ANNUAL REPORT
1958

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C.

ANNUAL REPORT

1958

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INTERNATIONAL MONETARY FUND

ANNUAL REPORT OF THE EXECUTIVE DIRECTORS FOR THE FISCAL YEAR ENDED APRIL 30, 1958

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H. Merle Cochran
Deputy Managing Director

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LETTER OF TRANSMITTAL
TO THE BOARD OF GOVERNORS

July 25, 1958

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, 1958. 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

The Economic Climate of 1957–58

AT THE beginning of 1957, the world economy was still dominated by boom conditions generated by an intense world-wide wave of private and public investment which was reflected in a large demand for capital. Already in some countries there were signs that a period of readjustment was not far off, but most of the payments problems that called for treatment during the first three quarters of the year had their origin in the inflationary methods, involving an excessive expansion of bank credit, which were often used to satisfy this demand. As always at the top of the boom, there was everywhere a dearth of loanable funds, especially for international financing, and a growing tension in the money markets, with each country at the same time feeling the impact of some forces peculiar to itself. In the work of the International Monetary Fund during the last year these factors played a large role.

The financial problems that presented themselves in this situation were greatly intensified early in 1957 by the temporary effects of the tensions that arose in connection with the Suez events and, later in the year, by speculative movements against certain European currencies. The Fund played an important part in easing these tensions. In the last quarter of 1956 and the first quarter of 1957, countries other than the United States had an aggregate deficit of about $1,100 million; during this period, Fund members with strained reserve positions drew from the Fund a net total of $800 million. The magnitude of the payments problems

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that arose later in 1957 may be approximately indicated by observing that, from the beginning of April to the end of September 1957, countries other than the United States, the Federal Republic of Germany, and Venezuela had gold and dollar deficits totaling nearly $2 billion. In order to finance these deficits the rest of the world drew upon official gold and dollar reserves to the extent of some $1,100 million, and current gold production made something like $300 million available. The remainder, $600 million, was covered by net transactions with the Fund. The Fund was thus able to make an essential contribution both in the emergency situation which appeared in late 1956 and in tempering the strains and stresses of the boom.

During the course of the year there was, however, a gradual change, and at its end the Fund and many of its members were faced with a series of problems which in some important respects were different from those with which they had become accustomed to deal in the preceding years. There had, of course, been no change in the foundations upon which sound economic and financial policy should be based, but, as has happened more than once since the Fund was established in 1946, there was a shift in emphasis. The problems that arise in a cyclical downturn began to cause concern, and policy decisions had to be adapted to this shift.

In one form or another, every economy in the world today has to grapple with the problem of creating conditions favorable to a satisfactory rate of economic growth and to the maintenance of stable prices and high employment. Immediately after World War II, there were widespread fears of a severe slump with large-scale unemployment; not until half a decade had elapsed was it sufficiently realized that the main problem at that time was inflation, not deflation, and that monetary policy had to be directed from that point of view. The first postwar recession in the United States in 1948-49 passed quickly, though underlying maladjustments were revealed in many economies when, for a year or more, prices in the United States ceased to rise, and this set off a series of radical changes in the currency values of a considerable number of coun-

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tries. The second recession in 1953-54 passed as quickly, recovery in the United States being helped by the continued upward trend in most other countries. The full employment pledges which had been given in many countries in the early postwar years seemed to have been fulfilled, not so much by deliberate action on the part of governments as by the emergence of a dominating upward growth trend. Accordingly, the opinion gradually took hold in many quarters that recessions, except those of a mild kind, were things of the past, and that the problem of the business cycle, at least in its most important manifestations, had ceased to trouble the world. The developments of the past year have shown that the optimism implied in this view is not fully justified. In economies where capital goods and consumer durable goods form a large share of total output, there is still likely to be a tendency in certain sectors for periods of concentration of heavy demand to alternate with periods of readjustment to a less intense demand. It is an important task to ensure that neither the expansion nor the subsequent contraction should be magnified by adverse circumstances affecting costs and prices, the level of personal income, or the flow of international trade and investment, to the point where a general oscillation of activity is generated which affects the whole of the economy.

In the latter part of 1957, a downward cyclical movement of the type described above, a type which has often recurred in the past, was evident in the United States and Canada and in a few other countries. Any such downward trend is likely to have an important impact on the world economy; attention is therefore naturally directed this year particularly to the problems connected with the cyclical fluctuations of business activity. In each country today these problems are being increasingly discussed with reference to its own particular conditions.

In order to deal with recessionary tendencies, it is not sufficient merely to take measures to stimulate the over-all demand for goods and services. There are other essential aspects which have to be considered carefully. One of the most important is the tendency of certain branches of economic activity, and especially

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of the durable goods industries, to develop during a boom beyond the absorptive capacity of the markets for the goods and services that they produce. The sectors of the economy which are likely to expand in this way will be faced with special problems of adjustment when the boom is over, and at the same time the decline in activity will generally be associated with a weakening, and often a definite fall, in the demand for commercial credit. The adjustments that have to be made take time. Although, in a modern economy, "built-in stabilizers" and appropriate credit and fiscal policies may help to sustain the volume of general demand, all these measures, however useful, and indeed essential, cannot be expected by themselves to ensure stability, as long as important adjustments are not made in many strategic sectors of the economy.

These considerations suggest that, even with the strong growth trends that have been evident since the end of World War II in most of the modern industrialized economies, these economies are still susceptible to the influences that produce cyclical fluctuations. The remedies for reducing the fluctuations to tolerable proportions include a wide variety of measures, for some of which arrangements of a rather permanent character may be required. Continuous attention must be devoted to strengthening the structure of the economy, so that any tensions that appear may be more easily withstood, and any tendencies to self-perpetuating movements in one direction or another may be checked. For example, a strong and well-developed banking structure, including institutional arrangements that will make it possible for the monetary authorities to maintain effective control of the flow of credit, is of vital importance. Sound practices are required for financing stock exchange transactions, and even more important is an adequate system of mortgage financing. The importance of the role of consumer durable goods in a modern economy suggests the wisdom of moderation in the use of installment credit for their acquisition as one means of avoiding abrupt oscillations. Likewise, caution in the use of sliding-scale clauses that link wages rigidly to changes in the cost of living, or associate other contractual obligations with cost changes, would generally facilitate

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the restoration and maintenance of a proper balance in the economy. The effects of all these elements in the situation are closely related to those of the "built-in stabilizers"—such as unemployment compensation and a progressive tax system—which also tend to moderate general business fluctuations. To a large extent the effects of the stabilizers are automatic, but there is also room for more deliberate action if it should be required by the circumstances of any particular situation.

The main purpose of the more direct action which is expressed in decisions on credit and fiscal policy is to restrain demand when it is excessive, and to stimulate it when it is inadequate. This is not the place to discuss in detail the varied measures of general and selective control, or the changes in the volume or the nature of government expenditure or taxation, which may be found appropriate at different stages of the business cycle. During a recession, measures should be chosen in such a way as to ensure that demand is increased without at the same time increasing costs. There are always delicate problems to be solved in determining the proper timing of each measure, not only because of the effect upon the volume of demand, but also because of the psychological impact both on the general public and on particular sectors of the economy.

These psychological influences are important, since the behavior of the public is always a significant factor in any successful anticyclical policy. If the business community is sufficiently alive to changing market conditions, it will be readier to adapt its actions to current trends so that there will be less risk that producers will price themselves out of the market. Moreover, the increasing influence of large economic organizations, in industry, banking, agriculture, and labor, is a fact of great importance in the world economy of today. Some of these organizations have acquired a position of quasi-monopolistic power, which has made it possible for elements of rigidity to appear in the structure of prices that may delay the adjustments demanded by changes in business conditions. Upon these organizations, as well as upon the large state trading organizations, there rests a special responsibility to

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help and not to hinder the adjustments which are required at each phase of the cycle to maintain or to restore balance.

In both the immediate future and in the longer run, the problems with which the Fund has to deal will be much influenced by the general course of world prices. Long-run forecasts are, of course, not possible, but, for the short run, while the risks of a revival of dangerous inflationary pressures should not be overlooked, there are a number of factors which suggest that in the industrial countries the prospects are now favorable for greater price stability than has generally been experienced since the end of World War II.

The excess liquidity built up during the war seems now to have been worked off, and in many countries the prewar ratio of money volume to gross national product has been re-established. In a number of industrial countries the backlog of demand which had accumulated during and immediately after World War II for housing and public utility and industrial plant has gradually been satisfied, and it should be increasingly possible to finance investment of this kind out of current savings without recourse to inflationary methods. Monetary and fiscal policies that have price stability as their objective now command wide support and may be expected to be more effective in the future, even in boom periods, in limiting the pressure of demand. In the industrial countries in general, wage costs have shown an upward trend. However, this trend has already become less steep, as more attention is paid to the relation between wage increases and increases in productivity. In several countries other than the United States there has been evidence of greater price stability. The U.K. index of the wholesale prices of manufactured products, for example, which rose during the first nine months of 1957 at an annual rate of nearly 4 per cent, has been stable or even tending to decline for six or seven months.

The fact that even during a recession the cost of living has continued to rise has caused some concern in the United States. But this rise is largely attributable to a strength in farm prices which may be temporary and to increases in rents and the prices of other services from levels that had been abnormally low in relation to

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the general level of commodity prices. The prices of U.S. manufactured products have shown some tendency to fall in the first half of 1958, and when account is taken of the price reductions made by means of rebates of one kind or another, the downward movement may have been even greater. The narrowing of profit margins in some important lines of production provides further evidence that the previous persistent upward trend of prices has been arrested.

With narrowing profit margins, it is natural that greater attention should be paid to cost accounting and to the need for adjusting costs to improvements in productivity. The adjustments that are called for in the current cost and price situation need not result in any slowing down of economic expansion. On the contrary, sustained development and a healthy social life are more likely under a regime of monetary stability than by the continuation of inflationary pressures with all the distortions and uncertainty that they create.

In some important countries, the authorities are now able, with less difficulty than in the past, to take the effective measures that are needed to deal with the business cycle. Under the rules of the gold standard, it was the general practice to wait for an influx of gold before market credit conditions could be eased. Today, the U.S. authorities, thanks to the substantial gold holdings at their disposal—the United States is still in possession of more than half the monetary gold stocks of the world—are able to relax credit even when there is an outflow of gold. Whatever embarrassments the current world distribution of gold reserves may present to certain countries, it is reassuring to know that some of the large industrial countries are able to face the task of preventing excessive cyclical fluctuations without being hampered by any insufficiency of international reserves.

Industrial activity has slowed down in some countries, mainly because of a cyclical decline following a boom generated at home. But a decline may also be a consequence of a slackening in activity abroad, or it may be an autonomous development determined by the credit and other policies adopted to defend the

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foreign exchange position. In some countries, indeed, not one but several of these influences have been at work. It follows that no sweeping generalizations are possible, even if attention is confined to the industrialized countries, about either the general economic conditions of these countries at the present time or the policies that would be most appropriate for them.

In Europe some cyclical decline has been most clearly discernible in the Benelux countries. Although it is possible that similar tendencies are beginning to make themselves felt in some other countries in Europe, it is important to note that in nearly all of them business activity has continued at a high level. In not a few countries there was something like a normal seasonal upturn in the spring of 1958. This was true in the Federal Republic of Germany, Italy, and Austria, as well as in France. In some of these countries, production and export figures in early 1958 compared favorably with those of 1957, while their terms of trade were improved by the lower prices of imported raw materials. There was a continued demand for commercial credit, of which account had still generally to be taken in forming credit policy.

In the United Kingdom there have been only slight signs of a cyclical decline in activity; the rate of growth has, for some years, been affected by the policies adopted to counteract inflationary tendencies and so to prevent any deterioration of confidence in sterling. The economic policy of the United Kingdom is directed toward the maintenance of an orderly expansion at home which is compatible with price stability and a sound balance of payments position. The authorities have regarded the maintenance of confidence in sterling as the foremost responsibility of their country, not only in the immediate interest of the British people, but also in view of the position of sterling as a reserve currency and a medium for international finance and settlements.

After a pronounced boom in Japan early in 1957, which was accompanied by a balance of payments deficit, resolute anti-inflationary measures were taken in association with financial assistance from the Fund. These measures affected the rate of economic activity, but they were also speedily effective in improv-

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ing the balance of payments, a matter which is always of considerable importance for a country so dependent as Japan on international trade, and therefore on conditions abroad. As in the United Kingdom, the authorities decided that the maintenance of the present parity and the establishment of a healthy balance of payments position should be regarded as a main consideration in the formation of policy. Although Japan's exports have encountered some difficulties, early in 1958 they were still running at a rate some 8 per cent higher than in the first quarter of 1957.

While the volume of world trade did not grow in 1957 at the same rate as in previous years, the fairly satisfactory level at which it was maintained made it easier to defend policies of monetary stability and fiscal and credit measures to strengthen the balance of payments position. In the first quarter of 1958 imports into the United States were only 1 per cent less than in the first quarter of 1957. U.S. exports indeed declined by 18 per cent, but in the early months of 1957 they were swollen by exceptionally high shipments of goods for which demand was affected by efforts to expand stocks or by the Suez events. Up to the time of writing this Report, the decline of economic activity in the United States and Canada had had, with only few exceptions, little harmful effect on activity in other industrialized countries. There are several countries which did not have to take any measures to counteract a recession arising from either external or internal disturbances; in administering their fiscal and credit policies, they were of course still concerned with the maintenance of a healthy balance in their own economies, while they could also take into account the fact that any lowering of interest rates abroad made it easier for them too to reduce their own interest rates, insofar as that seemed appropriate.

Many of the primary producing countries present a less happy picture. The prices of many industrial raw materials have been weakening since the second half of 1955, a movement to which many causes have contributed, including rapidly expanding output and, for some commodities, increased competition from substitutes or new products, such as artificial rubber, textile fibers, or alu-

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minum. The weighted average price of raw materials of importance to the trade of the primary producing countries[1] fell by roughly 9 per cent in the 12 months preceding the closing of the Suez Canal. There was subsequently a brief upturn, the effects of which had, however, for the most part disappeared by the first quarter of 1957. The flattening out of industrial production accelerated the downward movement, and between the first quarters of 1957 and 1958, these prices declined by some 15 per cent. The average prices of foodstuffs were comparatively firm up to the early months of 1957, but thereafter they too declined, mainly as a result of increased supplies which terminated temporary shortages of some of these products. When the prices of the main exports of a primary producing country show a persistent downward trend, the country is subjected to severe strains, the effects of which could also extend to other countries. This could add to the depressive effect on world demand and consequently on the course of world trade.

The wide diversity of the circumstances in which the prices of raw materials and foodstuffs move up and down suggests that there is no easy solution of the market problems of these commodities. A renewed expansion of industrial production and international trade will, as a rule, help the primary producers, but even after that has happened, some difficulties will remain and may require arrangements of various kinds in which both national and international action may play a part. The great importance of this whole complex of problems is becoming more and more recognized. The countries most immediately concerned naturally are anxious to diversify their economies; but when foreign exchange receipts are declining, the financing of development plans becomes increasingly difficult. Well before the present recession, several of these countries were still beset by inflation. Although in some countries there is still a danger that inflationary tendencies may become overwhelming, there is fortunately a growing desire to restore stability, both internally and in the balance of payments.

[1] The list includes the prices of nonferrous metals, cotton, wool, burlap, rubber, oilseeds, and hides.

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A number of countries have adopted comprehensive stabilization programs. During the time when the measures thus envisaged are taking effect, there is a need for financial assistance from abroad; to several such countries the Fund has furnished financial resources as well as technical help.

Despite the marked differences between the situations of different countries and groups of countries, it is satisfying to be able to report that in more and more countries appropriate steps are being taken to deal with their problems by means of fiscal and credit policy. There are still many dangers to guard against. In conditions of recession it is even more important than in conditions of boom that financial and economic policies should be compatible with the maintenance and expansion of the volume of world trade. While countries with balance of payments difficulties would certainly run great risks in applying expansionary policies at such a time, countries in a strong position have a special responsibility to maintain internal demand and production at high levels, thus ensuring a buoyant market for imports and contributing to the expansion of world trade.

The prevention and correction of excessive cyclical fluctuations is a responsibility primarily for the large industrial countries—a task which they should undertake both in their own interest and in the interest of the rest of the world. There will, however, be a better prospect for the success of their efforts if the less developed countries are fully aware that stability cannot be assured to them merely by the efforts of others, and that they cannot be spared the obligation to adapt their own economies to fluctuations between high and low demand. This has special importance for countries whose exports consist mostly of raw materials; it may also apply to exporters of foodstuffs, such as coffee, whose prices may fluctuate widely, even if demand is reasonably stable, in response to the impact of the fluctuations in supply to which these commodities are liable.

Both the Fund and its members must, of course, take account of the adjustments called for by the broad changes in world economic conditions that have occurred during the past year.

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Where inflation continues to be the most immediate problem, the Fund will not relax its efforts to persuade the members concerned that their first duty is to apply effective countermeasures. Some of the Fund's members, however, are already, or may soon be, faced with difficulties arising from a slackening of world trade. It may be that fears of a further deterioration of their trading conditions will never be realized, and that, without any far-reaching measures, the world will shortly resume the economic progress that has almost come to be regarded as normal. In the meantime, however, there is some danger that these fears may slow down unduly the movement toward freer trading conditions. Recession conditions create a dangerously fertile ground for the growth of protectionist sentiment. Even while international trade was expanding rapidly in the boom, appeals were often made to the more powerful industrialized countries to relax the trade restrictions that were restraining the growth of trade, and thus to make possible the strengthening of reserve positions, particularly of the weaker countries. There is a growing understanding of these needs, but these appeals have not always met with the response that was hoped for; with the appearance of declining activity, there is always the danger of greater pressure to maintain, or to raise, the barriers that hamper international trade. Experience has shown increases in trade barriers to be a short-sighted method of obtaining temporary relief from the pressures of recession. Such relief will create distortions in the economies where the restrictions are applied; and since it is necessarily obtained at the expense of other countries, it may quickly provoke reactions sufficient to destroy even the short-term benefits that it appears to promise. It is of course important that, as far as lies within the Fund's power, its members should continue to feel assured that support from the Fund will be readily available in any situation where the expectation is justified that the member too will do whatever lies within its power to complete the adjustments demanded by changing circumstances. The record of 1957-58 has shown that, both in boom conditions and as the effects of recession began to appear, many members have been able to act on this assurance.

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The effects of fluctuations in international trading and financial conditions are eventually concentrated upon the foreign exchange reserves of individual countries. In a country whose reserves are not large enough to permit it to accept without great concern the calls that may be made upon them, the impact of crisis is likely to be so sudden that it may be difficult even to initiate the long-term adjustments that must at some time be made. Several countries have found themselves in this situation during the past year. To a substantial extent, indeed, the responsibility for building reserves in good times rests upon the individual country itself. It can now be seen that some countries have been insufficiently careful in this respect. During boom years they have tended to act as if the high prices that they were then receiving for some of their exports would be maintained; with a reversal of the market situation they have been left with reserves insufficient to permit the adoption of orderly policies of readjustment. They have accordingly been particularly vulnerable to any subsequent pressure that threatened to weaken their payments positions further.

A few countries other than the United States, e.g., the Federal Republic of Germany, Venezuela, Italy, and Austria, substantially increased their gold and dollar reserves in 1957. However, the total of the increases in these reserves by countries other than the United States was only slightly greater than the total of decreases, and the increases were concentrated in a few countries. Although for the world as a whole outside the United States total official gold and dollar reserves were only a little greater at the end of 1957 than a year earlier, there was a further substantial increase in 1958, which during the first four months of the year amounted to about $800 million, a large part of which accrued to countries in Western Europe.

There is always some risk that a country, overwhelmed by immediate, heavy pressures upon reserves, may feel obliged hurriedly to take emergency measures which are likely to be harmful to itself and ultimately to distort the pattern of world trade and delay the resumption of the normal long-term processes of economic growth. This risk is diminished if such countries are able

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to draw upon financial assistance from outside. Later sections of this Report will show how such assistance helped in mitigating the difficulties of several countries during the past year. Financial assistance was forthcoming from several quarters, and the Fund's own contribution was substantial. As an increasing number of countries show that they are aware of the inadequacy of short-term measures, which affect merely the symptoms rather than the causes of their payments difficulties, and are therefore prepared to carry through far-reaching adjustments of their monetary and economic policies, there is a strong justification for the provision of international credit to help them bridge any temporary gaps that the normal course of world trade fluctuations may inflict upon them. In this connection, although the Fund still has substantial resources at its disposal, the question has been raised, whether in the circumstances of today, with world trade greatly expanded and a larger Fund membership, its resources are sufficient to enable it fully to perform the duties that have been placed upon it.

As was pointed out in the Annual Report of 1952, "the cure for a depression will require national measures to maintain or stimulate effective demand, especially in the great industrial countries. It may take time, however, before these measures bring recovery. The Fund can assist members which in the meantime may be faced with serious balance of payments difficulties, and by so doing help to reduce the deflationary pressure on the world economy as a whole." The Fund's resources, even if they were much larger than they are, could not be the decisive factor in such a situation; all countries must share in the responsibility for effective action to deal with recession. In any event, the important immediate task when a decline in activity sets in is to ensure that the deterioration will be checked as soon as possible, and that by the establishment of a strong monetary structure the members of the Fund will build a firm foundation for renewed recovery and the expansion of international trade.

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II

Activities and Policies of the Fund in 1957–58

The Nature of the Fund's Activities

ONE of the most powerful motives for the foundation of the International Monetary Fund was the desire to avoid the disruptive effects of conflicting national monetary and exchange policies adopted with little or no regard to their repercussions in other countries. The world had had a memorable experience of such policies and their consequences during the interwar period. The Fund can now help to avoid any repetition of these conflicts by providing its members with an instrument for the mutual adjustment of monetary and exchange policies, at the same time as it makes available financial support to which they may turn when faced with threats of balance of payments disequilibrium. During the past year, the developments in the world economy, which are summarized later in this Report, provided further opportunities for extending these closely related Fund activities. Despite many difficulties, Fund members were increasingly willing to support its work in the promotion of freer transferability of currencies, and thus to increase its effectiveness as an agent of international policy. Fund transactions, at nearly US$666 million, did not reach the high level of more than US$1,114 million recorded in the preceding year, when sales of currency to members equaled about one quarter of the Fund's original holdings of gold and convertible currency. However, they exceeded transactions in any other

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previous financial year. And in no other year were there such useful contacts between the Fund and its individual members in relation to policy issues. Some members have taken the initiative in seeking the Fund's advice, and the technical services of members of the Fund staff have been made available to them for prolonged periods. Specific opportunities for useful contacts also occur when a situation arises in which it is appropriate for a member to draw upon the Fund's resources, or in the course of the regular consultations between the Fund and those members which maintain exchange restrictions, or when a member makes a significant change in its exchange system.

The Fund's range of influence was extended during the year by the admission of 7 new members—Ghana, Ireland, Malaya, Morocco, Saudi Arabia, the Sudan, and Tunisia—which increased the total membership to 67.[1] Several of the countries that have joined the Fund in the last few years have only recently acquired the status of sovereign states. By providing technical services intended to help in the development of efficient monetary and exchange systems, the Fund has already been able to assist some of these members which are endeavoring to gain experience especially in fiscal and monetary affairs.

The Fund's total resources are now equivalent to US$9,088 million. On April 30, 1958, US$2,343.6 million of this total was in gold or U.S. or Canadian dollars, against which there were outstanding drawing rights under stand-by arrangements amounting to US$884.3 million. The increase in its resources during the last year resulted partly from the payment of subscriptions by new members, $137 million, and partly from increases in some members' quotas, $19.5 million. These increases were approved in accordance with the understanding, expressed in the course of the quinquennial review of quotas in January 1956, that requests for adjustments of small quotas would be sympathetically received by

[1] On July 16, 1958, the Executive Board of the Fund concluded that, following the merger of Egypt and Syria into a single state, the United Arab Republic is a single member of the Fund with a single quota and subject to the provisions of the Articles of Agreement. The total membership of the Fund is therefore 66.

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the Fund. There are now 9 Fund members, whose quotas originally ranged from $2 million to $15 million, for which increases of quotas have been approved by the Fund since the 1956 review.

The Fund was actively engaged during the last year in carrying out the functions entrusted to it by its members in relation to their exchange practices. It does not attempt to impose formal adherence to policy standards interpreted or applied without due regard to the widely divergent conditions in which exchange practices develop. The discipline agreed to by members in accepting Fund membership is imposed by themselves, and the Fund's influence can be exerted most usefully through continuing discussions with members of the basic causes of any exchange difficulties that may arise and of the methods which, in the circumstances of the individual member country and in the light of conditions elsewhere, are likely to be most effective for dealing with these difficulties. Such discussions have been facilitated by the varied contacts that the Fund has been able to build up with its members since it formally began operations in 1946. These contacts have made possible an appreciation of the economic and other problems faced by member countries and of the obstacles which frequently stand in the way of a more speedy attainment of the Fund's objectives. At the same time, member countries have become more aware of the validity of these objectives, and the foundations have been laid for increasing confidence that the Fund will not take a position with regard to the policy of any member without a thorough investigation of all the relevant considerations.

In the 12 years since the Fund began operations, there has been considerable progress toward the achievement of its objectives. To an increasing extent, the world has moved toward exchange stability with orderly exchange arrangements among the Fund's members, the avoidance of competitive exchange depreciation, the elimination of exchange restrictions, and the establishment of a multilateral system of payments. This progress has been greatly assisted by the generally high volume of production and trade which has been maintained throughout the world since the end of World War II. In some measure, however, it is also the result of

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a deeper understanding of the problems involved and of a determination on the part of national authorities to deal with these problems in accordance with enlightened long-term views. In addition to other forces that have operated in this direction, the habit of continually reviewing exchange policies and practices with the Fund may be assumed to have helped to promote a proper appreciation of the relation of these policies to other aspects of national policy, as well as of their international implications. Even though the Fund's contribution cannot be measured precisely, the flexible machinery that it provides for constant consultation and collaboration in respect of international monetary and exchange problems has been a significant influence favorable to the development of mutually beneficial exchange relations. An international organization such as the Fund helps to create a favorable environment for the adoption of long-term views by national governments. Individual members are able to press resolutely toward the establishment of sound foreign exchange relations with increasing confidence, based upon their participation in the work of the Fund, that, since other countries have the same objectives and are directing their policies along broadly similar lines, their efforts will not be frustrated by short-sighted decisions elsewhere.

Fund Membership and Quotas

Seven countries became members of the Fund during the past fiscal year: Ireland on August 8, 1957, with a quota of $30 million; Saudi Arabia on August 26, 1957, with a quota of $10 million; the Sudan on September 5, 1957, with a quota of $10 million; Ghana on September 20, 1957, with a quota of $15 million; Malaya on March 7, 1958, with a quota of $25 million; Tunisia on April 14, 1958, with a quota of $12 million; and Morocco on April 25, 1958, with a quota of $35 million.

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Terms and conditions for membership for Libya were approved by the Board of Governors at the Twelfth Annual Meeting on September 24, 1957. At the request of its Government, the period for acceptance of membership by Libya was extended through September 24, 1958. Terms and conditions for membership for Spain were approved by the Board of Governors on May 12, 1958. Spain has until November 12, 1958 to accept the terms and to complete the conditions of membership.

The quotas of four members were increased during the past fiscal year: Haiti's on May 2, 1957 from $2 million to $7.5 million; Paraguay's on July 24, 1957 from $3.5 million to $7.5 million; Honduras' on September 30, 1957 from $2.5 million to $7.5 million; and El Salvador's on October 23, 1957 from $2.5 million to $7.5 million. The Government of the Philippine Republic has until September 30, 1958 to consent to an increase in its quota, which has been approved by the Fund, from $15 million to $50 million.

The members of the Fund, their quotas, voting power, Governors, and Alternate Governors as of April 30, 1958 are shown in Appendix I. Changes in membership of the Board of Governors are shown in Appendix II. The Executive Directors and Alternate Executive Directors of the Fund and their voting power are shown in Appendix III and changes in the membership of the Executive Board in Appendix IV.

Par Values

By April 30, 1958, the end of the last fiscal year of the Fund, initial par values had been agreed between the Fund and all but 16 of its 67 members—Afghanistan, China, Ghana, Greece, Indonesia, Ireland,[2] Italy, Korea, Malaya, Morocco, Saudi Arabia,

[2] On May 14, 1958, an initial par value for the currency of Ireland was established at the rate of 0.357143 Irish pound per U.S. dollar, or US$2.80 per pound, which had been the Irish exchange rate since September 1949.

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the Sudan, Thailand, Tunisia, Uruguay, and Viet-Nam. Several of these members have only recently joined the Fund. No additional initial par values were agreed during the year. The Fund concurred in proposals for changes in the par values of the Finnish markka and the Iranian rial, which are described more fully in Chapter VI.

Most Fund members maintain exchange systems in which for the most part transactions take place within the prescribed margins of their respective par values agreed with the Fund. The currencies of these members include all that are most used as means of payment in international trading and financial transactions. Orderly exchange arrangements and exchange stability are important and generally accepted objectives of economic policy. They reduce exchange risks to a minimum and help to maintain that confidence in the currency which is an essential condition for an adequate flow of savings. Even in countries where the authorities are not prepared formally to stabilize the exchange rate on the basis of a realistic parity, *de facto* stable rates are often maintained for long periods of time. The principles of the Fund, of course, require that exchange rates should be both institutionally stabilized and realistic. However, especially after a period during which efforts have been made to preserve an unrealistic exchange rate, there may be overwhelming practical difficulties that prevent the immediate establishment of an exchange system based upon a new and effective par value, without any intervening period for adjustment. For some countries, therefore, the Fund has supported a program involving the use of a fluctuating rate system, as a lesser evil to be set against any other system that in the circumstances of the case was likely to be adopted—and in particular against a complex multiple rate system or the substantial use of quantitative restrictions—and in order to allow time to restore domestic stability and to accumulate reserves sufficient for the maintenance of a par value. Developments during 1957 in the countries where such conditions have applied are described in Chapter VI.

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Use of the Fund's Resources

Last year's Annual Report described a period of vigorous financial activity for the Fund during which both the amount of its resources made available to members and the number of members having transactions with the Fund were greater than in any previous year. In the year covered by the present Report, from May 1, 1957 to April 30, 1958, the Fund was again very active in financial assistance to its members (Table 1), and the number of members utilizing the Fund's resources, by either drawings or stand-by arrangements, was greater than in any previous financial year. The Fund's financial activities were again widely distributed in all regions. Of the 21 members that purchased currencies from the Fund or entered into or extended stand-by arrangements, 11 are in Latin America, 5 in continental Europe, 3 in the sterling area, 1 in the Middle East, and 1 in the Far East.

The extent to which the Fund's resources are utilized is necessarily related closely to the general world payments situation and to the economic conditions of individual member countries, both of which are discussed elsewhere in this Report. The growing awareness of the Fund's functions and an improved understanding of the principles governing the use of its resources have also led

TABLE 1. SUMMARY OF FUND TRANSACTIONS, FISCAL YEARS ENDED APRIL 30, 1948-58

(In U.S. dollars)

	Total Purchases by Members	Total Stand-By Arrangements in Force	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
1958	665,731,620.70	1,500,030,000	86,806,219.72
Total	3,016,227,650.37		1,119,725,835.24

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an increasing number of members to look to the Fund for assistance in finding solutions for their short-term balance of payments problems, and the use of the Fund's resources as a second line of reserves has thus become well established.

On the basis of programs agreed with its members during the past year, the Fund made substantial contributions to the international financing which was provided from several sources to countries seeking to make adjustments in their balances of payments. Several drawings were made under stand-by arrangements agreed with the Fund during the previous financial year, which were intended to deal with balance of payments problems described in last year's Annual Report. There were, however, no transactions comparable to the unusual purchases of U.S. dollars which had been made in the previous year as a result of the abnormal balance of payments strains to which many members were subjected by the events of Suez. The tensions in European exchange markets in the second half of 1957 were eased as statements at the Fund's Annual Meeting made it clear that the countries most directly concerned had already taken appropriate stabilizing measures and were determined to maintain the existing parities. At that time, no demands were made upon the resources of the Fund to meet the exchange pressures that had then arisen.

Use of the Fund's resources by some members is closely associated with the execution of stabilization programs. As in the preceding year, several members that are largely dependent on a single major export crop purchased currency from the Fund to solve the balance of payments problems which arise when their foreign exchange reserves are under seasonal pressure. In accordance with the undertakings given by them when they requested use of the Fund's resources, most of these members subsequently repurchased within a period of six or twelve months their currency which they had used to buy dollars from the Fund. There were again several members that, in the face of foreign exchange stringencies which were considered temporary, had recourse to the Fund with a view to supporting the liberalization policies previously adopted by them. In two member countries where

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effective domestic measures were taken to deal with temporary balance of payments difficulties, the improvement was such that one, Denmark, was able to make an early repurchase from the Fund and the other, the Netherlands, canceled an unused stand-by arrangement six months before the date that it was due to expire. This was the first Fund stand-by arrangement that was canceled before its expiration. No Fund member has yet requested use of the Fund's resources in order to support policy measures in connection with the establishment of full convertibility. However, several countries have drawn upon the Fund's resources in the past with a view to maintaining convertibility, and some of the drawings during the last year were in support of programs intended to bring members closer to this objective, or at least to prevent any check to the progress already made in that direction.

Fund members are now well aware of the general principles governing the use of the Fund's resources, which have been described in earlier Annual Reports. The Executive Board's decision of February 13, 1952 on Use of the Fund's Resources indicated that for drawings within the "gold tranche," i.e., the portion of a member's quota which can be regarded as equivalent to its gold subscription, a member could count on receiving the overwhelming benefit of any doubt. Since that decision was taken, 17 members have made gold tranche drawings; of the total amount of $2,202.2 million drawn by members since that date, $993.5 million was within the gold tranches of the members concerned. Drawings from the Fund that increased its holdings of a member's currency above 100 per cent, but not to more than 125 per cent, of quota have been made by 20 members. Members have been assured that they can confidently expect a favorable response to applications for such drawings—which are described as being within the first credit tranche—provided that they are also themselves making reasonable efforts to solve their problems. Fourteen Fund members have made drawings beyond the first credit tranche. It is expected that members requesting such drawings or stand-by arrangments which authorize them will produce substantial justification for their requests. Members are aware that requests are

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likely to be favorably received when the drawings or stand-bys are intended to support well-balanced and adequate programs aimed at establishing or maintaining the enduring stability of the currency concerned at a realistic rate of exchange.

The normal period during which currency purchased from the Fund may remain outstanding is understood to be within an outside range of three to five years; in requesting an exchange transaction that is within the limit of 25 per cent of quota during any 12 months, members indicate that it is their intention to repurchase not later than this three to five year period. Under Article V, Section 4, of the Articles of Agreement, the Executive Board is authorized to waive this 25 per cent limit. Since the first waiver was granted in August 1953, only 15 transactions have been made without a waiver; during the financial year 1957-58, a waiver was granted in connection with 24 drawings. In granting a waiver, the Fund may, in order to safeguard its interests, prescribe certain terms, and it has become the practice to grant waivers for drawings with a term obliging the member to complete repurchase within a specified period, which is normally within an outside range of three to five years. The corresponding provision in stand-by arrangements normally requires repurchase not later than three years after drawings under them, but the period may be shorter in appropriate cases. All the stand-by arrangements concluded or extended during the year ended April 30, 1958 require repurchase within three years or less. The increasing use of the Fund's right to grant a waiver affords continuing proof of the readiness of the Fund to consider on its merits each request for a drawing or stand-by arrangement and, where the circumstances of an individual case warrant special consideration, to apply the Fund's rules with a reasonable degree of flexibility. The number of stand-by arrangements (11) agreed or extended during the period under review was the highest in any financial year of the Fund. The expanding use of stand-by facilities shows that this form of credit commitment, which was instituted tentatively in 1952, has become generally acceptable as a useful technique for making the Fund's fianancial assistance available to its members.

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In the year ended April 30, 1958, the total volume of the Fund's exchange transactions again exceeded by a substantial margin total repurchases by members amounting to nearly US$87 million (Table 1).

The Fund's total holdings of gold and U.S. and Canadian dollars amounted on April 30, 1958 to the equivalent of US$2,343.6 million. On the same date unutilized drawing rights under stand-by arrangements represented potential claims equivalent to US$884.3 million, of which account has to be taken in determining the current policy of the Fund. In estimating whether the large volume of transactions during the last two years leaves the Fund with adequate resources for the future, it should, however, be noted that some of these drawing rights may not be utilized, and others may be used to purchase inconvertible currencies. The liquidity of the Fund, moreover, is to a large extent determined by the revolving character of its resources. All "outstanding" Fund drawings, i.e., drawings that have not yet been reversed by repurchases or by drawings by other members, are accompanied either by commitments by the members concerned to comply with the principles of the decision of the Executive Board of February 13, 1952 or by repurchase terms attached as conditions to waivers or to the terms of stand-by arrangements. The principle that drawings should not be allowed to remain outstanding for more than three to five years is thus intended to safeguard the liquidity of the Fund's operational assets. Repurchases by members that had drawn on the Fund, drawings by other members of the currencies of members that had purchased from the Fund, and the settlement with Czechoslovakia totaled $1,195.8 million by April 30, 1958, or 39.6 per cent of total purchases ($3,016.2 million). Without taking into consideration the possibility of mandatory repurchases which the Fund's Articles of Agreement require from members whose reserve positions improve, there should be substantial further repurchases beginning in late 1959 and 1960.

The reserves available to Fund members have in several instances been supplemented by additional resources obtained mainly through short-term credit facilities from various sources.

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Although the Fund's resources are not credit facilities in the legal sense, they can be considered as constituting a second line of reserves and, as has been described in this and earlier Annual Reports, they have had important effects in alleviating the difficulties of the recent past. There are, however, fairly strict limits to the resources that the Fund is in a position to place at the disposal of any individual member; and several members—particularly those undertaking comprehensive stabilization programs—have recently found it possible to supplement the facilities provided by the Fund in support of these programs by parallel arrangements for credit facilities from the U.S. Government and from New York commercial banks. Such a combination of resources has not only increased the amounts available to the countries concerned, but it has also widened the circle of those who have an interest in the success of the stabilization programs that have been worked out by several countries with the assistance of members of the Fund staff working under the general guidance of the Executive Board. In somewhat different circumstances in Europe, the support given to France by the Fund in January 1958 was associated, as is noted elsewhere in this Report, with both a special credit from the European Payments Union and a credit from the U.S. Government. Also, in 1957 for the first time since the war the banking system of the Federal Republic of Germany made loans available to the Governments of other European countries. The availability of such additional international liquidity from sources other than the Fund is clearly relevant to any discussion of the adequacy of the Fund's resources.

Fund Transactions

The Fund's transactions, stand-by arrangements, and repurchases by members in the 12-month period ended April 30, 1958 are summarized in Tables 2, 3, and 4. The exchange transactions included sales of deutsche mark and of Netherlands guilders as well as of U.S. dollars. The Yugoslav transaction in Netherlands guilders represents the first Fund sale of that currency. Transac-

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TABLE 2. PURCHASES OF CURRENCY FROM THE FUND, FISCAL YEAR ENDED APRIL 30, 1958

(In U.S. dollars)

Member	Amount	Member	Amount
Bolivia	1,000,000	India	72,500,000
Brazil	37,500,000	Israel	3,750,000
Chile	37,331,620.70	Japan	125,000,000
Colombia	15,000,000	Netherlands	68,750,000
Cuba	25,000,000	Nicaragua	3,750,000
Denmark	34,000,000	Paraguay	3,500,000
Ecuador	5,000,000	Turkey	13,500,000
France	167,500,000	Union of South Africa	25,000,000
Haiti	1,000,000	Yugoslavia	22,900,000
Honduras	3,750,000		
		Total	665,731,620.70

tions totaling the equivalent of some US$304 million were made under stand-by arrangements. The 11 stand-by arrangements entered into or extended by the Fund during the year totaled the equivalent of nearly US$1,044 million. Two of these arrangements were for a period of 6 months, and the remaining 9 were for a period of 12 months.

TABLE 3. FUND STAND-BY ARRANGEMENTS WITH MEMBERS, FISCAL YEAR ENDED APRIL 30, 1958

(In millions of U.S. dollars)

Member	Date of Inception	Date of Expiration	Amount	Amount Available April 30, 1958
Belgium	June 19, 1952	June 18, 1957	50.00	—
Bolivia	Nov. 29, 1956	Dec. 28, 1957	7.50	—
	Dec. 29, 1957	Dec. 28, 1959	3.50	2.50
Chile	April 1, 1956	Mar. 31, 1958	35.00	—
	April 1, 1958	Mar. 31, 1959	10.00	10.00
Colombia	June 19, 1957	June 18, 1958	25.00	15.00
Cuba	Dec. 7, 1956	June 6, 1957	12.50	—
France	Oct. 17, 1956	Oct. 16, 1957	262.50	—
	Jan. 31, 1958	Jan. 30, 1959	131.25	66.25
Honduras	Nov. 12, 1957	May 11, 1958	3.75	—
India	Mar. 11, 1957	Mar. 10, 1958	72.50	—
Netherlands	Sept. 12, 1957	Sept. 11, 1958	68.75	(canceled Mar. 11, 1958)
Nicaragua	Nov. 21, 1956	May 20, 1957	3.75	—
	Oct. 7, 1957	April 6, 1958	7.50	—
Paraguay	July 30, 1957	July 29, 1958	5.50	2.00
Peru	Feb. 18, 1954	Feb. 17, 1958	12.50	[1]
	Feb. 10, 1958	Feb. 9, 1959	25.00	25.00
Union of South Africa	April 8, 1958	April 7, 1959	25.00	25.00
United Kingdom	Dec. 22, 1956	Dec. 21, 1958	738.53	738.53
Total			1,500.03	884.28

[1] The Fund and Peru agreed to terminate on February 9, 1958 the stand-by arrangement that was due to expire on February 17, and at the same time to make a new stand-by arrangement for $25 million.

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TABLE 4. REPURCHASES OF CURRENCY FROM THE FUND, FISCAL YEAR ENDED APRIL 30, 1958

(In U.S. dollars)

Member	U.S. Dollars	Gold	Total
Chile	12,331,620.70		12,331,620.70
Colombia	5,000,000.00		5,000,000.00
Cuba	17,488,171.47	5,000,000.00	22,488,171.47
Denmark	10,000,000.00		10,000,000.00
Ecuador	4,999,180.81		4,999,180.81
Honduras	2,483,826.34	14,585.95	2,498,412.29
Iran	1,248,395.41	7,118,880.10	8,367,275.51
Iraq	7,293.90	1,989,359.83	1,996,653.73
Nicaragua	5,624,905.21		5,264,905.21
Paraguay	500,000.00		500,000.00
Turkey	4,000,000.00		4,000,000.00
Yugoslavia	3,200,000.00	5,800,000.00	9,000,000.00
Total	66,883,393.84	19,922,825.88	86,806,219.72

From March 1, 1947, when the Fund began its operational activities, to April 30, 1958, its total transactions amounted to the equivalent of US$3,016.2 million. The Fund sold currency to 35 members, 28 of which used the Fund's resources more than once. The extent to which any member of the Fund has made use of its resources may be measured for comparative purposes by expressing as a percentage of its quota the total of all the member's purchases from the Fund plus any amount outstanding under a stand-by arrangement on April 30, 1958. According to this criterion, the largest use of the Fund's resources has been made by the following members: Brazil (137), Chile (137), Iran (131), United Kingdom (123), Turkey (113), Paraguay (112), Colombia (110), Bolivia (100), Burma (100), Peru (100), Philippine Republic (100), France (99), and Japan (99).

A summary of all Fund transactions is given in Table 5, and details appear in Appendix V. Of the total sales of currency by the Fund up to April 30, 1958, $2,766.7 million, or about 92 per cent, was in U.S. dollars. There have also been sales of sterling, Belgian francs, deutsche mark, Canadian dollars, and Netherlands guilders.

For the whole period of the Fund's activities up to April 30, 1958, repurchases of their currencies by 37 members amounted to $1,119.7 million. All of the purchases made before May 1, 1952

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Table 5. Summary of Fund Transactions from the Beginning of Operations to April 30, 1958

(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	7.5		—
Brazil	206.0		131.0
Burma	15.0		3.2
Canada	—	15.0	—
Ceylon	—		3.0
Chile	58.6		25.0
Colombia	40.0		5.0
Costa Rica	1.2		2.1
Cuba	47.5		22.5
Czechoslovakia	6.0		[1]
Denmark	44.2		22.8
Ecuador	5.0		5.0
Egypt	33.0		8.5
El Salvador	2.5		2.5
Ethiopia	0.6		2.0
Finland	9.5		18.2
France	452.5		147.9
Germany, Federal Republic of	—	26.4	45.1
Haiti	1.0		—
Honduras	6.3		2.5
India	300.0		99.9
Indonesia	70.0		27.0
Iran	46.0		29.1
Iraq	—		2.0
Israel	3.8		—
Japan	249.0		124.0
Lebanon	—		0.9
Mexico	45.0		44.9
Netherlands	144.1	5.0	75.4
Nicaragua	6.1		6.1
Norway	9.6		9.6
Paraguay	6.4		0.9
Peru	—		3.1
Philippines	15.0		—
Sweden	—		8.0
Syria	—		1.4
Turkey	48.5		31.0
Union of South Africa	35.0		10.0
United Kingdom	861.5	191.7	112.0
United States	—	2,766.7	—
Yugoslavia	31.9		9.0
Total[2]	3,016.2	3,016.2	1,119.7

[1] On the basis of the settlement with Czechoslovakia, an amount of $3.7 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.

have since been reversed. On joining the Fund, 32 members made subscription payments of less than 25 per cent of their quotas in gold and more than 75 per cent in their respective currencies; 18 of these members have since repurchased their currencies in a total amount of $135.7 million in excess of any previous transactions with the Fund. Such repurchases, if added to the original gold

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subscriptions, have thus put these members in a position which in effect is comparable to the position of members that made original gold subscriptions equivalent to 25 per cent of quota.

The Fund's holdings of the currencies of 29 members have been above their quotas from time to time; during the year reviewed, 23 members in that position incurred charges amounting to $15.6 million, compared with $2.6 million paid by 12 members in the preceding year. Two members are currently paying these charges partly in their own currency, under the proviso of the Fund Agreement which permits payments in such currency by a member whose monetary reserves are less than half its quota.

Total receipts from service charges on drawings decreased from $5.6 million in the year ended April 30, 1957 to $3.3 million in the year ended April 30, 1958.

In the last Annual Report, the Fund reported the sale in January 1957 of $300 million of its gold holdings, in order to replenish its holdings of U.S. dollars. A second $300 million of gold was sold in May 1957.

Fund Charges

The Executive Board extended for another year, i.e., until December 31, 1958, the current revised schedule of charges which has been in effect since January 1, 1954. The system of charges is being kept under continuous review by the Fund.

Computation of Monetary Reserves

Monetary reserves data as of April 30, 1957 have been submitted by 58 members. The 2 members that have failed to submit the required reports cannot have a repurchase obligation.

The Executive Board has decided that in all cases of minimal repurchase obligations, that is, repurchase obligations equivalent to less than $500, the member will be notified, and the obligation collected, only on the next occasion thereafter that a repurchase obligation accrues which, together with the first one, totals the equivalent of $500 or more.

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The Fund and Exchange Restrictions

Another series of the annual consultations which most members are required by Article XIV of the Fund Agreement to have with the Fund concerning the further retention of their exchange restrictions was completed during the past year. The work required in connection with these consultations again formed a large part of the activities of the Executive Board and the management and staff of the Fund. Fund staff members visited 32 member countries in connection with the consultations of which consideration was completed by the Executive Board in the year ended April 30, 1958; the discussions required by the other 3 consultations were held at the Fund's headquarters in Washington.

As Fund-member relations have developed, there has been a natural tendency in some countries for annual consultations to become closely associated with other kinds of Fund activity, and in particular with negotiations for Fund transactions and the rendering of technical assistance. In the course of time, the Fund has been able to build up a close knowledge of the whole complex of financial and monetary developments of the members with which consultations are held, as they affect both the country itself and its international monetary relations. This knowledge helps the Fund to assess the continuing need for the retention of exchange restrictions by the member. The Fund has taken a broad view of the exchange systems of its members, relating them to other financial and monetary questions of current importance. On their side, members have shown themselves ready to seek technical assistance from the Fund with respect to their monetary, financial, and exchange problems. Some of the programs of general economic and exchange reform which have been adopted by Fund members have been associated both with the technical services of the Fund staff and with financial transactions with the Fund which strengthen the reserve positions of the members.

In broad outline, the Fund's attitude as indicated in its consultations on exchange restrictions during the past year has been much the same as in preceding years. In many countries the

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maintenance of restrictions is closely associated with the persistence of balance of payments pressures that stem from inflation, and it is a continuing concern of the Fund to ensure that appropriate steps are taken to correct this situation. Some shift in emphasis has been dictated, however, by changing conditions in the world economy and in the economic situation of many member countries. As members encounter less buoyant world markets, the problem most important for the Fund in this connection has continued to be that of avoiding or keeping to a minimum any recourse to exchange restrictions.

During the past year, some countries made progress toward a greater measure of freedom from exchange restrictions, while others, whose currencies were exposed to widespread speculative pressure, were able to avoid the reimposition of these restrictions. Some of the less developed countries, with falling demand for their exports, were in a more difficult position. If they were to avoid the imposition of more stringent restrictions, they would have found it necessary to take measures in other fields that were more intensive than they were prepared to face.

Special attention has been given in the consultations of the past year to the problem of multiple currency practices, the Fund's attitude to which was set forth in a decision of June 1957, reproduced in last year's Annual Report (pages 161-62). This decision reaffirmed the unification of multiple exchange rates as one of the objectives of the Fund. Complex multiple rate systems harm the economies of the countries that maintain them; increasing competition in international trade has intensified the fears of some countries with unitary rates that multiple export rates might be used as an instrument of unfair competition against them, or that multiple import rates might involve arbitrary penalization of their exports. In view of these considerations, the Fund urged that more rapid progress should be made in simplifying complex multiple rate systems. It also pressed for the removal of those aspects of existing systems which adversely affect the interests of other members, and recommended that changes should be avoided which might make multiple currency systems more complex.

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Some progress has been made in the past year in simplifying several of the complex multiple rate systems which have developed since the war. Programs for simplification were undertaken in certain countries as part of a comprehensive economic reform, with which the Fund was associated by means of financial backing and technical assistance. The continuing success of these programs depends both on the general direction of world economic trends and on the determination of the members concerned to carry through the measures that are necessary for success.

In some countries, the simplification of complex multiple exchange rate systems is still delayed. Where the circumstances have warranted such a course, the Fund, rather than approve proposed changes in multiple rate systems, has remained in consultation with the countries concerned, with a view to agreeing on a plan for simplification.

During 1957 there was a further significant decline in the number of restrictive bilateral payments arrangements maintained by members of the Fund that consult under Article XIV. As in the previous year, this reduction was achieved either by a termination of the bilateral arrangements or by a reduction of their bilateral effect made possible by permitting the transferability of accruals of the partner's currency. Since January 1956 the number of restrictive bilateral payments arrangements between Fund members has been reduced by one third; and in contrast to the previous year, there was also during 1957 a reduction in the number of such arrangements between a member and a nonmember country.

Cooperation with Other International Organizations

Close relations have been maintained throughout the past year between the Fund and the International Bank for Reconstruction and Development, the United Nations and its regional and technical bodies, the Organization for European Economic Cooperation, and the Bank for International Settlements. Fund representa-

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tives have attended meetings of many of these and other international organizations, and the Managing Director presented a report on the Fund's activities and on general monetary developments at the 25th Session of the UN Economic and Social Council in April 1958.

The further extension of the scope of cooperative activities has been especially evident in the relations between the Fund and the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade (GATT). The attainment of the Fund's own purposes is closely related to the successful operation of the General Agreement, which is the major instrument for achieving the same freedom from restrictions in relation to international trade movements which the Fund seeks to achieve with respect to international payments.

In the second half of 1957, the CONTRACTING PARTIES conducted a new series of 21 consultations with countries applying import restrictions for the purpose of safeguarding their monetary reserves. The consulting countries were Australia, Austria, Brazil, Ceylon, Denmark, Finland, France, the Federal Republic of Germany, Greece, India, Italy, Japan, the Netherlands, New Zealand, Norway, Pakistan, the Federation of Rhodesia and Nyasaland, Sweden, Turkey, the Union of South Africa, and the United Kingdom. In response to an invitation from the CONTRACTING PARTIES, the Fund assisted in the preparation for these consultations, and Fund representatives participated in the discussions. Documentation that had been prepared for the Fund's consultations with the countries concerned was supplied to the CONTRACTING PARTIES, and, where necessary, special papers analyzing the current situation of the countries with respect to their economic positions and restrictive systems were prepared for the use of the CONTRACTING PARTIES. The CONTRACTING PARTIES announced that these consultations, which were the first full-scale discussions of the nature and effects of import restrictions held by them since 1951, constituted one of the most important GATT activities of the year, and that they were of considerable significance both for international trade cooperation and for the future operation of the

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General Agreement. During the consultations, several countries announced measures to reduce the incidence of their restrictions, including for some of them the complete freeing of a wide range of goods from import control. The CONTRACTING PARTIES noted that the success of the consultations was due in large measure not only to the full and frank exchange of views between countries during each consultation, but also to the thorough preparation which had been undertaken by the GATT Secretariat and the Fund.

In addition to the activities involved in these consultations, the Fund assisted the CONTRACTING PARTIES, where it was appropriate, in the normal conduct of their work. It assisted in consultations held under the General Agreement concerning the use of discriminatory restrictions by five contracting parties, and with three countries which had intensified their import restrictions because of new balance of payments difficulties. These consultations were incorporated in the series of special consultations mentioned above. Throughout the year, as in the past, there has been continuous technical liaison between the Fund and the GATT Secretariat.

The Fund welcomed the opportunity for increased collaboration with the CONTRACTING PARTIES which was afforded by their consultations concerning import restrictions. It looks forward to further opportunities for close collaboration in the immediate future, when similar consultations are to be conducted by the CONTRACTING PARTIES under the terms of the Revised Articles of the General Agreement.

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III

World Payments Situation in 1957

Main Trends in World Trade

WORLD industrial production (excluding countries of the Soviet area), which had increased by 11 per cent from 1954 to 1955 and by 4½ per cent in the following year, grew by only 2½ per cent from 1956 to 1957. The seasonally adjusted index of production remained on a plateau throughout the first three quarters of 1957, and declined in the last quarter. In the United States industrial output was much the same in 1957 as in 1956, declining in the last quarter after having been fairly stable for about a year. In other industrial countries, output rose by the same percentage, 6 per cent, from 1956 to 1957 as from 1955 to 1956; but flattened out from the second quarter of 1957. The experience of individual countries varied considerably; while Japan's output expanded by 17 per cent, and large gains were also achieved by France and Italy, the changes in output in Canada and Belgium were similar to that in the United States.

The growth of world trade from 1956 to 1957 was much less than in preceding years. The volume of world exports, which had risen by some 10 per cent from 1954 to 1955, and by 8 per cent in the following year, rose by 5 per cent from 1956 to 1957. In recent years world trade has grown markedly relative to world production. Save from 1955 to 1956, however, when the ratio of

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imports to production increased in most countries, this has been due largely to the fact that in the United States, where this ratio is much lower than in most countries, industrial production has been growing more slowly than in the rest of the world. The fact that trade increased less from 1956 to 1957 than from 1955 to 1956 is to be explained partly by the exceptional factors operating to expand trade in 1956, and partly by the slowing down in 1957 in the rate of expansion of economic activity.

The decline in the rate of growth of international trade was common to the exports of both industrial and nonindustrial countries affecting their volume as well as their value (Table 6). The rate of growth of the volume of exports of industrial countries, which had been 10 per cent in 1956, fell to 8 per cent in 1957.

TABLE 6. VALUE, F.O.B., OF WORLD TRADE, 1955-57

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

	1955	1956	1957	Percentage Increase 1954 to 1955	1955 to 1956	1956 to 1957
World exports[1]	82.8	91.6	98.7	10	11	8
Exports of industrial countries[2]	47.8	54.5	60.3	13	14	11
Exports of nonindustrial countries[3]	35.0	37.1	38.4	6	6	3
Trade of industrial countries						
With each other						
Total	21.2	24.6	27.6	18	16	12
Between OEEC countries[4]	14.1	15.7	17.2	18	11	10
Exports of OEEC countries[4] to U.S.	2.1	2.5	2.6	22	20	4
Exports of U.S. to OEEC countries[4]	3.7	4.6	5.3	21	25	15
With nonindustrial countries						
Exports of industrial countries	25.7	28.6	31.2	9	11	9
Exports of nonindustrial countries[5]	25.0	26.7	27.0	6	7	1
With Soviet area[6]						
Exports of industrial countries	0.9	1.3	1.5	19	35	17
Imports f.o.b. from Soviet area[7]	1.1	1.4	1.4	29	27	4

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 exports of the Soviet bloc and Mainland China, and U.S. military exports.

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

[3] All other countries, excluding the Soviet bloc and Mainland China.

[4] Other than the nonindustrial countries, Denmark, Greece, and Turkey.

[5] Partly estimated.

[6] Including Mainland China.

[7] C.i.f. values of imports from the Soviet area, which consist mainly of European industrial countries' imports from Eastern Europe, have been reduced by somewhat less than 10 per cent in all years.

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The corresponding rates for the volume of U.S. nonmilitary exports were 16 per cent and 9 per cent. The year-to-year rate of growth of the exports of industrial countries remained considerably greater than that of the exports of nonindustrial countries. The decline in the latter (from 5 per cent to 2 per cent) resulted from the leveling off of their exports both to the United States and to other industrial countries. There was, however, an expansion of the trade between nonindustrial countries, which had barely risen between 1955 and 1956, and a sharp rise in their exports to the Soviet area. The volume of world trade in manufactures continued to rise until the second quarter of 1957; trade in raw materials and foodstuffs declined each quarter from the last quarter of 1956.

The imports of nonindustrial countries continued to grow faster than their exports, as can be seen from the fact that the exports of industrial to nonindustrial countries rose considerably more in value than the exports of nonindustrial to industrial countries. Import surpluses maintained for a number of years have placed considerable pressure upon the reserves of some of the primary producing countries; the increase in these surpluses in 1957 was to a considerable extent linked with the increasing flow of capital and grants by industrial countries, particularly the United States.

The volume of trade between industrial European countries continued to increase by about 7 per cent per annum—a little faster than industrial production—but there was a marked slowing down in the rate of growth of trade between the United States and industrial countries in Europe. From 1954 to 1956, the dollar value of trade in both directions had expanded at an annual rate of over 20 per cent. From 1956 to 1957, the increase in the value of exports from industrial OEEC countries to the United States was only 4 per cent; while the value of U.S. exports to industrial Europe, which were swollen by abnormal purchases of petroleum and cotton, increased by 15 per cent. Despite the absence of growth in U.S. output between 1956 and 1957, U.S. imports of finished manufactures rose in value by some 13 per cent; but since the United States purchases from industrial countries con-

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siderable quantities of raw and semimanufactured materials, for which demand declined, the increase in the value of total U.S. imports from other industrial countries was relatively small, and was largely accounted for by the rise in imports from the Federal Republic of Germany and Japan.

Some indication of the effects of the relative export competitiveness of various industrial countries is provided by the data relating to manufactured exports given in Table 7. These exports from Germany, Italy, and Japan continued to grow three times as fast as those from the other leading exporters of manufactures, and accounted for nearly half of the growth of world trade in manufactures from 1956 to 1957. The rate of expansion was similar

TABLE 7. INDUSTRIAL COUNTRIES: PERCENTAGE INCREASE OR DECREASE (–) FROM PREVIOUS YEAR IN VOLUME OF INDUSTRIAL PRODUCTION, OF IMPORTS, AND OF MANUFACTURED EXPORTS, AND IN UNIT VALUE OF MANUFACTURED EXPORTS, 1956 AND 1957

	Production		Imports		Manufactured Exports		Export Unit Value	
	1956	1957	1956	1957	1956	1957	1956	1957
Japan[1]	22	17	27	23	20	13	4	3
France	12	9	15	6	–6	13	4	1
Italy[2]	8	8	13	11	18	17	1	1
Germany, Federal Republic of	8	6	12	12	17	16	3	2
Austria[3]	4	6	7	14	18	16	3	—
Sweden	3	4	6	7	13	11	3	3
Switzerland	...	...	15	6	11	6	—	2
Norway[4]	4	3	8	–1	17	1	13	11
Netherlands	4	2	13	5	2	4	2	5
United Kingdom	–1	2	–1	4	6	2	4	3
Belgium-Luxembourg	6	—	11	2	13	–3	2	4
United States[5]	3	—	9	2	11	9	6	4
Total[6]	4	2.5	9	7	10	9	4	3
Total, excluding United States	6	6	10	8	10	9	3	3

Sources: Production and import figures are based on data from International Monetary Fund, *International Financial Statistics.* Data on manufactured exports, except those for the United States and Norway, were supplied by the Statistical Office of the United Nations.

[1] Estimate based on figures for manufacturing and mining in *International Financial Statistics.*

[2] Volume of imports estimated on basis of value and price data.

[3] Changes in volume and unit value of total exports.

[4] Export figures based on staff estimate.

[5] Trade figures are based on data from U.S. Department of Commerce, World Trade Information Service, *Statistical Reports.* Figures relate to nonmilitary exports of semifinished and finished manufactures, as defined in U.S. trade statistics.

[6] Changes in weighted averages for countries shown. The weights for production data are values added to manufacturing and mining industries in 1953; the weights for trade are values of imports and manufactured exports, respectively, in 1953.

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in France and in Austria—the expansion in France, which was in large part a result of rapidly rising exports to the French overseas territories, contrasting sharply with the deterioration in 1956. While Austrian, Italian, and, to a lesser extent, German export prices rose rather less than the average, the availability of ample capacity and manpower was an important factor in fostering the rapid growth of exports from these countries. The slackening in the rate of expansion of Japanese manufactured exports seems to have been confined to ships, exports of which had trebled from 1955 to 1956.

More than half the increase in U.S. exports of manufactures in 1957 occurred in trade with Latin America and was closely associated with the large outflow of U.S. capital to that area. Netherlands exports of manufactures grew very little from 1955 to 1957, and Swiss exports expanded less in 1957 than in 1956, largely because of increasing shortages of manpower and capacity in both these countries, especially in the metals and machinery industries, and in the context of heavy domestic investment. The expansion of Belgian and Norwegian exports was limited by slackening demand for metals, which form a large proportion of their exports of manufactures.

The relatively slow growth of U.K. exports in recent years can to some extent be explained in terms of their area distribution and commodity composition. The United Kingdom sells a much smaller proportion of its exports in the fast expanding European market, and a much larger proportion in the relatively slowly expanding sterling area market, than do most other industrial countries. However, its share of exports of manufactures to both these areas declined in 1957, and the U.K. share of total world exports also fell for each of the major groups of manufactured export goods. The expansion of U.K. exports was also hampered in 1957 by the events of Suez. Average U.K. export prices of manufactured goods in general did not rise more than those of most other countries, and indeed rose less than the prices of some of its competitors; this was due partly to the high proportion of the total volume of exports which consisted of textiles and other con-

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sumer goods, the prices of which generally rose less than those of other manufactures. U.K. prices of machinery appear to have risen relative to German prices.

Price Developments and Export Receipts of Primary Producers

Average world market prices for primary products, after advancing to a peak early in 1957, declined throughout the rest of the year. The decline was moderate in the first half of the year, as the prices of certain products, e.g., wool and sugar, were still rising or had not yet shown any marked downward trend. In the second half, however, it became steeper and much more widespread. By the end of the year the prices of many primary products were well below their level at the end of 1956.

Particularly after mid-1957 the course of raw material prices was determined largely by the flattening out and subsequent decline in world industrial production. The virtual cessation of purchases for strategic stockpiles and the expansion of productive capacity, particularly for metals, were factors tending to intensify the price decline. The weakening of food prices was caused mainly by a falling off in import demand associated with larger cereal and sugar crops in importing countries, and by the disappearance of shortages in the coffee market and of the temporary fillip to sugar and tea prices given by the interruption to traffic through the Suez Canal.

Market prices of primary products in general declined during 1957, but for the year as a whole they were still higher than in 1956. For this reason and owing to the fact that the movement of prices obtained by exporters tends to lag behind market quotations, the f.o.b. export prices of primary producing countries in 1957 as a whole appear to have been some 1½ per cent higher than in 1956. Over the same interval of time, however, the export prices of industrial countries rose by more than 3 per cent. Moreover, freight rates probably increased on balance between 1956

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and 1957. Tramp rates fell some 20-30 per cent, owing to the diminishing scarcity of shipping, but liner rates continued to rise because of increasing costs. Therefore, the average terms of trade of primary producing countries—which of course covers a considerable diversity in the experience of individual countries—may have deteriorated by some 2 per cent from 1956 to 1957, following a decline of 5 per cent in the previous year.

After a temporary improvement late in 1956 and early in 1957, the terms of trade of the primary producing countries deteriorated throughout the rest of the year as the decline in the prices of their exports was accompanied by higher prices for many of their manufactured imports. The corresponding improvement for industrial countries, however, did not show up in the trade statistics until late in 1957; because of rising freight rates and the time taken in shipping primary products, the import prices (c.i.f.) of these products in the industrial countries continued to rise for some time after their export prices in the producing countries had begun to fall. Preliminary data indicate continued deterioration in the terms of trade of primary producing countries in the early months of 1958.

Movements in the prices of tropical foodstuffs were widely divergent in 1957, ranging from a 20 per cent decline for mild coffee to a 70 per cent rise for cocoa. For the year as a whole, the price of Brazilian types of coffee declined by only 2 per cent, but the volume of Brazil's coffee exports fell by 15 per cent. Early in 1958, increased caution on the part of buyers caused a further weakening of prices, despite export limitations under the Mexico Agreement which had been concluded in October 1957 by seven coffee producing countries. Although increased exports of other products partly offset the decline in earnings from coffee, the total export receipts of major coffee exporters as a group were some 5 per cent lower in 1957 than in the previous year (Table 8).

The steep rise in the "world" price of sugar in late 1956, when demand was greatly intensified by speculative buying, was reversed in mid-1957 with the recovery of domestic production of sugar in importing countries. Average prices for the year, however, were

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TABLE 8. TRADE OF PRIMARY PRODUCING AREAS,[1] 1956 AND 1957

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

	Exports f.o.b.			Imports c.i.f.		
	1956	1957	Percentage change	1956	1957	Percentage change
Major countries exporting						
Tropical foods						
Coffee	2.55	2.43	−5	2.41	2.53	+5
Other foods[2]	3.00	3.20	+7	3.47	3.84	+11
Other agricultural products[3]	7.41	7.89	+6	8.58	9.11	+6
Metals and rubber	3.96	3.84	−3	3.78	4.02	+6
Petroleum	5.57	5.83	+4	3.60	4.42	+23
Major countries with diversified exports	10.60	11.04	+4	13.42	14.45	+8
Total	33.08	34.23	+3	35.25	38.37	+9

Source: Based on data from International Monetary Fund, *International Financial Statistics*.
[1] The countries in each category are listed in Tables 19, 21, 23, and 25.
[2] Cocoa, tea, sugar (cane), bananas, oilseeds, and vegetable oils.
[3] Textile fibers, livestock products, grain, and tobacco.

nearly 50 per cent above the 1956 level. The advance in tea prices which also followed the closure of the Suez Canal was comparatively moderate and short-lived, and was followed by a sharp decline early in 1957. Cocoa prices continued through the first quarter of 1957 the decline that had been under way since 1954. Revival of demand was mainly responsible for the subsequent upturn; late in the year, short crops in West Africa led to a sharp advance, and for the year as a whole cocoa prices were some 15 per cent above the 1956 average.

The export earnings of most of the major exporters of tropical foodstuffs other than coffee were higher in 1957 than in 1956, largely on account of higher prices but also because of a larger volume. The export receipts of the major exporters of oilseeds and oils, however, declined as a result of lower prices and, in the Philippine Republic, a smaller volume.

The sharp rise of wool prices which started at the beginning of the 1956-57 season continued into the first half of 1957, when prices were some 25 per cent higher than in the first half of 1956. Despite a sharp downturn in the last quarter—which continued at a more moderate rate into 1958—average prices in 1957 were some 10 per cent higher than in the preceding year. The prices of other livestock products changed much less than wool prices, and

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in general were lower than in 1956. The effects of these movements on the receipts of major exporters of wool and livestock products varied widely. For some countries in that group, expanded sales of nonagricultural products, including manufactures, contributed to higher receipts or offset the decline in earnings from livestock products.

Except for a sharp decline in the prices of extra long staple cotton, there was little change during 1957 in the prices of vegetable fibers. The same is true of the prices of wheat and rice.

The commodities whose prices declined most sharply from 1956 to 1957 were some of the nonferrous metals, especially copper. The price of tin, which was supported by purchases for buffer stocks, supplemented late in the year by drastic export restrictions, declined only moderately. The price of rubber, after a slight and short-lived rise following the Suez events, kept declining at a moderate rate through 1957. On the average for the year, rubber prices were some 8 per cent lower than in 1956.

The export receipts of the major exporters of metals and rubber as a group were roughly 3 per cent less in 1957 than in the previous year. Losses were heavily concentrated on the countries exporting mainly copper; exporters of tin and rubber were able to offset, partly or wholly, the effect of somewhat lower prices for these products by expanding other exports.

The prices of petroleum and its products rose after the Suez events, and the increased export receipts of major petroleum exporters in 1957 were, to some extent, the result of these higher prices. Expansion of volume from Middle Eastern sources was hampered through part of the year by the blockage of the Suez Canal and of the oil pipelines.

Balance of Payments Developments and Reserves

The surplus of other countries in their transactions with the United States, as measured by the transfer of gold and dollars from the United States to official reserves elsewhere, has declined

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gradually for several years from the high figure of about $2.3 billion reached in 1953, and in the last quarter of 1956 there was a deficit. For the 12 months ended September 1957, the deficit amounted to almost $2 billion. The transfer of gold and dollars to the United States ceased in the last quarter of 1957, but for the calendar year as a whole it amounted to some $1.4 billion. Roughly half of that amount, however, flowed back to the reserves of countries other than the United States during the first four months of 1958 and this movement continued after the end of April.

The transfer of reserves from other countries to the United States in 1957, which occurred despite a further increase in U.S. private capital exports from the high level of 1956, appears to have been attributable in part to a movement of private short-term funds to the United States which occurred in two waves, one in the last quarter of 1956 provoked by the events of Suez and the other in mid-1957 as a result of expectations of exchange adjustments of sterling and other European currencies; in part to abnormal demands for U.S. petroleum, cotton, and wheat; and in part to the natural trade effects of an intensification of inflationary pressures in 1956-57 in various parts of the world, combined with a slowing down of economic growth in the United States. The remarkable recovery in the payments balance of the rest of the world with the United States which occurred in the last quarter of 1957 and, more strongly, in the first quarter of 1958, appears to have resulted partly from the reaction upon U.S. exports of the various steps taken in other countries in 1957 to rectify their adverse payments positions and to reduce the pressure of internal demand, and partly from some reflux of the capital which had flowed into the United States during the previous year, together with a renewed rise in U.S. capital outflow. At the same time the volume of U.S. imports was well sustained. All these developments in the balance of payments of the United States were reflected first in the deterioration from 1956 to 1957 of the global payments balances of both industrial and nonindustrial countries for the year as a whole (Table 9), and later in an improvement

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TABLE 9. PAYMENTS BALANCES[1] OF COUNTRIES OTHER THAN THE UNITED STATES, BY MAJOR GROUPS, 1955, 1956, AND 1957

(In millions of U.S. dollars)

	1955	1956	1957
Industrial countries[2]			
United Kingdom	-645	-557	-549
Germany, Federal Republic of	441	1,215	1,353
Other industrial OEEC countries	1,125	-717	-773
Japan	379	168	-678
Total	1,300	109	-647
Nonindustrial countries[3]			
Exporters of			
Coffee	-83	144	-146
Other tropical foods	-76	10	-154
Other agricultural products	-579	148	-9
Petroleum	122	490	426
Metals and rubber	94	-46	-230
Exporters of diversified commodities	249	-344	-1,031
Total	-273	402	-1,144

Source: Based on data from International Monetary Fund, *International Financial Statistics.*
[1] Measured by changes in gross official reserves of gold and foreign exchange (with adjustments for the United Kingdom and Japan as indicated in Chapter V, page 87, footnote, and Table 18, footnote 6, respectively), in net EPU positions, and in net IMF positions.
[2] Based on balances for individual countries shown in Table 18.
[3] Based on balances for individual countries shown in Tables 20, 22, 24, and 26. The countries in each category are listed in those tables.

in the reserves of countries other than the United States in the last quarter of 1957 and early 1958.

The payments surplus of industrial countries other than the United States has been falling year by year since 1954, and in 1957 there was a sizable deficit. The United Kingdom moved into payments deficit in 1955; its deficits in the two following years were somewhat smaller than in 1955 because of substantial surpluses on current account. Deficits appeared in the Netherlands and France in 1956. In 1957 the French deficit increased and there was also a deficit in Japan (Table 18). The Federal Republic of Germany has been a marked exception to the general trend; its surplus has been rising for several years, and in some degree has been the counterpart of the deficits of other European countries.

The comparative fortunes of these industrial countries with respect to their payments surpluses and deficits depended to a small extent on special factors affecting the demand for their exports,

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but mainly on the comparative degree of inflationary pressure which these countries maintained and, in some countries, on large and disequilibrating capital movements.

Thus the continuance into 1957 of the large payments surplus which Germany had already attained in 1956 was due partly to the strong demand for Germany's exports, partly to the capital inflow (which is discussed below), and partly to the steps taken to curb the inflationary effects of the accumulation of reserves. The disinflationary influence of a budget surplus, such as had been felt in 1956, was removed in 1957, but open market operations and new minimum reserve requirements offset to a large extent the impact of the large payments surplus on bank liquidity.

The slight deterioration of Belgium's trade and payments balances was the result mainly of some increase in the value of imports, the expansion of exports being limited by the unfavorable markets for Belgium's principal export products. The much larger declines in the balances of France and Japan, however, were attributable largely to internal causes. In Japan, various budgetary and other steps were taken to relax demand pressure and to discourage imports, and the balance of trade and payments recovered to a considerable extent in the second half of the year. Pressure of demand in France, based largely on a steep rise in private investment and a substantial increase in government expenditures, persisted throughout the year. The payments balance of the United Kingdom was to a considerable extent affected by the conditions prevailing in other sterling area countries which, on balance, led to a considerable running down in 1957 of their sterling holdings.

The fluctuations in the payments balances of the United Kingdom, the Netherlands, and Germany from the fourth quarter of 1956 to the first quarter of 1958 were much influenced by exceptionally large and irregular movements of short-term funds, a large part of which resulted from the "leads and lags" of trade payments. These movements also had some influence on the French balance. Part of the pressure on sterling and part of the surplus of the United States and Germany in the fourth quarter of 1956 were attributable to movements of funds arising out of fears

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generated by the events of Suez. While this crisis abated after a few months, confidence in sterling remained low in the first half of 1957, largely owing to the belief that prices and wages in the United Kingdom were tending to rise more rapidly than in competing countries; and there was a substantial outflow of long-term capital from the United Kingdom to the United States by way of various gaps in the exchange control systems of some sterling area countries. In the middle of 1957, the effects of adverse capital movements and of speculative increases in imports were added to the influences which were weakening the payments position of France. The *de facto* devaluation of the franc in August and the rapid rise of German reserves led to a widespread belief that the deutsche mark might be revalued and sterling and other European currencies depreciated; this, in turn, led to heavy outflows of funds from the United Kingdom and the Netherlands and large inflows into Germany and the United States. It is estimated that outflows of this kind from official reserves in the third quarter of 1957 were of the order of $600-700 million in the United Kingdom, and of about $175 million in the Netherlands; the inflow into Germany and into the United States may have amounted to $500 million in each case.

The crisis of confidence was resolved partly by the firm statements on exchange rate stability made at the Annual Meeting of the Fund in September, and partly by the further stiffening of financial policies in the United Kingdom, France, and the Netherlands and the relaxation of German credit policy. The provision of international financial assistance in a variety of forms helped to alleviate the pressure on reserves, and in the fourth quarter of 1957, and still more in the first quarter of 1958, there was a reflux of short-term funds from the United States and Germany to the United Kingdom and the Netherlands.

The aggregate trade balance of the nonindustrial countries deteriorated by $1 billion from 1955 to 1956 and by $2 billion from 1956 to 1957. While from 1955 to 1956 increases in their capital imports and in certain invisible receipts were so great that the aggregate payments balance actually improved, only part of

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the deterioration in the trade balance from 1956 to 1957 was offset by improvements in other items. The payments balance thus deteriorated by $1.5 billion, from a surplus of $400 million to a deficit of more than $1.1 billion.

The trade balance for each of the main categories of primary producing countries shown in Table 8 deteriorated from 1956 to 1957, imports increasing significantly even in the two categories where there was an absolute decline in export receipts. In each group, inflationary pressure played a part in stimulating imports. In the two groups where exports declined, the rise in imports reflected in part a lagged response to increased export earnings in 1956.

For exporters of petroleum and of metals and rubber, the payments balance (Table 9) deteriorated significantly less than the respective trade balance, largely owing to increased capital or aid received. Though most exporters of metals and rubber were adversely affected by reduced export earnings, imports also rose considerably in some of them, particularly Chile and Rhodesia. Among the "diversified" exporters there was a somewhat smaller capital flow into Canada and some rise in the net outflow of funds from South Africa. India's payments deficit rose from $410 million in 1956 to nearly $700 million in 1957, as its development program was pushed ahead faster than the growth of resources and foreign loans would permit; and Mexico and Peru, which had payments surpluses in 1956, had substantial deficits in 1957, mainly as a result of a widening trade gap.

The over-all payments position of the group of countries which export textile fibers, livestock products, grain, and tobacco, which had greatly improved in 1956, deteriorated in 1957. Better export demand and a slackening of internal demand pressure combined to bring about a big improvement in Australia's balance of payments, but the volume and prices of exports were falling in early 1958. Turkey's trade gap was narrowed, as export earnings rose and imports were reduced through more stringent restrictions. There was, however, considerable deterioration in the balances of New Zealand, Argentina, Pakistan, Burma, and Uruguay.

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The net addition to the gold and dollar reserves of countries other than the United States, which amounted to $1.8 billion in 1954 and to $1 billion in 1956, declined to less than $300 million in 1957 (Table 10). Indeed, as mentioned above, the official gold and dollar reserves of the rest of the world were reduced by $1.4 billion as a result of transactions with the United States, to which short-term capital movements made a substantial contribution. This, however, was more than offset by substantial drawings from the Fund and by an exceptionally large net contribution to gold reserves from current production and Soviet sales. The rest of the world received some $890 million from the Fund in the calendar year 1957 in drawings (net of repayments and new gold subscriptions), compared with $480 million in 1956, while the excess of new gold production and Soviet sales over consumption and hoarding is estimated at $800 million in 1957, against less than $500 million in the previous year. Gold production out-

TABLE 10. OFFICIAL RESERVES OF COUNTRIES OTHER THAN THE UNITED STATES, 1954-57

	Official Reserves at End of Year (*billion U.S. dollars*)				Official Reserves as Per Cent of Imports c.i.f.			
	1954	1955	1956	1957	1954	1955	1956	1957
United Kingdom	2.80	2.16	2.17	2.37	30	20	20	21
Germany, Federal Republic of	2.64	3.08	4.29	5.64	58	53	65	75
Other industrial OEEC countries	8.24	9.24	8.52	8.25	48	48	38	34
Japan	1.02	1.34	1.51	1.02	43	54	47	24
Total industrial countries	14.69	15.81	16.49	17.29	44	41	38	36
All other countries	13.66	13.57	13.92	13.21	39	36	34	29
Total	28.36	29.38	30.41	30.50	41	38	36	33
Gold reserves	12.82	13.35	13.69	14.24				
Dollar reserves	6.97	7.89	8.57	8.26				
	19.78	21.23	22.26	22.50				
Credit balances in EPU	1.11	0.99	1.09	1.27				
Deposits with BIS	0.47	0.41	0.42	0.41				
Other reserves[1]	7.00	6.74	6.65	6.32				
Total	28.36	29.38	30.41	30.50				

Sources: Based on data from International Monetary Fund, *International Financial Statistics*, and Board of Governors of the Federal Reserve System, *Federal Reserve Bulletin*.
[1] Including errors and omissions.

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side the United States and the Soviet area increased between 1956 and 1957 by some $40 million, and Soviet sales are thought to have been about $100 million higher in 1957 than in 1956. Despite rumors of currency devaluation, there was considerably less gold hoarding in 1957 than in 1956.

Reserves of foreign exchange other than dollars declined by some $150 million during 1957. EPU balances increased by some $180 million; reserves held in sterling may have declined by some $350-400 million, while holdings of deutsche mark and yen increased by nearly $300 million. These movements suggest a net decline of some $250-300 million in all other reserve holdings.

The total reserves of countries other than the United States rose in 1957 by less than $100 million, in contrast to $1 billion in 1956. Since the imports of countries other than the United States increased by roughly 10 per cent between 1956 and 1957, the ratio of reserves to imports fell from 36 per cent at the end of 1956 to 33 per cent at the end of 1957. This ratio has been falling since the end of 1954 when it amounted to 41 per cent. Also since that date there has been a decline in the secondary reserves held in the form of potential access to Fund resources. The decline in the total of the net positions of countries other than the United States in relation to the Fund (i.e., the member's quota less the Fund's holding of its currency) from the end of 1954 to the end of 1957 amounted to $1.1 billion, or more than 1 per cent of 1957 imports.

Measures to Deal with Balance of Payments Disequilibria

In 1957, as in previous years, payments difficulties arose mainly as a result of excessive demand pressures in the deficit countries. An important role, however, was played in certain important industrial countries by disequilibrating capital movements, often of a speculative kind, and, in many primary producing countries, by export price declines which, whether or not they were considered

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temporary, at any rate called for adjustments that countries would find it very difficult to make all at once. Where payments deficits arise because of such temporary factors as reversible or nonrecurrent capital movements, or where time is required to enable more fundamental measures of adjustment to take effect, it may be appropriate to finance the deficits by the use of reserves or by borrowing.

The need to draw on reserves was therefore particularly great in 1957. However, in many deficit countries, reserves had already been reduced to a low level by the end of 1956. It is therefore not surprising that 1957 was remarkable for the extent to which countries resorted to international financial assistance from various sources as a means of alleviating pressure on their reserves. The principal source of such assistance was the Fund, which in the course of the year provided almost $980 million to member countries, including substantial sums to France, India, Japan, the Netherlands, and Argentina. In addition, the Export-Import Bank of Washington made loans to countries in payments difficulties, including notably the United Kingdom and Japan. The reserves of the United Kingdom also benefited from the postponement of interest and capital repayments due on the North American loans, and from the special sterling deposit acquired by Germany against its future debt repayments. Various primary producing countries with payments deficits, notably India and Chile, also borrowed from a variety of sources.

Among the industrial countries in a deficit position, only France resorted to an exchange rate adjustment. A *de facto* devaluation of 16⅔ per cent was carried out in two stages, in August and October; at the same time, export subsidies and special import duties, which in recent years had applied to a substantial proportion of French import and export trade, were removed, and the combined effect of the steps thus taken represented in large measure a formal adjustment to exchange conditions that had existed for some time.

Most industrial countries seek to avoid resort to import restrictions as a means of correcting payments difficulties, but this is not

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easy when their difficulties are severe. In the course of 1957, France and Japan intensified their restrictions, both by increasing the extent to which importers are required to make deposits in advance of payment for imports, and by more direct measures—France imposing stricter import licensing and Japan greatly reducing the exchange allocated for imports.

In the third quarter of 1957, the desire to protect reserves brought about an interruption in certain countries of the trend toward increasing freedom of capital movements. In July, the United Kingdom brought under control the acquisition of foreign currency securities by U.K. residents from residents in other parts of the sterling area. Restrictions were later imposed on the use of commercial credits in London by nonresidents. Similar measures adopted by the Netherlands were relaxed in the fourth quarter of the year. In Belgium, while freedom of capital movement was fully maintained, some modifications of the existing regulations were adopted in October to prevent an outflow of capital from bearing unduly on official exchange reserves.

For the most part, however, industrial countries continued, as has become the rule over the past five or six years, to use disinflationary financial measures as a means of dealing with, or forestalling, payments difficulties, and, especially in some countries, for checking capital outflows. In general, such policies served a double purpose, in that they also tended to curb price increases that were undesirable for domestic reasons; in some countries, however, anxieties regarding the possible effects of these policies on production and employment began to be felt toward the end of the period. The disinflationary measures adopted by France, Japan, and the Netherlands, the three countries whose payments balances continued to deteriorate most seriously during the early part of 1957, included increases in taxation, reductions of public expenditure, restrictions on the expansion of bank credit, and increases in interest rates.

In the primary producing countries that were in payments difficulties, import restrictions and exchange rate adjustments played a much more important role than in industrial countries in

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a similar case. However, corrective action usually included, and in some countries consisted entirely of, monetary and fiscal measures to curb credit and to slow down the pace of development expenditure. Among the countries that relied exclusively on disinflationary policies to reduce their deficits are Haiti and Cuba. On the other hand, policies aimed at disinflation were combined by some other countries with exchange depreciation (e.g., Colombia and Bolivia) or with import restrictions (e.g., the Philippine Republic and Turkey).

Among the countries that made considerable use of import restrictions, sometimes combined with other internal measures, as a means of limiting their external deficits are India, Argentina, Uruguay, and, in the first half of the year, Colombia. In India, imports of consumer goods were particularly restricted, and for certain capital goods imports licenses were granted only on condition that importers obtained medium-term or long-term credits abroad. In Argentina, licenses were granted for certain imports on a deferred credit payments system.

A number of primary producing countries adjusted to internal inflation or to the fall in export prices by depreciating their exchange rates. Finland formally devalued by some 28 per cent in September 1957. By adopting a new exchange system in February 1958, Egypt effectively devalued its currency by 21 per cent for most transactions except those with certain Middle Eastern countries and the Soviet area. In the course of 1957 Colombia and Paraguay replaced import restrictions by a free exchange market. Central bank support given to the free rate in these two countries, and also in Bolivia and Chile, where free exchange markets had been established in 1956, led to exchange losses. Peru, after sustaining exchange losses from pegging the exchange rate, abandoned intervention early in 1958, and the exchange rate was left to find its own level.

In several countries, e.g., Argentina, a reduction in the prices of certain exports was one of the purposes for which taxes or exchange surrender requirements (*aforos*) were adjusted.

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Of those countries that have been in substantial external surplus, only the United States and the Federal Republic of Germany are large enough for their policies to have a substantial effect on the payments problems of other countries. In both these countries, domestic financial policies were applied primarily with the aim of maintaining internal monetary stability. Both countries, however, pursued policies in the field of external finance in 1957 and 1958 calculated to relieve to some extent the payments difficulties of other countries.

The United States, in addition to maintaining foreign aid and government purchases abroad at a high level, lent considerable sums to the United Kingdom in 1957 in the form of a drawing on the Export-Import Bank credit of February 1957 and of a postponement of debt service on the intergovernmental loan of 1946. Export-Import Bank loans to Chile, Colombia, and Japan served the purpose of relieving payments pressures; in addition, the United States made exchange agreements providing for stand-by credits—which have not actually been drawn upon—with a number of Latin American countries.

In the Federal Republic of Germany a variety of measures was undertaken to damp down the payments surplus. The remaining restrictions on foreign investment were relaxed, so that German residents are now free to export capital in any form, including the purchase of securities anywhere in the world. There was some further liberalization of trade with certain areas. There has been no relaxation of Germany's policy of agricultural protection, but customs duties on a wide range of manufactured products were reduced in the latter part of 1957. There was some increase in transfers abroad on account of debt repayment and restitution. Of greater quantitative importance was the rise in prepayments for defense imports, some of which were made to countries in deficit, notably the United Kingdom. However, the amount of such advances fell sharply in the third quarter of 1957, just at a time when speculative pressure on the reserves of other countries was at its height. Another official act helping to mitigate payments difficulties elsewhere was the acquisition of an advance deposit in

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sterling held against future debt repayments to the United Kingdom.

Once the recession had set in in the United States, the easing of credit and the substantial lowering of interest rates exerted an influence on the outflow of funds for commercial and other purposes, and the balance of payments position of several other countries was thus to some extent strengthened. In Germany, too, interest rates were reduced, partly with a view to bringing the conditions of the money and capital markets into line with those prevailing abroad. In Germany, however, long-term rates have been so high that there has been little inducement for capital to flow abroad; the continuance of official measures for the export of capital therefore remains a matter of considerable importance.

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IV

Domestic Financial and Economic Developments

The Industrialized Countries

IN MOST of the industrialized countries the monetary authorities faced, during the period under review, the difficult task of determining the most appropriate time when a policy of credit restraint should be reversed in response to changing economic conditions. Their task was, as usual, made difficult by conflicting evidence about the direction in which the economy was moving as well as by the fact that the full effects of monetary measures usually cannot be felt until some months after the measures have been taken.

The authorities in most of these countries succeeded, by means of monetary and fiscal measures, in preventing inflation from getting out of control, and, with a few exceptions, such as France, these countries avoided major inflationary movements. In most of them, restrictive internal policies helped to limit the rise in prices; in Japan, price increases were also restrained, in part, by balance of payments deficits. With the uncertainties still prevailing in the first months of 1958, it was too early to determine how far the measures then being taken would be effective in checking or reversing any downward trends that were apparent.

In both the period of increasing economic activity and the early months of the recession in those countries where recession had

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begun, monetary measures were, as a rule, used more extensively than fiscal measures in order to make the necessary adjustments in the economy. To the extent that taxation receipts are affected by economic conditions, the budget has an automatic influence in partly offsetting inflationary or deflationary conditions, without any deliberate action by the government. In times of boom, however, it is often difficult to raise taxes swiftly and in amounts sufficient to produce a budget surplus of the size required completely to offset expansionary tendencies. In the event of a downturn, the authorities, often uncertain whether it is merely temporary or requires more far-reaching remedial measures, may be reluctant to reduce taxes because, if conditions change suddenly, it will not be so easy to raise them again as it was to lower them. Monetary measures, on the other hand, can be reversed more easily than fiscal measures. In many countries, too, there are practical difficulties that make it impossible quickly to expand or to contract the size of the public sector of the economy.

Developments and Policies to Restrain Investment

Industrial production, employment, and national income in real terms continued to expand in nearly all countries during the first half of 1957, though at a slower pace than in 1956 (Table 11). Prices and wages also continued to rise.

With the demand for investment funds tending to increase further and savings lagging behind, interest rates in the financial centers of many industrial countries continued to rise during the first half of 1957 (Table 12). The increases in interest rates were due in part to the influence of restrictive credit policies, including the raising of the discount rate in a number of countries. As in 1956, most economies, when faced with restrictive credit policies and rising interest rates, economized in the use of money, and both the turnover of deposit money and the income velocity of money supply continued to rise (Table 13).

Raising of the discount rate. Among the various instruments of credit restraint, wide use was made of variations in the discount

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TABLE 11. PRICES, PRODUCTION, AND EMPLOYMENT IN SELECTED COUNTRIES, 1956, 1957, AND 1958

(Average percentage changes from corresponding period of previous year)

	Cost of Living				Industrial Production				Employment, Excluding Agriculture			
	1956	1957	1957, 2nd half	1958, 1st quarter	1956	1957	1957, 2nd half	1958, 1st quarter	1956	1957	1957, 2nd half	1958, 1st quarter
Australia[1]	5	5	2	2	...	...	...	...	1	1	—	1[2]
Austria	3	4	4	1	4	6	6	6	3	3	3	2
Belgium-Luxembourg	3	3	3	2	6	—	−3	−6	1	2	—	...
Canada	1	4	3	3	7	—	−3	−5	5	4	3	—
Denmark	5	4	4	2	1[3]	5[3]	—[3]	−2[3]	−4[4]	3[4]	−1[4]	...
France	2	3	6	15	12	9	10	12	1	3	3	2
Germany, Federal Republic of	3	2	2	4	8	6	5	4	6	3	2	—
Italy	4	1	2	2	8	8	7	2	2[4]	1[4]	1[4]	...
Japan	1	3	4	1	24[3]	18[3]	11[3]	2[3]	8	8	6	6
Netherlands	2	6	8	7	4	2	—	−4	2[4]	1[4]	—[4]	...
Norway	4	3	2	2	4	3	2	−4	—	2	2	—
Sweden	5	4	4	5	3	4	2	1	1[4]	—[4]	1[4]	−1[4, 5]
Switzerland[1]	1	2	2	2	...	...	...	...	5	5	4	2
United Kingdom	6	3	4	3	−1	2	2	1	—	1	—	—
United States	2	3	3	4	3	—	−2	−10	3	2	1	−3

Sources: Based on data from International Monetary Fund, *International Financial Statistics*, and United Nations, *Montlhy Bulletin of Statistics.*
[1] No index of industrial production is compiled in Australia or Switzerland.
[2] January only.
[3] Manufacturing production.
[4] Employment in manufacturing.
[5] Average of January and February only.

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TABLE 12. MARKET INTEREST RATES, SELECTED COUNTRIES, 1956, 1957, AND 1958

(In per cent per annum)

	December 1956	June 1957	December 1957	March 1958
United States				
Treasury bill rate	3.23	3.32	3.10	1.35
Government bond yield (medium-term)	3.69	3.74	2.95	2.40
Government bond yield (long-term)	3.43	3.61	3.22	3.25
Canada				
Treasury bill rate	3.67	3.81	3.62	2.27
Government bond yield	4.01	4.37	3.75	3.71
United Kingdom				
Treasury bill rate	4.93	3.87	6.43	5.77
Government bond yield (short-term)	5.10	4.83	5.91	5.06
Government bond yield (long-term)	4.90	4.94	5.41	5.13
Corporate bond yield (debentures)	5.85	6.00	6.47	6.26
Australia				
Government bond yield (short-term)	4.69	4.62	4.41	4.30
Government bond yield (long-term)	5.09	5.04	5.00	4.98
New Zealand				
Government bond yield	4.78	4.73	4.98	5.01
Union of South Africa				
Treasury bill (tap) rate	3.25	3.25	3.25	3.50
National Finance Corporation (deposit) rate	3.12	3.12	3.12	3.38
Government bond yield	4.75	4.75	4.75	5.00
Belgium				
Government bond yield	4.42	4.60	4.94	4.80
Denmark				
Government bond yield	5.79	5.76	5.74	5.43
France				
Government bond yield	5.62	6.05	5.91	6.11
Call money rate, public	3.17[1]	2.85	3.34	3.52
Call money rate, private	3.92[1]	5.78	5.72	5.96
Germany, Federal Republic of				
Call money rate	4.94	4.69	3.84	3.63
Mortgage bond yield	5.5	5.6	5.1	4.7
Italy				
Government bond yield	7.21	6.78	6.84	6.45
Netherlands				
Treasury bill rate	3.48	3.60	4.64	3.14
Government bond yield	4.21	4.38	4.86	4.40
Sweden				
Government bond yield	4.05	4.20	4.46	4.42
Industrial bond yield	4.94	4.95	5.28	5.28
Commercial banks' discount rate (three-month bills)	4.50	4.50	5.75	5.75

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).

[1] January 1957.

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TABLE 13. INDICES OF TURNOVER OF DEPOSITS AND OF INCOME VELOCITY OF MONEY, SELECTED COUNTRIES, 1956 AND 1957[1]

(1955 = 100)

	Turnover of Deposits		Income Velocity	
	1956	1957	1956	1957
Australia	108	117	107[2]	114[2]
Austria	115	125	111	115
Canada	126[3]	140[3]	112[3]	118[3]
Denmark	100	104	104	106
France	105	131[4]	96	98
Germany, Federal Republic of	103	103	101	97
Italy	...	...	93[5]	91[5]
Netherlands	129[6]	155[6]	105[5]	115[5]
Norway	105[3]	111[3]	110[3]	118[3]
Sweden	111[3]	117[3]	104[3]	...
Union of South Africa	117[3]	121[3]	109[2, 3]	113[2, 3]
United Kingdom	...	...	108	114
United States	107	114	105	109

Sources: Based on data from International Monetary Fund, *International Financial Statistics;* United Nations, *Monthly Bulletin of Statistics;* Commonwealth of Australia, National Income and Expenditure 1956–57; *Monatsberichte des Österreichischen Instituts für Wirtschaftsforschung* (Vienna); Dominion Bureau of Statistics, *Canadian Statistical Review* (Ottawa); *Borsen* (Copenhagen); Conseil National du Crédit, *Compte Rendu de l'Evaluation des Moyens Monétaires et Financières, 1957* (Paris); Banco di Roma, *Review of Economic Conditions in Italy;* Centraal Planbureau, *Centraal Economisch Plan, 1958* (The Hague); Statistisk Sentralbyrå, *Statistiske Meldinger* (Oslo); South African Reserve Bank, *Quarterly Bulletin of Statistics;* and *Economic Survey 1958* (Cmnd. 394, London).

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 deposit money and money supply.

4 Based on data for 11 months.

5 Average end-of-quarter data used for money supply.

6 Money supply minus monetary liabilities in notes used for deposit money; end-of-quarter data.

rate. Six countries (Belgium, Ireland, Sweden, Switzerland, the United Kingdom, and the United States) raised the rate once in 1957, and three countries (France, Japan, and the Netherlands) raised it twice. Some of the increases made in the second half of 1957 were in countries, such as France and the United Kingdom, where financial pressures continued. In Canada, where the rate is fixed every week at a margin of ¼ per cent above the latest weekly average tender rate for 91-day treasury bills, it rose in keeping with tight money conditions during the first eight months of the year; in late August 1957 it began to decline, and the decline continued in early 1958.

Increases in the discount rate were intended in most countries to restrict the use of credit by both the private and the public sectors, and also to stimulate the flow of savings in response to

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higher interest rates. In some countries it was also an important objective to influence the international flow of funds, partly by raising the cost of such movements, but mainly with a view to increasing confidence. In the United Kingdom, for example, the increase was also to counter the capital outflows associated with the exchange crisis of mid-1957. In Belgium and Ireland, it was used mainly to prevent a further outward flow of funds in response to higher interest rates in other financial centers. In the Union of South Africa, where there was no increase in the official discount rate, other interest rates were allowed to rise early in 1958 for the same reasons. At the time of the alteration of the franc exchange rate, Dutch and French interest rates were further increased to discourage speculation.

Money market rates continued to rise in all countries where the discount rate was raised, and in a number of other countries as well (Table 12). In France, Japan, the Netherlands, the United Kingdom, and some other countries, the rate of bank credit expansion to the private sector was less in 1957 than in 1956. On the other hand, government net borrowing from the banking system was less than in 1956 in only a few countries. In many countries, and especially in Austria, Denmark, West Germany, the Netherlands, and Sweden, private savings, as indicated by increases in time and savings deposits, increased more rapidly than in 1956.

The Federal Republic of Germany was the first country to reverse the upward movement of the discount rate, reducing it from 5.5 per cent to 5 per cent in September 1956, and then in four successive stages to 3 per cent in June 1958. During the boom, Germany, unlike other countries, had no balance of payments difficulties, inasmuch as part of the boom resulted from export demand, and also because the authorities pursued conservative monetary and fiscal policies. As soon as the tensions of the boom began to subside the discount rate was lowered, with the desire to narrow the gap between interest rates in Germany and abroad and thus to curb the inflow of funds from abroad.

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Other restraints on credit. Other steps, in addition to raising the discount rate, were taken in many countries to limit credit expansion. In some countries, reserve requirements for commercial banks were either raised or the method of computing reserves was changed so that these requirements would have a more restrictive effect. Thus in Belgium, beginning in November 1957, the system whereby a part of the reserves required for any increase in bank deposits was automatically channeled to the Government was changed. This part is now channeled to a special institution (Fonds des Rentes) for uses contributing to monetary stability. In Japan, advance deposit requirements for imports were sharply increased, and restrictions were placed on sterling usance bill facilities for imports. In Germany, there were large increases in reserve requirements for foreign-owned deposits.

Other monetary measures included selective credit controls—particularly regulation of the terms and conditions of credit for installment buying—moral suasion, and open market operations. In September 1957, the clearing banks in the United Kingdom were requested to restrict advances during the next 12 months so that they would not rise above the level of the previous 12 months. Advances to exporters in connection with medium-term export credits were excluded. The authorities in the Netherlands requested the banks in September 1957 to reduce credit to local authorities to the average levels of 1955 and 1956. In Norway, the gentlemen's agreement on loans and advances which had been made by the authorities and the commercial banks was extended for another year in January 1958, although in the previous year the banks had not limited credit expansion as rigidly as was required by the agreement. In France, lower ceilings were placed on rediscounts for individual banks in mid-1957 and again in December, and ceilings were placed in February 1958 on the amount of short-term and medium-term bank credit which might be extended to the private sector.

Open market operations have become one of the most important instruments of credit policy in Germany, where they have been used to offset in part the expansionary impact of the inflow of

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funds from abroad. In the United Kingdom, the authorities engaged in funding operations in order to lengthen the average term of the debt held by the public and to reduce the liquidity of the commercial banks.

Fiscal measures. Although the main emphasis was usually placed on monetary measures, these were also supported in some countries by fiscal policy. In the Netherlands, both monetary and fiscal policy were used to restrain the boom, and this coordination was partly responsible for the success attained there in containing inflation and maintaining both internal and external stability. In addition to increasing the bank rate in September 1957, the Government of the United Kingdom took steps to stop the upward trend of public investment. In France, taxes were raised on two occasions in 1957 and some subsidies were reduced, but the budget continued to be an inflationary factor.

In some countries, such as Belgium, France, Finland, Ireland, and the Netherlands, the policy of using subsidies to limit increases in prices and wages was reversed by reducing or eliminating the subsidies, and sometimes even by increasing indirect taxes, such as the turnover tax. In Belgium, the turnover tax on a number of consumer goods was restored in the last quarter of 1957.

Developments and Policies in Recession

Around the middle of 1957 recessionary tendencies became increasingly evident in some industrial countries; but in many of them expansion still continued in early 1958. The cost of living and wages, however, had not declined by the first quarter of 1958 and in most countries both continued to rise. In some countries, for example, the United States and the Netherlands, the decline in demand was mainly of domestic origin. In others, including Belgium, Canada, Norway, and Japan, the influence of the foreign sector was important.

In countries where economic activity had fallen off, the reduced demand for investment funds toward the end of 1957 and in early 1958 and the maintenance of private savings at or near the high

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levels of the boom were important influences in reducing interest rates in many financial centers (Table 12). The lower interest rates resulted in part from a relaxation of credit controls, which in some countries included reductions of the discount rate.

With recession and the easing of money conditions, there were some indications that the private sector was beginning to increase its cash balances relative to transactions. In the United States, the income velocity of money (seasonally adjusted) fell in the last quarter of 1957 for the first time in three years.

The upward movement of wages in 1957 was greatest where production was still expanding. In countries where signs of a recession began to appear, wages also continued to rise, but there was some weakening of the bargaining position of labor. Evidence of this weakening can be seen both in the course of wage negotiations in the United States in the early months of 1958 and in wage developments in such countries as the Netherlands, Norway, and Austria. In the Netherlands, toward the end of 1957, the trade unions refrained from demanding any general wage increase and limited their claims to fringe benefits. In Norway, in early 1958, a new three-year agreement between the Employers' Federation and the National Federation of Trade Unions led to only very small wage increases in 1958. In Austria, wage increases during 1957 as a whole were limited, and labor productivity increased more than wages.

Countries that had not begun to feel the recession continued their restrictive monetary policies in early 1958. Other countries where economic activity had fallen off sought to revive demand by encouraging bank credit expansion. Most countries used only one or two instruments of monetary control; but in the United States, the authorities lowered the discount rate, engaged in open market operations, and reduced reserve requirements.

The main instrument of monetary policy in many countries during the recession has been a lowering of the discount rate. A change in one country tended to be followed by changes in others, which helped to maintain the more or less normal relations between interest rates in different financial centers. In the United

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States, the Federal Reserve Banks reduced their discount rates in four steps from 3½ per cent in November 1957 to 1¾ per cent in April 1958; there were also some open market purchases and in February, March, and April 1958 the reserve requirements against demand deposits of member banks, which had been 20 per cent for central reserve city banks, 18 per cent for reserve city banks, and 12 per cent for country banks, were reduced in four stages to 18 per cent, 16½ per cent, and 11 per cent, respectively. The reductions of the German discount rate in January and June 1958, while prompted mainly by the desire to establish normal relations between German interest rates and interest rates in other countries, were also intended to improve the general conditions for financing domestic investment. By the middle of 1958 the discount rate had also been reduced in Belgium, Denmark, Ireland, Italy, the Netherlands, Sweden, and the United Kingdom.

The U.K. bank rate was reduced by three stages, from 7 per cent in March 1958 to 5 per cent in June. These reductions followed the improvement in the external position of sterling, and it was announced that they were not to be interpreted as indicating a reversal in the general direction of monetary policy. However, some measures were also taken in early July which modified the existing control of bank credit and of borrowing generally. In the Netherlands, too, although the reduction of the discount rate from 5 per cent to 4½ per cent in January 1958 and to 4 per cent in March indicated a change in monetary policy, the Netherlands Bank informed the commercial banks that this should not be interpreted as a signal to increase their loans. In fact, before the first reduction, the Netherlands Bank requested the banks to avoid excessive credit expansion to the private sector in the first half of 1958. If credit was expanded more than 4 per cent above the level of the second quarter of 1957, a rate at least 1 per cent above the official rate was to be charged for the use of Netherlands Bank facilities. This directive was amended in early March to permit somewhat larger bank advances in special circumstances, and at the end of April these limitations were revoked. The Netherlands Bank also increased the reserve require-

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ments of the commercial banks, first from 4 per cent to 5 per cent, and then to 6 per cent. Because of the structure of the money market in the Netherlands, however, these increases were more closely related to the technical effects of increasing foreign exchange reserves than to any considerations relating to the domestic credit situation.

In Canada, the slowing down of economic activity and the falling off in demand for funds caused market interest rates to decline in the last few months of 1957. With lower rates on treasury bills, the Bank of Canada lowered its bank rate continuously from 4.33 per cent in August 1957 to 1.62 per cent at the end of April 1958.

In Australia, credit controls were somewhat easier during 1957. After April 1957, there was no increase in the reserve requirements imposed upon the trading banks by the obligation to hold "Special Accounts" with the Commonwealth Bank; and in December 1957, the Commonwealth Bank suggested to the commercial banks that some increase in advances would be appropriate, in view of the need to meet the reasonable requirements of customers arising from adverse seasonal conditions. In February 1958, the Commonwealth Bank released £A 15 million and in April £A 20 million from the commercial banks' Special Account balances.

Fiscal measures were under active consideration by the authorities in the United States and in other countries at the beginning of 1958, and some fiscal measures were adopted in Canada, the Netherlands, and Austria. In Canada, there were reductions in excise taxes on motorcars and in personal and corporate income tax in certain income brackets. In order to deal with unemployment more effectively, the Netherlands Government reactivated certain public expenditures in February 1958, especially for public works and housing, which had been postponed at the time of the boom.

In the United States, "built-in stabilizers," such as unemployment compensation benefits, helped to sustain personal income despite declines in output and employment. Moreover, the maintenance of government expenditures as receipts declined, which

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would result in a large budget deficit in 1958-59, was expected to act as a stabilizing factor.

In many countries, the government sector tends to act as an offsetting factor to any recession. It is not difficult for governments to have budget deficits. But while a deficit may maintain domestic expenditures and employment, it also tends to increase imports, or to keep them at an excessively high level. Even where, because of ample monetary reserves, balance of payments considerations have not been of decisive importance, many governments have hesitated to increase by deliberate tax reductions any deficits that have emerged from an automatic decline in taxation receipts. Moreover, there has been no resort to massive increases in public expenditure as part of an antirecession program. Especially when the cost of living has continued to rise, as has been the case in some countries in the current recession, it has been felt particularly undesirable to adopt measures that might revive latent inflationary forces. In attempting to sustain demand, the authorities always have a delicate problem in choosing such measures as are least likely to provoke any increase in costs and prices, to impair the willingness to save, or to make it more difficult to reintroduce a policy of restraint should business again show a marked upward trend. In countries which are not in a strong reserve position, the problem of coping with the difficulties of a recession is, of course, eased to the extent that they are able, during periods of expansion, to accumulate sufficient reserves so that, when they feel the effects of a recession, they may avoid any intensification of trade and exchange restrictions which would distort the pattern of their own and world trade.

The Less Industrialized Countries

The less industrialized countries are still faced with the problem of promoting economic development with stability. In 1956 and 1957, a number of them, including Bolivia, Chile, Colombia, Paraguay, and Peru, instituted stabilization programs. Other coun-

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tries, such as India, after completing one development plan, adopted a second plan in 1956 or 1957. Still others, such as Malaya, are formulating or adopting plans for economic development for the first time since the attainment of independence. It is in the context of the difficulties of securing adequate finance for development that the effects upon the prices of primary products of the leveling off of economic activity in the United States and other industrial countries in 1956 and of the recession beginning in the second half of 1957 have to be considered. Fluctuations in these prices, which are sometimes very violent, have for many years presented serious problems for the less developed regions of the world. Since, in 1957, the prices of their imports either did not fall or fell less than the prices of their exports, many underdeveloped countries found their terms of trade becoming more and more unfavorable. This constituted a loss in real income and added to the usual burdens and difficulties. Despite the difficult circumstances of last year, some countries achieved a fair measure of success in maintaining reasonably stable conditions. In others, radical action for the control of inflation is still delayed; even in some of the countries that have adopted stabilization programs there is still much to be done before the success of these programs can be regarded as assured.

The magnitude of the problems of adjustment which falling world prices have created for these countries may be judged not only by the size of the declines in the prices of their key export products, but also by the significance of these products for the economy as a whole, including the government sector. For example, in Bolivia, 75 per cent of the tin output is produced by government enterprises, and tin accounts for more than one half of total exports. In Chile, 70 per cent of export earnings is derived from copper, and 20 per cent of government revenue is directly dependent upon it. The efforts made by governments to adjust their economies to falling export prices constituted the most important internal financial development in many of the less industrialized countries during 1957 and early 1958. In some countries such as Brazil, however, the Government, instead of making any

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major attempt to adjust, adopted measures with a view to maintaining money incomes in the export sector, and the balance of payments deficit increased. In contrast to the previous postwar recessions in 1948-49 and 1953-54, however, more countries in their efforts to achieve a smooth and rapid adjustment now appear to be making greater use of monetary and fiscal measures in addition to or as a substitute for any quantitative import or other restrictions that may be imposed.

Money Supply and Price Movements

The rate of increase in money supply was smaller in 1957 than in 1956 in nearly all the 36 less industrialized countries for which data are available; in some countries, the money supply actually declined. In 1957, indeed, there were 12 countries, compared with only 5 in 1956, where the increase was less than 5 per cent, and only 6 countries had increases of more than 20 per cent in 1957, against 9 in 1956 (Table 14).

Although in many countries a smaller increase in the money supply in 1957 signified a lessening of domestic inflationary pressures, in some of them, for example, Burma, Ceylon, Iraq, the Philippine Republic, and Uruguay, it was mainly a result of a decline in foreign exchange reserves (Table 15). In the majority of countries, however, a rate of bank credit expansion to both the private and the public sectors, which was much larger than the rate of increase in output, continued to have inflationary consequences. In most of the countries where the money supply increased by more than 10 per cent, bank credit expansion to the private sector was more important than bank credit to the government as a factor of instability (Table 15).

Stabilization Programs, Development Policies, and Falling Export Prices

Several of the countries that have adopted stabilization programs in recent years have been able to make use of assistance

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from stabilization credits from abroad, which for some of them included stand-by arrangements and drawings from the Fund. The main outline of the program was similar in each country. It

TABLE 14. PERCENTAGE INCREASE OR DECREASE (—) IN MONEY SUPPLY AND COST OF LIVING, SELECTED COUNTRIES, 1956 AND 1957

Countries Classified by Percentage Increase in Money Supply, 1957	Money Supply[1]		Cost of Living[1]	
	1956	1957	1956	1957
Increase below 5 per cent				
Burma	20	–18	9	8
Haiti	–3	–9	10	6[2]
Ceylon	5	–8	—	5
Viet-Nam	—	–7	–6	1
Honduras	11	–6	–1	–2
Malaya	0	–3	3	3
Nicaragua	–2	–2	–16	1
El Salvador	14	—	2	1[3]
Egypt	16	1[4]	4	3
Paraguay	35	3	17	15
Ecuador	14	4	0	2
India	6	4	12	4
Increase of 5–10 per cent				
Cuba	9	5	–2	—
Thailand	6	5[5]	5	—
Dominican Republic	6	5	1	7
Pakistan	9	6	4	12
Uruguay	13	6	6	18
Mexico	11	7	–2	14
Philippines	12	7	5	1
Costa Rica	1	8	–1	3
Iraq	13	9[6]	6	3
Guatemala	20	10	—	–1
Increase of 11–20 per cent				
Israel	23	11	5	5
Argentina	17	13	16	26
Colombia	24	14	7	23
Syria	23	14	...	–4
Korea	37	16	46	–8
Lebanon	9	17[7]	3	8
Peru	18	17[5]	6	8
Iran	17	17	11	4
Increase above 20 per cent				
China (Taiwan)	24	21	13	2
Chile	38	25	38	17
Bolivia	263	27[8]	473	–14
Venezuela	14	32	1	1
Brazil	22	34	28	14
Indonesia	9	41	–2	55

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 March 1956 to March 1957.
[3] Change from September 1956 to September 1957.
[4] This figure is in part a result of the withdrawal of Egyptian currency from circulation in the Sudan to an amount equal to approximately 6 per cent of money supply at the beginning of 1957.
[5] Change from June 1956 to June 1957.
[6] Change from September 1956 to September 1957.
[7] Change from November 1956 to November 1957.
[8] Change from December 1956 to November 1957.

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Table 15. Factors Affecting Changes in Money Supply in the Less Industrialized Countries in 1957

Countries Classified by Percentage Increase in Money Supply, 1957	Total Percentage Increase in Money Supply	Increase in Government Net Borrowing from the Banking System[1]	Bank Credit Expansion to the Private Sector	Increase in Foreign Assets[2]	Others[3]
		As percentage of money supply at beginning of year			
	(1)	(2)	(3)	(4)	(5)
Increase below 5 per cent					
Burma	-17.6	-5.2	6.9	-15.3	-4.0
Haiti	-9.1	0.2	-0.2	-18.9	9.7
Ceylon	-7.7	11.7	4.9	-17.6	-6.7
Viet-Nam	-7.2	-18.1	7.4	5.4	-1.9
Honduras	-6.2	-0.2	10.1	-8.0	-8.1
Malaya	-3.0	....	3.0	-7.9	....
Nicaragua	-1.9	-2.2	-8.0	-13.4	-5.1
El Salvador	—	-3.9	14.6	2.3	-13.1
Egypt	1.0[4]	9.6	6.2	-11.4	-3.4
Paraguay	3.3	-7.1	3.2	1.6	5.6
Ecuador	4.0	-4.0	18.8	8.2	-18.9
India	4.4	23.0	6.0	-10.7	-13.8
Increase of 5–10 per cent					
Cuba	5.0	9.2	7.8	-4.9	-7.1
Thailand[5]	5.1	-1.0	11.1	4.8	-10.0
Dominican Republic	5.4	23.4	9.4	5.6	-33.1
Uruguay	6.1	0.4	35.7	-20.1	-9.9
Pakistan	6.4	8.2	1.0	-7.9	5.3
Mexico	6.6	6.7	6.6	-2.7	-4.0
Philippines	6.7	20.0	16.4	-16.5	-13.2
Costa Rica	8.3	13.4		0.7	-5.7
Iraq[6]	9.0	12.7	9.0	-28.1	15.3
Guatemala	10.3	-3.0	16.1	3.1	-5.7
Increase of 11–20 per cent					
Israel	11.5	3.0	16.8	0.7	-9.0
Argentina	12.7	8.0	19.4	0.1	-14.9
Colombia	13.5	13.2	19.5	-24.1	5.0
Syria	14.4	13.5	7.7	-3.1	-3.7
Korea	16.4	22.5	27.0	5.9	-39.1
Peru[5]	17.4	6.8	21.7	2.7	-13.8
Iran[7]	17.4	5.8	13.4	13.3	-15.0
Increase above 20 per cent					
China (Taiwan)	20.8	12.2	25.9	3.7	-21.1
Chile	25.3	9.9	36.2	-7.0	-13.8
Bolivia[8]	27.0	1.7	13.1	37.0	-24.8
Venezuela	32.4	-33.3	38.0	53.7	-26.0
Brazil	33.9	19.4	23.3	-2.8	-6.1
Indonesia	41.2	42.9	-2.7	-3.1	4.1

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

[1] The monetary system's claims on government less government deposits is used to represent net borrowing of the central government from the banking system. The increase in net borrowing is compared with money supply at the beginning of the year. In Argentina, Brazil, Chile, China (Taiwan), Dominican Republic, Ecuador, Haiti, Iran, Korea, Nicaragua, Pakistan, the Philippines, Syria, and Uruguay, it includes transactions of official entities. In Ecuador, transactions of local government authorities are also included.

[2] Changes in foreign assets for most countries are gross, except for Brazil, Colombia, Egypt, Haiti, Korea, the Philippines, Syria, Thailand, Uruguay, and Venezuela.

[3] This is the sum of the remaining items as given in the Monetary Survey in *International Financial Statistics*, and therefore the total of columns 2 to 5 in the table is equal to the percentage increase in money supply. The remaining items are usually unclassified assets less quasi-money and unclassified liabilities consisting mainly of capital. Counterpart funds are also included in Burma, Chile, China (Taiwan), Indonesia, Korea, and Viet-Nam; deposits of the UN in Korea; import deposits in Chile and Colombia; and prepayments for exchange in Indonesia, Nicaragua, and Paraguay.

[4] This figure is in part a result of the withdrawal of Egyptian currency from circulation in the Sudan to an amount equal to approximately 6 per cent of money supply at the beginning of 1957.

[5] Year ended June 1957.

[6] Year ended September 1957.

[7] Foreign assets were revalued in May 1957. In order to make the December 1957 figures comparable with those of December 1956, the revaluation proceeds of 7 billion rials held by the National Bank are excluded from the figures for both foreign assets and unclassified liabilities.

[8] Eleven months ended November 1957.

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generally provided for the establishment of one or two fluctuating exchange rates in place of a complicated multiple exchange rate system, and included the curtailment of excessive credit expansion to both the private and the public sector and the limitation of wage increases, in order to break the price-wage inflationary spiral. Some progress was recorded in the application of all these programs, although in some countries they were seriously impeded when falling export prices placed additional strains upon the economy.

The slowing down of the rates of increase in the money supply and in the cost of living index gives one indication of the measure of success achieved by stabilization efforts. In Bolivia, the money supply, which had increased by more than 260 per cent in 1956, increased by only 27 per cent in 1957, and the cost of living index in November 1957 was 14 per cent less than at the end of 1956.

In addition to the efforts made to adjust to falling prices by taking appropriate monetary and fiscal measures, several countries were also able to negotiate external credits with a view to tiding over the period of stringency. Brazil, Cuba, Chile, and Colombia drew upon the Fund, and Peru in February 1958 obtained a new stabilization credit of $60 million in which the Fund, the U.S. Government, and private commercial banks participated.

On the other hand, the problem was aggravated in some countries, for example, Brazil and Colombia, by the attempts of the Government not only to maintain domestic prices and the incomes of the export sector through stockpiling purchases, but also to influence world prices by restricting exports. The steps taken for this purpose have been financed mainly by central bank credit.

Falling export prices affected the development programs of several countries, including Egypt, Pakistan, Mexico, and the Sudan. In general, these countries made determined efforts to prevent inflation through increased taxes and limitations imposed by credit restrictions upon private expenditures. Despite all these efforts, the emergence of inflationary pressures and rapid declines in foreign exchange reserves led a number of countries to cut back their development expenditures. In India, for example, less essen-

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tial development expenditures were postponed, and the Government hopes to reduce the over-all budget deficit from about Rs 4 billion in 1957-58 to about Rs 2 billion in 1958-59. In Egypt, the Government sharply reduced development expenditures in 1957 and also improved its tax collection. Net borrowings by the Egyptian Government from the banking system, which in 1956 amounted to 21 per cent of the money supply, were reduced to 10 per cent in 1957.

Monetary, Fiscal, and Other Measures

Variable reserve requirements were used in many of the less industrialized countries during 1957 and early 1958 as a means of restraining credit. The wide use of this instrument in these countries can be understood from the fact that it may be effective even when there is no well-developed money and capital market. In Nicaragua the requirements were raised by stages in April and May 1957, from 16 per cent to 28 per cent for sight deposits and from 8 per cent to 28 per cent for time deposits; and in Colombia marginal reserve requirements were raised to 100 per cent in early 1958. To help ensure adherence to the reserve requirements, Peru began in January 1958 to levy a penalty interest rate on any deficiencies in commercial bank reserves. In Mexico, however, a simplification of the system of reserve requirements in July 1957 reduced them from their previous high level.

In order to supplement this method of credit restraint, and also to prevent commercial banks from replenishing their reserves through borrowing from the central bank, some countries placed ceilings upon the amount of rediscounts. For a short time during the first half of 1957, there was a complete cessation of rediscounting by the Central Bank in the Philippine Republic.

Besides restricting the availability of credit, some monetary authorities attempted to increase the cost of credit directly by raising the discount rate. During 1957 and in early 1958, six of the less developed countries increased these rates. The Reserve Bank of India increased its lending rate under the so-called Bill Market

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Scheme by successive steps from 3 per cent in March 1956 to 4.2 per cent in May 1957; in May the discount rate was also raised from 3.5 per cent to 4 per cent. The discount rate in the Philippine Republic was increased twice in 1957—in April from 1.5 per cent to 2 per cent and in September to 4.5 per cent. These increases marked the reversal of a cheap money policy which for several years had encouraged bank credit expansion and private investment in the Philippine Republic. In some of the less developed countries, where there is little or no rediscounting, the discount rate has little practical significance; in most of them, the absolute level of the rate, even where it has been increased, is still low in relation to the interest rates charged by the commercial banks.

Among the various kinds of selective credit control, that which requires an advance deposit by importers as a prerequisite for obtaining import licenses or other relevant documents was used extensively. The scope of these advance deposits (whose use is not confined to the underdeveloped countries) was expanded during 1957 in 11 countries in all parts of the world. Of 16 countries that use this device, there are 10 where the deposits required for all or some imports amount to 100 per cent or more of the value of the import.

In some countries, especially where the repayment of advance deposits is deferred until a specified period has elapsed, the purpose of advance deposits has been to withdraw purchasing power and, by operating primarily on the liquidity of importers, to reduce demand for imports in general; in other countries, an important objective has also been to impose severe restrictions on the import of particular commodities by using widely different rates of advance deposit for different commodities (in Chile the rate for automobiles reached 1,500 per cent). The general contractionary effect of the withdrawal of purchasing power was sometimes offset by simultaneous credit expansion by the banking system.

Attempts have been made in many countries to check credit expansion by moral suasion. Generally speaking, moral suasion has not proved very effective, except where the commercial banks

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realize that the central bank is also willing and able, if necessary, to adopt more stringent measures.

Fiscal measures, such as increased tax rates, were adopted in a number of countries. Chile and Paraguay raised taxes as part of their stabilization programs. Tax increases were planned in India, Pakistan, and the Philippine Republic in order to increase the supply of noninflationary finance for developmental expenditure. In Pakistan, the tax increases proposed in the 1958-59 budget were expected to increase revenues by Rs 240 million, which is equivalent to about 5 per cent of the money supply at the end of 1957.

The prevention or limitation of wage increases has been an additional element of inflation control both in the countries adopting stabilization programs and elsewhere, although in some countries it has not been found possible to prevent massive increases of money wages. In Argentina, for example, where a general wage increase of 25 per cent had been granted early in 1957, it was decided in May 1958, despite the Government's determined efforts to stop further increases, to permit another general increase that brought the wage level to 60 per cent above the level of February 1956. Some measures of price control were also undertaken. In some countries, such as Paraguay, the abolition of most price and rationing controls was an important feature of the stabilization program, and additional price controls were imposed in only a few countries.

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V

External Payments and Domestic Financial Developments in Selected Countries

United States

Internal Developments

Business activity in the United States leveled off early in 1957 and turned down after the third quarter of the year. Real gross national product for 1957 as a whole was only 1 per cent above that of 1956, compared with increases of 2.8 per cent in 1956 over 1955 and 7.3 per cent in 1955 over 1954. Prices continued to rise because of both demand and cost pressures. Wholesale prices averaged about 2 per cent above 1956, and consumer prices rose by about 3½ per cent. Prices of industrial raw materials were declining, but prices of agricultural and manufactured finished products rose.

As in most recessions, a combination of factors was responsible for the downturn in economic activity and the subsequent continued fall. Investment in producers' durable equipment and exports began to decline after the first quarter of 1957. On the other hand, personal consumption expenditures, especially for services, expanded, and there were increased government purchases of goods and services. In the third quarter of 1957, there was a sharp reduction in new defense orders. In the fourth quarter there

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was, for the first time since 1954, a decumulation of inventories, which was the principal cause of the fall in national income. Construction activity remained approximately constant throughout the year. Under the pressure of decreasing demand in other sectors, personal disposable income and personal consumption expenditures also began to fall slightly in the last quarter of 1957.

By March 1958, industrial production (seasonally adjusted) had declined by 12 per cent from the peak; thus the decrease at that time already exceeded the total declines in the recessions of 1948-49 and 1953-54, each of which was approximately 10 per cent. Unemployment (seasonally adjusted) at 7.5 per cent of the labor force in April 1958 was also more severe than in the earlier recessions. This was due in part to the fact that the 1957-58 recession began with a higher rate of unemployment than at the beginning of the earlier recessions. There were other differences too. In 1948-49 there was still a large backlog of wartime pent-up demand being worked off; and in 1953-54 activity in Western Europe was booming. In the present recession, for the first time since the war, considerable excess capacity emerged in many branches of production, and industrial production in Western Europe began to level off.

The large demand for funds, combined with the policy of credit restraint, caused interest rates to rise during most of 1957. The internal financial resources of business firms were the main source from which new investment funds were drawn, and for the second successive year businesses liquidated some of their government securities. Net funds raised through flotations of new corporate bonds and other securities rose from $8 billion in 1956 to $11 billion in 1957. Bank loans to business increased by $1.8 billion during the year, compared with an increase of $5.5 billion in 1956.

The policy of credit restraint was continued through August 1957 when the discount rate was raised from 3 per cent to 3.5 per cent. As it became evident, toward the end of the year and in early 1958, that the immediate danger was no longer inflation, but recession, the Federal Reserve Board modified its policy and took steps to ease the money market. Countercyclical open market

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operations started in October, and beginning in November, the discount rate was lowered in four stages from 3.50 per cent to 1.75 per cent in April. The reserve requirements of all member banks were also reduced in a number of steps. The banks used most of the increase in reserves to reduce their indebtedness to the Federal Reserve Banks and to rebuild their holdings of government securities, which had been reduced by $3 billion in the first half of 1957. With easier credit conditions, interest rates on government bonds, commercial paper, and treasury bills fell sharply. The treasury bill yield fell from 3.58 per cent in October 1957 to less than 1 per cent in May 1958. The yield on long-term government and corporate bonds also fell, but less than the treasury bill rate. Interest rates on bank loans typically lagged in their reaction to this movement, but by April 1958 the prime lending rate of many of the larger banks had fallen by 1 per cent.

The income velocity of money (seasonally adjusted) had increased every quarter since early 1955 because of boom conditions and rising interest rates. But in the last quarter of 1957, it fell for the first time in three years.

For the calendar year 1957 as a whole, the effects of fiscal developments upon the U.S. economy were, for the most part, neutral. The federal cash budget showed a small surplus, but the higher level of government spending, even though covered by tax receipts, may have had some expansionary influence. Although "built-in stabilizers," such as unemployment compensation benefits, began to operate to sustain income as output and employment fell, the scope of fiscal policy was initially limited by the legal ceiling on the federal debt. In early 1958, this ceiling was raised by $5 billion, and action was taken to accelerate expenditures. It was expected that, as a result of these measures, federal expenditures in the fiscal year 1957-58 would be well over $73 billion, while revenue receipts would be about $70 billion. The programs already instituted are expected to increase federal expenditures in the fiscal year 1958-59 to $78 billion. Even without a reduction in tax rates, revenues are likely to fall as a result of the recession, and in 1958-59 there may be a deficit of $8 billion or more.

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Payments Developments

After five years during which gold and dollars were continuously transferred from the United States to official reserves elsewhere, the flow was reversed in 1957 and the payments balance of the rest of the world in transactions with the United States showed a deficit of nearly $1.4 billion, against a small surplus in 1956. This change occurred in spite of a further increase in the supply of dollars, which, however, was greatly exceeded by the steep rise in other countries' disbursements in the United States, mainly to pay for increased purchases of U.S. goods and services, but also to finance a substantial inflow of short-term funds, recorded and unrecorded, to the United States (Table 16). The turn in the world's dollar balance took place in the last quarter of 1956, when increased demand for U.S. fuel following the closing of the Suez Canal precipitated a steady rise in U.S. exports which continued through the first half of 1957. Massive movements of capital into the United States added to the drain on official dollar holdings. Thus, in the 12 months ended September 30, 1957, the payments balance of the rest of the world with the United States showed a deficit of almost $2 billion (Table 16).

In the last quarter of 1957 the general payments situation again changed, the rest of the world showing a small surplus with the United States, and this trend was accelerated into 1958. During the seven months ended April 30, 1958, other countries added some $800 million to their reserves as a result of transactions with the United States.

The increase of some $2.4 billion in the U.S. surplus on current private transactions between January-September 1956 and January-September 1957 was almost entirely due to a temporary sharp expansion in U.S. exports. In the latter period their volume was some 15 per cent, and their value some 18 per cent, greater than in the first three quarters of 1956. There was a substantial expansion in capital goods exports, with smaller increases in those of consumer goods other than automobiles. To a large extent, however, the expansion resulted from abnormal increased demands

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TABLE 16. UNITED STATES: SUMMARY OF BALANCE OF PAYMENTS, 1956—FIRST QUARTER 1958[1]

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

	1956	1957	1956 Jan.-Sept.	1956 Oct.-Dec.	1957 Jan.-Sept.	1957 Oct.-Dec.	1958 Jan.-Mar.
Government transactions[2]	–5,312	–5,658	–4,027	–1,285	–4,308	–1,350	–1,421
Private current transactions							
Exports: Merchandise	17,296	19,301	12,438	4,858	14,665	4,636	4,045
Services	5,726	6,439	4,170	1,556	4,792	1,647	1,379
Imports: Merchandise	–12,791	–13,291	–9,580	–3,211	–9,906	–3,385	–3,176
Services[3]	–4,194	–4,318	–3,220	–974	–3,307	–1,011	–884
Balance	6,037	8,131	3,808	2,229	6,244	1,887	1,364
Private capital transactions							
U.S. capital, net outflow	–2,980	–3,211	–1,901	–1,079	–2,613	–598	–715
Foreign capital, net inflow							
Long-term	542	361	429	113	311	50	37
Short-term[4]	900	899	772	128	901	–2	228
Balance	–1,538	–1,951	–700	–838	–1,401	–550	–450
Errors and omissions	692	876	369	323	984	–108	182
Gold and dollar transfers to official holders[5]	121	–1,398	550	–429	–1,519	121	325

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] 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.

[3] Including private donations.

[4] 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.

[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. Minus sign indicates transfer to the United States.

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for U.S. fuel, as a result of the events of Suez, for wheat, because of crop failures in importing countries, and for cotton, owing to restocking demand at reduced prices. Exports of fuel rose by some 50 per cent and those of agricultural produce by nearly 20 per cent. The disappearance of special demands for U.S. fuel and reduced sales of agricultural products were largely responsible for the decline in U.S. exports in the last quarter of 1957, which, however, also extended to other products, such as industrial supplies and equipment, reflecting the slowing down of economic activity in Canada and the effects of measures taken by a number of countries to curb imports. Thus, in the six months ended March 1958, the volume of U.S. exports was 12 per cent, and the value 11 per cent, less than in the corresponding period of 1956-57.

These sharp movements in exports were accompanied by remarkable stability of imports. The decline in U.S. economic activity had led to expectations that U.S. imports would decline. They were, however, well maintained through the first quarter of 1958. For 1957 as a whole, U.S. imports were greater than in 1956 by roughly 2 per cent in volume, and 3 per cent in value, both volume and value being greatest in the last quarter of the year. Preliminary data indicate a continued high level of imports in the first quarter of 1958 and, during the six months ended March 1958, imports were slightly higher than in the same period of 1956-57. The decline in industrial production was reflected in a reduction of imports of crude and semimanufactured materials (other than petroleum and fuel oil) by some 8-9 per cent in volume and 12 per cent in value. At the same time, however, there was a continued upward trend in other imports which outweighed any recession effects. Imports of petroleum and products, which have risen steadily during the last ten years, advanced from 1956 to 1957 by 9 per cent in volume and by more than 20 per cent in value. The import volume of finished manufactures (excluding newsprint), which had risen by 26 per cent from 1954 to 1955, and by 18 per cent in 1956, increased by a further 11 per cent in 1957. The increase occurred largely in automobiles, the

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number of imported passenger cars in 1957 being more than four times as great as in 1955. The rise in imports of petroleum, as well as in those of manufactures, continued through the first quarter of 1958. Increased imports of foodstuffs further helped to maintain a high level of total imports.

As in every other year since the end of World War II, U.S. Government transactions (including grants and government foreign lending) accounted for an important part of the dollars which became available to other countries. In 1957 the proportion was about 27 per cent and the total, including $250 million drawn by the United Kingdom from the Export-Import Bank, was some $350 million greater than in 1956. In the first quarter of 1958, government expenditure continued at the high level of 1957.

Agricultural exports, which comprise about one fifth of U.S. merchandise exports, were again greatly stimulated by U.S. surplus disposal measures, viz., sales on special terms, including exports under grants and loans and, since 1956, exports of cotton at competitive world prices. The persistence of these sales is an indication of the great difficulty of finding a satisfactory solution for the problems of agricultural surpluses. It is the policy of the U.S. authorities to endeavor to ensure that surpluses disposed of on these terms constitute a net addition to the volume of world trade; in other words, that they represent imports which the recipient countries would not otherwise be in a position to purchase. Clearly, to the extent that surplus disposal prevents other exporters from selling part of their output on ordinary competitive terms in the markets to which the surpluses are exported, such surplus disposal programs would affect adversely the current and prospective foreign exchange earnings of other countries.

Exports of U. S. capital in 1957 were nearly $250 million above the high level of 1956, some decline in short-term lending being more than offset by increased long-term direct and portfolio investment. By far the larger part of the capital outflow took place in the first half of the year, partly in continuation of purchases of oil concessions in Venezuela, which resulted in payments of over $400 million to that country during the first three quarters of the

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year. In comparison with 1956, there was a marked shift in the area distribution of U.S. investment: well over 40 per cent—against less than 30 per cent in 1956—went to Latin America, largely for the development of oil resources, but also for the development of other industries. Venezuela was the main single recipient, but there was also an outflow to Cuba, Colombia, Brazil, Mexico, and other countries. Investment in Canada was slightly less than in 1956. The flow of capital to all areas other than the Western Hemisphere was less than in 1956, partly because in that year the total included a substantial nonrecurring item arising from the sale of the Trinidad Oil Company to a U.S. firm, but also to some extent because of less buoyant business conditions abroad in 1957. Some $200 million went to international organizations, mainly in the form of bond issues by the International Bank for Reconstruction and Development, whose loans were greatly expanded during the year. Preliminary data for the first quarter of 1958 indicate a continued substantial capital outflow, mostly in the form of long-term investment.

In estimating changes in the flow of foreign funds into the United States, the Errors and Omissions item in the balance of payments may be added to the recorded movements of foreign capital, since the most volatile element in the former is probably a capital item and much the same influences produce fluctuations in Errors and Omissions and fluctuations in the movement of foreign short-term funds. Measured on this basis, the inflow of short-term funds in 1957 was some $200 million greater than in 1956. If the two years ended September 1956 and September 1957 are compared, there was a much larger increase of more than $1.1 billion. Most of the increase consisted of funds attracted as a result of apprehensions aroused by the Suez events and, later in 1957, about the stability of sterling and other European currencies; it also included increased Canadian holdings of U.S. dollars representing the unspent proceeds from Canadian issues floated in the United States.

In the last quarter of 1957, there was a certain reflux of foreign funds from the United States. The Errors and Omissions item was

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negative to the extent of over $100 million, and since such current items as are included in Errors and Omissions are probably, on balance, positive, the unrecorded withdrawal of funds, mostly on commercial account, may have been somewhat more than $100 million. This, however, represented only a partial reversal of the inflow of the preceding 12 months. There appears to have been no significant movement of unrecorded capital in the first quarter of 1958.

The surplus of the rest of the world with the United States, which in the 6 months ended March 1958 amounted to about $450 million, continued into the second quarter of the year. In April it amounted to some $350 million, and preliminary data indicate a surplus of similar magnitude in May.

United Kingdom

Production in the United Kingdom was slightly greater in 1957 than in 1956. Government economic and financial policy was directed primarily toward the objectives of elimination of inflation at home and the attainment of a more satisfactory balance of international payments.

The increases over the previous year of about 1½ per cent in real gross national product and nearly 4 per cent in the volume of imports were absorbed by larger investment and consumer expenditure; exports rose very little, and the current expenditure of the public authorities declined.

Two years of big increases in industrial capacity and small increases in industrial production reduced the degree of utilization of capacity. Steel ceased to be a limiting factor in the production of most engineering and allied industries. The number of unemployed increased, while the number of unfilled vacancies fell. By March 1958 unemployment reached 2 per cent of the labor force, the highest in five years.

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Although the pressure of demand was reduced, prices and wages continued to rise, until by October 1957 wage rates were 5½ per cent higher than a year earlier and prices of industrial goods had risen by nearly 4 per cent, although prices of materials used by industry had been falling since the beginning of the year.

This upward movement of prices and wages, which continued a trend that had been observed for a number of years, was among the factors underlying the outflow of short-term funds during the exchange crisis of August-September 1957. To meet this crisis, a number of measures designed to eliminate domestic inflationary pressures and to rectify the position of the short-term capital account were announced on September 19. The bank rate was raised from 5 per cent to 7 per cent; clearing bank advances for the next 12 months were limited to the average level of the preceding 12 months (apart from those connected with certain export credits); and it was announced that the upward trend in public investment was not to continue, the total in 1958-59 and in 1959-60 being kept approximately the same as in 1957-58. Arrangements were also made to mobilize credit from abroad, e.g., by drawing $250 million in October 1957 on the line of credit authorized in December 1956 by the Export-Import Bank of Washington, and by the renewal in December 1957 of the stand-by arrangement with the Fund.

By the end of 1957, and in early 1958, the pressure on the banking system and on the exchanges had clearly subsided. Bank advances to the private sector fell in every month between June 1957 and January 1958. Wages and prices leveled off during the last quarter of 1957 and, though wages rose very slightly, the prices of industrial goods were declining in the first five months of 1958. There was some inflow of short-term funds, the movements of which had helped to place pressure on the reserves during the exchange crisis, and foreign exchange reserves increased very substantially. These developments were followed by the reduction of the bank rate in three stages until in June 1958 it was again 5 per cent, the rate from which it had been raised in September

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1957, and in July measures were also taken to modify the existing controls of credit.

The net surplus on current account in 1957, £200 million, was not very different from that of 1956. The composition of the capital side of the balance of payments was, however, markedly different from what it had been in 1956. During 1957, overseas sterling holdings were reduced by nearly £250 million, compared with a reduction of about £150 million in 1956, while the net outflow on other capital transactions was smaller than in 1956. Thus, even although the over-all balance of payments deficit of about £200 million was much the same as in 1956 (Table 17),[1] there was a considerable improvement in the overseas liquidity position, sterling holdings falling and gold and foreign exchange reserves rising, although partly at the expense of an increase in medium-term and long-term indebtedness.

The downward trend of overseas sterling holdings, when reserves were rising, which contrasted with the upward trend in such holdings which had been characteristic of earlier periods of increasing reserves, was accentuated in early 1958. During the first quarter of the year, there was a payments surplus of nearly £200 million, and overseas sterling holdings fell by £30 million. In April and May, there was a further payments surplus of more than £100 million.

The decline in sterling holdings during the first quarter of 1958 reflected, on the one hand, the drawing down, by £70 million in all, of the holdings of sterling countries, many of whose payments balances were strained by falling export prices, and, on the other hand, an increase of £40 million in the sterling holdings of countries outside the sterling area, which in many cases had been drawn down during the exchange crisis of the previous year.

[1] The U.K. payments balance, as that term is here employed, includes changes in overseas sterling holdings other than the accumulation of sterling funds by the German authorities against future debt repayments, and excludes not only movements in gold and foreign exchange reserves and changes in net EPU and IMF positions but also such forms of official financing as the acquisition of sterling by the German authorities referred to above, the drawing from the Export-Import Bank, and the postponement of debt service on the North American loans.

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TABLE 17. INTERNATIONAL TRANSACTIONS OF THE UNITED KINGDOM AND THE OVERSEAS STERLING AREA, 1955, 1956, AND 1957

(In millions of pounds sterling)

	Total U.K. Transactions			U.K. Transactions with: Overseas sterling area			U.K. Transactions with: Non-sterling area		
	1955	1956	1957[1]	1955	1956	1957[1]	1955	1956	1957[1]
Current account									
Visible trade	–366	–61	–97	–8	83	46	–358	–144	–143
Invisibles[2]	297	290	297	226	224	297	71	66	—
Total	–69	229	200	218	307	343	–287	–78	–143
Investment account									
Long-term[3]	–203	–231	–304	–149	–190	–278	–54	–41	–26
Short-term	70	–70	20	40	–10	–30	30	–60	50
Total	–133	–301	–284	–109	–200	–308	–24	–101	24
Errors and omissions	106	29	134	83	77	194	23	–48	–60
Overseas sterling area transfers	—	—	—	–147	–161	–72	147	161	72
Equal									
Payments balance of overseas sterling area with non-sterling countries, including gold production							186	152	2
Minus									
Changes in overseas sterling area gold and dollar reserves and net IMF position							39	–9	–70
Changes in overseas sterling balances[4]	–134	–156	–246	–45	–23	–157	–89	–133	–89
U.K. payments balance	–230	–199	–196				–230	–199	–196

Sources: *United Kingdom Balance of Payments, 1955 to 1957* (Cmnd. 399), and Fund estimates.

[1] Preliminary.

[2] Includes interest payments due in 1956 and 1957 on North American loans but not actually paid (1956, –37; 1957, –37).

[3] Includes repayment of principal due in 1957 but not actually paid (–26); excludes drawing on Export-Import Bank line of credit (1957, 89).

[4] Excludes changes in IMF sterling holdings (1956, 201) and German advance deposit (1957, 68).

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By the end of June 1958, U.K. gold and dollar reserves had risen to more than £1,100 million, nearly £450 million more than the end-September figure of £660 million to which they had fallen during the exchange crisis of the previous year. During 1957, however, the United Kingdom drew £89 million from the Export-Import Bank, after having previously drawn £200 million from the Fund.

The balance of payments record within each of the two years 1956 and 1957 showed some significant fluctuations. In the first half of 1956 there was a surplus of £100 million, which was followed in the second half of the year by a deficit of £300 million, much the greater part of which occurred in the fourth quarter as a result of the Suez events. In the first half of 1957 there was a surplus of £60 million, followed in the second half of the year by a deficit of £255 million, all of which was incurred during the exchange crisis in the summer.

These fluctuations were attributable mainly to changes in capital flows of different kinds. Between 1956 and 1957 there was little change in earnings on invisibles; the decline in oil earnings resulting from the interruption of Suez Canal traffic affected both the second half of 1956 and the first half of 1957. Despite a slight improvement in the terms of trade, the deficit on visible trade was somewhat greater in 1957 than in 1956. In the first half of 1958 it was considerably smaller than in the year before. The failure of exports to rise markedly (Table 7), which was somewhat disappointing in view of the long disinflationary effort which the United Kingdom had undertaken, may be explained in part by the upward trend of wages and costs; in Continental Europe in particular, the United Kingdom appeared to have lost some ground to German competition.

The net outflow on account of long-term investment transactions increased by some £75 million between 1956 and 1957, when it exceeded £300 million. This increase was largely attributable to the marked rise in the first half of 1957 in the flow of private capital into non-sterling securities through free markets in outlying parts of the sterling area, for example, Kuwait. This out-

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flow, which was associated with a weakening of confidence in sterling, was stopped by new exchange control regulations in July. Recorded short-term capital movements and unrecorded transactions were considerably more favorable to the United Kingdom in 1957 than in 1956. A complete explanation for these variations is not easy to find. In the second half of 1956, on the occasion of the loss of confidence associated with the events of Suez, these items showed an outflow of over £100 million to the non-sterling area; this outflow continued to a lesser extent in the first half of 1957, but in the second half of the year there appeared to be a net inflow of funds from the non-sterling area, despite the confidence crisis in the third quarter.

The payments surplus of £61 million in the first half of 1957 was accompanied by a rise of £64 million in overseas sterling holdings, and the deficit of £257 million in the second half of the year with a running down of £310 million. In relation to the non-sterling area, the causal connection between sterling holdings and U.K. reserves is fairly direct. The decline of more than £80 million (excluding the German advance deposit of £68 million) in the sterling holdings of these countries in the second half of 1957 presumably involved the United Kingdom in a decline in reserves of roughly similar amount. In the case of the sterling area countries it is only the use of their sterling holdings to settle any deficit they may have with countries outside the sterling area which affects the U.K. central reserves.

The over-all payments deficit of the overseas sterling area increased from about £30 million in 1956 to about £225 million in 1957, almost all of the increase occurring in the second half of the year. The deterioration was fully accounted for by a decline in the trade balance which affected all areas; while exports rose in value by less than 4 per cent from 1956 to 1957, imports rose by almost 9 per cent. Declining commodity prices tended to reduce the value of exports in the second half of 1957, but the effect of these price movements was not large until near the end of the year. The payments balance with the non-sterling area deteriorated more markedly than that with the United Kingdom, partly

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because the proportion of the overseas sterling area's total imports that was purchased in the United Kingdom fell, and partly because the overseas sterling area was used in the first half of 1957 as a channel for the export of U.K. capital to the dollar area.

The contribution of the overseas sterling area to the central reserves held by the United Kingdom consists of the payments balance of the area in transactions with the non-sterling area, together with domestic gold production less any change in domestic reserves of gold or of currencies other than sterling. Fluctuations in this contribution helped to accentuate the swings in the U.K. payments balance. It amounted to £120 million in the first half and to £41 million in the second half of 1956. The net contribution of £137 million in the first half of 1957 was in part the result of India's drawing of $200 million from the Fund. In the second half of 1957, on the other hand, the overseas sterling area, for the first time since the second half of 1951, made a net drawing, £65 million, on the central reserves.

The U.K. payments deficit in 1956 was covered entirely by the use of £200 million of Fund resources; and the postponement of payment of interest on the North American loans made it possible for reserves (including the sums segregated in the waiver account) to be £43 million higher at the end of the year than at the beginning. In 1957 the deficit of £196 million was financed by a wide variety of measures, including a drawing of £89 million from the Export-Import Bank line of credit, an increase of £11 million in EPU indebtedness, the accumulation by the German authorities of sterling funds amounting to £68 million against future debt repayments, and the postponement of debt service of £63 million on the North American loans. The net result of all these transactions was that reserves rose by some £35 million.

France

In 1957, as in 1956, there was a rapid rise in output in France, supported in part by inflationary financing, which led to a large

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balance of payments deficit. Since the inflationary effect on the economy was not fully offset by the balance of payments deficit, prices also rose.

After having risen by 12 per cent from 1955 to 1956, industrial production increased by 9 per cent in 1957. The rise was continuous throughout the year: in the last quarter industrial production was 9 per cent above that in the last quarter of 1956. The high level of demand was supported by a high rate of credit expansion, primarily for the private sector in 1956 and for the government sector in 1957. In spite of various measures, inflationary pressures threatened both the internal and the external stability of the currency throughout most of 1957. Measures of credit restraint, together with a large decline in exchange reserves, prevented the money supply from expanding much faster than the increase in real output. Inflationary pressures nevertheless made themselves felt, because of a marked increase in the velocity of circulation of money. The total wage bill increased by at least 12 per cent in 1957 (against 11 per cent in 1956 and 10 per cent in 1955), as a consequence of an increase of about 11 per cent in hourly wage rates.

The French balance of payments, which had shown a surplus of about \$900 million in 1955, swung in 1956 to a deficit of about \$800 million, which was followed by a deficit of over \$1 billion in 1957 (Table 18). Of the 1957 deficit, some \$262 million was financed by drawing on the International Monetary Fund, and \$176 million by credit from the European Payments Union. The deficit would have been still larger if some \$250 million of the foreign currency working balances of the private banks had not been called in by the exchange stabilization fund to supplement official reserves.

In both 1956 and 1957 the deterioration in the payments balance was attributable partly to a decline in U.S. aid and military expenditure in the franc area, which together were at least \$700 million less in 1957 than in 1955. But the main reason for the

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TABLE 18. INDUSTRIAL CONTINENTAL OEEC COUNTRIES, UNITED KINGDOM, AND JAPAN: TRADE AND PAYMENTS BALANCES AND OFFICIAL RESERVES, 1955, 1956, AND 1957

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

	Trade Balance			Payments Balance[1]			Official Reserves, End of 1957[2]	Official Reserves as Per Cent of Imports, 1957
	1955	1956	1957	1955	1956	1957		
Austria	-188	-125	-149	-51	45	104	510	45
Belgium-Luxembourg	-54	-110	-246	95	16	-61	1,132	33
France[3]	172	-1,015	-1,059	921	-772	-1,019	775	13
Germany, Federal Republic of	342	741	1,076	441	1,215	1,353	5,644	75
Italy	-855	-1,029	-1,086	132	91	267	1,532	42
Netherlands	-520	-862	-1,007	1	-205	-85	1,056	26
Norway	-457	-439	-452	10	36	19	184	14
Portugal	-113	-143	-214	16	22	-6	687	137
Sweden	-271	-264	-281	-8	3	-17	456	19
Switzerland	-182	-324	-404	9	47	25	1,918	98
United Kingdom[4]	-2,399	-1,591	-1,728	-645	-557	-549	2,374	21[5]
Japan	-460	-729	-1,426	379	168	-678[6]	1,019	24
Total	-4,985	-5,890	-6,976	1,300	109	-647	17,287	36

Source: Based on data from International Monetary Fund, *International Financial Statistics*.
[1] Measured by changes in gross official reserves of gold and foreign exchange (with adjustments for the United Kingdom and Japan indicated in footnote, page 87, and in footnote 6, below), in net EPU positions, and in net IMF positions.
[2] Reserves of gold and foreign exchange, including EPU credit balances.
[3] Trade balance with foreign countries and overseas franc area. The ratio of reserves to imports relates to total imports of Metropolitan France; the ratio of reserves to imports of the franc area was about the same.
[4] See footnote, page 87.
[5] Ratio of reserves to total imports of the United Kingdom. The ratio of reserves to sterling area imports from non-sterling countries was 16 per cent, according to preliminary estimates.
[6] Measured by changes in gross official reserves (in 1957 net of drawing on credit from Export-Import Bank of Washington) and in net IMF position.

growing payments deficit was a rapid expansion of industrial output under conditions of excessive demand pressure. These developments caused a sharp deterioration in the trade balance with countries outside the franc area, despite the application of import restrictions. The trade balance as a whole showed little deterioration in 1957 (Table 18), but the significance of this fact was diminished by the increased drain imposed by "unrequited exports" to the franc area.

During 1956, the French authorities had concentrated their efforts on preventing internal demand pressures from affecting prices, and the expanding import surplus played a useful role in keeping prices down. In 1957, with reserves dwindling and imports still increasing, the policy had to be changed. In March

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measures were imposed requiring advance deposits against imports, stricter import licensing, and an increase in the rate and coverage of the compensatory import tax. In June import liberalization was suspended, and the Government took steps to reduce the inflationary budgetary gap by cutting investment expenditure and subsidies and raising taxes. The attempt to peg the price level by budgetary means was progressively abandoned, and the cost of living began to rise markedly with the threat of wage increases to follow. In two steps, taken in August and in October, a system was established whereby a 20 per cent surcharge was imposed on all outgoing payments and a 20 per cent premium was paid on all incoming payments. This was equivalent to a devaluation of the franc. At the same time, the existing export subsidies in the form of tax and social security rebates and the compensatory import tax were eliminated. Finally, in December 1957, a law was passed which set quantitative limits both to aggregate treasury expenditure and to the treasury deficit in 1958. This deficit was fixed at 600 billion francs, against about 1,000 billion in both 1956 and 1957. Measures were also taken to limit credit for housing and other medium-term credits and to reduce short-term credit.

The sharp reduction in imports substantially reduced the drain on foreign exchange reserves in the last quarter of 1957, and the anti-inflationary measures taken in December resulted in an immediate improvement in the free gold and dollar markets. However, reserves were still low, and in January 1958 substantial foreign credits were arranged to buttress them. A second stand-by credit of $131 million was provided by the Fund, following one of twice that amount which had been granted in October 1956 and subsequently fully used. In addition, $250 million was obtained from the EPU, and $274 million from the United States, the latter credit largely in the form of deferment of debt service.

In the early months of 1958 industrial production continued to rise, but at a somewhat slower rate than in the three preceding years. Credit to the private sector showed a decline and the Treasury's position improved. Prices rose only moderately. How-

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ever, imports were higher and exports lower than had been expected, and the persistence of a balance of payments deficit showed that there was still excessive demand. Evidence of increasing confidence was given by the success of a government loan, the repayment of which is tied to the price of the napoleon, and the increased supplies of gold in the market which allowed substantial purchases by the Bank of France in June.

Federal Republic of Germany

The real gross national product of the Federal Republic of Germany increased by 4½ per cent in 1957, which was slightly smaller than the rate of increase in 1956. The growth of domestic investment slowed down and construction fell a little, but the export demand for capital goods helped to raise the average level of production in investment goods during 1957 to 4 per cent above 1956. In early 1958, when export demand began to fall, the policy of encouraging credit expansion and of lower interest rates helped to stimulate domestic business investment. Hourly industrial wage earnings rose by more than 8 per cent in 1957, and during the first two months of 1958 standard wages and salaries were raised by 5-6 per cent for some 4½ million persons.

Although there were signs during 1957 of the termination of the export boom, the value of exports in 1957 was 17 per cent greater than in 1956, an increase as large as that of the preceding year. Exports to the independent countries of the sterling area, especially India and the Union of South Africa, increased by more than 30 per cent, and to the dollar area and the Bekomark agreement countries[2] by more than 20 per cent. The increase in exports to the continental OEEC countries was proportionately smaller.

Rising exports thus continued in 1957 as a strong expansionary factor. In previous years the effects of this factor had been offset in part by the contractionary effect of budget surpluses which had

[2] Countries in Eastern Europe, non-dollar countries other than Chile in Latin America, Spain, Finland, Egypt, Iran, and Japan.

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run as high as DM 2.9 billion in the fiscal year 1955. These surpluses ceased, however, in the last quarter of 1956, and in the calendar year 1957 there was a federal government deficit of about DM 2.5 billion. Since the change was due mainly to increased foreign payments by the Federal Government (arising chiefly from substantial prepayments to foreign manufacturers for future delivery of military equipment), the impact of the change in government finance was felt directly on the balance of payments; the domestic impact of the budget was approximately neutral.

As in earlier years, the rise in gross national product by about 7½ per cent was accompanied by a much larger proportional increase (13 per cent) in imports. Practically the whole of this was due to greater volume. The increase must in part be attributed to certain measures taken with the intention of increasing imports, notably a reduction in September of customs duties on industrial products. Imports of manufactures, which were already running considerably higher than in 1956, rose further until in the last quarter of the year their value was greater by 40 per cent than in the year before. However, semifinished and finished goods still accounted for little more than one fifth of the total value of German imports.

As exports increased more rapidly than imports and the balance on service transactions improved, Germany's surplus on goods and services rose further from $1,300 million in 1956 to $1,835 million in 1957. However, this increase was offset by larger government payments. Advance payments for imports of military equipment increased from $57 million to $459 million, and unilateral transfers, arising mainly from restitution and indemnification claims, rose from $263 million to $393 million. The outflow of long-term capital also increased from $129 million to $168 million, the difference being due almost entirely to changes in private long-term investment, which showed a net outflow of $30 million, in contrast to a net inflow of $3 million in 1956. Thus the aggregate balance on all these items showed a surplus of about $800 million, slightly smaller than the 1956 surplus of about $860 million. However, with a further increased surplus from short-

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term capital movements, due mainly to net changes in the "leads and lags," of about $540 million, Germany's gross official gold and foreign exchange holdings, which had increased by $1,215 million in 1956, increased further by $1,353 million in 1957 (Table 18). The speculative movement of capital into Germany occurred mainly in the third quarter of the year, when, as measured by the net change in the residual item of the balance of payments, it reached about $500 million. This was followed by an outflow in the last quarter both on unidentified transactions and on recorded short-term capital items.

The precautionary policy of preventing increases in foreign exchange reserves from having an inflationary effect was continued. Among the measures taken for this purpose were open market sales of government securities amounting to DM 2.6 billion (about $620 million) in 1957, increased reserve requirements, especially for foreign-owned deposits, and a reduction of the rediscount quotas granted to commercial banks.

Although the growth of exports slackened, a large trade surplus was maintained during the first four months of 1958, partly as a result of improved terms of trade. Much of the current surplus was again offset by outgoings on government account, and by a continued outflow of short-term capital and unidentified transactions. However, reserves, which had fallen by $230 million during the five months after the speculative activities provoked by expectations of exchange adjustments had died down at the end of September 1957, again increased by some $90 million in March and April 1958.

Italy

Despite a notable expansion of internal activity and a deterioration in the terms of trade, Italy's payments surplus increased from 1956 to 1957. Total output (including agriculture) grew more markedly from 1956 to 1957 than in the previous year and, since the expansion was particularly marked in labor-intensive

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consumer goods industries, there was a considerable fall in the number of registered unemployed. The rise in exports exceeded the rapid growth achieved between 1955 and 1956, and tourist receipts, net shipping earnings, and emigrant remittances again rose substantially. While there was some decline in private capital imports, this was outweighed by certain extraordinary factors, such as imports of $70 million of U.S. surplus commodities on credit, and greater recourse to foreign credit for import financing.

In view of the continued strength of the Italian internal and external position, the speculative movements in European exchange markets in July-September 1957 had little or no effect upon the Italian balance of payments.

In the first quarter of 1958 the decrease in the rate of growth of industrial production, which had become apparent in the latter part of 1957, was further accentuated and imports fell. These developments appear to have been due primarily to a reduction in inventories caused by falling world prices for raw materials.

Netherlands

In the Netherlands, fiscal and monetary policies were the main instruments used both to bring excessive demand under control in the course of 1957 and to combat a sharp rise in unemployment in late 1957 and in early 1958. During the boom of 1956-57 the monetary authorities followed a policy of credit restraint, raising the discount rate in five steps from 2.5 per cent in February 1956 to 5 per cent in August 1957. A program of fiscal measures to restrict domestic expenditure was announced in February and put into operation beginning in April 1957. The corporate profits tax and turnover and excise taxes were increased, subsidies were reduced, and special tax facilities were suspended so that private investment might be discouraged. Further reductions in public expenditure and increases in certain taxes were included in the 1958 budget presented in September 1957, and measures were taken to curb short-term financing of house building.

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Internal demand, particularly for fixed investment and inventories, remained buoyant in the first half of 1957, and led to a further deterioration of the trade balance during that period. In the second half of the year, the measures taken earlier and the less favorable business prospects abroad began to produce a closer balance between supply and demand, both internally and externally. Expenditure for private consumption and fixed investment (particularly building) tended to decline, and there was some reduction in inventories toward the end of the year. Imports tended downward and exports upward. In the third quarter, the improvement was masked by a large outflow of capital in response to which further specific measures were taken; this outflow was reversed later in the year, and there was a further inflow on capital account as the Netherlands Government placed one-year treasury bills to an amount of $53 million with a German bank. In September the reserve position of the Netherlands was protected by a drawing of $68,750,000 from the Fund, and by a stand-by arrangement for a similar amount. This arrangement was canceled in March 1958, six months before it was due to expire.

For 1957 as a whole, disinflationary policies led to an increase in real output over the preceding year that was somewhat less than in 1956 (about 2 per cent against 4½ per cent), but they brought about a pronounced change in international transactions: the volume of imports of goods and services, which had risen by 15 per cent from 1955 to 1956, increased by only 3 per cent from 1956 to 1957; and the volume of exports of goods and services, which had expanded by 6 per cent from 1955 to 1956, grew by 5 per cent from 1956 to 1957. Fixed investment for the year as a whole was still some 4 per cent higher in real terms than in 1956, against a rate of growth of 15 per cent between 1955 and 1956; consumption, which had grown by 8 per cent in the previous year, was substantially the same as in 1956.

The decline in foreign exchange reserves during the first nine months of 1957 tended to reduce the liquidity of the banks, though this was offset in part by a decrease in their reserve ratios. The net contractionary influence helped bring about a tightening of

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the money markets and a sharp increase in interest rates which, together with the restrictive fiscal measures, led to a slowing down of economic activity. In the last quarter of 1957 and the first quarter of 1958, industrial production was below that of the corresponding period a year earlier, and in the first quarter of 1958 unemployment had risen to more than 3 per cent of the labor force.

Japan

The investment boom in Japan, reflected in an increase of almost 60 per cent in private expenditure on durable equipment and inventory accumulation during 1956, continued unabated in the first half of 1957, and caused an even sharper deterioration in Japan's balance of payments than in 1956. Manufacturing output rose at an accelerating rate, a 10 per cent increase between the two halves of 1956 being followed by one of 13 per cent from the second half of 1956 to the first half of 1957. Increasing strains on steel, transport, and generating capacity, and the liberalization of imports, particularly of raw materials, caused an even greater acceleration in the growth of imports. As a result of increased imports of metals and ores, fuels and machinery, and also of textile materials, the volume of imports rose almost three times as fast (by 28 per cent, compared with 10 per cent) between the second half of 1956 and the first half of 1957 as between the two halves of 1956. At the same time, the volume of exports declined slightly. The consequent increases in the trade deficit and in net expenditure on shipping services transformed the over-all payments picture; the payments surplus fell from $120 million to $48 million between the two halves of 1956, and in the first half of 1957 there was a deficit of $514 million.

Following a series of corrective measures, beginning with the raising of interest rates and restrictions on credit in May, the deficit in the second half of 1957 was reduced to $164 million. Japan drew $125 million from the Fund and $65 million from a

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credit of $115 million granted by the Export-Import Bank of Washington for the purchase of U.S. cotton and foodgrains, and official reserves actually rose during this period by about $25 million. By postponing investment and other expenditure, reducing food stocks, and reselling securities purchased earlier by the Finance Ministry, the Government sought to achieve a budget surplus of $300 million instead of the $100 million deficit originally contemplated for 1957-58. A sharp increase in advance deposit requirements and restriction of credit facilities for imports were followed by cuts in the exchange allocation for cotton and wool imports in the second and third quarters of 1957 and a smaller total allotment for the next two quarters. In the latter part of 1957 investment demand receded and the pace of credit expansion also slackened somewhat. In the fiscal year ended March 1958 the budget surplus which was the Government's objective was actually surpassed, and in the first quarter of 1958 there was a payments surplus of $113 million. As demand receded, inventories of finished goods accumulated. Manufacturing output began to decline in June: whereas in May it had been 28 per cent higher than a year earlier, in December it was only 2 per cent above production in December 1956. In March 1958 it was scarcely higher than a year before. The volume of imports fell in the second half of 1957, when it was only 7 per cent higher than in the second half of 1956. The volume of exports was some 11½ per cent higher, so that the ratio of exports to output, which had fallen sharply in the first half of the year, was by the end of the year again about the same as it had been a year before. The fact that Japanese exports rose less from 1956 to 1957 than from 1955 to 1956 seems to have been due less to pressure of internal demand than to the quite exceptional increase in exports of ships from 1955 to 1956, which could not be repeated in 1957. Although the expansion of textile exports to the United States and certain other markets was still hampered by the restrictions imposed by the Japanese authorities to forestall protective action by those countries, total textile exports increased nearly as rapidly as from 1955 to 1956.

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Countries Exporting Tropical Foods, Oilseeds, and Vegetable Oils

A decline in coffee prices and cautious buying by importers cut the export receipts of the major coffee producing countries in 1957 (Tables 19 and 20). In Brazil and Colombia, earnings from coffee exports declined by some 18 per cent from 1956 to 1957, in Brazil largely because of a smaller export volume, and in Colombia because of the much sharper decline in the prices of

TABLE 19. TRADE OF EXPORTERS OF TROPICAL FOODS, OILSEEDS, AND VEGETABLE OILS, 1956 AND 1957

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

	Exports f.o.b.			Imports c.i.f.		
	1956	1957	Percentage change	1956	1957	Percentage change
Exporters of coffee						
Brazil	1,482	1,392	–6	1,234	1,489	21
Colombia	599	520	–13	657	477	–27
Costa Rica	67	84	25	91	103	13
El Salvador	113	138	22	105	115	10
Guatemala	124	114	–8	138	149	8
Haiti	42	30	–29	50	37	–26
Nicaragua	58	64	10	69	81	17
Ethiopia	63	85	35	63	78	24
Total	2,548	2,427	–5	2,407	2,529	5
Exporters of other tropical foods						
Cuba	686	809[1]	18	714	800[1]	12
Dominican Republic	125	161	29	126	136	8
Jamaica	107	136	27	163	186	15
Panama	31	38	23	98	116	18
Ecuador	115	132	15	108	110	2
Ghana	222	229	3	249	270	8
Ceylon	364	353	–3	342	379	11
China (Taiwan)	118	148	25	194	212	9
Honduras	73	72	–1	67	75	11
Total	1,841	2,078	13	2,061	2,284	11
Exporters of oilseeds and vegetable oils						
French West Africa	343	335	–2	381	409	7
Philippines	437	429	–2	597	725	21
Nigeria	377	356	–6	428	425	–1
Total	1,157	1,120	–3	1,406	1,559	11
Total	5,546	5,625	1	5,874	6,372	8

Source: Based on data from International Monetary Fund, *International Financial Statistics.*
[1] Exports are preliminary and are not adjusted for undervaluation, which amounted to some $20 million in 1956. Imports are preliminary and include estimate for government imports not recorded in custom data.

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"mild" types of coffee. Both countries, in accordance with domestic support programs and the obligations of the Mexico Agreement of October 1957, engaged in heavy government stockpiling of coffee.

The decline in *Brazil's* receipts from coffee exports was partly offset by a substantial expansion of various "minor" exports, such as iron ore, which have gained importance in recent years, and by a slight increase in earnings from cocoa exports; earnings from cotton declined chiefly as a result of lower production. The total value of Brazil's exports in 1957 was some $90 million, or 6 per cent, less than in 1956.

Government deficit financing, large-scale purchases of coffee for stockpiling, which by early 1958 amounted to one fifth of the 1957-58 crop, and credit expansion for other purposes, caused a rise in demand for imports. The increase in imports—which was further stimulated by a considerable appreciation of the certificate

TABLE 20. TRADE AND PAYMENTS BALANCES AND OFFICIAL RESERVES OF EXPORTERS OF TROPICAL FOODS, OILSEEDS, AND VEGETABLE OILS, 1956 AND 1957

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

	Trade Balance		Payments Balance[1]		Official Reserves, End of 1957	Official Reserves as Per Cent of Imports, 1957
	1956	1957	1956	1957		
Exporters of coffee						
Brazil	248	-97	149	-176	474[2]	—
Colombia	-58	43	-4	14	145	30
Costa Rica	-24	-19	-8	—	12	12
El Salvador	8	23	-3	5	40	35
Guatemala	-14	-35	16	4	74	48
Haiti	-8	-7	-1	-2	4	11
Nicaragua	-11	-17	-7	2	11	14
Ethiopia	—	7	2	7	64	82
Exporters of other tropical foods						
Cuba	-28	9	-27	-50	441	55
Dominican Republic	-1	25	2	8	46	33
Ecuador	7	22	-1	3	39	35
Panama	-67	-78	—	-13	30	26
Ceylon	22	-26	18	-36	183	48
China (Taiwan)	-76	-64	18	29	108	51
Honduras	6	-3	-1	-5	15	20
Exporters of oilseeds and vegetable oils						
Philippines	-160	-298	1	-90	71	10

Source: Based on data from International Monetary Fund, *International Financial Statistics*.
[1] Measured by changes in gross official reserves and net IMF positions.
[2] Reserves include $200 million pledged as collateral.

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rate as foreign exchange reserves that had been accumulated earlier were fed into the auction market—amounted to more than $250 million for 1957 as a whole. Reforms of the exchange system introduced in August and September of 1957—which are described in detail in Chapter VI—had little effect on imports. In the last quarter of the year, however, a temporary recovery of exports together with a fall in imports resulted in a trade and payments surplus, and a drawing of $38 million from the Fund helped further to replenish reserves.

In the early months of 1958, coffee exports declined sharply as the expectation of a large crop in the 1958-59 season exerted a downward pressure on prices and led to restrained buying. Internal inflation increased, exchange reserves dwindled, and there was a sharp depreciation of the certificate rate.

In *Colombia,* because of the sharp decline in receipts from coffee exports, total exports in 1957 were some $80 million, or 13 per cent, less than in 1956. Nevertheless, instead of a trade and payments deficit such as had been recorded in the two previous years, Colombia had a surplus in 1957; there was a small increase in reserves, and the large arrears in commercial payments, which had increased in the two previous years, were settled partly in cash, partly with the aid of substantial new external credits, and partly in notes falling due over the next few years. In the first half of 1957, a sharp reduction in imports was achieved mainly by quantitative restrictions and prohibitions, which kept imports down to an annual rate of $400 million, in contrast to an annual rate of well over $700 million in the first half of 1956.

In June 1957 a stabilization program was adopted, the purpose of which was to bring inflation under control and to keep down demand for imports by means of monetary policy and the adoption of a reformed exchange system, based upon a fluctuating exchange rate, which is described in Chapter VI. The system of advance deposits on imports was maintained, and on a number of occasions the deposit requirements were increased.

Continued budget deficits and central bank financing of coffee stockpiling placed severe pressure upon the new system. These

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factors, and the existence of a pent-up demand for imports, which had hitherto been kept in check, led to depreciation of the exchange rate. Early in 1958 the depreciation of the rate accelerated and reserves declined. In response to these developments, the authorities adopted various measures in February 1958 to relieve the pressure. From the end of March most of the burden of stockpiling was placed upon the coffee sector of the economy by requiring exporters to surrender, without compensation, an amount of coffee equal to 15 per cent of their exports, while in order to restrict credit further, rediscount facilities were cut by 20 per cent. Further adjustments in the exchange system, which are also described in Chapter VI, were made in March.

Export receipts rose between 1956 and 1957 in most of the countries whose main exports are other tropical foods and oilseeds. However, in several of these countries—and notably in Cuba, Ceylon, and the Philippine Republic—imports, largely of capital goods for accelerated investment, rose sufficiently to cause a considerable deterioration in the trade and payments balance; in Ceylon imports of food, and in the Philippine Republic imports of other consumer goods, which were intended to soften the impact of excess demand on domestic prices, also contributed to this deterioration.

The steep rise in "world" prices for sugar in the course of the first half of the year, which is the peak season for Cuban sugar exports, together with a small rise in export volume, raised *Cuba's* export receipts in 1957 by some $120 million over 1956. However, the payments deficit amounted to some $50 million. Short-term and medium-term government indebtedness at the end of 1957 amounted to $160 million, repayable within the next five years. As in previous years, balance of payments developments were largely determined by the government development program which is designed to reduce Cuba's dependence on sugar exports. Further increases in imports and borrowing abroad were due mainly to rising purchases in connection with this program. Internal credit expansion, generated primarily by government deficit spending, continued in 1957 without, however, visibly affecting the

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price level, probably in part because imports continued to rise at the same time. Late in 1957, various steps were taken to curb credit expansion in the private sector, and, in order to discourage imports of durable consumer goods, banks were advised to raise the rate of interest on advances for these imports from 5 per cent to 7 per cent.

The prices of the main export products of the *Philippine Republic* were slightly higher in 1957 than in 1956, and they were not affected by the general weakening of prices in the latter part of the year. Export receipts were much the same as in 1956, but imports, which in 1956 had been checked by intensified restrictions, rose sharply, as internal inflation continued. Agricultural, mining, and manufacturing production was 6 per cent greater than in 1956, though the rate of growth was somewhat smaller. The domestic boom was encouraged by deficit-financed development expenditures, a policy of cheap money, and rapid expansion of bank credit. Bank credit to the private sector increased by 20 per cent between the end of 1956 and the end of 1957, compared with an increase of 13 per cent the previous year. The balance of payments deficit was financed by drawing on foreign exchange reserves, which fell during the year by more than half. This partly offset domestic inflationary pressures, and in 1957 the cost of living index, which had increased by 5 per cent in 1956, rose by only 1 per cent.

During the course of 1957, a series of internal measures were taken in order to curb inflation. The cheap money policy was reversed by a reduction of the amount of rediscounts and by successive increases in the discount rate. Advance deposit requirements for nonessential imports were raised to 100 per cent in October, and to 200 per cent in December. Import restrictions were also intensified. The Government postponed certain expenditures and reduced its estimate of the deficit in the 1957-58 budget. Provision is made in the 1958-59 budget for increases in expenditure (especially for development) which exceed the increases in taxation approved by the Congress.

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

Wool prices were high in the first half of 1957 and, in spite of a sharp decline in the last quarter, the average for the year as a whole was above the 1956 average. The export earnings of Australian producers increased considerably, but the stagnation of exports that in Argentina and Uruguay followed the price decline of the last quarter more than offset the gains which had accrued to these countries earlier in the year. With some exceptions—particularly meat, dairy products and long staple cotton—the prices of the main products exported by the countries in this group were well maintained in 1957; for most of these countries export receipts were higher than, or nearly the same as, in 1956. But only a few showed marked improvement in their trade and payments balances. In most of the other countries demand pressure, frequently connected with high and rising investment, caused a considerable increase of imports with a consequent deterioration in the trade and payments positions (Tables 21 and 22).

Although severe drought reduced *Australia's* exportable supplies of wheat, high earnings on wool and a considerable increase in the volume and range of exports raised export receipts in 1957 by some $320 million over the 1956 total. Most of the increase was in the first half of the year; exports in the second half were only slightly higher than in the corresponding period of 1956. In the early months of 1958 exports were adversely affected by reduced wool prices. Import restrictions, which had been intensified in the two preceding years, were relaxed by stages in early 1957; moreover, import duties on more than 800 items were reduced under the terms of a trade agreement with the United Kingdom. In response to these measures imports increased in the course of the year; but for the year as a whole they were slightly less than in 1956, and the trade balance showed a large surplus. Net capital inflow, including a further drawing on an IBRD loan, was somewhat smaller than in 1956, and the substantial addition to foreign reserves was due primarily to favorable trade developments.

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TABLE 21. TRADE OF EXPORTERS OF TEXTILE FIBERS, LIVESTOCK PRODUCTS, GRAIN, AND TOBACCO, 1956 AND 1957

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

	Exports f.o.b.			Imports c.i.f.		
	1956	1957	Percentage change	1956	1957	Percentage change
Exporters of wool and livestock products						
Australia	1,887	2,205	17	1,964	1,931	–2
New Zealand	777	772	–1	751	830	11
Argentina	944	975	3	1,128	1,310	16
Uruguay	211	128	–39	206	226	10
Ireland	303	367	22	512	517	1
Denmark	1,112	1,174	6	1,311	1,359	4
Total	5,234	5,621	7	5,872	6,173	5
Exporters of vegetable fibers, grain, and tobacco						
Egypt	409	493	21	535	524[1]	–2
Sudan	192	138	–28	130	181	39
Greece	190	220	16	464	525	13
Turkey	305	345	13	407	397	–2
Syria	158	153	–3	187	171	–9
Pakistan	340	337	–1	417	440	6
Total	1,594	1,686	5	2,140	2,238	5
Exporters of rice						
Burma	246	215	–13	198	297	50
Thailand	334	366	10	365	404	11
Total	580	581	—	563	701	25
Total	7,408	7,888	6	8,575	9,112	6

Source: Based on data from International Monetary Fund, *International Financial Statistics.*
[1] Not including certain government imports.

Demand pressure, which in earlier years had led to excessive imports and caused payments difficulties, was not acute in 1957. The rise in farm incomes and subsequent increase in spending were tempered by drought conditions; any additional demand could be met, to an increasing extent, from domestic manufacturing output which had grown as a result of heavy investment in previous years. The relaxation of import controls, the reduction of stocks accumulated previously, and an increased budget surplus all helped to check inflationary tendencies; retail prices and wages increased only slightly in the first half of 1957, and were stable in the second half. The steady rise in imports throughout 1957 which continued in the early months of 1958 was thus attributable to relaxed re-

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TABLE 22. TRADE AND PAYMENTS BALANCES AND OFFICIAL RESERVES OF EXPORTERS OF TEXTILE FIBERS, LIVESTOCK PRODUCTS, GRAIN, AND TOBACCO, 1956 AND 1957

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

	Trade Balance		Payments Balance[1]		Official Reserves, End of 1957	Official Reserves as Per Cent of Imports, 1957
	1956	1957	1956	1957		
Exporters of wool and livestock products						
Australia	-77	274	118	368	1,321	68
New Zealand	26	-58	15	-56	138	17
Argentina	-184	-335	-38	-146	311	24
Uruguay	5	-98	27	-51	180[2]	81
Ireland	-209	-150	-9	29	258	50
Denmark	-199	-185	14	12	172	13
Exporters of vegetable fibers, grain, and tobacco						
Egypt	-126	-31[3]	-90	-116	465	89[3]
Sudan	62	-43	47	-13	116	64
Greece	-274	-305	1	-14	196	37
Turkey	-102	-52	19	78	315[4]	—
Syria	-29	-18	14	-8	54	32
Pakistan	-77	-103	3	-82	291	66
Exporters of rice						
Burma	48	-82	14	-28	93	31
Thailand	-31	-38	13	18	329	80

Source: Based on data from International Monetary Fund, *International Financial Statistics.*
[1] Measured by changes in gross official reserves, net IMF positions, and net EPU positions.
[2] Gold holdings at end of November 1957.
[3] Based on trade data, not including certain government imports.
[4] Much of the convertible part of these reserves is pledged as collateral.

strictions and did not reflect inflationary pressure. Toward the end of 1957 and in early 1958, the Commonwealth Bank indicated its approval of some easing of credit. It was announced in March 1958 that there would be no further relaxation of import restrictions, and that the ceiling of £A 800 million per year which had previously been fixed for total imports would be maintained.

In *Argentina,* inflationary pressures increased during 1957, and the balance of payments position deteriorated. The main factors were large wage increases and credit expansion in both the public and the private sector, despite some measures of monetary control. The cost of living, which was fairly stable in late 1957 and fell a little in January 1958, then rose again. By April 1958 it was 24 per cent higher than a year before, and this movement gave rise to demands for further wage increases.

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Industrial and agricultural production were somewhat greater than in the previous year. The slight increase in exports between 1956 and 1957 was due mainly to larger shipments of meat, edible oils, and a number of nonagricultural products. Exports of wheat and corn lagged on account of reduced crops. Wool exports, which had been high in the first part of the year, stagnated later as adjustments in the *aforos* failed to keep pace with the sharp fall in prices. The increase in other exports, despite rapid inflation, was made possible by a gradual depreciation of the effective export exchange rate. This was achieved by channeling an increasing amount of exports through the free market and by a gradual reduction of export taxes. The sharp rise in imports which accounted for the widening of the trade deficit was heavily concentrated in fuel and capital goods, encouraged by the ready availability of bank credit. Substantial use was made of foreign credit. Imports of machinery were admitted from May 1957 only on the condition that importers were able to secure foreign credit for a period of 4-8 years for at least 80 per cent of the import value. The effect of internal inflation on import demand for consumer goods was checked, however, by the maintenance of strict import controls, and the requirement of advance deposits for imports was substantially extended at the beginning of 1958 to cover most private imports.

The impact of the greatly increased trade deficit on reserves was mitigated by drawing $75 million from the Fund. The Government also obtained short-term credits from U.S. private banks to the amount of $27 million, as well as a credit from the Export-Import Bank for the importation of railway equipment.

The widening of *Denmark's* trade deficit in the first five months of 1957, when its seasonally lower exports were accompanied by a sharp increase in imports, resulted in a recurrence of the drain on reserves and some increase in foreign short-term debt. In view of these developments, the Government introduced, in June 1957, a series of fiscal measures, including a forced saving scheme and increases in various indirect taxes, designed to reduce domestic demand and thus to contribute to closing the trade gap. To

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strengthen Denmark's very small reserves, $34 million was drawn from the Fund.

The balance of payments improved in the second half of the year, when exports increased and imports were brought down. Correction of the imbalance was made more difficult, however, by adverse price movements; the prices of Denmark's main export products were much lower in 1957 than in 1956 while import prices were higher for the year as a whole. Thus, the value of agricultural exports, in spite of some expansion of their volume, was less than in 1956; the rise in the total value of exports was due to increased receipts for manufactures, including processed foods. However, reserves increased steadily from mid-1957 through the first months of 1958, while foreign liabilities declined, and at the end of March Denmark repurchased kroner to the value of $10 million from the Fund.

The improvement of Denmark's payments situation in the second half of the year was accompanied by a renewed slackening of the domestic economy. Manufacturing production, which had recovered and reached a peak during the first half of the year, declined again in the second half; for the year as a whole, production was greater than in 1956 by 4 per cent, but it was only 2 per cent higher than in 1955.

Exports of *Egypt* were considerably higher in 1957 than in 1956, partly because of a backlog of shipments deferred in late 1956. Large receipts from canal tolls during the second half of 1957 offset part of the loss in the first quarter and, for the year as a whole, these receipts were not much lower than the average of recent years. There was a further marked shift of Egypt's export trade to the Soviet area and Mainland China; nearly half of its total exports was directed to these markets in 1957, compared with one third in the preceding year. Exports to other areas declined somewhat, though special incentives were offered to cotton exporters in the form of premiums for sales against the most needed currencies and of the authorization of barter deals in order to secure essential imports. These measures were replaced in February and March 1958 by a new system which, by means of an

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Egyptian "export pound," resulted in a *de facto* depreciation of 21 per cent for most transactions other than those with the Soviet area, Mainland China, and certain Middle Eastern countries.

Egyptian balance of payments data, based on exchange records, indicate an increase of imports by some $60 million and a trade deficit of about $148 million. Roughly one third of the decline of some $100 million in official reserves is attributable to the current account deficit; some two thirds reflects financial settlements with the Sudan in connection with the withdrawal of Egyptian currency from circulation in that country.

The rise in wholesale prices was halted in the second quarter of 1957 by several coordinated monetary and fiscal measures. The budget deficit was reduced by a sharp decrease in development expenditure, increased receipts of the Suez Canal Authority toward the end of 1957, and improved tax collection. Government borrowing from the banking system was less in 1957 than in 1956, and although there was a considerable increase in bank credit to the private sector, the rate of increase in the money supply was reduced during the year.

The payments position of the *Sudan* deteriorated sharply in 1957, when there was a deficit of $13 million, compared with a surplus of $47 million in 1956. The payments deficit would have been considerably larger in 1957 had it not been for the financial settlement with Egypt mentioned above. Exports of cotton were hampered by the failure to adjust domestic prices to the decline in cotton prices in other markets and there was a sharp increase in imports. The payments position in 1958 was still difficult, for, although cotton prices have been made competitive, the 1957-58 cotton crop was only about one third the size of the crop of the previous year, and the Government found it necessary to intensify import restrictions and to reduce government expenditures, particularly on development. Despite the payments deficit, exchange reserves did not decline substantially in 1957, because of the financial settlement with Egypt.

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Countries Exporting Metals, Rubber, and Petroleum

The decline in the prices of metals and rubber in 1957 adversely affected the export receipts and the terms of trade of countries that are largely dependent on these products; nevertheless, any serious payments difficulties that arose in these countries were as much due to high or rising imports (Tables 23 and 24).

The exports of *Chile,* which had been unusually large in 1956 when copper prices were at their peak, were some 16 per cent lower in 1957, but they were still well above the level reached prior to the copper boom. Imports, on the other hand, reached the unprecedented total of some $440 million in 1957, so that the customary trade surplus required to cover debt service and other invisible payments almost disappeared. Reserves were reduced by

TABLE 23. TRADE OF EXPORTERS OF RUBBER, METALS, AND PETROLEUM, 1956 AND 1957

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

	Exports f.o.b.			Imports c.i.f.		
	1956	1957	Percentage change	1956	1957	Percentage change
Exporters of rubber and metals						
Bolivia	81	66	–19	84	70[1]	–17
Chile	542	456	–16	354	441	25
Belgian Congo	536	472	–12	416	436	6
Rhodesia	509	437	–14	499	557	12
Malaya	1,361	1,363	—	1,357	1,431	5
Indonesia	882	969	10	856	797	–7
Viet-Nam	45	79	76	218	289	33
Total	3,956	3,842	–3	3,784	4,021	6
Exporters of petroleum						
Venezuela	2,116	2,366	12	1,249	1,868	50
Netherlands Antilles	841	871	4	1,062	1,163	10
Trinidad	193	229	19	176	208	18
Brunei and Sarawak	267	275	3	188	186	–1
Iraq	477	360	–25	321	343	7
Kuwait[2]	840	875	4	...	...	...
Saudi Arabia[2]	840	850	1	270	...	...
Iran	...	...	...	335	375	12
Total	5,574	5,826	4	3,601	4,420[3]	23
Total	9,530	9,668	1	7,385	8,441	14

Source: Based on data from International Monetary Fund, *International Financial Statistics.*
[1] Estimate based on less than 12 months' data.
[2] Export data based on petroleum production.
[3] Includes estimate for Saudi Arabia.

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TABLE 24. TRADE AND PAYMENTS BALANCES AND OFFICIAL RESERVES OF EXPORTERS OF RUBBER, METALS, AND PETROLEUM, 1956 AND 1957

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

	Trade Balance		Payments Balance[1]		Official Reserves, End of 1957	Official Reserves as Per Cent of Imports, 1957
	1956	1957	1956	1957		
Exporters of rubber and metals						
Bolivia	-3	-4[2]	-5	-1[2]	4[2]	6
Chile	188	14	-7	-49	46	10
Belgian Congo	120	36	29	-160	189	43
Malaya	4	-68	9	4	328	23
Indonesia	26	172	-81	-30	224	28
Viet-Nam	-173	-210	9	6	137	47
Exporters of petroleum						
Venezuela	867	498	413	501	1,440	77
Iraq	156	17	59	90	261	76
Iran	...	...	18	15	245	66

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

some $30 million, and $19 million was drawn from the Fund. In addition, $12.5 million was provided by the Export-Import Bank, $5 million was drawn from the Federal Reserve Bank of New York, and roughly $25 million was received in the form of agricultural surpluses under the U.S. disposal program.

The deterioration in Chile's external balance was a result both of the continued pressure of internal inflation stemming from the large expansion (40 per cent) of domestic credit and of the decline in copper prices. The fall in copper prices significantly reduced government revenue in 1957, and at the same time government expenditures increased. To finance its deficit, the Government borrowed heavily from the banking system, and its short-term indebtedness to nonbank investors, both domestic and foreign, also increased. The expansion of Central Bank credit was a major factor in the continued inflation: in addition to lending to the Government, the Central Bank increased its rediscounts to banks by some 50 per cent, and its credits to others more than doubled.

The internal inflationary impact of the credit expansion was in part offset by the use of foreign resources, the total of which, including the credits listed above, exceeded $90 million. As a result,

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in spite of wage increases of 30 per cent, the cost of living index rose much less than in the previous year. In an effort to limit the decline in exchange reserves, the requirements for advance deposits on imports were substantially increased in November 1957 and again in February 1958.

Chile could not continue to finance such a large part of its external payments from foreign resources. Its ability to import was further reduced by a continued weakening of copper prices in the first part of 1958. The authorities are planning more effective action, with a view to checking internal inflation and keeping the current deficit in line with available foreign credits.

Bolivia's comprehensive program of internal stabilization and the reform of its exchange system, which replaced a complex multiple rate structure by a single flexible rate, were successful in curbing internal inflation and restoring external balance in spite of a considerable decline in export receipts. This decline was due largely to lower world prices for metals, but also to a decrease in the volume of the Government Mining Corporation's exportable supplies. Exports of tin were fairly well maintained; by drawing on stocks their volume was raised slightly above that in 1956, and this partly offset the effect of a moderate price decline. Bolivia's contributions to the international tin buffer stock—$8 million in 1957 and $2 million early in 1958—though partly financed through borrowing from U.K. tin importers, added somewhat to the external burden. In the second part of the year, there was a considerable decline in exports of tungsten, as deliveries under favorable contract terms to the United States came to an end. Petroleum exports rose moderately, further expansion being to a large extent dependent upon the completion of the pipeline to the Pacific which is planned for late 1958. As in previous years export receipts were supplemented by U.S. grants of over $20 million, which to a greater extent than in previous years were in the form of cash rather than of surplus food supplies.

The effects of the internal anti-inflationary measures that were taken in Bolivia, and of the establishment of a free exchange rate, included a check in 1957 to the decline in its foreign exchange

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reserves. The deficit of the public sector was reduced to small proportions by a substantial increase in accruals of counterpart funds resulting from a more realistic exchange rate, rigid economies, better tax collections, and higher prices for the products of the Government Petroleum Corporation. However, bank credit to the private sector continued to expand, and the cost of living, which had fallen by over 20 per cent from December 1956 to August 1957, subsequently increased by some 10 per cent. At the end of the year credit expansion was checked, and the cost of living was stabilized. To offset such inflationary pressure as remained, and to take account of the weakening export position, the boliviano was allowed to depreciate by 10 per cent in the course of 1957.

Imports were some 17 per cent less in 1957 than in 1956, although all restrictions on them were removed at the end of 1956. The abatement of domestic inflation, increased food supplies from larger domestic crops, the fall in the exchange rate, and reductions of government imports all contributed to this result. In addition, imports against suppliers' credits, which over the last few years had led to rapidly growing short-term indebtedness, were completely eliminated when the Central Bank ceased to guarantee new debt contracts of this type. Bolivia was able in 1957, in contrast to previous years, to reduce rather than to increase its foreign indebtedness.

In nearly all sectors of the *Indonesian* economy, there was a decline in activity in 1957, except for a few months after the introduction of a major reform of the exchange system in June, which was followed by a revival of exports and an improvement in the foreign exchange reserve position. The deterioration in the first half of the year was due partly to the overvaluation of the rupiah, which had depressing effects on production and also stimulated the smuggling of exports. Indonesia's economic problems were seriously aggravated in the course of 1957 by growing internal tensions, which resulted in early 1958 in the outbreak of civil disturbances, and by the decline of international and inter-island shipping. The taking over of many Dutch-owned enter-

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prises by placing them under managerial supervision and the mass exodus of Dutch technicians and entrepreneurs are affecting the economy of Indonesia. The full impact of these events cannot yet be determined. Although in the first quarter of 1958 total exports declined, production and exports of the main estate-produced crops, rubber, tea, and palm oil, were much the same as in the first quarter of 1957.

The exchange system introduced in mid-1957 was designed to ensure an automatic adjustment between supply and demand for foreign exchange by channeling all trade, as well as certain invisible and capital transactions, through a certificate market at a fluctuating rate. The exchange rate in the certificate market was at first 26.2 rupiah per U.S. dollar; after some depreciation the rate remained fairly stable in the last quarter of the year at about 28.4 rupiah per dollar. Imports were reduced from some $425 million in the first half of the year to some $370 million in the second half, and as the seasonal expansion of exports was greater than usual, there was some increase in reserves in the second half of 1957. In the first four months of 1958, however, reserves steadily declined.

Government revenues fell as a result of the decline in foreign trade, and in 1957 the government deficit was equal to more than two fifths of the total money supply at the beginning of the year; most of the deficit was financed by borrowing from the Bank Indonesia. The money supply expanded rapidly, and the cost of living index, which had been fairly stable for the preceding 18 months, rose by more than 50 per cent between June 1957 and the end of the year.

With increasing inflationary pressure toward the end of the year, the exchange rate fell sharply, despite an attempt by the Bank Indonesia to support it by supplementing the market supply of certificates by an issue of "administrative" certificates. On April 30, 1958 the rate was 37.8 rupiah per U.S. dollar. In an attempt to check the serious drain on reserves, the Government restored the 100 per cent advance deposit requirement for importers which had been sharply reduced in June 1957.

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The payments position of other petroleum exporters in general continued strong in 1957 with increases in both their reserves and their imports. Reserves, however, declined in *Iraq* because the pipelines were not fully restored. The high level of public expenditure in *Saudi Arabia* also created payments problems, and a financial reform was undertaken in late 1957.

Other Countries, Including Countries with Diversified Exports

Canada's balance of payments in 1957 and early 1958 was influenced both by the slower pace of development in that country and by the onset of recession in the United States. The Canadian economy, which expanded rapidly from 1955 to 1956, showed less strength in 1957, the increase of 4.2 per cent in gross national product in that year being largely accounted for by rising prices. Agricultural output and income declined as a result of generally poor harvests. Industrial production, which had risen steadily throughout 1956, declined from February 1957, and unemployment (seasonally adjusted) rose from 3 per cent of the labor force in the last quarter of 1956 to 6.4 per cent at the end of 1957, the rise reflecting in part unusually large increases in the labor force. There was some increase in industrial production in the first quarter of 1958, but the rate of unemployment in April was still more than 6 per cent. The output of services was greater in 1957 than in 1956. In 1957 the investment boom continued to absorb a substantial part of the national product, and business capital expenditures were 14 per cent above 1956, with concentration again in petroleum, mining, and other natural resources. A fall in business profits and the discouraging outlook for some important primary products led to a decline in investment, though housing construction revived after mid-1957, as a result of government intervention.

As signs of recession became evident, the authorities took several countercyclical measures. The monetary policy of encourag-

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ing credit expansion included open market operations in the second half of 1957, and this policy, together with the fall in business and consumer demand for credit, led to a decline in the treasury bill tender rate; this in turn brought about a corresponding fall in the discount rate, which is linked to the treasury bill rate. Fiscal measures included increases in the rates of such transfer payments as family allowances and old age pensions and reductions in the rates of personal and corporate income taxes; excise taxes on motorcars were also reduced from 10 per cent to 7½ per cent in December 1957. As a result of these and other policies and a decline in taxable corporate profits, the Federal Government's revenues fell slightly below its expenditures in the fiscal year ended March 1958, following the substantial surplus of the previous year.

The demand for imports connected with the high level of investment was maintained into early 1957, but imports of both investment goods and industrial materials contracted sharply after the first quarter of the year. The volume of exports was slightly greater in 1957 than in 1956. There was some shift in the general pattern of trade in 1957. Exports to the United States rose, while imports from that country fell. At the same time Canada's customary surplus with the United Kingdom declined by about $110 million with a decline in exports the predominant factor. (Except as otherwise indicated, all figures are in Canadian dollars.) Canadian exports to Western Europe and Latin America increased, and both imports from and exports to Japan were larger.

The deficit in Canada's trade balance was considerably smaller in 1957 than in 1956, but the deficit on invisibles increased. The deterioration was most evident in the income account, where increased interest and dividend payments of about $83 million reflected the large volume of Canadian bonds sold externally in recent years and the growing share of Canadian industry owned abroad. In the first four months of 1958 imports continued to fall sharply, the decline being fully accounted for by imports from the United States, and with exports practically the same as in the previous year, the trade balance improved further.

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The net capital inflow amounted to $1,251 million in 1957, $63 million less than in 1956. A large part of the decline was in direct investment from sources other than the United States, U.S. direct investment being practically the same as in the previous year; in the first months of 1958 the inflow of direct investment from all sources fell. From January through June 1957 securities transactions produced a net capital inflow of $550 million; in the second half of the year they amounted to only $180 million. The large demand for investment funds in the first six months of the year, combined with the wider interest differential between Canada and the United States, brought sales of new security issues abroad of $550 million in this period, of which 90 per cent were in the United States. In the first half of the year there was also a short-term capital inflow, exclusive of changes in official reserves, of about $160 million, owing mainly to changes in commercial accounts payable and receivable. Even in the face of a continuing current account deficit, the combined demands for Canadian dollars pushed up the exchange rate, expressed in U.S. currency, to a high of US$1.06 in August. Thereafter, the narrowing interest rate differential brought a decline in new issues floated abroad. The flow of short-term capital was reversed, the outflow in the second half of the year, mostly in September, amounting to $130 million; with the current account imbalance continuing, the Canadian exchange rate fell steadily to US$1.0091 in January 1958.

In early 1958 there was a renewed capital inflow from securities transactions. This inflow, together with the reduced need for funds to settle the trading deficit, helped to raise the value of the Canadian dollar by the end of April to US$1.0313.

Canada's reserves increased by some US$40 million up to the end of July 1957. Subsequently, they fell by about US$145 million to the end of the year. For the year as a whole reserves thus declined by US$109 million, to US$1,836 million, against an increase of US$35 million in 1956. By the end of April 1958, reserves had risen to US$1,883 million.

In 1957 *India* faced increasing internal inflationary and external payments difficulties arising out of its second Five Year Plan.

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Since the Government could not finance all its expenditures from noninflationary sources, including borrowing from abroad, there were inflationary pressures which were aggravated by some bank credit expansion to the private sector. The Government's net borrowings from the banking system amounted to 23 per cent of the money supply in 1957, in contrast to 14 per cent in 1956, 11 per cent in 1955, and 5 per cent in 1954. Deficit financing on such a large scale was inevitably accompanied by a large fall in reserves. The decline amounted to some $475 million, and in addition $200 million was purchased from the Fund. By these means, it was possible to finance a growing import surplus. The available trade data show a rise in imports of more than $300 million (Table 25). The increase consisted mainly of materials and equipment imported for the development program, foodgrains to meet increased demand and to add to the Government's grain stock—part of which was obtained on special conditions from U.S. surpluses—and government purchases of military stores. When the lend-lease silver returned to the United States is left out of account, there was little change in India's exports in 1957, and, in fact, there may have been some decline.

To counter the payments pressure, the Indian authorities took measures to reduce both private and government investment de-

TABLE 25. TRADE OF COUNTRIES WITH DIVERSIFIED EXPORTS, 1956 AND 1957

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

	Exports f.o.b.			Imports c.i.f.		
	1956	1957	Percentage change	1956	1957	Percentage change
Canada	5,288	5,467	3	6,270	6,346	1
Union of South Africa	1,185	1,300	10	1,524	1,696	11
India	1,288	1,383[1]	7	1,698	2,022	19
Mexico	880	727	−17	1,072	1,155	8
Peru	308	321	4	361	400	11
Finland	774	835	8	885	900	2
Yugoslavia	323	395	22	474	661	39
Israel	107	140	31	367	403	10
Spain	442	476	8	767	862	12
Total	10,595	11,044	4	13,418	14,445	8

Source: Based on data from International Monetary Fund, *International Financial Statistics.*
[1] Including exports of lend-lease silver to the United States.

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mand. Selective credit controls, higher interest rates, and direct requests to the banks to limit credits are designed to limit credit to the private sector. Instead of the outlay of Rs 48 billion originally envisaged for the Second Five Year Plan in the public sector, Rs 45 billion has been indicated as the probable total, which in view of the rise in prices means a still larger reduction in the size of the Plan in real terms. It is intended to execute what is known as the "core" of the Plan, i.e., steel, coal, transport, and ancillary power projects, as well as agricultural production programs, and to permit further outlay on other investments only if considerable expenditure has already occurred. Imports required for the "core" have been given high priority, but policies with respect to other imports became increasingly restrictive in the course of 1957. Some nonessential imports were completely banned, and the admission of other consumer goods was severely restricted. The licensing of raw material imports remained fairly liberal, but licenses for capital goods are granted, as a rule, only when deferred payment has been arranged. Restrictions were also intensified on certain invisibles and capital movements. Nevertheless, because of a large backlog of commitments, total imports were not expected to be substantially less in 1958 than in 1957. As a protection against further pressure on reserves, there are available in 1958 considerable undisbursed portions of loans contracted earlier (including $160 million from the IBRD) and new credits extended early in the year by the United States ($225 million), the Federal Republic of Germany ($157 million), and Japan ($50 million). Nevertheless in the first four months of 1958, the Reserve Bank's foreign assets declined by about $63 million.

In *Mexico* the steady upward movement of export receipts of the previous three years was reversed and the rate of growth of real national product slowed down a little in 1957. Drought conditions reduced agricultural output by 3 per cent, and the consequent rapid increase in the prices of corn and pulses was partly responsible for an increase of 14 per cent in the cost of living. Earnings from cotton declined sharply, mainly on account of a

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40 per cent reduction in volume; prices were only slightly below those of 1956. Receipts from coffee and metals, on the other hand, were affected primarily by sharp declines in prices. Mexico's total export receipts (Table 25) were considerably less than in 1956; increased earnings from tourist traffic, which were greater than in 1956 by some $100 million, provided a partial offset. At the same time imports rose again, and expenditure on foreign travel increased. Thus the balance on current transactions, which had shown a small surplus in 1956, was in deficit in 1957 to the extent of about $160 million. The deficit was financed in part by increased borrowing abroad, including a $40 million loan from the Export-Import Bank for the purchase of cattle, the rehabilitation of the Mexican railways, and steel mill equipment. Reserves also fell by some $35 million, in sharp contrast to the rise of some $70 million in 1956.

After a period of rapid growth and comparative internal and external stability, *Peru's* export receipts from cotton declined because of reduced volume and receipts from copper fell because of lower prices. Receipts from sugar exports, however, were increased by higher prices, and from petroleum exports by a steadily expanding volume. But though there was on balance an increase in Peru's total exports, foreign exchange reserves fell, as a result of large bank credit expansion to both the government and the private sectors. Although direct investments continued to increase, net official borrowings from abroad were less than in 1956, and instead of a net inflow of short-term capital, as there had been in 1956, there was a net outflow in 1957. The total net inflow of capital was less than in 1956, and with credit expansion leading to an 11 per cent rise in imports, foreign exchange reserves fell by $33 million. By the end of the year, reserves amounted to only $34 million (Table 26), including $18 million of "untouchable" gold. In order to check the pressure on reserves, the Government in January 1958 unpegged the certificate rate, which up to that time had been held at 19 soles per U.S. dollar. The rate depreciated gradually and at the end of April it was 22.7 soles per dollar. In order to reduce imports and to increase government

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TABLE 26. TRADE AND PAYMENTS BALANCES AND OFFICIAL RESERVES OF COUNTRIES WITH DIVERSIFIED EXPORTS, 1956 AND 1957

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

	Trade Balance		Payments Balance[1]		Official Reserves, End of 1957	Official Reserves as Per Cent of Imports, 1957
	1956	1957	1956	1957		
Canada	-982	-879	50	-109	1,836	29
Union of South Africa	-339	-396	6	-84	288	17
India	-410	-639	-409	-694	942	47
Mexico	-192	-428	91	-59	450	39
Peru	-53	-79	15	-33	34	9
Finland	-111	-65	-42	—	171	19
Yugoslavia	-151	-266	14	5	39	5
Israel	-260	-263	1	-8	81	20
Spain	-325	-386	-70	-49	106	12

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

revenue many of the so-called basic (specific) import duties were raised by 50 or 100 per cent in May 1958. In addition, measures were taken earlier to reduce government spending and to curb bank credit to the private sector.

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VI

Exchange Practices and Payments Arrangements

EARLIER chapters in this Report have shown how widely varied during the last year have been the experiences of Fund members with respect to their balances of payments, their reserves, and the strength of their currencies. This diversity was reflected in their exchange policies and in the extent to which exchange restrictions and discrimination were practiced. Some countries reduced restrictions and discrimination; others increased the restrictiveness of their exchange systems in order to curtail expenditures abroad. For these reasons, there is no broad uniform pattern of progress to be recorded, as there was in recent years, and the net effect of the divergent developments of the year cannot easily be assessed. The most notable achievements were the simplification of several complex multiple rate systems and the success of some countries in avoiding the reimposition of restrictions in spite of pressures on their balances of payments.

Some important advances were made in the extension of the transferability of currencies, a process which has continued steadily for several years. Most of the currencies of Western Europe are now fully transferable among most or all of the non-dollar countries. This transferability has resulted from the continuing efforts of Fund members to reduce the strictly bilateral impact of their arrangements with other countries. A considerable number of

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bilateral payments arrangements were allowed to lapse during the year, payments being placed, in most cases, on a transferable currency basis.

There was not, on balance, any marked change in the use of quantitative restrictions on imports or import payments. Balance of payments difficulties still provide an important reason for the maintenance of quantitative restrictions in many countries; recently, however, their retention has been to an increasing extent for other reasons, particularly as an instrument of protection. In the past year most Western European countries extended further their liberalization of imports. These relaxations were made applicable, in varying degrees, to imports from OEEC countries, other non-dollar countries, and the dollar area. Several countries outside Europe also relaxed their import restrictions. On the other hand, certain countries with deteriorating balances of payments found it necessary to reduce their exchange allocations for imports.

Although further progress was made during the year in reducing discrimination, particularly against the dollar area, it continues to be an important aspect of the restrictive system of many countries. Discrimination is still important with respect to manufactured consumer goods and, to a somewhat lesser extent, with respect to capital goods and foodstuffs.

It was reported in last year's Annual Report that, with one exception, there had been no fundamental change in respect of the use of multiple currency practices. During the year under review in this Report, however, important modifications were made in the complex multiple rate systems of several countries. In only a few countries were multiple rate systems made more complex.

There was a marked strengthening during the year of the rates at which transferable currencies were quoted in free exchange markets. The currencies involved—mainly Western European currencies—are generally convertible into dollars in these free markets; and in the past year, the exchange rates for such conversion operations improved to a point where they were within 1 per cent of parity. The increased confidence in transferable cur-

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rencies and the strengthening of the rates at which they are quoted were due to a large extent to the measures taken by several European countries, which are described elsewhere in this Report. With the narrowing of the margin between the rates for transferable exchange and the official market quotations for the currencies of these countries, the problem of broken cross rates in these currencies is no longer important, and switch trade based on differences between the rates has ceased to be profitable.

During the year under review, trade and payments relations between Brazil and Argentina, on the one hand, and certain groups of European countries, on the other, continued to be governed by the "Hague Club" and "Paris Club" arrangements described in previous Annual Reports. The European participants in the "Hague Club," which governs relations with Brazil, are Austria, Belgium, France, the Federal Republic of Germany, Italy, Luxembourg, the Netherlands, and the United Kingdom. The "Paris Club" arrangements were formalized in November 1957 by signing a series of trade and payments agreements between Argentina and the 11 European participating countries (Austria, Belgium, Denmark, France, Italy, Luxembourg, the Netherlands, Norway, Sweden, Switzerland, and the United Kingdom). At the same time, a similar agreement was signed with the Federal Republic of Germany, which thus became a member of the "Club." Arrangements were also completed for the consolidation and amortization of Argentine debts to certain participants. Provisional arrangements between Argentina and Japan provide for settlements to be made in transferable sterling and for the consolidation and amortization of Argentine debts to Japan on lines similar to those applying to European partners. By signing a trade and payments agreement with Argentina, effective May 9, 1958, Finland also in effect entered the "Paris Club" group, with payments between Finland and Argentina to be effected in currencies that may be exchanged into any currency of a "Club" member, except that the French franc is excluded because of a bilateral agreement between Finland and France.

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Finland has also made an agreement with the countries (except France) participating in the Western European multilateral arbitrage arrangements and with Portugal, as a result of which Finland's earnings from exports to any of these countries may be exchanged into the currency of any other. At the same time, Finland granted a high degree of import liberalization to these countries without discrimination among the group, and these countries give OEEC liberalization treatment to imports from Finland.

The European Payments Union (EPU) was renewed in May 1957 for a further period of one year, that is, until June 30, 1958, without change in either its operating rules or its termination provisions. Credit facilities available for 1957-58 were left unchanged from the preceding year, except that Italy renounced an unused special credit of $50 million and France was granted a new *rallonge* of $200 million.

In June 1958 the Managing Board of the EPU recommended to the Council of the Organization for European Economic Cooperation that the EPU be renewed on the same terms for a further year as from July 1, 1958.

During the period covered by this Report, the Federal Republic of Germany, which continued to grant unlimited credit up to 25 per cent of its surpluses, remained by far the largest creditor of the Union. However, its monthly surpluses, which were especially large in the third quarter of 1957 as a result of the speculative movements described elsewhere, were subsequently reduced and in some months replaced by small deficits. Belgium and the Netherlands remained the next largest creditors of the EPU, and the United Kingdom and France its largest debtors. Except during the wave of exchange speculation in the third quarter of 1957, when a large deficit was recorded, the United Kingdom's EPU transactions were in approximate equilibrium in 1957; in the first few months of 1958, they showed a small surplus. France ran large deficits during most of 1957, but these deficits were reduced later in the year. In January 1958, France received another *rallonge* of $400 million, i.e., the right to settle future deficits up to that amount 75 per cent in gold and 25 per cent in credit. A special credit of

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$150 million was made available to France to help it make the required gold payments. Of this credit, $32 million was borne by the EPU itself, $100 million by Germany, and the remainder by Switzerland, Belgium-Luxembourg, Italy, and Austria. Of the total credit, $80 million was available for use in the first half of 1958; use of the remainder was subject to approval by the EPU.

On January 1, 1958, the Treaty establishing the European Economic Community (Belgium, France, the Federal Republic of Germany, Italy, Luxembourg, and the Netherlands) entered into force. Since that time, substantial progress has been made in setting up the Institutions of the Community. Under the Treaty, the Member States intend to eliminate customs duties and other obstacles to trade and to the free movement of persons, services, and capital among themselves over a period of 12 to 15 years, to set up a common customs tariff for imports from countries outside the Community, and to establish a common economic policy.

The first step to be taken, a reduction of 10 per cent in customs duties existing among the members of the Community, is intended to take place on January 1, 1959. The Treaty expresses the intention of the members of the Community to comply with their other international obligations which naturally include those under the Articles of Agreement of the Fund.

Members of the Fund have individually shown interest in the effects of the establishment of the EEC. The Fund, with its special responsibilities in the field of international payments, will follow developments with equal interest.

As this Report is being written, negotiations are continuing for the drawing up of arrangements under which other members of the OEEC could be associated with the Six Member States of the European Economic Community in a European Free Trade Area. In other parts of the world also, plans for closer regional associations have been under discussion. A Multilateral Treaty of Free Commerce, which is still subject to ratification, aims at the eventual establishment of a customs union between Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua.

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On September 15, 1957, the Fund concurred in a proposal by the Government of *Finland* for a change in the par value of the Finnish markka from Fmk 230 per U.S. dollar, the rate established on July 1, 1951, to Fmk 320 per U.S. dollar. At the same time, all multiple currency practices were to be abolished in Finland. The tourist rate of exchange, with a buying rate of Fmk 325 and a selling rate of Fmk 330 per U.S. dollar, as well as the Clearingkunta arrangements under which certain exporters received and certain importers paid a markka premium of up to 20 per cent on the official exchange rate, ceased to exist. Measures were adopted for the liberalization of imports shortly after the devaluation of the markka, and some additional steps have since been taken.

On May 8, 1957, the Fund concurred in a proposal by *Iran* to change the initial par value of the rial from Rls 32.25 per U.S. dollar, the rate established on December 18, 1946, to Rls 75.75 per U.S. dollar, effective May 22, 1957. After a period of exchange depreciation, during which there had also been some use of multiple exchange rates, Iran in 1953 initiated a policy of exchange appreciation and unification of the exchange rate, which in March 1956 culminated in the establishment of a *de facto* unitary exchange rate. The rate thus established was given formal recognition by the establishment of the new par value in May 1957.

Among the members that have no par value, *Greece* and *Italy* 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. The free market selling rate for the U.S. dollar in *Thailand* fluctuated between 20.66 baht and 20.90 baht, and the rate for sterling between 57.08 baht and 58.35 baht, during the calendar year 1957.

The *de facto* depreciation of the franc exchange rate from 350 francs to 420 francs per U.S. dollar in *France,* which in 1948 altered the par value of its currency and has not agreed a new par value with the Fund, is noted elsewhere in this Report.

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Canada has maintained a unitary, though fluctuating, exchange rate since September 1950, when it was decided that, temporarily, the Canadian exchange rate could not be maintained within the specified margins of the par value agreed with the Fund in September 1949. The influences which produced fluctuations in the Canadian exchange rate during the last year are analyzed in Chapter V of this Report. During the first eight months of 1957, when there was a heavy capital inflow, the rate rose almost continuously from US$1.0411 to a high point of US$1.06 on August 20. With the subsequent decline of the capital inflow and despite a smaller current account deficit and some reduction of official gold and dollar holdings, the rate then fell until in early January 1958 it reached US$1.0091. In the first quarter of 1958 renewed sales of Canadian security issues in the United States were again followed by a rise in the value of the Canadian dollar, which averaged US$1.03 in April.

In Lebanon and Syria, there are no exchange transactions at rates related to the par values of these countries. In *Lebanon* the exchange rate in terms of U.S. dollars was about LL 3.16 per U.S. dollar for most of the year. Previously, the authorities had maintained a policy of preventing the rate from appreciating beyond LL 3.20 per U.S. dollar. In *Syria,* the controlled rate applying to most trade transactions remained unchanged in terms of U.S. dollars, with the selling rate at LS 3.585 per U.S. dollar, while the market exchange rate was fairly stable throughout the year with variations of less than 3 per cent from the controlled rate.

Several Fund members have found unsatisfactory the complex multiple currency systems with which they have been experimenting for varying periods of time; however, finding it difficult to change immediately to a unitary fixed rate system governed by a par value, some of them have in recent years tried to ease the transition by first establishing a free exchange market in which the rate is allowed to fluctuate. Peru established two such free markets in November 1949, and similar steps were taken by Chile in April 1956 and by Bolivia in December 1956. In 1957, Colombia

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and Paraguay initiated reforms of their exchange systems on lines which in broad outline are similar to the reforms undertaken earlier in Peru, Chile, and Bolivia.

The foreign exchange reform in *Colombia,* approval of which was announced by the Fund on June 18, 1957, was adopted as part of a stabilization program whose purpose was to curb inflationary pressures and to remedy a serious payments situation. The stabilization program included internal measures to restrain demand, as well as the adoption of a simpler and more realistic exchange system. The new system provided for two exchange markets, in each of which the rate was to fluctuate freely. Trade and specified transactions in invisibles, including the service of registered capital, were to be conducted through an exchange certificate market, with all other exchange transactions taking place in a free market. An exchange tax of 15 per cent, which was first levied on all export proceeds, was subsequently limited to the major exports. Payments through the certificate market were subjected to a 10 per cent remittance tax.

The certificate rate depreciated from Col$4.80 per U.S. dollar in June 1957 to about Col$6.15 toward the end of February 1958; during the same period, the free market rate moved from Col$5.90 per U.S. dollar to around Col$6.90. The depreciation reflected the continued imbalance in international transactions resulting from a deterioration of Colombia's terms of trade, the heavy burden of the large short-term foreign debt incurred in the settlement of commercial arrears, and to some extent the continuation of a high level of internal demand.

In March 1958, the buying rate for all export proceeds was fixed by the authorities at Col$6.10 per U.S. dollar. The central bank became the sole supplier of exchange to the certificate market, where exchange certificates were sold to importers and other authorized users through public auction. The yield from the differential between the buying rate and the auction selling rates was to be used to finance purchases of coffee by the National Coffee Fund and for the repayment of the indebtedness of the Federation of Coffee Growers to the central bank. Further changes in the mar-

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kets resulted from a lowering of the minimum exchange surrender requirement per bag for coffee exports to bring the amount of exchange to be surrendered more closely in line with the external price. To offset this reduction in supply in the certificate market, exchange payments for freight and the 10 per cent remittance tax payable in foreign exchange, which had previously been effected through the certificate market, were shifted to the free market.

At the opening of the exchange auctions, the certificate rate averaged Col$6.85 per U.S. dollar. It subsequently appreciated and was Col$6.64 at the end of April 1958.

In August 1957, when the Fund was informed that the Paraguayan exchange rate would not be maintained within the prescribed margins of the par value of 60 guaraníes per U.S. dollar, which had been agreed with the Fund in March 1956, *Paraguay* eliminated its quantitative restrictions on imports and adopted a freely fluctuating exchange rate as part of a comprehensive stabilization plan. Import surcharges and special subsidies on exports were eliminated. The new exchange market opened with the rate of ₲ 95 per U.S. dollar, approximately the level to which the previous free market had appreciated in expectation of the coming reform. The rate subsequently depreciated again, until in November it reached ₲ 110 per U.S. dollar, a rate which was thereafter maintained. The stability in recent months is attributable directly to the progress made under Paraguay's stabilization program. Financial policies have been strengthened, and bank credit, particularly to the private sector, has been strictly limited. The public sector deficit is expected to be reduced sharply in 1958. The rise in internal prices, very pronounced in recent years, slowed down considerably after mid-1957, and prices actually fell by 3 per cent during the first five months of 1958.

In *Peru,* the free exchange rate for the sol in the certificate market, which had been maintained at S/. 19 per U.S. dollar since late 1954, was allowed to fall in January 1958. This action followed a decline of export prices, expansion of domestic bank credit, and budgetary deficit operations which had caused a serious deterioration in Peru's payment position. The maintenance of the

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S/. 19 rate was found to require extensive market intervention by the monetary authorities and a consequent decline in exchange reserves. A series of measures was taken for the restoration of monetary and exchange equilibrium, and the authorities withdrew support from the exchange market so that the rate might find its own level. As a result of these developments, there was a steady depreciation of the sol in both the certificate and the draft markets until early March, when the certificate rate reached S/. 23.50 per U.S. dollar. Subsequently it appreciated somewhat, with fluctuations between S/. 22.50 and S/. 23. By the end of April 1958, the certificate rate was about S/. 22.68, and the free or draft market rate, which had been S/. 19.03 per U.S. dollar at the end of April 1957, was about S/. 22.75 per U.S. dollar.

Rates in the two free exchange markets which have been maintained in *Chile* since April 1956 steadily depreciated in the course of the past year. Exchange receipts fell sharply with serious declines in the price of copper, but the supply of exchange in the market was maintained by drawing on reserves. Pressures on the exchange market were, however, attributable primarily to continued credit expansion to both the private and the government sector of the economy at a rate more rapid than the rate of growth of production.

The exchange rate for the peso in the Banking Free Market depreciated from Chil$582 per U.S. dollar at the end of April 1957 to Chil$757 at the end of April 1958. The rate of depreciation of the Brokers' Free Market rate in the same period was substantially greater, from Chil$652 to Chil$980 per U.S. dollar.

The spread between the buying and the selling rates in the Banking Free Market was reduced in July 1957 by the elimination of a specific tax of Chil$15 per U.S. dollar and the reduction from 5 per cent to 1 per cent of an exchange tax which was, however, subsequently increased to 2 per cent.

Bolivia maintained a unified fluctuating exchange rate throughout the year, without any restrictions on trade and payments. The rate for the boliviano depreciated until August 1957, largely under the impact of some wage increases together with weakening pros-

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pects for mineral exports. The average rate, which had been about Bs 7,700 per U.S. dollar in April, fell in August to Bs 8,700. Thereafter, for the rest of the year it moved within a fairly narrow range, with a tendency toward moderate appreciation. In early 1958, a substantial decline in export proceeds produced renewed pressure on the exchange market. There was some decline in reserves, and by the end of April 1958 the rate had depreciated to about Bs 8,855.

The history of the last year has again demonstrated that the adoption of a fluctuating exchange rate is not by itself any guarantee of payments stability. If a satisfactory exchange situation is to be maintained, and fluctuations in the exchange rate held to a minimum, the economy must also be strengthened by a wide variety of appropriate policies in other fields.

Other Changes in Exchange Practices

The exchange systems of Fund members that maintain multiple currency practices are described in the *Ninth Annual Report on Exchange Restrictions*. The more important developments during the past year in the exchange practices of Fund members, other than those recorded above, are noted in the following paragraphs.

The multiple rate structure of *Afghanistan* involves a number of fixed effective rates in the official market and a free market rate. Four additional buying rates introduced in 1956 and 1957 raised the number of effective rates in the official market to eight buying rates and four selling rates, ranging from Afg 20.0 to Afg 48.8 per U.S. dollar. In recent years, the free market rate has depreciated, but it improved after May 1956, when the rate exceeded Afg 57.0 per U.S. dollar, and in late 1957 was quoted at around Afg 52.0 per U.S. dollar. This improvement was in part the result of increased exports, but inflationary pressures were also reduced considerably. The rate of monetary expansion, which in the year ended March 1955 had been about 40 per cent and in the previous year 30 per cent, was limited in the year ended March 1957 to

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about 9 per cent. The reduction was achieved by limiting the government deficit to the amount which could be financed from external borrowing and curtailing the rate of credit expansion for other purposes.

The basic structure of *Argentina's* exchange system remained unchanged during the past year. However, under the impact of continuing internal inflation, some important changes were made which had the general effect of depreciating the effective exchange rates. The proportion of total import and export transactions which took place in the free market increased by about 10 per cent in 1957; this increase was the result in part of a reclassification of some commodities and in part of wider margins between world prices and the official valuations of commodities subject to the official rate. In addition, the taxes levied on exports through the exchange system were substantially reduced, some surcharges were imposed on imports in the official market, and mixing arrangements were introduced for a few imports. The free market exchange rate for the peso depreciated from M$N 38.40 per U.S. dollar at the end of April 1957 to an average of M$N 45.10 in September. The Central Bank then entered the market with support operations, and the rate appreciated to about M$N 36. In March and April 1958, the rate again tended to depreciate, falling to M$N 42.25 per U.S. dollar at the end of April.

On October 18, 1957, *Belgium-Luxembourg* took a number of measures to increase the supply of EPU currencies in the official market. Under the new regulations, export proceeds in EPU currencies can no longer be sold in the free market and must be sold in the official market, while outward capital movements in EPU currencies must now go through the free market. These measures have the effect of excluding receipts from commercial transactions in EPU currencies from the free market and outgoing capital transfers in those currencies from the official market, so that in this sense transactions in EPU currencies are now treated in the same way as those in dollars.

Brazil made several important changes in its exchange system in the past year. The most significant change was made in August

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1957 in connection with a reform of the customs tariff, which put the tariff on an ad valorem basis and raised the average rate of duty from 3 per cent to 30 per cent. The new rates in part achieved the differentiation between commodities which had previously been effected through the exchange system, and this made it possible to reduce the number of categories in the exchange auctions from five to two. At the same time, preferential imports not subject to the auction system were to receive exchange at a rate not lower than the average cost of exchange to the monetary authorities. The 10 per cent remittance tax previously applied to most payments was eliminated. Export rates were affected when in June 1957 a sliding premium on proceeds from coffee exports was adopted to encourage improvement in the quality of coffee exports. To facilitate the movement of exports, special ad hoc promotional arrangements were extended in early 1958 to all products other than coffee and cocoa.

Steady internal inflation arising from a growing government deficit together with substantial increases in private credit brought a large depreciation in Brazil's market exchange rates for the cruzeiro in the course of the year. Up to July 1957 the auction premium for the U.S. dollar averaged about Cr$66. When, after being suspended for nearly a month, auctions were reopened in September with the new classification, this premium was not significantly reduced, despite the addition of the new and higher tariff rates to the effective cost of imports. In early 1958, however, the depreciation was accelerated when the amounts of exchange offered in the auctions were reduced by 20 per cent. By the end of April, the premium for U.S. dollars had risen to Cr$120 for general category imports. The premium for special category imports, which at the time of the establishment of the simplified auction classification had been about Cr$160 per U.S. dollar, increased to Cr$270 at the end of April 1958.

There was also a depreciation in the free market exchange rate, which moved from Cr$68.30 per U.S. dollar at the end of April 1957 to Cr$120.75 at the end of April 1958.

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China (Taiwan) simplified its multiple exchange rate structure on April 12, 1958 by abolishing the 20 per cent defense tax, which had been previously incorporated in three of its exchange rates, and establishing two effective rates for both purchases and sales of foreign exchange, compared with five and two rates, respectively, before the revision of the exchange rate. An official selling rate of NT$24.78 per U.S. dollar was established for payments for essential imports and for outgoing remittances by the Government (except invisibles connected with trade). A corresponding buying rate of NT$24.58 was established for exports of sugar, rice, and salt, and for remittances received by government agencies. A second selling rate, consisting of the official rate plus the value of an exchange certificate, is applied to payments for all other imports and to all other invisibles. The corresponding buying rate, consisting of the official buying rate plus the value of an exchange certificate, is applied to receipts from other exports and to private remittances. The value of the exchange certificate on April 30, 1958 was NT$11.50 buying and NT$11.60 selling per U.S. dollar.

The measures which in February and March 1958 established an "export pound" in *Egypt* resulted in an effective depreciation of the Egyptian pound by 21 per cent for most transactions except those with certain countries in the Middle East and the Soviet area. Transactions may be conducted through nonresident "export pound accounts," which are credited for outgoing payments, and may be used for incoming payments on Egyptian goods and services. For a nonresident who is unwilling to hold "export pounds," payment in foreign exchange may be arranged by an Egyptian importer upon payment in local currency at the par value rate of exchange plus a surcharge of 27 per cent to the credit of an "export pound account" held in the name of an Egyptian commercial bank. Incoming foreign exchange payments are treated similarly, with Egyptian exporters being paid, upon surrender of foreign exchange proceeds, at the par value rate of exchange plus a premium of 26.5 per cent. The new system applies to transactions with countries with which Egypt does not have bilateral

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agreements stipulating payments in Egyptian pounds. Nonresident "export pound accounts" are transferable among these countries and may be used for all transactions except exports of Egyptian rice, transactions made through shipping accounts, and payment of Suez Canal tolls.

Indonesia introduced in June 1957 a new exchange system, the Export Certificate System (*Bukti Expor* or BE System), which sought to correct the overvaluation of the rupiah so that exports might be promoted and barter trade and smuggling discouraged, and to provide an automatic adjustment between the supply of and demand for foreign exchange. A free exchange certificate market was established for all exchange transactions, except those of the oil companies that are governed by special agreements. In return for all exchange surrendered to them, the exchange control authorities issue exchange certificates, denominated in rupiah and with face value equal to 100 per cent of the foreign exchange surrendered converted at the official rate. The certificates are freely negotiable in the market, through the intermediary of authorized foreign exchange banks, within a prescribed period, which was originally two months but was changed to six weeks in October 1957. All exchange payments have to be financed by BE certificates bought in the market. The purchasers of certificates receive foreign exchange from exchange banks upon the surrender of the certificates, payment of the appropriate taxes, and the presentation of valid licenses for making the exchange payments.

The basic official rate of Rp 11.4 per U.S. dollar which is maintained under the BE System is nominal and does not in practice apply to any transaction except those of oil companies. There are in fact eight effective rates determined by the exchange certificate rate in the BE market. All exports and the proceeds from current invisibles not directly related to exports receive a uniform rate, equal to the certificate rate less an ad valorem tax of 20 per cent calculated at the certificate rate. Inflow of capital takes place at the certificate rate and is not subject to this tax. For imports there are six rates, corresponding to the classification of imports in six import-surcharge categories. There is no surcharge on imports

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of rice and other so-called essential commodities, or on most payments for invisibles; surcharges on other imports range from 20 per cent to 175 per cent. For certain invisibles, such as travelers checks, a special rate has been prescribed from time to time which is also determined with reference to the certificate rate.

The export certificate rate averaged about 230 per cent of the official rate from the time when the BE System was established through September 1957. In the first half of October, the rate depreciated to about 260 per cent, and thereafter remained fairly steady, fluctuating between 246 per cent and 251 per cent until the third week of December. Declining exports then kept the supply of BE certificates short, and the rate depreciated steadily; at the end of April 1958 it was 332 per cent.

During the past financial year, premiums over the official exchange rate were introduced in *Israel* on capital transferred by some categories of immigrants and on receipts of foreign exchange resulting from certain transactions in invisibles. The number of countries to which the system of export premiums on the locally "added value" of industrial exports applies was increased, but the differences between these premiums according to currency received were reduced. Export premiums were introduced in respect of the cost of air freight for exports carried by the Israeli national airline. Import subsidies on foodstuffs and medicines and the special buying rate below the official rate for the proceeds of appeals and charitable donations were abolished.

Uruguay modified its multiple exchange rate structure in 1957 and made some progress in simplifying its complex system of export rates. A depreciation of both export and import rates was effected toward the end of the year by changing the commodity classification and establishing requirements for the surrender of export proceeds from wool and wool products at prices less than the international prices.

A sharp decline of exports and an increase of import demand resulted in a pronounced disequilibrium in external payments in 1957, and led to the re-establishment of quantitative restrictions on imports. Domestic prices rose markedly, and the expansion of

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credit of the previous year continued. These trends are reflected in the sharp depreciation of the exchange rate in the free financial market, from Ur$4.01 pesos per U.S. dollar in April 1957 to Ur$6.80 in April 1958.

On May 20, 1957, *Yugoslavia* revised its settlement rates and thus reduced the number of groups of broken cross rates from 13 to 6. The disparity between the settlement rates for most OEEC currencies and the settlement rate for the U.S. dollar (632 dinars) was reduced to about 1 per cent. Exchange rates for individual transactions have been determined by coefficients (or multipliers) applied as a rule to the settlement rate, though until the end of 1957 coefficients for some official imports were applied to the official exchange rate of 300 dinars per U.S. dollar. On May 22, 1957, the number of these coefficients was reduced. The number of export coefficients was reduced from 35 to 16, and those higher than 2.0 were abolished. The import coefficients above 3.0, which had been inoperative for some time, were formally eliminated, and the lowest coefficient was increased from 0.5 to 0.6. Effective January 1, 1958, the special rate for imports by government institutions was eliminated and replaced by the settlement rate for this category of import. Furthermore, the exchange rate for sales of foreign exchange to these institutions for noncommercial payments abroad was increased by 100 per cent, so that for noncommercial payments the same rate now applies to all buyers. Thus the number of multiple rates was further reduced. On January 10, 1958, the number of broken settlement rates was further limited; disparities in settlement rates that are larger than 1 per cent exist only in relation to transactions with Egypt, Israel, Turkey, and certain Eastern European countries. Effective March 1, 1958, changes were made in the percentages of foreign exchange earnings that certain groups of enterprises may retain at their free disposal; retention quotas play only a minor part in the Yugoslav exchange system.

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VII

Gold Production and Prices

Gold Production

TOTAL world production of gold, excluding output in the U.S.S.R. and countries associated with it, amounted to 29.1 million fine ounces in 1957, or about 1.1 million ounces more than in 1956 and about 8 million ounces more than the 1945 postwar low. Valued at US$35 per ounce, the 1957 output was $1,020 million, compared with $980 million in 1956, $944 million in 1955, and $897 million in 1954. Production in 1957 (a new postwar high) was about the same as in 1937, but it was about 19 per cent less than the all-time peak production of about $1,264 million in 1940 (Table 27).

The increase in total output from 1956 to 1957 was due almost entirely to the continued expansion of gold mining in the Union of South Africa. Output in that country expanded from 15.9 million ounces ($556 million) in 1956 to 17.0 million ounces ($596 million) in 1957, the highest ever recorded in the Union and representing about 58 per cent of total world production. It was about 7 per cent greater than in 1956 and about 43 per cent greater than in 1953, when the current rise began after several years of relatively constant output. A little more than half of the increase in 1957 was due to expanding operations in the Orange Free State, whose production rose by the equivalent of $21.1 million, to $132 million. The output of the Witwatersrand mines also increased, by the equivalent of $19.7 million, to $447 million. The

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TABLE 27. WORLD GOLD PRODUCTION, EXCLUDING OUTPUT OF U.S.S.R. AND ASSOCIATED COUNTRIES

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

	1937	1940	1954	1955	1956	1957
Union of South Africa	411	492	463	511	556	596
Canada	144	186	153	159	153	155
United States	144	170	65	66	65	64
Australia	48	57	39	37	36	38
Ghana	20	31	28	24	22	28
Southern Rhodesia	28	29	19	18	19	19
Colombia	15	22	13	13	15	11
Philippines	26	39	15	15	14	13
Mexico	30	31	14	13	12	12
Other[1]	168	207	88	88	88	84
Total[1]	1,034	1,264[2]	897	944	980	1,020

Source: International Monetary Fund, *International Financial Statistics.*
[1] These figures include estimates for missing data.
[2] All-time peak production.

output of the new mines in both these areas is expected to increase further in the next few years. A mining lease has been granted for the first "ultra-deep" mine in South Africa, in which mining will start at a depth of 5,500 feet and will ultimately go to 12,500 feet. The joint production of gold and uranium is becoming an increasingly important factor in South African mining.

Elsewhere in the world (excluding the U.S.S.R.), increases in gold output in some countries in 1957 were approximately equal to decreases in others. The second largest absolute increase was recorded in Ghana, where output increased by $5.3 million, to about $27.6 million. Smaller increases were recorded in Australia, Canada, and Venezuela. In Colombia, on the other hand, output declined by about $4 million, to $11.4 million, and there were also declines in the United States, the Philippine Republic, India, Brazil, and Mexico.

As prices and costs in general continued to rise, the gold mining industry was again affected by a further increase in its production costs. This problem has been a matter of concern to the industry in most major gold producing countries throughout the postwar years. Average working costs per ton milled in South Africa rose from 42s. 11d. in 1956 to 45s. 4d. in 1957. Despite this increase, the total working profit from gold and uranium rose by £18

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million, to £91.1 million in 1957. Working profit from gold rose by £9.3 million, to £57.8 million, and profit from uranium increased by £8.6 million, to £33.3 million. Dividends paid by gold and uranium producers during the year amounted to £37.6 million, compared with £29.1 million in 1956. The average grade of ore milled rose from 4.553 dwts. to 5.000 dwts. per ton. The increased profitability of South African gold mining is attributable mainly to the newer mines in the Orange Free State and Western Transvaal and to the expansion of uranium production. Although the general position of the industry in the Union may be regarded as sound, the aggregate figures mentioned above obscure the difficulties of the older mines on the Rand that have no higher grade ore to which to turn during a period of rising costs. Of the 31 non-uranium producers, 17 had working profits smaller than in 1956; and of the £9.3 million by which working profits from gold increased, £8 million accrued to only 6 out of a total of 54 mines.

The gold subsidy programs of the Governments of Australia, Canada, and Colombia, discussed in previous Annual Reports, are still in operation. The Philippine program, which was initiated in June 1954, following consultations with the Fund, and was described in the Fund's Annual Reports for 1955, 1956, and 1957, was allowed to expire on July 18, 1957. At the same time, the Philippine monetary authorities extended the scope of the policy that permits, under certain conditions, the remittance abroad of pesos held in blocked accounts by foreign firms and nationals. This policy, which was adopted on February 19, 1957, permitted the use of blocked pesos for the purchase in the free market of up to 25 per cent of the output of local gold mining companies. This privilege was restricted, however, to any unremitted returns from investments as reported on September 30, 1956. Subsequently, the use of blocked pesos for the purchase of bullion in the free market was extended to all blocked peso accounts, provided that they were reported to the Exchange Control Department. In the second half of 1957, sales took place at prices ranging up to ₱ 128 per fine ounce. Bullion purchased by this

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means must be sold for delivery in San Francisco to the account of the Central Bank of the Philippines at the official price of $35 per ounce, payable in U.S. dollars. The sales outlet for domestically mined gold was later narrowed, when the Monetary Board prohibited the use for the purchase of gold of blocked pesos acquired from the sale of the capital assets of nonresidents.

In September 1957, the Government of Australia announced modifications of its gold subsidy scheme introduced in 1954. The rates of assistance to gold producers were increased, the maximum rate for large producers rising by 15s. per ounce, to £A 2 15s., and the flat subsidy rate for small producers (those whose production does not exceed 500 ounces per annum) by 10s. per ounce, to £A 2, but there was no change in the basic structure of the scheme described in the Fund's Annual Report for 1955. The maximum expenditure on mine development allowable in ascertaining costs of production for subsidy purposes was also raised from £A 3 10s. to £A 5 5s. per ounce. Large producers are entitled to claim three quarters of their average costs of production in excess of £A 13 10s. per ounce, until the maximum subsidy rate of £A 2 15s. is reached. The purpose of these increases is to keep in production marginal mines whose continued operations since the introduction of the gold subsidy scheme has been threatened by increases in costs. The Fund deemed the modified scheme to be consistent with the objectives of the Fund's statement of December 11, 1947 on gold subsidies.

Governments frequently feel obliged to grant protection of one kind or another to marginal producers in certain sectors of the economy whose operations threaten to become unprofitable as a result of rising costs. The gold subsidies described above and in previous Annual Reports are one such method of protection. However, the Fund has a responsibility to see that the gold policies of its members do not undermine or threaten to undermine exchange stability, and accordingly any member which proposes to introduce or modify a gold subsidy has an obligation to consult with the Fund on the measures to be applied.

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Gold Reserves

The growth of monetary gold reserves was substantially greater in 1957 than in any other postwar year. The stock of gold held by the 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 by approximately $800 million, compared with increases of about $550 million in 1956, $600 million in 1955, and a postwar low of $150 million in 1951. Some 30 per cent of the increase in 1957 is probably to be attributed to increased sales of gold by the U.S.S.R. in Western European countries. At the end of 1957, world monetary gold reserves, as defined above, amounted to $38.7 billion, $5 billion or nearly 15 per cent more than they had been at the end of 1947. All of this increase was absorbed by countries other than the United States and by international organizations; the gold holdings of the United States were approximately the same, $22.9 billion, at the beginning and the end of this ten-year period. The holdings of other countries rose during these ten years by about 50 per cent, from $9.45 billion to $14.25 billion. The proportion of the world's monetary gold held by the United States at the end of 1947 had been 68 per cent, and at the end of 1952, 65 per cent. By the end of 1957 it had fallen to 59 per cent, so that U.S. gold holdings still substantially exceeded the total holdings of the rest of the world.

Total sales of gold by the U.S.S.R. in 1957 have been estimated at about $260 million. As the value of last year's gold output outside the U.S.S.R. was some $1,020 million, the amount of gold available to the rest of the world was thus increased during the year by about $1,280 million. A comparison with the estimated aggregate increase in official gold holdings (about $800 million) therefore suggests that the amount of gold going into the arts and industries or to private hoards in 1957 was considerably smaller than in 1956.

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In both 1956 and 1957, and especially in 1957, there were substantial shifts in the world's gold stocks. The largest increase in monetary gold reserves during the past two years was in the Federal Republic of Germany, whose gold holdings increased by $574 million in 1956 and by $1,047 million in 1957. The increase in Germany in each of these years exceeded the estimated total increase in official gold holdings for the world as a whole. The United States, which had increased its monetary gold stocks in 1956 by purchasing $200 million worth of gold from the Fund and about $80 million from other countries, increased them further in 1957 by $799 million, of which $600 million was purchased from the Fund. Other countries whose gold reserves increased substantially in 1957 include Australia, Austria, Italy, Lebanon, Mexico, Portugal, Switzerland, and Venezuela. At the end of the year gold reserves were less than at the end of 1956 by $10 million or more in Argentina, the Belgian Congo, France, the Netherlands, the Philippine Republic, Sweden, and the United Kingdom.

The gold stocks of the United States, the Federal Republic of Germany, and the Union of South Africa declined during the early months of 1958. By the end of April, the decrease in the United States amounted to $815 million, most of which corresponded to substantial increases in Western European countries, and particularly in the United Kingdom, Belgium, and the Netherlands, where gold reserves had fallen during the previous year, and in Switzerland. On April 30, 1958 the gold holdings of the United States amounted to $22.0 billion, or 57 per cent of the world's monetary gold stock.

At the end of 1957, about 75 per cent, or $28,879 million, of the total gold holdings—$38,700 million—of the monetary authorities of the world (as described above) was physically located in the United States. Gold to the value of about $6 billion was held under earmark in New York by the Federal Reserve Bank of New York for the account of foreign central banks and governments and international banking institutions. Many central banks and governments find it to their advantage to leave a portion

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of their gold reserves in the United States to meet current and future requirements, since the United States is prepared to buy and sell gold for official monetary purposes at a fixed price. There were substantial transfers on official account in 1957 between the earmarked gold accounts held by the Federal Reserve Bank of New York. These movements of gold between foreign accounts were caused mainly by purchases from and sales to the United States, monthly EPU settlements in gold, and gold transactions facilitated by the services of the Bank for International Settlements and the Fund.

Gold Markets and Gold Prices

The general easing of restrictions and the granting of greater freedom for domestic and international gold transactions by Belgium-Luxembourg, Canada, and the Federal Republic of Germany, as described in the Fund's Annual Reports for 1956 and 1957, do not appear to have had any significant effect upon the pattern of international gold trading that developed after the reopening of the London gold market in March 1954. Nor have the measures adopted since early 1952 by these and other countries for freeing the movement of gold led to any substantial increase in the amount of gold going into private hoards. On the contrary, the estimated amount of gold that went into the arts and industries or private hoards in 1957 was about $100 million less than in 1956. The willingness of London bullion dealers to engage in gold transactions on a world-wide basis, against dollars or registered sterling and under the supervision of the Bank of England, has made London the world's main gold trading center. The Union of South Africa and other sterling area producers, together with the U.S.S.R., continued to be the source of most of the fresh supplies in the gold market, where Western European central banks also continued to be active. Private operators purchased gold for export to the Middle East and the Far East. Gold producers and

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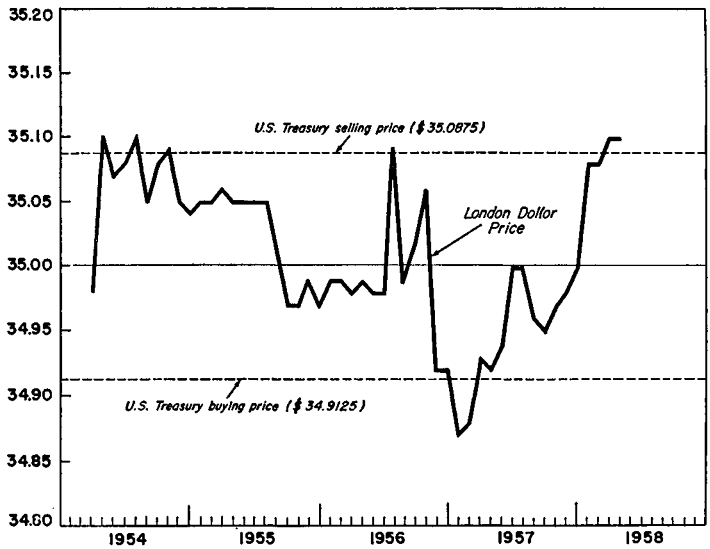
Chart 1. U.S. Dollar Equivalent of Price of Gold in London Market, As of End of Month, March 1954–April 1958

(In dollars per fine ounce)



private and central bank gold operators are most immediately concerned with the U.S. dollar price of gold in London, which is linked very closely with the sterling-dollar rate of exchange. As a general rule, the dollar price of gold in London has moved with the weakness or strength of sterling against the dollar. Other factors, such as the inflow of fresh supplies of gold and central bank demands for gold, also have a great influence on the price. The U.S. policy of a buying price of $34.9125 per fine ounce and a selling price for governmental monetary purposes of $35.0875 keeps the dollar price of gold in London within close range of these two extremes (Chart 1).

During 1957, the United Kingdom imported gold bullion worth £300 million ($840 million), of which £71 million ($198.8 million) came from the U.S.S.R.; most of the remainder was from gold producing countries in the sterling area. These imports were equivalent to about 65 per cent of the total new supply of $1,280

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million made available in 1957 to countries other than the U.S.S.R. and the countries associated with it. The marketing of these supplies tended to keep the U.S. dollar price of gold in London below $35 per ounce during most of the year.

The range between the maximum and the minimum dollar prices of gold during the year ended April 30, 1958 was about 21 cents per ounce, compared with 24 cents per ounce in 1956-57. For most of the period from May 1 through December 31, 1957, the U.S. dollar price (converted at the sterling-dollar rate at the time of daily fixing) was below $35, rising above that figure only on June 6 and August 1. In mid-January 1958, the U.S. dollar price rose above $35; it advanced to $35.12 per fine ounce on April 8, 1958, the highest price at "fixing" since the reopening of the London market in March 1954. The monthly average dollar price of bullion during March and April was slightly above the U.S. selling price; thus, for transactions in which shipping costs—about $0.14 per fine ounce—were not involved, central bank buyers found it cheaper to acquire gold in New York than in London. The demand which maintained the price of gold was in large part a result of normal reserve practices of the United Kingdom and other countries with surpluses in their balances of payments, and of some sales of dollars by private individuals to their central banks, which then converted them into gold. During the year under review, the price of bar gold in sterling at fixing fluctuated between a high of 251s. 5½d. per fine ounce in August 1957 and a low of 248s. 8½d. in January 1958, the lowest since April 1954. On April 30, 1958, it was 249s. 2½d., equivalent to $35.10 at the day's dollar exchange rate.

During the year an official announcement in London stated that 2,072,000 sovereigns had been minted in the calendar year 1957. These sovereigns, together with others recently minted, are to be used to increase the stocks of sovereigns in the gold reserves of the United Kingdom. This minting also enables sovereigns to be released for circulation abroad to meet a demand that had given rise to counterfeiting. The sales of sovereigns are made from the Exchange Equalization Account at current market prices against

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dollars or other convertible currency. It has been reported that sales were made in the bullion market to authorized dealers whose bids have been accepted at a price of about $9.25 per sovereign, which is equivalent to about $39 per fine ounce and, after allowance for seignorage, gives a profit of about 11 per cent.

The price at which bar gold is traded directly for U.S. dollars in other markets remained within a few cents of the London dollar price during the year under review. In Zürich, for example, it was usually quoted at a few cents per fine ounce above the London price, increasing from a low of $34.93½ per fine ounce in the last week of May 1957 to a high of $35.15½ on April 8, 1958. The price on April 30, 1958 was $35.13 per fine ounce.

In markets where gold is traded in local currencies, the day-to-day movements of the U.S. dollar equivalent prices often diverge from the movements of London prices because of the special characteristics of each market. However, in Brussels this price did not deviate from the London price by more than ½ per cent, and in Beirut by more than 1 per cent. In Milan, the deviations were sometimes wider but did not exceed 2½ per cent. These prices are probably a result of the stability of the exchange rates used for conversion as well as of the magnitude of the flow of gold through the countries in which the markets operate. Gold imports and exports are not restricted in Lebanon and Belgium; in Italy they remain under the control of the Italian Exchange Office. In Beirut, the U.S. dollar equivalent price of bar gold increased from a low of $35.11 per fine ounce on July 22, 1957 to $35.33 on September 17, 1957, declined to $34.99 in December, and on April 30, 1958 was equivalent to $35.24 per fine ounce. Though Brussels is not a transit center, as Beirut is, the price of bullion there tended to follow the London price more closely. It was about $34.94 per fine ounce at the end of August 1957 and about $35.19 per fine ounce at the end of April 1958. The dollar equivalent price in Milan fluctuated between a high of $35.83 per ounce on September 20, 1957 and a low of $35.14 on March 24, 1958. On April 28, 1958 it was $35.30.

In view of the strict restrictions on both imports and exports of

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gold imposed in France and India, the U.S. dollar equivalent prices in Paris and Bombay should not be thought of as premium prices to be compared with the prices of gold in London or Zürich. The local currency prices for gold in those countries reflect local habits and customs and are subject to wide fluctuations, depending upon the interplay of local political and economic forces. The currencies of those countries are not freely convertible into U.S. dollars, and the rates used for conversion into U.S. dollar equivalent prices are, for India, the official exchange rate and, for France, the rate for U.S. dollar banknotes in Paris. Movements in the prices of gold in these centers should therefore be regarded primarily as responses to changes in local conditions.

The price of bar gold in Paris rose from the year's low of 462,000 francs per kilogram on May 2, 1957 to a high of 590,000 francs on November 14, 1957, the highest since March 1952. The price of bullion gradually declined after November 1957 to 513,000 francs per kilogram on April 2, 1958. When converted into U.S. dollars at the day's parallel market rate for U.S. dollar banknotes in Paris, the price was equivalent on those three dates to \$36.29, \$36.20, and \$36.35, respectively. The U.S. dollar equivalent price of bar gold in Paris, which reflects movements in the franc rate for U.S. dollar banknotes, fluctuated between a high of \$37.13 on August 7 and a low of \$35.76 on August 22, 1957. The franc rate for U.S. dollar banknotes rose from 396 francs on May 2, 1957 to a high of 507 on November 14, and then fell to 439 francs on April 2, 1958. On April 30, 1958, the price of bullion was 523,000 francs per kilogram, equivalent to \$36.47 per fine ounce at the day's rate of 446 francs per dollar.

In Bombay, the price of bullion rose from the year's low of Rs 104.87 per tola (equivalent to \$58.73 per fine ounce at par value) on July 4, 1957 to a high of Rs 114.62 (\$64.19) on April 28, 1958.

In contrast to Paris and Bombay, the Hong Kong gold market may be described as an international entrepôt market where the Hong Kong dollar is freely convertible into any foreign currency or gold. The transshipment of gold not owned by residents is per-

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mitted to any destination, and gold may be imported for re-export to countries that permit the import of gold. Accordingly, gold is usually imported into Hong Kong for re-export to Macao (where an import fee equivalent to approximately $2 per ounce is imposed), while at the same time or subsequently gold is also transshipped from Macao through Hong Kong to markets in Southeast Asia. The difference between the London and the Hong Kong prices of gold is largely a result of the cost of diverting gold to Macao and back again and of transporting it from the United Kingdom. The price of bullion in Hong Kong decreased from the year's high of HK$278.875 per tael (equivalent to $39.14 per fine ounce at the day's T.T. Hong Kong dollar rate for the U.S. dollar) on May 24, 1957 to a low of HK$252.125 ($38.13) on April 24, 1958.

The principal feature in the markets for gold coins during the year under review was the fall in the price of the sovereign, which contrasted with a rising tendency during the previous two years, and a further rise in the premium for 20-mark coins in the Federal Republic of Germany. The release by the United Kingdom of a substantial quantity of sovereigns for sale abroad was largely responsible for a general decline in the U.S. dollar equivalent price of the sovereign. At the end of April 1958, the price of the sovereign in both Paris (about $41.00 per fine ounce) and Brussels ($39.00) was about $3.50 less than a year before; in Milan the price fell during the year by $3.00 to about $40.50, and in Beirut by $2.50 to $40.85. The market price of the German 20-mark gold piece in Frankfurt rose from DM 47 in April 1957 to DM 52 at the end of April 1958. The price of the napoleon at the end of April 1958, compared with the end of April 1957, declined by the equivalent of about $2.00 per fine ounce to about $45.75 in Paris, and by about $1.50 to about $41.50 in Beirut; in Milan, the price rose by about $0.50 to about $44.00.

Gold Transaction Service

As from March 1952, the Fund has provided its members with a technical service which brings buyers and sellers of gold together.

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Members intending to buy or sell gold and wishing to use the Fund's service are requested to furnish the Fund with all the necessary information, as far in advance as possible. For the service of matching buyers and sellers the Fund asks each partner in a completed transaction to pay a charge of 1/32 of 1 per cent in U.S. dollars. The Fund pays the normal charges and out-of-pocket expenses of the gold depository which are incidental to the transfer of gold from the seller's account to the buyer's account with that depository. This service has been extended since its inauguration to three international organizations and several nonmember countries.

Since March 1952, the central banks of 24 member countries and 3 international organizations have effected purchases and sales of gold through the facilities provided by this service. During most of the year under review, i.e., from May 1, 1957 through January 15, 1958, when the London dollar price of gold remained for the most part below $35 per fine ounce, supply exceeded demand. Most of the transactions completed by the Fund during the year were accomplished during this period. From February 15, 1958 through April 30, when the London dollar price reached or exceeded the New York selling price of $35.0875, there were no sellers of gold through the Fund's services, and central bank requirements were met to a great extent by direct purchases of gold from the United States. During the year under review, 15 transactions amounting to a total of about $107 million were completed by the Fund. The total number of transactions since March 1952 is 86, amounting to about $670 million.

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VIII

Fund Administration in 1957-58

Training Program

MANY Fund members continue to find it advantageous to grant leave to members of the staffs of their central banks or government departments to enable them to participate in the Fund's training program. In view of this continued interest, the program for 1957-58 was reorganized to permit the number of participants to be increased. The total number of participants since the inception of the program in 1951 is 143 from 54 member countries.

The primary objective of the training program is to provide qualified personnel from member countries with an opportunity for technical training of a kind that will be useful when, after they return to their countries, they engage in work in which the member and the Fund have a common interest. The scope of the program is interpreted broadly, and the contacts which the Fund has subsequently had with those who have participated in earlier years indicate that Fund training has helped to raise the standards of competence of those who are selected for the program.

Investment of Fund Assets

The Fund's program of investing not more than $200 million of its gold in U.S. Treasury bills has been continued during the past

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year. The program, which was described in the 1956 Annual Report (pages 128-29), was undertaken in order to supplement the Fund's income when it was less than its operating expenses. By November 1957 this supplementary income and the charges paid by members in the last two fiscal years as a consequence of the large demands made by them upon the Fund's resources had wiped out the deficit accumulated in previous years. Bearing in mind that the Fund may again in the future have an excess of expenditure over income and that the greater part of the Fund's administrative expenditures will continue to be in U.S. dollars, the Executive Board decided that it would be appropriate to raise income and provide a reserve toward meeting possible future deficits by continuing the investment of a portion of the Fund's gold. Any administrative deficit in any fiscal year of the Fund is written off first against this reserve. As before, the Fund is enabled to reacquire the same amount of gold as is sold for investment, and the gold value of the investment is maintained.

Investment income from May 1, 1957 to October 31, 1957 amounted to $3,334,657.78; such income from November 1, 1957 to April 30, 1958, amounting to $2,830,560.24, was placed in the Special Reserve Account.

Information

The Fund's program of publications in 1957-58 was similar to that of earlier years. The list includes the *Annual Report of the Executive Directors for the Fiscal year Ended April 30, 1957* (Twelfth Annual Report); the *Eighth Annual Report on Exchange Restrictions;* two volumes of the *Balance of Payments Yearbook,* a base book (Volume 8) covering 1950-54 data and a current monthly publication (Volume 9) covering data for 1955-56; Volume VI, Numbers 1 and 2, of *Staff Papers;* the monthly *International Financial Statistics;* and the weekly *International Finan-*

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cial News Survey. The monthly *Direction of International Trade* is published jointly with the International Bank for Reconstruction and Development and the Statistical Office of the United Nations.

Administration

At the end of the fiscal year, the Fund staff numbered 433, including 11 temporary employees and 4 on extended leave. Thus during the year there was a net increase of 6. The Fund has continued its policy of recruiting staff on as wide a geographical basis as possible. During the year, 46 new staff members from 17 member countries were recruited. The total number of nationalities on the staff increased to 50, from 47 in the preceding year.

The Fund's new headquarters building was completed early in 1958 and was dedicated on April 22, 1958. Mr. Hubert Ansiaux of Belgium, Chairman of the Board of Governors, and Mr. Robert W. Anderson, Governor for the host country, the United States, participated in the Dedication Ceremony.

For the past fiscal year the Fund's income of US$23,585,309.54 exceeded its total expenditure, including the costs of the new building, by $12,287,430.50. As of April 30, 1958, the excess of net income over expenditure, after meeting the accumulated deficit from previous years, was $5,991,691.89. This amount was transferred provisionally to a General Reserve. In addition, $2,830,560.24 of the income received from the Fund's investment program was transferred to a Special Reserve. The administrative budget approved by the Executive Directors for the period May 1, 1958 to April 30, 1959 is presented in Appendix VI. A tabulation comparing the budget with actual expenditures for the fiscal years 1957 and 1958 and a comparative statement of income are also presented there.

The Executive Board requested the Governments of Canada, China, and Iran to nominate members of the Audit Committee.

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The following nominations were made and confirmed: Mr. Ian Stevenson, Assistant Auditor General of Canada, Ottawa; Mr. Felix S. Y. Chang, Manager, Foreign Department, Bank of Taiwan, Taipei; and Mr. Ziaoullah Shahidi, Assistant Manager, Foreign Department, Bank Melli Iran, Teheran. The report of the Committee is submitted separately. Appendix VII gives the Auditors' Certificate together with the audited Balance Sheet as of April 30, 1958, the audited Statement of Income and Expenditure, with supporting schedules, and audited financial statements of the Staff Retirement Fund.

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APPENDICES

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Appendix I. MEMBERSHIP, QUOTAS, GOVERNORS, AND VOTING POWER

as of April 30, 1958

	QUOTA			VOTES	
Member	Amount (000,000's)	Per Cent of Total	Governor *Alternate*	Number[1]	Per Cent of Total
Afghanistan	$ 10.0	0.11	Abdullah Malikyar *Mohammad Sarwar*	350	0.33
Argentina	150.0	1.65	Adalberto Krieger Vasena *Mauricio L. Yadarola*	1,750	1.63
Australia	200.0	2.20	Sir Arthur Fadden *Sir Percy Claude Spender*	2,250	2.09
Austria	50.0	0.55	Eugen Margaretha *Franz Stoeger-Marenpach*	750	0.70
Belgium	225.0	2.48	Hubert Ansiaux *Maurice Williot*	2,500	2.32
Bolivia	10.0	0.11	Franklin Antezana Paz *Santiago Sologuren*	350	0.33
Brazil	150.0	1.65	Jose Maria Alkmim *Octavio Paranagua*	1,750	1.63
Burma	15.0	0.17	Kyaw Nyein *San Lin*	400	0.37
Canada	300.0	3.30	Donald Methuen Fleming *James Elliott Coyne*	3,250	3.02
Ceylon	15.0	0.17	Stanley de Zoysa *Sir Arthur Ranasinha*	400	0.37
Chile	50.0	0.55	Felipe Herrera *Alvaro Orrego Barros*	750	0.70
China	550.0	6.05	Peh-Yuan Hsu *Pao-hsu Ho*	5,750	5.34
Colombia	50.0	0.55	Antonio Alvarez Restrepo *Emilio Toro*	750	0.70
Costa Rica	5.0	0.06	Alvaro Castro *Alvaro Vargas*	300	0.28
Cuba	50.0	0.55	Joaquin Martinez Saenz *Bernardo Figueredo Antunez*	750	0.70
Denmark	68.0	0.75	Svend Nielsen *Einar Dige*	930	0.86
Dominican Republic	10.0	0.11	Arturo Despradel *Oscar Guaroa Ginebra Henriquez*	350	0.33
Ecuador	10.0	0.11	Guillermo Perez-Chiriboga *Clemente Vallejo*	350	0.33
Egypt	60.0	0.66	Abdel Moneim El Kaissouni *Mohamed Loutfy El-Banna*	850	0.79
El Salvador	7.5	0.08	Carlos J. Canessa *Manuel Melendez-Valle*	325	0.30
Ethiopia	6.0	0.07	Makonnen Habte Wolde *Stanislaw Kirkor*	310	0.29
Finland	38.0	0.42	Klaus Waris *Eero Asp*	630	0.59
France	525.0	5.78	Pierre Mendes-France *Wilfrid Baumgartner*	5,500	5.11

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Appendix I (*continued*). MEMBERSHIP, QUOTAS, GOVERNORS, AND VOTING POWER as of April 30, 1958

	QUOTA		VOTES		
Member	Amount (000,000's)	Per Cent of Total	Governor *Alternate*	Number[1]	Per Cent of Total
Germany, Federal Republic of	$ 330.0	3.63	Karl Blessing *Hans Karl von Mangoldt-Reiboldt*	3,550	3.30
Ghana	15.0	0.17	K. A. Gbedemah *A. Eggleston*	400	0.37
Greece	40.0	0.44	Xenophon Zolotas *John S. Pesmazoglu*	650	0.60
Guatemala	5.0	0.06	Gabriel Orellana *Gustavo Miron*	300	0.28
Haiti	7.5	0.08	Maurice Telemaque *Antonio Andre*	325	0.30
Honduras	7.5	0.08	Fernando Villar *Roberto Ramirez*	325	0.30
Iceland	1.0	0.01	Gylfi Gislason *Thor Thors*	260	0.24
India	400.0	4.40	Morarji R. Desai *H. V. R. Iengar*	4,250	3.95
Indonesia	110.0	1.21	Vacant *R. Soegiarto*	1,350	1.25
Iran	35.0	0.39	Ebrahim Kashani *Ahmad Majidian*	600	0.56
Iraq	8.0	0.09	Abdulilah Hafidh *Saleh Kubba*	330	0.31
Ireland	30.0	0.33	Seamas O Riain *J. J. McElligott*	550	0.51
Israel	7.5	0.08	David Horowitz *Martin Rosenbluth*	325	0.30
Italy	180.0	1.98	Giuseppe Medici *Ugo La Malfa*	2,050	1.90
Japan	250.0	2.75	Hisato Ichimada *Masamichi Yamagiwa*	2,750	2.56
Jordan	3.0	0.03	Izzeddin Mufti *Abdul Karim Humud*	280	0.26
Korea	12.5	0.14	Hyun Chul Kim *Yong Chan Kim*	375	0.35
Lebanon	4.5	0.05	Nasr Harfouche *Farid Solh*	295	0.27
Luxembourg	10.0	0.11	Pierre Werner *Hugues Le Gallais*	350	0.33
Malaya	25.0	0.28	Sir Henry H. S. Lee *Ismail bin Dato' Abdul Rahman*	500	0.46
Mexico	90.0	0.99	Antonio Carrillo Flores *Rodrigo Gomez*	1,150	1.07
Morocco	35.0	0.39	Vacant *Vacant*	600	0.56
Netherlands	275.0	3.03	M. W. Holtrop *E. van Lennep*	3,000	2.79

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Appendix I (*continued*). MEMBERSHIP, QUOTAS, GOVERNORS, AND VOTING POWER as of April 30, 1958

	QUOTA		VOTES		
Member	Amount (000,000's)	Per Cent of Total	Governor *Alternate*	Number[1]	Per Cent of Total
Nicaragua	$ 7.5	0.08	Guillermo Sevilla Sacasa *Leon DeBayle*	325	0.30
Norway	50.0	0.55	Erik Brofoss *Christian Brinch*	750	0.70
Pakistan	100.0	1.10	Abdul Qadir *Vaqar Ahmad*	1,250	1.16
Panama	0.5	0.01	Roberto M. Heurtematte *Henrique Obarrio*	255	0.24
Paraguay	7.5	0.08	Gustavo F. A. Storm *Pedro R. Chamorro*	325	0.30
Peru	25.0	0.28	Andres F. Dasso *Emilio G. Barreto*	500	0.46
Philippines	15.0	0.17	Miguel Cuaderno, Sr. *Eduardo Z. Romualdez*	400	0.37
Saudi Arabia	10.0	0.11	Rasem Al-Khalidi *Saleh Al-Shalfan*	350	0.33
Sudan	10.0	0.11	Ibrahim Ahmed *Mamoun Beheiry*	350	0.33
Sweden	100.0	1.10	Per V. Asbrink *T. L. Hammarskiold*	1,250	1.16
Syria	6.5	0.07	Izzat Traboulsi *Rafic Sioufi*	315	0.29
Thailand	12.5	0.14	Prince Viwat *Puey Ungphakorn*	375	0.35
Tunisia	12.0	0.13	Vacant *Vacant*	370	0.34
Turkey	43.0	0.47	Hasan Polatkan *Memduh Aytur*	680	0.63
Union of South Africa	100.0	1.10	Jozua Francois Naude *Daniel Hendrik Steyn*	1,250	1.16
United Kingdom	1,300.0	14.30	Derick Heathcoat Amory *M. H. Parsons*	13,250	12.31
United States	2,750.0	30.26	Robert B. Anderson *C. Douglas Dillon*	27,750	25.78
Uruguay	15.0	0.17	Carlos Sapelli *Carlos Sanguinetti*	400	0.37
Venezuela	15.0	0.17	J. J. Gonzalez Gorrondona *Francisco Alfonso Ravard*	400	0.37
Viet-Nam	12.5	0.14	Tran Huu Phuong *Vu Quoc Thuc*	375	0.35
Yugoslavia	60.0	0.66	Nenad Popovic *Nikola Miljanic*	850	0.79
	$9,088.0	100.00[2]		107,630	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.

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Appendix II. Changes in Membership of Board of Governors

Changes in the membership of the Board of Governors between May 1, 1957 and April 30, 1958 have been as follows:

Ugo La Malfa was reappointed Alternate Governor for Italy, effective April 20, 1957.

Joaquin Martinez Saenz was reappointed Governor for Cuba, May 3, 1957.

Bernardo Figueredo Antunez was reappointed Alternate Governor for Cuba, May 3, 1957.

Maurice Williot succeeded Joseph Vanheurck as Alternate Governor for Belgium, effective May 15, 1957.

Carlos J. Canessa succeeded Catalino Herrera as Governor for El Salvador, May 17, 1957.

M. H. Parsons succeeded Sir George Bolton as Alternate Governor for the United Kingdom, effective May 19, 1957.

Vaqar Ahmad succeeded M. A. Mozaffar as Alternate Governor for Pakistan, May 21, 1957.

C. Douglas Dillon succeeded Herbert V. Prochnow as Alternate Governor for the United States, May 21, 1957.

Franklin Antezana Paz was reappointed Governor for Bolivia, May 31, 1957.

Santiago Sologuren succeeded Guillermo Mac Lean as Alternate Governor for Bolivia, May 31, 1957.

Eero Asp succeeded Reino Rossi as Alternate Governor for Finland, effective June 6, 1957, and was reappointed March 18, 1958.

Henrique Obarrio succeeded Jose D. Crespo as Alternate Governor for Panama, June 7, 1957.

Ebrahim Kashani succeeded Ali Asghar Nasser as Governor for Iran, June 12, 1957.

Daniel Hendrik Steyn was reappointed Alternate Governor for the Union of South Africa, effective June 17, 1957.

Guillermo Perez-Chiriboga was reappointed Governor for Ecuador, June 21, 1957.

Hyun Chul Kim succeeded Tai Shik In as Governor for Korea, June 27, 1957.

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Donald Methuen Fleming succeeded Walter Edward Harris as Governor for Canada, June 28, 1957.

San Lin succeeded Tu Maung as Alternate Governor for Burma, effective July 1, 1957.

Hisato Ichimada succeeded Hayato Ikeda as Governor for Japan, July 16, 1957.

Mauricio L. Yadarola succeeded Adolfo Vicchi as Alternate Governor for Argentina, July 23, 1957.

Gylfi Gislason succeeded Bjorn Olafsson as Governor for Iceland, July 25, 1957.

Seamas O Riain was appointed Governor for Ireland, effective August 8, 1957.

J. J. McElligott was appointed Alternate Governor for Ireland, effective August 8, 1957.

Wilhelm Vocke was reappointed Governor for the Federal Republic of Germany, effective August 14, 1957.

Hans Karl von Mangoldt-Reiboldt was reappointed Alternate Governor for the Federal Republic of Germany, effective August 14, 1957.

Abdullah Malikyar succeeded Abdul Malik as Governor for Afghanistan, August 17, 1957.

Giuseppe Medici succeeded Adone Zoli as Governor for Italy, August 19, 1957.

Rasem Al-Khalidi was appointed Governor for Saudi Arabia, August 26, 1957.

Saleh Al-Shalfan was appointed Alternate Governor for Saudi Arabia, August 26, 1957.

Robert B. Anderson succeeded George M. Humphrey as Governor for the United States, August 27, 1957.

Nikola Miljanic succeeded Bosko Tonev as Alternate Governor for Yugoslavia, August 28, 1957.

K. A. Gbedemah was appointed Governor for Ghana, September 3, 1957.

A. Eggleston was appointed Alternate Governor for Ghana, September 3, 1957.

Izzat Traboulsi succeeded Rafic Sioufi as Governor for Syria, September 4, 1957.

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Rafic Sioufi succeeded Awad Barakat as Alternate Governor for Syria, September 4, 1957.

Antonio Alvarez Restrepo succeeded Carlos Villaveces as Governor for Colombia, September 6, 1957.

Emilio Toro succeeded Gabriel Betancur as Alternate Governor for Colombia, September 6, 1957.

Ibrahim Ahmed was appointed Governor for the Sudan, September 7, 1957.

Mamoun Beheiry was appointed Alternate Governor for the Sudan, September 7, 1957.

Rodrigo Gomez succeeded Antonio Carrillo Flores as Governor for Mexico, September 13, 1957.

Raul Salinas Lozano succeeded Rodrigo Gomez as Alternate Governor for Mexico, September 13, 1957.

Najib-Ullah succeeded Abdullah Malikyar as Governor for Afghanistan, September 21, 1957.

Chia-Kan Yen succeeded Peh-Yuan Hsu as Governor for China, September 21, 1957.

Jose Ernesto Garcia Aybar succeeded Arturo Despradel as Governor for the Dominican Republic, September 21, 1957.

Vilhjalmur Thor succeeded Gylfi Gislason as Governor for Iceland, September 21, 1957.

Manuel Gill Morlis succeeded Gustavo F. A. Storm as Governor for Paraguay, September 21, 1957.

Vu Quoc Thuc succeeded Tran Huu Phuong as Governor for Viet-Nam, September 24, 1957.

Nguyen Huu Hanh succeeded Vu Quoc Thuc as Alternate Governor for Viet-Nam, September 24, 1957.

Abdullah Malikyar succeeded Najib-Ullah as Governor for Afghanistan, September 27, 1957.

Peh-Yuan Hsu succeeded Chia-Kan Yen as Governor for China, September 27, 1957.

Arturo Despradel succeeded Jose Ernesto Garcia Aybar as Governor for the Dominican Republic, September 27, 1957.

Gylfi Gislason succeeded Vilhjalmur Thor as Governor for Iceland, September 27, 1957.

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Antonio Carrillo Flores succeeded Rodrigo Gomez as Governor for Mexico, September 27, 1957.

Rodrigo Gomez succeeded Raul Salinas Lozano as Alternate Governor for Mexico, September 27, 1957.

Gustavo F. A. Storm succeeded Manuel Gill Morlis as Governor for Paraguay, September 27, 1957.

Tran Huu Phuong succeeded Vu Quoc Thuc as Governor for Viet-Nam, September 27, 1957.

Vu Quoc Thuc succeeded Nguyen Huu Hanh as Alternate Governor for Viet-Nam, September 27, 1957.

Hubert Ansiaux succeeded Maurice Frere as Governor for Belgium, October 30, 1957.

Karl Blessing succeeded Wilhelm Vocke as Governor for the Federal Republic of Germany, effective January 1, 1958.

Alvaro Castro succeeded Angel Coronas as Governor for Costa Rica, effective January 1, 1958.

Alvaro Vargas succeeded Mario Fernandez as Alternate Governor for Costa Rica, effective January 1, 1958.

Derick Heathcoat Amory succeeded Peter Thorneycroft as Governor for the United Kingdom, January 14, 1958.

Maurice Telemaque succeeded Silvere Pilie as Governor for Haiti, January 15, 1958.

Antonio Andre succeeded Maurice Telemaque as Alternate Governor for Haiti, January 15, 1958.

Fernando Villar succeeded Gabriel A. Mejia as Governor for Honduras, January 21, 1958.

Roberto Ramirez was reappointed Alternate Governor for Honduras, January 21, 1958.

Antonio Carrillo Flores was reappointed Governor for Mexico, effective January 21, 1958.

Rodrigo Gomez was reappointed Alternate Governor for Mexico, effective January 21, 1958.

Felipe Herrera was appointed Governor for Chile, effective January 28, 1958.

Alvaro Orrego Barros succeeded Felipe Herrera as Alternate Governor for Chile, effective January 28, 1958.

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Sjafruddin Prawiranegara ceased to be Governor for Indonesia, effective February 1, 1958.

Klaus Waris succeeded R. v. Fieandt as Governor for Finland, March 18, 1958.

Sir Henry H. S. Lee was appointed Governor for Malaya, March 18, 1958.

Ismail bin Dato' Abdul Rahman was appointed Alternate Governor for Malaya, March 18, 1958.

Morarji R. Desai succeeded T. T. Krishnamachari as Governor for India, April 22, 1958.

Nasr Harfouche was reappointed Governor for Lebanon, effective April 23, 1958.

Farid Solh was reappointed Alternate Governor for Lebanon, effective April 23, 1958.

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Appendix III. Executive Directors and Voting Power as of April 30, 1958

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	26.55
G. F. Thorold *R. E. Heasman*	United Kingdom	13,250	13,250	12.68
Beue Tann *Ching-Yao Hsieh*	China	5,750	5,750	5.50
Jean de Largentaye *Marcel Theron*	France	5,500	5,500	5.26
B. N. Adarkar *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 (Belgium)	Austria	750		
	Belgium	2,500		
Maurice Toussaint (Belgium)	Korea	375		
	Luxembourg	350		
	Turkey	680	4,655	4.45
Pieter Lieftinck (Netherlands)	Israel	325		
H. M. H. A. van der Valk (Netherlands)	Netherlands	3,000		
	Yugoslavia	850	4,175	3.99
Carlo Gragnani (Italy)	Greece	650		
Costa P. Caranicas (Greece)	Indonesia	1,350		
	Italy	2,050	4,050	3.88
Octavio Paranagua (Brazil)	Brazil	1,750		
Helvecio Xavier Lopes (Brazil)	Colombia	750		
	Dominican Republic	350		
	Haiti	325		
	Panama	255		
	Peru	500	3,930	3.76

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Appendix III (*continued*). Executive Directors and Voting Power

as of April 30, 1958

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Per Cent of Total
Rodolfo Corominas-Segura (Argentina)	Argentina	1,750		
Carlos Luzzetti (Argentina)	Bolivia	350		
	Chile	750		
	Ecuador	350		
	Paraguay	325		
	Uruguay	400	3,925	3.76
Takeshi Watanabe (Japan)	Burma	400		
Tun Thin (Burma)	Ceylon	400		
	Japan	2,750		
	Thailand	375	3,925	3.76
B. B. Callaghan (Australia)	Australia	2,250		
Brian Emmott Fleming (Australia)	Union of South Africa	1,250		
	Viet-Nam	375	3,875	3.71
Jorge Sol (El Salvador)	Costa Rica	300		
Jorge Hazera (Costa Rica)	Cuba	750		
	El Salvador	325		
	Guatemala	300		
	Honduras	325		
	Mexico	1,150		
	Nicaragua	325		
	Venezuela	400	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
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	3.11
			104,510[2]	100.00[3]

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

[2] This total does not include the votes of Ghana, Ireland, Malaya, Morocco, Saudi Arabia, the Sudan, and Tunisia, which were not members at the time of the Sixth Regular Election of Executive Directors.

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

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Appendix IV. Changes in Membership of Executive Board

Changes in the membership of the Executive Board between May 1, 1957 and April 30, 1958 have been as follows:

J. C. Lloyd (Australia) served as Temporary Alternate Executive Director to B. B. Callaghan (Australia), May 8 to June 10, 1957, June 12 (morning session), June 13, and July 19, 1957.

Lempira E. Bonilla (Honduras) served as Temporary Alternate Executive Director to Jorge Sol (El Salvador), May 24, 1957 and January 13, 1958.

P. S. Narayan Prasad (India) resigned as Executive Director for India, effective June 10, 1957.

B. N. Adarkar (India) was appointed Executive Director for India, effective June 11, 1957.

P. J. J. Pinto (India), formerly Alternate Executive Director to P. S. Narayan Prasad (India), was appointed Alternate Executive Director to B. N. Adarkar (India), effective June 11, 1957.

Brian Emmott Fleming (Australia) was appointed Alternate Executive Director to B. B. Callaghan (Australia), effective June 27, 1957.

Otto Donner (Federal Republic of Germany) served as Temporary Alternate Executive Director to Otmar Emminger (Federal Republic of Germany), July 10 to 29, 1957 and March 5 to 21, 1958.

Sven Viig (Norway) served as Temporary Alternate Executive Director to Torben Friis (Denmark), July 24, 1957.

Enrique Garcia Vazquez (Argentina) served as Temporary Alternate Executive Director to Rodolfo Corominas-Segura (Argentina), July 24 to 29, 1957.

George V. Sainsbury (Canada) served as Temporary Alternate Executive Director to Louis Rasminsky (Canada), July 29, 1957, October 2 to 4, 1957, and December 23, 1957 to January 3, 1958.

Luis Fernando Jimenez (Costa Rica) served as Temporary Alternate Executive Director to Jorge Sol (El Salvador), September 9 to 13, 1957.

Julio Gonzalez del Solar (Guatemala) resigned as Alternate Executive Director to Rodolfo Corominas-Segura (Argentina), effective September 30, 1957.

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Carlos Luzzetti (Argentina) was appointed Alternate Executive Director to Rodolfo Corominas-Segura (Argentina), effective October 1, 1957.

Prayad Buranasiri (Thailand) resigned as Alternate Executive Director to Takeshi Watanabe (Japan), effective October 31, 1957.

Tun Thin (Burma) was appointed Alternate Executive Director to Takeshi Watanabe (Japan), effective November 1, 1957.

R. W. Cole (Australia) served as Temporary Alternate Executive Director to B. B. Callaghan (Australia), March 12, 1958.

Jean-Maxime Leveque (France) resigned as Alternate Executive Director to Jean de Largentaye (France), effective March 15, 1958.

Marcel Theron (France) was appointed Alternate Executive Director to Jean de Largentaye (France), effective March 16, 1958.

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Appendix V. SUMMARY OF FUND TRANSACTIONS from the beginning of operations to April 30, 1958[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, 1958 Expressed as Percentage of Quota (8)
Afghanistan						—	—
Argentina	75.0					75.0	125
Australia	50.0		50.0			0.0	96
Austria			7.5			−7.5	75
Belgium	83.0	11.4	21.6			50.0	97
Bolivia	7.5					7.5	150
Brazil	206.0		131.0			75.0	125
Burma	15.0		3.2			11.8	175
Canada		15.0				−15.0	70
Ceylon			3.0			−3.0	75
Chile	58.6		25.0			33.6	150
China							—
Colombia	40.0		5.0			35.0	145
Costa Rica	1.2		2.1			−0.9	75
Cuba	47.5		22.5			25.0	125
Czechoslovakia	6.0			3.7[2]		2.3[2]	[2]
Denmark	44.2		22.8			21.4	123
Dominican Republic							75
Ecuador	5.0		5.0			0.0	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	452.5		147.9			304.6	137
Germany, Fed. Rep. of		26.4	45.1			−71.5	68
Ghana							—
Greece							—
Guatemala							75
Haiti	1.0					1.0	88
Honduras	6.3		2.5			3.8	125
Iceland							75
India	300.0		99.9			200.1	143
Indonesia	70.0		27.0			43.0	125
Iran	46.0		29.1			16.9	123
Iraq			2.0			−2.0	75
Ireland							—
Israel	3.8					3.8	125
Italy							—
Japan	249.0		124.0			125.0	125
Jordan							97
Korea							—
Lebanon			0.9			−0.9	75
Luxembourg							95
Malaya							—
Mexico	45.0		44.9			0.0	75
Morocco							—
Netherlands	144.1	5.0	75.4			63.7	98
Nicaragua	6.1		6.1			0.0	75
Norway	9.6		9.6			0.0	75
Pakistan							96
Panama							75
Paraguay	6.4		0.9			5.5	148
Peru			3.1			−3.1	75
Philippines	15.0					15.0	175
Saudi Arabia							—
Sudan							—
Sweden			8.0			−8.0	75
Syria			1.4			−1.4	75
Thailand							—
Tunisia							—
Turkey	48.5		31.0			17.5	115
Union of South Africa	35.0		10.0			25.0	100
United Kingdom	861.5	191.7	112.0			557.8	126
United States		2,772.9			849.4	−1,923.5	25
Uruguay							—
Venezuela							75
Viet-Nam							—
Yugoslavia	31.9		9.0			22.9	125
	3,016.2	3,022.4[3]	1,119.7[4]	3.7	849.4	−280.2	

[1] Totals may not equal sums 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 $3.7 million.

[3] $3,016.2 million sold for currency and $6.2 million for gold.

[4] $849.4 million repurchased with convertible currency and $270.3 million with gold.

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Appendix VI (i). ADMINISTRATIVE BUDGET

Letter of Transmittal

July 25, 1958

My dear Mr. Chairman:

The administrative budget of the Fund approved by the Executive Board for the Fiscal Year ending April 30, 1959 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

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Appendix VI (ii). ADMINISTRATIVE BUDGET

As Approved by the Executive Board for the Fiscal Year Ending April 30, 1959, Compared with Actual Expenditures for the Fiscal Years 1956-57 and 1957-58

Category of Expenditure	Budget F. Y. 1958-59	F. Y. 1957-58 Budget	F. Y. 1957-58 Actual Expenditures	Actual Expenditures F. Y. 1956-57
I. BOARD OF GOVERNORS	$ 478,000	$ 197,000	$ 196,011.28	$ 178,897.72
II. OFFICE OF EXECUTIVE DIRECTORS				
Salaries	$ 640,500	$ 631,000	$ 628,258.18	$ 588,215.78
Other compensations and benefits	93,000	92,000	91,815.26	84,616.39
Travel	158,000	126,000	120,553.45	120,674.58
Total	$ 891,500	$ 849,000	$ 840,626.89	$ 793,506.75
III. STAFF				
Salaries	$2,852,000	$2,728,000	$2,718,676.94	$2,632,944.52
Other compensations and benefits	734,500	702,500	694,607.93	668,413.08
Travel	510,000	454,000	445,797.75	348,818.06
Total	$4,096,500	$3,884,500	$3,859,082.62	$3,650,175.66
IV. OTHER ADMINISTRATIVE EXPENSES				
Communications	$ 148,000	$ 142,000	$ 138,340.18	$ 129,269.21
Office occupancy expenses	205,000	400,500	399,939.67	396,509.57
Books and printing	128,000	124,000	117,755.41	104,135.90
Supplies and equipment	150,000	104,000	100,236.27	63,367.17
Miscellaneous	113,000	63,000	59,433.79	47,833.72
Total	$ 744,000	$ 833,500	$ 815,705.32	$ 741,115.57
TOTAL	$6,210,000	$5,764,000[1]	$5,711,426.11	$5,363,695.70

[1] Includes $39,000 supplementary appropriations approved by the Executive Board on March 21, 1958.

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Appendix VI (iii). Comparative Statement of Income

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

	Year ended Apr. 30, 1956	Year ended Apr. 30, 1957	Year ended Apr. 30, 1958
Income			
Service charges			
Received in gold	$ 193,750.00	$ 2,762,888.24	$ 3,328,658.10
Received in a member's currency	—0—	2,807,350.00	—0—
Total	$ 193,750.00	$ 5,570,238.24	$ 3,328,658.10
Charges on Fund's holdings of members' currencies and securities in excess of quotas			
Received in gold	$1,110,091.19	$ 1,863,639.37	$10,139,681.95
Received in members' currencies	15,043.75	764,256.28	5,501,019.23
Total	$1,125,134.94	$ 2,627,895.65	$15,640,701.18
Income from investments	$ 123,279.51	$ 4,904,173.67	$ 3,334,657.78[1]
Other operational income	$ 232,892.35[2]	$ 186,730.45[2]	$ 1,280,795.52[2]
Miscellaneous income	278.74	335.47	496.96
Total Income	$1,675,335.54	$13,289,373.48	$23,585,309.54
Total Administrative Expenditure	$5,341,601.39	$ 5,363,695.70	$ 5,711,426.11

[1] Excludes income from November 1, 1957, amounting to $2,830,560.24, transferred to Special Reserve.

[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 1957 and 1958 of $1,434,628.44 and $1,241,617.20, respectively.

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Appendix VII. Balance Sheet, Statement of Income and Expenditure, and Supporting Schedules

Letter of Transmittal

July 25, 1958

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, and the audited financial statements of the Staff Retirement Fund, for the year ended April 30, 1958, together with two memoranda from the Audit Committee, which include the audit certificates.

In conformity with the By-Laws, the external audit of the Fund has been performed by an Audit Committee consisting of auditors nominated by three member countries. At the Fund's request, Canada, China, and Iran nominated auditors to serve on this Committee. They respectively nominated Mr. Ian Stevenson, Assistant Auditor General of Canada, Ottawa; Mr. Felix S.Y. Chang, Manager, Foreign Department, Bank of Taiwan, Taipei; and Mr. Ziaoullah Shahidi, Assistant Manager, Foreign Department, Bank Melli Iran, Teheran. The auditors thus nominated were confirmed by the Executive Directors.

It will be noted that, in the period under review, income exceeded expenditure by $12,287,430.50, and that the total excess of income over expenditure from inception to April 30, 1958 amounts to $5,991,691.89.

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

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June 20, 1958

To the Managing Director,
International Monetary Fund

In accordance with Section 20(b) of the By-Laws of the International Monetary Fund, we have submitted to the Board of Governors a report, dated June 20, 1958, on the audit of the financial records and transactions of the Fund for the fiscal year ended April 30, 1958.

Appended to the report are the following audited financial statements:

Balance Sheet as at April 30, 1958
Statement of Income and Expenditure for the year ended April 30, 1958

The following supporting Balance Sheet schedules as at April 30, 1958 are also appended:

Gold Account
Currencies and Securities
Status of Subscriptions to Capital
Other Assets
Liabilities

The following are extracts from the report, regarding the scope of the audit conducted and the audit certificate given:

"The Audit Committee has taken notice of the directive contained in Section 20(b) of the By-Laws: that the audit be conducted according to generally accepted auditing standards; that it be comprehensive with respect to the examination of the financial records; that it extend, so far as practicable, to the ascertainment that financial transactions consummated during the period under review were supported by the necessary authority; and that it determine that there was adequate and faithful accounting for the assets of the Fund. In considering the authority for financial transactions, reference was made to the Articles of Agreement, By-Laws and Rules and Regulations, and to the Minutes of meetings of the Executive Board. The

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system of accounting and internal financial control was reviewed by the Committee, and the work performed by the Internal Auditor was taken into account in carrying out the audit.

"We have made an examination of the Balance Sheet of the International Monetary Fund as at April 30, 1958, and of the Statement of Income and Expenditure for the fiscal year then ended, and have also examined the supporting Balance Sheet schedules. As a result of our examination, we certify that, in our opinion, the Balance Sheet and the 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, 1958, and the results of its operations for the fiscal year then ended, and that they were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of previous fiscal years."

AUDIT COMMITTEE:

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

/s/ Ian Stevenson (Canada)

/s/ Ziaoullah Shahidi (Iran)

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Values expressed in U.S. dollars

ASSETS

GOLD ACCOUNT (Schedule 1)			
Gold with depositories (See Note 2)	$1,237,909,163.61		
(35,368,833.246 fine ounces at US$35.00 per ounce)			
Less: 5,179.524 fine ounces held in suspense	181,283.34	$1,237,727,880.27	
Investments (See Note 3)			
$200,700,000.00 U.S. Treasury bills at cost	$199,986,718.20		
Funds awaiting investment	4,830.62	199,991,548.82	$1,437,719,429.09
CURRENCIES AND SECURITIES (Schedule 2)			
With depositories			
Currencies	$1,421,403,367.61		
Securities	5,322,636,069.57	$6,744,039,437.18	
(nonnegotiable, noninterest bearing demand obligations payable at face value by members in their currencies)			
Add: Currency adjustments receivable		11,612,379.03	6,755,651,816.21
(in accordance with Article IV, Section 8)			
SUBSCRIPTIONS TO CAPITAL—RECEIVABLE (Schedule 3)			
Balances not due			898,411,460.36
(members whose par values have not yet been established)			
WITHDRAWING MEMBER'S CURRENCY			2,312,028.36
(redeemable by Czechoslovakia in gold or U.S. dollars in installments not later than July 2, 1961)			
OTHER ASSETS (See Note 7) (Schedule 4)			5,520,917.59
(receivables, accruals, prepayments, and sundry cash)			
TOTAL ASSETS			$9,099,615,651.61

NOTES: 1. With the exception of Bolivian bolivianos, Canadian dollars, French francs, Indonesian rupiah, and Peruvian soles, which, for bookkeeping purposes, are computed at provisional rates of 8,550.00 bolivianos, 0.969375 dollar, 420.000 francs, 11.4000 rupiah, and 22.6000 soles per U.S. dollar.

2. Excludes 6,896.764 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. Consists of income from investment in U.S. Treasury bills from November 1, 1957.
5. Represents excess of ordinary earnings over expenditure since inception of the Fund, transferred provisionally to General Reserve pending Board of Governors action.
6. 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, 1958 is $2,056,898.44. A portion of the stand-by charge is refundable to a member if the arrangement is canceled. The maximum amount on April 30, 1958 is $364,027.04.
7. The assets and liabilities of the Staff Retirement Fund are not included in this Balance Sheet.

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SHEET
1958
on the basis of established parities (See Note 1)

CAPITAL, RESERVES, AND LIABILITIES

CAPITAL			
Authorized subscriptions of members (Schedule 3)			$9,088,000,000.00
Add			
Excess of income over expenditure from May 1, 1957 to April 30, 1958 (Exhibit B)		$12,287,430.50	
Less			
Excess of expenditure over income from inception to April 30, 1957	$6,295,738.61		
Transfer to General Reserve	5,991,691.89	12,287,430.50	
			$9,088,000,000.00
RESERVES			
Special reserve (See Note 4)		$2,830,560.24	
General reserve (See Note 5)		5,991,691.89	
Stand-by charge reserve (See Note 6)		2,056,898.44	
Reserve for potential rebate of interest charges *(in relation to withdrawing member's settlement)*		66,032.38	10,945,182.95
LIABILITIES (See Note 7) (Schedule 5) *(accruals, accounts payable, and deferred credits)*			670,468.66
TOTAL CAPITAL, RESERVES, AND LIABILITIES			$9,099,615,651.61

/s/ Y. C. KOO
Treasurer

/s/ PER JACOBSSON
Managing Director

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

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Exhibit B

Statement of Income and Expenditure
for the year ended April 30, 1958

Income

Operational charges[1]		$ 4,609,453.62	
Charges on balances in excess of quota		15,640,701.18	
Income from investments[2]		3,334,657.78	
Other income		496.96	
Total Income			$23,585,309.54

Expenditure

Board of Governors		$ 196,011.28	
Office of Executive Directors			
Salaries	$628,258.18		
Other compensations and benefits	91,815.26		
Travel	120,553.45	840,626.89	
Staff			
Salaries	$2,718,676.94		
Other compensations and benefits	694,607.93		
Travel	445,797.75	3,859,082.62	
Other administrative expenses			
Communications	$138,340.18		
Office occupancy expenses	399,939.67		
Books and printing (net)[3]	117,755.41		
Supplies and equipment	100,236.27		
Miscellaneous	59,433.79	815,705.32	
Total Administrative Expenditure		$5,711,426.11	
Gold handling and conversion costs	$13,858.68		
Exchange adjustments	78.09	13,936.77	
Total Expenditure			5,725,362.88
Excess of Income over Expenditure for the Year			$17,859,946.66
Add			
Adjustment of income for previous fiscal years, pursuant to settlement agreement with withdrawing member		$16,833.83	
Proceeds from sale of certain office furnishings and fittings		28,892.00	45,725.83
			$17,905,672.49
Deduct			
Land and building—expenditure to date			5,618,241.99
Excess of Income over Expenditure (carried to Balance Sheet)			$12,287,430.50

[1] Excludes $1,241,617.20 (net) transferred to Stand-By Charge Reserve.

[2] Excludes income from November 1, 1957 amounting to $2,830,560.24 transferred to Special Reserve.

[3] After deduction of proceeds from sales of Fund's publications.

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Gold Account
as at April 30, 1958

Gold with depositories *(35,368,833.246[1] fine ounces at US$35.00 per fine ounce)*	$1,237,909,163.61	
Less: 5,179.524 fine ounces held in suspense *(received from Libya in anticipation of completion of formalities of membership)*	181,283.34	$1,237,727,880.27

Investments in U.S. Treasury bills:

Maturity Date	*Face Value*	*Cost*
May 1, 1958	$ 15,190,000.00	$ 15,105,391.70
May 8, 1958	15,030,000.00	14,969,880.00
May 15, 1958	15,050,000.00	14,984,231.50
May 22, 1958	15,160,000.00	15,093,599.20
May 29, 1958	14,950,000.00	14,904,701.50
June 5, 1958	15,160,000.00	15,108,304.40
June 12, 1958	14,960,000.00	14,901,955.20
June 19, 1958	14,940,000.00	14,889,054.60
June 26, 1958	14,970,000.00	14,925,090.00
July 3, 1958	20,210,000.00	20,151,795.20
July 10, 1958	15,000,000.00	14,959,500.00
July 17, 1958	15,050,000.00	15,003,345.00
July 24, 1958	15,030,000.00	14,989,869.90
	$200,700,000.00	$199,986,718.20

Funds awaiting investment	4,830.62	199,991,548.82
TOTAL GOLD ACCOUNT (carried to Balance Sheet)		$1,437,719,429.09

[1] Excludes 6,896.764 fine ounces held under earmark by the Fund for the following members:

Member	*Fine Ounces*	*Member*	*Fine Ounces*
Argentina	188.998	India	2,649.610
Austria	.848	Indonesia	471.020
Bolivia	.263	Iran	.061
Brazil	1.858	Israel	111.341
Burma	175.048	Japan	26.937
Colombia	210.009	Lebanon	.784
Cuba	1.875	Mexico	12.878
Denmark	275.323	Netherlands	1.631
Ecuador	325.305	Nicaragua	11.827
Egypt	3.439	Norway	369.864
El Salvador	5.003	Paraguay	101.573
Ethiopia	32.436	Philippines	3.692
Finland	36.574	Turkey	358.836
France	.003	Union of South Africa	44.031
Germany, Federal Republic of	2.345	Yugoslavia	1,218.533
Haiti	253.630	TOTAL	6,896.764
Honduras	1.189		

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Currencies and Securities
as at April 30, 1958

Depositories	National Currencies	Amounts in Members' Currencies						Exchange Rates[2]	U.S. Dollar Equivalents
		With Depositories				Currency Adjustments Receivable[1]	Totals After Currency Adjustments		
		Securities	No. 1 Account	No. 2 Account	Totals				
Banco Central de la República Argentina	Pesos	1,997,964,000.00	1,377,013,553.64	13,382.80	3,374,990,936.44		3,374,990,936.44	18.0000	$187,499,496.46
Commonwealth Bank of Australia	Pounds	76,575,000.0.0	8,935,252.8.4	2,217.17.2	85,512,470.5.6		85,512,470.5.6	224.000†	191,547,933.41
Austrian National Bank	Schillings	961,860,000.00	13,005,000.00	3,194.97	974,868,194.97		974,868,194.97	26.0000	37,494,930.57
Banque Nationale de Belgique, S. A.	Francs	10,823,455,270.74	112,774,290.50	61,337.96	10,936,290,899.20		10,936,290,899.20	50.0000	218,725,817.99
Banco Central de Bolivia	Bolivianos	1,405,612,388.60	64,980,000,000.00	8,039,405.00	66,393,651,793.60	61,846,945,087.00	128,240,596,880.60	8,550.00*	14,998,900.22
Superintendencia da Moeda e do Credito (Brazil)	Cruzeiros		3,468,732,826.70	23,216.30	3,468,756,043.00		3,468,756,043.00	18.5000	187,500,326.65
The Union Bank of Burma	Kyats	124,240,512.77	845,118.97	3,179.84	125,088,811.58		125,088,811.58	21.0000†	26,268,650.43
Bank of Canada	Dollars	198,000,000.00	3,157,344.25	1,179.29	201,158,523.54	2,395,088.08	203,553,611.62	0.969375*	209,984,383.37
Central Bank of Ceylon	Rupees	52,825,861.05	714,332.90	2,410.13	53,542,604.08		53,542,604.08	21.0000†	11,243,946.85
Banco Central de Chile	Pesos		8,231,151,446.	353,506.	8,231,504,952.		8,231,504,952.	110.000	74,831,863.20
Banco de la República (Colombia)	Pesos		141,337,341.17	5,920.48	141,343,261.65		141,343,261.65	1.94998	72,484,467.36
Banco Central de Costa Rica	Colones		21,035,457.46	6,466.20	21,041,923.66		21,041,923.66	5.61500	3,747,448.55
Banco Nacional de Cuba	Pesos		62,499,442.17	538.23	62,499,980.40		62,499,980.40	1.00000	62,499,980.40
Danmarks Nationalbank	Kroner	571,033,202.15	5,598,000.27	10,118.91	576,641,321.33		576,641,321.33	6.90714	83,484,817.36
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		112,489,475.52	10,524.48	112,500,000.00		112,500,000.00	15.0000	7,500,000.00
National Bank of Egypt	Pounds	15,458,670.375	10,655,431.374	456.916	26,114,558.665		26,114,558.665	287.156†	74,989,522.08
Banco Central de Reserva de El Salvador	Colones		14,059,885.63	1,526.28	14,061,411.91		14,061,411.91	2.50000	5,624,564.77
State Bank of Ethiopia	Dollars	10,979,375.30	188,799.17	1,297.22	11,169,471.69		11,169,471.69	40.2500†	4,495,712.36
Bank of Finland	Markkas	9,030,012,753.00	86,770,000.00	280,743.00	9,117,063,496.00		9,117,063,496.00	320.000	28,490,823.42
Banque de France	Francs	245,570,000,000.	57,330,134,483.	818,265.	302,900,952,748.		302,900,952,748.	420.000*	721,192,744.64
Deutsche Bundesbank	Marks	933 100,000.00	13,945,455.38	6,607.83	947,052,063.21		947,052,063.21	4.20000	225,488,586.47
Banco de Guatemala	Quetzales		3,744,490.19	245.01	3,744,735.20		3,744,735.20	1.00000	3,744,735.20
Banque Nationale de la République d'Haiti	Gourdes	27,743,304.50	5,375,000.00	4,221.00	33,122,525.50		33,122,525.50	5.00000	6,624,505.10
Banco Central de Honduras	Lempiras	18,599,056.54	150,000.00	240.26	18,749,296.80		18,749,296.80	2.00000	9,374,648.40
National Bank of Iceland	Krónur		12,163,211.65	5,970.91	12,169,182.56		12,169,182.56	16.2857	747,231.17

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Reserve Bank of India	Rupees	1,754,600,000.00	976,480,925.77	2,376.59	2,731,083,302.36		2,731,083,302.36	21.0000†	573,527,493.49
Bank Indonesia	Rupiah	927,900,000.00	639,557,482.48	48,067.60	1,567,505,550.08		1,567,505,550.08	11.4000*	137,500,486.85
Bank Melli Iran	Rials	3,239,036,986.05	26,512,500.00	43,602.03	3,265,593,088.08		3,265,593,088.08	75.7500	43,110,139.77
Central Bank of Iraq	Dinars	2,100,000.000	40,006.701	254.623	2,140,261.324		2,140,261.324	280.000	5,992,731.70
Bank of Israel	Pounds	9,988,114.410	6,886,080.000	678.062	16,874,872.472		16,874,872.472	1.80000	9,374,929.15
The Bank of Japan	Yen	66,596,400,000.	45,900,757,019.	1,017,759.	112,498,174,778.		112,498,174,778.	360.000	312,494,929.94
Ottoman Bank (Jordan)	Dinars	1,023,850.896	10,714.286	531.011	1,035,096.193		1,035,096.193	280.000†	2,898,269.34
Banque de Syrie et du Liban (Lebanon)	Pounds		7,361,572.00	3,700.96	7,365,272.96		7,365,272.96	2.19148	3,360,867.07
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	4,522.07	843,735,528.96		843,735,528.96	12.5000	67,498,842.32
De Nederlandsche Bank N. V.	Guilders	1,015,000,000.00	10,955,504.18	2,594.77	1,025,958,098.95		1,025,958,098.95	3.80000	269,988,973.40
Banco Nacional de Nicaragua	Córdobas		39,372,422.98	2,410.88	39,374,833.86		39,374,833.86	7.00000	5,624,976.27
Norges Bank	Kroner	263,848,315.10	3,909,941.41	8,450.70	267,766,707.21		267,766,707.21	14.0000†	37,487,339.00
State Bank of Pakistan	Rupees	454,661,398.0.0	4,771,858.14.10	5,594.8.6	459,438,851.7.4		459,438,851.7.4	21.0000†	96,482,158.81
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	Guaraníes		667,358,289.60	27,504.00	667,385,793.60		667,385,793.60	60.0000	11,123,096.56
Banco Central de Reserva del Peru	Soles	375,513,380.57	5,075,000.00	12,166.28	380,600,546.85	43,122,229.45	423,722,776.30	22.6000*	18,748,795.41
Central Bank of the Philippines	Pesos	22,000,000.00	30,491,702.42	1,096.82	52,492,799.24		52,492,799.24	2.00000	26,246,399.62
Sveriges Riksbank	Kronor		387,914,594.61	1,893.37	387,916,487.98		387,916,487.98	5.17321	74,985,644.88
Banque Centrale de Syrie	Pounds	10,447,000.00	228,734.01	6,539.12	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	60,747,264.33	2,863.61	139,000,127.94		139,000,127.94	2.80000	49,642,902.84
South African Reserve Bank	Pounds	35,334,145.17.2	373,889.11.7	890.18.5	35,708,926.7.2		35,708,926.7.2	280.000†	99,984,993.81
Bank of England	Pounds	579,075,000.0.0	4,653,470.14.7	2,676.3.11	583,731,146.18.6		583,731,146.18.6	280.000†	1,634,447,211.39
Federal Reserve Bank of New York	Dollars	665,000,000.00	29,854,131.85	926,659.84	695,780,791.69		695,780,791.69	1.00000	695,780,791.69
Riggs National Bank of Washington, D.C.[3]	Dollars			142,107.04	142,107.04		142,107.04	1.00000	142,107.04
Banco Central de Venezuela	Bolívares	32,659,359.42	5,006,000.00	901.80	37,666,261.22		37,666,261.22	3.35000	11,243,660.06
Banque Nationale de la République Fédérative Populaire de Yougoslavie	Dinars		22,533,618,396.00	59,023.00	22,533,677,419.00		22,533,677,419.00	300.000	75,112,258.06
TOTALS (in U.S. dollar equivalents)		$5,322,636,069.57	$1,420,269,782.68	$1,133,584.93	$6,744,039,437.18	$11,612,379.03	$6,755,651,816.21		$6,755,651,816.21[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$2,312,028.36 shown under separate caption in the Balance Sheet.

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Status of Subscriptions to Capital

as at April 30, 1958

(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
Argentina	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	7,500,000.00	250.00	1,874,787.80	5,624,962.20		
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 of	330,000,000.00		33,009,651.50	296,990,348.50		
Ghana	15,000,000.00		529,920.65			14,470,079.35
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	7,500,000.00		1,875,339.10	5,624,660.90		
Honduras	7,500,000.00	250.00	1,874,809.44	5,624,940.56		

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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		
Ireland	30,000,000.00		4,502,776.81			25,497,223.19
Israel	7,500,000.00		1,875,047.56	5,624,952.44		
Italy	180,000,000.00	18,000.00	44,982,000.18			134,999,999.82
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		
Malaya	25,000,000.00		875,010.50			24,124,989.50
Mexico	90,000,000.00	9,000.00	22,491,205.14	67,499,794.86		
Morocco	35,000,000.00		1,225,000.00			33,775,000.00
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	7,500,000.00	200.00	1,875,496.47	5,624,303.53		
Peru	25,000,000.00	2,500.00	3,149,921.00	21,847,579.00		
Philippines	15,000,000.00	1,500.00	3,748,548.79	11,249,951.21		
Saudi Arabia	10,000,000.00		2,501,248.40			7,498,751.60
Sudan	10,000,000.00		350,374.01			9,649,625.99
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
Tunisia	12,000,000.00		420,001.02			11,579,998.98
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	$9,088,000,000.00	$747,150.00	$1,721,102,314.48	$6,467,739,075.16	–0–	$898,411,460.36

[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.

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Schedule 4

OTHER ASSETS
as at April 30, 1958

ACCOUNTS RECEIVABLE—MEMBERS (*charges on Fund's holdings of currencies in excess of quotas*)		$4,693,801.83
ACCRUED INCOME FROM INVESTMENTS		411,727.59
SUNDRY DEBTORS		
Advance to contractor (Fund building)	$200,000.00	
Deposits	16,989.54	
Commercial accounts	85,247.09	
Advances against salary	25,521.00	
Travel advances	11,430.84	
Other receivables	7,585.54	346,774.01
PREPAYMENTS		
Postage	$ 3,368.42	
Insurance	17,517.65	
Travel	24,827.40	
Other	464.82	46,178.29
CASH		
On hand	$ 1,196.00	
With European Office	5,939.87	
Food Service Account	15,300.00	22,435.87
LAND AND BUILDING		
Land at cost	$ 999,028.72	
Building under construction		
Expenditure to date	4,619,213.27	
	$5,618,241.99	
Less: Reserve	5,618,241.99	—
FURNITURE, EQUIPMENT, AND AUTOMOBILES		
Furniture and equipment at cost	$563,055.39	
Automotive equipment at cost	10,827.56	
	$573,882.95	
Less: Reserve	573,882.95	—
LIBRARIES		
Cost of books for Law Library	$31,408.01	
Fund's share of cost of books for Joint Library	40,658.29	
	$72,066.30	
Less: Reserve	72,066.30	—
TOTAL OTHER ASSETS (carried to Balance Sheet)		$5,520,917.59

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Schedule 5

Liabilities
as at April 30, 1958

Accruals		
Fund building	$423,504.96	
Personal services	114,013.76	
Office occupancy	62,412.00	
Other	59,313.46	$659,244.18
Accounts Payable		4,336.29
Deferred Credits *(subscriptions to Fund's publications for periods after April 30, 1958)*		6,888.19
Total Liabilities (carried to Balance Sheet)		$670,468.66

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STAFF RETIREMENT FUND

MEMORANDUM BY THE AUDIT COMMITTEE

June 20, 1958

To the Managing Director,
International Monetary Fund

Appended to the report, dated June 20, 1958, of the Audit Committee to the Board of Governors, on the audit of the accounts of the International Monetary Fund for the fiscal year ended April 30, 1958, is the Balance Sheet of the Staff Retirement Fund as at April 30, 1958, together with the following statements summarizing the transactions for the year then ended:

Statement of Participants' Account
Statement of Accumulation Account
Statement of Retirement Reserve
Statement of Reserve Against Investments

The Schedule of Investments as at April 30, 1958 is also appended to the report.

The following are extracts from the report, regarding the scope of the audit conducted and the audit certificate given:

"The Audit Committee has made an examination of the accounts and financial statements relating to the Staff Retirement Fund for the fiscal year ended April 30, 1958. In the course of the examination, the Committee referred to the Articles of the Staff Retirement Plan and to the Minutes of the Pension, Administration and Investment Committees created under the Plan. It was ascertained that the Internal Auditor had made a detailed examination of the participants' accounts.

"As a result of the examination of the accounts and financial statements we certify that, in our opinion, the Balance Sheet and the related Statements of Participants' Account, Accumulation Account, Retirement Reserve and Reserve Against Investments present fairly the financial position of the Staff Retirement Fund as at April 30, 1958, and the results of opera-

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tions for the fiscal year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of previous fiscal years."

AUDIT COMMITTEE:

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

/s/ Ian Stevenson (Canada)

/s/ Ziaoullah Shahidi (Iran)

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Exhibit I

STAFF RETIREMENT FUND
BALANCE SHEET
as at April 30, 1958

ASSETS

CASH AT BANKS			$ 13,736.27
INVESTMENTS (Schedule I)			
Bonds (*at amortized value*):			
United States Government (*market value, $1,843,400.63*)	$1,786,155.18		
International Bank for Reconstruction and Development (*market value, $975,245.00*)	934,408.42		
Commercial (*market value, $1,006,441.25*)	1,083,170.69	$3,803,734.29	
Corporate stocks (*at cost*):			
Common (*market value, $2,084,786.89*)		1,545,697.18	5,349,431.47
ACCRUED INTEREST ON BONDS			39,614.08
ACCRUED CONTRIBUTIONS RECEIVABLE FROM INTERNATIONAL MONETARY FUND			10,548.89
TOTAL ASSETS			$5,413,330.71

LIABILITIES AND RESERVES

PARTICIPANTS' ACCOUNT (Exhibit II)	$1,353,618.76
ACCUMULATION ACCOUNT (Exhibit III)	3,720,921.26
RETIREMENT RESERVE (Exhibit IV)	278,049.72
RESERVE AGAINST INVESTMENTS (Exhibit V)	60,740.97
TOTAL LIABILITIES AND RESERVES	$5,413,330.71

/s/ Y. C. KOO
Treasurer

/s/ PER JACOBSSON
Managing Director

/s/ CHARLES M. POWELL
Comptroller and Assistant Treasurer

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Exhibit II

Staff Retirement Fund
Statement of Participants' Account

for the year ended April 30, 1958

	Participating Service	*Additional Contributions*
Balance, April 30, 1957	$1,203,420.78	$5,651.64
Add		
Participants' contributions	$ 189,015.89	$2,160.00
Interest credited to participants	37,170.98	167.09
	$ 226,186.87	$2,327.09
Deduct		
Refunds upon participants' withdrawals	$ 35,243.52	$2,979.94
Refunds on death (prior to retirement)	8,758.29	
Transfers to Retirement Reserve	24,607.23	
Transfers to IBRD Retirement Plan	12,378.64	
	$ 80,987.68	$2,979.94
Balance, April 30, 1958	$1,348,619.97	$4,998.79

Total (carried to Balance Sheet) $1,353,618.76

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Exhibit III

Staff Retirement Fund
Statement of Accumulation Account

for the year ended April 30, 1958

Balance, April 30, 1957			$3,291,594.00
Add			
Employer's contributions			
Participating service		$377,082.07	
Prior service		949.67	378,031.74
Income from investments			
Interest earned on bonds		$123,619.08	
Accumulation of discounts on bonds less amortization of premiums		130.46	
		$123,749.54	
Dividends received on stocks		75,616.16	199,365.70
			$3,868,991.44
Deduct			
Transfers to Retirement Reserve		$ 48,772.02	
Withdrawal benefits		7,921.11	
Death benefits (prior to retirement)		25,621.71	
Interest credited to Participants' Account		37,338.07	
Interest on Retirement Reserve		7,125.26	
Transfers to IBRD Retirement Plan		21,292.01	
Loss on sale of investments			
Losses—Bonds	$101,685.17		
Less Profits			
Bonds $10,536.57			
Corporate stocks 63,937.72	74,474.29		
Net loss	$ 27,210.88		
Less transfer from Reserve Against Investments	27,210.88	—	148,070.18
Balance, April 30, 1958 (carried to Balance Sheet)			$3,720,921.26

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Exhibit IV

Staff Retirement Fund
Statement of Retirement Reserve

for the year ended April 30, 1958

Balance, April 30, 1957		$210,926.81
Add		
Transfers from		
Participants' Account	$24,607.23	
Accumulation Account	48,772.02	73,379.25
Interest on Retirement Reserve		7,125.26
		$291,431.32
Deduct		
Pension payments to retired participants		13,381.60
Balance, April 30, 1958 (carried to Balance Sheet)		$278,049.72

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Exhibit V

STAFF RETIREMENT FUND
STATEMENT OF RESERVE AGAINST INVESTMENTS

for the year ended April 30, 1958

BALANCE, April 30, 1957	$87,951.85
Deduct	
Transfer to Accumulation Account to offset net loss on sale of investments	27,210.88
BALANCE, April 30, 1958 (carried to Balance Sheet)	$60,740.97

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Staff Retirement Fund
Schedule of Investments

as at April 30, 1958

	Interest Rate—%	Maturity	Face Value	Book Value	
BONDS					
United States					
Savings, Series G	2½	1960	$ 100,000.00	$ 100,000.00	
"	2½	1961	32,000.00	32,000.00	
Treasury	3½	1990	1,627,000.00	1,654,155.18	$1,786,155.18
International Bank for Reconstruction and Development	4½	1977	194,000.00	$201,752.45	
"	4¼	1978	443,000.00	433,150.00	
"	4¼	1979	100,000.00	99,505.97	
"	4¾	1980	200,000.00	200,000.00	934,408.42
Commercial					
American Telephone and Telegraph Company—Debentures	2¾	1980	38,000.00	$38,081.81	
American Telephone and Telegraph Company—Debentures	3¼	1984	30,000.00	30,987.85	
American Telephone and Telegraph Company—Debentures	2⅝	1986	44,000.00	39,126.92	
American Telephone and Telegraph Company—Debentures	2⅞	1987	24,000.00	22,827.36	
Atchison, Topeka and Santa Fe Railway Company—General Mortgage	4	1995	32,000.00	35,780.50	
Central New York Power Company—General Mortgage	3	1974	31,000.00	29,659.33	
Commonwealth Edison Company—Sinking Fund Debentures	3⅛	2004	100,000.00	97,114.98	
Connecticut Light and Power Co. — 1st & Refunding Mortgage, Series "L"	2¾	1984	12,000.00	12,211.48	
Consolidated Edison Company of New York, Inc.—1st & Refunding Mortgage, Series "E"	3	1979	38,000.00	39,346.32	
Consolidated Edison Company of New York, Inc.—1st & Refunding Mortgage, Series "A"	2¾	1982	16,000.00	14,970.04	
Consolidated Natural Gas Company — Sinking Fund Debentures	3⅛	1979	30,000.00	30,662.01	
Duke Power Company—1st & Refunding Mortgage	2⅞	1979	13,000.00	13,484.19	
Illinois Bell Telephone Company—1st Mortgage, Series "A"	2¾	1981	25,000.00	25,298.22	
Kansas City Power & Light Company—1st Mortgage	3¼	1983	15,000.00	15,166.61	
New Jersey Bell Telephone Company—Debentures	4⅞	1993	43,000.00	44,645.90	
New York Power and Light Corporation — 1st Mortgage	2¾	1975	15,000.00	13,377.00	
New York Telephone Company — Refunding Mortgage, Series "D"	2¾	1982	50,000.00	48,479.87	
Carried forward....................................				$ 551,220.39	$2,720,563.60

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Schedule I
(*continued*)

Staff Retirement Fund
Schedule of Investments

as at April 30, 1958

	Interest Rate—%	Maturity	Face Value	Book Value	
Brought forward				$551,220.39	$2,720,563.60
Bonds					
Commercial (*continued*)					
New York Telephone Company — Refunding Mortgage, Series "H"	3	1989	$32,000.00	32,174.79	
New York Telephone Company — Refunding Mortgage, Series "J"	4½	1991	18,000.00	17,827.66	
Niagara Mohawk Power Corporation — General Mortgage	4⅞	1987	30,000.00	30,255.03	
Pacific Gas and Electric Company—1st & Refunding Mortgage, Series "Q"	2⅞	1980	14,000.00	13,458.91	
Pacific Gas and Electric Company—1st & Refunding Mortgage, Series "S"	3	1983	45,000.00	46,623.74	
Pacific Gas and Electric Company—1st & Refunding Mortgage, Series "X"	3⅛	1984	21,000.00	21,272.78	
Pacific Gas and Electric Company—1st & Refunding Mortgage, Series "Z"	3⅜	1988	20,000.00	19,946.11	
Pacific Telephone and Telegraph Company — Debentures	5⅛	1980	49,000.00	50,456.39	
Pacific Telephone and Telegraph Company — Debentures	2⅞	1986	51,000.00	46,388.69	
Philadelphia Electric Company — 1st & Refunding Mortgage	2¾	1974	24,000.00	24,227.28	
Potomac Electric Power Company—1st Mortgage	2¾	1985	44,000.00	44,264.14	
Potomac Electric Power Company—1st Mortgage	3⅜	1990	14,000.00	14,434.16	
Public Service Electric and Gas Company — 1st & Refunding Mortgage	2⅞	1979	40,000.00	41,222.29	
Public Service Electric and Gas Company — 1st & Refunding Mortgage	3¼	1984	20,000.00	20,793.26	
Public Service Electric and Gas Company — 1st & Refunding Mortgage	4⅞	1987	15,000.00	15,150.90	
Southern Bell Telephone and Telegraph Company — Debentures	3¼	1995	10,000.00	10,105.28	
Southern California Edison Company — 1st & Refunding Mortgage, Series "I"	4¾	1982	13,000.00	13,098.26	
Southern California Edison Company — 1st & Refunding Mortgage, Series "J"	4⅞	1982	30,000.00	30,476.09	
Virginia Electric & Power Company — 1st & Refunding Mortgage, Series "K"	3⅛	1984	39,000.00	39,774.54	1,083,170.69
Total Bonds					$3,803,734.29

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Schedule I
(*continued*)

STAFF RETIREMENT FUND
SCHEDULE OF INVESTMENTS

as at April 30, 1958

	No. of Shares	Book Value	
Brought forward			$3,803,734.29
CORPORATE STOCKS, Common			
Abbott Laboratories	200	$ 11,063.00	
Addressograph-Multigraph Corporation	107	11,027.35	
Allied Chemical and Dye Corporation	320	29,077.69	
Aluminum Company of America	400	8,509.48	
American Airlines, Incorporated	1500	27,766.10	
American Can Company	760	23,005.00	
American Cyanamid Company	600	13,939.12	
American Natural Gas Company	800	31,951.98	
American Telephone and Telegraph Company	201	34,702.06	
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	600	25,566.76	
Consolidated Natural Gas Company	900	29,257.50	
Consumers Power Company	900	36,101.22	
Continental Can Company	500	23,014.12	
Continental Insurance Company	800	35,267.08	
Corning Glass Works	200	15,885.81	
Crown Zellerbach Corporation	600	25,084.63	
Deere & Co.	1200	34,927.91	
Dow Chemical Company	744	23,905.15	
DuPont (E.I.) de Nemours and Company	100	11,058.51	
Eastern Air Lines, Incorporated	617	25,972.45	
Eastman Kodak Company	326	18,828.79	
Federated Department Stores, Inc.	700	23,157.19	
Fidelity-Phenix Fire Insurance Company	500	21,913.94	
Firestone Tire and Rubber Company	306	14,534.46	
First National Stores, Incorporated	200	10,104.73	
Ford Motor Company	300	18,643.11	
General Electric Company	700	15,990.39	
General Motors Corporation	930	29,506.32	
Goodrich (B. F.) Company	400	14,066.00	
Goodyear Tire and Rubber Company	208	15,804.53	
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	600	17,773.92	
International Business Machines Corporation	127	14,090.59	
International Harvester Company	800	27,880.69	
International Nickel Company of Canada, Limited	300	11,738.25	
International Paper Company	517	19,384.06	
Jewel Tea Co., Inc.	714	38,695.42	
Koppers Company, Incorporated	100	5,202.66	
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	200	5,809.52	
Monsanto Chemical Company	320	8,980.37	
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 and Chemical Corporation	520	15,057.70	
National Lead Company	306	9,232.04	
Northern Natural Gas Company	676	16,533.88	
Ohio Edison Company	426	17,093.72	
Ohio Oil Company	200	8,635.31	
Parke, Davis & Company	200	11,969.39	
Peoples Gas Light and Coke Company	800	25,345.66	
Carried forward		$1,151,830.67	$3,803,734.29

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Schedule I
(*continued*)

Staff Retirement Fund
Schedule of Investments

as at April 30, 1958

	No. of Shares	*Book Value*	
Brought forward		$1,151,830.67	$3,803,734.29
Corporate Stocks, Common (*continued*)			
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	500	18,127.32	
Sears, Roebuck and Company	1319	32,916.83	
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)	1037	36,603.19	
Texas Utilities Company	1000	24,842.67	
Union Carbide 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	1,545,697.18
Total Investments (carried to Balance Sheet)			$5,349,431.47

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Appendix VIII (i). SCHEDULE OF PAR VALUES—as of June 30, 1958

CURRENCIES OF METROPOLITAN AREAS

Member	Currency	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
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[1]	Boliviano				
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[2]	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	0.002 777 10	11,200.0	320.000	0.312 500
France[3]	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
Ghana	Pound	Par value not yet established			
Greece	Drachma	Par value not yet established			
Guatemala	Quetzal	0.888 671	35.000 0	1.000 00	100.000

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Appendix VIII (i) (*continued*). SCHEDULE OF PAR VALUES—as of June 30, 1958

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
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[4]	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
Ireland	Pound	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
Malaya	Dollar	Par value not yet established			
Mexico	Peso	0.071 093 7	437.500	12.500 0	8.000 00
Morocco	Franc	Par value not yet established			
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[5]	Sol				
Philippines	Peso	0.444 335	70.000 0	2.000 00	50.000 0
Saudi Arabia	Riyal	Par value not yet established			

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Sudan	Pound	Par value not yet established			
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			
Tunisia	Franc	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

[1] The initial par value of the boliviano, established on December 18, 1946, was 0.0211588 gram of fine gold per boliviano or 2.38095 U.S. cents per boliviano. On the proposal of the Government of Bolivia, in which the Fund concurred, the par value of the boliviano was changed by decree dated April 8, 1950 to 0.0148112 gram of fine gold per boliviano or 1.66667 U.S. cents per boliviano. On the proposal of the Government of Bolivia, in which the Fund concurred, the par value of the boliviano was changed on May 14, 1953 to 0.00467722 gram of fine gold per boliviano or 0.526316 U.S. cent per boliviano. Computations by the Fund involving bolivianos are made at the rate of 8,550 bolivianos per U.S. dollar.

[2] The initial par value of the Canadian dollar, established on December 18, 1946, was 0.888671 gram of fine gold per dollar or 100.000 U.S. cents per dollar. On September 19, 1949, following consultation with the Fund, the par value of the dollar was changed to 0.807883 gram of fine gold per dollar or 90.9091 U.S. cents per dollar. On September 30, 1950, Canada introduced a new exchange system under which the exchange value of the dollar is 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. Computations by the Fund involving Canadian dollars are made in accordance with the rules on transactions and computations for fluctuating currencies published on pages 125-27 of the 1955 *Annual Report*.

[3] The initial par value of the French franc, established on December 18, 1946, was 0.00746113 gram of fine gold per franc or 0.839583 U.S. cent per franc. Since January 26, 1948, there has been no agreed par value with the Fund for the franc. Computations by the Fund are made on the basis of the rate of 420 francs per U.S. dollar.

[4] Computations by the Fund are made on the basis of the rate of 11.40 Indonesian rupiah per U.S. dollar.

[5] The initial par value of the sol, established on December 18, 1946, was 0.136719 gram of fine gold per sol or 15.3846 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. Computations by the Fund involving Peruvian soles are made in accordance with the rules on transactions and computations for fluctuating currencies published on pages 125-27 of the 1955 *Annual Report*.

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Appendix VIII (ii). Schedule of Par Values—as of June 30, 1958

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[1]	2.488 28	12.500 0	0.357 143	280.000

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Federation of Rhodesia and Nyasaland	Rhodesia and Nyasaland Pound[1]				
Bahamas	Bahamas Pound[1]				
Bermuda	Bermuda Pound[1]				
Cyprus	Cyprus Pound[1]	2.488 28	12.500 0	0.357 143	280.000
Falkland Islands	Falkland Islands Pound[1]				
Gibraltar	Gibraltar Pound[1]				
Jamaica	Jamaican Pound[1]				
Malta	Maltese Pound[1]				
Aden					
British Somaliland					
Kenya	British East African Shilling (20 per pound sterling)	0.124 414	250.000	7.142 86	14.000 0
Tanganyika					
Uganda					
Zanzibar					
Barbados					
British Guiana					
Leeward Islands	British West Indian Dollar (4.80 per pound sterling)	0.518 391	60.000 0	1.714 29	58.333 3
Trinidad					
Windward Islands					
British North Borneo	Malayan Dollar (8.571 43 per pound sterling, or 2 shillings 4 pence per Malayan dollar)				
Brunei		0.290 299	107.143	3.061 22	32.666 7
Sarawak					
Singapore					
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 per pound sterling)[2]	1.990 62	15.625 0	0.446 429	224.000

[1] Parity with sterling.

[2] The relation of 1.25250 Tongan pounds per pound sterling, as initially communicated and confirmed on September 18, 1949, was corrected on August 2, 1950 to 1.25000.

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