which by April 1957 had increased to 11—Austria, Belgium, Denmark, France, Italy, Luxembourg, the Netherlands, Norway, Sweden, Switzerland, and the United Kingdom. Under this regime Argentina can freely transfer the currencies of European participants from one member of the Club to another. The similar arrangement, the "Hague Club," which had been established in the previous year to govern payments between Brazil and Belgium, the Federal Republic of Germany, Luxembourg, the Netherlands, and the United Kingdom, was extended to include Austria, France, and Italy.

European Regional Organizations

In June 1956 the European Payments Union (EPU) was renewed for another year without change either in the 75:25 gold/credit settlement ratio which had been in force since

August 1, 1955 or in the provision for replacing the Union by a European Monetary Agreement if the Union should be terminated.

In March 1957 the Managing Board of the EPU recommended to the Council of the Organization for European Economic Cooperation (OEEC) that the EPU be prolonged for a further period of one year until June 30, 1958, without change in either the operating rules or the termination provisions.[1] The Managing Board considered that the establishment of a wider and freer system of payments should remain the long-term aim, but that in the present economic situation in Europe it would be inopportune to make fundamental changes in the EPU system or its operating rules. It also considered that the establishment in Europe of a Common Market and a Free Trade Area (see below) would call for examination of the need for modification in the payments arrangements provided by the EPU.

During the period covered by this Report, the total of monthly clearings through the Union was appreciably larger than in the preceding year. This was due primarily to a steep rise in the surplus of Germany and to the emergence of a large deficit for France. Germany and Belgium-Luxembourg remained the largest creditors, and France, the United Kingdom, and Italy the largest debtors. In the early months of 1957, however, the United Kingdom, which had previously recorded deficits with the EPU, registered a net surplus, and Belgium-Luxembourg, which had previously recorded surpluses, had a net deficit. At the time of the renewal of the EPU in June 1954, bilateral arrangements had been made for the regular repayment or funding of a large part of the outstanding debts of its members. Of a total indebtedness of $1.1 billion, a further $170 million was repaid in the year ended April 30, 1957. Despite these repayments, the total of debtor and creditor positions in the EPU increased during the year.

[1] This recommendation was accepted by the OEEC Council on May 10, 1957. Italy renounced a special credit of $50 million, but all the other credit facilities available in 1956-57 will be maintained throughout 1957-58. In addition, France was granted a new *rallonge* of $200 million.

The scope of the system of multilateral arbitrage for European currencies has been further enlarged by the accession of Austria and the extension from three to six months of the limit for multilateral forward transactions in all currencies except for transactions in French francs or with French banks.

During the past year, the OEEC continued its efforts for greater freedom in intra-European trade and payments as well as in trade and payments with the dollar area. Some countries were able to increase their liberalization percentages, but it became more and more clear that the possibility of further substantial liberalization of intra-European trade from quota restrictions had come largely to depend on a further simultaneous reduction of other impediments to trade, such as tariff and protective devices of various types. It was therefore decided in July 1956 to postpone from July 1956 to December 1957 the date at which the liberalization targets of 90 per cent over-all and 75 per cent for each of the three categories (raw materials, foodstuffs, and manufactured products) would have to be consolidated, and meanwhile to explore the possibility of further relaxation or removal of other restrictions.

Negotiations looking to the creation of a Common Market were opened in the latter part of 1955 between the six OEEC countries which are also members of the European Community for Coal and Steel (Belgium, France, the Federal Republic of Germany, Italy, Luxembourg, and the Netherlands). These negotiations led on March 25, 1957 to the signature by the six countries of a treaty instituting a European Economic Community. This treaty, which is subject to ratification by the legislatures of the signatory countries, provides for the gradual realization over a period of 12 to 15 years of a Common Market, in which the flow of goods, services, persons, and capital among the member countries and their associated overseas territories will, with certain possible exceptions, no longer be obstructed by tariffs, quantitative restrictions, and other impediments, and a common tariff will be imposed on imports from other countries. It also provides for the coordination of the other economic and social policies of these countries and establishes an institutional framework for the Community.

While negotiations for the European Economic Community were in progress, the OEEC also studied the possibility of instituting a European Free Trade Area which would comprise both the Common Market countries and other OEEC countries. In such an area, tariffs and other restrictions on trade between member countries would be abolished during a transitional period, but, in contrast to the Common Market arrangement, there would be no common tariff on imports from other countries; on the contrary, the other members of the Free Trade Area would maintain their individual tariffs on such imports. On February 13, 1957 the OEEC decided to enter into negotiations on this project. Attention was specifically directed at the same time to the necessity of finding ways to ensure an expansion of nondiscriminatory trade in agricultural products and of dealing with the special problems created for member countries engaged in economic development by the obligation to liberalize commercial policy.

VI

Gold Production and Prices

Gold Production

GOLD production in the world (excluding the U.S.S.R. and countries associated with it) in 1956 was 28 million ounces, the largest since 1942. Valued at $35 per ounce, the 1956 output may be estimated at $985 million, compared with $944 million in 1955, $897 million in 1954, and $849 million in 1953.

These increases in world production were due almost entirely to the expansion of gold mining activity in the Union of South Africa. Output in that country increased in 1956 by the equivalent of about $45 million, to approximately $556 million, a new record figure. It was about 9 per cent greater than in 1955 and some 33 per cent greater than in 1953. About three fourths of the increase during 1956 was attributable to the expanding operations of mines in the Orange Free State, whose production rose by the equivalent of about $34 million, to some $111 million. The output of mines on the Witwatersrand also increased, by the equivalent of $11 million, to about $427 million.

The second largest absolute increase in production during 1956 was in Colombia, where output increased by $2 million, to about $15.3 million. The only other recorded increase was in Brazil, where production rose by about $0.6 million, to $5.7 million.

In Canada, the second largest gold producing country in the world (excluding the U.S.S.R.), output declined in 1956 by the equivalent of $5.1 million, to about $153.9 million. Other declines reported were in the Gold Coast (Ghana)—by the equivalent of $1.7 million—and in the United States, Chile, and Mexico—by about $1 million each. In the other producing countries output remained relatively stable.

The mining industry in most gold producing countries was confronted during 1956 with a further rise in production costs. In South Africa, average working costs per ton of ore milled, which in 1950 had been 29s. 7d., and in 1955, 40s. 5d., rose further in 1956, to 42s. 11d. In the new mines, the effect of this rise was more than offset by increases in working revenue resulting from the mining of higher grade ores, but it was reported by the Minister of Mines that the cost squeeze had forced 3 mines to close down, and that 20 additional older mines were operating on small working profits considered to be lower than the break-even point. These mines are approaching the stage where, owing to the absence of higher grade ore, they can no longer preserve a reasonable margin of profit by raising the grade of the ore to be mined, and South African authorities have estimated that the loss of production following upon the contraction of activities by these mines might exceed any increase to be expected from new mines in the Orange Free State. However, certain gold mines in South Africa have obtained additional revenue from the production of uranium.

The measures reported in previous Annual Reports, which had been adopted by several gold producing countries for the relief of gold producers, were maintained in 1956. Some countries extended the existing program of relief, or introduced new measures. These measures were first considered as a means of giving temporary aid to the industry, but because of world-wide increases in operating costs, it has usually been thought necessary to extend them from year to year.

The Canadian Government amended its Emergency Gold Mining Assistance Act to extend its provisions through the years 1957 and 1958. The amendment involves no change in the subsidy program described in the Fund's Annual Report for 1955. As in 1954 and 1955, all mines eligible for subsidy elected to sell their output to the Government rather than in free markets.

The Emergency Gold Mining Assistance Act of the Philippines, described in the Fund's Annual Reports for 1955 and 1956, was modified and extended to July 18, 1957. The latest modifications of the original subsidy scheme extend the categories of producers to be assisted so as to cover all producers, and are also designed to channel a greater quantity of newly mined gold into the central reserves. The right to receive assistance has been extended to mines producing gold as a by-product of other metals. The new scheme provides that at least 75 per cent of the newly mined gold produced by each mine must be sold to the Government through the Central Bank at the current official price per ounce plus the assistance. The remaining 25 per cent may be sold either to the Government or in the domestic free market without benefit of the assistance. In the original program there had been no prescribed portion of production that mines producing gold as their principal product had to sell to the Government, except for the period September 16, 1955 through December 31, 1955, when they were required to sell 50 per cent. The rates of assistance have not been changed. The Philippine monetary authorities, by a resolution of February 19, 1957, also authorized the use of blocked peso deposits of nonresidents for the direct purchase of gold bullion up to 25 per cent of the output of local mining companies. Such purchases in the domestic free market must be sold to the Central Bank at the official price of $35 per ounce, payable in U.S. dollars, and the proceeds remitted abroad.

As an incentive for increasing gold production, the Monetary Board of the Bank of Korea approved on November 15, 1956 the purchase of newly mined gold with government-owned dollar exchange. The new regulations established the Bank of Korea's buying price at US$1.12 per gram of fine gold (equivalent to $35 per fine ounce). The dollar proceeds from such sales to the central bank are credited to an import account in the name of the seller, and may be used to import foreign goods under the same conditions as are granted to exporters of domestic commodities.

To finance these purchases, the Bank of Korea established a revolving fund of $1.7 million to be replenished by the proceeds from overseas sales of domestically produced gold by the monetary authorities. A gold producer who desires to receive payment in hwan for the gold sold to the Bank of Korea may be paid in hwan converted at the official exchange rate.

During recent years, the Fund has accepted such schemes as the Philippine subsidy program as not being inconsistent with the objectives of its statement on gold subsidies of December 11, 1947, which was reproduced in its Annual Report for 1948, Appendix VI. It was emphasized that the Fund has "a responsibility to see that the gold policies of its members do not undermine or threaten to undermine exchange stability. Consequently, every member which proposes to introduce new measures to subsidize the production of gold is under obligation to consult with the Fund on the specific measures to be introduced."

Gold Reserves

Monetary gold reserves continued to grow throughout 1956. The stock of gold in the possession of monetary authorities in the world (excluding the U.S.S.R. and the countries associated with it, but including the Fund and the Bank for International Settlements as well as the European Payments Union) is estimated to have increased during 1956 by approximately $600 million, compared with increases of about $500 million in both 1955 and 1954. Part of the increase in 1956, as in some previous years, is probably to be attributed to sales of gold by the U.S.S.R. in Western European countries. At the end of 1956 monetary gold holdings, as defined above, amounted to $37.6 billion, of which $22 billion was held by the United States.

Total sales of gold by the U.S.S.R. in 1956 have been estimated at about $150 million. As total production in 1956 was some $985 million, the amount of gold available to the rest of the world was thus increased during the year by about $1,135 million. A comparison between this amount and the estimated aggregate increase in official gold holdings suggests that the amount of gold going into the arts and industries or to private hoards in 1956 was slightly larger than during the preceding two years.

Gold Markets and Gold Prices

During the year under review, several countries took further measures to relax restrictions on the sale of gold and the movement of gold through their territories. In May 1956, Lebanon removed all restrictions on the export of gold coins and gold bars and their passage in transit through its territory. Previously, the import of gold into Lebanon was entirely free; but exports were subject to authorization by the customs officials, which was, however, in practice never refused. The Syrian Government announced in March 1957 that the import of gold bars, gold coins, and gold in other forms would be free from customs duties.

In the Federal Republic of Germany, steps were taken with a view to the revival of a free gold market. The Bank deutscher Länder, in concert with the Federal Ministries of Economic Affairs and Finance, issued in June 1956 a general permit allowing gold coins to be imported freely into Germany by travelers. This regulation was subsequently amended so as to provide that gold coins could be imported as a commodity within the framework of the regulations governing commodity imports. Thus banks, as well as residents and nonresident travelers, were permitted to import gold coins and to sell such coins to German residents. The export of gold coins is prohibited out of consideration for the policies of neighboring countries that do not permit free trade in gold. After the reopening of the domestic gold market in West Germany in October 1954, there had been a steady inflow of gold coins, and the new regulations were issued primarily to regularize the actual situation that had developed as public interest in buying gold coins for hoarding purposes increased. The market price quoted for the German 20-mark gold piece rose from DM 37.50 on June 30, 1955 to DM 45 in June 1956 and to DM 47 at the end of April 1957. The Federal Ministry of Finance decreed that as from January 2, 1957 imports of gold coin that are not legal tender should be subject to the general 4 per cent turnover tax. The Ministry of Economic Affairs also issued an ordinance permitting imports of gold bars from EPU countries by German residents without specific approval, as from April 1, 1957. Prior to that time only industrial users were permitted to import gold bars under license against payment in dollars. On April 5, 1957 the Government abolished the ceiling prices for gold and other precious metals. Thus, for the first time in 26 years, trade in precious metals became virtually free in West Germany, though exports of gold still require a permit. While the general public is restricted to the use of EPU currencies in its purchases of gold, industrial users and dealers may continue to purchase gold against payment in dollars.

The proportion of the world's population which is free from any legal impediment to the purchase or holding of gold has increased in recent years, but there appears to have been no substantial increase in the demand for gold bullion for hoarding purposes. On the contrary, there appears to have been some dishoarding from time to time. Nor have the facilities made available for gold dealings in other international centers had any significant effect upon the operations of the London gold market, which is still the world's main gold trading center. During 1956, the equivalent of $655.2 million in uncoined gold was reported to have been imported into the United Kingdom. Most of this gold came from the Union of South Africa and other sterling area producers, while about 9 per cent was Russian gold. Central banks in Western Europe continued to be the principal buyers, but private operators also purchased gold for export to the Middle East and the Far East. When the price of gold was below $35 per fine ounce, some central banks from time to time bought gold for EPU monthly settlements; and there was also evidence that, when the price was above $35, some EPU countries sold gold in order to obtain dollars to meet their obligations in the EPU.

During the year under review, the price at which gold is traded directly for U.S. dollars in international gold markets moved within a somewhat wider range than in the previous year. For most of the year, however, it remained under $35 per fine ounce. The political crisis in the Middle East, which on two occasions sent the price slightly above the U.S. selling price of $35.0875, failed to cause a premium price to develop, such as followed the outbreak of hostilities in Korea in mid-1950. Indeed, shortly after the suspension of the Suez hostilities, the dollar price of gold in international markets dropped below the U.S. buying price of $34.9125. This sharp drop was reportedly caused by a lack of demand for gold on the part of central banks and private operators. Some central banks sold gold to obtain U.S. dollars to make payments for oil, and there were also some sales by the U.S.S.R. The possibility of selling gold held under earmark in New York at the price of $34.9125 per fine ounce no doubt set a limit to a further decline in gold prices.

During the year under review, the London "fixing" price of bar gold in sterling fluctuated between a high of 252s. 1d. per fine ounce on July 31, 1956 (the highest price in sterling since the reopening of the gold market in March 1954) and a low of 248s. 11d. on January 22, 1957 (the lowest since August 12, 1954). The U.S. dollar price of gold in London (converted at the sterling-dollar rate at the time of daily fixing) remained slightly (within a few cents) under $35 per fine ounce from May 1, 1956 through July 22, 1956, rising to about $35.09 on July 31. The price then fell to parity and remained at that level until October 31, when it rose to about $35.06. Within a few days, however, it again fell below $35, and gradually declined to $34.85 on January 21, 1957, the lowest dollar price reported since the reopening of the London market. The dollar price in London on April 30, 1957 was $34.92.

The dollar bid price of gold in Zürich remained during most of the year within a few cents per fine ounce of the dollar price in London, moving between a high of $35.10 and a low of $34.90. It was quoted at $34.93 on April 30, 1957. In Tangier, however, the price of bar gold did not follow the day-to-day movements of prices in London and Zürich. The local political situation in Tangier was reported to have caused a movement of large amounts of gold to Western Europe for safekeeping.

Because of the special characteristics of each market, the prices for bullion elsewhere did not necessarily follow the day-to-day movements of London prices. The price of bar gold in Paris rose from a low of 445,000 francs per kilogram on June 6, 1956 to the year's high of 488,000 francs on August 23, and then returned to 445,000 francs on October 25. The price of bullion per fine ounce, when converted into U.S. dollars at the parallel market rate for dollar banknotes in Paris on these three dates, was $36.04, $36.14, and $36.14. The U.S. dollar equivalent price of bar gold in Paris, which reflects movements in the franc rate for U.S. dollar banknotes, fluctuated more widely on other dates. It rose from $35.82 per fine ounce on July 5, 1956 to $36.72 on July 31. After declining to the equivalent of $35.89 per fine ounce on October 18, it rose again to $36.77 on October 30, 1956. On April 30, 1957, the price of bullion was quoted at 463,000 francs per kilogram, equivalent to $36.27 per fine ounce at the day's rate of 397 francs per dollar. The U.S. dollar equivalent price for bar gold in Brussels did not fluctuate to the same extent as the Paris price, nor did it follow the same trend. It declined from a May-October 1956 level of about $35.20 per fine ounce to a low of $34.76 during February 1957 and was quoted at $34.83 on April 30, 1957. In Beirut, the U.S. dollar equivalent price for bullion rose from a low of $35.03 per fine ounce on July 31, 1956 to $36.09 on November 6, and then declined to $35.03 on March 14, 1957. At the end of April 1957, it was quoted at $35.12.

The price of bullion in the Far East tended to be higher during the year under review than in the two previous years. In Hong Kong, the price of bar gold rose from HK$254.375 per tael (equivalent to $38.35 per fine ounce at the day's T.T. Hong Kong dollar rate for the U.S. dollar) on May 4, 1956 to HK$286.50 ($39.27) on November 15 (the highest since early 1953), and was quoted at HK$271.25 ($38.41) on April 30, 1957. In Bombay, the price of bar gold fluctuated between the year's low of

Rs 99-3 per tola (equivalent to $55.55 per fine ounce at par value) on July 7, 1956 and a high of Rs 109-4 ($61.18) on February 18, 1957 and was quoted at Rs 105.56 ($59.11) at the end of April 1957.

As in the previous year, the prices of gold coins fluctuated widely, with a general tendency to rise. Between the first week of May and November 6, 1956, the U.S. dollar equivalent prices of the sovereign rose by the equivalent of about $7 per fine ounce in Brussels and Milan, to about $49 per fine ounce; by $6 in Beirut, to about $48; and by $3 in Paris, to $46.55. The napoleon rose by about $7 per fine ounce in Beirut and Milan, to $44.64 and $47.10 per fine ounce, respectively, and by about $4, to $46, per fine ounce in Paris. With the exception of the napoleon in Paris, the prices of gold coins in all these markets had declined by the end of April 1957, but remained higher than the prices quoted in early May 1956.

VII

Fund Activities in 1956-57

Fund Membership and Quotas

TWO countries became members of the Fund during 1956–57, Argentina on September 20, 1956, with a quota of US$150 million, and Viet-Nam on September 21, 1956, with a quota of US$12.5 million. Both members have paid 25 per cent of their quotas in gold.

Terms and conditions for membership were approved by the Board of Governors for the Republic of the Sudan at the Eleventh Annual Meeting, for Ghana (Gold Coast) on April 4, 1957, and for Saudi Arabia on May 24, 1957. At the request of its Government, the period for acceptance of membership by the Sudan was extended through September 30, 1957. Application for membership was submitted by Tunisia on November 27, 1956, by Libya on February 6, 1957, by Morocco on March 26, 1957, and by Ireland on April 23, 1957.

The quotas of four members were increased during the past fiscal year in the light of the understanding expressed by the Executive Directors at the conclusion of the quinquennial review of quotas in January 1956 that requests for adjustments of small quotas would be considered sympathetically. Ecuador's quota was increased from US$5 million to US$10 million on August 8, 1956; the Dominican Republic's quota from US$5 million to US$10 million on September 25, 1956; Nicaragua's quota from US$2 million to US$7.5 million on October 17, 1956; and Israel's quota from US$4.5 million to US$7.5 million on March 6, 1957.[1]

[1] Haiti's quota was increased from US$2 million to US$7.5 million on May 2, 1957.

There are now 60 members of the Fund and the aggregate of quotas at the end of the fiscal year was US$8,931.5 million. The members of the Fund, their quotas, voting power, Governors, and Alternate Governors as of April 30, 1957 are shown in Appendix I. Changes in membership of the Board of Governors during the year are shown in Appendix II.

Board of Executive Directors

After the acceptance of membership by Argentina, the Board of Governors decided at the Eleventh Annual Meeting of the Fund to increase from 2 to 3 the number of Executive Directors who are elected by the Fund's Latin American members. This was the fourth occasion on which the number of elected Executive Directors has been increased in response to the growing membership of the Fund, and the total number of Directors is now 17. The Executive Directors and Alternate Executive Directors of the Fund and their voting power are shown in Appendix III. Changes in membership of the Executive Board are shown in Appendix IV.

On October 3, 1956, Mr. Ivar Rooth completed the term as Managing Director and Chairman of the Executive Board to which he had been appointed in 1951, in succession to Mr. Camille Gutt, the first Managing Director of the Fund. During Mr. Rooth's five years of service, the Fund's policies and procedures underwent notable evolution so as to adapt them to the far-reaching changes which were occurring in the world economy. His leadership was especially directed toward modification and innovation in Fund policy governing use of its resources, culminating in its restatement in the Annual Report for 1955. The Executive Directors gratefully acknowledge the valuable contribution which Mr. Rooth made to the work of the Fund, and take this opportunity, on their own behalf and on behalf of the staff, of making public this recognition of his many fine qualities. Mr. Rooth was succeeded by Mr. Per Jacobsson, also of Sweden, and formerly a member of the management of the Bank for International Settlements, who assumed office on December 3, 1956.

Use of the Fund's Resources

The year May 1, 1956 to April 30, 1957 was one of exceptional financial activity for the Fund. In that year the amount of currency sold by the Fund to its members—equivalent to more than US$1,114 million—considerably exceeded the volume of its sales of exchange in any previous year. The stand-by arrangements concluded or extended during the year authorized the sale to members of the equivalent of US$1,212,280,000, of which US$968,900,000 had not been utilized on April 30, 1957. This figure was much greater than the total amount covered by all the previous stand-by arrangements of the Fund. If account is taken both of the volume of currency actually sold by the Fund and of the amount committed in stand-by arrangements during the fiscal year 1956–57 but left unutilized at the end of the year, the Fund's financial activity was greater in 1956–57 than in the whole of the preceding ten years of its history.

The Canadian dollar was added during the year to the list of currencies sold to its members by the Fund. Except in one transaction, however, the currency purchased by members was the U.S. dollar. Three members, the United Kingdom, France, and India, accounted for some 75 per cent of the Fund's sales of currency to its members. The total number of members, 14, that purchased from the Fund was, however, also greater than the number recorded in any previous year, and the specific purposes for which drawings were requested were considerably more varied. The year-to-year variations in the use of the Fund's resources are recorded in Table 25, which also shows that in 1956–57, in contrast to three of the preceding four years, the volume of purchases by far exceeded the volume of repurchases.

In assessing the significance of this record, it should be borne in mind that the nature of the Fund's work is such that fluctuations in the volume of its financial business do not by themselves provide an adequate indication of the measure of its success in performing the functions which have been entrusted to it. Much of its work arises in connection with such important questions as par values and alterations in its members' exchange systems. The yearly consulta-

TABLE 25. SUMMARY OF FUND TRANSACTIONS, FISCAL YEARS ENDED APRIL 30, 1948-57

(In U. S. dollars)

	Total Purchases by Members	Total Stand-By Arrangements (granted or extended)	Total Repurchases by Members
1948	606,045,000.00	—	—
1949	119,438,380.91	—	—
1950	51,800,000.00	—	24,207,652.46
1951	28,000,000.00	—	19,093,244.36
1952	46,250,000.00	—	36,578,805.97
1953	66,125,000.00	55,000,000	184,958,162.26
1954	231,290,000.00	112,500,000	145,106,208.24
1955	48,750,000.00	112,500,000	276,275,398.29
1956	38,750,000.00	97,500,000	271,661,333.80
1957	1,114,047,648.76	1,212,280,000	75,038,810.14
Total	2,350,496,029.67		1,032,919,615.52

tions with the countries which maintain exchange controls afford valuable opportunities for facilitating the general attainment of the objectives of the Fund; and there has been increasing activity in the provision of technical assistance both to its members and to other international organizations. There is no direct correlation between the effectiveness of the Fund's work in these spheres and fluctuations in the scale of its financial transactions.

Calls for use of the Fund's resources are naturally most urgent in relation to emergency needs; and emergency needs are by their nature certain to fluctuate violently. But requests for access to the Fund's resources are also made in circumstances of various kinds where there is no direct or immediate emergency. It has been the Fund's experience that, apart from emergency needs and arrangements made for the financial backing of stabilization programs, the frequency and extent of the requests for drawings have been closely related to the broad fluctuations that occur from time to time in the world's financial and payments situation. In the financial year 1956–57 it may be said to have been increasingly a factor of importance that Fund members had come to understand better the significance of the Fund's policies and practices. The members are thus more and more prepared to regard the possibility of use of the Fund's resources as a significant element in the determination of their own policies, and, by drawing on the Fund, to gain the time required for putting into effective operation the measures contemplated or already initiated that are necessary to check any tendency to deterioration in their balances of payments.

The general background of the balance of payments strains to which many countries have been subjected during the last year is to be found in the pressures associated with the continuance of the widespread boom conditions described elsewhere in this Report. The balance of payments effects of the difficulties that have arisen have, of course, varied widely. In addition, several countries were affected during the course of the year by the balance of payments disturbances connected with the Suez conflict—disturbances which at one time seemed more threatening than in the end they actually turned out to be.

In a number of countries the public, more and more tired of inflation, has been increasingly prepared to support the government in taking the steps required to re-establish monetary order. This has been a factor in extending the range of Fund transactions, as several countries have sought the financial backing of the Fund for their stabilization efforts.

The stronger economic positions which many countries had already achieved, together with the improvements in their international reserves, made it easier for them to deal with the difficulties that had to be faced in 1956–57. But the financial assistance given by the Fund and the knowledge that its resources were available in case of need helped in restoring the equilibrium that was endangered. There was inevitably considerable overlapping between the various influences which induced the Fund's members to come to it during the year for drawings or stand-by arrangements. The emergency caused by the Suez Canal conflict was the immediate reason for some of the requests to the Fund. As in previous years, the use of the Fund's resources by certain other members was related essentially to the execution of their stabilization programs. The need to meet seasonal balance of payments deficits led to requests for drawings on the Fund by some members which are largely dependent on one major export crop and for which the often inadequate level of their foreign exchange reserves creates a problem in the part of the year before the export crop is sold. At the time when these drawings were approved or arranged, some of the members in this last category undertook to reverse their positions by means of a repurchase as soon as the inflow of export proceeds had strengthened their exchange reserves, that is, within a period of six to twelve months. The amounts involved in most of these transactions, though small absolutely, have been substantial in relation to the quotas of the members concerned, and the transactions illustrate the capacity of the Fund to adapt its procedures to meet the widely varying requirements of its members.

It should be added that the series of earlier decisions on use of the Fund's resources which have been reported in the Annual Reports of the last five years have effectively prepared the way for coping with the demands made upon the Fund by its members during 1956–57. These decisions were intended to assist members to understand the circumstances in which assistance from the Fund would be appropriate, and also to be aware of the obligations which use of the Fund's resources would impose upon them, including the rule that the normal period during which currency purchased from the Fund might remain outstanding should not exceed three to five years. In the Executive Board's decision of February 13, 1952 on the Use of the Fund's Resources and Repurchases, it was indicated that such general principles as were enunciated, both at that time and later, would be applied in the light of the circumstances of particular cases, so that in the course of time a body of practical criteria for Fund action would gradually be built up. Although the number of transactions in the years preceding the financial year 1956–57 was rather small, these transactions were helpful in providing a basis for the accumulation of useful experience. Both the Fund and its members became familiar with the working of the machinery created for stand-by arrangements, which makes it possible in suitable circumstances to give members firm assurances that they will be able, as the need arises for the currency or currencies covered by the arrangement, to draw upon the Fund within a specified period of time. It was shown that members would be given the overwhelming benefit of the doubt in the case of drawings within the "gold tranche," i.e., the portion of quota which can be regarded as equivalent to the member's gold subscription. In recent years the Fund has used its right to grant the waiver required to permit a member to draw more than 25 per cent of its quota during a twelve-month period sufficiently often to make it clear that this is not to be regarded as an extraordinary procedure. In fact, only two of the requests for purchases of currency from the Fund during 1956–57 did not require such a waiver; and the granting of a waiver was necessary in connection with all the stand-by arrangements made during the year. The Fund's attitude to drawings within the first credit tranche has been demonstrated to be a liberal one, provided that a member that wishes to make such a drawing is also itself making reasonable efforts to solve its problems; and there were several transactions which showed, as was stated in the Annual Report for 1955, that should the need arise, and should the justification be substantial, members need not doubt that drawings on subsequent tranches would be permitted. In general, the work undertaken in earlier years in formulating the procedures and principles of the Fund was an important factor in facilitating the prompt decisions which were taken in 1956–57 in relation to a wide variety of Fund transactions.

Convertibility has always been, and still is, one of the main objectives of the Fund's activities. In seeking to define the methods to be applied in using its resources, one of the main purposes has been to work out the best ways and means for making Fund assistance available for the establishment or the maintenance of convertibility. It may be thought regrettable that so far the opportunities for linking Fund transactions with programs for the establishment or maintenance of convertibility have been very limited. It is, however, noteworthy that during 1956–57, in circumstances which at earlier times might have been interpreted by many governments as requiring the imposition of more stringent trade restrictions, several Fund members that found themselves confronted with temporary exchange stringency still maintained the measures of liberalization already adopted by them. Moreover, some members have utilized the Fund's financial facilities, especially in stand-by arrangements, in support of stabilization programs intended to bring their exchange systems closer to the unification of exchange rates at realistic levels. In the conditions of today, the general principles set forth in recent Annual Reports as governing the use of Fund resources beyond the first credit tranche mean that members' requests for such drawings or stand-by arrangements are likely to be favorably received where they are intended to support well-balanced and adequate programs which are aimed at establishing or maintaining the enduring stability of the currencies concerned at realistic rates of exchange, and may therefore reasonably be regarded as establishing the conditions for substantial progress toward convertibility.

The total assets of the Fund in gold and convertible currencies had a value of nearly US$3 billion on April 30, 1957. On the other hand, unutilized drawing rights under stand-by arrangements amounted at that time to US$968.9 million. While it may be hoped that there will be no need to utilize to the full all the outstanding drawing rights, these rights represent potential calls upon the liquid assets of the Fund which have to be taken into account in connection with new drawings and commitments. The revolving character of the Fund's resources is an important fact in maintaining its liquidity. The Fund's holdings of gold and convertible currencies will in due course be replenished and thus be available for further transactions, not only as a consequence of the mandatory repurchase obligations resulting from improvements in members' monetary reserves, or repurchases made pursuant to terms attached to waivers or included in stand-by arrangements, but also through voluntary repurchases by members, and particularly those made under the decision of the Executive Board of February 13, 1952.

Fund Transactions

The Fund's transactions with its members in 1956–57, amounting in all to the equivalent of US$1,114,047,648.76, are summarized in Table 26. With the exception of a purchase by Egypt of Canadian dollars equivalent to US$15,000,000, all these transactions involved purchases of U.S. dollars.

These transactions involved 22 individual drawings, of which 11, for a total of US$245,577,648.76, were made under stand-by arrange-

TABLE 26. PURCHASES OF CURRENCY FROM THE FUND, FISCAL YEAR ENDED APRIL 30, 1957

(In U. S. dollars)

Member	Amount
Argentina	75,000,000.00
Belgium	50,000,000.00
Bolivia	4,000,000.00
Cuba	22,500,000.00
Egypt	30,000,000.00
El Salvador	2,500,000.00
France	160,000,000.00
Honduras	2,500,000,00
India	127,500,000.00
Indonesia	55,000,000.00
Iran	19,700,000.00
Nicaragua	1,877,648.76
Paraguay	2,000,000.00
United Kingdom	561,470,000.00
Total	1,114,047,648.76

ments previously approved by the Fund. During the year under review the Fund entered into, or extended, 10 stand-by arrangements with members, involving a total amount equivalent to US$1,212,280,000. Seven of these arrangements were for a period of twelve months. The amounts covered by the stand-by arrangements and the balances still available as of April 30, 1957 are shown in Table 27.

The expansion of the Fund's financial activities in 1956–57 affected all the important regions of the world. Of the 16 members that either drew on the Fund's resources or made use of its stand-by facilities

TABLE 27. FUND STAND-BY ARRANGEMENTS WITH MEMBERS, FISCAL YEAR ENDED APRIL 30, 1957

(In millions of U. S. dollars)

Member	Date of Inception	Date of Expiration	Amount	Amount Available April 30, 1957
Belgium	June 19, 1952	June 18, 1957	50.00	—
Bolivia	Nov. 29, 1956	Nov. 28, 1957	7.50	3.50
Chile	Apr. 1, 1956	Mar. 31, 1958	35.00	35.00
Cuba	Dec. 7, 1956	June 6, 1957	12.50	2.50
France	Oct. 17, 1956	Oct. 16, 1957	262.50	102.50
India	Mar. 11, 1957	Mar. 10, 1958	72.50	72.50
Iran	May 18, 1956	Nov. 17, 1956	17.50	—
Nicaragua	Nov. 21, 1956	May 20, 1957	3.75	1.87
Peru	Feb. 18, 1954	Feb. 17, 1958	12.50	12.50
United Kingdom	Dec. 22, 1956	Dec. 21, 1957	738.53	738.53
Total			1,212.28	968.90

during the year, 3 are in Europe, 9 in Latin America, 2 in the Middle East, and 2 in the Far East.

In the year under review, repurchases from the Fund by 9 members of amounts of their currency for gold and dollars were equivalent to US$75,038,810.14 (Table 28).

TABLE 28. REPURCHASES OF CURRENCY FROM THE FUND, FISCAL YEAR ENDED APRIL 30, 1957

(In U. S. dollars)

Member	U. S. Dollars	Gold	Total
Brazil		27,987,654.91	27,987,654.91
Ceylon	1,987,434.18		1,987,434.18
Chile	169,527.34	81.57	169,608.91
Denmark		1,844,210.65	1,844,210.65
El Salvador	2,495,507.95		2,495,507.95
Finland		3,343,832.34	3,343,832.34
Indonesia		27,000,505.93	27,000,505.93
Iran	409,815.32	2,800,239.95	3,210,055.27
Turkey	10,751.85	6,989,248.15	7,000,000.00
Total	5,073,036.64	69,965,773.50	75,038,810.14

Total transactions between March 1, 1947, when the Fund commenced operations, and April 30, 1957 are equivalent to US$2,350.5 million. In all, 32 members have drawn on the Fund, some of them more than once. A summary of these transactions is given in Table 29, and details are given in Appendix V. Of the total sales of currency by the Fund up to April 30, 1957, $2,128 million, or about 90 per cent, has been in U.S. dollars. There have also been sales of sterling, Belgian francs, deutsche mark, and Canadian dollars.

Of the 47 drawings since the decision of February 1952, which stated that "each member can count on receiving the overwhelming benefit of any doubt respecting drawings which would raise the Fund's holdings of its currency to not more than its quota," 31 have been partly or wholly within this gold tranche portion of members' quotas. Of the total outstanding drawings which had not been repurchased or otherwise offset by April 30, 1957, amounting to US$1,245.2 million, US$634.4 million was within the gold tranches of the members concerned.

TABLE 29. SUMMARY OF FUND TRANSACTIONS FROM THE BEGINNING OF OPERATIONS TO APRIL 30, 1957

(In millions of U. S. dollars)

Member	Currencies Purchased by Fund	Currencies Sold by Fund	Repurchases by Members
Argentina	75.0		—
Australia	50.0		50.0
Austria	—		7.5
Belgium	83.0	11.4	21.6
Bolivia	6.5		—
Brazil	168.5		131.0
Burma	15.0		3.2
Canada	—	15.0	—
Ceylon	—		3.0
Chile	21.3		12.6
Colombia	25.0		—
Costa Rica	1.2		2.1
Cuba	22.5		—
Czechoslovakia	6.0		[1]
Denmark	10.2		12.8
Egypt	33.0		8.5
El Salvador	2.5		2.5
Ethiopia	0.6		2.0
Finland	9.5		18.2
France	285.0		147.9
Germany, Federal Republic of	—	4.4	45.1
Honduras	2.5		—
India	227.5		99.9
Indonesia	70.0		27.0
Iran	46.0		20.7
Japan	124.0		124.0
Lebanon	—		0.9
Mexico	45.0		44.9
Netherlands	75.4		75.4
Nicaragua	2.4		0.5
Norway	9.6		9.6
Paraguay	2.9		0.4
Peru	—		3.1
Philippine Republic	15.0		—
Sweden	—		8.0
Syria	—		1.4
Turkey	35.0		27.0
Union of South Africa	10.0		10.0
United Kingdom	861.5	191.7	112.0
United States	—	2,128.0	—
Yugoslavia	9.0		—
Total[2]	2,350.5	2,350.5	1,032.9

[1] On the basis of the settlement with Czechoslovakia, an amount of US$3.03 million has been offset against the drawing of US$6 million, the remainder to be paid in installments not later than July 2, 1961.

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

Since August 1953, the date of the first purchase from the Fund which required a waiver of the limitation of drawings, laid down in Article V, Section 3, to such an amount as will not increase the Fund's holdings of a member's currency by more than 25 per cent of its quota in any period of twelve months, 38 purchases have been made by members. Of these purchases, 27 have involved the exercise of the Fund's discretion to grant a waiver. Several of these waivers have been granted to members whose quotas are very small in relation to the present volume of their trade. The amounts of individual waiver transactions have ranged up to 100 per cent of quota; in 4 cases, the Fund's holdings of a member's currency were raised to 175 per cent of quota. In 4 cases, the total amount of drawings and stand-by arrangements approved at the same time by the Fund was equal to 100 per cent of the member's quota.

By April 30, 1957, repurchases of their currencies by 31 members amounted to US$1,032.9 million. Nearly all of the purchases of U.S. dollars that were made in the years 1947 to 1952 have since been reversed. There has been a considerable volume of voluntary repurchases; by April 30, 1957, these amounted to US$615.1 million, including both repurchases offered by members on their own initiative and repurchases in fulfillment of commitments made on the occasion of drawings in accordance with the Executive Board decision of February 13, 1952. Of the total of US$2,350.5 million drawn from the Fund, US$1,105.3 million, or 47 per cent, has been repaid through repurchases by members that had drawn upon the Fund, through drawings by other members of the currencies of members that had purchased from the Fund, and by the settlement with Czechoslovakia. Seventeen members which on joining the Fund paid less than 25 per cent of their quotas in gold have incurred repurchase obligations in excess of any previous transactions which they had had with the Fund. The total of their repurchases in excess of previous transactions has amounted to US$133.7 million.

Since the Fund started operations, 21 members have had to pay charges because transactions raised the Fund's holdings of their currencies above their quotas. On April 30, 1957, 9 members were paying such charges. The Fund Agreement provides that, if a member's monetary reserves are less than one half of its quota, part of the Fund's charges may be paid in the member's own currency. Two members are currently availing themselves of this provision.

Approximately US$2.6 million was received in charges on balances in excess of quota in the year under review. In the preceding year, the total was US$1.1 million. Service charges on drawings effected during the year amounted to the equivalent of $5.6 million.

In view of the heavy demands made on the Fund's holdings of U.S. dollars by actual drawings during the year, and of the substantial amount of outstanding commitments on unused stand-by arrangements, the Fund decided in January 1957 to sell US$300 million of its gold holdings in order to replenish its holdings of U.S. dollars.

Fund Charges

The revised schedule of charges which has been in effect from January 1, 1954 and which expired on December 31, 1956 was extended by the Executive Board for one year until December 31, 1957. The schedule of charges is being kept under review by the Fund.

Computation of Monetary Reserves

Monetary reserves data as of April 30, 1956 have been received from 55 members. The 3 members that have not yet submitted the required reports cannot have repurchase obligations.

The Fund and Its Members' Exchange Practices

The exchange practices of its members are a primary interest of the Fund and constitute the focus of much of its activity. In accordance with its Articles of Agreement, the Fund is consulted by its members in regard to the establishment of, or changes in, par values, to progress made toward the establishment of unitary exchange rates, and to the restrictions imposed, or maintained, by them on current payments. The main events in this field of the Fund's work during the past year, including certain Executive Board decisions on multiple currency practices and exchange controls for the regulation of capital movements, are recorded below.

Multiple currency practices of varying degrees of complexity and importance are used by 38 of the 60 Fund members, though in a number of countries the multiplicity of rates is almost entirely domestic in its impact or affects only a small proportion of the country's international receipts and payments. In about half of these 38 member countries, however, multiple rate systems continue to be important, and in about a quarter of them they may be described as "complex." Some of these systems have both major internal and external effects.

In the recent past the Fund has reviewed its policies in respect of bilateralism and discrimination. It was considered that a similar review should be undertaken with regard to multiple currency practices.

The experience of the Fund has been that complex multiple rate systems damage the economies of the countries maintaining them and harm other countries. Recently, the problem of multiple rates has taken on added importance. With keener competition in international markets, countries with unitary rates have been increasingly concerned that competitors who use multiple export rates may derive unfair advantages in export markets. Similarly, they fear arbitrary penalization of their goods through multiple import rates. Moreover, with the continuation of multiple rate systems for long periods, internal price and production disparities and other adverse effects on the economies of the countries employing multiple rates become more difficult to correct.

For these reasons it was thought to be desirable that the Fund should intensify its efforts to work with members to simplify and, wherever feasible, to unify their exchange systems, and with this purpose in view the Executive Board took the decision reproduced in Appendix VI.

In dealing with these cases, the Fund will assist the countries concerned to find ways and means of making more rapid progress. It is prepared to provide technical assistance covering both the exchange system and related matters, and to remain in contact with the country during the process of introducing and consolidating the exchange reform. If the proposed exchange simplification and related economic programs or measures are considered adequate and appropriate by the Fund, it will give sympathetic consideration to a request for use of its resources.

The Fund will continue, as opportunity arises, to press for simplification wherever there is clear evidence that a multiple currency system is damaging to other countries. It will, in addition, be reluctant to approve changes in multiple rate systems which make them more complex.

The Fund considers that early and substantial steps should be taken to simplify complex multiple rate systems and has indicated that it would not continue to approve them, unless the countries maintaining them are making reasonable progress toward simplification and ultimate elimination of such systems, or are taking measures or adopting programs which seem likely to result in such progress.

The provisions of the Fund Agreement do not preclude a member from exercising such exchange controls as are necessary to regulate international capital movements, provided that these controls are not exercised in a manner which restricts payments for current transactions or unduly delays the transfer of funds in settlement of commitments. Last year the Board undertook a discussion of certain problems connected with capital controls, and in this connection considered the interpretation of Article VI, Section 3, of the Fund's Articles of Agreement. While no policy decision was formulated, it was concluded that under the Articles of Agreement members are free to regulate capital movements for any reason, due regard being paid to other related provisions of the Fund Agreement, and members may exercise such controls as are necessary for this purpose, including the making of arrangements with other members, without prior Fund approval. The conclusions adopted are contained in Appendix VII.

Initial Par Values

During the fiscal year 1956–57, initial par values were agreed with two countries which had become members of the Fund within the last three years. For *Argentina*, which had become a member of the Fund in September 1956, an initial par value of M$N 18 per U.S. dollar was agreed on January 9, 1957. This par value is the same as the official rate established by Argentina in its exchange reform of

October 1955. The exchange system established in that reform has since remained fundamentally unchanged. However, there have been some shifts of commodities, both exports and imports, from the official to the free exchange market; and certain capital goods which previously could not be imported have been admitted to the free market. In order to counteract further the deterioration in the Argentine balance of payments, exchange surcharges on imports of automobiles were substantially increased during the year, and advance peso deposits were established for certain groups of imports. Exchange taxes on exports are being gradually reduced. In the free market, the exchange rate has undergone rather substantial fluctuations. The rate at first appreciated from the level of about M$N 39 per U.S. dollar reported in April 1956, but subsequently declined again. By the end of April 1957 it was about M$N 38.40 per U.S. dollar.

On March 13, 1957, an initial par value for the currency of *Israel*, which had become a member of the Fund in July 1954, was established at I£1.800 per U.S. dollar. This rate had, since September 1954, been the effective rate for practically all Israeli exchange transactions. Some transactions, however, take place at rates outside the prescribed margins of the par value; one such rate, I£1.500 per U.S. dollar, is applied to the foreign exchange receipts from certain charitable organizations.

Members Without Initial Par Value

Initial par values have been agreed between the Fund and all but nine of its members—Afghanistan, China, Greece, Indonesia, Italy, Korea, Thailand, Uruguay, and Viet-Nam. Three of these members—Afghanistan, Korea, and Viet-Nam—have only recently joined the Fund. Although *Greece* and *Italy* have no par value, they have maintained unitary fixed rates—Italy since 1949 at approximately 625 lire per U.S. dollar, and Greece since 1954 at 30 drachmas per U.S. dollar. *Thailand's* free market rate for the U.S. dollar has been stable since the unification of its exchange system was completed at the beginning of 1956; during the last year, it fluctuated between

20.66 baht and 20.88 baht, while the sterling rate moved between 56.83 baht and 58.19 baht.

Developments in Par Values, Exchange Rates, and Multiple Currency Practices

There were no changes during the fiscal year 1956–57 in any par value previously agreed by the Fund with a member.

In discussions with the Fund in connection with the introduction of a new exchange system, *Bolivia* informed the Fund in December 1956 that exchange rates would not be maintained within the prescribed margins of the par value agreed on May 14, 1953. The new exchange system was part of a comprehensive program of economic stabilization, mentioned earlier in this Report. The complex multiple exchange rate structure, which in part had served the purpose of subsidization and control of prices, was eliminated, and trade and exchange restrictions were abolished. A unified fluctuating exchange rate was established to replace the system of multiple export rates and the basic import rate which had operated with varying c.i.f. import surcharges. The boliviano was to be allowed to find its appropriate level in the free market, the Central Bank of Bolivia intervening only when necessary to avoid excessive fluctuations arising from temporary factors. The boliviano had depreciated in the free market from approximately Bs 5,800 per U.S. dollar in April 1956 to over Bs 12,000 shortly before the exchange reform. The Central Bank began operations under the new system at a rate of Bs 7,750 per U.S. dollar on December 19, 1956. Subsequently, the rate tended to appreciate and at the end of April 1957 was about Bs 7,650 per U.S. dollar.

In November 1949, Peru had also informed the Fund that its exchange rates would not be maintained within the prescribed margins of the agreed par value, and in April 1956, Chile had introduced an exchange system under which there are no transactions at rates within the prescribed margins. In each of these countries, there are now two fluctuating free exchange rates. In *Peru,* the certificate market rate, which applies to most trade transactions, was maintained unchanged throughout the year at 19 soles per U.S. dollar, while in the free or draft market, in which capital transactions and most payments for invisibles take place, the sol tended to appreciate, the U.S. dollar rate moving from about 19.30 soles in April 1956 to 19.03 soles at the end of April 1957. In *Chile,* exchange purchases in the Banking Free Market were subjected to a specific tax of 15 pesos per U.S. dollar and an additional exchange tax, first set at 1 per cent and subsequently increased to 5 per cent. The effect of these measures was to narrow the spread between the effective selling rates in the Banking Free Market (which covers all permitted imports and exports and associated invisibles, certain registered capital items, and government and semigovernment transactions) and the Brokers' Free Market (for capital and invisible transactions not permitted in the Banking Free Market). The rate in the Banking Free Market was maintained within rather narrow limits, ranging up to 506 pesos per U.S. dollar, during the first six months following the exchange reform carried out in April 1956 as part of a general stabilization program. Subsequently, it depreciated in successive stages, reaching 543 pesos in December 1956, 570 pesos in February 1957, and 582 pesos at the end of April. The rate in the Brokers' Free Market declined more sharply, moving from about 500 pesos per U.S. dollar when the new system was inaugurated to 652 pesos at the end of April 1957.

Since September 1950, when *Canada* decided that temporarily its exchange rate could not be maintained within the specified margins of the par value agreed with the Fund in September 1949, a unitary, though fluctuating, exchange rate has been maintained. The influences which produced fluctuations in the Canadian exchange rate in 1956 are analyzed elsewhere in this Report. The rate, expressed in U.S. currency, appreciated during the year from US$1.0013 in January to US$1.0411 in December, a rate slightly above the previous postwar high point attained in October 1952, and to US$1.0439 on April 30, 1957.

In *France,* which altered the par value of its currency in 1948 and has not agreed with the Fund on a new par value, an exchange rate of approximately 350 francs per U.S. dollar has been maintained since

1950. In February 1957, France introduced a tax of approximately 3 per cent on sales of foreign exchange to French residents for travel.

Since March 1956, *Iran* has had a single buying rate of 75 rials per U.S. dollar and a single selling rate of 76.50 rials, which is 2 per cent above the buying rate, both rates differing widely from the par value agreed in 1946.[2] In *Lebanon* and *Syria*, all exchange transactions take place at rates not related to the par values of 2.19 pounds per U.S. dollar agreed with the Fund by both countries. In Lebanon, stability in the free market has continued during the last year, with the rate for U.S. dollars varying between about 3.20 pounds and 3.24 pounds; official purchases in the market were small in comparison with those in recent years. The Syrian authorities continue to intervene in the market and have quoted selling rates for U.S. dollars of about 3.58 pounds throughout 1956 and early 1957; there were minor fluctuations in the rates for other currencies.

The Fund's attitude toward exchange systems which contain multiple currency practices has been outlined above. The number of members which make important use of these practices is not great, and their currencies are not used extensively in international trade. The majority of the members of the Fund maintain exchange systems in which transactions take place generally within the prescribed margins of their respective par values agreed with the Fund, and the currencies of these members include those most used as means of payment for international trade.

The exchange systems of Fund members which maintain multiple currency practices are summarized in the *Eighth Annual Report on Exchange Restrictions*. The more important developments in them during the past year are outlined below.

Brazil has made only minor modifications in the basic structure of its exchange system. In May 1956, some exports were reclassified, and an additional export category was created, with a higher bonus, applicable primarily to exports of manufactured products. This measure was taken in an effort to overcome difficulties encountered

[2] On May 8, 1957, the Fund concurred in a proposal by Iran to change the initial par value of the rial from 32.25 rials per U.S. dollar, the rate established on December 18, 1946, to 75.75 rials per U.S. dollar, effective May 22, 1957.

by minor exports owing to increasing costs and was equivalent to a selective devaluation of varying proportions for all "minor" exports, which account for some 15 to 20 per cent of total exports. The effective export rates for convertible currencies and ACL (i.e., area of limited convertibility) dollars continued to be quoted at premiums of about 4 per cent above the export rates for other currencies. There have also been some shifts between the various auction import categories. In February 1957, adjustments in the minimum auction premiums had the result of reducing the differentials between the effective rates for soft currencies, on the one hand, and for U.S. dollars and ACL dollars, on the other hand.

The premiums in the auction market for certificates pertaining to the five import categories fluctuated considerably over the period. They reached a peak in May 1956 and declined markedly in subsequent months, partly because more exchange was made available to the market, and probably also as a result of increased restraints on bank credit. The average quotations for U.S. dollar certificates in Rio de Janeiro at the end of April 1957 were as follows, with comparative figures for April 1956 in parentheses: Category I, Cr$45 (Cr$93); Category II, Cr$70 (Cr$127); Category III, Cr$86 (Cr$203); Category IV, Cr$127 (Cr$243); Category V, Cr$321 (Cr$300).

In the free market, which is used for certain invisible transactions, the cruzeiro similarly strengthened, from a low of about Cr$84 per U.S. dollar at the end of May 1956 to Cr$68.30 at the end of April 1957.

Faced with continued inflationary pressures and further deterioration in its external payments and reserve position, *Colombia* took a number of exchange measures during the year. These included further shifts of import commodities from the official to the free exchange market, in which the rate depreciated sharply, and the establishment of an exchange certificate market designed to channel certain export proceeds toward eligible imports and some other authorized payments and to curb capital flight. The exchange rate in the certificate market was approximately 7 pesos per U.S. dollar in the latter part of April 1957. Other measures taken to restrict imports included the expansion of import prohibitions, the virtual suspension of import registrations for a time, and monthly quantitative limits on import permits. These measures, however, failed to provide an adequate remedy for Colombia's payments difficulties.[3]

During the period under review, *Ecuador* took further measures to restrain excessive import demand. These measures again included the shifting of imports from the official to the controlled free market and the inclusion of some imports in the uncontrolled (brokers') free market. Thus, there was some further selective devaluation of import rates. The list of prohibited imports was extended, though subsequently there was some relaxation, and there were some changes in the surrender requirements for the proceeds from banana exports.

There was a more fundamental alteration in the exchange system in the middle of March 1957, when the Central Bank suspended transactions at the controlled free market rates of 17.30 sucres buying and 17.40 sucres selling per U.S. dollar, which had been maintained since July 1952. This measure unified the two segments of the free market, and it was intended that the exchange rate in the unified market would be allowed to find its own level with some intervention by the Central Bank. This step also involved a depreciation of the exchange rate applicable to transactions that had previously taken place at the Central Bank's controlled rate and, though only a small percentage of trade transactions is affected, it is likely to strengthen the balance of payments position. In addition to these exchange measures, Ecuador imposed in December 1956 a temporary ad valorem tax of 5 per cent on imports in Category I and of 10 per cent on imports in Category II. This measure was taken for the purpose of raising additional revenue which would help in balancing the 1957 budget and meeting past obligations, but it was also expected to place some additional restraint on import demand. On the other hand, advance deposits on imports were relaxed in early 1957.

With a view to arresting the declining trend in foreign exchange reserves which has been evident during the past three years, *Uruguay*

[3] In June 1957 Colombia introduced a new exchange system within the framework of a general stabilization program.

introduced a significant modification in its exchange system in August 1956. In addition to the fixed buying and selling rates of exchange and the free financial exchange market which had previously existed, an exchange certificate market was established. Exchange proceeds from exports are sold at effective rates determined by mixing the official buying rate of 1.519 pesos per U.S. dollar and the certificate market rate, which since the inauguration of the certificate market has been 4.10 pesos per U.S. dollar. The proportion used in mixing the two rates varies according to the commodity involved, so that there is a large number of effective export rates, ranging from 1.906 pesos per dollar for greasy wool, the principal export commodity, to 4.10 pesos. Three exchange rates are applied to imports—2.10 pesos per U.S. dollar, 3.00 pesos per U.S. dollar, and the certificate rate. As the average import rate has been depreciated by about 30 per cent compared with 1954, the effect of the new system upon imports is intended to be restrictive, while exports have been stimulated through a depreciation of about 15 per cent in the average export rate. The increased spread between buying and selling rates also provides some revenue. These changes in exchange practice are still under discussion with the Fund.

In the free financial market, the exchange rate, which at the end of April 1956 had been 3.95 pesos per U.S. dollar, at first depreciated markedly. By the time of the exchange reform of August it was 4.21 pesos per U.S. dollar; after the reform it appreciated sharply for some time, the peak quotation of 3.65 pesos being reached in mid-December. By the end of April 1957, however, the rate was nearly the same as it had been twelve months before, 4.01 pesos per U.S. dollar.

In *Denmark*, the effective premium allowed on dollar exports was reduced on January 1, 1957 from 8 per cent to 6 per cent of the exchange earned by exporters.

The import certificate system which had been established in *Iceland* in 1951 was abolished in December 1956, when a tax of 16 per cent was imposed, with some exemptions, on sales of foreign exchange for commodities and invisibles, and the fees payable on licenses for foreign exchange and business travel were increased from 25 per cent to 40 per cent. Most of the proceeds from the tax and the increased fees, together with the proceeds from certain sales taxes and other fees, accrue to an Export Fund from which payments, based upon fixed percentages of their f.o.b. value, are made to the producers of most export commodities.

Until April 1, 1957, *Finland* maintained an automatic import licensing system which gave importers freedom with respect to quantity and source of supply in relation to non-dollar countries for a substantial proportion of imports, and for a limited number of commodities from all sources. On April 1, 1957, this system was replaced by a global quota system which covers a larger share of imports, both from non-dollar countries and from the dollar area, and is designed to achieve a substantial reduction in over-all licensing.

In *Turkey*, the multiple currency practices already in operation were further expanded by changes introduced into the exchange system during the year under review. On October 8, 1956, a new buying rate of 5.25 liras per U.S. dollar was applied to certain current receipts, e.g., tourism, and to capital repatriation. The exchange from such transactions could be sold at 5.75 liras for the repatriation of nonresident blocked balances or for certain other transactions, such as tourism. Other exchange measures included the introduction in October 1956 of a subsidy of 35 per cent on cotton exports in 1956–57 paid for in convertible or EPU currencies; an arrangement, first introduced in June 1956 and revised in November 1956, under which exporters of low-grade chromium and manganese may retain 100 per cent of their exchange proceeds for the importation of materials and equipment; and the introduction, as of March 1, 1957, of a new 40 per cent tax on exchange allocated for a wide range of imports.

The percentage of exchange proceeds which exporters in *Japan* are permitted to use for specified purposes under the retention quota system was reduced from 5 per cent to 3 per cent beginning January 1, 1957.

As from August 6, 1956, *Indonesia* replaced the system of direct export premiums, in force since October 24, 1955, by a system of Export Incentive Certificates (*Bukti Pendorang Ekspor*, or *BPE*) linked to certain payments for imports and invisibles. Under this new BPE system, as modified on September 3, 1956, exporters of some 30 commodities—including principal exports such as rubber, tea, coffee, and copra, but not tin ore, crude oil and its products, and cane sugar—receive certificates (denominated in rupiah) for specified percentages of their export proceeds, ranging from 2 per cent for relatively inferior grades of rubber and 5 per cent for other rubber to 20 per cent for rope fibers and tapioca. Foreign exchange for the importation of certain semiluxury and luxury articles or for making payments for certain invisibles, such as most travel and advertising expenses abroad, can be obtained from the banks only by surrendering an equivalent amount of these certificates bought on the free market. However, no further payment is required of the persons surrendering these certificates to obtain foreign exchange, since the rupiah cost of that exchange is borne by the Government. The market price of the certificates ranged between 150 per cent and 245 per cent of their nominal value in September 1956; at the end of April 1957 it was 210 per cent. The BPE system added considerably to the number of effective buying and selling exchange rates and introduced an element of fluctuation in respect of part of the rate structure.

On September 3, 1956, Indonesian imports were also reclassified for the purpose of fixing exchange surcharges in two broad categories, one of which was subdivided into nine, and the other into seven, groups. Imports in the first category were made subject to additional import levies at rates ranging up to 400 per cent of the cost plus freight value. Imports in the second category are subject not only to additional levies ranging up to 300 per cent, but also to the requirement that an equivalent amount of export incentive certificates be surrendered.

In December 1956, Indonesia reintroduced a limited list of prohibited imports, for the most part goods produced domestically in adequate quantities. With a continued decline in reserves, the issue of import licenses for most commodities was suspended indefinitely at the end of April 1957. In February 1957, the Monetary Board broadened the purposes for which the net profits of foreign companies working in Indonesia (40 per cent of which had since June 1955 been blocked in special accounts with the Bank Indonesia) might be released. Prior to February 1957 the release of these profits was authorized only for reinvestment in these foreign-owned companies; now they may be released also for investment in certain Indonesian-owned companies.[4]

During 1956, *China* (Taiwan) made further progress toward simplifying its multiple rate system. Export exchange rates, which had previously varied both according to the commodity exported and to whether the exporter was a public or a private agency, were replaced by rates based on the commodity only. There are therefore now only two export rates, NT$20.35 per U.S. dollar for exports of sugar, rice, and salt, and NT$26.35 for all other exports. Some minor changes were also made in the buying rates for invisibles, of which there are, however, still three, ranging from NT$24.68 to NT$35.00 per U.S. dollar.

In *Viet-Nam*, the official exchange rate is 35 piastres per U.S. dollar, or 1 piastre for 10 French francs. A limited-access free market began operations on July 2, 1956; in this market, the daily selling rate fluctuated during the remainder of the year between 71.01 piastres and 75.75 piastres per U.S. dollar.

Consultations with Members Concerning Exchange Practices

As in the past, many members consulted with the Fund during the year concerning their exchange practices, including in some instances changes in exchange rates. Such consultations have been undertaken mainly in three different contexts. There were, first, the annual consultations required by Article XIV, Section 4, of the Fund's Articles of Agreement, which stipulates that members availing themselves of the postwar transitional arrangements shall consult annually on their further retention. The Fund has also discussed present and

[4] In June 1957, Indonesia introduced a new exchange system within the framework of a general stabilization program.

prospective exchange practices with members in connection with intended or actual use of the Fund's resources. Finally, several member countries have discussed with the Fund the problems arising in connection with changes which they wish to make in their multiple currency practices.

The sixth annual series of consultations under Article XIV was conducted during the period under review, and the seventh series has begun. During the period from April 1, 1956 to March 31, 1957, 35 consultations were concluded. In connection with 27 of these, Fund missions visited member countries; discussions with representatives of the other countries were held in Washington. As in the past, these consultations have provided the occasion for a general review of the economic and financial conditions of the country concerned and have, at the same time, permitted a confidential discussion of the main problems arising in connection with its exchange policy.

The experience gradually built up in its annual comprehensive consultations with members has often been of value to the Fund in its consideration of specific requests by members, such as, for example, requests for technical assistance, for access to the Fund's resources, or for approval of changes in multiple currency practices. The requirement for annual consultations has given special impetus to the efforts of the Fund to expand its knowledge of the problems of its member countries. The visits of staff teams to member countries, and of officials from these countries to the Fund headquarters, have gradually built up a constructive personal relationship based on mutual understanding. These continuing studies and contacts have, over a period of years, equipped the Fund with a knowledge and comprehension which greatly facilitate the prompt consideration of any special requests that members may bring before it.

The insight into the economic prospects and exchange policies of members that regular consultations can give helps in making possible the prompt attention that is desirable to requests for drawings from the Fund. For example, the request by the U.K. authorities for a drawing and a stand-by arrangement in December 1956, described elsewhere in this Report, was made at a time when a staff mission had just completed its preliminary discussions with the United Kingdom in connection with the Article XIV consultation with that country. This assisted the Fund in being adequately informed on the current economic situation and policies of the United Kingdom, and thus facilitated its prompt consideration of this important request.

Some countries with problems of unusual complexity have from time to time had special consultative relations with the Fund extending over a long period and touching upon many aspects of the member's exchange policy and practices. The Fund's relations with Bolivia provide an illustration of the far-reaching reform programs that consultations of this kind sometimes help to make possible. The Bolivian program included a stand-by arrangement with the Fund which, together with related financial assistance from other sources, permitted the introduction of a thoroughgoing reform of Bolivia's foreign exchange practices. The services of a member of the Fund staff were subsequently made available to the Bolivian authorities for technical advice and assistance in relation to this program.

Gold Transaction Service

On November 21, 1956 the Fund extended the scope of its gold transaction service (described in the Fund's Annual Report for 1952), by adding the International Finance Corporation to the list of specified parties which may use the service. The list now includes three specified international organizations—the Bank for International Settlements, the International Bank for Reconstruction and Development, and the International Finance Corporation—and four specified nonmembers—New Zealand, Portugal, Spain, and Switzerland (plus Ireland and Saudi Arabia, which have applied for membership). It was also decided that the service might be used for gold transactions between a specified international organization and any other party covered by the service. This means that the Fund is authorized to seek to match an international organization with another specified international organization or with a specified nonmember, and not only with a member of the Fund, as has been the practice in the past.

Since the inauguration of the gold transaction service in March 1952, the central banks of 22 member countries and 3 international organizations have effected purchases or sales of gold through the facilities of the Fund. During this five-year period, there were occasions when the supply of gold offered through the Fund exceeded the demand, and at other times the reverse was true. The former was particularly true during most of the year under review. The Fund was successful, however, in facilitating the completion of 16 transactions amounting to a total of about $114.7 million, bringing the total for the five-year period to 71 transactions amounting to about $562.4 million.

Other Fund Services to Members

In addition to the consultations referred to above, the Fund has maintained active and close relations with many of its members in the provision of technical assistance. Member countries increasingly call upon the Fund for advice and technical assistance in relation to problems that fall within its sphere of competence, and with all members there is a continuous exchange of views and information. It is regarded as one of the most important functions of the Fund to provide as promptly as possible impartial and expert advice to those members that desire it. For special assignments at the request of certain members, two members of the staff were granted leave without pay during the last year; and advice was also given by members of the Fund's staff to two nonmember countries, at their request, on monetary and banking problems.

Training Program

The Fund's training program is intended to provide qualified nationals of member countries with technical training related to activities with which the Fund is concerned; at the same time, by providing such training it assists the Fund in its relations with members. The continued interest of Fund members is indicated by the submission of applications from their civil service and central bank staffs for appointment to the training program. Some indication of the success already attained in achieving the objectives of the program is given by the number of former trainees who now occupy responsible positions in their own countries. While preference is normally given to candidates from countries where the need for individuals with specialized technical training is most acute, it has been found advantageous, from the standpoint of the educational value of the training program itself, to bring together men and women with widely divergent backgrounds of training and experience, and appointments have therefore not been confined to the nationals of any one category of member country.

The total number of participants in the Fund's training program since its inception in 1951 has risen to 117 from 54 member countries. As the membership of the Fund has increased, the facilities provided for the training program have been expanded, and the 1956–57 program, started in September 1956, includes 20 participants.

Investment of Fund Assets

The Fund's program of investing a specified portion of its gold in U.S. Treasury bills, which was referred to in last year's Annual Report, was fully implemented during the past year. An amount of gold equivalent to $199,991,548.82 was sold, and as of April 30, 1957 the Fund's investment in U.S. Treasury bills totaled $199,982,511.25. The income from this investment during the year amounted to $4,904,173.67.

Information

During the year, the Fund published the *Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1956* (Eleventh Annual Report), the *Seventh Annual Report on Exchange Restrictions,* Volume 7 of the *Balance of Payments Yearbook*, Volume V, Numbers 2 and 3, of *Staff Papers*, the monthly *International Financial Statistics*, and the weekly *International Financial News Survey*. The monthly *Direction of International Trade* continues to be published jointly with the International Bank for Reconstruction and Development and the Statistical Office of the United Nations. The Fund's tenth anniversary in 1956 was the occasion for the issue of a brochure, *The First Ten Years of the International Monetary Fund*, which briefly reviews the activities of the Fund during the first decade of its history and its role in the development of international monetary cooperation.

Relations with Other International Organizations

In addition to its special relationship with the International Bank for Reconstruction and Development, the Fund has maintained close contacts with the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade (GATT), the Organization for European Economic Cooperation (OEEC), and the Bank for International Settlements. Arrangements were agreed for an increase in the interchange of information of mutual interest between the Fund and the CONTRACTING PARTIES, and liaison has been maintained between the Secretariats of the two organizations. As in the past, Fund missions attended meetings of the CONTRACTING PARTIES in Geneva, and the CONTRACTING PARTIES were represented at the Annual Meeting of the Governors of the Fund in Washington.

The Fund was consulted in 1956 by the CONTRACTING PARTIES in connection with their consultations with 5 governments on the discriminatory application of import restrictions being imposed in order to safeguard balances of payments and monetary reserves. In addition, similar consultations with the Fund are being held through 1957 in connection with the CONTRACTING PARTIES' consultations with some 20 governments on import restrictions maintained for balance of payments reasons. The Fund transmits to the CONTRACTING PARTIES the results of its own Article XIV consultations with the various governments concerned, together with background material relating to such countries, and Fund missions cooperate with the GATT working parties conducting the consultations.

Arrangements have also been made to extend the exchange of information between the Fund and the OEEC and to increase cooperation with the OEEC Secretariat.

Close liaison has been maintained with the United Nations and its various regional and technical bodies. These contacts include direct working relationships with the staffs of these agencies, the preparation of studies and reports on subjects within the Fund's field of competence, and official participation in their meetings. The Fund has also lent staff members to the United Nations for participation in two missions in the field of payments, fiscal, and related matters. Fund representatives have attended meetings of the General Assembly of the United Nations; of the Economic Commission for Asia and the Far East, for Europe, and for Latin America, including the Fourth Meeting of the Central American Economic Cooperation Committee; of the UN Administrative Committee on Coordination; and of the Technical Assistance Board. The Managing Director of the Fund presented a report on the Fund's activities and on general monetary developments at the 23rd Session of the UN Economic and Social Council in April 1957.

Administration

At the end of the fiscal year, the Fund staff numbered 427, including 9 temporary employees and 5 on extended leave. Thus, during the year there was a net increase of 8. In line with its policy of recruiting staff on as wide a geographical basis as possible, the Fund appointed during the year 53 new staff members from 23 member countries. The total number of nationalities on the staff was thus increased to 47, from 43 last year.

As reported at last year's meeting of the Board of Governors, the Fund's new headquarters building is now under construction. Completion is expected early in 1958. The new building of thirteen stories will be adjacent to 1818 H Street, the present headquarters of the Fund and the International Bank.

For the past fiscal year, the Fund's income of US$13,289,373.48 exceeded its total expenditure by US$7,905,772.13. As of April 30, 1957 the cumulative deficit has been reduced from US$14,211,843.57 a year earlier to US$6,295,738.61. The administrative budget approved by the Executive Directors for the period May 1, 1957 to April 30, 1958 is presented in Appendix VIII. A tabulation comparing the budget with actual expenditures for the fiscal years 1956 and 1957 and a comparative statement of income are also presented there.

The Executive Board requested the Governments of China, Colombia, and Denmark to nominate members of the Audit Committee. The following nominations were made and confirmed: Mr. Felix S. Y. Chang, Manager, Foreign Department, Bank of Taiwan, Taipei, Taiwan; Mr. Alfonso Llano, Sub-Secretary and Assistant to the General Manager of the Banco de la República, Bogota, Colombia; Mr. Bent Harhorn, Assistant Auditor, Danmarks Nationalbank, Copenhagen, Denmark. The report of the Committee is submitted separately. Appendix IX gives the Auditors' Certificate, together with the audited Balance Sheet as of April 30, 1957, the audited Statement of Income and Expenditure, with supporting schedules, and audited financial statements of the Staff Retirement Fund.

APPENDICES

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Appendix I

MEMBERSHIP, QUOTAS, GOVERNORS, AND VOTING POWER

as of April 30, 1957

	QUOTA		VOTES		
Member	Amount (000,000's)	Per Cent of Total	Governor *Alternate*	Number[1]	Per Cent of Total
Afghanistan	$ 10.0	0.11	Abdul Malik *Mohammad Sarwar*	350	0.34
Argentina	150.0	1.68	Adalberto Krieger Vasena *Adolfo Vicchi*	1,750	1.68
Australia	200.0	2.24	Sir Arthur Fadden *Sir Percy Claude Spender*	2,250	2.16
Austria	50.0	0.56	Eugen Margaretha *Franz Stoeger-Marenpach*	750	0.72
Belgium	225.0	2.52	Maurice Frere *Joseph Vanheurck*	2,500	2.40
Bolivia	10.0	0.11	Franklin Antezana Paz *Guillermo Mac Lean*	350	0.34
Brazil	150.0	1.68	Jose Maria Alkmim *Octavio Paranagua*	1,750	1.68
Burma	15.0	0.17	Kyaw Nyein *Tu Maung*	400	0.38
Canada	300.0	3.36	Walter Edward Harris *James Elliott Coyne*	3,250	3.12
Ceylon	15.0	0.17	Stanley de Zoysa *Sir Arthur Ranasinha*	400	0.38
Chile	50.0	0.56	Vacant *Felipe Herrera*	750	0.72
China	550.0	6.16	Peh-Yuan Hsu *Pao-hsu Ho*	5,750	5.51
Colombia	50.0	0.56	Carlos Villaveces *Gabriel Betancur*	750	0.72
Costa Rica	5.0	0.06	Angel Coronas *Mario Fernandez*	300	0.29
Cuba	50.0	0.56	Joaquin Martinez Saenz *Bernardo Figueredo Antunez*	750	0.72
Denmark	68.0	0.76	Svend Nielsen *Einar Dige*	930	0.89
Dominican Republic	10.0	0.11	Arturo Despradel *Oscar Guaroa Ginebra Henriquez*	350	0.34
Ecuador	10.0	0.11	Guillermo Perez-Chiriboga *Clemente Vallejo*	350	0.34
Egypt	60.0	0.67	Abdel Moneim El Kaissouni *Mohamed Loutfy El-Banna*	850	0.81
El Salvador	2.5	0.03	Catalino Herrera *Manuel Melendez-Valle*	275	0.26

MEMBERSHIP, QUOTAS, GOVERNORS, AND VOTING POWER

as of April 30, 1957

	QUOTA		VOTES		
Member	Amount (000,000's)	Per Cent of Total	Governor *Alternate*	Number[1]	Per Cent of Total
Ethiopia	$ 6.0	0.07	Makonnen Habte Wolde *Stanislaw Kirkor*	310	0.30
Finland	38.0	0.43	R. v. Fieandt *Reino Rossi*	630	0.60
France	525.0	5.88	Pierre Mendes-France *Wilfrid Baumgartner*	5,500	5.27
Germany, Federal Republic of	330.0	3.69	Wilhelm Vocke *Hans Karl von Mangoldt-Reiboldt*	3,550	3.40
Greece	40.0	0.45	Xenophon Zolotas *John S. Pesmazoglu*	650	0.62
Guatemala	5.0	0.06	Gabriel Orellana *Gustavo Miron Porras*	300	0.29
Haiti	2.0	0.02	Silvere Pilie *Maurice Telemaque*	270	0.26
Honduras	2.5	0.03	Gabriel A. Mejia *Roberto Ramirez*	275	0.26
Iceland	1.0	0.01	Bjorn Olafsson *Thor Thors*	260	0.25
India	400.0	4.48	T. T. Krishnamachari *H. V. R. Iengar*	4,250	4.07
Indonesia	110.0	1.23	Sjafruddin Prawiranegara *R. Soegiarto*	1,350	1.29
Iran	35.0	0.39	Ali Asghar Nasser *Ahmad Majidian*	600	0.57
Iraq	8.0	0.09	Abdulilah Hafidh *Saleh Kubba*	330	0.32
Israel	7.5	0.08	David Horowitz *Martin Rosenbluth*	325	0.31
Italy	180.0	2.02	Adone Zoli *Vacant*	2,050	1.97
Japan	250.0	2.80	Hayato Ikeda *Masamichi Yamagiwa*	2,750	2.64
Jordan	3.0	0.03	Izzeddin Mufti *Abdul Karim Humud*	280	0.27
Korea	12.5	0.14	Tai Shik In *Yong Chan Kim*	375	0.38
Lebanon	4.5	0.05	Nasr Harfouche *Farid Solh*	295	0.28
Luxembourg	10.0	0.11	Pierre Werner *Hugues Le Gallais*	350	0.34

Appendix I (*continued*)

MEMBERSHIP, QUOTAS, GOVERNORS, AND VOTING POWER

as of April 30, 1957

	QUOTA		VOTES		
Member	Amount (000,000's)	Per Cent of Total	Governor *Alternate*	Number[1]	Per Cent of Total
Mexico	$ 90.0	1.01	Antonio Carrillo Flores *Rodrigo Gomez*	1,150	1.10
Netherlands	275.0	3.08	M. W. Holtrop *E. van Lennep*	3,000	2.88
Nicaragua	7.5	0.08	Guillermo Sevilla Sacasa *Leon DeBayle*	325	0.31
Norway	50.0	0.56	Erik Brofoss *Christian Brinch*	750	0.72
Pakistan	100.0	1.12	Abdul Qadir *M. A. Mozaffar*	1,250	1.20
Panama	0.5	0.01	Roberto M. Heurtematte *Jose D. Crespo*	255	0.24
Paraguay	3.5	0.04	Gustavo F. A. Storm *Pedro R. Chamorro*	285	0.27
Peru	25.0	0.28	Andres F. Dasso *Emilio G. Barreto*	500	0.48
Philippines	15.0	0.17	Miguel Cuaderno, Sr. *Eduardo Z. Romualdez*	400	0.38
Sweden	100.0	1.12	Per V. Asbrink *T. L. Hammarskiold*	1,250	1.20
Syria	6.5	0.07	Rafic Sioufi *Awad Barakat*	315	0.30
Thailand	12.5	0.14	Prince Viwat *Puey Ungphakorn*	375	0.36
Turkey	43.0	0.48	Hasan Polatkan *Memduh Aytur*	680	0.65
Union of South Africa	100.0	1.12	Jozua Francois Naude *Daniel Hendrik Steyn*	1,250	1.20
United Kingdom	1,300.0	14.56	Peter Thorneycroft *Sir George Bolton*	13,250	12.70
United States	2,750.0	30.79	George M. Humphrey *Herbert V. Prochnow*	27,750	26.60
Uruguay	15.0	0.17	Carlos Sapelli *Carlos Sanguinetti*	400	0.38
Venezuela	15.0	0.17	J. J. Gonzalez Gorrondona *Francisco Alfonso Ravard*	400	0.38
Viet-Nam	12.5	0.14	Tran Huu Phuong *Vu Quoc Thuc*	375	0.36
Yugoslavia	60.0	0.67	Nenad Popovic *Bosko Tonev*	850	0.81
	$8,931.5	100.00[2]		104,315	100.00[2]

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

Appendix II

CHANGES IN MEMBERSHIP OF THE BOARD OF GOVERNORS

Changes in the membership of the Board of Governors between May 1, 1956 and April 30, 1957 have been as follows:

Adone Zoli was appointed Governor for Italy, May 9, 1956.

Manuel Melendez-Valle was reappointed Alternate Governor for El Salvador, May 17, 1956.

Ahmad Majidian succeeded Ebrahim Kachani as Alternate Governor for Iran, June 2, 1956.

John S. Pesmazoglu succeeded Charalambos Theodoropoulos as Alternate Governor for Greece, June 7, 1956.

Memduh Aytur succeeded Burhan Ulutan as Alternate Governor for Turkey, June 9, 1956.

Abdulilah Hafidh succeeded Khalil Kenna as Governor for Iraq, June 17, 1956.

Carlos Sapelli succeeded Miguel B. Rognoni as Governor for Uruguay, June 26, 1956.

Gustavo F. A. Storm succeeded Epifanio Mendez as Governor for Paraguay, June 27, 1956.

Pedro R. Chamorro succeeded Pedro Juan Mayor as Alternate Governor for Paraguay, June 27, 1956.

The term of Arturo Maschke as Governor for Chile expired, July 17, 1956.

Tai Shik In succeeded Hyun Chul Kim as Governor for Korea, July 18, 1956.

Yong Chan Kim succeeded Suk Hi Park as Alternate Governor for Korea, July 18, 1956.

Emilio G. Barreto was reappointed Alternate Governor for Peru, July 18, 1956.

H. M. Patel succeeded B. Rama Rau as Alternate Governor for India, July 26, 1956.

Jose Maria Alkmim succeeded Eugenio Gudin as Governor for Brazil, August 1, 1956.

Chintaman D. Deshmukh resigned as Governor for India, August 2, 1956.

Maurice Frere was reappointed Governor for Belgium, August 9, 1956.

B. Rama Rau succeeded Chintaman D. Deshmukh as Governor for India, August 9, 1956.

Jozua Francois Naude succeeded Eric Hendrik Louw as Governor for the Union of South Africa, August 9, 1956.

Miguel Cuaderno, Sr., was reappointed Governor for the Philippines, August 14, 1956.

Eduardo Z. Romualdez succeeded Emilio Abello as Alternate Governor for the Philippines, August 31, 1956.

Tu Maung succeeded San Lin as Alternate Governor for Burma, September 3, 1956.

Sir Percy Claude Spender succeeded L. H. E. Bury as Alternate Governor for Australia, September 4, 1956.

Bosko Tonev succeeded Janko Smolej as Alternate Governor for Yugoslavia, September 5, 1956.

Roberto M. Heurtematte was reappointed Governor for Panama, September 12, 1956.

Sir Percy Claude Spender succeeded Sir Arthur Fadden as Governor for Australia, September 16, 1956.

L. H. E. Bury succeeded Sir Percy Claude Spender as Alternate Governor for Australia, September 16, 1956.

Eugenio Blanco was appointed Governor for Argentina, effective September 20, 1956.

Adolfo Vicchi was appointed Alternate Governor for Argentina, effective September 20, 1956.

Zeyyat Mandalinci succeeded Nedim Okmen as Governor for Turkey, September 21, 1956.

Hasan Isik succeeded Memduh Aytur as Alternate Governor for Turkey, September 21, 1956.

Tran Huu Phuong was appointed Governor for Viet-Nam, effective September 21, 1956.

Vu Quoc Thuc was appointed Alternate Governor for Viet-Nam, effective September 21, 1956.

Ahmed Zaki Saad succeeded Abdel Moneim El Kaissouni as Governor for Egypt, September 22, 1956.

Carlos J. Canessa succeeded Catalino Herrera as Governor for El Salvador, September 22, 1956.

Abdul Qadir succeeded Syed Amjad Ali as Governor for Pakistan, September 24, 1956.

M. A. Mozaffar succeeded Abdul Qadir as Alternate Governor for Pakistan, September 24, 1956.

Abdel Moneim El Kaissouni succeeded Ahmed Zaki Saad as Governor for Egypt, September 29, 1956.

Catalino Herrera succeeded Carlos J. Canessa as Governor for El Salvador, September 29, 1956.

Sir Arthur Fadden succeeded Sir Percy Claude Spender as Governor for Australia, November 1, 1956.

Gabriel A. Mejia succeeded Pedro Pineda Madrid as Governor for Honduras, November 13, 1956.

Memduh Aytur succeeded Hasan Isik as Alternate Governor for Turkey, November 28, 1956.

Adnan Menderes succeeded Zeyyat Mandalinci as Governor for Turkey, November 28, 1956.

Masamichi Yamagiwa succeeded Eikichi Araki as Alternate Governor for Japan, December 14, 1956.

Hayato Ikeda succeeded Hisato Ichimada as Governor for Japan, December 28, 1956.

B. Rama Rau resigned as Governor for India, January 14, 1957.

Peter Thorneycroft succeeded Harold Macmillan as Governor for the United Kingdom, January 25, 1957.

Roberto Verrier succeeded Eugenio Blanco as Governor for Argentina, January 26, 1957.

Hasan Polatkan succeeded Adnan Menderes as Governor for Turkey, January 30, 1957.

Gabriel Orellana succeeded Gustavo Miron Porras as Governor for Guatemala, February 14, 1957.

Gustavo Miron Porras succeeded Gabriel Orellana as Alternate Governor for Guatemala, February 14, 1957.

Eugen Margaretha was reappointed Governor for Austria, February 28, 1957.

M. W. Holtrop was reappointed Governor for the Netherlands, March 1, 1957.

E. van Lennep was reappointed Alternate Governor for the Netherlands, March 1, 1957.

Oscar Guaroa Ginebra Henriquez succeeded Eudaldo Troncoso Pou as Alternate Governor for the Dominican Republic, March 5, 1957.

Arturo Despradel succeeded Milton Messina as Governor for the Dominican Republic, March 15, 1957.

Adalberto Krieger Vasena succeeded Roberto Verrier as Governor for Argentina, March 26, 1957.

Mohamed Loutfy El-Banna succeeded Ahmed Nabih Younis as Alternate Governor for Egypt, March 26, 1957.

Sir Percy Claude Spender succeeded L. H. E. Bury as Alternate Governor for Australia, March 29, 1957.

Silvere Pilie succeeded Christian Aime as Governor for Haiti, March 29, 1957.

Maurice Telemaque succeeded Edmond Policard as Alternate Governor for Haiti, March 29, 1957.

Pao-hsu Ho was reappointed Alternate Governor for China, April 3, 1957.

Joaquin Martinez Saenz was reappointed Governor for Cuba, effective April 14, 1957.

Bernardo Figueredo Antunez was reappointed Alternate Governor for Cuba, effective April 14, 1957.

The term of Ugo La Malfa as Alternate Governor for Italy expired, April 19, 1957.

T. T. Krishnamachari was appointed Governor for India, April 23, 1957.

H. V. R. Iengar succeeded H. M. Patel as Alternate Governor for India, April 23, 1957.

Appendix III

EXECUTIVE DIRECTORS AND VOTING POWER

as of April 30, 1957

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Per Cent of Total
APPOINTED				
Frank A. Southard, Jr. *John S. Hooker*	United States	27,750	27,750	26.60
G. F. Thorold *R. E. Heasman*	United Kingdom	13,250	13,250	12.70
Beue Tann *Ching-Yao Hsieh*	China	5,750	5,750	5.51
Jean de Largentaye *Jean-Maxime Leveque*	France	5,500	5,500	5.27
P. S. Narayan Prasad *P. J. J. Pinto*	India	4,250	4,250	4.07
ELECTED				
Ahmed Zaki Saad (Egypt)	Afghanistan	350		
Albert Mansour (Egypt)	Egypt	850		
	Ethiopia	310		
	Iran	600		
	Iraq	330		
	Jordan	280		
	Lebanon	295		
	Pakistan	1,250		
	Philippines	400		
	Syria	315	4,980	4.77
Andre van Campenhout	Austria	750		
(Belgium)	Belgium	2,500		
Maurice Toussaint	Korea	375		
(Belgium)	Luxembourg	350		
	Turkey	680	4,655	4.46
Pieter Lieftinck (Netherlands)	Israel	325		
H. M. H. A. van der Valk	Netherlands	3,000		
(Netherlands)	Yugoslavia	850	4,175	4.00
Carlo Gragnani (Italy)	Greece	650		
Costa P. Caranicas	Indonesia	1,350		
(Greece)	Italy	2,050	4,050	3.88
Takeshi Watanabe (Japan)	Burma	400		
Prayad Buranasiri	Ceylon	400		
(Thailand)	Japan	2,750		
	Thailand	375	3,925	3.76

Appendix III (*continued*)

EXECUTIVE DIRECTORS AND VOTING POWER

as of April 30, 1957

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Per Cent of Total
Rodolfo Corominas-Segura (Argentina)	Argentina	1,750		
Julio Gonzalez del Solar (Guatemala)	Bolivia	350		
	Chile	750		
	Ecuador	350		
	Paraguay	285		
	Uruguay	400	3,885	3.72
B. B. Callaghan (Australia)	Australia	2,250		
Vacant	Union of South Africa	1,250		
	Viet-Nam	375	3,875	3.71
Octavio Paranagua (Brazil)	Brazil	1,750		
Helvecio Xavier Lopes (Brazil)	Colombia	750		
	Dominican Republic	350		
	Haiti	270		
	Panama	255		
	Peru	500	3,875	3.71
Torben Friis (Denmark)	Denmark	930		
Jouko J. Voutilainen (Finland)	Finland	630		
	Iceland	260		
	Norway	750		
	Sweden	1,250	3,820	3.66
Jorge Sol (El Salvador)	Costa Rica	300		
Jorge Hazera (Costa Rica)	Cuba	750		
	El Salvador	275		
	Guatemala	300		
	Honduras	275		
	Mexico	1,150		
	Nicaragua	325		
	Venezuela	400	3,775	3.62
Otmar Emminger (Federal Republic of Germany) *Wilhelm Hanemann (Federal Republic of Germany)*	Federal Republic of Germany	3,550	3,550	3.40
Louis Rasminsky (Canada) *Alan B. Hockin (Canada)*	Canada	3,250	3,250	3.12
			104,315	100.00[2]

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

Appendix IV

CHANGES IN MEMBERSHIP OF THE EXECUTIVE BOARD

Changes in the membership of the Executive Board between May 1, 1956 and April 30, 1957 have been as follows:

H. W. Lueck (Federal Republic of Germany) served as Temporary Alternate Executive Director to Otmar Emminger (Federal Republic of Germany), May 7 and July 2 to August 17, 1956.

V. G. Pendharkar (India) resigned as Alternate Executive Director to P. S. Narayan Prasad (India), effective June 5, 1956.

James Samuel Raj (India) was appointed Alternate Executive Director to P. S. Narayan Prasad (India), effective June 6, 1956, and resigned, effective July 31, 1956.

J. C. Lloyd (Australia) served as Temporary Alternate Executive Director to L. H. E. Bury (Australia), July 31, 1956, and to B. B. Callaghan (Australia), March 20 and April 3, 1957.

P. J. J. Pinto (India) was appointed Alternate Executive Director to P. S. Narayan Prasad (India), effective August 1, 1956.

Louis Couillard (Canada) served as Temporary Alternate Executive Director to Louis Rasminsky (Canada), September 7, 1956.

Otto Donner (Federal Republic of Germany) resigned as Alternate Executive Director to Otmar Emminger (Federal Republic of Germany), effective September 14, 1956.

Wilhelm Hanemann (Federal Republic of Germany) was appointed Alternate Executive Director to Otmar Emminger (Federal Republic of Germany), effective September 15, 1956, and was reappointed, effective November 1, 1956.

Joaquim Candido Gouvea Filho (Brazil) resigned as Alternate Executive Director to Octavio Paranagua (Brazil), effective October 14, 1956.

Helvecio Xavier Lopes (Brazil) was appointed Alternate Executive Director to Octavio Paranagua (Brazil), effective October 15, 1956.

S. T. G. Akermalm (Sweden) completed his term of service as Executive Director for Denmark, Finland, Iceland, Norway, and Sweden, October 31, 1956.

Jose Luna-Guerra (Mexico) completed his term of service as Executive Director for Colombia, Costa Rica, Cuba, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Venezuela, October 31, 1956.

Takeo Yumoto (Japan) completed his term of service as Executive Director for Burma, Ceylon, Japan, and Thailand, October 31, 1956.

San Lin (Burma) completed his term of service as Alternate Executive Director to Takeo Yumoto (Japan), October 31, 1956.

L. H. E. Bury (Australia) completed his term of service as Executive Director for Australia and the Union of South Africa on October 31, 1956, and was elected Executive Director by Australia, the Union of South Africa, and Viet-Nam, effective November 1, 1956.

Torben Friis (Denmark) completed his term of service as Alternate Executive Director to S. T. G. Akermalm (Sweden), October 31, 1956, and was elected Executive Director by Denmark, Finland, Iceland, Norway, and Sweden, effective November 1, 1956.

Octavio Paranagua (Brazil) completed his term of service as Executive Director for Bolivia, Brazil, Chile, the Dominican Republic, Ecuador, Haiti, Panama, Paraguay, Peru, and Uruguay, October 31, 1956, and was elected Executive Director by Brazil, Colombia, the Dominican Republic, Haiti, Panama, and Peru, effective November 1, 1956.

Ahmed Zaki Saad (Egypt) completed his term of service as Executive Director for Egypt, Ethiopia, Iran, Iraq, Jordan, Lebanon, Pakistan, the Philippines, and Syria, October 31, 1956, and was elected Executive Director by Afghanistan, Egypt, Ethiopia, Iran, Iraq, Jordan, Lebanon, Pakistan, the Philippines, and Syria, effective November 1, 1956.

Jorge Sol (El Salvador) completed his term of service as Alternate Executive Director to Jose Luna-Guerra (Mexico), October 31, 1956, and was elected Executive Director by Costa Rica, Cuba, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Venezuela, effective November 1, 1956.

Andre van Campenhout (Belgium) completed his term of service as Executive Director for Austria, Belgium, Luxembourg, and Turkey, October 31, 1956, and was elected Executive Director by Austria, Belgium, Korea, Luxembourg, and Turkey, effective November 1, 1956.

B. B. Callaghan (Australia) was reappointed Alternate Executive Director to L. H. E. Bury (Australia), effective November 1, 1956.

Rodolfo Corominas-Segura (Argentina) was elected Executive Director by Argentina, Bolivia, Chile, Ecuador, Paraguay, and Uruguay, effective November 1, 1956.

Julio Gonzalez del Solar (Guatemala) was appointed Alternate Executive Director to Rodolfo Corominas-Segura (Argentina), effective November 1, 1956.

Otmar Emminger (Federal Republic of Germany) was re-elected Executive Director by the Federal Republic of Germany, effective November 1, 1956.

Carlo Gragnani (Italy) was re-elected Executive Director by Greece, Indonesia, and Italy, effective November 1, 1956.

Pieter Lieftinck (Netherlands) was re-elected Executive Director by Israel, the Netherlands, and Yugoslavia, effective November 1, 1956.

Louis Rasminsky (Canada) was re-elected Executive Director by Canada, effective November 1, 1956.

Jouko J. Voutilainen (Finland) was appointed Alternate Executive Director to Torben Friis (Denmark), effective November 1, 1956.

Takeshi Watanabe (Japan) was elected Executive Director by Burma, Ceylon, Japan, and Thailand, effective November 1, 1956.

Prayad Buranasiri (Thailand) was appointed Alternate Executive Director to Takeshi Watanabe (Japan), effective November 1, 1956.

Daniel Dommel (France) resigned as Alternate Executive Director to Jean de Largentaye (France), effective November 5, 1956.

Jean-Maxime Leveque (France) was appointed Alternate Executive Director to Jean de Largentaye (France), effective November 6, 1956.

Karl-Heinz Drechsler (Federal Republic of Germany) served as Temporary Alternate Executive Director to Otmar Emminger (Federal Republic of Germany), November 16, 1956.

G. M. Lambert (United Kingdom) served as Temporary Alternate Executive Director to Viscount Harcourt (United Kingdom), December 3 to 6, 1956.

Viscount Harcourt (United Kingdom) resigned as Executive Director for the United Kingdom, effective January 31, 1957.

G. F. Thorold (United Kingdom) was appointed Executive Director for the United Kingdom, effective February 1, 1957.

R. E. Heasman (United Kingdom), formerly Alternate Executive Director to Viscount Harcourt (United Kingdom), was appointed Alternate Executive Director to G. F. Thorold (United Kingdom), February 1, 1957.

Jorge Hazera (Costa Rica) was appointed Alternate Executive Director to Jorge Sol (El Salvador), effective February 12, 1957.

L. H. E. Bury (Australia) resigned as Executive Director for Australia, the Union of South Africa, and Viet-Nam, effective February 19, 1957.

B. B. Callaghan (Australia), formerly Alternate Executive Director to L. H. E. Bury (Australia), was elected Executive Director by Australia, the Union of South Africa, and Viet-Nam, effective March 9, 1957.

J. H. Warren (Canada) resigned as Alternate Executive Director to Louis Rasminsky (Canada), effective March 15, 1957.

Alan B. Hockin (Canada) was appointed Alternate Executive Director to Louis Rasminsky (Canada), effective March 16, 1957.

A. E. Ritchie (Canada) served as Temporary Alternate Executive Director to Louis Rasminsky (Canada), March 20, 1957.

G. V. Sainsbury (Canada) served as Temporary Alternate Executive Director to Louis Rasminsky (Canada), March 27, 1957.

Otto Donner (Federal Republic of Germany) served as Temporary Alternate Executive Director to Otmar Emminger (Federal Republic of Germany), March 27 to April 15, 1957.

Appendix V

SUMMARY OF FUND TRANSACTIONS

from the beginning of operations to April 30, 1957[1]

(In millions of U. S. dollars)

Member (1)	Currency Purchased by Member Against Own Currency (2)	Member's Currency Sold by Fund to Other Members for Their Currency or Gold (3)	Member's Currency Repurchased by Member with Convertible Currency or Gold (4)	With-drawing Member's Offset (5)	Member's Currency Used for Repurchases by Other Members (6)	Effect of Operations on Fund's Currency Holdings (columns 2 & 6 minus 3, 4, & 5) (7)	Fund's Currency Holdings on Apr. 30, 1956 Expressed as Percentage of Quota (8)
Afghanistan							—
Argentine Republic	75.0					75.0	125
Australia	50.0		50.0			0.0	96
Austria			7.5			−7.5	75
Belgium	83.0	1 .4	21.6			50.0	97
Bolivia	6.5					6.5	140
Brazil	168.5		131.0			37.5	100
Burma	15.0		3.2			11.8	175
Canada		5.0				−15.0	70
Ceylon			3.0			−3.0	75
Chile	21.3		12.6			8.7	100
China							—
Colombia	25.0					25.0	125
Costa Rica	1.2		2.1			−0.9	75
Cuba	22.5					22.5	120
Czechoslovakia	6.0			3.0[2]		3.0[2]	[2]
Denmark	10.2		12.8			−2.6	87
Dominican Republic							75
Ecuador							75
Egypt	33.0		8.5			24.5	125
El Salvador	2.5		2.5			0.0	75
Ethiopia	0.6		2.0			−1.4	75
Finland	9.5		18.2			−8.7	75
France	285.0		147.9			137.1	105
Germany, Fed. Rep. of		4.4	45.1			−49.5	75
Greece							—
Guatemala							75
Haiti							75
Honduras	2.5					2.5	175
Iceland							75
India	227.5		99.9			127.5	125
Indonesia	70.0		27.0			43.0	125
Iran	46.0		20.7			25.3	147
Iraq							100
Israel							75
Italy							—
Japan	124.0		124.0			0.0	75
Jordan							97
Korea, Republic of							—
Lebanon			0.9			−0.9	75
Luxembourg							95
Mexico	45.0		44.9			0.0	75
Netherlands	75.4		75.4			0.0	75
Nicaragua	2.4		0.5			1.9	100
Norway	9.6		9.6			0.0	75
Pakistan							96
Panama							75
Paraguay	2.9		0.4			2.5	146
Peru			3.1			−3.1	75
Philippine Republic	15.0					15.0	175
Sweden			8.0			−8.0	75
Syria			1.4			−1.4	75
Thailand							—
Turkey	35.0		27.0			8.0	93
Union of South Africa	10.0		10.0			0.0	75
United Kingdom	861.5	191.7	112.0			557.8	125
United States		2,134.2			790.3	−1,343.9	36
Uruguay							—
Venezuela							75
Viet-Nam							—
Yugoslavia	9.0					9.0	102
	2,350.5	2,356.7[3]	1,032.9[4]	3.0	790.3	−251.8	

[1] Totals may not equal sum of items because of rounding.
[2] The settlement with Czechoslovakia involved an offset of $2.04 million in respect of Czechoslovakia's drawing of $6 million. The installments paid by Czechoslovakia under the settlement increased the offset to $3.0 million.
[3] $2,350.5 million sold for currency and $6.2 million for gold.
[4] $790.3 million repurchased with convertible currency and $242.6 million with gold.

Appendix VI

DECISION ON MULTIPLE CURRENCY PRACTICES

I. The Executive Board has considered the staff paper, "Review of Fund Policies on Multiple Currency Practices," and is in agreement with the general approach of the paper.

II. Unification of the exchange rates in multiple rate systems is a basic objective of the Fund, and it is satisfying to record that several of the members which had followed such practices have been successful in achieving this objective, and that others have made considerable progress in this direction.

III. In reviewing the experience of the past ten years as summarized in the staff report, the Fund draws special attention to the fact that complex multiple rate systems damage the economies of countries maintaining them and harm other countries. These complex systems are difficult to administer, and involve frequent changes, discrimination, export subsidization, a considerable spread between rates, and undue differentiation between classes of imports.

IV. The Executive Board concludes that it is necessary and feasible to make more rapid progress in simplifying complex multiple rate systems, to remove those aspects of existing systems which adversely affect the interests of other members, and to avoid existing systems becoming more complex. Accordingly the following decision is taken:

> 1. Early and substantial steps should be taken to simplify complex multiple rate systems. The Fund will not approve such systems unless the countries maintaining them are making reasonable progress toward simplification and ultimate elimination of such systems, or are taking measures or adopting programs which seem likely to result in such progress.
>
> 2. As opportunity arises the Fund will continue to press for simplification in all cases where there is clear evidence that the multiple currency system in question is damaging to other members. It will in addition be reluctant to approve changes in multiple rate systems which make them more complex.

3. To assist members to simplify and eliminate complex rate systems the Fund wishes to intensify its collaboration with them. The Fund stands ready to meet members' requests for technical assistance in the preparation of economic programs and measures directed toward exchange simplification. These may in some cases include arrangements in other directions, especially in the fiscal and trade fields. If the Fund considers the proposed exchange simplification and related economic programs or measures to be adequate and appropriate, it will give sympathetic consideration, if requested, to the use of its resources.

June 26, 1957

Appendix VII

CONTROLS ON CAPITAL TRANSFERS

Subject to the provisions of Article VI, Section 3, concerning payments for current transactions and undue delay in transfers of funds in settlement of commitments:

(a) Members are free to adopt a policy of regulating capital movements for any reason, due regard being paid to the general purposes of the Fund and without prejudice to the provisions of Article VI, Section 1.

(b) They may, for that purpose, exercise such controls as are necessary, including making such arrangements as may be reasonably needed with other countries, without approval of the Fund.

July 25, 1956

Appendix VIII (i)

ADMINISTRATIVE BUDGET

Letter of Transmittal

June 28, 1957

My dear Mr. Chairman:

The administrative budget of the Fund approved by the Executive Board for the Fiscal Year ending April 30, 1958 is presented herewith, in accordance with Section 20 of the By-Laws. The presentation also shows actual expenditures for the past two fiscal years.

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

Yours sincerely,
/s/
PER JACOBSSON
Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

Appendix VIII (ii)

ADMINISTRATIVE BUDGET

As Approved by the Executive Board for the Fiscal Year Ending April 30, 1958, Compared with Actual Expenditures for the Fiscal Years 1955-56 and 1956-57

Category of Expenditure	Budget F. Y. 1957-58	F. Y. 1956-57		Actual Expenditures F. Y. 1955-56
		Budget	Actual Expenditures	
I. BOARD OF GOVERNORS	$ 206,000	$ 181,800	$ 178,897.72	$ 347,160.42
II. OFFICE OF EXECUTIVE DIRECTORS				
Salaries	$ 613,000	$ 590,000	$ 588,215.78	$ 573,529.63
Other compensations and benefits	91,000	85,700	84,616.39	82,753.47
Travel	126,000	128,000	120,674.58	91,016.09
Total	$ 830,000	$ 803,700	$ 793,506.75	$ 747,299.19
III. STAFF				
Salaries	$2,768,000	$2,636,400	$2,632,944.52	$2,615,438.06
Other compensations and benefits	715,500	673,700	668,413.08	633,917.97
Travel	395,000	351,500	348,818.06	293,231.38
Total	$3,878,500	$3,661,600	$3,650,175.66	$3,542,587.41
IV. OTHER ADMINISTRATIVE EXPENSES				
Communications	$ 132,000	$ 132,500	$ 129,269.21	$ 119,219.48
Office occupancy expenses	406,500	398,000	396,509.57	408,125.00
Books and printing	118,000	107,900	104,135.90	87,487.23
Supplies and equipment	97,000	66,000	63,367.17	50,965.99
Miscellaneous	57,000	48,500	47,833.72	38,756.67
Total	$ 810,500	$ 752,900	$ 741,115.57	$ 704,554.37
TOTAL	$5,725,000	$5,400,000[1]	$5,363,695.70	$5,341,601.39

[1] Includes $70,000 supplementary appropriations approved by the Executive Board on January 23, 1957.

Appendix VIII (iii)

COMPARATIVE STATEMENT OF INCOME

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

	Year ended Apr. 30, 1955	Year ended Apr. 30, 1956	Year ended Apr. 30, 1957
INCOME			
Service charges			
Received in gold	$ 243,750.00	$ 193,750.00	$ 2,762,888.24
Received in a member's currency	—0—	—0—	2,807,350.00
Total	$ 243,750.00	$ 193,750.00	$ 5,570,238.24
Charges on Fund's holdings of members' currencies and securities in excess of quotas			
Received in gold	$1,914,631.83	$1,110,091.19	$ 1,863,639.37
Received in members' currencies	15,293.12	15,043.75	764,256.28
Outstanding	111,679.02	—0—	—0—
Total	$2,041,603.97	$1,125,134.94	$ 2,627,895.65
Income from investments	—0—	$ 123,279.51	$ 4,904,173.67
Sales of Fund's publications	$ 16,088.52	—0—[1]	—0—[1]
Other operational income	44,404.29[2]	232,892.35[2]	186,730.45[2]
Miscellaneous income	579.07	278.74	335.47
TOTAL INCOME	$2,346,425.85	$1,675,335.54	$13,289,373.48
TOTAL ADMINISTRATIVE EXPENDITURE	$4,989,371.41	$5,341,601.39	$ 5,363,695.70

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

[2] Includes transfer of $24,810.90 (net) from Stand-By Charge Reserve for year 1956 and excludes net transfers to Stand-By Charge Reserve for the years 1955 and 1957 of $42,091.78 and $1,434,628.44, respectively.

Appendix IX (i)

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

Letter of Transmittal

June 28, 1957

My dear Mr. Chairman:

In accordance with Section 20(b) of the By-Laws of the Fund, I have the honor to submit for the consideration of the Board of Governors the audited Balance Sheet and the audited Statement of Income and Expenditure of the Fund for the year ended April 30, 1957, together with the Auditors' Certificate, as well as audited financial statements of the Staff Retirement Fund.

In conformity with the By-Laws, the external audit of the Fund has been performed by an Audit Committee consisting of auditors nominated by three member countries. At the Fund's request, China, Colombia, and Denmark nominated auditors to serve on this Committee. They respectively nominated Mr. Felix S. Y. Chang, Manager, Foreign Department, Bank of Taiwan, Taipei, Taiwan; Mr. Alfonso Llano, Sub-Secretary and Assistant to the General Manager of the Banco de la República, Bogota, Colombia; and Mr. Bent Harhorn, Assistant Auditor, Danmarks Nationalbank, Copenhagen, Denmark. The auditors thus nominated were confirmed by the Executive Directors.

It will be noted that, in the period under review, income exceeded expenditure by $7,916,104.96, and that the total excess of expenditure over income from inception to April 30, 1957 is thus reduced to $6,295,738.61.

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

Yours sincerely,
/s/
PER JACOBSSON
Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

Appendix IX (ii)

AUDITORS' CERTIFICATE

We have made an independent examination of the Balance Sheet of the International Monetary Fund as at April 30, 1957, of the Statement of Income and Expenditure for the fiscal year then ended, and of the schedules related to such financial statements. As required by Section 20 of the Fund's By-Laws, we have examined or tested, to the extent deemed appropriate, the accounting records of the Fund and other supporting evidence of its financial transactions; we have ascertained generally and to the extent practicable that financial transactions have been conducted in compliance with the Fund's requirements; and we have obtained from the officers and staff of the Fund all such information and representations as we have required in the conduct of our audit. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. We have also reviewed the accounting methods and system of internal control.

In our opinion, based on our examination, such Balance Sheet and related Statement of Income and Expenditure, together with the notes appearing thereon, present fairly the financial position of the International Monetary Fund as at April 30, 1957, and the results of its operations for the fiscal year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of previous fiscal years.

/s/ FELIX S. Y. CHANG (China)

/s/ ALFONSO LLANO (Colombia)

/s/ BENT HARHORN (Denmark)

Values expressed in United States dollas

ASSETS

GOLD ACCOUNT			
Gold with depositories (See Note 2)		$1,439,329,856.90	
(41,123,710.197 fine ounces at US$35.00 per ounce)			
Investments (See Note 3)			
$201,590,000 U. S. Treasury bills at cost	$ 199,982,511.25		
Funds awaiting investment	9,037.57	199,991,548.82	$1,639,321,405.7
CURRENCY AND SECURITIES			
With depositories			
Currency	$1,110,801,622.66		
Securities *(non-negotiable, non-interest bearing demand obligations payable at face value by members in their currencies)*	5,361,148,958.02	$6,471,950,580.68	
Less: Currency adjustment payable *(in accordance with Article IV, Section 8)*		8,408,319.84	6,463,542,260.84
SUBSCRIPTIONS TO CAPITAL—RECEIVABLE			
Balances not due *(members whose par values have not yet been established)*			816,797,791.93
WITHDRAWING MEMBER'S CURRENCY *(redeemable by Czechoslovakia in gold or U. S. dollars in installments not later than July 2, 1961)*			2,972,607.90
OTHER ASSETS (See Note 6) *(Fund building, other cash, receivables, etc.)*			4,595,556.87
TOTAL ASSETS			$8,927,229,623.26

NOTES:

1. With the exception of Canadian dollars, French francs, Indonesian rupiah, and Peruvian soles, which, for bookkeeping purposes, are computed at provisional rates of 0.957969 dollar, 349.600 francs, 11.4000 rupiah, and 19.0000 soles per U. S. dollar
2. Excludes 3,056.406 fine ounces earmarked for members.
3. Made with the proceeds of the sale of 5,714,044.252 fine ounces of gold. Upon termination of the investment, the same quantity of gold can be reacquired.
4. Includes an adjustment of $10,332.83 relating to net capital of previous years.
5. A stand-by charge has, under certain circumstances, to be credited against the service charge for a drawing under the stand-by arrangement. The maximum amount on April 30, 1957 is $1,382,804.61. A portion of the stand-by charge is refundable to a member if the arrangement is cancelled. The maximum amount on April 30, 1957 is $490,269.40.
6. The assets and liabilities of the Staff Retirement Fund are not included in this balance sheet.

in the basis of established parities (See Note 1)

CAPITAL, RESERVES, AND LIABILITIES

CAPITAL		
Authorized subscriptions of members		$8,931,500,000.00
Less		
Excess of expenditure over income from inception to April 30, 1956	$14,211,843.57	
Less		
Excess of income over expenditure for year ended April 30, 1957 (See Note 4)	7,916,104.96	6,295,738.61
Net capital		$8,925,204,261.39
RESERVES		
Stand-by charge reserve (See Note 5)	$ 1,382,804.61	
Reserve for potential rebate of interest charges (*in relation to withdrawing member's settlement*)	67,335.30	1,450,139.91
LIABILITIES (See Note 6) (*accruals, accounts payable, deferred income, etc.*)		575,221.96
TOTAL CAPITAL, RESERVES, AND LIABILITIES		$8,927,229,623.26

/s/ Y. C. Koo
Treasurer

/s/ Per Jacobsson
Managing Director

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

Appendix IX (iv)

STATEMENT OF INCOME AND EXPENDITURE

for the year ended April 30, 1957

INCOME

Operational charges		$5,756,968.69[1]	
Charges on balances in excess of quota		2,627,895.65	
Income from investments		4,904,173.67	
Other income		335.47	
TOTAL INCOME			$13,289,373.48

EXPENDITURE

Board of Governors		$ 178,897.72	
Office of Executive Directors			
Salaries	$ 588,215.78		
Other compensations and benefits	84,616.39		
Travel	120,674.58	793,506.75	
Staff			
Salaries	$2,632,944.52		
Other compensations and benefits	668,413.08		
Travel	348,818.06	3,650,175.66	
Other administrative expenses			
Communications	$ 129,269.21		
Office occupancy expenses	396,509.57		
Books and printing (net)[2]	104,135.90		
Supplies and equipment	63,367.17		
Miscellaneous	47,833.72	741,115.57	
TOTAL ADMINISTRATIVE EXPENDITURE		$5,363,695.70	
Gold handling and conversion costs	$ 19,910.88		
Exchange adjustments	Cr. 5.23	19,905.65	
TOTAL EXPENDITURE			5,383,601.35
EXCESS OF INCOME OVER EXPENDITURE FOR THE YEAR			$ 7,905,772.13
Add:			
Adjustment of income for previous fiscal years pursuant to settlement agreement with withdrawing member			10,332.83
EXCESS OF INCOME OVER EXPENDITURE (carried to Balance Sheet)			$ 7,916,104.96

[1] Excludes $1,434,628.44 (net) transferred to Stand-By Charge Reserve.
[2] After deduction of proceeds from sales of Fund's publications.

Appendix IX (v)

GOLD ACCOUNT

April 30, 1957

GOLD WITH DEPOSITORIES

Valued at US$35.00 per fine ounce

	Fine Ounces	*U. S. Dollar Equivalent*
Gold with depositories	41,123,710.197[1]	$1,439,329,856.90

INVESTMENTS

United States Treasury Bills

Maturity Dates	*Face Value*	*Cost*
May 2, 1957	$ 15,230,000.00	$ 15,103,591.00
May 9, 1957	15,090,000.00	14,970,487.20
May 16, 1957	15,110,000.00	14,993,350.80
May 23, 1957	15,210,000.00	15,087,559.50
May 31, 1957	15,030,000.00	14,903,748.00
June 6, 1957	15,230,000.00	15,105,114.00
June 13, 1957	15,020,000.00	14,896,986.20
June 20, 1957	15,020,000.00	14,904,626.35
June 27, 1957	15,020,000.00	14,904,496.20
July 5, 1957	20,330,000.00	20,171,629.30
July 11, 1957	15,070,000.00	14,949,741.40
July 18, 1957	15,120,000.00	14,997,981.60
July 25, 1957	15,110,000.00	14,993,199.70
Totals	$201,590,000.00	$199,982,511.25

[1] Excludes 3,056.406 fine ounces held under earmark by the Fund for the following members:

Member	*Fine Ounces*
Argentine Republic	3.592
Austria	.848
Bolivia	.015
Brazil	.524
Burma	136.864
Colombia	13.652
Cuba	284.733
Egypt	208.323
El Salvador	.106
Ethiopia	32.436
Finland	36.574
France	1,026.452
Germany, Federal Republic	2.345
Honduras	.287
India	273.308
Indonesia	117.823
Iran	.049
Japan	.381
Lebanon	.784
Mexico	12.878
Netherlands	154.540
Nicaragua	.050
Norway	369.864
Paraguay	90.001
Philippine Republic	1.006
Turkey	195.717
Yugoslavia	93.254
Total	3,056.406

Appendix IX (vi)

STATEMENT OF CURRENCIES AND SECURITIES

as at April 30, 1957

Depositories	National Currencies	Amounts in Members' Currencies: With Depositories: Securities	No. 1 Account	No. 2 Account	Totals	Currency Adjustment[1] Payable (−)	Totals After Currency Adjustment	Exchange Rates[2]	U.S. Dollar Equivalents
Banco Central de la República Argentina	Pesos	1,997,964,000.00	1,377,013,553.64	17,882.00	3,374,995,435.64		3,374,995,435.64	18.0000	$ 187,499,746.42
Commonwealth Bank of Australia	Pounds	76,575,000.0.0	8,941,252.8.4	1,028.3.10	85,517,280.12.2		85,517,280.12.2	224.000†	191,558,708.56
Austrian National Bank	Schillings	961,920,000.00	13,000,000.00	8,421.16	974,928,421.16		974,928,421.16	26.0000	37,497,246.96
Banque Nationale de Belgique S. A.	Francs	10,823,889,561.24	112,440,000.00	103,112.36	10,936,432,673.60		10,936,432,673.60	50.0000	218,728,653.48
Banco Central de Bolivia	Bolivianos	1,405,612,388.60	1,254,000,000.00	173,320.00	2,659,785,708.60		2,659,785,708.60	190.000	13,998,872.15
Superintendencia da Moeda e do Credito (Brazil)	Cruzeiros		2,774,982,826.70	19,466.80	2,775,002,293.50		2,775,002,293.50	18.5000	150,000,123.98
The Union Bank of Burma	Kyats	124,240,512.77	867,618.97	1,564.51	125,109,696.25		125,109,696.25	21.0000†	26,273,036.21
Bank of Canada	Dollars	206,000,000.00	3,213,254.00	1,112.41	209,214,366.41	−8,054,909.75	201,159,456.66	0.957969*	209,985,350.95
Central Bank of Ceylon	Rupees	52,843,361.05	714,332.90	4,109.83	53,561,803.78		53,561,803.78	21.0000†	11,247,978.79
Banco Central de Chile	Pesos		5,480,821,446.	653,476.	5,481,474,922.		5,481,474,922.	110.000	49,831,590.20
Banco de la República (Colombia)	Pesos		121,843,541.17	2,076.15	121,845,617,32		121,845,617.32	1.94998	62,485,572.84
Banco Central de Costa Rica	Colones		21,035,457.46	6,765.95	21,042,223.41		21,042,223.41	5.61500	3,747,501.94
Banco Nacional de Cuba	Pesos		59,987,613.64	562.83	59,988,176.47		59,988,176.47	1.00000	59,988,176.47
Danmarks Nationalbank	Kroner	405,261,773.58	5,620,000.27	2,704.23	410,884,478.08		410,884,478.08	6.90714	59,486,919.06
Banco Central de la República Dominicana	Pesos	6,997,968.11	500,987.33	868.85	7,499,824.29		7,499,824.29	1.00000	7,499,824.29
Banco Central del Ecuador	Sucres		112,477,187.67	10,449.48	112,487,637.15		112,487,637.15	15.0000	7,499,175.81
National Bank of Egypt	Pounds	15,458,670.375	10,656,231.374	534.836	26,115,436.585		26,115,436.585	287.156†	74,992,043.08
Banco Central de Reserva de El Salvador	Colones		4,687,285.63	226.87	4,687,512.50		4,687,512.50	2.50000	1,875,005.00
State Bank of Ethiopia	Dollars	10,979,375.30	191,799.17	2,092.52	11,173,266.99		11,173,266.99	40.2500†	4,497,239.97
Bank of Finland	Markkas	6,465,542,401.00	88,070,000.00	35,960.00	6,553,648,361.00		6,553,648,361.00	230.000	28,494,123.30
Banque de France	Francs	145,850,000,000.	47,727,806,755.	2,426,813.	193,580,233,568.		193,580,233,568.	349.600*	553,719,203.57
Bank deutscher Länder	Marks	1,025,500,000.00	13,955,455.38	4,538.94	1,039,459,994.32		1,039,459,994.32	4.20000	247,490,474.84
Banco de Guatemala	Quetzales		3,744,940.19	343.73	3,745,283.92		3,745,283.92	1.00000	3,745,283.92
Banque Nationale de la République d'Haiti	Gourdes	7,394,945.10	100,000.00	4,970.00	7,499,915.10		7,499,915.10	5.00000	1,499,983.02
Banco Central de Honduras	Lempiras	8,647,881.12	98,000.00	943.46	8,746,824.58		8,746,824.58	2.00000	4,373,412.29

National Bank of Iceland	Krónur		12,163,211.65	6,020.11	12,169,231.76		12,169,231.76	16.2857	747,234.19
Reserve Bank of India	Rupees	1,754,600,000.00	626,270,573.91	1,805.96	2,380,872,379.87		2,380,872,379.87	21.0000†	499,983,199.77
Bank Indonesia	Rupiah	927,900,000.00	639,557,482.48	15,536.51	1,567,473,018.99		1,567,473,018.99	11.4000*	137,497,633.25
Bank Melli Iran	Rials	1,648,588,286.85	11,624,941.30	16,551.75	1,660,229,779.90		1,660,229,779.90	32.2500	51,479,993.18
Central Bank of Iraq	Dinars	2,569,125.000	285,272.319	361.191	2,854,758.510		2,854,758.510	280.000†	7,993,323.83
Bank of Israel	Pounds	9,988,114.410	135,000.000	1,800.000	10,124,914.410		10,124,914.410	1.80000	5,624,952.45
The Bank of Japan	Yen	66,596,400,000.	900,757,019.	1,676,887.	67,498,833,906.		67,498,833,906.	360.000	187,496,760.85
Ottoman Bank (Jordan)	Dinars	1,024,850.896	10,714.286	336.361	1,035,901.543		1,035,901.543	280.000†	2,900,524.33
Banque de Syrie et du Liban (Lebanon)	Pounds		7,366,572.00	1,722.61	7,368,294.61		7,368,294.61	2.19148	3,362,245.89
Caisse d'Epargne de l'Etat (Luxembourg)	Francs	470,811,334.80	5,000,000.00	20,556.84	475,831,891.64		475,831,891.64	50.0000	9,516,637.83
Banco de México, S. A.	Pesos		843,731,006.89	5,073.45	843,736,080.34		843,736,080.34	12.5000	67,498,886.43
De Nederlandsche Bank N. V.	Guilders	773,000,000.00	10,715,504.18	858.23	783,716,362.41		783,716,362.41	3.80000	206,241,148.00
Banco Nacional de Nicaragua	Córdobas		52,493,259.45	6,402.17	52,499,661.62		52,499,661.62	7.00000	7,499,951.66
Norges Bank	Kroner	263,848,315.10	3,924,941.41	8,231.89	267,781,488.40		267,781,488.40	14.0000†	37,489,408.37
State Bank of Pakistan	Rupees	454,661,398.0.0	4,791,858.14.10	3,048.11.2	459,456,305.10.0		459,456,305.10.0	21.0000†	96,485,824.18
Banco Nacional de Panama	Balboas	369,000.00	4,999.75	863.30	374,863.05		374,863.05	1.00000	374,863.05
Banco Central del Paraguay	Guaranies		307,322,289.60	63,504.00	307,385,793.60		307,385,793.60	60.0000	5,123,096.56
Banco Central de Reserva del Peru	Soles	351,464,946.44	4,750,000.00	13,614.76	356,228,561.20		356,228,561.20	19.0000*	18,748,871.64
Central Bank of the Philippines	Pesos	22,000,000.00	30,494,902.42	1,050.32	52,495,952.74		52,495,952.74	2.00000	26,247,976.37
Sveriges Riksbank	Kronor		387,939,594.61	1,566.95	387,941,161.56		387,941,161.56	5.17321	74,990,414.38
Banque Centrale de Syrie	Pounds	10,447,000.00	233,734.01	1,539.12	10,682,273.13		10,682,273.13	2.19148	4,874,456.14
Banque Centrale de la République de Turquie	Liras	78,250,000.00	34,158,264.33	2,358.41	112,410,622.74		112,410,622.74	2.80000	40,146,650.98
South African Reserve Bank	Pounds	26,405,574.8.7	374,889.11.7	591.2.8	26,781,055.2.10		26,781,055.2.10	280.000†	74,986,954.39
Bank of England	Pounds	577,025,000.0.0	4,656,539.0.11	2,688.16.10	581,684,227.17.9		581,684,227.17.9	280.000†	1,628,715,838.08
Federal Reserve Bank of New York	Dollars	947,000,000.00	29,013,075.85	608,650.57	976,621,726.42		976,621,726.42		976,621,726.42
Riggs National Bank of Washington, D. C.[3]	Dollars			419,100.88	419,100.88		419,100.88		419,100.88
Banco Central de Venezuela	Bolívares	32,659,359.42	5,006,000.00	1,699.80	37,667,059.22		37,667,059.22	3.35000	11,243,898.27
Banque Nationale de la République Fédérative Populaire de Yougoslavie	Dinars		18,364,595,252.00	37,459.00	18,364,632,711.00		18,364,632,711.00	300.000	61,215,442.37
TOTALS (in U.S. dollar equivalents)		$5,361,148,958.02	$1,109,711,084.41	$1,090,538.25	$6,471,950,580.68	−$8,408,319.84	$6,463,542,260.84		$6,463,542,260.84[4]

[1] In accordance with Article IV, Section 8.

[2] Parity rates, except for those marked * which are provisional rates for bookkeeping purposes. Rates marked † represent U.S. cents per currency unit; all other rates represent currency units per U.S. dollar.

[3] Checking accounts are maintained with The Riggs National Bank in Washington, D. C., for the purpose of making local payments for administrative expenditure.

[4] Excludes withdrawing member's currency equivalent to US$2,972,607.90 shown under separate caption in the Balance Sheet.

Appendix IX (vii)

STATUS OF SUBSCRIPTIONS TO CAPITAL

as at April 30, 1957

(expressed in U. S. dollars)

Members	Quotas	Payments on Subscriptions to Capital			Subscriptions to Capital Receivable	
		1/100 of 1% Paid in U.S. Dollars[1]	Paid in Gold	Paid in Member's Currency	Balances Due (Par Values Established)	Balances Not Due (Par Values Not Established)
Afghanistan	$ 10,000,000.00		$ 2,500,027.46			$ 7,499,972.54
Argentine Republic	150,000,000.00		37,500,247.02	$ 112,499,752.98		
Australia	200,000,000.00		8,404,843.20	191,595,156.80		
Austria	50,000,000.00		5,000,003.72	44,999,996.28		
Belgium	225,000,000.00	$ 22,500.00	56,227,500.00	168,750,000.00		
Bolivia	10,000,000.00	1,000.00	2,500,040.06	7,498,959.94		
Brazil	150,000,000.00	15,000.00	37,485,030.14	112,499,969.86		
Burma	15,000,000.00		500,369.14	14,499,630.86		
Canada	300,000,000.00	30,000.00	74,970,000.00	225,000,000.00		
Ceylon	15,000,000.00		751,010.09	14,248,989.91		
Chile	50,000,000.00	5,000.00	8,813,013.93	41,181,986.07		
China	550,000,000.00	55,000.00				549,945,000.00
Colombia	50,000,000.00	5,000.00	12,495,150.61	37,499,849.39		
Costa Rica	5,000,000.00	500.00	373,700.09	4,625,799.91		
Cuba	50,000,000.00	5,000.00	12,495,386.36	37,499,613.64		
Denmark	68,000,000.00	6,800.00	5,934,983.32	62,058,216.68		
Dominican Republic	10,000,000.00	500.00	2,499,544.56	7,499,955.44		
Ecuador	10,000,000.00	500.00	2,499,983.79	7,499,516.21		
Egypt	60,000,000.00	4,500.00	9,484,075.69	50,511,424.31		
El Salvador	2,500,000.00	250.00	624,787.80	1,874,962.20		
Ethiopia	6,000,000.00	600.00	61,752.22	5,937,647.78		
Finland	38,000,000.00		760,222.44	37,239,777.56		
France	525,000,000.00	52,500.00	108,056,306.15	416,891,193.85		
Germany, Federal Republic	330,000,000.00		33,009,651.50	296,990,348.50		
Greece	40,000,000.00	4,000.00				39,996,000.00
Guatemala	5,000,000.00	500.00	1,249,559.81	3,749,940.19		

Haiti	2,000,000.00		500,010.98	1,499,989.02		
Honduras	2,500,000.00	250.00	624,809.44	1,874,940.56		
Iceland	1,000,000.00	100.00	249,900.28	749,999.72		
India	400,000,000.00	40,000.00	27,486,453.61	372,473,546.39		
Indonesia	110,000,000.00		15,500,030.70	94,499,969.30[2]		
Iran	35,000,000.00	2,500.00	8,764,707.14	26,232,792.86		
Iraq	8,000,000.00	800.00		7,999,200.00		
Israel	7,500,000.00		1,875,047.56	5,624,952.44		
Italy	180,000,000.00	18,000.00				179,982,000.00
Japan	250,000,000.00		62,500,000.15	187,499,999.85		
Jordan	3,000,000.00		97,617.49	2,902,382.51		
Korea	12,500,000.00		3,125,025.02			9,374,974.98
Lebanon	4,500,000.00	450.00	267,415.12	4,232,134.88		
Luxembourg	10,000,000.00	1,000.00	479,995.96	9,519,004.04		
Mexico	90,000,000.00	9,000.00	22,491,205.14	67,499,794.86		
Netherlands	275,000,000.00	27,500.00	68,722,500.00	206,250,000.00		
Nicaragua	7,500,000.00	200.00	1,874,975.62	5,624,824.38		
Norway	50,000,000.00	5,000.00	12,495,054.90	37,499,945.10		
Pakistan	100,000,000.00		3,500,607.22	96,499,392.78		
Panama	500,000.00	50.00	124,950.25	374,999.75		
Paraguay	3,500,000.00	200.00	875,496.47	2,624,303.53		
Peru	25,000,000.00	2,500.00	3,149,921.00	21,847,579.00		
Philippine Republic	15,000,000.00	1,500.00	3,748,548.79	11,249,951.21		
Sweden	100,000,000.00		17,000,086.78	82,999,913.22		
Syria	6,500,000.00	650.00	169,187.17	6,330,162.83		
Thailand	12,500,000.00		3,125,008.14			9,374,991.86
Turkey	43,000,000.00	4,300.00	10,745,912.23	32,249,787.77		
Union of South Africa	100,000,000.00	10,000.00	24,994,519.20	74,995,480.80		
United Kingdom	1,300,000,000.00	130,000.00	236,135,323.70	1,063,734,676.30		
United States	2,750,000,000.00	275,000.00	687,500,000.11	2,062,224,999.89		
Uruguay	15,000,000.00	1,500.00	3,748,643.15			11,249,856.85
Venezuela	15,000,000.00	1,500.00	3,748,541.96	11,249,958.04		
Viet-Nam	12,500,000.00		3,125,004.30			9,374,995.70
Yugoslavia	60,000,000.00	6,000.00	7,896,966.11	52,097,033.89		
TOTALS	$8,931,500,000.00	$747,150.00	$1,660,840,654.79	$6,453,114,403.28	-0-	$816,797,791.93

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

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

Appendix IX (viii)
OTHER ASSETS
April 30, 1957

Cash			
On hand		$ 1,200.00	
With European Office		3,674.60	$ 4,874.60
Sundry debtors			
Deposits		$ 13,738.60	
Commercial accounts		35,436.05	
Advances against salary		37,960.00	
Travel advances		12,860.90	
Other receivables		13,641.73	113,637.28
Prepayments			
Postage		$ 1,589.72	
Insurance		6,792.82	
Travel		37,639.71	
Other		483.30	46,505.55
Accounts receivable—members			1,197,209.55
(mainly charges on Fund's holdings of currencies in excess of quotas)			
Accrued income from investments			825,283.92
Land and building			
Land at cost		$ 975,801.15	
Building under construction			
Expenditure to date	$1,232,244.82		
Advance to contractor	200,000.00	1,432,244.82	2,408,045.97
Furniture, equipment, and automobiles			
Furniture and equipment at cost		$ 538,773.08	
Automotive equipment at cost		8,314.65	
		$ 547,087.73	
Less: Reserve		547,087.73	Nil
Libraries			
Cost of books for Law Library		$ 30,033.15	
Investment in Joint Library		38,665.29	
		$ 68,698.44	
Less: Reserve		68,698.44	Nil
TOTAL OTHER ASSETS (carried to Balance Sheet)			$4,595,556.87

LIABILITIES
April 30, 1957

Accruals	$ 565,703.50
(mainly Fund building, personal services, and office occupancy)	
Accounts payable	2,879.67
Deferred credits	6,638.79
(subscriptions to Fund's publications for periods after April 30, 1957)	
TOTAL LIABILITIES (carried to Balance Sheet)	$ 575,221.96

Appendix IX (ix)

SUMMARY OF TRANSACTIONS

for the year ended April 30, 1957

1. EXCHANGE TRANSACTIONS

(a) Currency sold by Fund

	U. S. dollar equivalents
1,099,047,648.76 U. S. dollars	$1,099,047,648.76
14,646,090.00 Canadian dollars	15,000,000.00
Total sold by Fund	$1,114,047,648.76

(b) Currency purchased by Fund from

Argentine Republic	1,350,000,000.00	pesos	$ 75,000,000.00
Belgium	2,500,000,000.00	francs	50,000,000.00
Bolivia	760,000,000.00	bolivianos	4,000,000.00
Cuba	22,500,000.00	pesos	22,500,000.00
Egypt	10,447,285.714	pounds	30,000,000.00
El Salvador	6,250,000.00	colones	2,500,000.00
France	55,936,000,000.00	francs	160,000,000.00
Honduras	5,000,000.00	lempiras	2,500,000.00
India	607,142,857.14	rupees	127,500,000.00
Indonesia	627,000,000.00	rupiah	55,000,000.00
Iran	635,325,000.00	rials	19,700,000.00
Nicaragua	13,143,541.32	córdobas	1,877,648.76
Paraguay	120,000,000.00	guaranies	2,000,000.00
United Kingdom	200,525,000.0.0	pounds	561,470,000.00
Total purchased by Fund			$1,114,047,648.76

2. REPURCHASES

(a) Currency repurchased from Fund by

			U. S. dollar equivalents
Brazil	517,771,615.80	cruzeiros	$ 27,987,654.91
Ceylon	9,463,972.29	rupees	1,987,434.18
Chile	18,656,980.00	pesos	169,608.91
Denmark	12,738,226.42	kroner	1,844,210.65
El Salvador	6,238,769.87	colones	2,495,507.95
Finland	769,081,438.00	markkas	3,343,832.34
Indonesia	307,805,767.54	rupiah	27,000,505.93
Iran	103,524,282.46	rials	3,210,055.27
Turkey	19,600,000.00	liras	7,000,000.00
Total repurchased from Fund			$ 75,038,810.14

(b) Currency and gold paid to Fund

U. S. dollars	$ 5,073,036.64
Gold: 1,999,022.100 fine ounces	69,965,773.50
Total currency and gold paid to Fund	$ 75,038,810.14

Appendix IX (x)

STAFF RETIREMENT FUND

AUDITORS' CERTIFICATE

We have made an independent examination of the accounts of the Staff Retirement Fund of the International Monetary Fund for the year ended April 30, 1957. Our examination was made in accordance with generally accepted auditing standards and included all procedures which we considered applicable in the circumstances. In that connection, consideration was given to the authority and other requirements governing transactions of the Staff Retirement Fund.

The examination did not include a verification of the individual participants' accounts as at April 30, 1957, except for inquiry into certain of such accounts as a consequence of the application of auditing procedures to the other accounts of the Staff Retirement Fund. We ascertained, however, that the Internal Auditor of the International Monetary Fund had made a detailed audit of all participants' individual accounts as at April 30, 1957, and we satisfied ourselves that application of the auditing procedures adopted by him would be adequate to insure the correctness of such individual accounts with regard for eligibility, contributions, and interest allowed.

In our opinion, the Balance Sheet and related Statements of the Participants' Account, Accumulation Account, Retirement Reserve, Reserve Against Investments, and of the Source and Application of Funds, together with the notes appearing thereon, present fairly the financial position of the Staff Retirement Fund of the International Monetary Fund as at April 30, 1957, and the results of operations for the fiscal year ended that date, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of previous fiscal years.

/s/ Felix S. Y. Chang (China)

/s/ Alfonso Llano (Colombia)

/s/ Bent Harhorn (Denmark)

Appendix IX (xi)

STAFF RETIREMENT FUND

BALANCE SHEET

April 30, 1957

ASSETS

CASH IN BANK			
The Riggs National Bank, Washington, D. C. . .		$ 3,110.69	
The Chase Manhattan Bank, New York, N. Y. . .		247.79	$ 3,358.48
INVESTMENTS (Book Value) (See Appendix IX (xviii) and Note 1, Appendix IX (xix).)			
Bonds			
United States Government . .	$1,944,550.63		
International Bank for Reconstruction and Development (market value $588,545.00)	633,877.52		
Commercial (market value $753,288.75)	867,761.36	$3,446,189.51	
Corporate stocks			
Common (market value $1,970,981.00)		1,319,398.65	4,765,588.16
ACCRUED INTEREST ON BONDS			22,400.02
ACCRUED CONTRIBUTIONS RECEIVABLE FROM INTERNATIONAL MONETARY FUND			8,198.42
TOTAL ASSETS			$4,799,545.08

LIABILITIES AND RESERVES

PARTICIPANTS' ACCOUNT (See Appendix IX (xii).)	$1,209,072.42
ACCUMULATION ACCOUNT (See Appendix IX (xiii).)	3,291,594.00
RETIREMENT RESERVE (See Appendix IX (xiv).)	210,926.81
RESERVE AGAINST INVESTMENTS (See Appendix IX (xv) and Note 2, Appendix IX (xix).)	87,951.85
TOTAL LIABILITIES AND RESERVES	$4,799,545.08

/s/ Y. C. KOO
Treasurer

/s/ PER JACOBSSON
Managing Director

/s/ CHARLES M. POWELL
Comptroller and
Assistant Treasurer

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

Appendix IX (xii)

STAFF RETIREMENT FUND

STATEMENT OF PARTICIPANTS' ACCOUNT

for the year ended April 30, 1957

	Participating Service	*Additional Contributions*
BALANCE, April 30, 1956	$1,066,377.62	$11,215.48
Add		
Participants' contributions	$ 182,765.31	$ 2,430.00
Interest credited to participants	33,321.84	271.58
	$ 216,087.15	$ 2,701.58
Deduct		
Refunds upon participants' withdrawals	$ 54,710.35	$ 5,784.93
Refund on death (prior to retirement)	3,109.41	
Transfers to Retirement Reserve	21,224.23	2,480.49
	$ 79,043.99	$ 8,265.42
	$1,203,420.78	$ 5,651.64

TOTAL (carried to Balance Sheet) $1,209,072.42

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

Appendix IX (xiii)

STAFF RETIREMENT FUND

STATEMENT OF ACCUMULATION ACCOUNT

for the year ended April 30, 1957

BALANCE, April 30, 1956		$2,835,056.15
Add		
Employer's contributions		
Participating service		364,589.08
Income from investments		
Interest on bonds	$96,175.11	
Dividends on stocks	62,925.25	
Other	549.82	159,650.18
Profit or loss on sale or redemption of investments		
Profits on corporate stocks	$82,310.83	
Less losses on bonds	27,220.53	55,090.30
Transfer from Reserve Against Corporate Stock Investments		61,632.26
		$3,476,017.97
Deduct		
Transfers to Retirement Reserve	$59,622.76	
Withdrawal benefits	14,835.91	
Death benefit (prior to retirement)	7,790.59	
Interest credited to Participants' Account	33,593.42	
Interest on Retirement Reserve	5,158.25	
Amortization of premiums, less accumulation of discounts on bonds	48.40	
Transfers to Reserve Against Investments	63,374.64	184,423.97
TOTAL (carried to Balance Sheet)		$3,291,594.00

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

Appendix IX (xiv)

STAFF RETIREMENT FUND

STATEMENT OF RETIREMENT RESERVE

for the year ended April 30, 1957

BALANCE, April 30, 1956		$132,903.38
Add		
Transfers from		
Participants' Account	$23,704.72	
Accumulation Account	59,622.76	83,327.48
Interest on Retirement Reserve		5,158.25
		$221,389.11
Deduct: Pension payments to retired participants		10,462.30
TOTAL (carried to Balance Sheet)		$210,926.81

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

Appendix IX (xv)

STAFF RETIREMENT FUND

STATEMENT OF RESERVE AGAINST INVESTMENTS[1]

for the year ended April 30, 1957

Transfer from Reserve Against Corporate Stock Investments of accumulated net profits on the sale of corporate stocks from inception of the Staff Retirement Fund to April 30, 1956	$24,577.21
Transfer from Accumulation Account of accumulated net profits on the sale or redemption of bonds from inception of the Staff Retirement Fund to April 30, 1956	8,284.34
Transfer from Accumulation Account of net profits on the sale or redemption of investments for the fiscal year ended April 30, 1957	55,090.30
TOTAL (carried to Balance Sheet)	$87,951.85

[1] Supersedes Reserve Against Corporate Stock Investments.

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

Appendix IX (xvi)

STAFF RETIREMENT FUND

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the year ended April 30, 1957

FUNDS PROVIDED		
Participants' contributions		
Participating service	$182,765.31	
Additional voluntary contributions	2,430.00	$ 185,195.31
Employer's contributions		364,589.08
Sales and redemptions of investments (book value)		
U. S. Treasury bills	$ 24,966.94	
U. S. Savings bonds	281,000.00	
International Bank for Reconstruction and Development bonds	246,575.53	
Corporate stocks	59,058.40	
	$611,600.87	
Add: Profits from sales and redemptions of investments (net)	55,090.30	666,691.17
Income from investments	$165,910.27	
Less: Interest on bonds purchased	6,260.09	159,650.18
Decrease in working capital between 1956 and 1957 (See Appendix IX (xvii).)		15,384.44
TOTAL FUNDS PROVIDED		$1,391,510.18
FUNDS APPLIED		
Purchase of investments		$1,294,816.69
Payments to participants on withdrawal		69,546.26
Refund of additional voluntary contributions to participants		5,784.93
Payments on death prior to retirement		10,900.00
Pension payments to retired participants		10,462.30
TOTAL FUNDS APPLIED		$1,391,510.18

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

STAFF RETIREMENT FUND

STATEMENT OF CHANGES IN WORKING CAPITAL

	April 30, 1957	*April 30, 1956*	*+Increase −Decrease*
CURRENT ASSETS			
Cash........................	$ 3,358.48	$26,880.58	−$23,522.10
Accrued interest on bonds......	22,400.02	16,625.51	+ 5,774.51
Accrued contributions receivable from International Monetary Fund......................	8,198.42	5,835.27	+ 2,363.15
	$33,956.92	$49,341.36	−$15,384.44
CURRENT LIABILITIES.......	—	—	—
WORKING CAPITAL..........	$33,956.92	$49,341.36	−$15,384.44

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

Appendix IX (xviii)

STAFF RETIREMENT FUND

SCHEDULE OF INVESTMENTS

April 30, 1957

	Interest Rate—%	*Maturity*	*Face Value*	*Book Value*	
BONDS					
United States Savings, Series G	2½	1960	$250,000.00	$250,000.00	
United States Savings, Series G	2½	1961	100,000.00	100,000.00	
United States Savings, Series G	2½	1962	100,000.00	100,000.00	
United States Savings, Series G	2½	1963	65,000.00	65,000.00	
United States Treasury	2¾	1980	203,000.00	200,938.71	
United States Treasury	3¼	1983	211,500.00	218,766.63	
United States Treasury	3	1995	990,000.00	964,905.08	
United States Treasury Bills	—	1957	45,000.00	44,940.21	$1,944,550.63
International Bank for Reconstruction and Development	3½	1969	50,000.00	$ 50,000.00	
International Bank for Reconstruction and Development	3	1972	26,000.00	25,665.78	
International Bank for Reconstruction and Development	3	1976	50,000.00	50,000.00	
International Bank for Reconstruction and Development	4½	1977	294,000.00	306,115.70	
International Bank for Reconstruction and Development	3¼	1981	201,000.00	202,096.04	633,877.52
Commercial					
American Telephone and Telegraph Company — Debentures	2¾	1980	38,000.00	$ 38,085.48	
American Telephone and Telegraph Company — Debentures	3¼	1984	30,000.00	31,025.25	
American Telephone and Telegraph Company — Debentures	2⅝	1986	44,000.00	38,953.91	
American Telephone and Telegraph Company — Debentures	2⅞	1987	24,000.00	22,787.04	
Atchison, Topeka and Santa Fe Railway Company—General Mortgage	4	1995	32,000.00	35,881.52	
Central New York Power Company—General Mortgage	3	1974	31,000.00	29,577.66	
Commonwealth Edison Company—Sinking Fund Debentures	3⅛	2004	100,000.00	97,052.97	
Connecticut Light and Power Co.—1st & Refunding Mortgage, Series "L"	2¾	1984	12,000.00	12,219.46	
Consolidated Edison Company of New York—1st & Refunding Mortgage, Series "E"	3	1979	38,000.00	39,411.46	
Consolidated Edison Company of New York—1st & Refunding Mortgage, Series "A"	2¾	1982	16,000.00	14,926.82	
Consolidated Natural Gas Company—Sinking Fund Debentures	3⅛	1979	30,000.00	30,693.41	
Duke Power Company—1st & Refunding Mortgage	2⅞	1979	13,000.00	13,507.52	
Illinois Bell Telephone Company—1st Mortgage, Series "A"	2¾	1981	25,000.00	25,311.37	
Kansas City Power & Light Company—1st Mortgage	3¼	1983	15,000.00	15,173.36	
Carried forward				$444,607.23	$2,578,428.15

STAFF RETIREMENT FUND
SCHEDULE OF INVESTMENTS
April 30, 1957

	Interest Rate—%	*Maturity*	*Face Value*	*Book Value*	
Brought forward				$444,607.23	$2,578,428.15
Commercial (continued)					
New York Telephone Company—1st & Refunding Mortgage, Series "D"	2¾	1982	$50,000.00	$48,417.26	
New York Telephone Company—Refunding Mortgage, Series "H"	3	1989	32,000.00	32,180.34	
Pacific Gas and Electric Company—1st & Refunding Mortgage, Series "Q"	2⅞	1980	14,000.00	13,434.95	
Pacific Gas and Electric Company—1st and Refunding Mortgage, Series "S"	3	1983	45,000.00	46,688.48	
Pacific Gas and Electric Company—1st and Refunding Mortgage, Series "X"	3⅛	1984	21,000.00	21,283.24	
Pacific Gas and Electric Company—1st & Refunding Mortgage, Series "Z"	3⅜	1988	20,000.00	19,944.35	
Pacific Telephone and Telegraph Company — Debentures	2⅞	1986	51,000.00	46,226.40	
Philadelphia Electric Company —1st & Refunding Mortgage	2¾	1974	24,000.00	24,241.06	
Potomac Electric Power Company—1st Mortgage	2¾	1985	44,000.00	44,273.92	
Potomac Electric Power Company—1st Mortgage	3⅜	1990	14,000.00	14,447.69	
Public Service Electric and Gas Company—1st & Refunding Mortgage	2⅞	1979	40,000.00	41,280.25	
Public Service Electric and Gas Company—1st & Refunding Mortgage	3¼	1984	20,000.00	20,823.77	
Southern Bell Telephone and Telegraph Company—Debentures	3¼	1995	10,000.00	10,108.09	
Virginia Electric & Power Company—1st & Refunding Mortgage, Series "K"	3⅛	1984	39,000.00	39,804.33	867,761.36
TOTAL BONDS					$3,446,189.51

	No. of Shares	*Book Value*	
CORPORATE STOCKS, Common			
Abbott Laboratories	200	$ 11,063.00	
Addressograph-Multigraph Corporation	103	10,895.85	
Allied Chemical and Dye Corporation	320	29,077.69	
Aluminum Company of America	400	8,509.48	
American Airlines, Incorporated	500	11,770.70	
American Can Company	440	11,086.00	
American Cyanamid Company	300	13,939.12	
American Natural Gas Company	800	31,951.98	
American Telephone and Telegraph Company	201	35,279.94	
Atlas Powder Company	200	8,321.25	
Bankers Trust Company of New York	300	18,112.50	
Caterpillar Tractor Co.	840	19,523.58	
C. I. T. Financial Corporation	100	4,236.00	
Consolidated Natural Gas Company	900	29,257.50	
Consumers Power Company	600	22,043.97	
Carried forward		$265,068.56	$3,446,189.51

Appendix IX (xviii) (*continued*)

STAFF RETIREMENT FUND

SCHEDULE OF INVESTMENTS

April 30, 1957

	No. of Shares	*Book Value*	
Brought forward..		$265,068.56	$3,446,189.51
CORPORATE STOCKS, Common (continued)			
Continental Can Company	300	13,512.00	
Continental Insurance Company	600	25,011.90	
Crown Zellerbach Corporation	600	25,084.63	
Deere & Co.	700	19,865.83	
Dow Chemical Company	729	23,882.09	
DuPont (E. I.) de Nemours and Company	100	11,058.51	
Eastern Airlines, Incorporated	406	18,790.25	
Eastman Kodak Company	326	18,828.79	
Fidelity-Phenix Fire Insurance Company	500	21,913.94	
Firestone Tire & Rubber Co.	300	14,534.46	
First National Stores, Incorporated	100	5,140.10	
Ford Motor Company	300	18,643.11	
General Electric Company	700	15,990.39	
General Motors Corporation	630	16,836.00	
Goodrich (B. F.) Company	400	14,066.00	
Goodyear Tire and Rubber Company	204	15,810.73	
Guaranty Trust Company of New York	240	13,287.50	
Hartford Fire Insurance Company	157	13,247.25	
Hercules Powder Company	600	12,389.33	
Idaho Power Company	800	17,321.21	
Illinois Power Company	100	5,452.91	
International Business Machines Corporation	124	30,223.04	
International Harvester Company	400	14,152.70	
International Nickel Company of Canada, Limited	300	11,738.25	
International Paper Company	501	19,295.28	
Jewel Tea Company	200	10,117.04	
Koppers Company, Incorporated	100	5,202.66	
Marathon Corporation	400	11,919.00	
May Department Stores Company	600	20,458.95	
McGraw-Edison Company	1000	26,928.01	
Merck & Co., Inc.	900	22,476.25	
Minnesota Mining and Manufacturing Company	400	11,619.04	
Monsanto Chemical Company	313	8,954.77	
Montgomery Ward & Co., Incorporated	400	14,153.59	
Murphy (G. C.) Company	600	25,478.81	
National Cash Register Company	525	27,076.88	
National Distillers Products Corporation	510	15,062.19	
National Lead Company	612	18,464.08	
Northern Natural Gas Company	300	14,718.01	
Ohio Edison Company	326	11,866.03	
Ohio Oil Company	200	8,635.31	
Peoples Gas Light and Coke Company	200	25,345.66	
Pfizer (Chas.) & Co., Inc.	300	10,456.89	
Phillips Petroleum Company	800	34,585.36	
Pittsburgh Plate Glass Company	525	24,600.94	
Pure Oil Company	600	28,506.39	
Radio Corporation of America	300	10,635.20	
Sears, Roebuck and Company	919	22,027.95	
Sherwin-Williams Company	200	14,389.82	
Socony Mobil Oil Company, Incorporated	962	27,866.76	
Southern Company	400	9,109.12	
Standard Oil Company of Indiana	500	31,018.33	
Standard Oil Company (New Jersey)	707	20,895.29	
Texas Utilities Company	1000	24,842.67	
Union Carbide and Carbon Corporation	300	23,744.63	
United Gas Corporation	710	18,701.64	
United States Fidelity and Guaranty Company	145	5,615.80	
United States Gypsum Company	300	19,774.66	
United States Steel Corporation	100	3,502.23	
Westinghouse Electric Corporation	500	22,430.65	
Youngstown Sheet and Tube Company	100	7,073.28	1,319,398.65
TOTAL INVESTMENTS (carried to Balance Sheet)...............			$4,765,588.16

Appendix IX (xix)

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

for the year ended April 30, 1957

1. The following table shows the approved limiting percentages for various bonds and corporate stocks, and the percentages and amounts (book value) of the actual investments as at April 30, 1957:

	Authorized Percentage	*Actual Percentage*	*Book Value*
Bonds			
U. S. Government.......	Minimum 40	40.80	$1,944,550.63
International Bank for Reconstruction and Development...............	Maximum 20	13.30	633,877.52
Corporate...............	Maximum 25	18.21	867,761.36
Corporate stocks...........	Maximum 30	27.69	1,319,398.65
		100.00	$4,765,588.16

All corporate stocks have been selected from a list prepared by the Investment Committee on the recommendation of the Investment Consultant (The Chase Manhattan Bank).

2. The method of handling the reserve against investments was reviewed and modified during the year to provide that the reserve be reconstituted to reflect simply the excess of realized capital gains over capital losses on the entire portfolio since the beginning of the Plan. As a consequence, retroactive adjustment of the accounts involved the closing of the former "Reserve Against Corporate Stock Investments" by the return to "Accumulation Account" of $61,632.26, representing accumulated appropriations to April 30, 1956 of dividend income received in excess of 3 per cent of the weighted average corporate stock investment held, and the opening of a new account styled "Reserve Against Investments" with the remainder of $24,577.21, representing the accumulated excess of realized capital gains over capital losses on sales of corporate stocks from inception to April 30, 1956. The new "Reserve Against Investments" was also credited, by transfer from the "Accumulation Account," with $8,284.34,

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

for the year ended April 30, 1957

representing accumulated net capital gains on sales or redemptions of bonds from inception to April 30, 1956, and with $55,090.30, representing net capital gains on sales or redemptions of all categories of investments during the fiscal year under review, resulting in an available balance as at April 30, 1957 of $87,951.85.

General

On April 27, 1956, the Executive Board approved amendments to the Staff Retirement Plan effective May 1, 1956, which provide for the following principal changes:

(a) The fraction used for all purposes in computing normal retirement benefits was changed from 1/60 to 1/50.

(b) The rate of regular interest was increased from 2½ per cent to 3 per cent per annum.

(c) The percentage used in computing withdrawal benefits was increased from ½ of 1 per cent per month to ¾ of 1 per cent per month.

(d) The factors used in determining early retirement pensions were simplified.

At the same time, revised actuarial tables more closely related to the experience of the Plan were adopted, and the employer's contribution was increased from 11.84 per cent to 11.97 per cent of remuneration.

Appendix X (i)

SCHEDULE OF PAR VALUES—as of June 30, 1957

CURRENCIES OF METROPOLITAN AREAS

		Par Values In Terms of Gold		Par Values In Terms of U. S. Dollars	
Member	Currency	Grams of fine gold per currency unit	Currency units per troy ounce of fine gold	Currency units per U. S. dollar	U. S. cents per currency unit
Afghanistan	Afghani	Par Value not yet established			
Argentina	Peso	0.049 370 6	630.000	18.000 0	5.555 56
Australia	Pound	1.990 62	15.625 0	0.446 429	224.000
Austria	Schilling	0.034 179 6	910.000	26.000 0	3.846 15
Belgium	Franc	0.017 773 4	1,750.00	50.000 0	2.000 00
Bolivia	Boliviano	0.004 677 22	6,650.00	190.000	0.526 316
Brazil	Cruzeiro	0.048 036 3	647.500	18.500 0	5.405 41
Burma	Kyat	0.186 621	166.667	4.761 90	21.000 0
Canada[1]	Dollar				
Ceylon	Rupee	0.186 621	166.667	4.761 90	21.000 0
Chile	Peso	0.008 078 83	3,850.00	110.000	0.909 091
China	Yuan	Par Value not yet established			
Colombia	Peso	0.455 733	68.249 3	1.949 98	51.282 5
Costa Rica	Colón	0.158 267	196.525	5.615 00	17.809 4
Cuba	Peso	0.888 671	35.000 0	1.000 00	100.000
Denmark	Krone	0.128 660	241.750	6.907 14	14.477 8
Dominican Republic	Peso	0.888 671	35.000 0	1.000 00	100.000
Ecuador	Sucre	0.059 244 7	525.000	15.000 0	6.666 67
Egypt	Pound	2.551 87	12.188 5	0.348 242	287.156
El Salvador	Colón	0.355 468	87.500 0	2.500 00	40.000 0
Ethiopia	Dollar	0.357 690	86.956 5	2.484 47	40.250 0
Finland	Markka	0.003 863 79	8,050.00	230.000	0.434 783
France	Franc	No Par Value agreed with the Fund			
Germany, Federal Republic of	Deutsche Mark	0.211 588	147.000	4.200 00	23.809 5
Greece	Drachma	Par Value not yet established			
Guatemala	Quetzal	0.888 671	35.000 0	1.000 00	100.000
Haiti	Gourde	0.177 734	175.000	5.000 00	20.000 0
Honduras	Lempira	0.444 335	70.000 0	2.000 00	50.000 0

Iceland	Króna	0.054 567 6	570.000	16.285 7	6.140 36
India	Rupee	0.186 621	166.667	4.761 90	21.000 0
Indonesia	Rupiah	Par Value not yet established			
Iran	Rial	0.011 731 6	2,651.25	75.750 0	1.320 13
Iraq	Dinar	2.488 28	12.500 0	0.357 143	280.000
Israel	Pound	0.493 706	63.000 0	1.800 00	55.555 6
Italy	Lira	Par Value not yet established			
Japan	Yen	0.002 468 53	12,600.0	360.000	0.277 778
Jordan	Dinar	2.488 28	12.500 0	0.357 143	280.000
Korea	Hwan	Par Value not yet established			
Lebanon	Pound	0.405 512	76.701 8	2.191 48	45.631 3
Luxembourg	Franc	0.017 773 4	1,750.00	50.000 0	2.000 00
Mexico	Peso	0.071 093 7	437.500	12.500 0	8.000 00
Netherlands	Guilder	0.233 861	133.000	3.800 00	26.315 8
Nicaragua	Córdoba	0.126 953	245.000	7.000 00	14.285 7
Norway	Krone	0.124 414	250.000	7.142 86	14.000 0
Pakistan	Rupee	0.186 621	166.667	4.761 90	21.000 0
Panama	Balboa	0.888 671	35.000 0	1.000 00	100.000
Paraguay	Guaraní	0.014 811 2	2,100.00	60.000 0	1.666 67
Peru[2]	Sol				
Philippines	Peso	0.444 335	70.000 0	2.000 00	50.000 0
Sweden	Krona	0.171 783	181.062	5.173 21	19.330 4
Syria	Pound	0.405 512	76.701 8	2.191 48	45.631 3
Thailand	Baht	Par Value not yet established			
Turkey	Lira	0.317 382	98.000 0	2.800 00	35.714 3
Union of South Africa	Pound	2.488 28	12.500 0 (or 250 shillings)	0.357 143	280.000
United Kingdom	Pound Sterling	2.488 28	12.500 0 (or 250 shillings)	0.357 143	280.000
United States	Dollar	0.888 671	35.000 0	1.000 00	100.000
Uruguay	Peso	Par Value not yet established			
Venezuela	Bolívar	0.265 275	117.250	3.350 00	29.850 7
Viet-Nam	Piastre	Par Value not yet established			
Yugoslavia	Dinar	0.002 962 24	10,500.0	300.000	0.333 333

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

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

Appendix X (ii)

SCHEDULE OF PAR VALUES—as of June 30, 1957

SEPARATE CURRENCIES IN NONMETROPOLITAN AREAS OF MEMBERS

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

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

Appendix X (ii) (*continued*)

SCHEDULE OF PAR VALUES—as of June 30, 1957

SEPARATE CURRENCIES IN NONMETROPOLITAN AREAS OF MEMBERS

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

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

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