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September 26, 1960

INTERNATIONAL MONETARY FUND

WASHINGTON, D. C.

ANNUAL REPORT

1960

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INTERNATIONAL MONETARY FUND

ANNUAL REPORT OF THE
EXECUTIVE DIRECTORS FOR THE
FISCAL YEAR ENDED APRIL 30, 1960

WASHINGTON, D.C.

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CONTENTS

APPENDICES

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INTERNATIONAL MONETARY FUND

Per Jacobsson
Managing Director and Chairman of the Executive Board

H. Merle Cochran
Deputy Managing Director

Executive Directors	Alternate Executive Directors
Frank A. Southard, Jr.	John S. Hooker
The Earl of Cromer	G. J. MacGillivray
Jean de Largentaye	Jacques Waïtzenegger
B. N. Adarkar	I. G. Patel
Beue Tann	I-Shuan Sun
Louis Rasminsky	C. L. Read
Wilfried Guth	Helmut Koinzer
Ahmed Zaki Saad	Albert Mansour
Takeshi Watanabe	P. M. Jayarajan
André van Campenhout	Maurice Toussaint
J. M. Garland	A. W. McCasker
Pieter Lieftinck	H. M. H. A. van der Valk
Eero Asp	Thorhallur Asgeirsson
Walter Müller	Javier Urrutia
Octavio Paranaguá	Gabriel Costa Carvalho
Carlo Gragnani	Costa P. Caranicas
Rodrigo Gómez	Jorge A. Montealegre
Soemarno	Aly Jumaa Mouzughi

Directors of Departments and Offices

D. S. Savkar	Director, Asian Department
Gabriel Ferras	Director, European Department
Irving S. Friedman	Director, Exchange Restrictions Department
Joseph Gold	General Counsel
Anwar Ali	Director, Middle Eastern Department
J. J. Polak	Director, Research and Statistics Department
Jorge Del Canto	Director, Western Hemisphere Department
Phillip Thorson	Director, Office of Administration
Roman L. Horne	Secretary
Y. C. Koo	Treasurer
J. V. Mládek	Director, European Office (Paris)

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LETTER OF TRANSMITTAL
TO THE BOARD OF GOVERNORS

July 8, 1960

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, 1960.

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 World Economy and the Fund in 1959-60

THE year ended April 1960 showed a continued upswing in world industrial activity and an increase in world trade. Industrial production in 1959 was greater by 10 per cent than in the recession year of 1958, and the value of world trade increased by 6 per cent, both increases being more or less continuous from about the middle of 1958. During this period of expanding business, the leading industrial countries had remarkable success in the delicate task of maintaining a high degree of economic stability, without having to place any severe restraint on the forces which help to sustain the expansion of output and real income.

During 1959 there was some recovery in the prices of many industrial raw materials, and particularly of metals. The prices of other products, however, particularly foodstuffs, declined. The general price level in many industrial countries remained virtually stable, partly because of the decline of food prices while the prices of services generally continued to rise. Moreover, as production in some countries approached the limits of capacity, the authorities took strong measures to ensure that inflationary developments should be avoided. The determination shown by the authorities and the high degree of stability of the cost of living have made a marked impression on the general public all over the world, and in many countries there has been a waning of inflationary psychology. After a long period of almost continuous inflation, the attainment of greater price stability requires difficult adjustments in attitudes and practices, including much closer attention to commercial and industrial costs.

Another important feature of the past year—to which the lessening of inflationary pressures has made a significant contribution—has been the marked strengthening of the payments structure of the world. Over a wide field there has been a return to practically full freedom for current payments and a great degree of freedom for ordinary commercial lending. All in all, there are good reasons for believing that, granted effective action to control any resurgent inflationary tendencies, and the avoidance of extreme creditor positions, the international payments structure that has been carefully built up over the past decade will continue to gain in strength, and that it will be able in the absence of major international disturbances to face successfully such tests as may arise.

The decision taken in December 1958 by 14 European countries (discussed in last year's Annual Report) to make their currencies externally convertible was a decisive step toward the re-establishment of an integrated structure of world payments. With substantial improvements in the balance of payments of many of these countries, it was soon realized in the business world that this was a step that would not be reversed, but would lead to further relaxation of restrictions on payments. External convertibility provided the basis for the Fund decision in October 1959 that there was no longer any balance of payments justification for discrimination by members whose current receipts were largely in externally convertible currencies; this was followed by similar statements by the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade. Substantial advances were in fact made during the year in the elimination of such restrictions against the dollar area. Nevertheless, there is still considerable scope for the removal of discrimination, especially as applied to some non-dollar countries.

The freeing of trade from the shackles of the postwar period, with increasing supplies of both primary and manufactured products, has created a situation in which international competition is making itself felt more and more in the pricing of goods and in the promptness with which orders can be met. During the first half of the 1950's, there was increasing evidence that countries in Europe and elsewhere, whose economies had been greatly disrupted by the war, were regaining competitive strength in relation to the United States. This tendency was overshadowed for a time, however, by the boom conditions and the special political and exchange difficulties of the years 1956 and 1957. As these difficulties were overcome, the Western European industrial countries and Japan were able to earn large payments surpluses.

From 1950 to 1956 the United States had had annual payments deficits averaging about $1.5 billion. Following a year of surplus in 1957, U.S. deficits increased greatly in 1958 and 1959. During these two years, U.S. gold holdings fell by about $3 billion, and official institutions, banks, and others abroad increased their holdings of dollar balances by about $4 billion. The gold and dollars acquired by the industrial countries enabled them to replenish their reserves, and by bringing about a better distribution of international reserves, improved the world's general liquidity position. Even after the recent additions to the gold and dollar holdings of other countries, the stock of gold held by the United States is still as large as the gold reserves of all other Fund members combined, and exceeds the total of their short-term dollar claims on the United States.

The U.S. authorities have emphasized the importance of achieving earnings on current account sufficient not only to pay for imports of goods and services but also to finance large and important outpayments for other purposes. To accomplish this objective, they have turned primarily, as others have done in similar situations, to measures of fiscal and credit restraint. As the 1957-58 recession was followed by an upturn of business, it became appropriate, from both an external and an internal point of view, to limit the expansion of credit and to aim at a budget surplus. For 1959 as a whole, the money supply was kept constant, and for the fiscal year 1959-60 the budget was balanced, after a deficit of about $13 billion in the preceding fiscal year. Action taken by other industrial countries helped to reduce the imbalance in international payments. These countries have gone far toward eliminating such discriminatory treatment of dollar goods as still remained, and they have repaid in advance large sums due to the United States on intergovernmental account. In addition, they have taken further steps to liberalize the outward movement of private capital and are recognizing their ability to assume more responsibility for aid to less developed countries. The measures taken, by the United States and by other countries, as well as the rapid expansion of production in Europe, are having an effect on the world payments situation. In the latter part of 1959 and the first quarter of 1960, there was marked improvement in U.S. exports; imports continued high. It appeared likely that the over-all deficit in the U.S. balance of payments would be considerably smaller in 1960 than in 1959. However, the continuing payments surpluses of some European countries present an important problem of imbalance in international payments.

In most of the Western European industrial countries and in Japan, industrial expansion has been rapid; in several countries unemployment has fallen to a low figure, and in some areas there has been a severe labor shortage, associated with a heavy demand for capital. Various measures have been taken to moderate the strain on resources; these have generally included an increase in the official discount rate, which in several countries has been raised to 5 per cent or more. Under the new regime of external convertibility, greater attention has to be paid to the influence of credit measures on the international movement of funds. Some of these movements have been helpful in bringing about equilibrium, and in some situations where they would not have been helpful, special measures have been taken, as in the Federal Republic of Germany, to discourage them.

It is too early to estimate accurately the extent to which the closer interdependence between national capital and money markets that has followed the establishment of external convertibility will lead to more extensive international movements of funds. This will depend in part on the policies of the leading countries, and in part on the extent to which the monetary authorities, commercial banks, and others may tend to shift their assets from market to market as relative interest rates change. On the whole, net movements of funds between markets seem not to have been very large. Such evidence as there is indicates that commercial bank balances have moved between certain centers in response to interest rate changes, and that companies of an international character have also been influenced by these changes as they seek markets where conditions are most favorable for their commercial financing. There has been no vast movement of "hot money" such as often exerted a disturbing influence in the interwar period, when funds were transferred from country to country, not in response to interest rate differentials, but because of fears and forebodings of a more general character.

An important feature of the wider freedom in international payments has been the increased scope permitted to banks in a number of countries to hold foreign exchange and to engage all over the world in credit operations, particularly in U.S. dollars. During 1959, the commercial banks of other countries increased their balances in the United States by $1.4 billion, compared with an average of some $200 million per year in the preceding decade. These funds in the hands of banks have made for increased competitiveness in commercial financing, a counterpart to the competitiveness which has developed in commodity markets in recent years.

In an ever-changing world there is always the possibility that, even when appropriate policies have been adopted, some countries will have balance of payments difficulties from time to time. Movements of capital may mitigate the difficulties, but these movements cannot always be counted upon, and under certain unfavorable conditions they may even intensify the imbalance. In general, gold and foreign exchange reserves, supplemented by drawing rights in the Fund, should make it possible for countries to deal with such imbalances as may occur, mainly through fiscal and credit policies, without any need for the hasty introduction of other measures that may have damaging consequences.

The increase in the Fund's resources during the past year was an important contribution to the consolidation of the world's payments system. On April 30, 1960 the Fund's resources amounted to more than $14 billion, of which nearly $3 billion was in gold (including $500 million temporarily invested in U.S. Government obligations) and about $10.6 billion was in currency. Of the latter sum, more than $7 billion is in the currencies that are most usable in the Fund's operations, viz., U.S. and Canadian dollars and the currencies of the European industrial countries and Japan. The Fund, therefore, has at its disposal effective international assets to the value of at least $10 billion. While the Fund's assets so measured are equal to nearly 20 per cent of the aggregate reserves of all member countries (which were about $53 billion at the end of 1959), their significance is greater than this percentage may suggest. The resources that its members have provided for the Fund are available as a second line of reserves under the policies and practices agreed for their use when members encounter temporary balance of payments difficulties. The direction in which they are effectively used can be continuously adapted to the changing conditions of the world economy, the practice of repurchase ensuring that Fund resources which have served their purpose in one country will later be available elsewhere if the need should arise.

The need for use of the Fund's resources is certain to vary widely over time. A period of stress in any part of the world may lead to heavy drawings; these are generally followed by other periods in which the demand for drawings is less but the amounts repurchased are substantial. The Fund is now well on its way toward the completion of the second full drawing cycle in its brief history. The drawings concentrated in the years 1947 to 1949 were substantially repaid during the less active years from 1950 to 1955. Most of the larger amounts made available in 1956 and 1957 ($1,800 million in drawings plus about $800 million in unused stand-by facilities) have since become available again for further use. The greater part of the stand-by arrangements granted during that period has been canceled or allowed to expire. Repayments of amounts drawn totaled $1,100 million during

1958, 1959, and the first four months of 1960; arrangements with members for further repayments should increase the total to at least $1,500 million by the end of April 1961.

The widespread improvement in the monetary situation has made it a matter of practical importance to consider the conditions under which some members which have availed themselves of the transitional arrangements set forth in Article XIV of the Fund's Articles of Agreement might assume the obligations of Article VIII, Sections 2, 3, and 4. Under Article XIV, members are entitled to maintain and to adapt restrictions on payments and transfers for current international transactions without obtaining the prior approval of the Fund. Once a country assumes the obligations of Article VIII, it has to obtain from the Fund not only the prior approval for the introduction of any restriction on such payments and transfers which is generally also required by members availing themselves of Article XIV, but also approval for any such restrictions that may remain at the time of the assumption of the obligations of Article VIII. The acceptance of Article VIII will also have significant consequences for the Fund's financial transactions. The currencies of certain countries which avail themselves of Article XIV have been increasingly drawn from the Fund, but these currencies cannot be used to make repurchases, and members' holdings of them are not included in the computation of monetary reserves for determining repurchase obligations. The acceptance of the obligations of Article VIII will make possible wider use of the currencies of the members which take this step.

After a close examination of the legal and policy questions connected with a member's acceptance of the obligations of Article VIII, the Executive Directors adopted the decision which is reproduced in full in Chapter II. The decision is intended to serve as an additional guide to members in pursuance of the purposes of the Fund, as set forth in Article I of the Articles of Agreement. It is expected that, when the authorities of member countries are contemplating acceptance of the obligations of Article VIII, Sections 2, 3, and 4, they will find it useful to consult the Fund on questions that arise in this connection.

The Executive Directors have agreed on a broad outline of the methods that the Fund and member countries should employ as more and more countries assume the obligations of Article VIII. Special attention has been devoted to the question of the Fund's contacts with its members. While consultations with the Fund under Article VIII are not mandatory except in certain circumstances, the Fund is able to provide technical facilities and advice, and, to this end or as a means of exchanging views on monetary and financial developments, there is great merit in periodic discussions between the Fund and its members—even though no questions arise involving action under Article VIII. Such discussions would be planned between the Fund and the member, including agreement on place and timing, and would ordinarily be held at intervals of about a year.

* * *

During the past year, the markets for many primary products have continued weak. The prices of some industrial raw materials have recovered part of the loss they suffered in the 1957-58 recession, but the prices of foodstuffs have, on the whole, tended to weaken even further, and the stability of world market prices as a whole has reflected these divergent tendencies. The downward trend of prices presents serious problems for many of the countries whose foreign exchange receipts, for the most part, come from exports of primary products, and especially for those which have embarked on programs of rapid economic development. In 1959, however, helped by the industrial recovery elsewhere which stimulated demand for many of their exports, the less developed countries added to their aggregate reserves for the first time since 1956; in several countries the improvement was closely linked with the achievement of greater internal stability.

Increasing attention is being given by international organizations to the problems which confront the primary producing countries as a result of wide price fluctuations. Broadly speaking, remedies have been sought along two lines which are not mutually exclusive:

attempts to obtain greater price stability for important primary commodities by such actions as international buffer stocks or commodity agreements, and measures aimed at compensating the balance of payments effects of such fluctuations as may occur in export prices. The second approach provides scope for action by the Fund, and there are numerous instances in the Fund's history where a member has purchased exchange from the Fund because of the difficulties caused by a decline in its export earnings. At the request of the UN Commission on International Commodity Trade, the Fund in April 1960 presented a study of its policies and procedures in relation to the compensatory financing of commodity fluctuations. Its finding was that "members of the Fund that are taking appropriate steps to preserve internal financial stability and to maintain their balance of payments in equilibrium, taking good years with bad, and that are otherwise making satisfactory progress toward the fulfillment of the Fund's purposes can anticipate with confidence that financing will be available from the Fund which, in conjunction with a reasonable use of their own reserves, should be sufficient to enable them to overcome temporary payments difficulties arising from export fluctuations." Consideration was given in the study to the suggestions sometimes made that Fund assistance in connection with price fluctuations should be made available according to some automatic formula, or that some separate form of Fund assistance should be set up to deal with export fluctuations as distinguished from other possible causes of balance of payments difficulty; it was found that neither of these suggestions would provide a practicable or desirable alternative for helping countries with the problem of fluctuations in exports.

It is also evident from the study that, given the relative mildness of the postwar recessions, the most pressing problem for primary producing countries in recent years has not, on the whole, been that of finding compensatory finance in connection with short-run fluctuations in export proceeds, but rather that of establishing a satisfactory long-run trend in the volume and the prices of exports and preventing inflationary pressures from causing imports to expand beyond the available resources of foreign exchange. While conditions vary from country to country, the most troublesome problems have thus generally been those associated with development and with the maintenance of stability.

The Fund can play and has played a vital role in relation to the development of the less developed countries. Its resources are available for periods of up to three to five years to assist countries in temporary balance of payments difficulties, with the primary objective of gaining time for the countries assisted to take effective corrective measures. Moreover, access to Fund resources in accordance with the established principles and policies applicable to their use is likely to improve the prospect that any temporary difficulties encountered in the course of development can be surmounted without harm to the economic structure of the country itself or to its trading partners. The Fund's contribution to development is, therefore, indirect; it is, however, no less important for that reason. Through the Fund's regular contacts with its members, the chances are increased that development plans and policies will be applied within a framework of financial stability, and thus under conditions that are free from the distorting effects of inflation.

The progress of the stabilization programs with which the Fund has been most directly concerned has, in general, been reassuring. In several countries, the increase in monetary reserves has been larger than had been foreseen. This has not only helped to strengthen confidence in their currencies, but has also made possible more decisive steps for the liberalization of trade. On the other hand, in some of these countries there has been a temporary slowing down in the expansion of production, which has given rise to a certain amount of impatience.

In countries whose economies have been tuned for many years to upward price movements, and where therefore deep-seated distortions have to be corrected, it may not be possible to establish an environment of financial and economic stability all at once, or without transitional difficulties and delays. These temporary difficulties, however, should be weighed against the consequences of perpetuating the waste and injustice inevitably associated with inflation. Once conditions of financial stability are restored and confidence is thus assured, both at home and abroad, a reliable basis for sustained economic growth has been established. The extent to which specific measures are required to initiate or accelerate expansion on sound lines will depend on the conditions in each particular country. In some countries, resolute support of the stabilization program will need to be followed by resolute efforts to increase productivity and savings.

In these circumstances, the responsibility of the more highly developed countries is not confined to the provision of capital for financing development elsewhere, or to the maintenance of more stable market conditions for primary products. Their general tariff and other trade policies are also of great importance. In the future, as in the past, economic development will call for continuous changes in the structure of international trade. These changes can take place only as more liberal trade and tariff policies are widely adopted, and as appropriate safeguards are applied so that the disposal of agricultural surpluses does not disrupt the normal channels of trade. In particular, the effective servicing of development loans would be rendered more difficult—or even made impossible—if the trade policies of the lending countries from which development financing is expected were not adjusted so as to permit easier entry for the products that the less developed countries are best fitted to produce.

It is therefore essential that, in the negotiations for regional arrangements in Europe and elsewhere, full attention should be paid to the importance of reducing trade barriers to provide greater opportunities for an expansion of world trade, not only in industrial, but also in primary, products. It is hoped that the arrangements now being put into effect in various parts of the world may permit such reductions. The more widely the reductions can be extended, the better will be the prospects for a sustained growth of world trade to the benefit of all concerned. It is also important that any tendency to resort to bilateral payments arrangements should be resisted.

Trade restrictions, while generally harmful to the world economy as a whole, will at best serve only the short-term interests of important economic groups. Their elimination requires, therefore, the most determined action by governments. The introduction of external convertibility has ensured that most of the world's trade is now being settled in freely convertible currencies. A firm monetary basis has thus been provided for the adoption of liberal and nondiscriminatory commercial policies.

II

Activities and Policies of the Fund, 1959-60

Fund Membership and Quotas

APPLICATIONS from Portugal and Laos for membership of the International Monetary Fund were approved by the Board of Governors at the Fourteenth Annual Meeting on September 29, 1959. Upon acceptance of membership of the Fund, Portugal will have a quota of US$60 million and Laos a quota of US$7.5 million.

Upon the admission of Portugal and Laos, the total membership of the Fund will be 70. Applications for membership of the Fund and Bank were submitted by Nigeria on August 17, 1959 and by Nepal on April 13, 1960.

By April 30, 1960, 57 members, representing 91.57 per cent of the Fund's quotas as of January 31, 1959, had consented to the increases of quotas which had been recommended by the Executive Directors to the Board of Governors on December 22, 1958 and February 24, 1959, and approved by the Board of Governors on February 2 and April 6, 1959, respectively; 54 of them had paid their increased subscriptions, either in full or to the extent of the first of the installments which were authorized by the Board of Governors as being in certain circumstances an appropriate method of paying an increased subscription. The period within which other members of the Fund might consent to increases in quotas under the Board of Governors' Resolutions has been extended by the Fund to July 31, 1960.

As a result of all the increases in quotas which had become effective during the preceding year, the aggregate of Fund quotas on April 30, 1960 amounted to $14,276.55 million. The Fund also agreed to a further increase from $300 million to $400 million in Australia's quota.[1]

The members of the Fund, their quotas, voting power, Governors, and Alternate Governors as of April 30, 1960 are listed in Appendix I, and changes in membership of the Board of Governors in Appendix II. The Executive Directors and Alternate 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.

Use of the Fund's Resources

As in 1958-59, purchases from the Fund during the financial year from May 1, 1959 to April 30, 1960, $165.5 million, were substantially less than repurchases, $522.4 million (Table 1). The total amount of repurchases was the second highest in the Fund's history, having been exceeded only in the preceding year. The number of members making repurchases, 21, was again greater than in any previous year. Repurchases were made by 3 members in Europe, 10 in Latin America, 5 in the Far East, 2 in the Middle East, and 1 in Africa. Several members spread their repurchases over a period of time and engaged in more than one repurchase transaction.

The geographical distribution of the 12 members that purchased exchange from the Fund during the last year was narrower than in 1958-59. Seven of these are in Latin America, while purchases were made by only 2 members in Europe, 2 in the Middle East,

[1] Australia's increased quota became effective on May 31, 1960, the date on which Australia's consent was received in the Fund.

TABLE 1. SUMMARY OF FUND TRANSACTIONS, FISCAL YEARS ENDED APRIL 30, 1948-60

(In U.S. dollars)

	Total Purchases by Members	Total Stand-By Arrangements in Force at End of Fiscal Year	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	53,000,000	184,958,162.26
1954	231,290,000.00	90,000,000	145,106,208.24
1955	48,750,000.00	90,000,000	276,275,398.29
1956	38,750,000.00	97,500,000	271,661,333.80
1957	1,114,047,648.76	968,900,000	75,038,810.14
1958	665,731,620.70	884,280,000	86,806,219.72
1959	263,517,042.67	1,132,840,000	537,319,879.89
1960	165,534,000.00	291,880,000	522,405,603.23
Total	3,445,278,693.04		2,179,451,318.36

and 1 in Africa. There were no transactions with industrial countries, and nearly all of the purchases were by members whose main source of exchange earnings is exports of primary products. Four of the transactions, those with Bolivia, Haiti, the Sudan, and the United Arab Republic (Egyptian Region), were for the purpose of replenishing members' foreign exchange resources after payment of gold subscriptions to the Fund in connection with the quota increases that were approved in 1959. Provision was made for such purchases in Section III of *Enlargement of Fund Resources Through Increases in Quotas,* the report in which the Executive Directors had recommended an increase in the Fund's resources to the Board of Governors. Members that wish to make such purchases are required to represent that they would make repurchases in equal annual installments commencing one year after the purchase and to be completed not later than three years after the purchase.

The changes that have taken place in the magnitude and relative importance of members' purchases and repurchases and in the geographical distribution of the members which have had transactions with the Fund are indicative of the general improvement in the world's payments relations. They are also in part the result of repurchase commitments given by members either at the time of purchases made in earlier years or at a later date. Since the introduction of external convertibility by several countries at the end of 1958, there has been continuous improvement in the general international reserve position. Many of the countries which have reduced their quantitative restrictions and eliminated discrimination for balance of payments purposes against imports from the dollar area were able to do so without recourse to the Fund's resources. The financial assistance granted to member countries by the Fund has, in most instances, been requested in support of stabilization programs. Further funds in support of these programs have been obtained by several of these members from a variety of other sources, so that they have had a wider margin within which to maneuver while the new policies were taking effect.

For members in need of financial assistance from the Fund, the stand-by arrangement has continued to be a valuable instrument. The number of stand-bys granted or extended during the fiscal year was the same, 13, as in the preceding year; the total amount available under these stand-bys, apart from the U.K. stand-by arrangement that terminated at the end of 1959, was somewhat greater. As a result of improvements in their external position, several members did not request an extension of their stand-by arrangements, and one member (Pakistan) canceled its arrangement three months before its expiration. As in previous years, some members found it sufficient to have the Fund's assurance of financial assistance without actually making use of their stand-by arrangements.

Of the new stabilization programs with which the Fund has been concerned in the past year, two, which involved exchange transactions with the Fund and the establishment of a new par value, were put into effect by European countries, Spain and Iceland. In recent years, Spain has made considerable efforts to expand industrial production and to raise its standard of living; however, strong inflationary pressures and the serious deterioration of the balance of payments that they generated created difficult problems. Most of Spain's foreign trade was on a bilateral basis, and the distortions which followed excessive credit expansion were further aggravated by a complicated system of multiple exchange rates and trade restrictions. By the end of 1958, gold and foreign exchange reserves were practically exhausted, and it was decided in July 1959 to carry out, in cooperation with the Fund and the Organization for European Economic Cooperation, a comprehensive stabilization program, which included the establishment of a par value of 60 pesetas per U.S. dollar. Taxation was increased, and public expenditure was reduced. Limitations were placed upon the expansion of credit, and interest rates were raised. A number of price controls and other impediments to the flexibility of the economy were removed, and a more liberal foreign investment law was introduced. At the same time, there was some liberalization of imports and multiple currency practices were abolished. In support of this program, Spain purchased from the Fund $25 million and the equivalent of $12.5 million each in sterling and in French francs, and entered into a stand-by arrangement for a further $25 million. A credit of $100 million was also granted by the European Fund, and $200 million was obtained from various U.S. sources, including some $70 million from commercial banks. While adoption of such radical measures of reform brought about some decline in employment and economic activity, excessive demand was eliminated, and the inflationary psychology which had prevailed for many years disappeared. Prices rose only slightly, and bank credit was well within the prescribed limits. Exports began to revive, outstanding debts were repaid, and by the end of 1959 gold and foreign exchange reserves (excluding drawings on the International Monetary Fund and the European Fund) had risen by about $120 million. All these changes were signs of the considerable success of the stabilization program.

Throughout the postwar period there were substantial increases both in Iceland's exports, which consist mainly of fish and fish products, and in its real national income; the expansion was, however, accompanied by large balance of payments deficits, rising prices, and substantial distortions in the economy. The average annual increase in the cost of living since 1950 was about

10 per cent. Effective exchange rates were depreciated several times by changes in the exchange premiums and taxes on exports and imports; but despite substantial foreign loans, foreign exchange liabilities at the end of 1959 exceeded foreign exchange reserves. In these circumstances, the Government of Iceland adopted on February 19, 1960 a comprehensive stabilization program prepared in consultation with the Fund and the OEEC. The program included a balanced budget, a sharp increase of interest rates and other forms of credit restraint, the elimination of multiple currency practices, and the introduction of a new par value for the króna. The link between wages and salaries and the cost of living index was abolished, and it was decided to introduce gradually measures of trade and payments liberalization. In support of this program, Iceland purchased $2.8 million from the Fund and entered into a one-year stand-by arrangement for a further $5.6 million. At the same time, Iceland was granted a credit of $12 million from the European Fund.

In Latin America, the stand-by arrangements in support of the stabilization programs of Argentina, Bolivia, Colombia, Haiti, Paraguay, and Peru were renewed or extended, and new stand-by arrangements were concluded with El Salvador, the Dominican Republic, Honduras, and Venezuela.

In order to strengthen its reserve position at a time of seasonal weakness, El Salvador was granted a six-month stand-by arrangement in October 1959 for $7.5 million, with an undertaking to make a corresponding repurchase six months after any purchase made in terms of this arrangement.

In December 1959, financial support was given to a stabilization program in the Dominican Republic by a one-year stand-by arrangement which permits purchases from the Fund of currencies equivalent to $11.25 million.

The funds made available under the stand-by arrangement requested by Honduras in March 1960 are to serve as an assured second line of reserves to strengthen the member's international reserve position while it continues to carry out the stabilization program initiated at the beginning of 1959. At that time, the

Fund supported the program with a stand-by arrangement for $4.5 million which expired in January 1960. The new stand-by arrangement is for one year and enables Honduras to purchase currencies equivalent to $7.5 million.

In April 1960, the Fund entered into a one-year stand-by arrangement under which Venezuela may draw up to the equivalent of $100 million in support of a program designed to achieve economic and financial stability, which is described in Chapter IV of this Report. The Fund agreed to make available to Venezuela $15 million before, and a further $85 million after, the legislative steps are completed to make effective the increase of Venezuela's quota in the Fund from $15 million to $100 million, which was approved by the Fund last year. Toward the end of April, negotiations for a loan to Venezuela of $200 million were also completed with a group of U.S. and Canadian banks.

Morocco requested a stand-by arrangement in November 1959 in connection with the introduction of a par value and in support of its monetary and fiscal policies and of its intention to bring about a progressive and substantial nondiscriminatory reduction of its import restrictions. The Fund agreed to a one-year stand-by arrangement which authorizes drawings up to $25 million.

With the exception of the purchases by Iran and the four members that made special drawings in accordance with Section III of the report, *Enlargement of Fund Resources Through Increases in Quotas,* all the purchases last year were made under stand-by arrangements concluded in the current or the preceding year, or were made simultaneously with the conclusion of a stand-by arrangement.

The Fund's policy and practice relating to the use of its resources have been fully described in previous Annual Reports.[1] They have now been extensively tested by the experience gained in dealing with members' requests for financial assistance, and have been found to be eminently practicable. The Fund's principles require, in brief, that the greater the assistance provided

[1] See *Annual Report,* 1959, page 22.

in relation to a member's quota, the more certain the Fund must be that the policies followed by the member are likely to restore equilibrium within a limited period of time. In accordance with these principles, it has become the accepted practice for the Fund in appropriate cases to receive from members seeking to purchase exchange or to enter into stand-by arrangements declarations of intent as to the policies that would be followed. A member which finds itself obliged to deviate from the policies specified in its declaration of intent consults with the Fund, in order, where it is appropriate, to reach a new understanding on the basis of which further drawings may be made.

Throughout the past year, Fund members have again given full support to the principles laid down in the Executive Board's decision of February 13, 1952 on the use of the Fund's resources. According to these principles, members are expected to make repurchases within a period reasonably related to the payments problems in respect of which purchases were made, and normally within an outside range of three to five years. In fact, the total amount of commitments outstanding for more than 60 months has diminished rapidly and is likely to have disappeared by July 1960. The application of the principles adopted in February 1952 has contributed significantly to the maintenance of the revolving character of the Fund's resources.

As a result of all these developments, and particularly because of the excess of repurchases over purchases, the liquidity of the Fund in terms of gold and convertible currencies has increased. Furthermore, the implementation of the resolutions on the Enlargement of Fund Resources Through Increases in Quotas added substantially to the Fund's liquid resources. Its gold holdings increased during the year by the equivalent of $1,442.4 million, to $2,994.6 million on April 30, 1960. Its total holdings of gold and of currencies that had previously been in demand by members—U.S. dollars, sterling, deutsche mark, Canadian dollars, French francs, Belgian francs, and Netherlands guilders—amounted at the end of the financial year to the equivalent of $9,306.7 million, $3,830.0 million more than on April 30, 1959, while

Fund commitments on account of the unutilized balances of stand-by arrangements decreased from the equivalent of $1,132.8 million on April 30, 1959 to $291.9 million on April 30, 1960. This notable improvement in the Fund's liquidity position, which is expected to be further enhanced by scheduled repurchases during the fiscal year 1960-61, should further increase the confidence of members that substantial resources are available in the Fund to serve as a second line of reserves.

Fund Transactions

The operational activities of the Fund in the year ended April 30, 1960 are summarized in Table 2 (purchases of currency), Table 3 (stand-by arrangements), and Table 4 (repurchases of currency).

During the year, several drawings were made in currencies other than U.S. dollars. Of the 37 exchange transactions of the Fund, 6 included sterling, French francs, deutsche mark, or Netherlands guilders. Of the total amount of currency purchased, 35.5 per cent was in currencies other than U.S. dollars, the highest percentage so far in any financial year of the Fund. As in previous years, wide use was made of the power, conferred upon the Fund by Article V, Section 4, of the Articles of Agreement, to waive the limitation of a member's drawing to 25 per cent of its quota in any twelve-month period.

All the 13 stand-by arrangements entered into or extended during the year were for a period of twelve months, except the arrangement with El Salvador, which was for a six-month period, and that with Haiti, which first involved a short-term extension, followed by an agreement for one year.

Since the Fund started its operational activities, 40 members have made use of its resources, and 3 members have concluded stand-by arrangements without making a purchase. Of these 43 members, 17 are in Latin America, 12 in Europe, 4 in the Middle East, 6 in the Far East, and 4 in Africa. Seven of these members

TABLE 2. PURCHASES OF CURRENCY FROM THE FUND, FISCAL YEAR ENDED APRIL 30, 1960

Member	Sterling	Deutsche Mark	French Francs	Netherlands Guilders	U.S. Dollars	Total Equivalent in U.S. Dollars
Argentina	£2,857,142–17–2 ($8,000,000)	DM 73,500,000 ($17,500,000)		f. 26,600,000 ($7,000,000)	$42,500,000	$75,000,000
Bolivia					3,375,000	3,375,000
Chile					700,000	700,000
Dominican Republic					7,000,000	7,000,000
El Salvador					7,500,000	7,500,000
Haiti					1,646,500	1,646,500
Honduras					3,750,000	3,750,000
Iceland					2,812,500	2,812,500
Iran					5,000,000	5,000,000
Spain	4,464,285–14–3 ($12,500,000)		F 6,171,321,429 ($12,500,000)		25,000,000	50,000,000
Sudan	446,428–11–5 ($1,250,000)					1,250,000
United Arab Republic, Egyptian Region					7,500,000	7,500,000
Total	£7,767,857–2–10 ($21,750,000)	DM 73,500,000 ($17,500,000)	F 6,171,321,429 ($12,500,000)	f. 26,600,000 ($7,000,000)	$106,784,000	$165,534,000

TABLE 3. FUND STAND-BY ARRANGEMENTS WITH MEMBERS, FISCAL YEAR ENDED APRIL 30, 1960

(In millions of U.S. dollars)

Member	Date of Inception	Date of Expiration	Amount	Amount Available April 30, 1960
Argentina	Dec. 19, 1958	Dec. 18, 1959[1]	75.00	—
	Dec. 3, 1959	Dec. 2, 1960	100.00	49.00
Bolivia	May 18, 1959	Sept. 30, 1960	1.50	1.25
Brazil	June 3, 1958	June 2, 1959	37.50	—
Chile	April 1, 1959	Dec. 31, 1959	8.10	—
Colombia	June 19, 1958	June 18, 1959	15.00	—
	Oct. 22, 1959	Oct. 21, 1960	41.25	41.25
Dominican Republic	Dec. 22, 1959	Dec. 21, 1960	11.25	4.25
El Salvador	Oct. 1, 1959	March 31, 1960	7.50	—
Haiti	July 14, 1958	July 13, 1959	5.00	—
	July 14, 1959	Sept. 30, 1959	5.00	—
	Oct. 1, 1959	Sept. 30, 1960	4.00	4.00
Honduras	Jan. 29, 1959	Jan. 28, 1960	4.50	—
	March 7, 1960	March 6, 1961	7.50	6.25
Iceland	Feb. 23, 1960	Feb. 22, 1961	5.63	5.63
Mexico	March 5, 1959	Sept. 4, 1959	90.00	—
Morocco	Nov. 15, 1959	Nov. 14, 1960	25.00	25.00
Pakistan	Dec. 8, 1958	Dec. 7, 1959[2]	25.00	—
Paraguay	July 30, 1958	July 29, 1959	1.50	—
	Aug. 13, 1959	Aug. 12, 1960	2.75	2.75
Peru	March 1, 1959	Feb. 29, 1960	13.00	—
	March 1, 1960	Feb. 28, 1961	27.50	27.50
Spain	Aug. 17, 1959	Aug. 16, 1960	25.00	25.00
United Kingdom	Dec. 22, 1958	Dec. 21, 1959	738.53	—
Venezuela	April 7, 1960	April 6, 1961	100.00	100.00
Total			1,377.01	291.88

[1] Canceled as of December 2, 1959.
[2] Canceled as of September 22, 1959.

TABLE 4. REPURCHASES OF CURRENCY FROM THE FUND, FISCAL YEAR ENDED APRIL 30, 1960

(In U.S. dollars)

Member	U.S. Dollars	Gold	Total
Argentina	10,000,000.00		10,000,000.00
Australia		14,081,000.00	14,081,000.00
Bolivia	1,750,000.00		1,750,000.00
Brazil	10,329,924.41	9,920,075.59	20,250,000.00
Burma	4,000,000.00		4,000,000.00
Chile	700,000.00		700,000.00
Colombia	24,945,499.34	2,638,599.14	27,584,098.48
El Salvador	5,500,000.00		5,500,000.00
France	82,000,000.00	118,000,000.00	200,000,000.00
Honduras	3,744,902.75		3,744,902.75
India	50,000,000.00		50,000,000.00
Indonesia	9,000,000.00		9,000,000.00
Iran	12,481,285.33	4,391,383.89	16,872,669.22
Mexico	22,498,727.53		22,498,727.53
Paraguay	1,750,000.00		1,750,000.00
Peru	13,240,237.12	1,258,430.63	14,498,667.75
Philippines	15,417,000.00		15,417,000.00
Turkey	3,000,000.00		3,000,000.00
Union of South Africa	31,941,519.74	4,238,305.84	36,179,825.58
United Arab Republic, Egyptian Region	9,578,711.92		9,578,711.92
United Kingdom	56,000,000.00		56,000,000.00
Total	367,877,808.14	154,527,795.09	522,405,603.23

are in the sterling area. The total amount purchased from the Fund is equivalent to US$3,445.3 million. Fund transactions for the entire period of its activities, i.e., from March 1, 1947 to April 30, 1960, are summarized in Table 5, and additional details

TABLE 5. SUMMARY OF FUND TRANSACTIONS FROM THE BEGINNING OF OPERATIONS TO APRIL 30, 1960

(In millions of U.S. dollars)

Member	Currencies Purchased by Fund	Currencies Sold by Fund	Repurchases by Members
Argentina	168.5		10.0
Australia	50.0		64.1
Austria			7.5
Belgium	83.0	11.4	71.6
Bolivia	11.9		1.8
Brazil	260.7		168.5
Burma	15.0		10.2
Canada		15.0	
Ceylon			3.0
Chile	63.7		25.7
Colombia	40.0		37.6
Costa Rica	1.2		2.1
Cuba	72.5		47.5
Czechoslovakia	6.0		[1]
Denmark	44.2		55.3
Dominican Republic	7.0		
Ecuador	5.0		5.0
El Salvador	10.0		8.0
Ethiopia	0.6		2.0
Finland	9.5		18.2
France	518.8	12.5	347.9
Germany, Federal Republic of		86.4	45.1
Haiti	5.4		
Honduras	11.3		10.0
Iceland	2.8		
India	300.0		149.9
Indonesia	70.0		36.0
Iran	51.0		45.9
Iraq			2.0
Israel	3.8		3.8
Japan	249.0		249.0
Lebanon			0.9
Mexico	67.5		67.4
Netherlands	144.1	12.0	139.1
Nicaragua	8.0		8.0
Norway	9.6		9.6
Paraguay	7.1		2.6
Peru	14.5		17.6
Philippines	23.8		17.9
Spain	50.0		
Sudan	6.3		
Sweden			8.0
Turkey	73.5		38.0
Union of South Africa	46.2		46.2
United Arab Republic			
Egyptian Region	40.5		18.1
Syrian Region			1.4
United Kingdom	861.5	229.6	368.0
United States		3,078.3	
Yugoslavia	31.9		9.0
Total[2]	3,445.3	3,445.3	2,179.5

[1] On the basis of the settlement with Czechoslovakia, an amount of $5.0 million has also been offset against the drawing of $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.

appear in Appendix V. Total repurchases by 35 members that had previously drawn from the Fund have been made with gold or convertible currencies amounting to the equivalent of US$2,026.2 million. Purchases outstanding on April 30, 1960 were equivalent to US$1,160.2 million. The periods during which the amounts drawn were outstanding on April 30, 1960 are as follows:

	Amount in millions of U.S. dollars	Number of members involved
12 months or less	157.53	12
13 to 18 months	26.68	4
19 to 24 months	182.59	9
25 to 30 months	103.82	5
31 to 36 months	199.13	7
37 to 48 months	480.69	7
49 to 60 months	8.00	1
More than 60 months	1.75	2

All purchases made by present Fund members prior to May 1953 have been fully reversed. Repurchases have also been made by 19 of the 32 members that had paid less than 25 per cent of their original subscriptions in gold. The total of such repurchases in excess of any previous transactions that these members may have had with the Fund is equivalent to US$158.2 million. These repurchases have had the effect of placing members in, or bringing them closer to, a position comparable to that of a member whose original gold subscription equaled 25 per cent of its quota.

Fund Charges

The Fund's holdings of a member's currency in excess of its quota are subject to charges. Since the beginning of the Fund's operations, 35 members have paid such charges. Currently, 17 members are paying charges on balances in excess of quota, the amount incurred during the year under review totaling $16.9 million, compared with $23.8 million during the previous year. Four members are at present paying part of the charges in their own currencies in accordance with the provision of the Fund

Agreement that permits such payments if a member's monetary reserves are less than half its quota. Service charges on drawings totaled $0.8 million in the past financial year, compared with $1.3 million in the year ended April 30, 1959.

The revised schedule of charges, which has been in effect since January 1, 1954, was extended by the Executive Board until April 30, 1961. The schedule of charges is kept under review by the Fund.

Computation of Monetary Reserves

Monetary reserves data as of April 30, 1959 have been received from all members with the exception of five. None of these five members, however, could have incurred a repurchase obligation.

Investment of Fund's Assets

During the year, the Executive Directors increased from $200 million to $500 million the amount invested under the Fund's program, which has been described in earlier Annual Reports, of investing a portion of its gold holdings in U.S. Treasury bills, with the understanding that the same quantity of gold could be reacquired upon the termination of the investment, and decided that there was authority under the Articles of Agreement to make such investment in U.S. securities having a term to maturity not exceeding 12 months (Appendix VI). These decisions were made fully effective in the course of the year. Investment income from May 1, 1959 to April 30, 1960 amounted to $15,359,726.47 and was placed in the Special Reserve Account, which at the end of the year under review showed a balance of $22,298,813.34.

The Fund and Exchange Restrictions

During the past year, the Fund devoted much attention to certain important questions of policy which have arisen as a result of the decisions taken by 14 European countries at the end of 1958 to make their currencies externally convertible. These decisions were an indication of the growing strength of payments and reserve positions, but at the same time they were more than the mere formal recognition of an existing situation. With the reserves of most industrial countries, other than the United States, continuing to show further substantial increases, it was natural that, after the decisions to establish external convertibility had been taken, Fund members should find themselves able to take further important steps—in particular to abandon discriminatory currency practices—toward the achievement of one of the Fund's primary purposes, the establishment of a system of free multilateral current payments. With so many currencies of importance in international trade freely interchangeable with each other, the great majority of Fund members no longer have any monetary reasons for preferring imports from any one country to imports from any other. The case for discriminating between any of these currencies for balance of payments reasons has accordingly been greatly weakened, if not entirely destroyed. On October 23, 1959, therefore, a decision that "there is no longer any balance of payments justification for discrimination by members whose current receipts are largely in externally convertible currencies" was approved by the Executive Board. The Board's statement added that, where such discriminatory restrictions have been long maintained, a reasonable amount of time may be needed to eliminate them fully. The time should be short, however, and members were informed that they were "expected to proceed with all feasible speed in eliminating discrimination against member countries, including that arising from bilateralism." This decision, which is reproduced in Appendix VII, was communicated to the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade at that time meeting in Tokyo, and a statement issued at the conclusion of the meeting of ministerial representatives of the Contracting Parties expressed views similar to those of the Fund, thus emphasizing further the international community's interest in this matter. By measures taken during the past year, the practice of many Fund members has been brought into conformity with this decision of the Executive Board. Details of these and other important changes in restrictions made in the past year are given later in this Report and in the Fund's *Eleventh Annual Report on Exchange Restrictions.*

Most of the members of the Fund continue to maintain exchange restrictions under Article XIV of the Fund Agreement and are required to consult the Fund annually concerning such restrictions. In the year ended April 30, 1960, consultations were completed with 46 member countries. Fund staff members visited 44 of the member countries concerned; the other 2 consultations were held at the Fund's headquarters in Washington, D. C. These periodic reviews with individual member countries occupied a large part of the activities of the Executive Board and of the management and staff of the Fund.

As in previous years, these consultations have been a valuable means whereby the Fund and its members have been able to collaborate in achieving the objectives of the Fund. The periodic reviews of the restrictions that still remain and of the justification for their maintenance, together with the advice given by the Fund in connection with the consultations, have played an important part in the progress made in the simplification of exchange systems and the reduction of restrictions. Progress has gone so far that quite a number of Fund member countries now have no, or only very few, restrictions on the making of payments and transfers for current international transactions. This movement gained considerable momentum during 1959 as a result of the generally favorable economic climate.

In some countries, the Article XIV consultations have been associated with requests for stand-by arrangements or drawings from the Fund in support of general economic stabilization programs or other efforts to protect the currency. In several countries, these efforts have been associated with the simplification of the exchange system. Action in accordance with the decision of the Executive Board on June 26, 1957 urging that "early and substantial steps should be taken to simplify complex multiple rate systems" has been taken by an increasing number of members, and only some 7 members now maintain multiple rate systems which can properly be described as complex. The Fund has also continued in the consultations to explore with members which are parties to bilateral arrangements involving the use of exchange restrictions the possibility of their early removal in accordance with the policy decision adopted by the Executive Board on June 22, 1955.

Article VIII and Article XIV

At the Annual Meeting of the Board of Governors of the Fund in September 1959, the conditions under which Fund members would give up the transitional arrangements of Article XIV of the Fund's Articles of Agreement and assume the obligations of Article VIII, Sections 2, 3, and 4, were discussed. Such a transition from Article XIV to Article VIII presented a number of important problems, which have been under consideration by the Fund throughout the past year. The decision finally approved by the Executive Board on June 1, 1960 was as follows:

> There has been in recent years a substantial improvement in the balance of payments and the reserve positions of a number of Fund members which has led to important and widespread moves to the external convertibility of many currencies. Most international transactions are now carried on with convertible currencies, and many countries have progressed far with the removal of restrictions on payments. In consequence of these developments, it seems likely that a number of members of the Fund either have reached or are nearing a position in which they can consider the feasibility of formally accepting the obligations of Article VIII, Sections 2, 3, and 4. Previous decisions taken by the Fund, such as those on multiple currency practices, bilateral arrangements, discriminatory restrictions maintained for balance of payments purposes, and payments restrictions for security reasons, indicate the Fund's attitude on these matters. The present decision has been adopted as an additional guide to members in pursuance of the purposes of the Fund as set forth in Article I of the Articles of Agreement.
>
> 1. Article VIII provides in Sections 2 and 3 that members shall not impose or engage in certain measures, namely restrictions on the making

of payments and transfers for current international transactions, discriminatory currency arrangements, or multiple currency practices, without the approval of the Fund. The guiding principle in ascertaining whether a measure is a restriction on payments and transfers for current international transactions under Article VIII, Section 2, is whether it involves a direct governmental limitation on the availability or use of exchange as such. Members in doubt as to whether any of their measures do or do not fall under Article VIII may wish to consult the Fund thereon.

2. In accordance with Article XIV, Section 3, members may at any time notify the Fund that they accept the obligations of Article VIII, Sections 2, 3, and 4, and no longer avail themselves of the transitional provisions of Article XIV. Before members give notice that they are accepting the obligations of Article VIII, Sections 2, 3, and 4, it would be desirable that, as far as possible, they eliminate measures which would require the approval of the Fund, and that they satisfy themselves that they are not likely to need recourse to such measures in the foreseeable future. If members, for balance of payments reasons, propose to maintain or introduce measures which require approval under Article VIII, the Fund will grant approval only where it is satisfied that the measures are necessary and that their use will be temporary while the member is seeking to eliminate the need for them. As regards measures requiring approval under Article VIII and maintained or introduced for nonbalance of payments reasons, the Fund believes that the use of exchange systems for nonbalance of payments reasons should be avoided to the greatest possible extent, and is prepared to consider with members the ways and means of achieving the elimination of such measures as soon as possible. Members having measures needing approval under Article VIII should find it useful to consult with the Fund before accepting the obligations of Article VIII, Sections 2, 3, and 4.

3. If members at any time maintain measures which are subject to Sections 2 and 3 of Article VIII, they shall consult with the Fund with respect to the further maintenance of such measures. Consultations with the Fund under Article VIII are not otherwise required or mandatory. However, the Fund is able to provide technical facilities and advice, and to this end, or as a means of exchanging views on monetary and financial developments, there is great merit in periodic discussions between the Fund and its members even though no questions arise involving action under Article VIII. Such discussions would be planned between the Fund and the member, including agreement on place and timing, and would ordinarily take place at intervals of about one year.

4. Fund members which are contracting parties to the GATT and which impose import restrictions for balance of payments reasons will facilitate the work of the Fund by continuing to send information concerning such restrictions to the Fund. This will enable the Fund and the member to join in an examination of the balance of payments

situation in order to assist the Fund in its collaboration with the GATT. The Fund, by agreement with members which are not contracting parties to the GATT and which impose import restrictions for balance of payments reasons, will seek to obtain information relating to such restrictions.

Decision on Exchange Margins

After the introduction of external convertibility by Western European countries at the end of 1958, most of the countries participating in the European Monetary Agreement which came into effect on the termination of the European Payments Union announced that for exchange transactions taking place in their territories the rates between their own currencies and the U.S. dollar would not be permitted to exceed margins of approximately ¾ of 1 per cent on either side of the par values agreed with the Fund for their respective currencies. The rates of exchange between the currencies which had been made externally convertible were, however, to be left to market arbitrage. The margins from par for the exchange rates between these currencies in the market would therefore be the sum of the margins prevailing for each currency against the U.S. dollar. If one currency were to move to the maximum permitted premium against the U.S. dollar while another currency moved to the maximum discount, the rate of exchange between the two currencies would move to a point approximately 1.5 per cent from the respective par values. The Fund took the view that the extension of exchange arbitrage through well-organized markets, which would be facilitated by these arrangements, would contribute to the achievement and maintenance of convertibility. Hence, on July 24, 1959, the Fund adopted the following decision:

> The Fund does not object to exchange rates which are within 2 per cent of parity for spot transactions between a member's currency and the currencies of other members taking place within the member's territories, whenever such rates result from the maintenance of margins of no more than 1 per cent from parity for a convertible, including externally convertible, currency.

Cooperation with Other International Organizations

As in previous years, the Fund has maintained close relations with other international organizations whose interests and work impinge upon the fields in which the Fund also has a responsibility to its members. The Fund has a special relationship with the International Bank for Reconstruction and Development, and has also maintained close contacts with the United Nations and its regional and technical bodies, the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade (GATT), the Organization for European Economic Cooperation (OEEC), and the Bank for International Settlements. There are direct working arrangements with the staffs of UN agencies, and staff studies and reports have been prepared for these agencies on subjects within the Fund's field of competence. During the past year, Fund representatives have also attended and submitted papers to the UN Statistical Commission and to the UN Commission on International Commodity Trade. Fund representatives have attended meetings of the General Assembly of the United Nations, of the UN regional Economic Commissions, and of the UN Administrative Committee on Coordination and their subsidiary bodies, and observers from the United Nations and several other international agencies were invited to attend the Fund's Fourteenth Annual Meeting. The Managing Director of the Fund presented a report on the Fund's activities and policies at the Twenty-Ninth Session of the UN Economic and Social Council in April 1960.

The close connection which has developed in recent years between the work of the OEEC and that of the Fund was carried further during the last year, when the two organizations were again associated in "parallel arrangements" which are part of stabilization programs adopted by Fund members. Such "parallel arrangements" had been made with France and Turkey in 1958, and during the last year programs, which are described in detail elsewhere in this Report, were adopted by Spain and Iceland. It is expected that, as plans for changes in the purposes and structure of the OEEC begin to take shape, there will also be a continuation in some appropriate form of Fund relations with the new organization as fruitful as those which have developed between the Fund and the OEEC.

The Fund continued its close cooperation with the CONTRACTING PARTIES to the GATT during the period under review, and was represented at the Fourteenth and Fifteenth Sessions of the CONTRACTING PARTIES. As indicated earlier in this chapter, the Fund transmitted to the CONTRACTING PARTIES at their Fifteenth Session its decision on discrimination for balance of payments reasons.

At the Fourteenth Session held in Geneva in May 1959, the Fund consulted with the CONTRACTING PARTIES in connection with their balance of payments consultations with four countries, and with two of those countries in connection with their continuance of discrimination. Similar consultations with respect to four other countries took place in July. At the Fifteenth Session held in Tokyo in October 1959, the Fund consulted with the CONTRACTING PARTIES in connection with their balance of payments consultations concerning seven other countries. Similar arrangements were set in motion concerning consultations with about twenty countries during 1960.

The consultations with a number of these countries are the first of a biennial series required with less developed countries which maintain balance of payments import restrictions. The consultations with the other countries are the second in an annual series required to be held with more developed countries maintaining such restrictions.

As in previous years, representatives of the Fund have attended the meetings of the working parties assigned to carry out the consultations between the CONTRACTING PARTIES and individual countries, and the Fund has continued to provide the CONTRACTING PARTIES with the results of its Article XIV consultations with the countries concerned, and with other relevant material.

III

International Payments Relations and Their Background in 1959-60

Industrial Production, Prices, and Employment

WORLD industrial production (outside the U.S.S.R. and associated countries), which in 1958 had been about 2.5 per cent less than in 1957, resumed its growth in 1959, and for the whole year exceeded its previous peak in 1957 by more than 7 per cent. The renewed expansion in 1959 was shared by all industrial countries; it was most striking in Japan, where the cessation of growth in 1958 was followed by a rise in industrial production of 24 per cent, supported by a substantial rise in both domestic investment and exports.

Expansion in European industrial activity differed widely from country to country. The greatest increases took place in countries where production had not declined from 1957 to 1958, but in all industrial countries, except Belgium, production in 1959 was higher than in 1957 (Table 6). In many of the industrial countries in continental Europe, the initial impulse to recovery and resumed growth was given by a marked rise in residential construction, in response to declining interest rates and fiscal measures, and by increased public investment expenditures. In the United Kingdom, an increase in consumer expenditures, aided by monetary and fiscal policies, was a strategic factor. Rising exports and inventory investment contributed in varying degrees in most countries.

TABLE 6. PERCENTAGE CHANGES IN INDUSTRIAL PRODUCTION, MANUFACTURING EMPLOYMENT, COST OF LIVING, AND WAGES, SELECTED COUNTRIES, 1958, 1959, AND FIRST QUARTER 1960

	Industrial Production					Manufacturing Employment			Cost of Living			Wages		
	Maximum variation[1]		Average variation[2]											
	1957-58	1958-59	1958	1959	1960, 1st Quarter	1958	1959	1960, 1st Quarter	1958	1959	1960, 1st Quarter	1958	1959	1960, 1st Quarter
Austria	—	6	3	4	11	—	−1	3	2	1	2	6	5	7
Belgium-Luxembourg	−10	11	−7	3	10	−7	−3	1	1	2	1	5	2	4
Canada	−5	11	−1	8	6	−5	1	—	2	2	1	3	3	3
Denmark	1	15	3	8	8	1	5	7	3	3	3	4	8	....
France	1	12	3	4	16	1	−2	1	14	7	4	10	8	6
Germany, Federal Republic of	1	13	3	7	13	1	—	4	3	1	3	7	5	7
Italy	—	21	3	11	19	−2	—	....	3	—	3	5	2	3
Japan	−6	41	1	24	33	2	9	13	1	1	3	−1	6	6
Netherlands	−4	14	—	9	14	−3	1	3	2	1	3	5	2	4
Norway	−5	8	−3	5	13	−3	—	....	4	3	—	5	9	5
Sweden	−4	9	—	3	8	−2	−1	4	5	1	4	6	4	4
United Kingdom	−3	12	−1	5	9	−1	—	5	3	1	—	3	3	2
United States	−12	22	−7	13	8	−7	4	5	3	1	2	3	4	4

Sources: Based on data from International Monetary Fund, *International Financial Statistics;* United Nations, *Monthly Bulletin of Statistics;* and Organization for European Economic Cooperation, *General Statistics.*

[1] Percentage changes in industrial production (seasonally adjusted) from highest quarter of 1957 to lowest quarter of 1958 and from lowest quarter of 1958 to last quarter of 1959 (for the United States, to second quarter of 1959).

[2] Percentage changes in averages compared with the corresponding period of previous year.

Increased investment in equipment sustained or accelerated the expansion only at a later stage. In the United States, production in 1959 was affected by a prolonged steel strike during the second half of the year. After a rise of 26 per cent between the lowest point of the recession in April 1958 and June 1959, industrial production (seasonally adjusted) declined by almost 7 per cent between June and October 1959, but subsequently expanded again until in January 1960 it was 28 per cent greater than in April 1958. In the early months of 1960, industrial activity in several countries expanded less rapidly than before, and in a few the rate of production remained unchanged.

The recovery of production was achieved with very little upward price movement. In all the industrial countries shown in Table 6, the cost of living had risen when industrial activity declined or slowed down from 1957 to 1958, but, except in France and the United States, where there were moderate increases, wholesale prices declined or remained unchanged. On the other hand, during the upswing in activity from 1958 to the last quarter of 1959, the cost of living in several countries rose less than during the preceding period of declining or slackening production, while wholesale prices tended to edge upward. From mid-1958 to mid-1959, the cost of living actually declined in Italy, and in the United States it remained unchanged. In several European countries, moderate increases in the cost of living during the upswing in activity were associated with rising foodstuff prices following a drought, whereas in the United States, large supplies of certain commodities brought a decline in food prices.

Price movements during the upswing were moderate, largely because in most countries the mild recession, coming after a period of heavy capital spending, had left considerable unused capacity that permitted substantial increases in output without undue pressure on prices, and also because there was a tendency for labor costs per unit of output to fall. In several industrial countries, such as France, Italy, and the United States, wages rose less during the recovery and expansion phase than during the downswing or slowing down in activity. While fiscal and monetary policies were adapted to current requirements, governments showed restraint in expanding over-all demand, and this helped to discourage expectations of further inflationary developments. Moreover, in the face of increasing international competition, businessmen tended to adopt more cautious price policies. The very moderate recovery in the prices of some primary products and the continued decline in others were also factors favorable to stability in the general price level.

With a few exceptions, wages in general rose somewhat less than the fairly substantial increases in productivity. In most industrial countries, the rise in manufacturing employment during the upswing was smaller than the rise in industrial production, and also smaller, except in Denmark and the United Kingdom, than the decline during the previous downswing or slackening of activity. Indeed, in Austria and Canada, manufacturing employment changed little during the upswing, while in France and Sweden it continued to decline. Thus, in most of the industrial countries, with the exception of Austria, Denmark, Germany, and Italy, the available resources of unemployed labor (seasonally adjusted) were still higher toward the end of 1959 than in the first half of 1957, and in several countries there was still spare industrial capacity as well. However, in a few countries, such as France, Germany, and the United Kingdom, increases in certain wage rates in early 1960 indicated that pressure might develop for a rise in the general wage level.

Financial Policies in the Industrial Countries

The financial policies of the industrial countries in 1959, as in other recent years, had to be put into effect in the context of increasing freedom for foreign exchange transactions. At the same time, attention continued to be paid to contracyclical policy; while the determination and the administration of policy were beset by many difficulties, a remarkable measure of success was, by and large, achieved in the attainment of both economic growth and price stability. This success was facilitated by the substantial increases in the gold and foreign exchange reserves of most industrial countries during 1958, which made possible a wider margin of discretion in the determination of domestic policy.[1]

In 1959, indeed, the international environment to which financial policy had to be adapted underwent a marked change. After they had established external convertibility at the end of 1958, a number of countries further liberalized their international payments on both current and capital account and took steps which permitted freer play for market forces in their exchange markets. As a result of these measures, the scope for international movements of commercial bank funds and other private capital in response to financial incentives was widened, and a closer degree of interdependence was thus established between the capital and money markets of the industrial countries. These conditions made the conduct of monetary management more complex and, in the consideration of national policies, called for closer attention to what was being done in other countries.

The varying positions in which the industrial countries found themselves in the trade cycle during the period under review were important factors in determining their choice of monetary and fiscal measures. Fiscal policies designed to stimulate demand during the recession could be reversed only gradually, but rising tax receipts resulting from increases in personal income and business profits tended in many countries to make the realized fiscal deficits smaller than had been forecast. With the acceleration of private economic activity and increasing credit demands, the remaining expansionary effects of fiscal operations had to be offset by greater monetary restraint than would have been necessary in

[1] For the analysis of financial policy, countries are classified as "industrial" or "less industrialized"—a classification similar to, but not identical with, that of countries as exporting mainly manufactures or exporting mainly primary products. In relation to financial policy, "industrial countries" is interpreted as including certain countries, e.g., Australia, Canada, New Zealand, and the Union of South Africa, which export mainly primary products, but which have highly developed financial systems and a substantial degree of industrialization.

the absence of this heritage from the recession. There were, however, significant variations among countries in the timing and the degree of these demand pressures and of the monetary measures designed to keep them under control.

In many countries in continental Europe, and in Japan, the upswing gathered strength in early 1959 under conditions of monetary ease brought about in part by an accumulation of gold and foreign exchange reserves, which added to bank liquidity and tended to lower interest rates (Table 7). In the United Kingdom, where the impact on bank liquidity of the increase in reserves was more than offset by substantial increases in the holdings of government obligations by the public, and in Belgium, where private demand for credit continued to be depressed until the latter part of 1959, the authorities took certain fiscal and monetary steps to stimulate economic expansion. In the United States and Canada, on the other hand, where recovery was being supported by massive government deficits, the authorities had already shifted from monetary ease to neutrality and subsequently to restraint by the second half of 1958. This policy was continued in 1959, although in the United States the Federal Reserve System began to permit a slight easing in the net liquidity position of member banks in September 1959. The comparative restraint of U.S. credit policy was appropriate in relation both to the maintenance of internal stability and to the changes in the U.S. external payments position.

During the course of 1959, several countries where activity was expanding rapidly found it necessary to take some steps to forestall excessive pressure on domestic resources. In Denmark, starting in February, successive measures were taken by the Government to limit the amount of building and construction work; the National Bank also absorbed liquidity through its open market operations. The Swedish authorities recommended in July that the commercial banks should comply with new increased liquidity ratios. In September, the official discount rate was raised in Germany and in Denmark, and reserve requirements for banks were introduced in Japan, although at an extremely low percentage of deposits. These

TABLE 7. MARKET INTEREST RATES, SELECTED COUNTRIES, 1958, 1959, AND 1960

(In per cent per annum)

	1958	1959				1960
	Dec.	Mar.	June	Sept.	Dec.	Mar.
United States						
Treasury bill rate	2.81	2.85	3.25	4.04	4.57	3.44
Government bond yield (medium-term)	3.69	3.94	4.47	4.94	5.07	4.32
Government bond yield (long-term)	3.80	3.92	4.09	4.26	4.27	4.08
Canada						
Treasury bill rate	3.49	4.30	5.11	5.50	5.12	3.01
Government bond yield (long-term)	4.76	4.88	5.08	5.61	5.60	5.32
United Kingdom						
Treasury bill rate	3.16	3.30	3.45	3.48	3.61	4.59
Government bond yield (short-term)	4.30	4.06	4.14	4.30	4.27	4.92
Government bond yield (long-term)	4.89	4.82	4.83	4.85	4.99	5.28
Industrial bond yield	6.02	5.95	5.98	6.00	5.96	6.07
Australia						
Government bond yield (short-term)	4.23	4.00	4.00	3.93	3.95	4.14
Government bond yield (long-term)	4.93	4.89	4.89	4.90	4.93	4.94
New Zealand						
Government bond yield	4.88	4.86	4.92	4.80	4.75	4.84
Union of South Africa						
Treasury bill rate	3.68	3.53	3.49	3.44	3.28	3.46
National Finance Corporation (deposit) rate	3.50	3.38	3.24	3.18	3.08	3.23
Government bond yield	5.25	5.25	5.25	5.25	5.25	5.25
Belgium						
Treasury bill rate	2.50	2.25	2.25	2.25	3.50	3.75
Government bond yield	4.29	4.28	4.27	4.27	4.22	4.26
Denmark						
Government bond yield	5.22	5.13	5.26	5.47	5.60	5.67
France						
Government bond yield	5.44	5.39	5.33	5.25	5.03	5.17
Call money rate, private	6.07	4.36	3.67	4.05	4.07	4.17
Germany, Federal Republic of						
Call money rate	2.57	2.63	2.47	2.69	3.82	4.28
Fixed-interest securities yield (total)[1]	5.6[2]	5.3	5.3	5.4	6.0	6.4
Italy						
Government bond yield	5.80	5.40	5.33	5.37	5.36	5.28
Netherlands						
Treasury bill rate	2.26	1.68	1.82	1.66	2.52	2.33
Government bond yield	4.31	4.07	4.08	4.10	4.21	4.30
Norway						
Government bond yield	4.68	4.70	4.64	4.55	4.57	4.59
Sweden						
Government bond yield	4.27	4.26	4.24	4.27	4.44	4.44
Industrial bond yield	5.07	5.06	5.02	5.38	5.23	5.65
Switzerland						
Government bond yield	3.00	2.85	3.22	3.16	3.25	3.27

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 Deutsche Bundesbank, *Monatsberichte.*

[1] Securities placed during month of issue.

[2] January 1959.

initial measures were generally moderate, but they proved to be the prelude to policies of progressively increasing restraint which, together with developments in the money markets of the United States, also affected other industrial countries.

As the year progressed, some of the factors which had contributed to high liquidity and declining interest rates in 1958 ceased to operate, or began to work in the opposite direction. There was a rise in private demand for credit, in contrast to the decline in 1958, and the accumulation of reserves slowed down or was reversed in many countries. In the United States, the United Kingdom, and Canada, commercial banks sold large amounts of their holdings of government securities in order to be able to satisfy the credit demands of the private sector. As a result of these developments, market interest rates in most countries tended to rise in the course of the year, and especially during the second half (Table 7). This rise was particularly marked in the United States, Canada, Germany, and Denmark; in the United Kingdom, it was mitigated by official open market operations. In France and Italy, in contrast, where interest rates had been comparatively high, a rise in liquidity continued to be generated by the large increase of foreign reserves and helped to reduce interest rates and to bring them more into line with those prevailing abroad.

In the United States, market long-term interest rates rose above the statutory ceiling for government long-term bonds in September and, as part of the pressure on long-term rates was therefore shifted to the short-term market, the rates on short-term Treasury bills rose above those in the money markets of the United Kingdom and several European continental countries. In Germany, interest rates also rose further in response both to increased demand for credit and to the monetary measures taken by the authorities, including a further increase of the official discount rate by 1 per cent in October. As these measures tended to have countervailing effects on international payments and also conflicted with the announced objective of encouraging capital exports, the German authorities took specific steps to stimulate an outflow of funds and to discourage an inflow. There was, however, some tendency toward a short-term capital movement both to Germany and to the United States from other financial centers in which interest rates did not rise as rapidly. During the last quarter of 1959 and in early 1960, several other countries in Western Europe raised their discount rates, in most cases with the double purpose of forestalling an outflow of short-term funds and restraining domestic credit demand. In Belgium, however, the main objective in raising the discount rate and other official interest rates was to check the outflow of funds. On the other hand, in order to encourage capital exports and thus to reduce domestic liquidity without bringing direct pressure on interest rates, the Swiss authorities deliberately refrained from raising the discount rate.

In the United Kingdom, it seemed likely by early 1960 that demand would continue to increase considerably; mainly for this reason, the bank rate was raised in January, and the authorities subsequently modified their operations in government securities to permit long-term rates to rise. As a consequence, there was a reduction of the interest rate differential between the United Kingdom and other financial centers, which in the last quarter of 1959 had induced some movement of short-term funds from London and a weakening in the sterling exchange rate. This tendency was further strengthened by the marked decline in U.S. interest rates in early 1960. As a result of these and other factors, and in particular of seasonal influences, the U.K. gold and foreign exchange reserves increased in February-April, and the sterling exchange rate improved.

During the first months of 1960, several countries in Western Europe, such as Germany and Denmark, continued to intensify their internal restrictive policies, and others cautioned banks against undue credit expansion or took specific measures to curb bank credit. In April, the U.K. authorities introduced further measures for the restraint of credit. At the same time, there were indications of an easing of monetary stringency in the United States, where a decline in net borrowed reserves of member banks contributed to a fall in short-term interest rates, and in June, several Federal Reserve Banks reduced their discount rate. The German authorities also raised the discount rate while at the same time taking further steps to discourage an inflow of foreign funds. A little later, the bank rate was raised in the United Kingdom to 6 per cent, and other restraints on bank credit were made more rigorous.

Fiscal policies in the recovery period varied considerably from country to country, in part no doubt because of differences in the strength and the timing of the upswing. When the expansion in activity accelerated, fiscal policies proved more often than not to be less quickly reversible than monetary policies. Indeed, in several countries the inevitable lag between the planning and the execution of public expenditure projects resulted in continued increases in public outlays at a time when the strength of other demand factors had already generated a high rate of expansion. The "built-in" stabilizing effects of variations in unemployment compensation payments were limited because in most industrial countries employment rose much less than production. On the other hand, the rise in demand was less than it otherwise would have been, because of increases in tax revenue associated with rising incomes and production. In Belgium, the Government in June 1959 laid down the principle of functional finance according to which budget deficits on current account during recessions would be offset by current surpluses during periods of high economic activity. While in 1959 the current budget showed a deficit, the Government, in view of the upturn in economic activity, presented a balanced budget for 1960. The Government is also presently slowing down the rate at which contracts for public investments are allocated. These, however, are not expected to decrease substantially before the end of 1960. In Italy, public works expenditures were maintained, and tax concessions and grants for investment were made for the benefit of new industries. The variations in timing of the recession and recovery are reflected in the fact that during 1959 and early 1960 fiscal deficits were reduced in some countries, especially the United States, while deficits increased or surpluses declined in a number of other countries. In Denmark, a surplus in the fiscal year 1958-59 was followed by a larger one in 1959-60.

The budgets presented by most governments for 1960 were designed to support the increasing tendency toward restraint already indicated in their monetary policies. Increased revenues were projected in most countries, with tax rates substantially unchanged. In some countries which still had excess productive capacity, some tax reliefs were proposed.

Main Trends in World Trade

The upswing in economic activity in the industrial countries in 1959 was accompanied by a renewed expansion of world trade. The value of world exports, which had fallen by 5 per cent from 1957 to 1958, was slightly above the 1957 peak (Table 8). Prices for the year as a whole were again slightly below those of the preceding year. The volume of trade in 1959 was about 6 per cent higher than in 1957 and about 8 per cent higher than in 1958. The exports of primary producing countries rose by about the same proportion as those of industrial countries, in both volume and value. The volume of trade, which had risen relatively more than world industrial production from 1955 to 1957, and had declined by about the same proportion from 1957 to 1958, rose slightly less than world industrial production from 1958 to 1959.

The increase in world trade was brought about mainly by rising demand in the industrial countries. The volume of imports of those countries rose somewhat more than their industrial production. The aggregate imports of primary producing countries, however, were held in check by the domestic financial policies and restrictions adopted as a result of the decline in their reserves in the two preceding years. With a substantial decline in export receipts, the reduction in their imports in 1958 had not been large enough to reverse the outflow of reserves. The volume of imports of primary producing countries was about the same in 1959 as in

TABLE 8. VALUE OF WORLD TRADE, 1957-59

	Value, f.o.b. (*billion U.S. dollars*)			Percentage Change from Preceding Year		
	1957	1958	1959	1957	1958	1959
World exports[1]	99.5	94.4	99.9	8	−5	6
Exports of United States[2]	19.5	16.4	16.4	12	−16	—
Exports of other manufacturing countries[3]	41.7	41.6	45.4	10	—	9
Exports of primary producing countries[4,5]	38.3	36.4	38.1	4	−5	5
Trade of manufacturing countries						
With each other						
Total	29.2	27.2	31.2	11	−7	15
Exports of United States	6.6	5.0	5.2	19	−24	4
Exports to United States	3.3	3.7	5.2	5	12	40
Trade between other manufacturing countries	19.3	18.5	20.8	10	−4	13
With primary producing countries						
Exports of United States	12.8	11.2	11.1	9	−12	−1
Exports of other manufacturing countries	17.6	17.7	17.8	9	—	—
Exports of primary producing countries[5]						
To United States	9.6	9.2	9.8	2	−4	7
To other manufacturing countries	16.9	16.2	17.2	2	−4	6
With Soviet area						
Exports of manufacturing countries	1.5	1.8	1.7	18	15	−3
Exports of Soviet area[6]	1.6	1.7	1.9	5	5	14
Trade of primary producing countries with Soviet area						
Exports of primary producing countries	1.3	1.3	1.5	30	0	12
Exports of Soviet area[6]	1.4	1.6	1.5	2	12	−5

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 area and Mainland China, and U.S. military exports.

[2] Nonmilitary exports.

[3] Countries exporting mainly manufactured products, viz., the United Kingdom, Austria, Belgium-Luxembourg, Denmark, France, the Federal Republic of Germany, Italy, the Netherlands, Norway, Sweden, Switzerland, and Japan.

[4] Countries exporting mainly primary products and semimanufactures, i.e., all countries other than those classified as "manufacturing countries," and excluding the Soviet area and Mainland China. See Tables 10, 16, 18, and 20.

[5] 1959 figures partly estimated.

[6] Including an estimate for Mainland China based on import statistics of trading partners.

1958, and slightly smaller than in 1957, while the volume of imports of industrial countries rose by about 12 per cent from 1957 to 1959.

The volume of U.S. imports rose from 1958 to 1959 by nearly 20 per cent, but there was no increase in U.S. exports. For other industrial countries as a group, the volume of both imports and exports increased by about 10 per cent (Table 9). For the primary producing countries together, there was an increase in exports but

TABLE 9. CHANGES IN VOLUME OF EXPORTS AND IMPORTS, IN TERMS OF TRADE, AND IN VOLUME AND UNIT VALUE OF MANUFACTURED EXPORTS OF COUNTRIES EXPORTING MAINLY MANUFACTURED PRODUCTS, 1958 AND 1959

(Percentage changes from previous year)

	Volume of Exports		Volume of Imports		Terms of Trade[1]		Volume of Manufactured Exports		Unit Value of Manufactured Exports	
	1958	1959	1958	1959	1958	1959	1958	1959	1958	1959
Italy	6	22	—	11	8	−2	4	19	2	−3
France	5	20	−1	−2	4	1	8	26	−2	−8
Japan	8[2]	20[2]	−20[2]	25[2]	7	5	7	21	−7	—
Germany, Federal Republic of	4	14	7	20	8	1	4	13	—	−1
Netherlands	8	14	−6	13	2	2	10	20	−1	−4
Belgium-Luxembourg	2	13	−1	12	—	−2	2	14	−4	−3
Switzerland	−2	12	−9	14	5	1	−3	12	1	−2
Norway	—	11	—	9	2	3	....	....	....	....
Sweden	−1	9	2	5	4	—	5	9	—	−1
Denmark	9	7	8	21	6	6	10	14	−1	−5
Austria	−4	7	2	11	5	1	....	....	....	....
United Kingdom	−4	4	—	7	7	—	−4	4	2	—
United States[3]	−16	−1	4	19	5	2	−12	−4	1	3
Total[4]	−4	8	—	12	6	1	−1	10	−1	−1
Total, excluding United States[4]	2	11	−1	10	6	1	3	14	−1	−2

Sources: Data on volume of imports and exports and terms of trade are from International Monetary Fund, *International Financial Statistics*. Data on manufactured exports, except for Denmark and Japan, were supplied by the Statistical Office of the United Nations; figures for Denmark were estimated from data published in *Statistiske Efterretninger;* Japanese figures for unit value of manufactured exports show changes in unit value of total exports, and volume figures were derived from value of manufactured exports deflated by this series.

[1] Export price index divided by import price index.

[2] Estimated from value and price data.

[3] Nonmilitary exports.

[4] Changes in weighted averages of countries listed. Changes in terms of trade derived from average export and import unit values implied by changes in volume and value of exports and imports.

not in imports. The independent countries of the sterling area benefited from rising export prices, and though in some of them the volume of imports fell, the aggregate volume of imports for the group was maintained; the volume of imports into the Latin American countries whose export prices were generally substantially lower than in 1958 was reduced.

Divergent trends in the volume of trade gave rise to marked changes in the balance of trade between different groups of countries. The primary producing countries as a group improved their trade balance both with the United States and with the other industrial countries. The greater part of the deterioration in the trade balance of the United States, however, resulted from the virtual disappearance of its former large export surplus with other industrial countries. The decline in this surplus was greater than the decline in the surplus of the other industrial countries in their trade with the primary producing countries and with the Soviet area. The exports of the industrial countries to the Soviet area, which had grown rapidly in earlier years, fell slightly in 1959.

In some respects, however, the trade of the United States and of the other industrial countries as a group developed in 1959 along similar lines. The volume of imports of both the United States and the other industrial countries from nonindustrial countries rose somewhat less rapidly than their industrial production, but their imports from industrial countries rose much faster. Neither from the United States nor from the other industrial countries as a group was there any significant increase in the volume of exports to primary producing countries.

The greater growth of U.S. imports may be explained partly by the relatively greater expansion in the U.S. economy from 1958 to 1959—the rise in industrial production in the United States, 13 per cent, was almost twice the average increase in the other industrial countries—partly by the sharp increase in steel imports which was a result of the steel strike, and partly by a growing tendency in the United States to substitute imported finished goods for domestic products.

The rapid increase in U.S. demand for the exports of other industrial countries was an important element in their expansion. U.S. imports from industrial countries rose by 40 per cent, compared with an increase of 10 per cent in the corresponding imports of other industrial countries, and the rise in these U.S. imports accounted for nearly 40 per cent of the growth in exports from Western European countries and Japan. The fact that the proportion of total U.S. exports that is sold in primary producing countries is normally higher than that of the exports of most other industrial countries also helps to explain why U.S. exports expanded less than those of other industrial countries from 1958 to 1959. There was, however, a pronounced fall in the U.S. share in exports to Western Europe and Japan. This was to some extent due to the relatively low level of demand for investment goods in those countries in the early part of the year, the effects of the U.S. steel strike, and postponements of foreign purchases of U.S. cotton. However, part of this fall—as well as part of the great increase in U.S. imports—was probably due to a tendency to substitute finished manufactures from Europe and Japan for U.S. products as the former became more competitive in quality and design, price, and delivery dates.

The fact that U.S. export prices of manufactures increased slightly from 1957 to 1959, whereas the average export prices of most other countries' manufactures declined—French prices in particular fell by more than 10 per cent in consequence of devaluation—appears to indicate some relative weakening of the U.S. competitive position. These divergent movements may also be attributable in part to differences in composition between U.S. exports and those of other competing countries.

The United States was the only industrial exporter that did not increase the volume of its total exports and of its exports of manufactures from 1958 to 1959 (Table 9). The exports of the United Kingdom rose by 4 per cent; this was less than the average rate for other industrial countries, in part because the United Kingdom, like the United States and Japan, has in recent years sold only about one third of its exports to industrial countries, compared with an average of two thirds for other industrial countries. France, Italy, and Japan expanded their exports by about 20 per cent, and the Federal Republic of Germany, the Netherlands, and Belgium-Luxembourg by about 14 per cent. The rapid growth in French exports resulted mainly from improved competitiveness following the devaluation of the franc and measures to stabilize the economy. Since Japan's main market in industrial countries is in the United States, its exports were especially stimulated by the great expansion of U.S. import demand; and more than half of the increase in Japan's exports occurred in its trade with the United States. Japan was also one of the three industrial exporters—the others were Germany and the Netherlands—whose exports to primary producing countries were greater in 1959 than in 1958; those of the United Kingdom and Belgium-Luxembourg were reduced.

The rapid expansion of world trade continued in the first quarter of 1960, when the volume of world exports was about one sixth higher than in the same period of 1959. The value of U.S. nonmilitary exports rose by about 20 per cent, and of the exports of other industrial countries by more than 25 per cent; the value of the exports of the primary producing countries rose by only about half the latter rate. The largest increase was again in trade between the industrial countries, but in contrast to the development between 1958 and 1959, U.S. imports rose much less rapidly than those of other industrial countries. The fact that U.S. exports to other industrial countries expanded much more than the exports of these countries to the United States was the main cause of a substantial improvement in the U.S. trade balance.

Prices and Export Receipts in the Primary Producing Countries

The steady decline in the general level of prices of primary products, which started early in 1957 and continued for about two years, was reversed in the second quarter of 1959, and through the rest of the year there was a moderate increase. The average for 1959 as a whole was much the same as in 1958. There were, however, substantial and divergent movements in the prices of major groups and of individual commodities. Expanding demand in industrial countries strengthened the prices of a number of industrial raw materials, but, as in 1958, the major role in determining the prices of individual commodities was played by supply factors. For a number of foodstuffs and for some raw materials, the effects of ample and rising supplies outweighed those of expanding demand and led to further price declines.

Prices of coffee continued to weaken through most of the year, as the 1959-60 crop, like that of 1958-59, again vastly exceeded annual consumption. The International Coffee Agreement, renewed in September 1959 with the participation of France and Portugal, as well as the cooperation of the United Kingdom and Belgium, on behalf of their affiliated African territories, again mitigated the downward trend of prices by means of export quotas and the withholding of stocks. Average prices of Brazilian and African coffee were some 23 per cent lower in 1959 than in 1958; the decline in the prices of mild varieties, supplies of which are less excessive, was some 12 per cent. The impact of lower prices on export receipts was outweighed, or at least partly offset, for a number of countries by a greater volume of exports, largely in response to restocking demand in the United States and some European markets. Receipts from exports of all the major coffee exporters taken together were slightly higher in 1959 than in 1958 (Table 10).

After a sharp rise between 1957 and 1958, cocoa prices fell in the second half of 1959 when a large crop provided ample supplies. The average price was some 20 per cent lower in 1959 than in the year before; for cocoa, as for coffee, however, a larger volume of exports partly offset the effect of lower prices on export receipts. The volume of tea exports from India and Ceylon declined somewhat, with the average price changing comparatively little from 1958 to 1959. Greatly increased production of sugar in both exporting and net importing areas was largely responsible for the weakening of sugar prices through most of 1959; the annual average was some 15 per cent below that for 1958 and some 8-9 per cent below the floor price adopted under the International Sugar Agreement. Quota reductions by the Sugar Council in mid-1959 and purchases by the U.S.S.R. in the third quarter helped to strengthen the price later in the year. While the supply of coconut and palm-kernel oils was reduced by a short crop in the Philippines and lack of transport facilities in Indonesia, strong demand for these oils raised prices from 1958 to 1959 by some 20 per cent.

The major exporters of livestock products were favored by recovery in demand and higher prices for wool; a sharp increase of butter prices, which followed a reduction of supplies, and of certain meat prices contributed further to the rise in their export earnings. Cotton prices, which had been declining through 1958, remained fairly stable during 1959, though the average was considerably below that of 1958. The effect of stronger demand on cotton prices was counteracted by the early announcement of the U.S. decision to increase the subsidy on cotton exports, effective August 1. Several exporting countries, however, sold greater quantities, and earned more from their cotton exports, than in 1958. Wheat prices remained fairly stable; but rice prices declined as a consequence of larger crops in major exporting and importing countries. A larger volume of rice exports raised Burma's export receipts above 1958 earnings. The value of Thailand's exports of rice fell, but increased earnings from rubber raised the total value of its exports.

The largest gains in export prices and earnings accrued to exporters of metals and rubber (Table 10). Lead was the only nonferrous metal whose price did not increase, as large stocks in producing countries kept the market depressed. For other metals, as well as for rubber, the effect of strong demand was intensified by supply developments. Prices of tin, output of which was restricted under the terms of the international agreement, and of zinc, which was subject to some voluntary curtailment of production, increased by 7-8 per cent. Copper output, in spite of an

TABLE 10. TRADE OF PRIMARY PRODUCING COUNTRIES,[1] 1957-59

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

	1957	1958	1959[2]	Percentage Change from Previous Year[3] 1958	1959
Exports f.o.b.					
Countries exporting mainly					
Coffee	2.4	2.2	2.2	−10	1
Other tropical foods[4]	3.2	3.3	3.2	1	−1
Other agricultural products[5]	7.0	6.1	6.7	−13	11
Metals and rubber	3.2	2.6	3.3	−17	26
Petroleum	6.6	6.8	6.6	3	−4
Other major countries	13.7	13.2	13.9	−3	5
All other countries[6]	2.2	2.2	2.2	−2	−1
Total	38.3	36.4	38.1	−5	5
Imports c.i.f.	45.4	42.5	42.3	−6	—

Source: Based on data from International Monetary Fund, *International Financial Statistics.*
[1] The grouping of countries is based on that in Tables 16, 18, and 20, with the following additions: exporters of other tropical foods — China (Taiwan) and Jamaica; exporters of petroleum — Netherlands Antilles; other major countries — Canada and Yugoslavia.
[2] Partly estimated.
[3] Calculated before rounding.
[4] Cocoa, tea, sugar (cane), bananas, oilseeds, and vegetable oils.
[5] Textile fibers, livestock products, grain, and tobacco.
[6] That is, primary producing countries not shown in Tables 16, 18, and 20 or referred to in footnote 1.

expansion of capacity in recent years, was again held back by strikes in a number of countries; in the first part of the year, production in Canada declined, and in the second half, U.S. output was much reduced and there were also strikes in Chile. The resulting shortages, combined with rising import demand, were responsible for a sharp increase in copper prices—some 20 per cent from 1958 to 1959. Settlement of the U.S. strikes and expansion of output starting early in 1960 were followed by some price reduction in the first quarter of the year.

The scope for expanding natural rubber output in response to rising demand is comparatively narrow. Production was only about 5 per cent higher in 1959 than in the preceding year, and prices were some 25 per cent above those of 1958.

The rapid expansion of petroleum production over the last few years, exceeding the growth of demand, led to a scaling down of prices early in 1959 by nearly 10 per cent. Thus, despite some further expansion in the volume of their exports, the receipts of exporters of petroleum declined by about 4 per cent, after a continuous rise during the previous six years.

Price declines during 1959 were largely concentrated on the major export commodities of Latin America; average Latin American export prices were some 5-6 per cent below those in 1958, and despite some increase in volume, export receipts tended to decline. Average export prices for the overseas sterling area countries, on the other hand, rose by about 2-3 per cent; this, in addition to a considerable expansion in volume, accounted for an increase from 1958 to 1959 of some 10 per cent in the export earnings of the overseas sterling area. Average export prices for most other primary exporting areas showed little change.

These movements in export prices were largely responsible for divergent developments in the terms of trade of the major primary producing areas in relation to the industrial countries. The prices paid by primary producers for their imports did not change much: there was a slight increase in the prices of imports from the United States and some decline in those from Western Europe. Inasmuch as Latin American imports originate largely in the United States, the deterioration in Latin America's terms of trade caused by lower export prices was somewhat intensified by the increased prices of their imports. The improvement of the overseas sterling area's terms of trade was due mainly to the increase in their export prices; the prices of their imports scarcely changed at all.

Financial Policies in the Less Industrialized Countries[1]

Many of the less industrialized countries were able in 1959 to bring to an end the drain on their international reserves that had been going on for some time, or actually to enlarge their reserve holdings. Although the deterioration in the terms of trade of primary producers in 1958 and earlier years had been a contrib-

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[1] See page 38, footnote 1.

uting factor, the rather persistent decline in their reserves also resulted from expansionary financial policies, which in some countries were reflected in large and continuous budget deficits. In many countries, credit expansion was used to finance development. Structural defects in the fiscal system were also a source of financial weakness. Moreover, the authorities in several countries had burdened the monetary system with the financing of commodity stocks withheld from export markets. In some countries, excess demand, stimulated by credit expansion, had led to a rise in imports or a capital outflow rather than to any marked increase in domestic prices. In other countries, a substantial expansion of credit resulted in significant price increases, even though part of the excess demand was absorbed by rising imports. Often a low level of international reserves meant that severe restrictions had to be placed on imports, and most of the effects of credit expansion were therefore concentrated upon domestic prices. On the other hand, foreign financial assistance enabled many countries to maintain imports at a higher level than would otherwise have been possible, and hence to finance development expenditure, to the extent of such assistance, without drawing on reserves.

Monetary and fiscal policies were a major factor in halting or reversing the outflow of reserves in 1959. These policies reduced credit expansion and government expenditures, and tended to reduce the rate of monetary expansion; the resulting improvement in the balance of payments was an offsetting factor, and in a number of countries a rise in foreign reserves was the main source of continued monetary expansion (Table 11). Some countries merely reduced their rate of credit creation, whereas others reduced total credit. Colombia, Honduras, and Israel reduced the Government's net indebtedness to the monetary system, and Nicaragua contracted credit to the private sector. In addition to firmer domestic financial policies, cost restrictions on imports, arising from devaluation or increased duties and taxes, often helped to strengthen reserves, and in some countries more restrictive direct limitations were also placed on imports. In a few countries, such as Argentina, Mexico, and Pakistan, a revival of

TABLE 11. FACTORS AFFECTING CHANGES IN MONEY SUPPLY, SELECTED PRIMARY PRODUCING COUNTRIES, 1958 AND 1959[1]

	Percentage Change in Money Supply		Change in Net Foreign Assets		Change in Net Domestic Assets		Net Government Borrowing from Banking System[2]		Bank Credit to Private Sector		Other[3]	
			←As percentage of money supply at beginning of year→									
	1958	1959	1958	1959	1958	1959	1958	1959	1958	1959	1958	1959
Argentina	46	43	−7	6	53	37	34	3	38	22	−19	12
Bolivia	3	28	−12	7	15	21	12	20	3	1	—	—
Brazil	21	42	−2	−1	23	43	6	20	21	26	−4	−3
Burma	19	15	12	5	7	10	13	23	−7	3	1	−16
Ceylon	3	10	−9	−18	12	28	12	34	3	2	−3	−8
Colombia	21	11	4	6	17	5	−4	−2	13	4	8	3
Dominican Republic	26	−15	−2	−8	28	−7	6	3	18	7	4	−17
Ecuador	−1	13	2	7	−3	6	−9	—	8	15	−2	−9
Honduras	−1	3	−14	3	13	—	12	−4	−2	7	3	−3
India	3	7	−5	2	8	5	19	10	1	5	−12	−10
Indonesia	55	18	6	41	49	−23	39	−18	11	22	−1	−27
Israel	15	10	21	9	−6	1	−7	−6	25	22	−24	−15
Korea	35	−1	10	1	25	−2	−13	11	36	2	2	−15
Mexico	7	16	−7	7	14	9	15	9	5	1	−6	−1
Nicaragua	−3	1	−9	13	6	−12	2	18	5	−23	−1	−7
Pakistan	5	5	−2	8	7	−3	7	—	—	4	—	−7
Paraguay	19	9	−6	−15	25	24	4	9	5	15	16	—
Peru	7	24	−3	17	10	7	15	17	2	5	−7	−15
Philippines	9	6	−1	5	10	1	10	5	4	11	−4	−15
United Arab Republic, Egyptian Region	−6	4	−5	−5	−1	9	−1	5	6	14	−6	−10
Venezuela	10	−5	−32	−28	42	23	41	17	16	15	−15	−9

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

[1] The figures for net foreign assets and net government borrowing from the banking system have been adjusted in order to eliminate the effect of changes in the net IMF position.

[2] Monetary system's claims on government, including official entities and development banks, less government deposits. Changes in advance import deposits, counterpart funds, and exchange profits are treated as reflecting government operations. For the United Arab Republic, Egyptian Region, changes in counterpart funds are included in "other."

[3] Sum of the remaining items shown in the monetary survey (published in *International Financial Statistics*)—usually unclassified assets, less quasi-money, capital, and unclassified liabilities.

confidence led to a return of private capital, and thus to a further augmentation of official reserves.

The reserve improvements attained are particularly noteworthy, because in only a few countries, e.g., Chile, Indonesia, the Philippines, and the Federation of Malaya, was there any marked rise in exports. In many of the other countries, export earnings rose only moderately or declined. Even where exports rose, imports generally did not rise correspondingly. Developments in foreign trade tended to have an adverse effect on government revenues, which in many of the less industrialized countries come mainly from taxes related to exports and imports.

As in previous years, progress toward the attainment of external and internal balance required stronger and more comprehensive measures in countries where there had been prolonged domestic price inflation than in countries where credit creation had been reflected mainly in a decline in foreign reserves. In any economy that has been subjected for a long period to continuous inflation, there are likely to be serious distortions in the structure of production which present difficult problems when the effort is made to restore equilibrium. The expectations that develop in such circumstances tend to make the economy less ready for adaptation to conditions of price stability, and therefore constitute a considerable obstacle to the enforcement of stabilization policies. The problem is also frequently aggravated by institutional arrangements, such as the linking of wage rates to changes in the cost of living index during preceding months, and the pressure for compensating adjustments from groups which have fallen behind in the progressive rise of money incomes. Despite these difficulties, a number of countries made considerable progress in carrying out their stabilization plans. Developments during the last year in Argentina, Chile, Colombia, and Peru are noted in Chapter IV of this Report, and the stabilization programs adopted by Spain and Iceland have been described in Chapter II. Saudi Arabia's financial rehabilitation program of 1958 was continued through 1959. A budgetary surplus, together with profits from free market exchange operations, made possible the repayment in full of the

Government's debt to the Saudi Arabian Monetary Agency. Currency in circulation and wholesale prices declined, foreign exchange reserves increased, and the free market exchange rate appreciated. In several other countries, such as India, the Philippines, and Pakistan, the authorities moderated their expansionary financial policies, and this helped to strengthen their balance of payments positions in 1959. Developments in these countries are described in greater detail in Chapter IV.

A few of the less industrialized countries, however, suffered setbacks in 1959, or their financial situation continued to deteriorate. Pressure on the reserves of several countries with a fair degree of internal price stability, including most of the Central American Republics, was aggravated by the continuing fall in their export prices. Honduras nevertheless increased its reserves in 1959 by limiting imports by restrained monetary and fiscal policies. In the Dominican Republic and Haiti, disinflationary fiscal operations were also undertaken in late 1959 and early 1960 in accordance with their stabilization programs. In Ceylon, a further decline in foreign reserves, despite a moderate rise in export prices and earnings, accompanied a much higher rate of net government borrowing from the monetary system. In Indonesia, a drastic monetary reform in August brought about a sharp reduction in the money supply, which had continued to increase rapidly in the first half of the year. Credit expansion was, however, resumed, so that by the end of the year money supply was nearly at the pre-reform level. Part of the rise in money supply was attributable to the increase in international reserves, reflecting higher rubber exports and reduced imports, the latter resulting mainly from continuing severe quantitative restrictions. In Venezuela, substantial cash deficits of the Government, arising in part from repayment of debts to the private sector which had been discounted abroad, resulted in a continued decline in foreign reserves. Moreover, in the second half of 1959 there was also a flight of private capital. The resulting drain on the liquidity of the banking system caused not only a contraction of bank credit to the private sector, but also increased recourse to the central bank by the commercial banks, despite an increase in the discount rate. In view of these developments, the authorities in March 1960 decided to reduce government expenditures and central bank lending and also secured a stand-by arrangement with the Fund. In Brazil, the Government's increasing reliance on the monetary system for the financing of development expenditures and the stockpiling of coffee markedly increased the inflationary pressures on the economy. Money and prices rose at much higher rates than in previous years, but a corresponding depreciation of the exchange rates for imports and a moderate rise in export earnings checked the deterioration in the payments position.

Several of the less industrialized countries took specific steps in early 1960 to increase the effectiveness of some of the instruments of monetary policy. Peru introduced Treasury bills bearing interest at the rate of 10 per cent, designed to facilitate the short-term financing of government operations without recourse to the central bank. In Argentina, the rates on Treasury bills were freed as part of a program intended to encourage the holding of savings in the form of financial assets. In Ghana and Nigeria, the issue of Treasury bills was initiated, mainly in order to provide an alternative to the customary investment of short-term funds in foreign financial centers. The newly established central bank of the Federation of Malaya began in 1959 to undertake operations in Treasury bills, and established maximum deposit rates and minimum reserve requirements for commercial banks. In India in early 1960, reserve requirements against increases in deposits, in addition to the existing basic reserve requirements, were implemented for the first time.

Balance of Payments and Reserve Developments

The balance of payments relations of the world in 1959 contrasted sharply in several important respects with those of 1958. (The consequences for reserves of these changes are summarized in Table 12.) Countries exporting mainly primary products had in the aggregate a balance of payments surplus approaching $1 billion in contrast to a deficit of about the same size in 1958. The deficit of the United States, measured by the outflow of gold and the change in liquid dollar liabilities to official and banking institutions, rose from more than $2.8 billion to $3.4 billion (or from $3.5 billion to $3.8 billion, if changes in liquid dollar liabilities to other foreigners are also taken into account; see Table 21). The net position of the United Kingdom measured by reserves net of sterling balances, which had improved by $0.6 billion in 1958, deteriorated by somewhat less in 1959 (Table 22). The accumulation of official reserves and bank assets by industrial exporting countries in continental Europe, which had reached about $3 billion in 1958, was about the same in 1959, although there were important shifts in the positions of individual countries. These countries and the United Kingdom together had a large surplus with the United States as well as with the rest of the world in both 1958 and 1959. The over-all surplus of Japan, which had been almost $0.5 billion in 1958, did not change much in 1959. The salient features in the balance of payments of a number of selected individual countries are examined in greater detail in Chapter IV.[1]

The improvement in the balance of payments of the primary producing countries was due both to higher export earnings and to the comparative stability of imports, which were kept in check by greater restraint in monetary and fiscal policies and, in some countries, by more stringent restrictions. The general improvement was shared by many of the individual countries. In 1958 Australia and India each had an over-all deficit of more than $200 million; in 1959 the over-all balance of payments position of each improved by about $350 million. In 1958, the official gold and foreign

[1] Balance of payments developments in countries other than the United States and the United Kingdom are summarized in Tables 14, 15, 17, and 19, and are examined in this section in terms of the categories used in those tables, where changes in IMF and EPU positions are included in reserve movements. The trade of (1) Latin American countries, (2) overseas sterling area countries, and (3) other primary producing countries in 1958 and 1959 is summarized in Tables 16, 18, and 20.

Table 12. Official Gold and Foreign Exchange Reserves, 1956-59

(In billions of U.S. dollars)

	1956	1957	1958	1959
Countries' reserves at end of year				
United States[1]	22.06	22.86	20.58	19.51
Germany, Federal Republic of[2]	4.29	5.64	6.32	5.01
Italy	1.31	1.53	2.32	3.29
United Kingdom	2.17	2.37	3.10	2.75
Other exporters of industrial products	7.43	6.59	8.58	9.35
Exporters of primary products	18.15	17.41	16.55	16.88
Total official reserves	55.41	56.40	57.45	56.79
Composition of countries' reserves at end of year				
Gold[3]	36.10	37.36	38.07	37.85
U.S. dollars	8.56	8.19	8.48	9.23
Credit balances in EPU	1.09	1.27	1.37	—
Currency deposits with BIS	0.26	0.27	0.50	0.51
Sterling	9.40	7.03	6.70	6.97
Other, including net errors and omissions		2.28	2.33	2.23
Source of change in countries' reserves during year				
Gold transactions with IMF				
Subscriptions		−0.02	−0.06	−1.20
Sales to United States		0.60	—	0.30
Repayments and other		−0.07	−0.09	−0.17
Gold transactions with BIS and EPU/EF		0.05	0.19	0.18
Other net additions to world official gold stocks		0.70	0.67	0.68
Production		*0.98*	*1.05*	*1.12*
Soviet sales		*0.26*	*0.21*	*0.25*
Consumption in industry and arts, and private hoarding[4]		*−0.54*	*−0.59*	*−0.69*
Total gold		1.26	0.71	−0.22[5]
Foreign exchange transactions with IMF				
Drawings		0.98	0.34	0.18
Repurchases		−0.01	−0.27	−0.44
Credit balances in EPU		0.18	0.10	−1.37
Countries' surpluses (deficits −) with United States settled in U.S. dollars		−1.22	0.60	0.98
Other foreign exchange transactions[6]		−0.20	−0.43	0.21
Total foreign exchange		−0.27	0.34	−0.44
Total gold and foreign exchange		0.99	1.05	−0.66
Of which transactions with IMF		1.48	−0.08	−1.34

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

[1] Gold reserves.

[2] Including assets of "limited usability."

[3] Including gold deposits with the BIS.

[4] Calculated as a residual; the entries thus include net errors and omissions.

[5] Details do not add to total because of rounding.

[6] Including changes in official holdings of currencies other than the U.S. dollar (mainly sterling), deposits with the BIS and other financial assets (excluding EPU credit balances) held as reserves, and net errors and omissions.

exchange holdings of most Latin American countries either declined or did not change, and several of them, including Brazil and Chile, supplemented their reserves by borrowing abroad. In 1959, on the other hand, there were substantial improvements in the balance of payments of several Latin American countries, especially Argentina and Mexico. There was, however, again a substantial decrease in the reserves of Venezuela.

The change in the over-all balance of payments of the United States from 1957 to 1958 had resulted mainly from a decline in U.S. exports. There was no further change in U.S. exports in 1959, but U.S. imports rose steeply, so that the trade balance again deteriorated. There were also important changes in the volume and character of capital movements. The net outflow of U.S. private and bank capital decreased by $0.5 million, and the inflow of foreign private capital increased by an equal amount; consequently, the net outflow on these accounts was reduced by $1.0 billion. Net U.S. Government lending fell by $0.6 billion, mainly as a result of advance repayments on long-term loans.

While in 1958 most of the industrial countries other than the United States were in over-all balance of payments surplus, surpluses in 1959 were concentrated in a few countries. Although the aggregate current account surplus for these countries was about $5.0 billion in both years, that of the United Kingdom fell by almost $0.6 billion, Belgium's surplus declined by $216 million, that of Germany by about $165 million, and that of Japan by about $90 million. On the other hand, France's surplus rose by well over $1 billion (excluding transactions with the franc area and in nonmonetary gold), and Italy's balance on these transactions increased by $200 million. There were also marked shifts in these balances classified according to region. For the industrial countries other than the United States, the current surplus with the United States rose by roughly $1.0 billion, and though their current surplus with the rest of the world fell substantially, it remained high.

While the current surplus of industrial exporters other than the United States changed little, there was a substantial increase in the net outflow of capital. Net official grants and movements of private nonbank and official capital from these countries to the rest of the world increased from about $500 million in 1958 to nearly $2 billion in 1959. For the group as a whole, the change is almost fully accounted for by transactions with the

United States. In addition to increases in net repayments to the U.S. Government of about $0.6 billion, the recorded net outflow of private nonbank capital to that country increased by about $0.7 billion. The group's commercial bank assets in the United States, which had shown little change in 1958, also increased in 1959, by almost $1 billion. These movements of capital resulted in part from the greater freedom permitted in Western Europe for private and bank capital transactions and in part from rising interest rates in the United States.

For the industrial countries of continental Western Europe, the increase of about $700 million in the current surplus was matched by an increase of similar size in the net outflow of official and private nonbank capital, so that the accumulation of reserves and bank assets for the group was about the same in both 1958 and 1959. In 1958 most of the accumulation had been in the form of official reserves, whereas in 1959 bank assets accounted for about one fourth. By far the largest change was in the balance of payments position of France, which had a small deficit in 1958 but accounted for more than a third of the aggregate surplus of the group in 1959. The magnitude of the improvement in the French balance of payments was approximately equal to the size of the deterioration in those of Austria, Belgium, Germany, and the Netherlands. In both years, Italy accounted for about a third of the over-all surplus of the group, and at the end of 1959 Italian reserves were the third highest among Fund members.

The major international balance of payments problem in 1959 was the deficit in the balance of payments of the United States. One of the purposes of U.S. postwar policy has been to rebuild the economies which had been devastated by the war, by means of the European Recovery Program and other foreign aid programs. In addition to providing financial assistance, the U.S. Government has promoted or encouraged U.S. expenditures abroad, including assistance to foreign countries in developing markets in the United States and offshore procurement under programs of economic and military aid. The trend of international payments in recent years may properly be regarded as a measure of the success that has, in general, been achieved in realizing these purposes of U.S. postwar international economic policy.

The U.S. authorities have taken measures to achieve a reasonable equilibrium in the balance of payments, while at the same time maintaining the broad objectives of promoting multilateral trade and providing capital to the less developed areas. Fiscal and monetary policies have kept in view the need to maintain a competitive cost-price structure. Steps have been taken to help U.S. firms increase their exports, and other countries have been pressed to eliminate any remaining restrictions on imports of dollar goods and services.

At the same time, other countries, especially in Europe, have taken steps for the maintenance of international payments equilibrium, including the reduction or elimination of restrictions on dollar imports, prepayment of debts to the U.S. Government, and a relaxation of restrictions on international movements of capital. The main initial effect of the measures taken both in the United States and in the other industrial countries to restore payments equilibrium has been on capital account, and to a considerable extent involves changes of a nonrecurrent character. However, the rapid expansion of economic activity in the other industrial countries, in part permitted by their strong balance of payments positions, has helped since mid-1959 to bring about a progressive strengthening of the U.S. trade position.

The balance of payments movements that have been described above were also reflected in a redistribution of official gold holdings, the total of which increased during the year by $680 million, which was not very different from the increases in 1957 and 1958 (Table 13). These movements are examined in greater detail in Chapter VI. The net outflow of gold from the United States in 1959 was $1,075 million, of which $344 million was its gold subscription to the Fund. The Fund, whose gold holdings increased during the year by $1,075 million, sold $300 million of gold to the United States, so that the net gold outflow from the United States to other countries in 1959 was $1,031 million, compared with $2,275 million in 1958. The decline was

TABLE 13. CHANGES IN OFFICIAL GOLD HOLDINGS, 1957-59[1]

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

	1957	1958	1959
International Monetary Institutions			
International Monetary Fund	−512	152	1,075
European Payments Union/European Fund	−14	−128	−86
Bank for International Settlements[2]	−35	−66	−92
Countries[2]			
United States			
Transactions with International Monetary Fund	600	—	−44[3]
Other transactions	199	−2,275	−1,031
United Kingdom	−200	1,250	−350
Other European industrial countries	731	1,854	1,228
All other countries	−64	−122	−20
World official gold holdings	705	665	680

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

[1] Excluding gold holdings of the U.S.S.R. and countries associated with it. No sign indicates an increase; minus sign indicates a decrease.

[2] For the BIS, the figures cover changes in holdings net of deposits. For most countries, the figures include deposits with the BIS.

[3] Gold subscription payment ($344 million) less gold purchases ($300 million).

in part attributable to the fact that a larger proportion of the total outflow of gold and dollars accrued to nonofficial holders in 1959, and in part to a different pattern of reserve changes. In the rest of the world, the main shift was in the holdings of the United Kingdom, which are estimated to have increased in 1958 by $1,250 million and to have decreased in 1959 by $350 million. The industrial countries of continental Western Europe added more than $1.2 billion to their gold reserves, or some $0.6 billion less than in 1958. Half of the decrease in their accumulation of gold, however, was accounted for by gold subscription payments to the Fund. The gold holdings of all other countries taken together showed virtually no net change in 1959, although gold subscriptions to the Fund totaled $385 million.

World reserves in 1959 were increased by $1.0 billion through net transfers of dollars from the United States to foreign official holders. However, despite this increase and the increase in the world's monetary gold holdings, total gold and foreign exchange reserves held by national monetary authorities (excluding the U.S.S.R. and the countries associated with it) fell by an estimated $0.7 billion, or about 1 per cent (Table 12). They were reduced by more than 1.3 billion through subscriptions and net repayments to the International Monetary Fund, and by a similar amount as a result of the termination of the European Payments Union (EPU).

Although the total of countries' reserves was thus reduced during 1959, world liquidity actually improved. In evaluating changes in world liquidity, account must also be taken of the large increase in the foreign exchange holdings of commercial banks which in many countries was made possible by the relaxation of restrictions on movements of capital. The increase in the liquid holdings of U.S. dollars of commercial banks outside the United States amounted alone to about $1.4 billion; and there are indications that their holdings of other currencies also increased substantially. Where confidence in currencies is maintained, the increased scope for international movements of private capital should diminish the need for reserve movements to balance international transactions. On the other hand, any greatly increased flow of private short-term capital may at certain times increase the need for compensatory action by national authorities.

With the termination of the EPU, the EPU balances of member countries were converted into bilateral balances, most of which are to be amortized over a period of several years. Since the bilateral claims are not, like the EPU credit balances, directly usable for settlement of international transactions, they are not included in the calculation of world reserves. Any effects that the termination of the EPU had on the liquidity of any of its members were, however, slight; they were, moreover, mitigated by the establishment of the European Fund under the European Monetary Agreement. The reduction in foreign exchange assets affected mainly countries whose balance of payments positions were strong, whose reserves were at a comfortable level, and which had not themselves made much use of their EPU balances in settling deficits. The termination of the EPU did not, therefore, create any need for adjustments in these countries to compensate for a fall in reserves. For several years before the termination of the EPU, settlements had generally been required in gold or U.S. dollars to the extent of 75 per cent, and some countries whose EPU credit facilities were exhausted had to settle 100 per cent in gold or dollars. The termination of the EPU, therefore, did not directly alter the liquidity even of the debtor countries materially, though the repayment of accumulated debit balances may require them, if a drain on reserves is to be avoided, to make adjustments in their balances of payments so that there may be an adequate surplus on other transactions.

Mainly because of the general quota increase that became effective in September 1959, members of the International Monetary Fund made subscription payments of $1.2 billion in gold to the Fund during 1959. In addition, the Fund received $173 million in gold in repayment of drawings, repurchases on subscription account, and payment of charges. With the sale of $300 million of gold to the United States, there was thus a net increase in the Fund's gold holdings of $1,075 million in 1959, compared with an increase of $152 million in 1958 and a decrease of $512 million in 1957, when it bought $600 million from the United States for gold. The foreign exchange reserves of member countries were also reduced in 1959 by payments of $262 million to the Fund, arising from the excess of repurchases in that year (excluding gold repayments) over new drawings. In contrast, member countries drew currencies from the Fund in the net amounts of $965 million in 1957 and $66 million in 1958.

While transactions with the Fund thus reduced national holdings of gold and convertible foreign exchange by more than $1.3 billion in 1959, the resources that the Fund is able to make available rose much more. Besides gold, almost $3.9 billion was subscribed in the members' own currencies. One third of this amount was in convertible currencies within the meaning of the Articles of Agreement, principally U.S. and Canadian dollars, and the increase in the Fund's holdings of gold and such currencies was thus almost twice the amount by which transactions with the Fund reduced national holdings. Furthermore, the introduction of external convertibility by a number of countries at the end of 1958 increased the usability of the Fund's holdings of their currencies. The currencies of the industrial countries of Western

Europe, which are widely used in settlement of international transactions, were thus, in effect, made convertible for current transactions. The Fund's holdings of these currencies, which amounted to almost $3.2 billion at the end of 1958, were increased by $1.1 billion during 1959, mainly as a result of additional subscriptions. Because of the revolving character of the Fund's resources, gold and foreign exchange held by the Fund add substantially more to world liquidity than equal amounts held by national authorities; with an increase in the Fund's holdings of gold and of currencies suitable for international settlements that is several times the decrease in national reserves, the international payments mechanism was substantially strengthened in 1959.

TABLE 14. BALANCE OF PAYMENTS SUMMARIES FOR CONTINENTAL EUROPEAN COUNTRIES EXPORTING MANUFACTURES AND FOR JAPAN, 1958 AND 1959[1]

(In millions of U.S. dollars)

	1958					1959				
	Goods, Services, and Private Donations	Private Capital[2]	Official Grants and Capital[3]	Commercial Bank Assets	Reserve Movement[4]	Goods, Services, and Private Donations	Private Capital[2]	Official Grants and Capital[3]	Commercial Bank Assets	Reserve Movement[4]
Austria	53	81	21	....	−155	51	28	−53	....	−26
Belgium-Luxembourg	448	−178	48	....	−318[5]	232	−226	−88	....	82[5]
Denmark	126	26	−15	−32	−105	7	80	19	12	−118
France, Metropolitan	−103[6]	127	−21	....	98[7]	742[6]	512	−266	92[8]	−1,138[7]
Germany, Federal Republic of[9]	1,835	−399	−724	−63	−649	1,671	−459	−961	−299	48
Italy	573	357	15	−15	−930	789	210	42	−104	−937
Netherlands	427	163	−53	−31	−506	481	−67	−93	−319	−2
Norway	−170	222	5	−8	−49	−82	137	−32	2	−25
Sweden	−52	101	—	−32	−17	—	58	—	−94	36
Switzerland	221	−56	....	....	−165	150	−153	....	....	3
Japan	499	8	−1	−45	−461	410	209	−13	−152	−454[10]

Source: Based on data reported to International Monetary Fund.

[1] No sign indicates credit; minus sign indicates debit.

[2] This item is a residual and includes net errors and omissions.

[3] Excluding reserve movements.

[4] Reserve movements generally cover changes in gross official holdings of gold and foreign exchange assets, as reported in *International Financial Statistics*, and changes in net IMF and EPU positions. The changes in net EPU positions for 1959 cover only the settlements made before January 15, 1959, the date of the liquidation of the Union. The conversion of EPU balances outstanding on that date into bilateral claims between individual countries is not reflected in the table, and the subsequent payments on these bilateral claims are included with official grants and capital. No sign indicates a decrease in net assets; minus sign indicates an increase in net assets.

[5] Net of liabilities.

[6] Including credit of US$216 million for 1958 and debit of US$8 million for 1959 for gold transactions of the private sector with the monetary authorities.

[7] Including changes in net liabilities under payments agreements amounting to an increase of $221 million in 1958 and a decrease (−) of $214 million in 1959. Reserve movements include settlements by Metropolitan France on behalf of other franc area countries and differ by that amount from the total of transactions with the non-franc area.

[8] Net of liabilities, which increased by $303 million.

[9] The figures are derived from Table 23. Official grants and capital cover advance payments for defense imports, the official portion of donations, government capital, "other Bundesbank assets," and "Bundesbank liabilities"; commercial bank assets cover "commercial bank foreign exchange"; reserve movement covers changes in official gold holdings and freely usable assets and in net IMF and EPU positions.

[10] Excluding gold holdings not previously counted as reserves.

Table 15. Balance of Payments Summaries for Latin American Countries, 1958 and 1959

(In millions of U.S. dollars)

	Goods, Services, and Private Donations[1]		Capital and Official Grants[1,2]		Reserve Movement Plus Change in Net IMF Position[3]		Official Reserves, End of 1959
	1958	1959	1958	1959	1958	1959	1959
Exporters of coffee							
Brazil	−272	−315	224[4]	308[5]	48	7	438[6]
Colombia	66	76	−56[7]	−3[7]	−10	−73	212
Costa Rica	−8	−25	16	19	−8	6	13
El Salvador	1	—	−3	−5	2	5	38
Guatemala	−49	−30	23	25	26	5	40
Haiti	2	1	−7	—	5	−1	4
Nicaragua	−14	6	12	−2	2	−4	9
Exporters of other tropical foods							
Cuba	−135	−50	67	−66[8]	68	116	257[9]
Dominican Republic	−14	−4	13	−2	1	6	38
Ecuador	−14	1	15	5	−1	−6	40
Honduras	−10	−3	6	4	4	−1	12
Panama	−27	−8	46	—	−19	8	40
Exporters of other agricultural products							
Argentina	−268	12	111	168[10]	157	−180	349
Uruguay	11	−115	−35	89	24[11]	26[11]	180[12]
Exporters of minerals							
Bolivia	−35	−16	34	23[13]	1	−7	13
Chile	−96	−45	99[14]	123[14]	−3	−78	130
Venezuela	−112	−29	−284[15]	−327[15]	396	356	684
Others							
Mexico	−183	−33	102	97	81	−64	413
Paraguay	−12	−10	13	7	−1	3	3
Peru	−112	−46	100	78	12	−32	52
Total	−1,281	−633	496	541	785	92	2,965

Source: Based on data reported to International Monetary Fund.

[1] No sign indicates credit; minus sign indicates debit.

[2] Including net errors and omissions.

[3] Reserve movements are generally the changes in gross official holdings of gold and foreign exchange assets as reported in *International Financial Statistics*. No sign indicates a decrease in assets and a drawing on the Fund; minus sign indicates an increase in assets, a gold subscription to the Fund, and a repayment of a drawing on the Fund.

[4] Including drawings of $158 million on special loans from the Export-Import Bank of Washington and U.S. commercial banks, and utilization of $32 million of lines of credit.

[5] Including $114 million for net receipts from swap transactions.

[6] Including $200 million pledged as collateral.

[7] Including drawings of $72 million for 1958 and $65 million for 1959 on special loans from the Export-Import Bank of Washington and other U.S. banks, and repayments of $86 million for 1958 and $20 million for 1959 on import arrears.

[8] Including liquidation of $92 million of official liabilities.

[9] Including $188 million pledged as collateral.

[10] Including drawings of $79 million on special loans from the Export-Import Bank of Washington and other U.S. banks.

[11] Including changes in foreign liabilities.

[12] Gold holdings of the Bank of the Republic.

[13] Repayment of the Government's contractual foreign obligations of $8 million was postponed.

[14] Including drawings of $36 million for 1958 and $37 million for 1959 on special loans from the Export-Import Bank of Washington and other U.S. banks.

[15] Mainly net errors and omissions. The 1959 entry includes a credit of $100 million from foreign-owned oil companies for taxes due in 1960.

TABLE 16. TRADE OF LATIN AMERICAN COUNTRIES, 1958 AND 1959

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

	Exports f.o.b.			Imports c.i.f.		
	1958	1959	Percentage change	1958	1959	Percentage change
Exporters of coffee						
Brazil	1,243	1,282	3	1,353	1,374	2
Colombia	461	470	2	400	415	4
Costa Rica	92	80	−13	99	103	4
El Salvador	116	112	−3	108	101	−6
Guatemala	107	108	1	150	134	−11
Haiti	39	28	−28	43	30	−30
Nicaragua	64	65	2	78	67	−14
Exporters of other tropical foods						
Cuba	763	638[1]	−20	888	764[1]	−14
Dominican Republic	137	130	−5	149	135	−9
Ecuador	133	140	5	105	108	3
Honduras	70	70	—	76	71	−6
Panama	33	34	3	109	116	6
Exporters of other agricultural products						
Argentina	994	1,009	2	1,233	993	−19
Uruguay	139	98	−29	151	160	6
Exporters of minerals						
Bolivia	50	59	18	80	65	−16
Chile	386	497	29	415	413	—
Venezuela[2]	2,510	2,315	−8	1,695	1,650	−3
Others						
Mexico	735	753	2	1,129	1.007	−11
Paraguay	34	31	−9	38	31	−18
Peru	281	312	11	335	294	−12
Total	8,387	8,231	−2	8,634	8,031	−7

Source: Based on data from International Monetary Fund, *International Financial Statistics.*
[1] Partly estimated.
2 Based on payments data.

Table 17. Balance of Payments Summaries for Overseas Sterling Area Countries,[1] 1958 and 1959

(In millions of U.S. dollars)

	Goods, Services, and Private Donations[2]		Capital and Official Grants[2,3]		Reserve Movement Plus Change in Net IMF Position[4]		Official Reserves, End of 1959
	1958	1959	1958	1959	1958	1959	1959
Australia	−591	−359	390	505	201[5]	−146[5]	1,226[5]
Burma	−14	−11	43	37	−29	−26	141
Ceylon	−44	−58	33	25	11	33	132
Ghana	30	−17	−24	−6	−6	23	442
Iceland	−6	−14	6	12	—	2	14
India	−831	−421	607	558	224	−137	814
Ireland	−3[6]	−24[6]	7	45	−4	−21	317
Jordan	−70	−76	72	75	−2	1	45
Libya	−24	−30	34	47	−10	−17	69
Malaya and Singapore	−142	63	138	38	4	−101	643
New Zealand	−94	106	129	−76	−35	−30	217
Pakistan	−205	−101	156	189	49	−88	298
Rhodesia and Nyasaland	−176	−54	170	68	6	−14	221
Union of South Africa	−207	204	200	−41	7	−163	431
U.K. Colonial Territories[7]							
West Africa	−143	−109	93	84	50	25	753
East Africa	−98	−92	59	87	39	5	476
West Indies	−201	−246	204	218	−3	28	386
Borneo territories	45	56	−17	−17	−28	−39	330
Hong Kong	....	....	42	33	−42	−33	468
Other	−31	−37	42	23	−11	14	395
Total	−2,805	−1,220	2,384	1,904	421	−684	7,818

Sources: Based on data reported to International Monetary Fund.

[1] Excluding independent countries not listed in the table.

[2] No sign indicates credit; minus sign indicates debit.

[3] Including net errors and omissions, unless otherwise noted.

[4] Reserve movements are generally the changes in gross official holdings of gold and foreign exchange assets as reported in *International Financial Statistics*. No sign indicates a decrease in assets and a drawing on the Fund; minus sign indicates an increase in assets, a gold subscription to the Fund, and a repayment of a drawing on the Fund.

[5] Including commercial banks.

[6] Including net errors and omissions.

[7] Reserve figures cover all sterling assets.

TABLE 18. TRADE OF OVERSEAS STERLING AREA COUNTRIES, 1958 AND 1959

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

	Exports f.o.b.			Imports c.i.f.		
	1958	1959	Percentage change	1958	1959	Percentage change
Exporters of tropical products						
Ceylon	359	368	3	360	421	17
Ghana	263	286	9	237	316	33
Nigeria	380	458	21	467	502	7
Exporters of other agricultural products						
Australia	1,660	2,008	21	2,057	2,117	3
Burma	194	223	15	204	223	9
Ireland	368	366	−1	557	595	7
Kenya	93	107	15	216	221	2
New Zealand	700	821	17	796	647	−19
Pakistan	302	321	6	396	353	−11
Uganda	130	121	−7	44	40	−9
Exporters of minerals and rubber						
Brunei and Sarawak	258	285[1]	10	168	170	1
Kuwait	930	850[1]	−9	200	200[1]	—
Malaya	616	807	31	541	568	5
Rhodesia and Nyasaland	380	523	38	497	474	−5
Trinidad	229	260	14	240	261	9
Diversified exporters						
Hong Kong	523	574	10	804	866	8
India	1,216	1,308	8	1,815	1,863	3
Singapore	1,026	1,124	10	1,222	1,277	5
Union of South Africa	1,096	1,201	10	1,711	1,505	−12
Others	1,198	1,122	−6	1,677	1,611	−4
Total	11,921	13,133	10	14,209	14,230	—

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

TABLE 19. BALANCE OF PAYMENTS SUMMARIES FOR OTHER[1] SELECTED PRIMARY PRODUCING COUNTRIES, 1958 AND 1959

(In millions of U.S. dollars)

	Goods, Services, and Private Donations[2]		Capital and Official Grants[2,3]		Reserve Movement Plus Change in Net IMF Position[4]		Official Reserves, End of 1959
	1958	1959	1958	1959	1958	1959	
Exporters of tropical products							
China (Taiwan)	−111	−113	114	114	−3	−1	112
Ethiopia	−20	−26	12	21	8	5	51
Philippines	−86	30	99	28	−13[5]	−58[5]	90
Exporters of other agricultural products							
Greece	−95	−45	62	100	33[6]	−55[6]	210
Sudan	−37	32	10	41	27	−73	158
Thailand	−80	−57	59	68	21	−11	298
Turkey	−61	−134	44	128	17[6]	6[6]	143
United Arab Republic							
Egyptian Region	−59	−42	23	−27	36	69	357
Syrian Region	−30	−40	6	42	24	−2	32
Exporters of minerals and rubber							
Belgian Congo	−112	−76	122	−58	−10	134	87
Indonesia	−65	17	58	90	7	−107	301
Iran[7]	−170	−115	122	95	48	20	213
Iraq	46	32	−19	−24	−27	−8	296
Viet-Nam	−126	−154	158	167	−32	−13	171
Others							
Canada	−1,111	−1,416	1,223	1,406	−112	10	1,876
Finland	79	29	—	42	−79	−71	316
French Overseas							
Franc Area	73	80	−58	−2	−15	−78	256
Morocco[8]	*93*	*146*	*−78*	*−107*	*−15*	*−39*	*169*
Tunisia[8]	*69*	*60*	*−69*	*−21*	....	*−39*	*87*
Israel	−222	−206	268	236	−46	−30	118
Korea	−285	−210	316	212	−31	−2	147
Portugal	22	13	4	19	−26	−32	808
Spain	−163	−10	131	135	32	−125	186
Yugoslavia	−132	−128	121	112	11	16	60

Sources: Based on data reported to International Monetary Fund.

1 Other than countries listed in Tables 15 and 17.

2 No sign indicates credit; minus sign indicates debit.

3 Including net errors and omissions.

4 Reserve movements are generally the changes in gross official holdings of gold and foreign exchange assets as reported in *International Financial Statistics*. No sign indicates a decrease in assets and a drawing on the Fund; minus sign indicates an increase in assets, a gold subscription to the Fund, and a repayment of a drawing on the Fund.

5 Net of official foreign exchange liabilities.

6 Including changes in EPU debit balance.

7 Figures refer to solar years ended March 20.

8 The transactions of Morocco and Tunisia are included in the entries for the French Overseas Franc Area, of which they are part. The separate figures for Morocco and Tunisia have been compiled on a somewhat different basis from the total.

TABLE 20. TRADE OF OTHER[1] SELECTED PRIMARY PRODUCING COUNTRIES, 1958 AND 1959

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

	Exports f.o.b.			Imports c.i.f.		
	1958	1959	Percentage change	1958	1959	Percentage change
Exporters of tropical products						
Ethiopia	61	66[2]	8	79	84	6
French West Africa[3]	350	276	−21	419	354	−16
Philippines	493	529	7	658	601	−9
Exporters of other agricultural products						
Greece	232	204	−12	565	565	—
Sudan	125	193	54	170	164	−4
Thailand	309	359	16	393	419	7
Turkey	247	355	44	315	443	41
United Arab Republic						
Egyptian Region	472	443	−6	664	616	−7
Syrian Region	116	98	−16	191	176	−8
Exporters of minerals and rubber						
Belgian Congo	406	489	20	362	308	−15
Indonesia	755	872	15	514	459	−11
Iran	738	760[2]	3	572	600[2]	5
Iraq	567	606	7	307	326	6
Saudi Arabia	800	770[2]	−4	270	280[2]	4
Viet-Nam	55	75	36	232	225	−3
Others						
Algeria	488	368	−25	1,139	1,142	—
Finland	775	835	8	729	834	14
Israel	142	181	27	422	429	2
Morocco	345	332	−4	401	335	−16
Portugal	289	290	—	480	473	−1
Spain	486	503	3	872	795	−9
Tunisia	153	142	−7	155	153	−1
Total	8,404	8,746	4	9,909	9,781	−1

Source: Based on data from International Monetary Fund, *International Financial Statistics.*
[1] Other than the countries listed in Tables 15 and 17.
[2] Partly estimated.
[3] Including Guinea.

IV

External Payments and Domestic Financial Developments in Selected Countries

United States

Internal Developments

THE expansion of economic activity in the United States which had started in mid-1958 continued in 1959, with some interruption in the second half of the year as a result of the 116-day steel strike. Gross national product (GNP), which had been roughly the same in 1958 ($442 billion) as in 1957, increased from 1958 to 1959 by 8½ per cent, to $480 billion. Adjusted for price changes, GNP was almost 7 per cent larger in 1959 than in 1958, nearly all its components contributing to the increase.

Seasonally adjusted GNP rose by 12½ per cent from the first quarter of 1958, the lowest quarter during the recession, to an annual rate of $485 billion in the second quarter of 1959. In the third quarter the annual rate declined by more than $6 billion, but in the last quarter recovered to $484 billion. The decline from the second to the third quarter was related to changes in inventory investment; nonfarm inventories were built up in the second quarter, partly in anticipation of the steel strike, at an annual rate of almost $10 billion, while they were reduced at a rate of nearly $2 billion during the third quarter, as supplies of steel were drawn upon to maintain production in the metal-using industries.

"Final purchases," i.e., GNP less change in business inventories, continued to rise throughout 1959, though the rate of increase fell in the second half, and especially in the last quarter, of the year. Up to mid-1959, inventory investment (partly in anticipation of the steel strike), residential construction, and government purchases had been, in conjunction with a steady advance of private consumption, the major expansionary factors. In the second half of 1959, there was a sharp fall in inventory investment related to the steel strike, which also affected final purchases through its impact on production and income; residential construction and private consumption expenditures on durable goods declined, and government expenditures on goods and services tended to level off, whereas private investment in plant and equipment rose over the first half, although at a declining rate, and there was a moderate increase in exports of goods and services.

In the first quarter of 1960, GNP reached an annual rate of $500 billion. The increase over the last quarter of 1959 resulted from an advance of $10 billion in "final purchases" and from a post-strike rise of over $7 billion in the rate of inventory accumulation, particularly of steel products and automobiles. The rate of GNP receded slightly in the early months of 1960 from the peak reached in December and January, the decline in inventory accumulation being a major factor in this movement.

The average unemployment rate in 1959 was about 5.5 per cent of the civilian labor force, compared with 6.8 per cent in 1958. The seasonally adjusted rate fell to 4.9 per cent in May and June, but layoffs caused by steel shortages raised it to 6.0 per cent in October. In April 1960 it was 5.0 per cent.

From April 1958, the low point of the recession, to April 1960, the wholesale price index remained roughly constant and consumer prices rose by 2.2 per cent. The food prices paid by consumers declined by 1.7 per cent, while the consumer price index for all other items rose by almost 4 per cent, the increase being concentrated mainly upon the costs of medical care, transportation, and other services. The wholesale prices of farm products declined by 7 per cent and those of processed foods by 5 per cent, while the wholesale prices of industrial commodities rose by 2.5 per cent.

As the expansion proceeded, the stimulus to economic activity given by the Government's cash operations during the early stages of the recovery lost its force. Sharply rising expenditures during the fiscal year ended June 30, 1959 increased the Government's cash deficit to more than $13 billion, compared with a deficit of $1.5 billion in the preceding fiscal year. However, as a result of increased revenue, the deficit was much lower in the second half of 1959 than in the second half of 1958, and the fiscal year 1960 closed with a cash surplus of $0.7 billion.

As the demand for credit rose toward the end of 1958 and in the early part of 1959, the Federal Reserve System shifted from a policy of neutrality in the money market to one of restraint. During 1959, the increase in total reserve bank credit was less than the amount that would have been necessary to offset the effects on member bank reserves of the reduction in the U.S. gold stock and of the rise in currency in circulation. The Federal Reserve discount rate was raised three times during the year, until it reached 4 per cent in September.

As a consequence of the restraint shown in open market operations, which kept bank reserves approximately constant, the increase in the quantity of money (adjusted demand deposits and currency outside banks) during the year was less than 1 per cent. The increase in total commercial bank loans and investments was the smallest in more than a decade, although commercial bank loans expanded by almost $12 billion, a figure matched in the past only in 1955. With approximately constant reserves, commercial banks were able to achieve this expansion of loans largely by selling $8 billion of U.S. Government securities to nonbank investors.

Developments in financial markets were influenced by the increasing credit requirements of business and consumers associated with the expansion of business activity, as well as by the large credit demands of the Federal Government and the increased restraint shown in monetary policy. The total of "funds raised in credit and equity markets"—as measured by the new Federal Reserve flow-of-funds series—increased in 1959 to $62 billion, a peacetime record. The demand for credit was particularly large during the second quarter of 1959, in part because of the extraordinary inventory build-up in anticipation of the steel strike.

As long-term bond yields advanced beyond 4¼ per cent, the statutory ceiling for U.S. Government long-term issues, the Treasury was forced to satisfy all its requirements in the short-term and medium-term markets. The 3-month Treasury bill rate advanced from 2.8 per cent in December 1958 to 4.6 per cent 12 months later, while the yield on 3-5 year issues rose from 3.7 per cent to about 5.1 per cent. In the early months of 1960, public and private demand for funds declined more than seasonally. An easing in the reserve position of the commercial banks was evident in the reduction of net borrowed reserves to $200 million in March and April 1960, from $400-500 million in the latter part of 1959. Interest rates and bond yields weakened in January. In April, the yield on 3-month Treasury bills was 3.2 per cent, and that on medium-term government bonds, 4.2 per cent. In mid-June, Treasury bill rates fell below 2.5 per cent and reached the lowest level since the third quarter of 1958. Throughout the year, common stock yields were considerably below corporate and U.S. Government bond yields. Corporate financing through the sale of bonds was accordingly of less importance than in 1958, while new issues of corporate stocks increased. The rise in stock prices was arrested in the second half of 1959, as it became apparent that risks of further commodity price rises had much diminished and when higher bond yields made stocks relatively less attractive. In the first two months of 1960, stock prices receded by about 10 per cent, but for some time thereafter showed little net change.

External Payments Developments

The change in the U.S. balance of payments on account of goods and services (including military expenditures), which had begun in 1958, when the surplus had declined to $1.5 billion from $5.1 billion in 1957, continued in 1959, when there was a deficit of $0.9 billion (Table 21). The greater part (with allowance for seasonal factors) of the 1959 deficit was incurred in the first half of the year; there was a further improvement, to a surplus of $1.0 billion, in the seasonally adjusted annual rate in the first quarter of 1960. The change from 1957 to 1958 had been the result of a sharp contraction of exports; from 1958 to 1959 it was due to a large increase of imports. The value of exports was much the same in 1959 as in 1958, a continued weakening in the first half being followed by revival in the second half of 1959 and in the first quarter of 1960. Also in 1959 the net outflow of both U.S. private and government capital abroad declined, and the inflow of foreign capital, recorded and unrecorded, increased. Thus, despite the deterioration by some $2.4 billion in the goods and services balance, the net transfer of gold and U.S. dollars to non-U.S. official and bank holders exceeded the transfer in 1958 by only $580 million. This contrasts with 1958, when changes in capital movements as a whole reinforced the effects of the reduction in the surplus on goods and services account.

Total transfers of gold and liquid assets to non-U.S. holders were $3.5 billion in 1958 and $3.8 billion in 1959. There were also marked changes in the form in which these transfers were made. Of the $2.9 billion which in 1958 accrued to official institutions and banks, 80 per cent was in gold and 20 per cent in dollars; in 1959, when $3.4 billion was accumulated by these holders, this proportion was reversed. The change is partly explained by the fact that about half of the dollars transferred in 1959 went to commercial banks, while in 1958 most transfers were for official account. This reflects the influence of higher interest rates obtainable on U.S. dollar assets in 1959, as well as the greater freedom in foreign exchange transactions given to private banks in many countries and their increasing role in the settlement of international transactions since the establishment of external convertibility at the end of 1958.

Despite the improvement in the balance on goods and services of over $550 million in the first quarter of 1960 compared with the same quarter of the previous year, transfers of gold and dollars to non-U.S. official and bank holders amounted to $0.5 billion,

TABLE 21. UNITED STATES: SUMMARY OF BALANCE OF PAYMENTS, 1957—FIRST QUARTER 1960[1]

(In millions of U.S. dollars)

	1957	1958	1959	1959 Jan.-Mar.	1959 Apr.-June	1959 Jul.-Sept.	1959 Oct.-Dec.	1960[2] Jan.-Mar.
Exports: Merchandise	19,390	16,263	16,225	3,802	4,060	4,035	4,328	4,596
Services	7,343	7,062	7,239	1,619	1,737	1,843	2,040	1,715
	26,733	23,325	23,464	5,421	5,797	5,878	6,368	6,311
Imports: Merchandise	−13,291	−12,951	−15,315	−3,597	−3,884	−3,848	−3,986	−3,819
Military expenditures	−3,165	−3,412	−3,090	−775	−790	−773	−752	−757
Other services[3]	−5,169	−5,412	−5,934	−1,249	−1,478	−1,780	−1,427	−1,371
	−21,625	−21,775	−24,339	−5,621	−6,152	−6,401	−6,165	−5,947
Balance on goods and services	5,108	1,550	−875	−200	−355	−523	203	364
Balance, seasonally adjusted				−193	−516	41	−125	269
U.S. Government capital and grants	−2,574	−2,587	−1,981	−516	−681	−561	−223	−602
U.S. private capital	−3,175	−2,844	−2,301	−391	−745	−392	−773	−567
Foreign capital (not included below)								
International organizations[4]	263	282	143	−5	24	−9	133	83
Private long-term capital	361	24	548	72	190	158	128	190
Private short-term capital	398	344	248	224	101	48	−125	22
Errors and omissions	748	380	783	160	365	32	226	8
Foreign official and bank liquid dollar assets and gold[5]								
Bank assets	289	−26	1,450	435	285	387	343	483
Official assets	−620	602	1,254	126	419	693	16	−31
Gold[6]	−798	2,275	731	95	397	167	72	50
	−1,129	2,851	3,435	656	1,101	1,247	431	502
Memorandum item								
Change (decrease −) in foreign gold and recorded liquid dollar assets through transactions with the United States[7]	−468	3,477	3,826	893	1,210	1,077	646	706

Sources: U.S. Department of Commerce, *Survey of Current Business*, and Fund staff estimates.
[1] Excluding military aid and transfers financed by it. No sign indicates credit; minus sign indicates debit.
[2] Preliminary.
[3] Including private donations but excluding military expenditure.
[4] Excluding the International Monetary Fund (IMF), the Bank for International Settlements (BIS), and the European Payments Union (EPU).
[5] Including the IMF, BIS, and EPU. The U.S. subscription to the IMF in 1959 ($344 million in gold and $1,031 million in U.S. dollars) is excluded.
[6] From transactions with the United States.
[7] This item is the sum of foreign capital, international organizations; foreign capital, private short-term; and foreign official and bank liquid dollar assets and gold. For the quarterly figures, the sum of these items does not equal the memorandum item, since the latter is seasonally adjusted.

or only $150 million less than in the corresponding 1959 quarter. However, after allowance is made for the reduction, by $150 million, of net transfers in the first quarter of 1959—a reduction that was due to advance debt repayments on U.S. Government loans—the 1960 transfers were $300 million less than in the previous year. In comparison with the previous year, there was also in the first quarter of 1960 an increased outflow of U.S. private capital, a diminished net inflow of foreign private capital, and a decline in net unrecorded receipts.

After two years of comparative stability, U.S. merchandise imports were higher by some 18 per cent in value, and by slightly more in volume, in 1959 than in 1958. The increase was most pronounced in the first half of the year and thereafter gradually leveled off. It was in part attributable to the upswing in the domestic economy. The value of food imports, however, declined slightly, mainly because of a fall in coffee prices, even though the volume of coffee imports rose considerably as stocks were replenished. Although imports of petroleum and products were restrained by quotas, their volume was slightly greater than in 1958, but their value declined by some 6 per cent because of lower prices. Demand for imported industrial raw materials was stimulated by expanding manufacturing production, and a further impetus was given by the steel and copper strikes. Imports of industrial materials, which had fallen sharply in 1958, were greater, by some 20 per cent in volume and 23 per cent in value, than they had been in that year. The still sharper increase in imports of finished manufactures was an indication of the growing competitive strength of Western Europe and Japan. In the preceding four years, these imports had increased, in both value and volume, at an average annual rate of some 20 per cent; from 1958 to 1959 their value rose by nearly $1.2 billion, or 37 per cent. Imports of steel manufactures increased sharply, but the main factor was again a considerable expansion in imports of automobiles, accounting for almost one fourth of the total increase; larger purchases of machinery and of textile manufactures accounted for another fourth.

Partly as a result of these changes in the commodity composition of imports, there were also significant changes in the relative importance of other countries and regions as suppliers to the United States. U.S. imports from Western Europe and Japan rose by 40 per cent; those from Latin America were much the same as in 1958; overseas sterling area countries supplied well over 20 per cent more than in 1958; imports from Canada and other primary producing countries rose by some 12 per cent.

Despite the steel strike, which cut exportable supplies, there was after mid-1959 a revival of U.S. exports, which had declined almost continuously from an exceptionally high level in the first half of 1957. Seasonally adjusted data indicate an increase of 9 per cent between the first and the second half of the year and a further rise of 7 per cent in the first quarter of 1960. This was due, to some extent, to special factors; a change-over to new models of aircraft delayed deliveries to foreign buyers, and the early announcement of a reduction in export prices of cotton to become effective in August 1959 prompted a postponement of purchases. Cotton exports, which in the first three quarters of 1959 were some $300 million lower than during the same period of 1958, rose substantially in the last months of 1959. The main factors determining U.S. exports, however, were the conditions prevailing in major import areas. The decline in exports to Western Europe in the first half of 1959 and their subsequent substantial recovery are explained largely by the relatively late and initially slow revival of activity in many European countries. The upturn in exports to Canada in the first part of 1959 reflected the early recovery in that country's economic activity; similarly, the revival and rapid growth in Japan's economy was accompanied by an early and sustained advance in U.S. exports to Japan. For 1959 as a whole, exports to these two countries were some $400 million higher than in the preceding year. The overseas sterling area, whose exports recovered substantially in 1959, was the only major primary producing area that bought more from the United States than in 1958, partly because of an increased inflow of U.S. capital. Exports to Latin America, on the other hand, were less than in 1958 by some

$575 million, or about 14 per cent. The reduction was to a large extent a result of the balance of payments adjustments which many Latin American countries had to make as prices and receipts for their major export products declined. The reduction of net U.S. Government lending and of private direct investment in Latin America may have contributed to this decline of U.S. exports.

There was some reduction in 1959 in U.S. military expenditure abroad, mainly in Western Europe and the Far East. Expenditure on "other services" was 9 per cent higher than in 1958, partly on account of greater outlays for transportation and travel, but also because of a rise in interest payments on increased holdings abroad of U.S. Government obligations.

U.S. Government grants in 1959 were virtually the same as in 1958, and their geographical distribution also changed little. Net government lending, however, declined from nearly $1 billion to some $350 million, largely because of advance debt repayments of $250 million by the United Kingdom to the Export-Import Bank and of $150 million by Germany. There was also some reduction in new government loans, with smaller capital outflows to Latin America and Europe and only small increases to some other areas.

U.S. private investment abroad was almost 25 per cent less in 1959 than in 1958. Only in direct investment was there an increase, about 10 per cent, a sharp expansion of investment in U.S. subsidiaries in the European Common Market area exceeding the reduction in the net flow to Latin America. New issues declined by some $350 million, mainly because there were no IBRD bond issues in 1959. The reflux of short-term funds, which set in late in 1958, continued in 1959 as interest rates in the United States became increasingly attractive. In the last quarter of the year, short-term advances to Venezuela and Japan caused a reversal of this trend, but for the year as a whole net short-term lending was some $200 million less than in 1958.

The net inflow of foreign funds into the United States, which had fallen off between 1957 and 1958, was again substantial in 1959. The net inflow of private (nonbank) capital increased by more than $400 million (Table 21), and the increase of more than $400 million in receipts from unrecorded transactions also probably reflects an additional inflow of short-term funds. These movements took place partly in response to the gradual rise of interest rates in the United States; other contributing factors may have been the relaxation in some countries of restrictions on capital movements and the rise in U.S. stock prices. The rise in interest rates and in yields on U.S. Government securities was probably also responsible, in part, for the large accumulation of U.S. dollar assets by foreign commercial banks.

United Kingdom

The economic expansion in the United Kingdom that began in the second half of 1958 continued through 1959. Price stability was maintained, but there was some deterioration in the balance on current international transactions and in the over-all balance of payments position. In contrast to the gold and foreign exchange surplus of £276 million (including changes in positions with the IMF and the EPU) in 1958, there was approximate balance in 1959 or, if allowance is made for the advance repayment of a credit from the Export-Import Bank of Washington, a surplus of £90 million (Table 22). In addition, the accumulation of sterling balances was substantially greater than in 1958.

A rapid rise in consumer expenditures in the second half of 1958, in response to the elimination of restrictions on hire purchase and bank lending, gave the initial impetus to renewed expansion. Under the further stimulus of tax reductions, personal consumption in real terms rose by 4 per cent from 1958 to 1959, personal savings rising at a somewhat higher rate. Real fixed investment, which had changed little from 1957 to 1958, rose by about 5 per cent, and there were increases also in public consumption and in inventory investment and, from the second quarter of 1959, in exports.

TABLE 22. UNITED KINGDOM: INTERNATIONAL TRANSACTIONS, 1958 AND 1959[1]

(In millions of pounds sterling)

	1958			1959[2]		
	Transactions with Sterling Area	Transactions with Non-Sterling Area	Total	Transactions with Sterling Area	Transactions with Non-Sterling Area	Total
Goods, services, and donations						
Exports f.o.b.	1,431	1,997	3,428	1,361	2,186	3,547
Imports f.o.b.	−1,280	−2,050	−3,330	−1,378	−2,227	−3,605
Trade balance	151	−53	98	−17	−41	−58
Services and donations	276	−25	251	236	−33	203
Total	427	−78	349	219	−74	145
Capital (not included below)						
Official long-term	−34	−15	−49	−56	−41[3]	−97[3]
Private long-term	−220	10	−210	−160	−30	−190
Private short-term	−20	20	—	20	−20	—
Total	−274	15	−259	−196	−91	−287
Net errors and omissions	114	9	123	130	−98	32
Surplus of rest of sterling area with non-sterling area settled through the United Kingdom[4]	−178	178	—	−337	337	—
Changes in overseas sterling holdings (excluding IMF)	−89	152	63	184	16[5]	200[5]
Repayment of Export-Import Bank loan	—	—	—	—	−89	−89
Reserve movements (increase −)						
Net IMF position	—	−5	−5	—	−137	−137
EPU debit balance	—	−10	−10	—	9	9
Official holdings						
Nonconvertible currencies	—	23	23	—	8	8
Gold and convertible currencies	—	−284	−284	—	119	119
Total	—	−276	−276	—	−1	−1

Sources: *United Kingdom Balance of Payments 1957 to 1959* (Cmnd. 977), U.K. Treasury, Press Release, June 29, 1960, and Fund staff estimates.

[1] No sign indicates credit; minus sign indicates debit.

[2] Preliminary.

[3] Excludes repayment of loan from Export-Import Bank of Washington (shown separately) and German transfer to the U.K. Government of £60 million, the remainder of the £75 million previously deposited in advance for debt repayment.

[4] Includes sterling area sales of gold in United Kingdom.

[5] Excludes decrease resulting from German transfer referred to in footnote 3.

The increase in fixed investment occurred almost entirely in public construction and private residential and commercial building. Private investment in manufacturing industry was slightly smaller in 1959 than in 1958. Industrial production rose by nearly 10 per cent from the last quarter of 1958 to the last quarter of 1959; this was made possible by increases in productivity and in hours worked. The end-of-year unemployment rate declined from 2.4 per cent to 1.9 per cent, though in some regions substantial pockets of unemployment still remained. There was practically no change during 1959 in the general price level of goods and services or in wage rates; in contrast to 1958, labor costs per unit of output declined, while profits per unit of output increased.

Financial developments in 1959 were dominated by a rapid expansion of bank advances; more than half the increase went to the personal and professional group, hire-purchase and other private finance companies, and the retail trade. The expansion was financed largely by a substantial reduction of the gilt-edged security holdings of the banks to an amount lower than at any time since 1951. Gilt-edged security holdings outside the banking system increased over the year as a whole, but in contrast to 1958, the authorities were also substantial net purchasers. This was done in order to alleviate pressures on medium-term and long-term interest rates which might otherwise have checked the upswing at too early a stage. The authorities' net purchases of medium-term and long-term securities were financed in part by increased issues of marketable Treasury bills. The decline in market interest rates that had continued throughout 1958 ceased in the second quarter of 1959. In the following months there was some increase, which became more marked toward the end of the year. Relative to foreign money markets, however, there was a decline in short-term rates, which encouraged an outflow of funds in the latter part of the year.

The decline of £204 million in the surplus on current account was the principal factor in the deterioration of the U.K. balance of payments between 1958 and 1959. Three fourths of the decline was attributable to merchandise trade. As imports rose faster than exports, there was again a trade deficit similar to those of 1956 and 1957, which contrasted with the exceptional surplus of 1958. In its trade with non-sterling countries, however, the substantial rise in total exports, especially to industrial countries, somewhat exceeded the increase of 9 per cent in imports (f.o.b.); the value of exports to North America was 23 per cent, and to Western Europe 9 per cent, higher than in 1958. But while imports (f.o.b.) from the sterling area rose by 8 per cent, the value of exports to that area fell by 5 per cent. In the early part of 1959, exports to the sterling area were still limited by the import restrictions imposed in 1958 by several countries whose international reserves were affected by the deterioration in export earnings. However, in the last quarter of 1959 exports to the sterling area were 5 per cent, and in the first quarter of 1960 they were 9 per cent, higher than a year earlier.

While imports in general increased, there was a slight reduction in the volume of food imports, which had been unusually high because of a poor harvest in 1958. With increases in production and stock building, imports of industrial materials expanded sharply in the last two quarters of 1959. For the year as a whole, however, the volume of raw material imports, which had fallen by 11 per cent from 1957 to 1958, rose by only 6 per cent and remained significantly smaller than in any of the three years before 1958. The volume of imports of mineral fuels and semimanufactures was some 15 per cent larger than in 1958. The rise in private consumption and the effect of recent liberalization measures were reflected in a 21 per cent increase in imports of finished manufactures, which accounted for one third of the increase in the total value of imports.

The surplus on service transactions was smaller in 1959 than in 1958 by nearly £50 million, mainly because of a decrease in the net current receipts of the oil industry, a rise in net government expenditure abroad, and higher net expenditure on overseas travel. A reduction in interest charges on overseas sterling holdings, however, led to an increase in net investment income receipts.

The deficit on account of recorded capital transactions (excluding certain extraordinary transactions) was £30 million larger than in 1958. The estimate of "errors and omissions" is smaller than for 1958. A marked increase in the capital outflow, both recorded and unrecorded, to non-sterling countries in the second half of 1959 may, in part, have been related to the rise in interest rates in other financial centers. In contrast, the net outflow of capital to the sterling area declined from 1958 to 1959. While there was an increase of £22 million in net official lending to other sterling area countries, mainly India and the Colonial Territories, the recorded net outflow of private long-term capital was reduced by £60 million.

The sterling balances held by sterling area countries, which fell by £211 million in the two years 1957 and 1958, rose by £184 million in 1959. This increase reflected the favorable developments in their over-all balance of payments. Sterling balances held outside the sterling area (and excluding those held by the Fund), which had increased by £152 million in 1958, increased by £16 million in 1959.

In the first four months of 1960, the United Kingdom's holdings of gold and convertible currencies rose by £34 million; at the end of April 1960, they amounted to £1,011 million. This increase was, after excluding extraordinary transactions, considerably smaller than in the corresponding period of 1959. The balance of trade in the early months of 1960 was rather more unfavorable than in the same months of 1959. With a continued high level of industrial production and further rebuilding of inventories, imports continued to rise strongly. The seasonally adjusted monthly average value of imports during the first four months of 1960 was about 12 per cent higher than in 1959 as a whole. The corresponding figure for exports was 9 per cent. Total overseas sterling holdings (excluding the sterling holdings of the Fund), which had risen by £67 million in the last quarter of 1959, fell slightly in the first quarter of 1960.

In early 1960, it was apparent that demand was continuing to expand and that, in particular, investment in manufacturing industry was likely to rise considerably. Actual and prospective wage increases underlined the danger that some strain might develop in an economy in which production was moving closer to capacity in terms of both labor and equipment. These considerations caused a shift in the direction of official policy. An increase in the bank rate in January from 4 per cent to 5 per cent was designed partly to check the growth in total demand; it also brought short-term interest rates in London more closely into line with those in other financial centers and thus contributed to the progressive increase in U.K. reserves in subsequent months.

The over-all deficit in the 1960-61 budget, introduced in April, was practically the same as the deficit realized in 1959-60. On several occasions, however, the U.K. authorities expressed their desire that bank advances should grow less rapidly, and the object of discouraging excessive credit expansion influenced their policy in open market operations in gilt-edged securities. At the end of April, a scheme of "special deposits" designed primarily to restrain the growth of bank advances was introduced. Initially, the London clearing banks were called upon to lodge 1 per cent, and the Scottish banks ½ per cent, of their deposits, on or before June 15, 1960, in special accounts with the Bank of England; these deposits would not be part of the banks' liquid assets. At the same time, restrictions on hire purchase were reimposed on a wide range of goods. In the second half of June, the bank rate was raised further to 6 per cent, the special deposits required from the banks were doubled, and it was announced that the program of expenditure on investment in the public sector for 1961-62 would be held at the level of the program for the current year.

Federal Republic of Germany

After some slowing down in the rate of expansion during 1958, the buoyant growth of the economy of the Federal Republic of Germany was resumed in 1959. Increasing pressures developed during the second half of the year, but internal stability was maintained and the balance of payments on goods and services account continued to show a substantial surplus. However, as a result of higher payments on donations and capital account, some of which were of a nonrecurrent nature, there was a decline in Germany's official gold holdings and foreign assets (Table 23).

The increase from 1958 to 1959 in gross national product, 7.5 per cent at current prices and 5.7 per cent at constant prices, was substantially more than the increase from 1957 to 1958; greater productivity accounted for an increase of 4.1 per cent. In the early part of 1959, the main demand factor underlying the expansion was private residential and public construction; later, inventory accumulation, exports, and industrial investment contributed progressively to the upswing. While unemployment declined to less than 1 per cent in September, wages increased only moderately and exerted no upward pressure on prices. Most of the increase of 3.5 per cent in the cost of living was due to an increase in agricultural prices caused by severe drought.

One of the main purposes of the repeated reductions in the German official discount rate to a postwar low of 2¾ per cent in January 1959 was to stimulate capital exports with a consequent reduction of the balance of payments surplus. Capital exports did in fact increase, and so did the commercial banks' holdings of foreign exchange; but the lowering of interest rates also gave a sharp stimulus to building activity, which provided the initial impulse to the new upswing in the economy.

Signs of increasing strain in the labor market, a rapid rise in foreign and domestic orders, and a build-up of business inventories gave rise to apprehensions of excessive pressure on domestic resources. From September 1959 onward, the monetary authorities resorted increasingly to restrictive credit policies, even though such measures ran counter to the objective of stimulating capital exports. After the official discount rate had been raised to 4 per cent in October, the outflow of short-term capital was reversed and official reserves, which had decreased during the first nine months of the year, again increased. Subsequent monetary measures, such as the successive raising of reserve requirements between October 1959

Table 23. Federal Republic of Germany: Summary of Balance of Payments, 1957—First Quarter 1960[1]

(In millions of deutsche mark)

	1957	1958	1959[2]	1959[2] Jan.-Sept.	1959[2] Oct.-Dec.	1960[2] Jan.-Mar.
Goods and services[3]						
Exports f.o.b.	35,953	36,974	41,163	29,263	11,900	11,417
Imports c.i.f.[4]	−31,870	−32,020	−35,802	−25,565	−10,237	−10,000
Trade balance	4,083	4,954	5,361	3,698	1,663	1,417
Other goods and services[3]	744	−927	−2,216	−1,752	−464	−224
Total	4,827	4,027	3,145	1,946	1,199	1,193
Military transactions (excluding defense imports)						
Paid services to foreign troops	2,660	3,877	4,121	3,007	1,114	1,109
Contribution to U.K. troops	—	—	−282[5]	−282[5]	—	—
Advance payment for defense imports (net)	−1,741	285	−1,435	−1,327	−108	−977
Total	919	4,162	2,404	1,398	1,006	132
Donations	−1,647	−1,649	−2,035[5,6]	−1,444[5,6]	−591	−580
Private capital (including net errors and omissions)						
Long-term	133	−522	−1,395	−1,218	−177	−536
Short-term[7]	394	−473	57	−376	433	4
Net errors and omissions	1,721	−681	−589	−125	−464	147
Total	2,248	−1,676	−1,927	−1,719	−208	−385
Government capital						
Reintegration of the Saar	....	....	−382[6]	−382[6]	—	—
Advance debt repayment	—	—	−903	−895	−8	—
Other	−829	−1,140	−619	−615	−4	−127
Total	−829	−1,140	−1,904	−1,892	−12	−127
Commercial bank foreign exchange assets	−397	−265	−1,255	−1,820	565	160
Official gold and net foreign assets						
Gold and freely usable foreign exchange assets (increase −)	−2,947	−2,100	300	2,634	−2,334	−602
Net IMF position	—	−271	−509	−480	−29	−29
EPU balance	−1,352	−355	411[8]	411[8]	—	—
Other Bundesbank assets[9] (increase −)	−1,381	−392	1,619	1,144	475	318
Bundesbank liabilities	559	−341	−249	−178	−71	−80
Total	−5,121	−3,459	1,572	3,531	−1,959	−393

Sources: Deutsche Bundesbank, *Monthly Reports.*

[1] No sign indicates credit; minus sign indicates debit.

[2] Preliminary.

[3] Excluding military services, which are included below.

[4] Including nonmonetary gold (net) and defense imports.

[5] Contributions to the United Kingdom for the support of U.K. troops in Germany are included in military transactions rather than in donations.

[6] All payments to France in connection with the reintegration of the Saar are included in government capital rather than in donations.

[7] Foreign exchange assets of the commercial banks are shown as a separate category. Other short-term capital of commercial banks is included in private capital.

[8] Covers only the January 1959 settlement made prior to the liquidation of EPU. Subsequent redemption of former EPU debt is included in other Bundesbank assets.

[9] Includes special loans to the IBRD (debit of DM 735 million for 1957, DM 431 million for 1958, and DM 257 million for 1959); earmarking of Bundesbank sterling balances for future debt repayment to the United Kingdom (debit of DM 794 million for 1957); and repayments received on bilateral claims arising from the liquidation of EPU (credit of DM 1,027 million for 1959).

and June 1960, were aimed at reducing bank liquidity and increasing interest rates. To discourage banks from offering attractive terms for foreign funds, the monetary authorities raised the reserve requirements for increases in the banks' foreign liabilities to the maximum rates permitted by law. In the first half of 1960, pressure on domestic resources continued to rise, and the official discount rate was raised to 5 per cent in June. At the same time, the payment of interest on foreign deposits and the sale of money market paper to foreign residents were prohibited in order to discourage any inflow of nonresident short-term capital which might offset the internal effects of credit restrictions, and to minimize any adverse effects on the reserve positions of other countries.

The surplus on goods and services account was reduced from 1958 to 1959, mainly as a result of higher payments for services and, in particular, tourist expenditure and investment income. At the same time, there were increases in donations, in the outflow of private capital, and in advance payments for defense imports (Table 23). The surplus on account of all these transactions together fell from DM 4,864 million to DM 1,587 million. In addition, the outflow of government capital increased because of certain special transactions, such as payments to France in connection with the transfer of the Saar and advance repayments to the United States and the United Kingdom of debts arising out of postwar economic assistance.

Net exports of long-term private capital were DM 900 million greater in 1959 than in 1958; there was a fivefold increase in net German purchases of foreign securities, while foreigners' net purchases of German securities were lower than in 1958. In the first three quarters of 1959, the commercial banks increased their foreign balances by more than DM 1.8 billion; rather less than a third of this amount returned to Germany in the last quarter after more restrictive monetary policies had been introduced.

After payment of an additional gold subscription of DM 480 million to the Fund, official holdings of gold and freely usable foreign exchange declined in 1959 by DM 300 million. All other foreign assets of the Bundesbank (net of foreign liabilities) fell by DM 1,781 million, of which the larger part was due to a decrease of claims arising from the liquidation of the EPU. Further repayments in the next few years will automatically lead to further reduction of these claims, the outstanding balance of which at the end of 1959 amounted to about DM 3 billion. Total gold and U.S. dollar holdings of German official and banking institutions were about DM 1,000 million higher at the end than at the beginning of the year. In January-April 1960, net official holdings of gold and dollars increased further, by nearly DM 1,700 million, more than half of the increase occurring in April. The current account surplus, although higher than in the corresponding period of 1959, was about DM 280 million less than the surplus in the last four months of 1959. The accelerating accumulation of reserves was mainly due to a net inflow of capital, including repatriation of commercial banks' foreign assets.

France

Further progress toward internal stability was made in France during 1959, industrial production began to expand again, and a substantial balance of payments surplus was achieved. However, since recovery did not get going until the second quarter of the year, real gross national product rose much less than in the years prior to the recession, and the increase was also less than in most other industrial countries. For 1959 as a whole, the cost of living increased by about 6 per cent, money wages rising by about 7 per cent. Most of the increase in domestic prices occurred, however, in the early months of the year, immediately following the stabilization measures announced at the end of 1958.

Private consumption and exports accounted for most of the rise in demand. Private consumption, however, rose less than 1 per cent in real terms. Gross fixed investment in real terms was the same as in 1958—with a fall in private investment in plant and equipment and an equivalent rise in public investment.

The increase in liquidity arising from the balance of payments surplus permitted the commercial banks to reduce their rediscount with the Bank of France; and an increase in commercial bank holdings of government obligations in part offset the decrease in the Government's debt to the Bank of France. The increase of 12 per cent in the money supply was mainly attributable to the balance of payments surplus and, in the last quarter of the year, to credit expansion by the commercial banks. The money supply expanded about twice as fast as income, and at a rate higher than in any of the previous three years. The increase was almost entirely in the form of bank deposits.

While the authorities continued their efforts to minimize price and wage increases, the renewed expansion of production was stimulated by a moderate relaxation of credit in the first half of 1959. There was also an increase in public investment. Nevertheless, the government cash deficit fell slightly, and with the restoration of confidence in the currency, a much higher proportion of the deficit was financed from savings than has been usual in recent years. In fact, the Government repaid a substantial part of the advances made to it by the Bank of France in preceding years.

French official reserves of gold and convertible currencies rose in 1959 by $670 million, notwithstanding repayments of $430 million of official short-term liabilities, including repayment of $212 million and a gold subscription payment of $66 million to the Fund. Thus the net official foreign exchange position of the franc area improved by about $1,150 million. The net foreign exchange holdings of commercial banks were, however, reduced by some $100 million, so that the improvement in the total gold and foreign exchange position was about $1,050 million, compared with a deterioration of $100 million in 1958 and of almost $1 billion in 1957.

More than half the improvement between 1958 and 1959 was associated with the change from a French trade deficit with non-franc countries (of nearly $300 million in 1958 and of $950 million in 1957) to a trade surplus of $440 million in 1959. The volume of exports in 1959 was higher by 29 per cent, and the volume of imports lower by 1 per cent, than in 1958, and the unfavorable trend of "leads and lags" was reversed after the devaluation of the franc. By eliminating the disparity between French and foreign prices, devaluation led to an increase in French exports and to some substitution of goods produced in France or in other franc countries for goods imported from outside the franc area. Most of the decline in imports reflected, however, a reduction in inventories of imported materials, which were increased in 1957 and early 1958 in anticipation of an intensification of restrictions or the devaluation of the franc. Between the first and the second half of 1958, when industrial production had declined by some 2 per cent, the volume of imports fell by nearly 14 per cent; in the first half of 1959, although industrial production was nearly as great as it had been a year earlier, the volume of imports remained 11 per cent smaller, despite the easing of restrictions in January. Notwithstanding further liberalization measures during 1959, the increase of imports between the first and second half of the year was less than the increase in industrial production.

In 1959 there was an improvement of some $300 million in the service transactions of metropolitan France with the non-franc area, and of some $150 million in the balance of the rest of the franc area's transactions with countries outside the franc area. Despite the reintroduction of a foreign exchange allowance for travel abroad, the surplus on tourism rose by more than $100 million, as devaluation stimulated foreign expenditure in France and discouraged French expenditure abroad. The improvement in private service transactions was partly offset by increased government expenditures abroad and a decline in foreign government expenditures in France.

The marked changes in certain capital transactions largely offset each other. Thus the reduction in U.S. aid was offset by the increase in the payments made by the Federal Republic of Germany in connection with the transfer of the Saar. Official contractual debt repayments rose by almost $200 million, in part as a result of repayments of debt contracted under the EPU scheme, including the special credit granted to France in 1958. The net inflow of private capital, however, increased by almost $400 million, but private sales of dishoarded gold to the authorities, which in 1958 had reached the exceptional total of some $200 million, were negligible.

Italy

Italy attained a high rate of growth in 1959 under conditions of virtual price stability and with a further substantial increase in its foreign reserves. Unemployment, although still high, declined to a lower level than in any recent year. The rise of 6.6 per cent in real gross national product was generated in part by an increase in exports of goods and services, but also by higher private consumption and public investment expenditures. Private investment did not begin to contribute to the expansion until the second half of the year. Imports rose more rapidly than GNP, but much less rapidly than exports.

The external surplus was the main source of the continued increase in money supply, at a much higher rate than income. An increase in bank credit, which occurred mainly in the second half of the year, was for the most part offset by an increase in savings deposits and similar liabilities of the monetary system. The resulting further improvement in the liquidity of the economy, which was reflected in a further decline in long-term interest rates during 1959, enabled the Government to finance its cash deficit almost entirely outside the banking system, so that it contributed to the monetary expansion to only a negligible extent.

Italian foreign exchange holdings (including changes in net IMF and EPU positions) rose by almost $2 billion from the end of 1957 to the end of 1959. More than two thirds of this increase resulted from a large current account surplus, and the remainder from an inflow of private capital. Over the two years, official donations and capital transactions were roughly in balance, economic aid and loans received being about equal to loan repayments and reparations and other official donations. While the general pattern of the balance of payments in 1959 was in most respects similar to that of 1958, the surplus was somewhat larger.

Much of the increase in the surplus was due to a further decline in the trade deficit. This deficit, which had averaged $700 million (with imports at f.o.b. values) in the five years before 1958, fell to $373 million in 1958 and to $125 million in 1959. Most of the improvement between 1957 and 1958 was due to a lower volume of imports and a sharp fall in import prices; there was little increase in the value of exports. In 1959, however, the rapid expansion of exports was resumed, and more than offset the rise in imports, the volume of which was 11 per cent larger than in either 1957 or 1958. Italy's terms of trade remained almost as favorable in 1959 as in 1958.

The large surplus on service transactions and private donations changed little from 1958 to 1959. The recorded net inflow of private capital rose, and net official borrowing abroad was somewhat larger. The increases in the recorded inflow of public and private capital were, however, more than offset by the effects of a sharp change in the timing of payments, which had been highly favorable to Italy in 1958.

In the first quarter of 1960, industrial production was 18 per cent higher than in the corresponding period of 1959, as a result of marked increases in both private and public investment. Imports rose sharply, and the surplus on current account was more than $100 million less than in the first quarter of 1959. The increase of $55 million in the aggregate gold and foreign exchange holdings of the official authorities and the commercial banks was correspondingly less than the increase of $178 million in the first quarter of 1959. Official reserves were reduced by $120 million during the first quarter of 1960, but the holdings of commercial banks increased by more than $170 million. Budgetary investment expenditures in 1960 are expected to be considerably higher than in 1959 and are mainly intended to stimulate activity in the private sector, so that the rate of accumulation of exchange reserves should be reduced.

The recent growth of Italy's balance of payments surplus has been partly due to structural factors. Rising prosperity and the gradual liberalization of trade and service transactions in Western Europe, together with the growth of U.S. demand for imported consumer goods and of U.S. tourism, have particularly favored the expansion of Italian exports of goods and services, and there has also been a continuing development of domestic sources of supply for fuels, chemicals, and other industrial products which were formerly imported. But the relatively low level of Italian prices and their increase at a rate slower than that in most industrial countries have also contributed to the growth of the surplus on current account. Wages have risen comparatively little, in part because of continued unemployment kept up at a rate that is still high by an outflow of labor from agriculture. Increases in wages have generally been smaller than the large annual increases in productivity that have resulted from industrial development. Consumption has tended to grow more slowly than production, and private savings more rapidly than domestic investment. At the same time, price stability, confidence in the currency, and industrial advances, together with the still relatively high Italian interest rates, have encouraged a considerable inflow of private capital in recent years.

Japan

Rapid economic expansion has continued in Japan since the second half of 1958, when recovery from the recession of 1957-58 began. In the last quarter of 1959, the seasonally adjusted index of industrial output was 41 per cent above the recession low of the second quarter of 1958 and 33 per cent above the peak in the second quarter of 1957. A substantial increase in productivity, which exceeded the increase of 7 per cent in wage rates, made it possible for industrial production to expand much more than employment. As there was only a small rise in the cost of living, real wages increased considerably. Wholesale prices rose in 1959, but by much less than they had declined during the recession and the early stages of recovery.

The upswing was supported by a substantial increase in both domestic investment and exports. There were substantial additions to fixed capital, inventories were rebuilt, and exports, which had been practically the same in 1958 as in 1957, were about 20 per cent greater in 1959 in both volume and value, though Japan's exports are still handicapped in many markets by special restrictions. Nearly 60 per cent of the increase occurred in trade with the United States.

The volume of imports was some 25 per cent greater than in 1958 and slightly greater than in 1957, but, as import prices were lower than in 1958, there was little change in the trade balance (c.i.f.), and the value of imports was still substantially less, by about $700 million or 16 per cent, than in 1957.

Receipts from foreign military establishments and offshore military procurement declined slightly, and the surplus of $360 million on goods and services account was about $100 million less than in 1958. However, the increase in Japan's official reserves and net IMF position, $454 million, was almost as large as in 1958, and the foreign exchange assets of the commercial banks rose by $100 million more than in 1958. At the same time, the short-term liabilities of Japanese official and banking institutions, which had decreased by $74 million in 1958, increased by $191 million. The authorities have been taking advantage of the comfortable external payments position to undertake a substantial relaxation of restrictions on foreign trade and payments. In further pursuance of this policy, the use of yen for the settlement of international transactions was permitted as from July 1, 1960, and nonresidents were authorized to establish in Japan freely convertible and freely transferable yen accounts. Capital exports are being encouraged, especially in the form of export credits and investments in less developed countries.

The rapid and sustained recovery and growth of the Japanese economy occurred with comparatively little active support from the authorities, although the increase in foreign reserves was allowed to provide additional liquidity. The Treasury's cash deficit in the last nine months of the year was about the same as in the corresponding period of 1958 and much below budget estimates. When pressures on domestic resources increased in the latter part of 1959, some measures were taken to prevent the emergence of inflationary conditions. In September, the law enacted in 1957 which authorized the imposition of reserve requirements upon banks was put into effect for the first time. The initial requirements, ranging from ¼ per cent to 1½ per cent of deposits, were followed by stricter loan directives to the banks and, in December, by an increase, from 6.94 per cent to 7.30 per cent, in the basic discount rate of the Bank of Japan, which brought the rate back to the level of early 1959.

India

Developments in the Indian economy during the year under review were on the whole favorable. Agricultural output was at a record high level in 1958-59, and industrial production increased more in 1959 than in the previous year. Developmental expenditure in the public and private sectors continued to increase in keeping with the revised targets of the Second Five Year Plan. The sharp fall in foreign exchange reserves that continued from the initiation of the Second Five Year Plan in early 1956 was arrested late in 1958, and since that time there has been relatively little net change in the reserve position. A major factor in this favorable development was an increased flow of foreign assistance. In addition, imports, particularly of consumer goods, were curtailed, so that the current account deficit was substantially reduced. In 1959 there was a rise in exports, in contrast to the experience of the two preceding years.

The money supply, which over the whole period since the beginning of the First Five Year Plan (1951) had increased somewhat more slowly than real production, rose a little more rapidly in 1959. This growth reflected in part the disappearance of the offset to domestic expansionary factors previously provided by the decrease in monetary reserves, although the accrual of time deposits, including counterpart funds from imports of U.S. surplus agricultural products, continued to act as a restraining factor. In spite of rising development expenditures, the excess of government expenditure on revenue and capital accounts over combined revenue receipts and internal nonbank borrowing was significantly less in the fiscal year ended March 31, 1960 than in the year before, and as a result of this and of larger foreign loans, the Government's recourse to the monetary system, although substantial, was markedly reduced. Bank credit to the private sector, on the other hand, increased more rapidly in 1959 than in 1958. This was principally the counterpart of the sharp upturn in agricultural and industrial output.

Systematic and flexible use was made of selective credit controls, and the Reserve Bank of India engaged in open market sales. In June 1959, the commercial banks were requested to reduce substantially the volume of their loans during the ensuing slack agricultural season, which conventionally lasts until the end of October. In March 1960, the Reserve Bank introduced a series of further measures, including the imposition of higher margins for certain advances and additional reserve requirements for commercial banks, with a view to curbing advances, especially those for speculative purposes.

Wholesale prices increased by 6 per cent in 1959, against 4 per cent in 1958. Moreover, the rise, which had previously been confined largely to food items, extended to other commodity groups, and especially to industrial raw materials. On the whole, these increases were the result of supply factors which affected individual prices, but the general monetary expansion may also have had some effect.

Canada

Canada's gross national product, which in real terms had not changed during the two previous years, rose in 1959 by 4 per cent in volume and by 6 per cent in value, to $34.6 billion (all figures are in Canadian dollars unless otherwise specified). Almost all the GNP components participated in the increase, except that construction activity leveled off and government expenditures declined in the second half of the year.

The expansion of economic activity was accompanied by large private credit demands. Bank loans to business firms and individuals increased during 1959 by $900 million. This credit expansion was financed in part by commercial bank sales of $700 million of government securities. At the same time, government borrowing needs, although reduced by 22 per cent from the preceding year by an increase in revenues, still amounted to slightly more than $1 billion. The Bank of Canada sought to contain inflation by keeping the money supply steady and therefore did not add to its holdings of government securities. In these circumstances, holdings of government securities by the nonbank public (including local governments) expanded over the year by the record amount of $1,750 million.

These developments led to tighter credit conditions and rising interest rates. For 1959 as a whole, a 3 per cent decrease in money supply was more than offset by a substantial rise in the velocity of circulation. Interest rates reached a peak in late summer, when Treasury bill yields rose to more than 6 per cent. Thereafter, the pressure of demand for credit abated somewhat, and interest rates declined slightly. This decline accelerated in March 1960, when the rate averaged 3 per cent, or almost ½ per cent below the U.S. rate. In April, the short-term credit market firmed and the Treasury bill rate rose to 3.3 per cent, approximately the same as the corresponding U.S. yield.

The economic expansion in 1959 was accompanied by a rise of 25 per cent in the external current account deficit, to more than $1.4 billion (Table 24). The value of merchandise exports rose

TABLE 24. CANADA: SUMMARY OF BALANCE OF PAYMENTS, 1958 AND 1959[1]

(In millions of Canadian dollars)

	1958	1959[2]	1959[2] Jan.-June	1959[2] July-Dec.
Goods, services, and donations				
Exports (including nonmonetary gold)	5,047	5,301	2,495	2,806
Imports	−5,066	−5,533	−2,755	−2,778
Trade balance	−19	−232	−260	28
Services and donations, net	−1,112	−1,197	−588	−609
Total	−1,131	−1,429	−848	−581
Direct investment in Canada	420	500	250	250
Other long-term capital movements				
New issues and retirements of Canadian securities	519	449	174	275
Other[3]	−28	−30	−22	−8
Total	491	419	152	267
Private short-term capital movements				
Outstanding Canadian securities	88	202	113	89
Other, including net errors and omissions[4]	241	297	327	−30
Total	329	499	440	59
Official holdings of gold and foreign exchange[5] (increase −)	−109	11	6	5

Source: Dominion Bureau of Statistics, *Quarterly Estimates of the Canadian Balance of International Payments*, Vol. VIII, No. 1.

[1] No sign indicates credit; minus sign indicates debit.

[2] Preliminary.

[3] Covers Canadian direct investment abroad, new issues and retirements of foreign securities, and Canadian Government loans and repayments.

[4] Covers outstanding foreign securities, Canadian dollar holdings of foreigners, and the balancing item, which is believed to represent mainly private short-term capital.

[5] Including net IMF position

by about 5 per cent, and the value of imports by 9 per cent, with industrial materials, machinery and equipment, and consumer goods almost equally responsible. The current nonmerchandise deficit (excluding nonmonetary gold), which has grown steadily in recent years, again increased, to $1.2 billion.

Foreign direct investment in Canada in 1959 was greater than in 1958 by almost 20 per cent, but the net inflow from new security issues declined, so that the total long-term capital inflow (excluding net foreign purchases of outstanding securities) was practically the same. In 1959, it offset only about three fifths of a larger current account deficit, compared with more than four fifths in 1958. An increase in net new issues of municipal and provincial government securities, encouraged by lower U.S. interest rates, was partly offset by larger redemptions of Dominion Government bonds. Net sales abroad of private securities in 1959 were only one third as large as in 1958. As in earlier years, the imbalance of current and long-term capital transactions was offset by an equilibrating movement of private short-term capital (including net foreign purchases of outstanding securities), which responded both to changes in the exchange rate and to changes in the interest differential. The inflow in 1959 was about $500 million, or 50 per cent greater than a year earlier. The relations between these movements and Canada's fluctuating exchange rate are further examined in Chapter V. Canada's gold and foreign exchange reserves, which had risen during 1958 by US$112 million, declined during 1959 by US$72 million (including US$62.5 million paid to the Fund on account of the increase in Canada's quota), to US$1,869 million. During the first four months of 1960, Canada's reserves were further reduced by US$26 million.

Australia

The Australian Government budgeted for a further small deficit for the fiscal year 1959-60, and influenced by both official policy and a marked improvement in the external position, economic activity expanded in 1959, and there was a fall in the number of unemployed. With a more favorable trade balance and a greater net inflow of capital, exchange reserves (including the net IMF position) rose by $146 million in the calendar year 1959. The rise in reserves and the Government's cash deficit increased bank liquidity, and bank credit to the private sector rose slightly. Prices continued to rise, and there were considerable wage increases in the second half of the year. The central bank reduced bank liquidity by increasing reserve requirements in the closing months of 1959 and in early 1960. By the end of 1959, a strong expansion of demand was apparent, and in February 1960 the Government announced its intention of resisting any tendency to imbalance in the economy by avoiding any deficit finance in the 1960-61 budget and by largely abolishing import restrictions. It was emphasized that further increases in wages should be moderate until the economy had absorbed the large increases granted in 1959. The Government had responded earlier to improved external prospects by relaxing import restrictions in August and December 1959. By the end of February 1960, import restrictions, together with any remaining discrimination, had been largely eliminated.

A major factor in the improvement in Australia's external payments position was the increase in wool exports, from $680 million in 1958 to $790 million in 1959. While wool prices in the last quarter of 1959 were 28 per cent above the ten-year low to which they had fallen in the last quarter of 1958, the average price was not much higher in 1959 than in 1958, and the increased value reflected mainly an increase in volume. Wheat and butter exports advanced significantly and together contributed some $90 million toward improving the trade balance; other food exports also rose, as a result of high production and more favorable conditions in overseas markets. Total export earnings were some $350 million greater in 1959 than in 1958—an increase of more than 20 per cent. An increase in the net inflow of private and official capital also contributed to the improvement in Australia's reserves.

For 1959 as a whole, imports (including aircraft and ships not covered by the ordinary trade statistics) were greater than in 1958 by some $124 million, most of the increase occurring in the last quarter of the year. Imports continued to expand rapidly in the first quarter of 1960, and although export proceeds were also rising, the balance of trade was slightly less favorable than in the same period of 1959.

Argentina

After the adoption by Argentina at the end of 1958 of a comprehensive stabilization program, supported by credits totaling $329 million from the Fund and from public and private U.S. agencies, inflationary forces that had previously been repressed were released. As a result, there was a steep increase of prices and wages and a depreciation of the peso during the first half of 1959.

Argentina's stabilization measures produced substantial increases in government revenue. Apart from central bank losses on exchange insurance guarantees contracted prior to the stabilization program and payable by the Government, borrowing by the public sector from the monetary system, which had been the principal source of inflation, was reduced to some 3 per cent of the money supply at the beginning of the year, compared with 32 per cent a year earlier. The expansion of credit to the private sector continued high during the first half of 1959, when payments to the public under these exchange insurance guarantees added to liquidity. Moreover, a prolonged strike of bank employees rendered credit control ineffective. After mid-year, however, the expansion of credit to the private sector slowed down considerably.

By the middle of 1959, the unfavorable price and exchange rate movements of earlier months were slowing down. Retail prices, which had risen by 75 per cent from December 1958 to June 1959, rose by only 15 per cent during the second half of the year and by 5 per cent in the first four months of 1960. The exchange rate, which had depreciated sharply, improved, and since August it has been stable around 83 pesos per U.S. dollar. Industrial production, however, continued to be less than in 1958.

The balance of payments showed a remarkable improvement in 1959, both on goods and services and on capital accounts. Exports rose only a little, with increases in wool and grain exports but smaller shipments of meat, as slaughter was reduced in order to rebuild depleted stocks of cattle. Imports, however, were some $240 million lower than in 1958, partly because of an increase of

30 per cent in domestic petroleum output, but mainly as a consequence of measures which were part of the stabilization program. Instead of a trade deficit, such as had been recorded in every year since 1954, there was a small export surplus. There was a considerable inflow of foreign funds, long-term and short-term, and some repatriation of domestic capital. Foreign exchange holdings, which had been declining gradually throughout the preceding four years, were replenished. Gold and convertible currency reserves rose during 1959 by some $175 million, while foreign exchange liabilities increased by not more than $35 million. The improvement in Argentina's external position continued in the first months of 1960 with further substantial increases in reserves.

Brazil

Inflation in Brazil gathered momentum in 1959, the main source of monetary expansion being again a growing deficit in the public sector. The Government increased its borrowing from the monetary authorities and, in order to finance both the purchase of a very large part of the current coffee crop for stockpiling and a program of development, drew heavily on the exchange profit account, which for the first time showed a net deficit. The large public sector deficit increased the liquidity of the banking system to an extent that permitted not only credit expansion to the private sector at a much higher rate than in previous years but also an improvement in the banks' net position vis-à-vis the monetary authorities. Substantial wage and salary increases granted early in 1959 also contributed to progressive inflation.

The effect of these developments on the external payments position of Brazil was mitigated by a relatively substantial depreciation of the exchange rates, the average of which exceeded the rise in internal prices. Consequently, the payments position remained much the same as in 1958. The value of exports was some 3 per cent higher than in the previous year; restocking in the United States permitted expansion of the volume of coffee exports, and more aggressive sales policies ensured full utilization of the export quota allotted to Brazil by international agreement. Exports of cocoa declined as a result of much lower prices, and other exports changed little. Although imports rose only slightly, the goods and services deficit was larger than in 1958 because of higher payments for services. In 1958, the deficit had been financed largely by the use of reserves and IMF resources, and by drawing on loans and lines of credit extended by foreign banks and on a special loan of $100 million from the Export-Import Bank of Washington. In 1959, most of the goods and services deficit was matched by an inflow of capital, which included suppliers' credits and funds made available through swap operations, i.e., contracts under which private parties, mainly foreign investors, make foreign exchange available to the monetary authorities on condition that they are permitted to repurchase equivalent amounts at the same rates of exchange at specified later dates. To encourage an inflow of private capital, arrangements for swap operations were modified to permit five-year contracts; in 1959, these operations contributed $114 million, in contrast to an outflow of $22 million on this account in 1958. Gold and convertible exchange holdings increased during the year, and repayments were made to foreign banks and to the Fund, while Brazil's bilateral balances, mainly with Argentina, were utilized to the equivalent of $55 million.

Other Countries

The improvement achieved in 1958 in the economic conditions of the Egyptian Region of the *United Arab Republic* was by and large maintained in 1959. The trade deficit was smaller than in 1958 despite a further decline in cotton prices in the early months of the year and a poor rice crop in 1958-59, which not only made exports of rice impossible in 1959 but necessitated larger imports of foodgrains. Receipts from cotton exports were maintained, a larger volume offsetting the effects of lower prices. For the new crop season which started in September 1959, various changes were made in cotton export policy. Barter trade was discontinued, and the export pound was replaced by a variable premium system, intended to promote exports by modifying the effects of changes in international market prices on exporters' earnings. There was increasing demand for cotton in Western Europe, and the resulting recovery of prices continued at an accelerated rate through the first months of 1960. The volume of cotton exports from September 1959 to April 1960 was 15 per cent greater than in the comparable period of 1958-59, and the trend of recent years toward a rising proportion of cotton shipments to the U.S.S.R., Mainland China, and Soviet countries was reversed.

The total value of exports was less in 1959 than in 1958, as rice exports, which amounted to nearly $40 million in 1958, ceased almost completely. Receipts from Suez Canal dues increased slightly. There were larger food supplies from abroad, but imports in general were limited by restrictions, and the trade deficit was reduced by nearly $20 million. Nevertheless, reserves declined by some $70 million, twice as much as in 1958, mainly as a result of contractual payments, including payments to the Suez Canal Company and the U.K. Government.

Government borrowing from the banking system, which had ceased in 1958—indebtedness actually declined in that year—was resumed in 1959, though on a comparatively moderate scale and mainly in relation to a build-up of cotton stocks. Credit to the private sector, however, expanded sharply, partly to finance imports of U.S. surplus agricultural commodities, but also for investment purposes. The money supply, after having declined in 1958, rose by 4 per cent in 1959. Domestic prices, which are subject to controls, remained stable.

For the second successive year, the Syrian Region was adversely affected in 1959 by poor grain crops, and exports of wheat and barley fell to a negligible amount. Total exports in 1959 were some 16 per cent lower than the year before; but as continued credit expansion to both the public and the private sectors kept demand at a high level, imports declined by only 8 per cent. As a result of greater external financial assistance and some repatriation of capital, the drain of previous years on exchange reserves was, however, reversed.

A series of measures taken by the *Sudan* during 1958, and the drastic revision early in 1959 of its cotton marketing procedures, which had been hampering exports, reversed the adverse payments developments of recent years and permitted replenishment of reserves, which had been severely depleted in 1958. In contrast to the trade deficit which had developed in 1957 and persisted in 1958, there was a substantial trade surplus. The volume of cotton exports more than doubled, and stocks accumulated with the Gezira Cotton Board were liquidated. Despite much lower average prices, earnings from cotton exports rose from some $68 million in 1958 to roughly $115 million in 1959. Receipts from other commodities also increased, and the total value of exports was nearly $70 million greater than in 1958. Imports, checked through the first three quarters of the year by severe restrictions, were somewhat less than in 1958, though relaxation of controls led to a sharp expansion in the last quarter of the year. The improvement in exports continued into 1960, with strong demand for long-staple cotton, which, despite record crops, led to a substantial recovery of prices. The inflow of foreign capital also increased considerably, mainly for development purposes. These additional loans permitted the continuation of development programs on roughly the same scale as in 1958, without further drawing on the government cash balances, which had been the main source of inflationary pressure. Internal revenue increased as a result of additional taxes imposed in mid-1959, and cash balances were replenished. Credit to the private sector remained virtually stable during 1959 and, as a result of some liberalization late in the year, expanded slightly thereafter. The money supply, which had risen in 1958 despite the reduction of foreign assets, remained unchanged in 1959.

Turkey's foreign trade recovered in 1959 from the very low level to which it had fallen before the introduction of the stabilization program in August 1958. In that year some export shipments had been deferred in expectation of exchange rate changes, and the flow of trade was also interrupted until adjustments were made to the new conditions prevailing under the stabilization program. However, the exchange depreciation and the effects of other stabilization measures helped to raise exports in 1959 to a level higher than in any of the previous five years, while foreign assistance extended to Turkey in connection with the stabilization program made it possible to finance a much greater quantity of imports in 1959.

In certain sectors of the domestic economy, some effects of the stabilization program could also be observed in 1959. There was a substantial decline in the price of gold. The fiscal position improved, and the central bank and commercial bank credits that are subject to ceilings remained within the limits established for them. However, types of commercial bank credit not subject to ceilings increased significantly.

The increase in *Iran's* foreign exchange receipts from the oil sector was again less in 1959 than in the previous year. Because of reduced prices, these receipts were only slightly higher than in 1958, in spite of a 12 per cent increase in petroleum output. Imports, however, continued to rise, and the foreign exchange holdings of the monetary authorities, which had been slowly accumulating for a number of years, declined considerably. Monetary expansion continued, primarily as a result of the growth of bank credit to the private sector, largely for investment purposes. Domestic prices, which had been fairly stable up to October 1958, rose by nearly 20 per cent in the succeeding twelve months. Government expenditure, including expenditure for the development program, was financed mainly from oil revenues and involved little if any borrowing from the banks. Nevertheless, since investment by the private sector was greatly stimulated by the opportunities created by the development program, the latter contributed indirectly to the expansion of credit. In order to bring demand into line with available resources, the authorities cut back planned development expenditure, and the Bank Melli Iran imposed limitations on its credit operations in the private sector.

Economic conditions in *Pakistan* improved in 1959. Inflationary pressure was reduced by the program adopted late in 1958 with the primary objective of eliminating inflationary financing of the budget deficit. Increased foreign aid and loans and some reforms in the tax structure and tax collection helped to improve the fiscal position. During the first three quarters of the year, the Government's indebtedness to the banking system was reduced; in the last quarter, however, borrowing from the State Bank was resumed. At the beginning of 1959, the State Bank raised the discount rate from 3 per cent to 4 per cent, but some restrictions on bank credit were lifted. There was only a slight increase in credit to the private sector, and this was offset by an increase in time deposits. The money supply, which up to September remained virtually stable, increased in the last quarter by about 5 per cent. Drastic price controls, imposed late in 1958 and gradually relaxed during 1959, led to a temporary reduction of retail prices. Some rise in the output of textiles, and imports of foodgrains, partly under U.S. disposal programs, relieved temporary shortages of food and other consumer goods but did not prevent a steady rise in the cost of living, which for the whole year amounted to 12 per cent.

The improvement in Pakistan's external position was due to increased export receipts and increased foreign assistance, combined with a considerable cut in imports and the repatriation of certain assets held abroad. Though prices of cotton and jute declined, the value of Pakistan's exports in 1959 increased by 6 per cent, in part under the stimulus of an export bonus scheme for some manufactures. As a result of severe restrictions imposed toward the end of 1958, imports in the first six months of 1959 were 30 per cent less than in the corresponding period of the previous year, and despite a subsequent relaxation of controls, the total value of imports for the year as a whole was 11 per cent less than in 1958. Foreign assistance in the form of grants, loans, and credits rose by some $25 million, to $186 million. As a result of the improvement in its balance of payments, Pakistan was able to cancel its stand-by arrangement with the Fund, and by the end of

1959 its holdings of gold and foreign assets had increased by $88 million, in contrast to the decline of $50 million in 1958.

During 1959 the *Federation of Malaya* substantially increased its foreign trade surplus. The improvement in the trade position was caused mainly by increased demand and higher prices for rubber and tin, as economic activity revived in the United States and elsewhere. The quantity of rubber exported also rose, and the total value of all exports in 1959 was more than 30 per cent greater than in 1958. An increase in imports lagged behind the increase in export earnings, so that reserve assets increased substantially. With government revenue highly dependent on import and export customs duties, and declining exports in 1958, Malaya's budget expenditures for 1959 were set relatively low. During the year, increased revenues from higher exports, together with the proceeds of domestic and foreign loans, more than sufficed to cover total expenditures, including supplementary expenditures authorized in the course of the year, and the budget thus showed a surplus. The central bank, established in January 1959, imposed legal reserve requirements upon commercial banks, and subsequently increased these requirements. Although the money supply increased during the year *pari passu* with the increase in foreign assets, the domestic price level did not rise and the cost of living index for Malay workers was somewhat lower than in 1958.

Economic developments in the *Philippines* in recent years have been characterized by a high rate of credit expansion, especially to the public sector, a persistent fall in reserves, a moderate rise in money supply, and price stability for home goods. When a combination of exchange controls and certain selective credit policies failed to relieve pressures on the balance of payments, the authorities adopted a series of monetary and fiscal measures in 1959 which were designed to limit the increase in over-all demand and to restore balance of payments equilibrium. The rediscount rate and bank reserve requirements were raised; a "margin fee" of 25 per cent was imposed on most sales of foreign exchange, the proceeds of which were in part to be sterilized in the central bank;

and fiscal operations were planned to have a deflationary effect in the fiscal year ending June 1960. These measures, in combination with favorable external factors, helped to increase net official reserves (including the net IMF position) by $58 million and commercial bank foreign assets by $28 million in 1959, following approximate balance in these accounts in 1958 and a deficit of $115 million in 1957. In April 1960, further modifications were made in the exchange system with the purpose of ultimately freeing all payments from restrictions. The change in the balance of payments in 1959 was attributable mainly to a decrease in the trade deficit, as imports declined and exports increased. Exports benefited from high prices for coconut products at the beginning of the year and rising prices for abaca and lumber. Export receipts from copper concentrates and chromite also increased substantially, and sugar was the only major export commodity that declined in both volume and price. Despite the increase in the net foreign assets of the monetary system and continued expansion of credit to the private sector, money supply increased at a slower rate than in 1958, mainly because of a greater increase in time and savings deposits and the sterilization of part of the proceeds from the foreign exchange margin.

In the *Union of South Africa,* the effectiveness of the measures taken in 1958 to restrain demand in order to restore balance of payments equilibrium was reflected in a substantial improvement of the external position during 1959. Although imports, which had already begun to fall in 1958, rose again in the latter part of 1959, a decline in consumer demand and caution in the replenishment of inventories kept their value for 1959 as a whole 12 per cent less than for 1958. Wool exports increased in volume and, to a less extent, in price; the value of diamond exports increased substantially, but there were some declines in uranium and fruit. Total export receipts rose by about 10 per cent, and the output of gold reached a new high. As a result of all these changes, there was a current account surplus of just over $200 million, whereas in 1958 there had been a deficit of the same magnitude. Official reserves rose by $114 million, and a further $49 million was transferred to the Fund in repurchases and as the gold payment on South Africa's increased Fund quota. A net outflow of private capital was mainly the result of the repatriation of foreign-held domestic securities and direct investment in Rhodesia and Nyasaland. Official reserves changed little during most of the first quarter of 1960, but declined in April as a result of further repatriation of foreign-held domestic securities and of adverse seasonal factors.

Mainly as a result of the increase in gold production, gross national product, in real terms, is estimated to have been more than 2 per cent greater than in 1958, and prices increased very little. The volume of agricultural output, however, was no higher than in the previous year, and in manufacturing, building, and other sectors of the economy, activity and employment were less than in 1958.

Because of the slackness in business conditions in the first half of 1959, official policy was directed toward the encouragement of private and local government investment. The official discount rate was reduced from 4½ per cent to 4 per cent in January, and supplementary reserve requirements for the commercial banks were reduced in February and removed entirely in November 1959. Interest rates tended to decline throughout 1959. As signs of economic recovery appeared toward the end of the year, the Government announced relaxation of some of the remaining import controls and exchange restrictions; and in the budget presented early in 1960, income taxes were reduced and further tax concessions were made to encourage investment from domestic and foreign sources.

Chile benefited greatly in 1959 from increased demand and higher prices for copper, as a result of which export receipts were some 30 per cent greater than in 1958. Imports remained virtually unchanged, and instead of substantial deficits, as had been recorded in 1957 and 1958, there was again, as is usual in Chile, an export surplus. Inflow of foreign funds continued, and $70 million was added to official holdings of gold and foreign exchange. Industrial production expanded by 13 per cent, and there was a sharp recovery in construction activity, which had been depressed. Mining production increased by 11 per cent, but unfavorable weather conditions caused some decline in agricultural production. Inflationary pressure continued to be a serious problem. During the first ten months of 1959, the cost of living index rose by 37 per cent, compared with 33 per cent during the year 1958. Thereafter, through mid-1960 it remained slightly below the level of October 1959. The rise of prices in 1959 resulted from higher costs attendant upon the devaluation at the end of 1958, as well as from a general wage increase and higher public utility rates; the rising budget deficit and a large credit expansion to the private sector, which occurred despite the elimination of central bank rediscounts, continued to provide excess liquidity. The budget deficit was covered, in part, by borrowing abroad—the foreign debt incurred for budgetary purposes rose from $50 million to $76 million—and in part by the issue of Treasury securities denominated in dollars and made eligible for payment of advance import deposits. Preferential treatment for reserve requirements of deposits in foreign exchange facilitated the expansion of bank credit and contributed to its excessive growth. Nevertheless, because of a substantial increase in the nonmonetary liabilities of the banking system, including foreign currency deposits, the money supply, conventionally defined to exclude such deposits, increased less rapidly than in 1958. In September 1959, in order to curb the expansion of bank credit, the central bank established reserve requirements of 75 per cent on increases in deposits of all types, and the cost of central bank credit to commercial banks was substantially raised. Credit extended by the commercial banks and money and foreign currency deposits subsequently expanded somewhat more slowly, and prices tended to level off.

The improvement in the external position of *Colombia* which had begun in 1958 continued in 1959. Despite repayment of debt arising from the refinancing of import arrears amounting to $20 million, reserves (including net IMF position) increased by

$73 million. The official exchange rates were maintained, and the free rate appreciated during the year by 15 per cent. There was a small increase in export receipts, as the decline in coffee prices was more than offset by a considerable increase in the volume of shipments—some 18 per cent from 1958 to 1959. Imports remained subject to restrictions and controls, and import demand was checked by restrained monetary and fiscal policies. A rise in import registrations early in 1959 was countered by a further stiffening of advance deposit requirements, and imports actually rose very little.

Despite the larger payments surplus, total money supply increased during 1959 at only about half the 1958 rate, although by more than twice the estimated increase of 4 per cent in real national income. The money supply in fact increased by less than the payments surplus. Bank credit to the private sector rose somewhat less than nonmonetary deposits, including advance deposits for imports, and there was no net borrowing by the Government from the banks. The National Coffee Federation, which in 1958 had borrowed heavily from the central bank to finance the stockpiling of coffee, repaid part of its debt. In 1959, stockpiling in excess of the quantities which exporters are obliged to retain was financed by the exchange tax on coffee exports and by exchange profits allocated to the National Coffee Fund. As a result of Colombia's restrictive monetary and fiscal policy, domestic prices rose much less in 1959 than in 1958.

After two years of balance of payments deficits, *Mexico* added to its international reserves in 1959. Export receipts rose by about 2 per cent. Despite a fall in the price of cotton, the disposal of stocks accumulated in previous years raised cotton earnings more than enough to compensate for declines in receipts from coffee; receipts from other major exports were about the same as in 1958. Imports declined by more than 10 per cent, partly as the result of increased tariffs but mainly because of the decline in government imports of foodstuffs and investment goods. The trade deficit was consequently reduced by $140 million. Also, there was a substantial increase in net earnings from travel and from remittances by Mexican workers abroad. While government long-term borrowing abroad was lower than in 1958, the large outflow of short-term private capital that had occurred in 1958 was almost entirely arrested. Official reserves, which had declined by $81 million in the preceding year, rose by $41 million in 1959, even after payment of $22.5 million in gold to the Fund on account of the increase in Mexico's quota.

The rate of growth in the domestic economy was about the same in 1959 as in 1958. Agricultural output improved substantially, and mining and manufacturing were well maintained. Although still large, the deficit of the public sector was reduced by the decision taken late in 1958 to scale down the substantial outlay of the Federal Government on investments and on subsidies for government enterprises. The deficit was again financed by the Bank of Mexico, but in contrast to 1958 its inflationary effects were to a large extent offset by open market operations. Substantial quantities of government securities were bought from the Bank of Mexico by commercial banks and finance organizations, in part to comply with reserve requirements, and further purchases were made by the private nonfinancial sector. Central bank credit both to banks and to private borrowers was reduced. The balance of payments surplus, however, added to the liquidity of the private banks, and bank credit to the private sector rose substantially. Further additions to money supply resulted from a shift from foreign currency to domestic currency deposits with Mexican banks, a development that reflected both increased confidence in the peso and some changes in the regulations governing such deposits. Total money supply increased by 16 per cent. However, this rise had no counterpart in the movement of prices; the indices of wholesale prices and of the cost of living were both virtually unchanged from 1958 to 1959, as food prices declined.

Economic conditions in *Peru* in recent years were characterized by spurts of pronounced inflation and subsequent periods of marked retrenchment. In 1959 credit was expanded, prices rose, and the exchange rate depreciated through August; thereafter restraining measures were imposed. For 1959 as a whole, real national income was higher than in 1958 by about 5 per cent. This increase, however, was not sufficient to restore the level recorded before the severe recession of 1958.

The deterioration in the first half of 1959 was due mainly to increased government borrowing from the central bank necessitated by an unexpected rise in expenditure, while delay in the application of new tax measures prevented the increase in revenue that had been planned in the stabilization program adopted in early 1959. The resulting inflationary pressure was further enhanced when, during a strike of bank employees, it became difficult to render the customary accounts, and large deficiencies reappeared in legal bank reserves; the penalty rate of 18 per cent on reserve deficiencies thus became inoperative from April to July. These developments were largely responsible for the depreciation of the exchange rate and an increase of some 16 per cent in the cost of living during the first eight months of the year.

The renewed enforcement of stabilization measures in August, including the restoration of the penalty rate on reserve deficiencies, produced a marked financial recovery. There was some contraction of credit, and by the end of 1959 commercial banks held substantial excess reserves. Government borrowing from the central bank ceased as accounts with commercial banks were drawn upon during the last quarter of the year. Inflationary pressure subsided, and both internal prices and the exchange rate remained stable through the rest of the year.

The external position of Peru markedly improved in 1959. Exports were some 11 per cent higher than in 1958, and there was a further contraction of imports, which were some 12 per cent lower than in 1958 and 26 per cent lower than in 1957. Depreciation of the exchange rate and an increased average rate of import duties were mainly responsible for this contraction. Exchange reserves were replenished in the second half of the year, and in December $14.5 million was repurchased from the Fund.

With the application of restrained monetary policies, Peru's over-all financial position improved further in the early months of 1960. The 1960 budget provides for a substantial increase in revenues, mainly through tax reforms, and a reduction of some expenditures. Seasonal fiscal needs in the first quarter of 1960 were met without borrowing from the banking system, and thereafter the Government began to build up a cash surplus. Peru's stand-by arrangement with the Fund was renewed in March.

In order to prevent the excessive expansion of bank credit that might have followed the accumulation of substantial excess reserves as the commercial banks received large additional private deposits, a 100 per cent marginal reserve requirement was applied to all increases in bank deposits above the level of April 22, 1960. With exports increasing, the central bank was able to maintain its gross foreign reserves during the period of seasonal balance of payments pressure, even after repaying to the Export-Import Bank of Washington $15.5 million of a balance of payments support loan. As a result of the stronger position that had been established, the monetary authorities on May 16, 1960 unified Peru's two exchange markets by suspending the exchange certificate system which had been in existence for ten years.

The reserves of *Venezuela,* which had declined by nearly $400 million in 1958, fell further, by nearly $360 million, in 1959, even with an advance of $100 million to the Government by the petroleum companies in November. This decline continued in 1960 and was not brought under control until the second quarter, when Venezuela received a credit of $200 million from a group of U.S. and Canadian private banks. The drain on reserves was largely accounted for by an outflow of domestic and foreign capital. The small deficit on current account was reduced from 1958 to 1959, because a reduction in the value of exports by some 8 per cent was more than offset by a simultaneous decline in imports and in transfers of investment income.

In part, the capital outflow resulted from the settlement of government obligations discounted abroad, incurred in past years, which added to the fiscal cash deficit. This deficit, which in 1959 amounted to almost 20 per cent of the money supply at the beginning of the year, in contrast to more than 40 per cent in

1958, was met by drawing on government deposits built up in 1956 and 1957 from the proceeds from sales of oil concessions. Moreover, in the second half of 1959, fears for the stability and convertibility of the bolívar provoked a run on the banks and a substantial flight of capital made possible by the existence of large liquid funds. The run on the banks and the flight of capital continued in the first half of 1960, reducing the money supply by almost 17 per cent in the nine months ended March 1960. In November 1959, the central bank had eased its rediscount conditions to alleviate the liquidity position of the commercial banks, and as the banks began to call outstanding loans, the volume of private credit was reduced somewhat.

Early in 1960, the Venezuelan Government adopted fiscal and monetary measures designed to maintain the convertibility of the bolívar at the current exchange rate without restrictions and with no further decline of reserves. The program provided for a drastic cut in government expenditure and for a balanced budget in the fiscal year 1960-61. The deficit for the first half of 1960 was to be met from part of the proceeds of the loan advanced by the U.S. and Canadian private banking group. To counteract the effect of increased liquidity arising from the current government deficit, the central bank was to reduce its advances and rediscounts and raise the rediscount rate. The cash deficit of the Government in the first five months of 1960 was practically offset by the reduction in the net lending of the commercial banks to the private sector, and in the second quarter of the year the flight of capital abroad abated. A one-year stand-by arrangement with the Fund permits Venezuela to draw up to $100 million in support of its efforts to achieve stability.

V

Exchange Practices and Payments Arrangements

General Developments in 1959

THE year under review in this Report was particularly satisfactory in the lessening of exchange restrictions, the simplification of exchange controls, and a decline in the number of bilateral payments agreements. These measures followed from, or were considerably facilitated by, the establishment of external convertibility by most Western European countries at the end of 1958 and the taking of similar steps by a number of countries elsewhere. The world is now closer to the attainment of a multilateral system of payments free from exchange restrictions than at any time since the beginning of World War II. About half of the Fund's members have currencies which are convertible for virtually all nonresidents, and in a number of these countries any restrictions on current payments that remain have dwindled to the point of insignificance. The external convertibility of the currencies of most Western European countries has also removed the financial justification for most discrimination between currencies, and considerable progress has been made in eliminating such discrimination, particularly between those of dollar and non-dollar countries. There is, moreover, an increasing number of countries where restrictions are no longer applied for balance of payments reasons. The development of this new environment in which the restrictive and discriminatory elements are small has been strongly supported by smoothly functioning exchange markets and shifts in commercial financing which respond to small changes in money market conditions.

Exchange markets all over the world have benefited from the stability of the U.S. dollar and of the Western European currencies which have become externally convertible. There has been a tendency for the Western European currencies to be strong in terms of the U.S. dollar; the dollar rates quoted for most of these currencies were above their par values throughout the year, and only occasionally have one or two of them been below that level.

Discriminatory restrictions imposed for balance of payments reasons have now been almost completely eliminated by the great majority of Fund members. The steady and continuous decline in the number of bilateral payments arrangements, which has been observed in recent years, was carried still further in 1959, when Fund members reduced the number of their bilateral payments arrangements from some 290 to some 260, of which about 160 are with countries that are not Fund members.

In eight countries, the use of advance deposit requirements as a condition for obtaining import or exchange licenses or for clearing goods through customs has been reduced or eliminated; in only three countries have they been introduced or their range extended. There still remain at least six countries where advance deposit requirements for some imports exceed 100 per cent of the import value, and in several of these countries the deposits are not returned until some time after the clearance of the import.

In countries maintaining exchange controls, the liberalization of payments of a capital nature has been continued. As a result of measures taken during the past twelve months, there is now considerable freedom for such payments in several Western European countries. In many countries outside Western Europe and the monetary areas associated therewith, capital movements may, in general, be made without limit through free exchange markets. However, a large number of Fund members maintain the machinery of exchange control because they consider this to be necessary for the control of capital movements.

Par Values and Exchange Rates

Five initial par values were agreed by the Fund during the past fiscal year. Three of these par values were established by countries which had become members of the Fund during 1958.

The establishment on July 17, 1959 of a par value of 60 pesetas per U.S. dollar for the currency of Spain was part of a general program of economic and financial reconstruction described in Chapter II of this Report. The new exchange rate represented a devaluation in relation to previous official rates, the magnitude of which cannot be precisely measured, because of the multiplicity of exchange rates in use prior to July 17.

On August 12, 1959, a par value of £L 0.357143 per U.S. dollar, or $2.80 per Libyan pound, was agreed for the currency of Libya. This rate was in conformity with the relationship of parity which had previously existed between sterling and the Libyan pound.

On October 16, 1959, a par value of 5.06049 dirhams per U.S. dollar was agreed for the currency of Morocco. The dirham is a new currency unit, equal to 100 Moroccan francs, and its par value represented a devaluation of 17 per cent in relation to the previous official Moroccan exchange rate.

On January 8, 1960, a par value of 4.50 riyals per U.S. dollar was agreed for the currency of Saudi Arabia, which had become a member of the Fund in August 1957 and whose official exchange rate had been 3.75 riyals per U.S. dollar. The par value thus represented a formal depreciation of 16⅔ per cent, but it also represented a substantial appreciation in comparison with the free market rate of 6.7 riyals per U.S. dollar, to which the riyal had fallen in July 1958. This improvement was made possible by the financial rehabilitation program initiated in 1958. By the end of 1959, the free market exchange rate had appreciated to 4.50 riyals per U.S. dollar, and this rate was adopted for the par value agreed with the Fund. At the same time, practically all restrictions on imports and payments were abolished, the exchange system being unified, with the par value as the basis for all international transactions.

On March 31, 1960, a par value of 625 lire per U.S. dollar was agreed for the currency of Italy. Italy, which had become a member of the Fund on March 27, 1947, had maintained since 1949 a stable exchange rate equivalent to the par value now agreed.

As part of a comprehensive program of economic and financial measures intended to establish internal and external balance in the Icelandic economy, a new par value of 38 krónur per U.S. dollar was proposed for the currency of Iceland and agreed by the Fund on February 22, 1960. The program included the elimination of Iceland's multiple exchange rate system and of its special assistance to exports. The new rate represented a formal depreciation of about 57 per cent from the par value of 16.2857 krónur per U.S. dollar agreed on March 20, 1950, or an average *de facto* depreciation of the effective exchange rate for exports of more than 20 per cent.

Initial par values have now been agreed between the Fund and all but ten of its members—Afghanistan, China, Greece, Indonesia, Korea, Malaya, Thailand, Tunisia, Uruguay, and Viet-Nam. Of these ten members, two joined the Fund in 1958.

Among the members that have no par value, Greece has since 1953 maintained a unitary fixed rate of 30 drachmas per U.S. dollar. In Thailand, the free market selling rate for the U.S. dollar fluctuated during the year ended April 1960 between 21.15 baht and 21.20 baht, and the rate for sterling between 59.30 baht and 59.71 baht. The Malayan dollar, which is legal tender in the Federation of Malaya, Singapore, Brunei, North Borneo, and Sarawak, maintained its statutory fixed exchange rate in terms of sterling of 2s. 4d.

The fluctuating rate for the Canadian dollar averaged US$1.043 in 1959, compared with US$1.030 in 1958 and US$1.043 in 1957. The rate rose steadily throughout most of the year, reaching the high average of US$1.055 in October, and thereafter declining slightly. It was fairly steady in the first quarter of 1960, within the range of US$1.049-1.052, but declined to around US$1.015 in early June.

The strength of the rate during 1959 was the result of a strong demand for Canadian dollars for both long-term and short-term investment purposes, which offset the effect upon the rate of the deterioration in Canada's current account balance. The Canadian Treasury bill rate rose far above the bill rate in the United States, particularly during the third quarter, and the wide spread between these rates, as well as between the longer-term interest rates, contributed heavily to the influx of foreign capital during the year. In the second half of 1959, exports increased, imports were unchanged, and the long-term capital inflow was larger, with the result that the current and long-term capital accounts were in closer balance. There was a further, though reduced, inflow of short-term funds into Canada during the third quarter, followed by an outflow in the fourth. The net effect of these several developments was a strengthening of the exchange rate in the second half of the year, despite a narrowing in the interest rate differential between the United States and Canada. The decline after the end of the first quarter of 1960 reflected a greatly reduced demand for Canadian funds. Interest rates declined faster in Canada than in the United States, and flotations of Canadian provincial and municipal government securities virtually ceased after the end of March.

In Lebanon and the Syrian Region of the United Arab Republic, there are no transactions at the par values of 2.19 pounds per U.S. dollar agreed with the Fund. The U.S. dollar rate for the Lebanese pound in the Beirut free market was fairly stable throughout most of 1959 at LL 3.15-3.17. Toward the close of 1959 and during the first four months of 1960, the Lebanese pound tended to depreciate, with the dollar rate reaching LL 3.19 in April.

The Syrian Exchange Office selling rate for the U.S. dollar has remained unchanged at LS 3.585 throughout the last three years. The discount on the controlled rate at which the Syrian pound is quoted in the free market was 4.60 per cent at the end of 1958. By March 1959 the discount had fallen to 1.09 per cent, and thereafter rose gradually until by April 1960 it was 3.98 per cent.

Several countries have endeavored in recent years to ease the transition from a complex multiple currency system to a unitary fixed rate system by establishing an exchange market in which the rate is determined, without direct restrictions, in accordance with changing conditions of supply and demand. In Bolivia, Chile, and Paraguay, which are among the countries where this policy operates, the exchange rate has been kept stable in a unitary free market since early 1959. The experience during the past year of other countries with similar free exchange markets is described elsewhere in this Report. The completion of the adaptations required for the establishment of a stable unitary rate in an economy long accustomed to multiple rates may sometimes take a considerable period of time; the Fund expects, however, that in due course all its members will establish and maintain effective par values.

Two Fund members have put into effect decisions which had been announced earlier to establish new monetary units. In Chile the escudo, equivalent to 1,000 pesos, was established on January 1, 1960. A "new franc," equivalent to 100 old francs, was made legal tender on January 1 in France and the French franc area, except in French Guiana, Réunion, the French Antilles, and St. Pierre and Miquelon, where similar action is to be taken later.

Other Changes in Exchange Practices

In *Argentina,* the unified free market introduced at the end of 1958 has been maintained without substantial change. The exchange rate in this market was subject to wide variations in 1959. The opening rate in January was about M$N 67 per U.S. dollar; under the pressure of rising domestic costs, the rate then depreciated, reaching a low of about M$N 109 in early June. With the establishment of more effective credit controls following the end of a long strike of bank employees, the depreciation was reversed quickly, and by August the rate was M$N 83. Since then the rate has remained virtually stable, further appreciation being prevented by substantial purchases of foreign exchange by the central bank. With the improvement of the payments position, advance deposit requirements on imports were abonshed and the higher import surcharges were reduced.

Under the impact of increasing inflationary pressure in *Brazil,* the exchange rates applicable to most transactions were depreciated substantially during the past year, either by direct action on the part of the authorities or as a result of the reactions of market rates to increases in demand. In July 1959, the effective export rate for coffee was depreciated from Cr$60 to Cr$76 per U.S. dollar, and for cocoa beans and some derivatives from Cr$70 to Cr$76. At that time, proceeds from some other exports were transferred to the free market. At the end of 1959, a further substantial group of exports was granted the free market rate, and the application of the second fixed export rate of Cr$100 per U.S. dollar was thereby limited to cocoa derivatives, castor beans, and crude minerals. At the same time, however, an arrangement was introduced whereby exporters eligible for free market treatment were to receive any excess of the free market rate over Cr$130 in the form of six-month notes on the Bank of Brazil.

The preferential import rate has been maintained at Cr$100 since January 10, 1959. The auction market rates which apply to nonpreferential imports have varied widely. The general category rate, which was Cr$218 per U.S. dollar at the end of April 1959, appreciated to Cr$174 at the end of June 1959. This appreciation was mainly the result of an increase in exchange allocations to the auctions and of a reduction in demand which followed the shifting of freight and insurance payments from the auction market to the free market. Later the rate again depreciated, to Cr$236 on March 22, 1960. Regulations were then introduced which authorized the allocation for general category imports of additional supplies of exchange up to three times the amount offered at past auctions. These additional supplies were to be made available at a price equal to the average of the rates paid at the previous three auctions. This increased supply of exchange prevented further depreciation of the general category rate. The effective rate for imports under the special category auction depreciated from Cr$337 at the end of April 1959 to about Cr$508 on April 30, 1960.

Despite the transfer to the free market of additional export proceeds, the free market rate depreciated during 1959, the lowest rate, Cr$220, being quoted in December 1959. After the subsequent transfer of most other export proceeds except coffee and cocoa, the rate was stabilized at about Cr$186 per U.S. dollar.

On August 10, 1959, a new official exchange rate was established in *China (Taiwan)*. The effective rates which had been applied from November 21, 1958 to August 10, 1959, as a result of adding the official value of an exchange certificate to the official exchange rate, became the new official exchange rate, NT$36.08 buying, and NT$36.38 selling, per U.S. dollar. All exporters and recipients of inward remittances are required to surrender their exchange receipts, and they may choose between cash settlement at the new official buying rate and receipt of an exchange certificate. Except by government organizations, foreign exchange may be acquired only by surrendering an exchange certificate, but without further payment to the bank supplying the exchange. The Bank of Taiwan continues to buy any exchange certificates offered to it at the official buying rate of NT$36.08 per U.S. dollar, but all holders of certificates are permitted to sell in a free market where the rate is allowed to fluctuate. The right to purchase exchange from the Bank of Taiwan at the new official selling rate of NT$36.38 per U.S. dollar is confined to government organizations; all other purchasers of exchange are required to surrender an exchange certificate purchased in the free market. The market rate for certificates in April 1960 averaged NT$39.99 per U.S. dollar.

In *Colombia,* the basic system of an exchange certificate market with a fixed buying rate and exchange auctions and a free exchange market with a fluctuating rate was maintained in 1959. In August, exports of manufactured goods with an imported raw material component not exceeding 40 per cent were given the benefit of the minor export rate, i.e., the average free market rate of the preceding week less a 2 per cent export tax. Manufactured exports with a higher import component continued to receive the official fixed buying rate, and no mixing rates were introduced.

The free market rate fluctuated within narrow limits around Col$8.00 per U.S. dollar from the beginning of the year through September, when it began to appreciate and reached a high of Col$6.74. This appreciation was largely the result of a reduction in the official exchange surrender prices applied to coffee and bananas. The surrender price of coffee had been considerably higher than actual export proceeds, and the reduction meant that exporters had to purchase a smaller amount in the free market to complete their surrender obligations. The lowering of the surrender price of bananas meant an increased supply of exchange in the free market. Toward the end of 1959 the free market rate depreciated slightly, but by the end of April 1960 it had recovered to about Col$6.75 per U.S. dollar. The certificate rate in the auction market, which had remained virtually unchanged at Col$6.40 per U.S. dollar since December 1958, began to depreciate in March 1960, in response to an increase in import demand. At the end of April, the rate was Col$6.70. The divergent movements in the two markets reduced the spread between the certificate and the free market rates to a negligible magnitude.

In September 1959, *Cuba* introduced exchange surcharges ranging from 30 per cent to 100 per cent for a wide variety of imports, which in 1958 had represented about 15 per cent of total imports, and in December 1959 exchange and import licensing requirements were introduced for virtually all foreign transactions.

In *Indonesia,* the Export Certificate System (*Bukti Expor,* or BE System), which had been introduced in June 1957, was abolished on August 25, 1959, and at the same time monetary measures were taken with a view to eliminating excess domestic liquidity. A new basic exchange rate of Rp 45.00 per U.S. dollar replaced both the pegged BE rate of Rp 37.848 and the nominal official rate of Rp 11.40. The application of a uniform tax of 20 per cent to all incoming transfers produced an effective buying rate (with allowance for bank charge of ⅜ per cent) of Rp 35.865 per U.S. dollar; prior to August 25, with proceeds from exports and current invisibles settled at the BE rate minus a tax of 20 per cent, the effective rate had been Rp 30.278 per U.S. dollar. By basing effective selling rates, which continue to be six in number, upon the rate of Rp 45.28125 per U.S. dollar (i.e., the basic rate plus bank charge of 5/8 per cent), these rates were depreciated and some of the import surcharge rates were also increased. Effective selling rates now range from Rp 45.28 to Rp 135.84 per U.S. dollar, instead of from Rp 37.848 to Rp 104.082 per U.S. dollar. The average depreciation of the effective rates for both imports and exports is roughly estimated at about 20 per cent. At the same time that these changes were made in Indonesia's exchange system, advance deposit requirements attached to applications for import licenses were withdrawn. However, rigorous restrictions on imports were maintained. In April 1959, state trading was expanded to cover several essential imports, so that about 80 per cent of Indonesia's total imports is now handled exclusively by state enterprises.

On February 23, 1960, the official exchange rate in *Korea* was changed from 500 hwan per U.S. dollar, the rate established in August 1955, to 650 hwan per U.S. dollar. The change was made in view of the increase in prices that has occurred in recent years, the index of wholesale prices in Seoul having averaged 130 (September 1955 = 100) in July-December 1959.

The official exchange rate applies to government imports, sales of hwan to UN forces in Korea, certain invisibles, and to foreign exchange obtained from exports or invisibles and sold at the owner's option to the Bank of Korea. A flat tax of 150 hwan per U.S. dollar has been made applicable to sales of U.S. aid funds at the official rate for certain imports—during the first half of 1960, of wheat, raw cotton, and lumber; this results in an effective selling rate of 800 hwan per U.S. dollar. Foreign exchange for all other imports not paid for with foreign exchange earned from exports or certain invisibles is supplied for specified commodities by government auctions of U.S. aid funds and of exchange owned by the Korean Government. During January 1960, the fluctuating selling rates arising from these two auctions averaged 1,233 hwan per dollar and 1,103 hwan per dollar, respectively. No government-owned exchange was auctioned during the next three months; in April the auction rate for aid funds averaged 988 hwan per U.S. dollar. Other minor effective rates arise from sales to importers of foreign exchange received from exports and certain invisibles and retained in foreign currency accounts. A retention quota system was introduced on July 1, 1959, under which, according to the trade program for the first half of 1960, either 20 or 30 per cent, depending on the commodity exported, of the earnings from 9 export items may be used by the exporter, or by an importer to whom the exporter's right has been transferred, to pay for 15 specified import items.

In mid-May 1960, *Peru* took an important step to liberalize further its exchange system. As the exchange and foreign reserve position of the central bank continued to improve, the two exchange markets—the exchange certificate market for most trade transactions and the draft market for most invisible and capital transactions—were unified, and the exchange surrender requirements for export proceeds in U.S. dollars and sterling were abolished. The exchange rates in the two markets had come under pressure about the middle of June 1959 after several months of comparative stability. The certificate rate, which had been quoted at an average of S/. 27.25 per U.S. dollar in May, reached a low of S/. 29.49 per U.S. dollar in early July, while the rate in the free or draft market depreciated from S/. 27.46 to S/. 30.67 per U.S. dollar in the same period. In late July, the rates began to appreciate consistently under the influence of the anti-inflationary policies pursued by the authorities and the substantial improvement in Peru's export position and balance of payments. By October, the certificate rate had recovered to S/. 27.70 per U.S. dollar and was stable at this level, with the draft rate a fraction higher, up to the time of unification.

In the *Philippines*, the central bank was authorized by legislation passed in June 1959 to impose a "margin fee," or exchange margin, of not more than 40 per cent above the banks' selling exchange rates, on sales of foreign exchange, with some exemptions, principally for certain imports. The margin was to be fixed at such an amount as the Monetary Board might deem necessary to curtail effectively any excessive demand upon the international reserves of the Philippines; it may not be changed more often than once a year except upon the recommendation of the National Economic Council and with approval by the President.

A margin of 25 per cent, to be collected by authorized banks, was imposed in terms of this authorization on July 17, 1959. The banks' selling rate, based on the par value of 2.00 pesos per U.S. dollar, is 2.015 pesos per U.S. dollar. Including the 25 per cent margin and allowing for a ½ per cent service charge on payments for imports, the effective selling rate was therefore 2.529 pesos per U.S. dollar. Of total payments for imports and invisibles, some 26 per cent was exempt from payment of the margin up to the end of 1959.

The law of June 1959 also required the monetary authorities to take steps to adopt a four-year program for gradual exchange decontrol. The Philippine Government accordingly introduced on April 25, 1960 a free market for certain exchange receipts and payments. The free market is under the supervision of the central bank, which through a committee fixes the free market rate, taking into account free market forces. The Government has announced its intention to broaden the free market gradually so that not later than 1964 all payments will be free from restriction.

During the first year of the program, the free market is to be supplied with all exchange proceeds from gold exports and from tourism and with 25 per cent of exchange receipts from other exports and from capital imports and other invisibles. The remaining 75 per cent of exchange proceeds from these transactions will continue to be surrendered to the central bank or its authorized agents at the official buying rate of 2.004 pesos per U.S. dollar.

During the first year, exchange payments in the free market will include payments for (1) imports of nonessential producer goods, semiessential consumer goods, nonessential consumer goods, and unclassified items, according to the central bank's commodity classification; (2) invisibles, except blocked fiduciary funds and investment earnings prior to 1960, Philippine Government expenditures, existing contractual obligations previously approved by the Monetary Board of the central bank, and reinsurance premiums; and (3) import goods not included in (1) above and in excess of the exchange allocations granted at the official selling rate under the exchange budget. For import payments not made in the free market, those exempted from the margin will continue for the time being at the official selling rate; other such payments will be subject to the margin of 25 per cent.

After the adoption of the new system on April 25, 1960, the Philippine exchange rate structure was as follows: The free market buying rate for gold exports and tourist receipts was 3.194 pesos per U.S. dollar, and the mixing rate applied to all other receipts (25 per cent at free market rate and 75 per cent at official rate) was 2.301 pesos per U.S. dollar. A selling rate of 4.015 pesos per U.S. dollar, i.e., the free market rate plus the margin, applied to less essential imports and most invisibles; the official selling rate of 2.015 pesos per U.S. dollar applied to imports and other payments exempted from the margin; and a rate of 2.519 pesos per U.S. dollar, i.e., the official selling rate plus the margin, applied to all other permitted payments.

The exchange system of *Turkey* has been further simplified by successive steps since the introduction of the stabilization program of August 1958. Changes made during 1959 reduced the number of effective buying rates from three to two, and involved a depreciation of the effective rates for chromium, tobacco, copper, and opium exports. The Turkish import system was also further liberalized during the second half of 1959 and early 1960.

On September 1, 1959, major changes were made in the trade and exchange system of the Egyptian Region of the *United Arab Republic,* which previous to that date was based largely on individual deals and barter transactions involving substantial and variable discounts on the Egyptian pound. These discounts averaged 30-40 per cent but for some transactions were as high as 60 per cent. The changes introduced in September eliminated all barter and other similar deals and established effective official discounts on the Egyptian pound for receipts and payments. The discount for cotton export receipts was initially set at 22.5 per cent, and gradually reduced to 12 per cent by March 21, 1960. There is a fixed discount on the Egyptian pound of 17.5 per cent for most other export receipts, and of 21.6 per cent for invisible receipts in convertible currencies. The discount for payments for imports and invisible payments in convertible currencies was fixed at 21.6 per cent in September 1959 and reduced to 16.7 per cent on January 5, 1960. Some receipts and payments, mostly Suez Canal dues and bilateral agreement payments, are still conducted on the basis of the par value.

Monetary expansion and crop failures caused a further deterioration in 1959 in *Uruguay's* external payments position. The depreciation of most effective exchange rates culminated in an exchange reform at the end of the year. A free market was established in which all exchange transactions are to take place, export proceeds being made subject to withholding taxes which vary from the equivalent of 30-40 per cent on wool to 5 per cent on meat. Though prohibition was maintained on many imports of consumer goods, other imports were freed from restrictions; for certain permitted imports, advance deposits are required.

The free market rate depreciated from Ur$8.95 per U.S. dollar at the end of April 1959 to Ur$11.18 at the end of December 1959. After the unification of the exchange markets, the rate in the free market continued to depreciate slightly and at the end of April 1960 was Ur$11.44.

The European Monetary Agreement

The European Monetary Agreement (EMA) came into operation at the end of 1958, when external convertibility was restored for the major European currencies and the European Payments Union was accordingly terminated. Under the EMA multilateral payments system, which was prolonged for an indefinite period at the end of 1959, the central banks of the member countries set buying and selling rates for the U.S. dollar, thereby giving each other a mutual exchange guarantee under certain conditions and setting the limits for exchange rate fluctuations between the currencies of member countries. Within this framework, actual payments are carried out smoothly in the exchange market. The facilities for interim credit between member countries which are provided by the Agreement have been used very little, and nearly all transactions have been settled through the exchange market.

The capital of the European Fund, which was established under the EMA to provide credit facilities to participating countries, was increased from $600 million to $607.5 million when Spain became a member in July 1959. This total consists of $271.6 million transferred from the assets of the EPU, and of participants' capital subscriptions of $335.9 million. Of these subscriptions, only $38 million had been called by April 30, 1960. The loan of $15 million to Greece, which was authorized in January 1959, was not taken up and was canceled at the request of Greece in December. The loan of $21.5 million which was authorized to Turkey was fully drawn, and drawings under a loan of $100 million to Spain, which was granted in July 1959, amounted to $24 million. A loan of $12 million was granted to Iceland in February 1960, of which $5 million is subject to a further decision by the OEEC Council. Of this loan, $5 million had been drawn by April 30, 1960.

When the functioning of the EMA was reviewed at the end of its first year, a number of amendments were made in the detailed provisions of the Agreement. All these amendments were technical, with one exception that has made it possible for the European Fund to obtain, under certain conditions, special means of finance from participating countries in order to place a larger amount at the disposal of a member wishing to borrow than would be available if the Fund had to rely exclusively on the capital subscriptions of members. The capital subscriptions of some countries were revised: for the United Kingdom, the subscription was reduced from $86.6 million to $60.6 million; the subscriptions of France and Germany were both increased from $42 million to $50 million; and Italy's subscription was raised from $15 million to $25 million.

Regional Economic Associations

The payments relations between Fund members are likely to be affected in various ways by the establishment of regional economic associations, which have as one of their main purposes the reduction of barriers to trade between the members of an association. Further steps have been taken during the past year for establishing associations of this kind.

The European Economic Community and the European Free Trade Association

The six countries (Belgium, France, the Federal Republic of Germany, Italy, Luxembourg, and the Netherlands) that together form the European Economic Community (EEC) took further steps for the gradual elimination, which had begun on January 1, 1959, of customs duties and of other obstacles to trade and to the free movement of persons, services, and capital among themselves. Additional increases in the quotas for imports of industrial goods from member countries took effect January 1, 1960, and a further reduction of 10 per cent in the tariffs on imports from EEC members is scheduled to take effect July 1, 1960. On November 24, 1959, the Council of the EEC declared that the member countries were prepared to extend these new quota increases to other GATT members, as they had done already for the earlier increases. It was also decided that EEC member countries might extend the new tariff reductions to members of the GATT and to other countries which are accorded most-favored-nation treatment, provided that the reductions did not bring the rates of duty below the EEC common tariff rates. Earlier, the 10 per cent tariff reduction of January 1, 1959 had similarly been extended.

According to the Treaty of Rome, adjustments in the tariffs of individual EEC members on imports from third countries to a common tariff to be negotiated between member countries were scheduled to begin on January 1, 1962 and to be completed by the end of 1969. The negotiations for a common tariff were virtually completed early in 1960, and it was decided that the first adjustment of individual tariffs to this common tariff should take place by the end of 1960, i.e., one year earlier than originally planned. The new common tariff will be the subject of negotiations between the EEC and the CONTRACTING PARTIES at the 1960-61 GATT tariff conference.

The ratification of an agreement for the formation of a European Free Trade Association (EFTA) by seven OEEC members, Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the United Kingdom, that do not participate in the EEC was completed in May 1960. The preamble to the agreement sets forth the determination of the EFTA countries to facilitate a multilateral association for the removal of trade barriers and the promotion of closer economic cooperation between the members of the OEEC. The constitution of the EFTA does not provide for a common tariff, but tariffs and quantitative restrictions on imports of industrial goods from other members of the Association are to be progressively reduced, and finally eliminated by January 1, 1970. The first 20 per cent of tariff reductions among EFTA members is due to become effective on July 1, 1960 and is thus to coincide with the second 10 per cent EEC tariff reductions mentioned above. As this Report was being written, efforts were being made to mitigate the unfavorable consequences that might arise from failure to coordinate the extent and application of these and other contemplated measures.

Latin American Free Trade Association

Seven Latin American countries—Argentina, Brazil, Chile, Mexico, Paraguay, Peru, and Uruguay—on February 18, 1960 signed the Treaty of Montevideo, which, when ratified, will establish a Free Trade Area (FTA) and create the Latin American Free Trade Association. The Treaty provides for the gradual elimination over a period of twelve years of tariffs and restrictions of any kind on trade between the contracting parties. This is to be achieved by means of a common list in which commodities currently traded within the area are to be incorporated in several stages so that by the end of the period most of that trade would be free of customs duties and of restrictions. In addition, members are to negotiate on the basis of most-favored-nation treatment the inclusion of items in national lists to which annual tariff reductions are to apply. The Treaty, to which any other Latin American country may adhere, calls for the expansion and diversification of trade within the area, the promotion of economic complementarity, and the coordination of policies of agricultural development. The Association is to provide the machinery to carry out the Treaty, coordinate commercial policies, and facilitate the expansion of reciprocal trade and the integration and diversification of the economies of its members. At the request of the countries concerned, the Fund prepared a study on payments problems within the FTA, in which it pointed out the advantages of a system of settlements in freely convertible currencies. A meeting of representatives of the central banks of these countries has affirmed that free convertibility of currencies is the objective to be attained, and it is planned to initiate the FTA without any special payments arrangements involving limitations on convertibility. A protocol attached to the Treaty provides for informal meetings of central bank representatives to undertake studies on credits and payments that may help achieve the objectives of the Treaty.

Central American Common Market

In an effort to accelerate plans for a Central American common market, Guatemala, El Salvador, and Honduras in February 1960 signed a Treaty of Economic Association, which became effective in April upon completion of ratification. Nicaragua and Costa Rica, the two other Central American countries that had also signed the Multilateral Treaty of Free Trade and Central American Economic Integration in 1958, were invited to join in the new Treaty. At a meeting of all the five countries in April 1960, an understanding was reached about the timing of the program, and it was decided to draft a new agreement speeding up the formation of a common market and the economic integration of the area. Following the general pattern of the tripartite arrangement, the new agreement is intended to provide for immediate liberalization of a substantial part of intra-area trade with the aim of establishing within five years a common market within which the persons, goods, and capital of the participating countries would circulate freely. The Multilateral Treaty of 1958, which has been ratified by four of the five signatories and in which Panama has also expressed an interest, had provided for the initial freeing from tariffs and restrictions of only a limited list of goods and envisaged the attainment of a customs union within ten years.

VI

Gold Production and Prices

Gold Production

INCREASING production from South Africa's new gold mines raised total world production of gold in 1959 to a new postwar high for the sixth consecutive year. Defined as excluding output in the U.S.S.R. and countries associated with it, total output increased by 7 per cent, to 32 million fine ounces, or about 2 million ounces more than in 1958. Valued at US$35 per fine ounce, output in 1959 was $1,123 million, compared with $1,049 million in 1958, $1,019 million in 1957, and $979 million in 1956. Production in 1959 was about 52 per cent more than the 1945 low, but about 11 per cent (or 4 million ounces) less than the all-time peak of about $1,264 million attained in 1940 (Table 25).

Output in South Africa expanded in 1959 by 2.4 million ounces ($84 million), to 20.1 million ounces ($702 million), the highest annual figure ever recorded in the Union and equal to about 63 per cent of total world production. It was about 13 per cent greater than the 1958 output of 17.7 million ounces ($618 million), and about 74 per cent greater than the 11.5 million ounces ($403 million) produced in 1951. The new gold mines in the Orange Free State continued to expand, and production from these mines, which was negligible in 1951, totaled 5.6 million ounces ($196 million) in 1959, about 30 per cent more than in 1958. There was also some increase in the production of the

Table 25. 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)

	1940	1945	1955	1956	1957	1958	1959
Union of South Africa	492	428	511	556	596	618	702
Canada	186	95	159	153	155	160	157
United States	170	32	66	65	63	62	49
Australia	57	31	37	36	38	39	38
Ghana	31	19	24	22	28	30	32
Southern Rhodesia	29	20	18	19	19	19	20
Colombia	22	18	13	15	11	13	14
Philippines	39	—	15	14	13	15	14
Belgian Congo	20	12	13	13	13	12	12
Mexico	31	17	13	12	12	12	11
Other[1]	187	64	75	74	71	69	74
Total[1]	1,264[2]	736	944	979	1,019	1,049	1,123

Source: International Monetary Fund, *International Financial Statistics.*
[1] These figures include estimates for data not available.
[2] All-time peak production.

Transvaal mines, the total for the year amounting to 14 million fine ounces, 1.2 million fine ounces above the record attained in 1958. The number of tons of ore milled in the Union was about 7 per cent more in 1959 than in 1958, and the yield per ton of ore mined also increased. The average grade of ore milled rose from 5.000 dwt. per ton in 1957 to 5.228 dwt. in 1958 and to 5.566 dwt. in 1959. These increases, together with the steady growth of the native labor force, which rose from 329,000 at the end of 1958 to 354,000 at the end of 1959, contributed to a record level of gold production in the Union of South Africa. Mining officials have predicted that, barring unforeseen difficulties, gold production will continue to rise to new records in the next few years because many of the newer mines will be expanding their milling capacity. The second largest increase of output in 1959 was recorded in Ghana, where production rose by $2.1 million, to $32.0 million.

In the United States, gold output declined in 1959 by $13.0 million, to $48.6 million. This has been attributed principally to the decline in by-product output resulting from shutdowns in the copper mining and smelting industry. Gold production in the United States has not recovered from the effects of the closing of mines during World War II, and in 1959 it was the lowest since the end of the War. In Canada, output declined by $3.1 million, to $156.9 million. Except for 1953, when production fell to $142.4 million as a result of the temporary closing of several mines, Canadian output has ranged between $152.8 million and $160.0 million per annum since 1950, but has failed to regain the peak of $187.6 million attained in 1941. Increases of about $0.9 million in Colombia, $0.7 million in Japan, $0.4 million in Southern Rhodesia, and $1.2 million in Tanganyika during 1959 were about equal to the total of small decreases recorded in Australia, Mexico, the Philippines, and other countries.

The gold mining industry in most major producing countries continues to be concerned about high production costs. In South Africa, however, costs declined during 1959 for the first time since 1948, and 1959 was the most profitable year that the industry has had. Primarily as a result of the rise in the average grade of ore milled, the working cost per ounce of gold recovered declined by 16s. 4d., to 162s. 5d. in 1959. Working costs declined from 46s. 11d. per ton of ore milled in 1958 to 45s. 4d. in 1959, the same as the average cost in 1957. The average working profit from gold per ton milled, which had been 14s. 4d. in 1956, rose by 1959 to 24s. 7d. The total working profit from gold increased in 1959 by £24.7 million, to £86.1 million. Although profit from uranium declined by £10.5 million, to £27.2 million, the combined working profits from gold and uranium were greater than in 1956 by 57 per cent. The high dividend yields on gold shares in the two previous years, as well as the favorable tax status extended by South Africa to foreign investors, encouraged further investment in the industry. Since World War II, about £470 million ($1.3 billion) has been invested in the gold and uranium industry; of this, some £350 million came from the public, including nearly £180 million from outside the Union. Prospecting, exploring, and expansion activities have continued as the mining industry has become more prosperous. However, political unrest in South Africa during the early months of 1960 caused some withdrawal of foreign capital from the industry, and there has been a sharp break in the prices of South African gold mining shares. The productivity of the older marginal mines on the Rand that have no higher grade ore to which to turn during a period of high costs is a matter of great concern to the industry. Of the 55 producers that are members of the Transvaal and Orange Free State Chamber of Mines, the working costs of 34 were higher, and the profits of 21 were smaller, than in 1958. The South African authorities have stated that the tax concession to deep-level mines, provided for in the 1959-60 budget, would in the long run be beneficial in creating additional employment opportunities for workers in the areas affected by the closing down of marginal mines, as well as in helping to offset the decline of output in these areas. The sale of gold bars to private purchasers outside the sterling area, introduced in 1959, resulted in some extra revenue for gold producers.

The gold subsidy programs of the Governments of Australia, Canada, Colombia, and Fiji, discussed in previous Annual Reports, are still in operation. In May 1959, Australia consulted the Fund with regard to modifications of its gold subsidy program and extension of the program for a period of three years from June 30, 1959. The rates of assistance to gold producers were increased, the maximum rate for large producers rising by 10s. per ounce, to £A 3 5s., and the flat subsidy rate for small producers, i.e., those whose production does not exceed 500 ounces per annum, by 8s. per ounce, to £A 2 8s. The amendment involves no change in the basic structure of the subsidy scheme described in the Fund's Annual Reports for 1955 and 1958. The Fund deemed the modified system and its extension 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. Gold subsidies are one such method of protection. Fund members considering the introduction of subsidy schemes to prevent the reduction of gold output, as well as those desiring to amend existing subsidy programs, have an obligation to consult with the Fund on the measures to be introduced.

Gold Reserves

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 International Monetary Fund, the Bank for International Settlements, and the European Fund, established under the European Monetary Agreement) is estimated to have increased during 1959 by about $680 million, compared with increases of about $665 million in 1958, $705 million in 1957, and $200 million, the smallest increase in the postwar period, in 1951.[1] Russian gold imported into the United Kingdom, estimated at about $255 million, was equivalent to about 38 per cent of the total increase in 1959. Since the value of last year's gold output outside the U.S.S.R. was $1,123 million, the total increase in the amount of gold available to the rest of the world may be estimated as being of the order of $1.4 billion. A comparison of these new supplies with the estimated aggregate increase of about $680 million in official gold holdings therefore suggests that the equivalent of about $700 million was absorbed by the arts and industries or by private holders in 1959. At the end of the year, world monetary gold reserves, as defined above, amounted to approximately $40.2 billion, compared with $39.5 billion at the end of 1958 and $38.8 billion at the end of 1957. In 1958 and also in 1959, the increase in total reserves amounted to almost 2 per cent.

The redistribution of the stocks of gold held by the world's monetary authorities, which had been observed in 1958, was carried further in 1959. The outstanding changes were net in-

[1] These estimates differ from those listed in earlier Annual Reports. Hitherto, the world total of gold has been overstated because most of the gold deposited with the Bank for International Settlements has also been included in national official gold holdings. Corrections which take account of this are made in *International Financial Statistics*, June 1960, page 22 and page 25, footnote a. See also *Annual Report*, 1959, pages 151-52.

creases in the gold holdings of the International Monetary Fund, of most continental European countries, and of Japan, and decreases in the holdings of the United States, the United Kingdom, Belgium, Canada, and the Latin American countries. The economic background of these shifts has been sketched in earlier chapters of this Report. During 1959, the Fund received $1,375 million in gold in respect of the enlargement of its resources through increases in quotas, other subscription payments, repurchases, and charges due in gold, and $300 million in gold was sold by the Fund to the United States. The net increase of $1,075 million raised the Fund's total holdings to $2.4 billion at the end of 1959, when the Fund's share of the world's gold reserves was 6.0 per cent, against 3.4 per cent at the end of 1958. Shifts in the gold holdings of individual countries were also of great importance in 1959. The decrease in U.S. gold holdings amounted to $1.1 billion. Official gold holdings of countries other than the United States (including gold deposits with the Bank for International Settlements) rose by $860 million, to $18.3 billion, compared with an increase of $3 billion in the previous year. The gold reserves of continental European countries rose by an aggregate of $1.3 billion, to $11.3 billion at the end of 1959, against an increase of $1.8 billion in 1958. The increases in the gold stocks of Italy ($663 million), France ($540 million), Austria ($98 million), and Portugal ($55 million) were larger than the increases recorded by those countries during 1958; the increases in the Netherlands ($82 million) and in Switzerland ($9 million) were substantially smaller than those of 1958. Belgium's gold holdings declined by $136 million, in contrast to an increase of $355 million in 1958; and those of the Federal Republic of Germany, which had increased by $97 million during 1958, declined by $2 million in 1959. There was a decline in the gold holdings of the United Kingdom, estimated at about $350 million, to $2.5 billion in 1959, following an increase of $1,250 million during the previous year. About half of the Western European countries that traditionally maintain the larger part of their official reserves in gold gained less gold in 1959 than in

1958, and a decline in reserves obliged some of them to sell part of their gold holdings. For the second consecutive year, the gold reserves of the Latin American countries and of Canada declined. Stocks of Latin American countries declined by $155 million in 1958 and $95 million in 1959, and those of Canada fell by $22 million in 1958 and $118 million in 1959. An increase of $190 million during 1959 raised Japan's gold holdings to $244 million.

The decline of $1.1 billion in U.S. gold reserves during 1959 was less than half of the outflow of $2.3 billion in 1958. The largest purchases of gold from the United States were made by the United Kingdom, $350 million, and France, $265 million. The aggregate outflow from the United States between the end of 1957 and the end of 1959 was about $3.4 billion, the average quarterly outflow for the two years together being $419 million. The outflow started to ebb during the third quarter of 1959, and in the last quarter of the year amounted to $72 million. During the first quarter of 1960, U.S. gold reserves fell by $50 million, the smallest outflow registered for any quarter since 1957. Further sales of gold were made during April, mainly to other countries which had to make gold payments to the Fund. On April 30, 1960, U.S. gold holdings amounted to $19.4 billion, or about 48 per cent of the world's monetary gold stock.

The economic and financial recovery of continental European countries has made it possible for them to regain gold sold to the United States during and after World War II and to acquire a larger share of the increment to world monetary gold reserves. The increase in total world gold reserves between the end of 1938, the year before World War II began, and 1959 (when they amounted to $40.2 billion) was $14.2 billion, or about 54 per cent. Of this increase, about $5 billion went to the United States, $5.2 billion to continental European countries, $2.4 billion to international monetary organizations, $930 million to Latin American countries, $774 million to Canada, and $180 million to the "rest of the world," while there was a net decline of $171 million in the holdings of the United Kingdom and other sterling area countries.

Of more significance is a comparison between the shifts in the actual holdings of individual countries between 1938 and 1948, the year in which U.S. gold holdings were at a peak, and between 1948 and 1959, and in the proportions of the world's total gold reserves held by individual countries. The holdings of the United States increased from $14.6 billion (56.1 per cent of the world's monetary gold) at the end of 1938 to $24.4 billion (70.3 per cent) at the end of 1948, but declined to $19.5 billion (49 per cent) at the end of 1959. The holdings of continental European countries, which had declined by $2.6 billion during and after World War II, rose by $7.8 billion between 1948 and 1959, to about $11.3 billion (28.1 per cent of the world's monetary gold, compared with 23.5 per cent at the end of 1938). While the holdings of the United Kingdom and other sterling area countries rose by $1.1 billion during the second period, their share of the world's gold stocks declined from 13.1 per cent at the end of 1938 to 8 per cent at the end of 1959. During the 21-year period, the share of Latin American countries rose from 2.8 per cent to 4.1 per cent and that of Canada from 0.7 per cent to 2.4 per cent, whereas the share of the "rest of the world" declined from 3.8 per cent to 2.9 per cent.

Of the total gold holdings of the monetary authorities of the world (as defined above), 73 per cent, or $29.4 billion, was physically located in the United States at the end of 1959. Gold held under earmark by the Federal Reserve Banks for the account of foreign central banks and governments and international financial institutions rose by $1.3 billion during the year, to about $9.9 billion. Since the United States is prepared to buy and sell gold for official monetary purposes in unlimited amounts at a fixed price, many central banks and governments find it to their advantage to have a substantial portion of their gold reserves in the United States to meet their requirements. Transfers on official account in 1958 between earmarked gold accounts held by the Federal Reserve Bank of New York amounted to approximately $5 billion. In addition to purchases from and sales to the United States, there were movements of gold between foreign accounts as a result of gold transactions facilitated by the services of the Bank for International Settlements and of the Fund. The volume of gold movements between official accounts negotiated in the London market is reported to have been much greater in 1959 than in 1958.

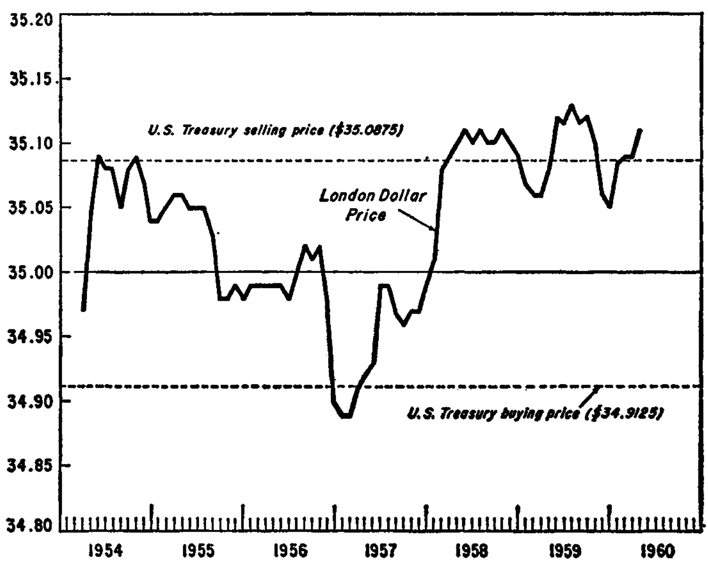
Gold Markets and Gold Prices

The adoption of external convertibility for sterling by the United Kingdom at the end of 1958 and the removal of restrictions on forward dealings in gold, described in the Annual Report for 1959, contributed to the expansion of the bullion business of the London market, where the Bank of England, as agent in the sale of South African production, was the main supplier. Gold sales by the U.S.S.R., which have been a prominent feature of international gold trading in recent years, had to some extent bypassed the London market, being negotiated for the most part on the Continent of Europe where more favorable free market rates for transferable sterling could be obtained. However, after unified exchange rates were quoted for sterling in December 1958, most of the gold sold by the U.S.S.R. was consigned directly to the United Kingdom and handled through the London gold market. During 1959, the United Kingdom imported gold worth $967.5 million, of which $255.2 million came from the U.S.S.R., $622.5 million from the Union of South Africa, and most of the remainder from other gold producing countries in the sterling area and from the Belgian Congo. Exports from the United Kingdom amounted to $773.8 million, leaving a net increase of about $194 million in the gold stocks physically located in London. These figures, however, are not an accurate indication of the turnover in the London market during 1959.

Despite this expansion in the supply of gold in the London market, it was not sufficient to meet the increased demands coming primarily from continental European central banks that have been converting some of their dollar balances into gold. As a result, the dollar price of bullion on the London gold market (converted at the sterling-dollar rate of exchange at the time of the daily fixing) during 1959 and early 1960 was usually above the U.S. selling price of $35.0875 per fine ounce (Chart 1). During much of the year, it was therefore cheaper for central banks to buy gold in New York than in London for transactions in which shipping costs (about $0.14 per ounce) were not involved, and substantial purchases were made in New York.

CHART 1. U.S. DOLLAR EQUIVALENT OF PRICE OF GOLD IN LONDON MARKET, MONTHLY AVERAGES, MARCH 1954-APRIL 1960

(In dollars per fine ounce)



During the year under review, methods to encourage and facilitate purchases of gold by private citizens were expanded. In May 1959, a British bullion house in cooperation with a Canadian bank introduced a scheme for the issue of a new type of conditionally transferable gold certificate, which entitled the holder to call for delivery of gold in either London or Toronto. This is accomplished by each bank honoring the certificate of the other. In October 1959, these arrangements were extended to make the London and Canadian certificates interchangeable with certificates issued by a commercial bank in Frankfurt and by another in Johannesburg. The holder of a certificate is now able to take delivery of gold in any one of four countries, with the proviso that payment for any difference in price between the markets is to be made upon delivery. In December 1959, a South African corporation announced the issue of a freely negotiable certificate with a promise to deliver gold anywhere that it is legal to do so. These bearer gold certificates are for sale in countries where the finance regulations permit such sales. However, the Deutsche Bundesbank stated on January 28, 1960 that the issue in Germany of these gold certificates would involve an unauthorized issue of vouchers which might be used to make payments in lieu of the legally authorized means of payment, and that this was forbidden under paragraph 35 of the Bundesbank Act. The Swiss National Bank also drew the attention of all Swiss banks to the fact that the sale in Switzerland of these gold certificates—which are in bearer form and for small amounts—is illegal. According to the Swiss Federal Law of December 23, 1953, these certificates are classed as fiduciary currency and therefore constitute an infringement of the monopoly of the bank of issue.

In June 1959, the Government of the Union of South Africa announced that it would permit mines to sell gold abroad in any form, and in October this program commenced by the sale of 300 kilograms (about £120,000). (The sale of standard 400-ounce bars had been authorized in April 1959.) In June the Union of South Africa also reduced from 25,000 fine ounces ($875,000) to 10,000 fine ounces ($350,000) the minimum quantity of gold that, as announced in last year's Annual Report, the South African Reserve Bank was permitted to sell to private purchasers. The Finance Minister of the Union of South Africa stated in January 1960 that, since the commencement of bullion sales overseas, the South African Reserve Bank had sold 1,508,000 ounces of gold to buyers outside the sterling area. Residents of the United Kingdom and of the Union of South Africa are not permitted to buy gold or gold certificates, but nonresident buyers are offered facilities through which to acquire gold or gold certificates for any purpose. As pointed out above, statistics indicate that about $700 million in gold was absorbed by the arts and industries or by private holders in 1959, compared with about $594 million in 1958.

Since the issuance of the Fund's statement of September 28, 1951, which modified the Fund's gold policy statement of June 1947 on external transactions at premium prices, there has been a gradual easing of restrictions, and many countries have granted more freedom for the sale of gold in free markets and the movement of gold from country to country. This has permitted commercial banks and bullion dealers in several countries to initiate measures that have facilitated the flow of gold into private hoards. But even with the improvements that have taken place in the reserve strength of many countries, it is, in general, still in the best interests of Fund members that, as far as possible, gold should be available in official reserves rather than go into private hoards. As was pointed out in the Fund's statement, it is only as gold is held in official reserves that it can be used by the monetary authorities to maintain exchange rates and meet balance of payments needs.

On September 3, 1959, controls of the importation and in-transit movements of gold in any form became effective in Cuba. Prior authorization from the Cuban Monetary Stabilization Fund is now required for the importation of gold in any form, including in-transit shipments and imports into the free zone. Permits to import gold for industrial purposes are issued only to established firms or individuals engaged in an industry requiring the use of gold. Personal items made of gold brought in by travelers are exempted, provided that the quantity and value are in consonance with the economic and social position of the traveler.

As a result of the increased central bank demand for gold, the U.S. dollar price of gold in London was maintained during the period under review at the highest level since the reopening of the market in March 1954. With the exception of three months, November 1959-January 1960, the average monthly dollar price remained above the U.S. selling price of $35.0875 per fine ounce. On May 14, 1959, the dollar price (converted at the sterling-dollar rate at the time of daily fixing) was $35.14½ per ounce, surpassing the previous high of $35.14 per ounce on October 8, 1958. The low for the period was $35.04½ on December 11, 1959. The price of bar gold in sterling at fixing fluctuated between a low of 249s. 3d. on May 1, 1959 and a high of 250s. 9¾d. in January 1960. At the end of April 1960, it was 249s. 11¾d., equivalent to $35.11¾ at the day's dollar exchange rate.

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, fluctuating between $35.16¾ in July and $35.06½ in November. At the end of April 1960, the price 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 exchange rate fluctuations and of the special characteristics of each market. In Beirut and Brussels, however, this price did not deviate from the London price during the past year by more than ⅔ per cent. In Milan, the deviations were wider—about 1 per cent during most of the year—but at no time exceeded 2 per cent. 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 fluctuated between a narrower range and at a lower level than during the previous year; it decreased from a high of $35.32 per fine ounce on May 22, 1959 to $35.07 on November 21, 1959, rose to $35.28 in January 1960, and at the end of April 1960 was $35.20. In Brussels, it decreased from $35.34 per fine ounce on June 12, 1959 to $35.03 in December, increased to $35.20 on January 19, 1960, and at the end of April 1960 was about $35.10. The dollar equivalent price in Milan rose from $35.18 in June 1959 to $35.84 at the end of February 1960; at the end of April 1960, it was $35.48.

In the Federal Republic of Germany, where the import and export of gold and gold coins were made completely free in January 1959, there has been an increased volume of trading in gold coins, but the trade in gold bars has remained relatively insignificant. Purchases and sales of gold, other than by the monetary authorities, are treated on the same basis as purchases and sales of other commodities and are therefore subject to the general 4 per cent turnover tax, which amounts to about DM 200 on a one-kilogram bar.

In the Paris market, the price of bar gold moved within a narrow range, between F 556,000 (on July 7-9, 1959) and NF 5,655 per kilogram (on January 29, 1960), compared with NF 5,550, the equivalent at the par value. The U.S. dollar equivalent price of bar gold in Paris decreased from $35.82 per fine ounce on May 4, 1959 to the year's low of $35.43 during the last week in December 1959 and the first half of January 1960. At the end of April 1960, the price of bar gold was NF 5,590 per kilogram, equivalent to $35.56 per fine ounce.

In Hong Kong, the U.S. dollar equivalent price of gold fell from a high of $38.69 per fine ounce on May 8, 1959 to a low of $38.44 on February 9, 1960; at the end of April, it was quoted at HK$253.375 per tael, which was equivalent to $38.56 per fine ounce at the day's T.T. Hong Kong dollar rate for the U.S. dollar.

In India, rigid restrictions are imposed on both imports and exports of gold. The demand for gold reflects local habits and customs, and fluctuations in the price of gold in Bombay should be regarded as largely a response to changes in local conditions. Gold production in India is about 13,500 ounces per month and is taken up largely by the Government. The present supply of gold on the Bombay market is derived either from dehoarded stocks or from contraband. The contraband supply decreased considerably after the introduction of the measures taken by the

Government to curb smuggling, which were described in last year's Annual Report. Despite the increased margin requirements for forward transactions, imposed by the Bombay Bullion Association, with government approval, in order to check speculation, first in November 1959 and again in January 1960, the price of gold continued to rise as supplies diminished further. During the period under review, it rose from a low of Rs 117.06 per tola (equivalent to $65.55 per fine ounce at par value) on July 28, 1959 to a new high of Rs 136.56 per tola ($76.47 per fine ounce) at the end of April 1960.

In most markets for gold coins, the prices of the sovereign and the napoleon continued in 1959 the gradual decline that began in 1957. In London, there was a sharp reduction in turnover of the new Queen Elizabeth II sovereigns. Sales were high in the first quarter of 1959, but a subsequent reduction of the supply by the Bank of England resulted in an increase in the premium on these coins to equal the premium on earlier mintings. At the end of the year, the premium on both old and new sovereigns was approximately 13 per cent; by the end of April 1960, it had declined for all issues of sovereigns to about 10 per cent. The Chancellor of the Exchequer stated in the House of Commons that 2,072,000 sovereigns had been minted in the calendar year 1957, 8,700,000 in 1958, and 1,385,368 in 1959. Sales of sovereigns may now be made against payment in external sterling or any convertible currency. From the end of April 1959 to the end of April 1960, the price of the sovereign in Paris and Beirut fell by about $2 per fine ounce, to around $38.40 and $38.90 per fine ounce, respectively; in Milan by $1.70, to $39.00; and in Brussels by $1, to $38.70. During the year ended April 1960, the price of the napoleon declined by the equivalent of about $0.50 per fine ounce, to around $38.60, in Beirut; and by $1.50, to $38.00, in Milan. In Paris, however, the price rose by $0.20, to $38.90. In the Federal Republic of Germany, there was an increase in the price for the German 20-mark gold coin; in Frankfurt, it rose from about DM 51 in April 1959 to about DM 55 at the end of April 1960.

Gold Transactions Service

Since the inauguration of the Fund's gold transactions service in March 1952, the central banks of 25 member countries and 3 international organizations have purchased or sold gold through the facilities provided by the Fund. During the year under review, the completion of 12 transactions amounting to a total of about $215 million was facilitated by the Fund. The total number of transactions since March 1952 is 107, amounting to about $946 million.

VII

Fund Administration in 1959-60

Training Program

THE Fund's Training Program during the past year has continued with the increased number of participants and the broadened program which were noted in last year's Annual Report. The main emphasis in the program has been divided among the work and policies of the Fund, the basic problems that arise in the promotion of economic development, and the potentialities and limitations of financial policies. A specialized course in the revised techniques for compiling balance of payments estimates, which continues to be made available to the staff of member governments who are actively engaged in this work, is closely related to the technical work of the Fund. Provision is also made in the program for statistical studies relating to national income accounting, flow of funds, and practical research methods for the analysis of economic statistics. All these studies are intended to help participants to prepare themselves for a broad range of research and advisory functions in central banks or finance ministries. The program has also proved helpful in making possible cooperative interchanges between the Fund and its members at both the technical and the policy level.

The total number of participants in the Fund's Training Program since its inception in 1951 is 191 from 61 member countries.

Information

The Fund's regular program of publications was maintained in 1959-60. The list includes the *Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1959* (Fourteenth Annual Report); the *Tenth Annual Report on Exchange Restrictions;* the *Balance of Payments Yearbook,* Volume 11, 1957-58; *Staff Papers,* Volume VII, Numbers 2 and 3; the monthly *International Financial Statistics;* and the weekly *International Financial 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

As of April 30, 1960 the Fund staff numbered 451, including 10 temporary employees and 2 on extended leave. The net increase during the year was 14. In accordance with the management's policy of recruiting staff members on a broad geographical basis, the 59 staff members appointed during the year came from 24 countries. The total number of nationalities on the staff was 51, an increase of 2 from last year.

During the year, a number of member countries requested technical assistance from the Fund. Experts from the staff were made available to them for a variety of assignments, mainly in connection with stabilization programs. Assignments for more than a year were arranged for 7 countries, and in several other countries staff members served for shorter periods.

In April 1960, the Fund's European Office in Paris was moved to new quarters in a building purchased by the International Bank for Reconstruction and Development.

At the end of the fiscal year, the Fund's income of US$21,002,335 exceeded its total expenditure by $14,123,958. This amount was provisionally transferred to the General Reserve pending action by the Board of Governors. In addition, $15,359,726 was received from the Fund's investment program during the year and was transferred to the Special Reserve.

The administrative budget approved by the Executive Directors for the period May 1, 1960–April 30, 1961 is presented in Appendix VIII. A tabulation comparing the budget with the actual expenditures for the fiscal years 1959 and 1960 and a comparative statement of income are also presented there.

The Executive Board requested the Governments of Germany, Japan, and Peru to nominate members of the Audit Committee. The following nominations were made and confirmed: Mr. Horst Peckolt, Member of the Board of Directors of the Deutsche Revisions- und Treuhand-Aktiengesellschaft; Mr. Takeo Yumoto, Auditor of the Bank of Japan; and Mr. Rodolfo León, Executive Officer of the Central Reserve Bank of Peru. The report of the Committee is submitted separately. Appendix IX gives the Auditors' Certificate, together with the audited Balance Sheet as of April 30, 1960, 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, 1960

	QUOTA		VOTES		
Member	Amount (000,000's)	Per Cent of Total	Governor *Alternate*	Number[1]	Per Cent of Total
Afghanistan	$ 10.00	0.07	Abdullah Malikyar *Habibullah*	350	0.22
Argentina	280.00	1.96	Alvaro Alsogaray *Eustaquio Méndez Delfino*	3,050	1.91
Australia	300.00	2.10	Harold Holt *J. M. Garland*	3,250	2.03
Austria	75.00	0.53	Eugen Margarétha *Franz Stoeger-Marenpach*	1,000	0.63
Belgium	337.50	2.36	Hubert Ansiaux *Maurice Williot*	3,625	2.27
Bolivia	22.50	0.16	Eufronio Hinojosa *Franklin Antezana Paz*	475	0.30
Brazil	280.00	1.96	Sebastião Paes de Almeida *Maurício Chagas Bicalho*	3,050	1.91
Barma	15.00	0.11	Soe Nyun *San Lin*	400	0.25
Canada	550.00	3.85	Donald Methuen Fleming *James Elliott Coyne*	5,750	3.60
Ceylon	45.00	0.32	J. R. Jayawardene *D. W. Rajapatirana*	700	0.44
Chile	75.00	0.53	Eduardo Figueroa *Alvaro Orrego Barros*	1,000	0.63
China	550.00	3.85	Chia-Kan Yen *Pao-hsu Ho*	5,750	3.60
Colombia	75.00	0.53	Hernando Agudelo Villa *Jaime Tobón Villegas*	1,000	0.63
Costa Rica	5.00	0.04	Alvaro Castro *Alvaro Vargas*	300	0.19
Cuba	50.00	0.35	Segundo Ceballos Pareja *René Monserrat*	750	0.47
Denmark	130.00	0.91	Svend Nielsen *Einar Dige*	1,550	0.97
Dominican Republic	15.00	0.11	Oscar Guaroa Ginebra Henríquez *Vacant*	400	0.25
Ecuador	15.00	0.11	Guillermo Pérez Chiriboga *Clemente Vallejo*	400	0.25

Appendix I (*continued*). MEMBERSHIP, QUOTAS, GOVERNORS, AND VOTING POWER as of April 30, 1960

	QUOTA		VOTES		
Member	Amount (000,000's)	Per Cent of Total	Governor *Alternate*	Number[1]	Per Cent of Total
El Salvador	$ 11.25	0.08	Carlos J. Canessa *Miguel Dueñas Palomo*	362	0.23
Ethiopia	7.80	0.05	Yawand-Wossen Mangasha *Stanislaw Kirkor*	328	0.21
Finland	57.00	0.40	Klaus Waris *Jouko J. Voutilainen*	820	0.51
France	787.50	5.52	Wilfrid Baumgartner *Jean Sadrin*	8,125	5.09
Germany, Federal Republic of	787.50	5.52	Karl Blessing *Hans Karl von Mangoldt-Reiboldt*	8,125	5.09
Ghana	35.00	0.25	K. A. Gbedemah *Hubert C. Kessels*	600	0.38
Greece	60.00	0.42	Xenophon Zolotas *John S. Pesmazoglu*	850	0.53
Guatemala	15.00	0.11	Gustavo Mirón *Francisco Fernández*	400	0.25
Haiti	11.25	0.08	Antonio André *Joseph Chatelain*	362	0.23
Honduras	11.25	0.08	Jorge Bueso Arias *Roberto Ramírez*	362	0.23
Iceland	11.25	0.08	Gylfi Gíslason *Thor Thors*	362	0.23
India	600.00	4.20	Morarji R. Desai *H. V. R. Iengar*	6,250	3.91
Indonesia	165.00	1.16	Loekman Hakim *R. Soegiarto*	1,900	1.19
Iran	70.00	0.49	Ebrahim Kashani *Ahmad Majidian*	950	0.59
Iraq	8.00	0.06	Nadhim Al-Zahawi *Vacant*	330	0.21
Ireland	45.00	0.32	Seamas O Riain *J. J. McElligott*	700	0.44
Israel	25.00	0.18	David Horowitz *David Kochav*	500	0.31
Italy	270.00	1.89	Fernando Tambroni *Giuseppe Medici*	2,950	1.85
Japan	500.00	3.50	Eisaku Sato *Masamichi Yamagiwa*	5,250	3.29

Appendix I (*continued*). MEMBERSHIP, QUOTAS, GOVERNORS, AND VOTING POWER
as of April 30, 1960

	QUOTA		VOTES		
Member	Amount (000,000's)	Per Cent of Total	Governor *Alternate*	Number[1]	Per Cent of Total
Jordan	$ 4.50	0.03	Sulaiman Sukkar *Abdul Karim Humud*	295	0.18
Korean	18.75	0.13	In Sang Song *Young Hui Kim*	437	0.27
Lebanon	4.50	0.03	Nasr Harfouche *Farid Solh*	295	0.18
Libya	7.00	0.05	Vacant *Vacant*	320	0.20
Luxembourg	10.00	0.07	Pierre Werner *Pierre Guill*	350	0.22
Malaya	27.50	0.19	Tan Siew Sin *W. H. Wilcock*	525	0.33
Mexico	180.00	1.26	Antonio Ortiz Mena *Rodrigo Gómez*	2,050	1.28
Morocco	52.50	0.37	Abderrahim Bouabid *M'Hammed Zeghari*	775	0.49
Netherlands	412.50	2.89	M. W. Holtrop *E. van Lennep*	4,375	2.74
Nicaragua	11.25	0.08	Guillermo Sevilla Sacasa *Francisco J. Laínez*	362	0.23
Norway	100.00	0.70	Erik Brofoss *Christian Brinch*	1,250	0.78
Pakistan	150.00	1.05	Abdul Qadir *Vaqar Ahmad*	1,750	1.10
Panama	0.50	0.01	Henrique Obarrio *Jaime de la Guardia, Jr.*	255	0.16
Paraguay	8.75	0.06	Vacant *Pedro R. Chamorro*	337	0.21
Peru	27.50	0.19	Enrique Bellido *Emilio G. Barreto*	525	0.33
Philippines	50.00	0.35	Miguel Cuaderno, Sr. *Eduardo Z. Romualdez*	750	0.47
Saudi Arabia	55.00	0.39	Ahmed Zaki Saad *Saleh Al-Shalfan*	800	0.50
Spain	100.00	0.70	Alberto Ullastres *Manuel Varela*	1,250	0.78
Sudan	15.00	0.11	Abdel Magid Ahmed *Mamoun Beheiry*	400	0.25

Appendix I (*concluded*). MEMBERSHIP, QUOTAS, GOVERNORS, AND VOTING POWER as of April 30, 1960

	QUOTA		VOTES		
Member	Amount (000,000's)	Per Cent of Total	Governor *Alternate*	Number[1]	Per Cent of Total
Sweden	$ 150.00	1.05	Per V. Åsbrink *S. F. Joge*	1,750	1.10
Thailand	45.00	0.32	Prince Viwat *Bisudhi Nimmanahaeminda*	700	0.44
Tunisia	12.00	0.08	Hédi Nouira *Mongi Slim*	370	0.23
Turkey	86.00	0.60	Hasan Polatkan *Ziya Müezzinoğlu*	1,110	0.69
Union of South Africa	150.00	1.05	T. E. Dönges *Daniel Hendrik Steyn*	1,750	1.10
United Arab Republic	105.00	0.74	Abd el-Wahab Homad *Albert Mansour*	1,300	0.81
United Kingdom	1,950.00	13.66	Derick Heathcoat Amory *M. H. Parsons*	19,750	12.36
United States	4,125.00	28.89	Robert B. Anderson *C. Douglas Dillon*	41,500	25.98
Uruguay	15.00	0.11	Romeo Maeso *Daniel Rodriguez Larreta*	400	0.25
Venezuela	15.00	0.11	J. J. González Gorrondona *Hernán Avendaño*	400	0.25
Viet-Nam	14.50	0.10	Tran Huu Phuong *Vu Quoc Thuc*	395	0.25
Yugoslavia	66.00	0.46	Zoran Polič *Antonije Tasić*	910	0.57
	$14,276.55	100.00[2]		159,762	100.00

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

Appendix II. Changes in Membership of Board of Governors

Changes in the membership of the Board of Governors between May 1, 1959 and April 30, 1960 were as follows:

Ernesto Betancourt Hernández was appointed Governor for Cuba, May 7, 1959.

René Monserrat was reappointed Alternate Governor for Cuba, May 7, 1959.

Virgilio Alvarez Sánchez succeeded J. A. Turull Ricart as Governor for the Dominican Republic, May 14, 1959.

The term of Saleh Kubba as Alternate Governor for Iraq expired, May 17, 1959.

Jorge Bueso Arias succeeded Fernando Villar as Governor for Honduras, June 4, 1959.

David Horowitz was reappointed Governor for Israel, effective June 14, 1959.

David Kochav succeeded Martin Rosenbluth as Alternate Governor for Israel, effective June 14, 1959.

Romeo Maeso succeeded Carlos Sapelli as Governor for Uruguay, June 16, 1959.

Daniel Rodriguez Larreta was appointed Alternate Governor for Uruguay, June 16, 1959.

Luis Peñaloza succeeded Franklin Antezana Paz as Governor for Bolivia, June 19, 1959.

Franklin Antezana Paz succeeded Santiago Sologuren as Alternate Governor for Bolivia, June 19, 1959.

Prince Viwat was reappointed Governor for Thailand, effective June 22, 1959.

Bisudhi Nimmanahaeminda succeeded Jote Guna-Kasem as Alternate Governor for Thailand, effective June 22, 1959.

D. W. Rajapatirana succeeded Sir Arthur Ranasinha as Alternate Governor for Ceylon, effective July 1, 1959.

Sulaiman Sukkar succeeded Izzeddin Mufti as Governor for Jordan, July 2, 1959.

Zoran Polič succeeded Nikola Mincev as Governor for Yugoslavia, July 17, 1959.

Antonije Tasić succeeded Nikola Miljanic as Alternate Governor for Yugoslavia, July 17, 1959.

Henrique Obarrio was appointed Governor for Panama, effective July 24, 1959.

Jaime de la Guardia, Jr., succeeded Henrique Obarrio as Alternate Governor for Panama, effective July 24, 1959.

A. G. Chandavarkar was appointed Governor for Libya, August 4, 1959.

Ziya Müezzinoğlu succeeded Memduh Aytür as Alternate Governor for Turkey, August 6, 1959.

Erik Brofoss was reappointed Governor for Norway, effective August 7, 1959.

Mongi Slim was appointed Alternate Governor for Tunisia, August 14, 1959.

Fernando Tambroni succeeded Giuseppe Medici as Governor for Italy, August 18, 1959.

Giuseppe Medici succeeded Ugo La Malfa as Alternate Governor for Italy, August 18, 1959.

Miguel Dueñas Palomo was appointed Alternate Governor for El Salvador, August 19, 1959.

Abd el-Wahab Homad succeeded Ahmed Zaki Saad as Governor for the United Arab Republic, August 19, 1959.

Tan Siew Sin succeeded Sir Henry H. S. Lee as Governor for Malaya, effective August 22, 1959.

Nadhim Al-Zahawi succeeded Abdulilah Hafidh as Governor for Iraq, August 25, 1959.

Fernando Berckemeyer succeeded Andrés F. Dasso as Governor for Peru, August 25, 1959.

Sebastião Paes de Almeida succeeded Lucas Lopes as Governor for Brazil, August 27, 1959.

Maurício Chagas Bicalho succeeded José Garrido Torres as Alternate Governor for Brazil, August 27, 1959.

Yawand-Wossen Mangasha succeeded Tadesse Yacob as Governor for Ethiopia, September 9, 1959.

Francisco J. Laínez succeeded Léon DeBayle as Alternate Governor for Nicaragua, September 9, 1959.

M'Hammed Zeghari succeeded Mohamed Tahri as Alternate Governor for Morocco, September 12, 1959.

Habibullah succeeded Mohammad Sarwar as Alternate Governor for Afghanistan, September 13, 1959.

Hubert C. Kessels succeeded A. Eggleston as Alternate Governor for Ghana, September 15, 1959.

Stanislaw Kirkor succeeded Yawand-Wossen Mangasha as Alternate Governor for Ethiopia, September 17, 1959.

Alvaro Alsogaray succeeded Emilio Donato del Carril as Governor for Argentina, September 21, 1959.

Eustaquio Méndez Delfino succeeded César Barros Hurtado as Alternate Governor for Argentina, September 21, 1959.

Eduardo Figueroa succeeded Felipe Herrera as Governor for Chile, September 22, 1959.

José Gutiérrez-Gómez succeeded Hernando Agudelo Villa as Governor for Colombia, September 26, 1959.

Reino Rossi succeeded Klaus Waris as Governor for Finland, September 26, 1959.

R. Soegiarto succeeded Loekman Hakim as Governor for Indonesia, September 26, 1959.

Levi Eshkol succeeded David Horowitz as Governor for Israel, September 26, 1959.

Rodrigo Gómez succeeded Antonio Ortiz Mena as Governor for Mexico, September 26, 1959.

Ernesto Fernandez Hurtado succeeded Rodrigo Gómez as Alternate Governor for Mexico, September 26, 1959.

César Barrientos succeeded Gustavo F. A. Storm as Governor for Paraguay, September 26, 1959.

Edgar F. Taboada succeeded Pedro R. Chamorro as Alternate Governor for Paraguay, September 26, 1959.

Fatin Rustu Zorlu succeeded Hasan Polatkan as Governor for Turkey, September 26, 1959.

Sir Roger Makins succeeded Derick Heathcoat Amory as Governor for the United Kingdom, September 26, 1959.

Nguyen Dinh Thuan succeeded Tran Huu Phuong as Governor for Viet-Nam, September 26, 1959.

Nguyen Huu Hanh succeeded Vu Quoc Thuc as Alternate Governor for Viet-Nam, September 26, 1959.

Hernando Agudelo Villa succeeded José Gutiérrez-Gómez as Governor for Colombia, October 3, 1959.

Klaus Waris succeeded Reino Rossi as Governor for Finland, October 3, 1959.

Loekman Hakim succeeded R. Soegiarto as Governor for Indonesia, October 3, 1959.

David Horowitz succeeded Levi Eshkol as Governor for Israel, October 3, 1959.

Antonio Ortiz Mena succeeded Rodrigo Gómez as Governor for Mexico, October 3, 1959.

Rodrigo Gómez succeeded Ernesto Fernandez Hurtado as Alternate Governor for Mexico, October 3, 1959.

The term of César Barrientos as Governor for Paraguay ended October 3, 1959.

Pedro R. Chamorro succeeded Edgar F. Taboada as Alternate Governor for Paraguay, October 3, 1959.

Enrique Bellido succeeded Fernando Berckemeyer as Governor for Peru, October 3, 1959.

Hasan Polatkan succeeded Fatin Rustu Zorlu as Governor for Turkey, October 3, 1959.

Derick Heathcoat Amory succeeded Sir Roger Makins as Governor for the United Kingdom, October 3, 1959.

Tran Huu Phuong succeeded Nguyen Dinh Thuan as Governor for Viet-Nam, October 3, 1959.

Vu Quoc Thuc succeeded Nguyen Huu Hanh as Alternate Governor for Viet-Nam, October 3, 1959.

M. M. Mustapha succeeded Stanley de Zoysa as Governor for Ceylon, November 28, 1959.

Segundo Ceballos Pareja succeeded Ernesto Betancourt Hernández as Governor for Cuba, December 15, 1959.

Oscar Guaroa Ginebra Henríquez succeeded Virgilio Alvarez Sánchez as Governor for the Dominican Republic, December 31, 1959.

Luis Peñaloza resigned as Governor for Bolivia, January 6, 1960.

James Elliott Coyne was reappointed Alternate Governor for Canada, effective January 13, 1960.

J. M. Garland succeeded B. B. Callaghan as Alternate Governor for Australia, January 21, 1960.

Antonio André succeeded Maurice Télémaque as Governor for Haiti, January 27, 1960.

Joseph Chatelain succeeded Antonio André as Alternate Governor for Haiti, January 27, 1960.

The term of A. G. Chandavarkar as Governor for Libya ended February 13, 1960.

Eufronio Hinojosa was appointed Governor for Bolivia, March 5, 1960.

J. R. Jayawardene succeeded M. M. Mustapha as Governor for Ceylon, March 26, 1960.

Appendix III. Executive Directors and Voting Power as of April 30, 1960

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	41,500	41,500	26.09
The Earl of Cromer *G. J. MacGillivray*	United Kingdom	19,750	19,750	12.42
Jean de Largentaye *Jacques Waitzenegger*	France	8,125	8,125	5.11
B. N. Adarkar *I. G. Patel*	India	6,250	6,250	3.93
Beue Tann *I-Shuan Sun*	China	5,750	5,750	3.61
Louis Rasminsky *C. L. Read*	Canada	5,750	5,750	3.61
ELECTED				
Wilfried Guth (Federal Republic of Germany) *Helmut Koinzer (Federal Republic of Germany)*	Federal Republic of Germany	8,125	8,125	5.11
Ahmed Zaki Saad (United Arab Republic) *Albert Mansour (United Arab Republic)*	Afghanistan	350		
	Ethiopia	328		
	Iran	950		
	Iraq	330		
	Jordan	295		
	Lebanon	295		
	Pakistan	1,750		
	Philippines	750		
	Saudi Arabia	800		
	Sudan	400		
	United Arab Republic	1,300	7,548	4.75
Takeshi Watanabe (Japan) *P. M. Jayarajan (Ceylon)*	Burma	400		
	Ceylon	700		
	Japan	5,250		
	Thailand	700	7,050	4.43
André van Campenhout (Belgium) *Maurice Toussaint (Belgium)*	Austria	1,000		
	Belgium	3,625		
	Korea	437		
	Luxembourg	350		
	Turkey	1,110	6,522	4.10
Pieter Lieftinck (Netherlands) *H. M. H. A. van der Valk (Netherlands)*	Israel	500		
	Netherlands	4,375		
	Yugoslavia	910	5,785	3.64

Appendix III (*concluded*). Executive Directors and Voting Power as of April 30, 1960

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Per Cent of Total
Eero Asp (Finland)	Denmark	1,550		
Thorhallur Ásgeirsson	Finland	820		
(*Iceland*)	Iceland	362		
	Norway	1,250		
	Sweden	1,750	5,732	3.60
Walter Müller (Chile)	Argentina	3,050		
Javier Urrutia (*Chile*)	Bolivia	475		
	Chile	1,000		
	Ecuador	400		
	Paraguay	337		
	Uruguay	400	5,662	3.56
Octavio Paranaguá (Brazil)	Brazil	3,050		
Gabriel Costa Carvalho	Colombia	1,000		
(*Brazil*)	Dominican Republic	400		
	Haiti	362		
	Panama	255		
	Peru	525	5,592	3.52
J. M. Garland (Australia)	Australia	3,250		
Brian Emmott Fleming	Union of South Africa	1,750		
(*Australia*)	Viet-Nam	395	5,395	3.39
Carlo Gragnani (Italy)	Greece	850		
Costa P. Caranicas	Italy	2,950		
(*Greece*)	Spain	1,250	5,050	3.17
Rodrigo Gómez (Mexico)	Costa Rica	300		
Jorge A. Montealegre	Cuba	750		
(*Nicaragua*)	El Salvador	362		
	Guatemala	400		
	Honduras	362		
	Mexico	2,050		
	Nicaragua	362		
	Venezuela	400	4,986	3.13
Soemarno (Indonesia)	Ghana	600		
Aly Jumaa Mouzughi	Indonesia	1,900		
(*Libya*)	Libya	320		
	Malaya	525		
	Morocco	775		
	Tunisia	370	4,490	2.82
			159,062[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 Ireland, which did not participate in the Seventh Regular Election of Executive Directors.
[3] This total is not equal to the sum of the items because of rounding.

Appendix IV. Changes in Membership of Executive Board

Changes in the membership of the Executive Board between May 1, 1959 and April 30, 1960 were as follows:

C. L. Read (Canada) was appointed Alternate Executive Director to Louis Rasminsky (Canada), effective May 1, 1959.

Max Thurn (Austria) served as Temporary Alternate Executive Director to André van Campenhout (Belgium), May 1, 1959.

Lempira Bonilla (Honduras) served as Temporary Alternate Executive Director to Rodrigo Gómez (Mexico), May 1 to 4, 1959.

Thomas Basyn (Belgium) served as Temporary Alternate Executive Director to André van Campenhout (Belgium), May 4 to 15, 1959.

Gabriel Costa Carvalho (Brazil) was appointed Alternate Executive Director to Octavio Paranaguá (Brazil), effective May 15, 1959.

Ismail bin Mohamed Ali (Malaya) served as Temporary Alternate Executive Director to Soemarno (Indonesia), July 1, 1959.

Gengo Suzuki (Japan) served as Temporary Alternate Executive Director to Takeshi Watanabe (Japan), July 17 to 24, 1959.

Yusuke Kashiwagi (Japan) served as Temporary Alternate Executive Director to Takeshi Watanabe (Japan), August 12, 1959.

Wilhelm Hanemann (Federal Republic of Germany) resigned as Alternate Executive Director to Wilfried Guth (Federal Republic of Germany), effective September 13, 1959.

Helmut Koinzer (Federal Republic of Germany) was appointed Alternate Executive Director to Wilfried Guth (Federal Republic of Germany), effective September 14, 1959.

Tun Thin (Burma) resigned as Alternate Executive Director to Takeshi Watanabe (Japan), effective September 24, 1959.

Prayad Buranasiri (Thailand) was appointed Alternate Executive Director to Takeshi Watanabe (Japan), effective October 1, 1959.

Aly Jumaa Mouzughi (Libya) was appointed Alternate Executive Director to Soemarno (Indonesia), effective October 1, 1959.

K. Narayanan Nair (India) served as Temporary Alternate Executive Director to B. N. Adarkar (India), October 7, 1959.

Jorge Marshall (Chile) resigned as Alternate Executive Director to Felipe Herrera (Chile), effective October 15, 1959.

Javier Urrutia (Chile) was appointed Alternate Executive Director to Felipe Herrera (Chile), effective October 16, 1959.

Prayad Buranasiri (Thailand) resigned as Alternate Executive Director to Takeshi Watanabe (Japan), effective October 31, 1959.

P. M. Jayarajan (Ceylon) was appointed Alternate Executive Director to Takeshi Watanabe (Japan), effective November 1, 1959.

C. S. Krishna Moorthi (India) served as Temporary Alternate Executive Director to B. N. Adarkar (India), November 6, 1959.

B. B. Callaghan (Australia) resigned as Executive Director for Australia, the Union of South Africa, and Viet-Nam, effective November 10, 1959.

J. M. Garland (Australia) was elected Executive Director by Australia, the Union of South Africa, and Viet-Nam, effective November 11, 1959.

Brian Emmott Fleming (Australia), formerly Alternate Executive Director to B. B. Callaghan (Australia), was appointed Alternate Executive Director to J. M. Garland (Australia), effective November 11, 1959.

Jorge A. Montealegre (Nicaragua) served as Temporary Alternate Executive Director to Rodrigo Gómez (Mexico), November 25, 1959.

Ching-Yao Hsieh (China) resigned as Alternate Executive Director to Beue Tann (China), effective December 31, 1959.

I-Shuan Sun (China) was appointed Alternate Executive Director to Beue Tann (China), effective January 1, 1960.

Manuel Valladares (Mexico) served as Temporary Alternate Executive Director to Rodrigo Gómez (Mexico), February 10 to 12, 1960.

Felipe Herrera (Chile) resigned as Executive Director for Argentina, Bolivia, Chile, Ecuador, Paraguay, and Uruguay, effective February 23, 1960.

Michel P. Dupuy (Canada) served as Temporary Alternate Executive Director to Louis Rasminsky (Canada), March 18, 1960.

Javier Urrutia (Chile), formerly Alternate Executive Director to Felipe Herrera (Chile), was appointed Alternate Executive Director to Walter Müller (Chile), effective March 25, 1960.

André Feuché (France) resigned as Alternate Executive Director to Jean de Largentaye (France), effective March 31, 1960.

Jorge Hazera (Costa Rica) resigned as Alternate Executive Director to Rodrigo Gómez (Mexico), effective March 31, 1960.

Walter Müller (Chile) was elected Executive Director representing Argentina, Bolivia, Chile, Ecuador, Paraguay, and Uruguay, effective March 31, 1960.

Jorge A. Montealegre (Nicaragua) was appointed Alternate Executive Director to Rodrigo Gómez (Mexico), effective April 1, 1960.

Jacques Waïtzenegger (France) was appointed Alternate Executive Director to Jean de Largentaye (France), effective April 14, 1960.

Appendix V. Summary of Fund Transactions
from the beginning of operations to April 30, 1960[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, 1960 Expressed as Percentage of Quota (8)
Afghanistan						—	—
Argentina	168.5		10.0			158.5	131.6
Australia	50.0		64.1			−14.1	84.2
Austria			7.5			−7.5	75.0
Belgium	83.0	11.4	71.6			0.0	75.0
Bolivia	11.9		1.8			10.1	120.2
Brazil	260.7		168.5			92.2	107.9
Burma	15.0		10.2			4.8	128.4
Canada		15.0				−15.0	72.3
Ceylon			3.0			−3.0	75.0
Chile	63.7		25.7			38.0	130.6
China						—	—
Colombia	40.0		37.6			2.4	78.2
Costa Rica	1.2		2.1			−0.9	74.9
Cuba	72.5		47.5			25.0	125.0
Czechoslovakia	6.0			5.0		1.0	
Denmark	44.2		55.3			−11.1	75.0
Dominican Republic	7.0					7.0	121.7
Ecuador	5.0		5.0			0.0	75.0
El Salvador	10.0		8.0			2.0	92.8
Ethiopia	0.6		2.0			−1.4	74.9
Finland	9.5		18.2			−8.7	75.0
France	518.8	12.5	347.9			158.4	98.0
Germany, Fed. Rep. of		86.4	45.1			−131.5	64.6
Ghana						—	84.2
Greece						—	75.0
Guatemala						—	74.9
Haiti	5.4					5.4	123.3
Honduras	11.3		10.0			1.3	86.1
Iceland	2.8					2.8	100.2
India	300.0		149.9			150.0[3]	113.8
Indonesia	70.0		36.0			34.0	102.9
Iran	51.0		45.9			5.1	82.1
Iraq			2.0			−2.0	74.9
Ireland						—	81.7
Israel	3.8		3.8			0.0	75.0
Italy						—	75.0
Japan	249.0		249.0			0.0	75.0
Jordan						—	89.3
Korea						—	—
Lebanon			0.9			−0.9	74.7
Libya						—	90.2
Luxembourg						—	95.1
Malaya						—	—
Mexico	67.5		67.4			0.0[3]	75.0
Morocco						—	89.3
Netherlands	144.1	12.0	139.1			−7.0	73.3
Nicaragua	8.0		8.0			0.0	75.0
Norway	9.6		9.6			0.0	75.0
Pakistan						—	89.3
Panama						—	75.0
Paraguay	7.1		2.6			4.5	126.4
Peru	14.5		17.6			−3.1	75.0
Philippines	23.8		17.9			5.9	86.7
Saudi Arabia						—	75.0
Spain	50.0					50.0	140.0
Sudan	6.3					6.3	131.7
Sweden			8.0			−8.0	75.0
Thailand						—	—
Tunisia						—	—
Turkey	73.5		38.0			35.5	116.2
Union of South Africa	46.2		46.2			0.0	75.0
United Arab Republic							
Egyptian Region	40.5		18.1			22.4	106.0
Syrian Region			1.4			−1.4	75.0
United Kingdom	861.5	229.6	368.0			263.9	93.8
United States		3,084.5			1,678.5	−1,406.0	54.5
Uruguay						—	—
Venezuela						—	74.9
Viet-Nam						—	—
Yugoslavia	31.9		9.0			22.9	120.6
Total	3,445.3	3,451.5[4]	2,179.5[5]	5.0	1,678.5	−512.2	

[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 $5 million.
[3] After adjustment for effect of administrative items.
[4] $3,445.3 million sold for currency and $6.2 million for gold.
[5] $1,678.5 million repurchased with convertible currency and $500.9 million with gold.

Appendix VI. Executive Board Decision on Fund's Investment Program

The Executive Directors (1) decide that for the purposes of Executive Board Decisions No. 488-(56/5)[1] and No. 708-(57/57)[2] on the investment of the proceeds of the sale of gold, the amount of $500,000,000 shall be substituted for $200,000,000 in Paragraph III of Executive Board Decision No. 488-(56/5), and (2) pursuant to Article XVIII(a), interpret the Articles of Agreement to permit such investment in U.S. securities having a term to maturity not exceeding twelve months.

July 24, 1959

[1] *Annual Report,* 1956, pages 147-48.
[2] *Annual Report,* 1958, pages 155-56.

Appendix VII. Executive Board Decision on Discrimination for Balance of Payments Reasons

The following decision deals exclusively with discriminatory restrictions imposed for balance of payments reasons.

In some countries, considerable progress has already been made towards the elimination of discriminatory restrictions; in others, much remains to be done. Recent international financial developments have established an environment favorable to the elimination of discrimination for balance of payments reasons. There has been a substantial improvement in the reserve positions of the industrial countries in particular and widespread moves to external convertibility have taken place.

Under these circumstances, the Fund considers that there is no longer any balance of payments justification for discrimination by members whose current receipts are largely in externally convertible currencies. However, the Fund recognizes that where such discriminatory restrictions have been long maintained, a reasonable amount of time may be needed fully to eliminate them. But this time should be short and members will be expected to proceed with all feasible speed in eliminating discrimination against member countries, including that arising from bilateralism.

Notwithstanding the extensive moves toward convertibility, a substantial portion of the current receipts of some countries is still subject to limitations on convertibility, particularly in payments relations with state-trading countries. In the case of these countries the Fund will be prepared to consider whether balance of payments considerations would justify the maintenance of some degree of discrimination, although not as between countries having externally convertible currencies. In this connection the Fund wishes to reaffirm its basic policy on bilateralism as stated in its decision of June 22, 1955.[1]

October 23, 1959

[1] *Annual Report*, 1955, pages 123-24.

Appendix VIII (i). Administrative Budget

Letter of Transmittal

July 8, 1960

My dear Mr. Chairman:

The administrative budget of the Fund approved by the Executive Board for the Fiscal Year ending April 30, 1961 is presented herewith, in accordance with Section 20 of the By-Laws. The presentation also shows actual expenditures for the past two fiscal years.

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

Yours sincerely,

/s/

PER JACOBSSON

Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

Appendix VIII (ii). Administrative Budget

As Approved by the Executive Board for the Fiscal Year Ending April 30, 1961, Compared with Actual Expenditures for the Fiscal Years 1958-59 and 1959-60

Category of Expenditure	Budget F. Y. 1960-61	F. Y. 1959-60		Actual Expenditures F. Y. 1958-59
		Budget	Actual Expenditures	
I. Board of Governors	$ 242,000	$ 231,000	$ 225,816.09	$ 443,118.21
II. Office of Executive Directors				
Salaries	$ 751,000	$ 735,000	$ 715,608.93	$ 679,032.42
Other compensations and benefits	130,000	127,000	119,649.64	108,306.26
Travel	205,000	170,000	167,834.99	137,353.12
Total	$1,086,000	$1,032,000	$1,003,093.56	$ 924,691.80
III. Staff				
Salaries	$3,324,000	$3,095,000	$3,070,270.32	$3,006,236.60
Other compensations and benefits	1,098,000	1,015,000	1,001,502.40	951,947.60
Travel	818,000	663,000	619,903.50	516,957.07
Total	$5,240,000	$4,773,000	$4,691,676.22	$4,475,141.27
IV. Other Administrative Expenses				
Communications	$ 177,000	$ 171,000	$ 167,629.15	$ 170,139.81
Office occupancy expenses	204,000	222,000	209,818.43	180,951.42
Books and printing	165,000	144,000	138,665.95	129,718.42
Supplies and equipment	135,000	126,000	120,175.54	141,834.44
Miscellaneous	136,000	126,000	116,462.04	94,052.48
Total	$ 817,000	$ 789,000	$ 752,751.11	$ 716,696.57
Total	$7,385,000	$6,825,000[1]	$6,673,336.98	$6,559,647.85

[1] Includes $125,000 supplementary appropriations approved by the Executive Board on January 27, 1960.

Appendix VIII (iii). Comparative Statement of Income

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

	Year Ended Apr. 30, 1958	Year Ended Apr. 30, 1959	Year Ended Apr. 30, 1960
INCOME			
Service charges			
Received in gold	$ 3,328,658.10	$ 1,317,585.21	$ 807,982.47
Received in members' currencies	—0—	—0—	19,687.53
Total	$ 3,328,658.10	$ 1,317,585.21	$ 827,670.00
Charges on Fund's holdings of members' currencies and securities in excess of quotas			
Received in gold	$10,139,681.95	$19,254,897.90	$11,761,918.30
Received in members' currencies	5,501,019.23	4,546,171.04	5,144,818.16
Total	$15,640,701.18	$23,801,068.94	$16,906,736.46
Income from investments	$ 3,334,657.78[1]	—0—[2]	—0—[3]
Other operational income	$ 1,280,795.52	$ 2,054,058.77	$ 3,267,392.55
Miscellaneous income	496.96	499.31	535.99
TOTAL INCOME	$23,585,309.54	$27,173,212.23	$21,002,335.00
TOTAL ADMINISTRATIVE EXPENDITURE	$ 5,711,426.11	$ 6,559,647.85	$ 6,673,336.98

[1] Excludes income from November 1, 1957 amounting to $2,830,560.24, transferred to Special Reserve.
[2] Excludes income amounting to $4,108,526.63, transferred to Special Reserve.
[3] Excludes income amounting to $15,359,726.47, transferred to Special Reserve.

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

Letter of Transmittal

July 8, 1960

My dear Mr. Chairman:

In accordance with Section 20(b) of the By-Laws of the Fund, I have the honor to submit for the consideration of the Board of Governors the audited financial statements of the International Monetary Fund, and the Staff Retirement Fund, for the year ended April 30, 1960, 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, the Federal Republic of Germany, Japan, and Peru nominated auditors to serve on this Committee. They respectively nominated Mr. Horst Peckolt, Member of the Board of Directors of the Deutsche Revisions- und Treuhand-Aktiengesellschaft; Mr. Takeo Yumoto, Auditor, Bank of Japan; and Mr. Rodolfo León, Executive Officer, Banco Central de Reserva del Peru. The auditors thus nominated were confirmed by the Executive Directors.

It will be noted that, in the period under review, ordinary income amounted to $21,002,335.00 and expenditure amounted to $6,878,376.57, resulting in a net income of $14,123,958.43, which has been transferred provisionally to General Reserve pending Board of Governors' action. In addition, income of $15,359,726.47 from the Fund's gold investment program has been transferred to Special Reserve.

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

Yours sincerely,

/s/

Per Jacobsson

Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

Memorandum by the Audit Committee

June 22, 1960

To the Managing Director
and the Executive Directors
International Monetary Fund

The report of the Audit Committee, dated June 22, 1960, submitted through you to the Board of Governors, on the audit of the financial records and transactions of the Fund for the fiscal year ended April 30, 1960, includes the following paragraphs relating to the scope of the audit conducted and the audit certificate given:

Scope of the Audit

In the carrying out of its assignment, the Committee has taken due note of the requirements of 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, the By-Laws and Rules and Regulations, and to the minutes of the Executive Board. The system of accounting and internal financial control was reviewed, and the work performed by the Internal Auditor, as reported upon by him to the Committee, was taken into account in the audit.

Audit Certificate

We have made an independent examination of the Balance Sheet of the International Monetary Fund as at April 30, 1960, of the Statements of Income and Expenditure and of Reserves for the fiscal year then ended, and of the schedules related to such financial statements. We have obtained from the officers and staff of the Fund all such information and representations as we have required in the conduct of our audit.

In our opinion, based on our examination, such Balance Sheet and related Statement of Income and Expenditure, together with the notes appearing thereon, present fairly the financial position of the International Monetary Fund as at April 30, 1960, and the results of its operations for the fiscal year then ended, and were prepared in conformity with generally accepted acounting principles applied on a basis consistent with that of previous fiscal years.

AUDIT COMMITTEE:

/s/ Horst Peckolt, Chairman (Federal Republic of Germany)

/s/ Takeo Yumoto (Japan)

/s/ Rodolfo León (Peru)

BALANCE

as at April

Values expressed in U.S. dollars on

ASSETS

GOLD ACCOUNT (Schedule 1)			
Gold with depositories (See Note 2)		$ 2,494,644,088.06	
(71,275,545.373 fine ounces, at US$35.00 per ounce)			
Investments (See Note 3)			
$512,870,000 U.S. Treasury bills at cost	$499,978,985.52		
Funds awaiting investment	12,525.79	499,991,511.31	$ 2,994,635,599.37
CURRENCIES AND SECURITIES (Schedule 2)			
With depositories			
Currencies	$2,131,063,531.16		
Securities *(nonnegotiable, noninterest bearing demand obligations, payable at face value by members in their currencies)*	8,572,473,516.13	$10,703,537,047.29	
Add: Currency adjustment receivable *(in accordance with Article IV, Section 8)*		1,886,583.66	
		$10,705,423,630.95	
Deduct: Currency held on behalf of member (Schedule 6)		525,000.00	10,704,898,630.95
SUBSCRIPTIONS TO CAPITAL—RECEIVABLE (Schedule 3)			
Balances not due *(members whose par values have not yet been established)*			632,524,780.41
SUBSCRIPTIONS DUE FROM MEMBERS IN RESPECT OF AUTHORIZED INCREASES IN QUOTAS (Contra) (Schedule 6)			50,525,000.00
WITHDRAWING MEMBER'S CURRENCY *(redeemable by Czechoslovakia in gold or U.S. dollars in installments not later than July 2, 1961)*			990,869.28
OTHER ASSETS (See Note 4) (Schedule 4) *(receivables, accruals, prepayments, and sundry cash)*			8,137,965.87
TOTAL ASSETS			$14,391,712,845.88

NOTES:

1. With the exception of the following currencies, which, for bookkeeping purposes, are computed at provisional rates (the Tunisian dinar represents U.S. cents per currency unit; all other rates represent currency units per U.S. dollar):

Argentine peso	83.0000	Indonesian rupiah	45.0000	Peruvian sol	27.7000
Bolivian boliviano	11,500.0	Korean hwan	500.000	Thai baht	21.0000
Canadian dollar	0.965156	Malayan dollar	3.06122	Tunisian dinar	238.000
Chilean escudo	1.04900	Paraguayan guaraní	110.000	Vietnamese piastre	35.0000
Greek drachma	30.0000				

2. Excludes 4,549.096 fine ounces earmarked for members.
3. Made with the proceeds of the sale of 14,285,471.752 fine ounces of gold. Upon termination of the investment, the same quantity of gold can be reacquired.
4. The assets and liabilities of the Staff Retirement Fund are not included in this Balance Sheet.
5. A stand-by charge has, under certain circumstances, to be credited against the service charge for a drawing under the stand-by arrangement; the maximum amount on April 30, 1960 is $675,771.82. A portion of the stand-by charge is refundable to a member if the arrangement is canceled; the maximum amount on April 30, 1960 is $463,748.71.

SHEET

30, 1960

the basis of established parities (See Note 1)

CAPITAL, RESERVES, AND LIABILITIES

CAPITAL		
Authorized subscriptions of members (Schedule 3)		$14,276,550,000.00
RESERVES (Exhibit C)		
Special reserve	$22,298,813.34	
General reserve	39,762,149.20	62,060,962.54
SUBSCRIPTIONS IN RESPECT OF INCREASES IN QUOTAS CONSENTED TO BUT NOT YET EFFECTIVE (Schedule 6)		
Partial payment made	$ 1,575,000.00	
Payments due (Contra)	50,525,000.00	52,100,000.00
PROVISION FOR POTENTIAL REFUNDS OF STAND-BY CHARGES (See Note 5)		675,771.82
OTHER LIABILITIES (See Note 4) (Schedule 5) (*accruals, potential rebate of interest, etc.*)		326,111.52
TOTAL CAPITAL, RESERVES, AND LIABILITIES		$14,391,712,845.88

/s/Y. C. KOO
Treasurer

/s/PER JACOBSSON
Managing Director

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

Exhibit B

Statement of Income and Expenditure
for the year ended April 30, 1960

Income

Operational charges		$ 4,086,312.55	
Charges on balances in excess of quotas		16,906,736.46	
Other income		9,285.99	
Total Income (See Note 1)			$21,002,335.00

Expenditure

Board of Governors		$ 225,816.09	
Office of Executive Directors			
Salaries	$715,608.93		
Other compensations and benefits	119,649.64		
Travel	167,834.99	1,003,093.56	
Staff			
Salaries	$3,070,270.32		
Other compensations and benefits	1,001,502.40		
Travel	619,903.50	4,691,676.22	
Other administrative expenses			
Communications	$167,629.15		
Office occupancy expenses	209,818.43		
Books and printing (See Note 2)	138,665.95		
Supplies and equipment	120,175.54		
Miscellaneous	116,462.04	752,751.11	
Total Administrative Expenditure		$ 6,673,336.98	
Other expenditure			
Fixed property costs	$191,375.52		
Gold handling and conversion costs	13,625.41		
Exchange adjustments	38.66	205,039.59	
Total Expenditure			6,878,376.57
Net Income (Transferred provisionally to General Reserve pending Board of Governors' action) (Exhibit C)			$14,123,958.43

Notes:

1. Excludes income from investments amounting to $15,359,726.47, transferred to Special Reserve (Exhibit C).
2. After deduction of $24,742.60 for sales of Fund's publications.

Exhibit C

Statement of Reserves
for the year ended April 30, 1960

Special Reserve (See Note)		
Balance, April 30, 1959	$ 6,939,086.87	
Add		
Income from investment in U.S. Treasury bills for year	15,359,726.47	
Balance, April 30, 1960		$22,298,813.34
General Reserve		
Balance, April 30, 1959	$25,584,387.17	
Add		
Net income for year (Exhibit B), transferred provisionally pending Board of Governors' action	14,123,958.43	
Adjustment of income for previous fiscal years, pursuant to settlement agreement with withdrawing member	25,866.60	
Adjustments of past service cost resulting from April 17, 1959 amendments to the Staff Retirement Plan	27,937.00	
Balance, April 30, 1960		39,762,149.20
Total Reserves (carried to Balance Sheet)		$62,060,962.54

Note:
Represents income from investment in U.S. Treasury bills from November 1, 1957.

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Gold Account
as at April 30, 1960

Gold with depositories			$2,494,644,088.06
(71,275,545.373[1] fine ounces at US$35.00 per fine ounce)			
Investments in U.S. Treasury bills:			
Maturing	*Face Value*	*Cost*	
Within 3 months	$311,710,000.00	$306,851,038.35	
Within 4 to 6 months	102,000,000.00	98,811,096.54	
Within 7 to 9 months	52,060,000.00	49,411,599.80	
Within 10 to 12 months	47,100,000.00	44,905,250.83	
	$512,870,000.00	$499,978,985.52	
Funds awaiting investment		12,525.79	499,991,511.31
TOTAL GOLD ACCOUNT (carried to Balance Sheet)			$2,994,635,599.37

[1] Excludes 4,549.096 fine ounces held under earmark by the Fund for the following members:

Member	*Fine Ounces*	*Member*	*Fine Ounces*
Argentina	53.124	Morocco	3.301
Bolivia	0.016	Pakistan	0.945
Brazil	3.077	Paraguay	33.368
Burma	129.391	Peru	131.894
Chile	1,342.725	Philippines	0.622
Colombia	0.324	Saudi Arabia	0.759
Cuba	331.825	Spain	1.114
Dominican Republic	28.256	Sudan	274.810
El Salvador	3.773	Thailand	0.984
Ethiopia	1,072.358	Turkey	254.702
France	0.001	United Arab Republic	
Haiti	545.742	Egyptian Region	1.167
Honduras	18.877	Syrian Region	0.166
India	131.777	United Kingdom	91.530
Indonesia	29.543	Viet-Nam	0.054
Iran	4.467	Yugoslavia	56.961
Lebanon	0.784		
Malaya	0.659	TOTAL	4,549.096

Schedule 2

CURRENCIES AND
as at April

Depositories	National Currencies	Amounts in		
		With Depositories		
		Securities	No. 1 Account	No. 2 Account
Banco Central de la República Argentina	Pesos	17,197,434,000.00	13,387,962,497.34	40,825.90
Reserve Bank of Australia	Pounds	103,770,939.9.6	8,930,252.8.4	945.7.11
Austrian National Bank	Schillings	1,442,700,000.00	19,505,000.00	3,872.45
Banque Nationale de Belgique	Francs	12,486,793,661.	169,150,000.	36,032.
Banco Central de Bolivia	Bolivianos	192,889,039,310.00	118,015,512,060.00	10,816,420.00
Superintendencia da Moeda e do Credito (Brazil)	Cruzeiros		5,591,607,826.70	40,875.40
Union Bank of Burma	Kyats	90,908,512.77	823,718.97	1,186.44
Bank of Canada	Dollars	376,000,000.00	5,814,247.33	1,172.57
Central Bank of Ceylon	Rupees	158,508,344.05	2,142,907.19	1,270.63
Banco Central de Chile	Escudos		102,778,103.34	588.84
Banco de la República (Colombia)	Pesos		114,361,125.82	6,114.48
Banco Central de Costa Rica	Colones		21,035,457.46	5,606.06
Banco Nacional de Cuba	Pesos		62,499,461.77	440.03
Danmarks Nationalbank	Kroner	663,555,642.25	9,850,428.84	5,796.98
Banco Central de la República Dominicana	Pesos	10,747,968.11	7,500,987.33	793.46
Banco Central del Ecuador	Sucres		168,739,475.52	10,495.43
Banco Central de Reserva de El Salvador	Colones		26,091,135.63	1,314.60
State Bank of Ethiopia	Dollars	14,288,691.24	224,519.66	765.16
Bank of Finland	Markkas	13,489,212,753.	185,320,000.	280,732.
Banque de France	New Francs	2,877,000,000.00	932,938,335.07	39,951.55
Deutsche Bundesbank	Marks	2,103,000,000.00	33,135,455.38	3,112.98
Bank of Ghana	Pounds	10,398,869.0.0	125,001.17.2	168.11.6
Bank of Greece	Drachmas		1,349,999,911.50	
Banco de Guatemala	Quetzales		11,238,390.19	140.42
Banque Nationale de la République d'Haiti	Gourdes	41,618,304.50	27,746,500.00	663.60
Banco Central de Honduras	Lempiras	16,640,759.74	2,733,994.50	245.76
National Bank of Iceland	Krónur		428,439,967.74	3,986.08
Reserve Bank of India	Rupees	2,468,880,000.00	783,102,235.64	3,701.71
Bank Indonesia	Rupiah	5,494,200,000.00	2,144,382,167.67	224,222.74
Bank Melli Iran	Rials	4,298,812,500.00	55,374,792.65	25,255.55
Central Bank of Iraq	Dinars	2,100,000.000	39,656.701	35.186
Central Bank of Ireland	Pounds	12,962,382.11.10	160,714.5.9	180.7.3
Bank of Israel	Pounds	33,299,321.93	450,000.00	599.71
Banca d'Italia	Lire		126,561,875,000.	625,000.
Bank of Japan	Yen	133,196,366,218.	1,802,302,794.	1,280,278.

SECURITIES
30, 1960

Members' Currencies					
Totals	Currency Adjustment Receivable[1]	Totals After Currency Adjustment	Exchange Rates[2]	U.S. Dollar Equivalents	Per Cent of Quota
30,585,437,323.24		30,585,437,323.24	83.0000*	368,499,244.85	131.6
112,702,137.5.9		112,702,137.5.9	224.000†	252,452,787.53	84.2
1,462,208,872.45		1,462,208,872.45	26.0000	56,238,802.79	75.0
12,655,979,693.		12,655,979,693.	50.0000	253,119,593.86	75.0
310,915,367,790.00		310,915,367,790.00	11,500.0*	27,036,118.94	120.2
5,591,648,702.10		5,591,648,702.10	18.5000	302,251,281.20	107.9
91,733,418.18		91,733,418.18	21.0000†	19,264,017.81	128.4
383,636,267.44	+1,820,847.54	383,636,267.44	0.965156*	397,486,279.36	72.3
160,652,521.87		160,652,521.87	21.0000†	33,737,029.59	75.0
102,778,692.18		102,778,692.18	1.04900*	97,977,780.92	130.6
114,367,240.30		114,367,240.30	1.94998	58,650,468.36	78.2
21,041,063.52		21,041,063.52	5.61500	3,747,295.37	74.9
62,499,901.80		62,499,901.80	1.00000	62,499,901.80	125.0
673,411,868.07		673,411,868.07	6.90714	97,495,036.74	75.0
18,249,748.90		18,249,748.90	1.00000	18,249,748.90	121.7
168,749,970.95		168,749,970.95	15.0000	11,249,998.06	75.0
26,092,450.23		26,092,450.23	2.50000	10,436,980.10	92.8
14,513,976.06		14,513,976.06	40.2500†	5,841,875.37	74.9
13,674,813,485.		13,674,813,485.	320.000	42,733,792.14	75.0
3,809,978,286.62		3,809,978,286.62	4.93706	771,709,942.07	98.0
2,136,138,568.36		2,136,138,568.36	4.20000	508,604,421.03	64.6
10,524,039.8.8		10,524,039.8.8	280.000†	29,467,310.41	84.2
1,349,999,911.50		1,349,999,911.50	30.0000*	44,999,997.05	75.0
11,238,530.61		11,238,530.61	1.00000	11,238,530.61	74.9
69,365,468.10		69,365,468.10	5.00000	13,873,093.62	123.3
19,375,000.00		19,375,000.00	2.00000	9,687,500.00	86.1
428,443,953.82		428,443,953.82	38.0000	11,274,840.89	100.2
3,251,985,937.35		3,251,985,937.35	21.0000†	682,917,046.84	113.8
7,638,806,390.41		7,638,806,390.41	45.0000*	169,751,253.12	102.9
4,354,212,548.20		4,354,212,548.20	75.7500	57,481,353.77	82.1
2,139,691.887		2,139,691.887	280.000†	5,991,137.29	74.9
13,123,277.4.10		13,123,277.4.10	280.000†	36,745,176.27	81.7
33,749,921.64		33,749,921.64	1.80000	18,749,956.47	75.0
126,562,500,000.		126,562,500,000.	625.000	202,500,000.00	75.0
134,999,949,290.		134,999,949,290.	360.000	374,999,859.13	75.0

Schedule 2
(concluded)

CURRENCIES AND
as at April

Depositories	National Currencies	Amounts		
		With Depositories		
		Securities	No. 1 Account	No. 2 Account
Ottoman Bank (Jordan)	Dinars	1,419,329.467	16,071.429	57.708
Bank of Korea	Hwan	2,312,500,000.00	31,250,000.00	
Banque de Syrie et du Liban (Lebanon)	Pounds	7,000,000.00	361,572.00	2,106.41
National Bank of Libya	Pounds	2,230,653.409	25,000.000	27.784
Caisse d'Epargne de l'Etat (Luxembourg)	Francs	470,676,334.	5,000,000.	12,452.
Central Bank of Malaya	Dollars	5,357,135.00	381,152.50	1,480.35
Banco de México	Pesos		1,687,496,912.77	2,512.15
Banque du Maroc	Dirhams	234,671,163.26	2,656,757.25	1,477.01
De Nederlandsche Bank N.V.	Guilders	1,133,000,000.00	15,999,405.27	3,962.47
Banco Nacional de Nicaragua	Córdobas		59,060,172.56	1,565.35
Norges Bank	Kroner	528,357,542.23	7,227,857.14	3,567.21
State Bank of Pakistan	Rupees	630,851,698.0.0	7,144,808.14.10	3,880.5.9
Banco Nacional de Panama	Balboas	369,000.00	4,999.75	786.23
Banco Central del Paraguay	Guaraníes		1,216,615,197.60	50,424.00
Banco Central de Reserva del Peru	Soles	563,685,912.00	7,617,500.00	7,542.47
Central Bank of the Philippines	Pesos	22,000,000.00	64,657,702.42	263.22
Saudi Arabian Monetary Agency	Riyals	183,139,882.20	2,475,000.00	4,500.00
Banco de España	Pesetas		8,399,899,919.60	22,495.00
Bank of Sudan	Pounds	6,824,628.913	52,237.319	171.436
Sveriges Riksbank	Kronor		581,834,594.61	10,236.24
Bank of Thailand	Baht	505,029,000.00	6,825,000.00	14,650.60
Banque Centrale de Tunisie	Dinars	652,000.000	9,764.704	
Banque Central de la République de Turquie	Liras	168,550,000.00	111,147,264.33	3,558.30
South African Reserve Bank	Pounds	39,627,065.5.11	549,461.0.2	1,085.18
National Bank of Egypt (United Arab Republic—Egyptian Region)	Pounds	23,294,134.660	9,931,534.796	305.677
Banque Centrale de Syrie (United Arab Republic—Syrian Region)	Pounds	24,317,697.01	328,722.00	6,539.12
Bank of England	Pounds	646,175,000.0.0	6,981,853.13.6	1,786.4.6
Federal Reserve Bank of New York	Dollars	2,191,000,000.00	58,059,403.25	778,983.74
Riggs National Bank of Washington, D.C.[4]	Dollars			133,058.79
Banco Central de Venezuela	Bolívares	32,659,359.42	4,987,000.00	7,768.48
National Bank of Viet-Nam	Piastres		52,500,000.00	
Banque Nationale de la République Fédérative Populaire de Yougoslavie	Dinars		23,883,498,396.	80,763.
TOTALS (in U.S. dollar equivalents)		$8,572,473,516.13	$2,130,085,595.33	$977,935.83

[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.

SECURITIES
30, 1960

Members' Currencies: Totals	Currency Adjustment Receivable[1]	Totals After Currency Adjustment	Exchange Rates[2]	U.S. Dollar Equivalents	Per Cent of Quota
1,435,458.604		1,435,458.604	280.000†	4,019,284.09	89.3
2,343,750,000.00		2,343,750,000.00	500.000*	4,687,500.00[3]	—
7,363,678.41		7,363,678.41	2.19148	3,360,139.45	74.7
2,255,681.193		2,255,681.193	280.000†	6,315,907.34	90.2
475,688,786.		475,688,786.	50.0000	9,513,775.72	95.1
5,739,767.85		5,739,767.85	3.06122*	1,874,993.58[3]	—
1,687,499,424.92		1,687,499,424.92	12.5000	134,999,953.99	75.0
237,329,397.52		237,329,397.52	5.06049	46,898,501.43	89.3
1,149,003,367.74		1,149,003,367.74	3.80000	302,369,307.30	73.3
59,061,737.91		59,061,737.91	7.00000	8,437,391.13	75.0
535,588,966.58		535,588,966.58	14.0000†	74,982,455.32	75.0
638,000,387.4.7		638,000,387.4.7	21.0000†	133,980,081.33	89.3
374,785.98		374,785.98	1.00000	374,785.98	75.0
1,216,665,621.60		1,216,665,621.60	110.000*	11,060,596.56	126.4
571,310,954.47		571,310,954.47	27.7000*	20,624,944.21	75.0
86,657,965.64		86,657,965.64	2.00000	43,328,982.82	86.7
185,619,382.20		185,619,382.20	4.50000	41,248,751.60	75.0
8,399,922,414.60		8,399,922,414.60	60.0000	139,998,706.91	140.0
6,877,037.668		6,877,037.668	287.156†	19,747,826.29	131.7
581,844,830.85		581,844,830.85	5.17321	112,472,687.34	75.0
511,868,650.60		511,868,650.60	21.0000*	24,374,697.64[3]	—
661,764.704		661,764.704	238.000†*	1,575,000.00[3]	—
279,700,822.63		279,700,822.63	2.80000	99,893,150.94	116.2
40,177,612.4.5		40,177,612.4.5	280.000†	112,497,314.21	75.0
33,225,975.133		33,225,975.133	287.156†	95,410,381.16	106.0
24,652,958.13		24,652,958.13	2.19148	11,249,456.14	75.0
653,158,639.18.0		653,158,639.18.0	280.000†	1,828,844,191.72	93.8
2,249,838,386.99		2,249,838,386.99	1.00000	2,249,838,386.99	
					54.5
133,058.79		133,058.79	1.00000	133,058.79	
37,654,127.90		37,654,127.90	3.35000	11,240,038.18	74.9
52,500,000.00		52,500,000.00	35.0000*	1,500,000.00[3]	—
23,883,579,159.		23,883,579,159.	300.000	79,611,930.53	120.6
10,703,537,047.29	+$1,886,583.66	$10,705,423,630.95		$10,705,423,630.95	

[1] Represents currency paid in respect of an increase in quota.

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

Status of Subscriptions to Capital
as at April 30, 1960
(Expressed in U.S. dollars)

Members	Quotas	Payments on Subscriptions			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	280,000,000.00		70,000,247.02	$ 209,999,752.98		
Australia	300,000,000.00		33,404,938.80	266,595,061.20		
Austria	75,000,000.00		11,250,003.72	63,749,996.28		
Belgium	337,500,000.00	$ 22,500.00	84,352,500.00	253,125,000.00		
Bolivia	22,500,000.00	1,000.00	5,625,040.06	16,873,959.94		
Brazil	280,000,000.00	15,000.00	69,985,030.14	209,999,969.86		
Burma	15,000,000.00		500,369.14	14,499,630.86		
Canada	550,000,000.00	30,000.00	137,470,000.00	412,500,000.00		
Ceylon	45,000,000.00		8,251,013.06	36,748,986.94		
Chile	75,000,000.00	5,000.00	15,063,013.93	59,931,986.07		
China	550,000,000.00	55,000.00				549,945,000.00
Colombia	75,000,000.00	5,000.00	18,745,150.61	56,249,849.39		
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	130,000,000.00	6,800.00	21,434,983.32	108,558,216.68		
Dominican Republic	15,000,000.00	500.00	3,749,544.56	11,249,955.44		
Ecuador	15,000,000.00	500.00	3,749,983.79	11,249,516.21		
El Salvador	11,250,000.00	250.00	2,812,287.80	8,437,462.20		
Ethiopia	7,800,000.00	600.00	511,752.22	7,287,647.78		
Finland	57,000,000.00		5,510,222.44	51,489,777.56		
France	787,500,000.00	52,500.00	173,681,306.15	613,766,193.85		
Germany, Federal Republic of	787,500,000.00		147,384,651.50	640,115,348.50		
Ghana	35,000,000.00		5,529,920.65	29,470,079.35		
Greece	60,000,000.00	4,000.00	14,996,002.95	44,999,997.05[2]		
Guatemala	15,000,000.00	500.00	3,749,559.81	11,249,940.19		
Haiti	11,250,000.00		2,812,839.10	8,437,160.90		
Honduras	11,250,000.00	250.00	2,812,309.44	8,437,440.56		
Iceland	11,250,000.00	100.00	2,812,400.28	8,437,499.72		
India	600,000,000.00	40,000.00	[illegible]	[illegible]		

Iran	70,000,000.00	2,300.00	17,514,707.14	32,482,792.80		
Iran	8,000,000.00	8,00.00		7,999,200.00		
Ireland	45,000,000.00		8,253,488.74	36,746,511.26		
Israel	25,000,000.00		6,250,047.56	18,749,952.44		
Italy	270,000,000.00	18,000.00	67,482,000.18	202,499,999.82		
Japan	500,000,000.00		125,000,093.99	374,999,906.01		
Jordan	4,500,000.00		472,617.49	4,027,382.51		
Korea	18,750,000.00		4,687,525.02	4,687,500.00[2]		9,374,974.98
Lebanon	4,500,000.00	450.00	267,415.12	4,232,134.88		
Libya	7,000,000.00		681,310.45	6,318,689.55		
Luxembourg	10,000,000.00	1,000.00	479,995.96	9,519,004.04		
Malaya	27,500,000.00		1,500,010.50	1,875,000.00[2]		24,124,989.50
Mexico	180,000,000.00	9,000.00	44,991,205.14	134,999,794.86		
Morocco	52,500,000.00		5,600,000.00	46,900,000.00		
Netherlands	412,500,000.00	27,500.00	103,097,500.00	309,375,000.00		
Nicaragua	11,250,000.00	200.00	2,812,475.62	8,437,324.38		
Norway	100,000,000.00	5,000.00	24,995,054.90	74,999,945.10		
Pakistan	150,000,000.00		16,000,607.22	133,999,392.78		
Panama	500,000.00	50.00	124,950.25	374,999.75		
Paraguay	8,750,000.00	200.00	2,187,996.47	6,561,803.53		
Peru	27,500,000.00	2,500.00	3,774,921.00	23,722,579.00		
Philippines	50,000,000.00	1,500.00	12,498,548.79	37,499,951.21		
Saudi Arabia	55,000,000.00		13,751,248.40	41,248,751.60		
Spain	100,000,000.00		10,000,001.34	89,999,998.66		
Sudan	15,000,000.00		1,600,374.01	13,399,625.99		
Sweden	150,000,000.00		29,500,086.78	120,499,913.22		
Thailand	45,000,000.00		11,250,008.14	24,375,000.00[2]		9,374,991.86
Tunisia	12,000,000.00		420,001.02			11,579,998.98
Turkey	86,000,000.00	4,300.00	21,495,912.23	64,499,787.77		
Union of South Africa	150,000,000.00	10,000.00	37,494,519.20	112,495,480.80		
United Arab Republic						
Egyptian Region	90,000,000.00	4,500.00	16,984,075.69	73,011,424.31		
Syrian Region	15,000,000.00	650.00	2,294,187.17	12,705,162.83		
United Kingdom	1,950,000,000.00	130,000.00	398,635,323.70	1,551,234,676.30		
United States	4,125,000,000.00	275,000.00	1,031,250,000.51	3,093,474,999.49		
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	14,500,000.00		3,625,004.30	1,500,000.00[2]		9,374,995.70
Yugoslavia	66,000,000.00	6,000.00	9,396,966.11	56,597,033.89		
TOTALS	$14,276,550,000.00	$747,150.00	$3,012,168,033.96	$10,631,110,035.63	-0-	$632,524,780.41

[1] As per Article XX, Section 2(d), of the Articles of Agreement.
[2] Accepted at a provisional rate, subject to such adjustment as may be necessary when a par value for the member's currency is agreed upon.

Schedule 4

Other Assets
as at April 30, 1960

Accounts Receivable—Members		$2,616,938.67
Accrued Income from Investments		5,314,745.85
Sundry Debtors		120,038.03
Prepayments and Deferred Charges		57,525.75
Sundry Cash		28,717.57
Fixed Property		
At cost	$5,729,509.35	
Less: Reserve	5,729,509.35	—
Furniture, Equipment, and Automobiles		
At cost	$812,239.89	
Less: Reserve	812,239.89	—
Libraries		
At cost	$80,203.05	
Less: Reserve	80,203.05	—
Total Other Assets (carried to Balance Sheet)		$8,137,965.87

Schedule 5

Other Liabilities
as at April 30, 1960

Accruals	$286,551.23
Potential Rebate of Interest Received from Withdrawing Member	28,403.09
Accounts Payable	3,198.38
Deferred Credits	7,958.82
Total Other Liabilities (carried to Balance Sheet)	$326,111.52

Schedule 6

STATUS OF SUBSCRIPTIONS IN RESPECT OF INCREASES IN QUOTAS CONSENTED TO BUT NOT YET EFFECTIVE

as at April 30, 1960

(Expressed in U.S. dollars)

Members	Quota Increases Consented to	Payments on Subscriptions: Paid in Gold	Payments on Subscriptions: Paid in Member's Currency and Securities	Payments on Subscriptions: Total	Subscriptions Due[1]
Cuba	$50,000,000.00	—	—	—	$50,000,000.00
Tunisia	2,100,000.00[2]	—	$1,575,000.00	$1,575,000.00	525,000.00[3]
TOTALS	$52,100,000.00	—	$1,575,000.00	$1,575,000.00	$50,525,000.00

[1] Thirty-day period expired.

[2] Represents one fifth of quota increase consented to.

[3] At April 30, 1960, the Fund held $525,000 in suspense pending completion of arrangements for the purchase of gold on behalf of Tunisia (see Balance Sheet).

Staff Retirement Fund

Memorandum by the Audit Committee

June 22, 1960

To the Managing Director
and the Executive Directors
International Monetary Fund

The report of the Audit Committee, dated June 22, 1960, submitted through you to the Board of Governors, on the audit of the financial records and transactions of the International Monetary Fund for the fiscal year ended April 30, 1960, includes the following paragraphs relating to the scope of the audit conducted, the investments held, and the audit certificate given with respect to the Staff Retirement Fund:

Scope of the Audit

The Audit Committee made an examination of the separate accounts and financial statements relating to the Staff Retirement Fund for the fiscal year ended April 30, 1960. In the course of the examination, the Committee referred to the Articles of the Staff Retirement Plan and to the decisions of the Pension, Administration and Investment Committees created under the Plan. The Committee made a test check of the various classes of transactions, and took into account the work done by the Internal Auditor, as reported upon by him to the Committee. This report showed that a detailed examination had been made of the participants' accounts.

Investments

The Audit Committee received confirmation directly from the depository regarding the investments held as at April 30, 1960, and ascertained that the holdings of the various classes of investments were within the limiting percentages prescribed by the Pension Committee, as follows:

	Authorized Percentage	*Actual Percentage*	*Book Value*
Bonds:			
U.S. Government	Minimum 30	37.86	$3,108,238
International Bank for Reconstruction and Development	Maximum 20	15.39	1,263,637
Corporate (other than convertible)	Maximum 25	15.00	1,231,261
Corporate convertible	Maximum 5	—	—
Corporate stocks	Maximum 35	31.75	2,606,820
Totals		100.00	$8,209,956

It was determined that due consideration to the advice of the Investment Consultant had been given by the Investment Committee in reaching decisions in regard to purchases and sales of investments.

AUDIT CERTIFICATE

As a result of our examination of the separate accounts and financial statements relating to the Staff Retirement Fund for the fiscal year ended April 30, 1960, we report that, in our opinion, the Balance Sheet and the related Statements of Participants' Account, Accumulation Account, Retirement Reserve Account and Reserve Against Investments, present fairly the financial position of the Staff Retirement Fund as at April 30, 1960, and the results of its operations for the fiscal year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of previous fiscal years.

AUDIT COMMITTEE:

/s/ Horst Peckolt, Chairman (Federal Republic of Germany)

/s/ Takeo Yumoto (Japan)

/s/ Rodolfo León (Peru)

Exhibit I

Staff Retirement Fund
Balance Sheet
as at April 30, 1960

Assets

Cash at Banks			$ 14,855.62
Investments			
Bonds, at amortized value			
United States Government (*market value, $2,938,159*)	$3,108,237.65		
International Bank for Reconstruction and Development (*market value, $1,238,095*)	1,263,637.04		
Commercial (*market value, $1,023,557*)	1,231,260.82	$5,603,135.51	
Corporate stocks (common), at cost (*market value, $3,346,551*)		2,606,820.26	8,209,955.77
Accrued Interest on Bonds			58,501.03
Accrued Contributions from Participants and Employer			19,679.67
Total Assets			$8,302,992.09

Liabilities and Reserves

Participants' Account (Exhibit II)	$1,766,228.19
Accumulation Account (Exhibit III)	5,699,323.45
Retirement Reserve Account (Exhibit IV)	567,020.79
Reserve Against Investments (Exhibit V)	270,419.66
Total Liabilities and Reserves	$8,302,992.09

/s/ Y. C. Koo
Treasurer

/s/ Per Jacobsson
Managing Director

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

Exhibit II

Staff Retirement Fund
Statement of Participants' Account

for the year ended April 30, 1960

	Prior Service	*Participating Service*	*Additional Contributions*
Balance, April 30, 1959	—	$1,516,803.47	$7,610.06
Add			
Participants' contributions	$602.37	$ 251,960.96	$3,560.00
Interest credited to participants		47,977.77	228.99
Transfers from prior service contributions		602.37	
	$602.37	$ 300,541.10	$3,788.99
Deduct			
Refunds on withdrawals of participants		$ 33,397.25	$2,755.89
Transfers to Retirement Reserve Account		19,630.56	
Transfers to IBRD Retirement Plan (net)		6,731.73	
Transfers to participating service contributions	$602.37		
	$602.37	$ 59,759.54	$2,755.89
Balance, April 30, 1960	-0-	$1,757,585.03	$8,643.16
Total (carried to Balance Sheet)		$1,766,228.19	

Exhibit III

Staff Retirement Fund
Statement of Accumulation Account

for the year ended April 30, 1960

Balance, April 30, 1959		$5,013,496.48
Add		
Employer's contributions—participating service		501,763.67
Benefits and interest refunded by participant restored to service		172.42
Income from investments		
Interest earned on bonds	$209,254.61	
Dividends received on corporate stocks	112,549.92	
Other	334.67	322,139.20
Net profit on sale of investments	$ 28,654.60	
Less: Transfer to Reserve Against Investments	28,654.60	—
		$5,837,571.77
Deduct		
Transfers to Retirement Reserve Account	$ 40,219.05	
Withdrawal benefits	8,439.47	
Interest transferred to Participants' Account	48,206.76	
Interest transferred to Retirement Reserve Account	15,692.40	
Transfers to IBRD Retirement Plan (net)	11,430.64	
Adjustment of employer's prior service contributions under the April 17, 1959 amendments	14,260.00	138,248.32
Balance, April 30, 1960 (carried to Balance Sheet)		$5,699,323.45

Exhibit IV

STAFF RETIREMENT FUND
STATEMENT OF RETIREMENT RESERVE ACCOUNT

for the year ended April 30, 1960

BALANCE, April 30, 1959		$520,157.24
Add		
Transfers from		
Accumulation Account	$40,219.05	
Participants' Account	19,630.56	59,849.61
Interest credited		15,692.40
		$595,699.25
Deduct		
Pension payments to retired participants		28,678.46
BALANCE, April 30, 1960 (carried to Balance Sheet)		$567,020.79

Exhibit V

STAFF RETIREMENT FUND
STATEMENT OF RESERVE AGAINST INVESTMENTS

for the year ended April 30, 1960

BALANCE, April 30, 1959			$241,765.06
Add			
Transfer from Accumulation Account, representing			
Profits on sale of			
Bonds	$ 515.63		
Corporate stocks	50,840.08	$51,355.71	
Less: Losses on sale of bonds		22,701.11	28,654.60
BALANCE, April 30, 1960 (carried to Balance Sheet)			$270,419.66

Appendix X (i). SCHEDULE OF PAR VALUES—as of June 30, 1960

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[1]	Peso				
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[2]	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[3,4]	Dollar				
Ceylon	Rupee	0.186 621	166.667	4.761 90	21.000 0
Chile[5]	Escudo				
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
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	New Franc	0.180 000	172.797	4.937 06	20.255 0
Germany, Federal Republic of	Deutsche Mark	0.211 588	147.000	4.200 00	23.809 5
Ghana	Pound	2.488 28	12.500 0	0.357 143	280.000
Greece[4]	Drachma	Par value not yet established			
Guatemala	Quetzal	0.888 671	35.000 0	1.000 00	100.000
Haiti	Gourde	0.177 734	175.000	5.000 00	20.000 0

Honduras	Lempira	0.444 335	70.000 0	2.000 00	50.000 0
Iceland	Krόna	0.023 386 1	1,330.00	38.000 0	2.631 58
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	0.001 421 87	21,875.0	625.000	0.160 000
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[4]	Hwan	Par value not yet established			
Lebanon	Pound	0.405 512	76.701 8	2.191 48	45.631 3
Libya	Pound	2.488 28	12.500 0	0.357 143	280.000
Luxembourg	Franc	0.017 773 4	1,750.00	50.000 0	2.000 00
Malaya[4]	Dollar	Par value not yet established			
Mexico	Peso	0.071 093 7	437.500	12.500 0	8.000 00
Morocco	Dirham	0.175 610	177.117	5.060 49	19.760 9
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[6]	Guaraní				
Peru[4,7]	Sol				
Philippines	Peso	0.444 335	70.000 0	2.000 00	50.000 0
Saudi Arabia	Riyal	0.197 482	157.500	4.500 00	22.222 2
Spain	Peseta	0.014 811 2	2,100.00	60.000 0	1.666 67
Sudan	Pound	2.551 87	12.188 5	0.348 242	287.156
Sweden	Krona	0.171 783	181.062	5.173 21	19.330 4
Thailand[4]	Baht	Par value not yet established			
Tunisia[4]	Dinar	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 Arab Republic					
Egyptian Region	Pound	2.551 87	12.188 5	0.348 242	287.156
Syrian Region	Pound	0.405 512	76.701 8	2.191 48	45.631 3
United Kingdom	Pound Sterling	2.488 28	12.500 0 (or 250 shillings)	0.357 143	280.000

Appendix X(i) (*concluded*). SCHEDULE OF PAR VALUES—as of June 30, 1960

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
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[4]	Piastre	Par value not yet established			
Yugoslavia	Dinar	0.002 962 24	10,500.0	300.000	0.333 333

[1] The par value agreed by the Government of Argentina and the Fund as of January 9, 1957 was 0.0493706 gram of fine gold per peso or 5.55556 U.S. cents per peso. Computations by the Fund involving Argentine pesos are made at the rate of 83 pesos per U.S. dollar.

[2] The par value agreed by the Government of Bolivia and the Fund as of May 14, 1953 was 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 11,500 bolivianos per U.S. dollar.

[3] The par value agreed by the Government of Canada and the Fund as of September 19, 1949 was 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*.

[4] For the rate at which Fund holdings of the member's currency are provisionally carried in the Fund's accounts, see Note 1 to the Balance Sheet (Appendix IX, Exhibit A).

[5] The par value agreed by the Government of Chile and the Fund as of October 5, 1953 was 0.00807883 gram of fine gold per peso or 0.909091 U.S. cent per peso. Effective January 1, 1960, the Government of Chile established a new monetary unit, the escudo, having a ratio to the peso, which remains a fractional unit, of 1 to 1,000. Computations by the Fund involving Chilean escudos are made at the rate of 1.049 escudos per U.S. dollar.

[6] The par value agreed by the Government of Paraguay and the Fund as of March 1, 1956 was 0.0148112 gram of fine gold per guaraní or 1.66667 U.S. cents per guaraní. As of June 30, 1960, computations by the Fund involving guaraníes are made at the rate of 122 guaraníes per U.S. dollar.

[7] 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*.

Appendix X (ii). Schedule of Par Values—as of June 30, 1960

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	New Franc (parity with French new franc)	0.180 000	172.797	4.937 06	20.255 0
French Antilles French Guiana	Franc (= 0.01 French new franc)	0.001 800 00	17,279.7	493.706	0.202 550
French Equatorial Africa French West Africa Réunion St. Pierre and Miquelon	CFA[1] Franc (= 0.02 French new franc)	0.003 600 00	8,639.86	246.853	0.405 099
French Possessions of Oceania New Caledonia New Hebrides	CFP[2] Franc (= 0.055 French new franc)	0.009 900 00	3,141.77	89.764 7	1.114 02
French Somaliland	Djibouti Franc	0.004 145 07	7,503.73	214.392	0.466 435

Appendix X (ii) (*concluded*). Schedule of Par Values—as of June 30, 1960

Separate Currencies in Nonmetropolitan Areas of Members

		Par Values In Terms of Gold		Par Values In Terms of U.S. Dollars	
Member and Nonmetropolitan Areas	Currency and Relation to Metropolitan Unit	Grams of fine gold per currency unit	Currency units per troy ounce of fine gold	Currency units per U.S. dollar	U.S. cents per currency unit
ITALY					
Somaliland	Somalo	Par value not yet established			
NETHERLANDS					
Netherlands Antilles	Guilder (= 2.015 Netherlands guilders)	0.471 230	66.004 9	1.885 85	53.026 4
New Guinea	Guilder	Par value not yet established			
Surinam	Guilder	0.471 230	66.004 9	1.885 85	53.026 4
UNITED KINGDOM					
Gambia					
Nigeria	British West African Pound[3]				
Sierra Leone					
Federation of Rhodesia and Nyasaland	Rhodesia and Nyasaland Pound[3]				
Bahamas	Bahamas Pound[3]	2.488 28	12.500 0	0.357 143	280.000
Bermuda	Bermuda Pound[3]				
Cyprus	Cyprus Pound[3]				
Falkland Islands	Falkland Islands Pound[3]				
Gibraltar	Gibraltar Pound[3]				
Jamaica	Jamaican Pound[3]				
Malta	Maltese Pound[3]				

Aden Kenya Tanganyika Uganda Zanzibar	British East African Shilling (20 per pound sterling)	0.124 414	250.000	7.142 86	14.000 0
Barbados British Guiana Leeward Islands Trinidad Windward Islands	British West Indian Dollar (4.80 per pound sterling)	0.518 391	60.000 0	1.714 29	58.333 3
British North Borneo Brunei Sarawak Singapore	Malayan Dollar (8.571 43 per pound sterling, or 2 shillings 4 pence per Malayan dollar)	0.290 299	107.143	3.061 22	32.666 7
British Honduras	British Honduras Dollar (4.00 per pound sterling)	0.622 070	50.000 0	1.428 57	70.000 0
Fiji	Fiji Pound (1.11 per pound sterling)	2.241 69	13.875 0	0.396 429	252.252
Hong Kong	Hong Kong Dollar (16 per pound sterling)	0.155 517	200.000	5.714 29	17.500 0
Mauritius Seychelles	Mauritius Rupee (13⅓ per pound sterling) Seychelles Rupee (13⅓ per pound sterling)	0.186 621	166.667	4.761 90	21.000 0
Tonga	Tongan Pound (1.250 00 per pound sterling)	1.990 62	15.625 0	0.446 429	224.000

[1] Colonies Françaises d'Afrique.
[2] Colonies Françaises du Pacifique.
[3] Parity with sterling.

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INDEX

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INDEX