ANNUAL REPORT
1962

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September 17, 1962

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C.

ANNUAL REPORT

1962

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INTERNATIONAL MONETARY FUND

ANNUAL REPORT OF THE EXECUTIVE DIRECTORS FOR THE FISCAL YEAR ENDED APRIL 30, 1962

WASHINGTON, D. C.

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INTERNATIONAL MONETARY FUND

Per Jacobsson
Managing Director and Chairman of the Executive Board

H. Merle Cochran
Deputy Managing Director

Executive Directors	Alternate Executive Directors
Frank A. Southard, Jr.	John S. Hooker
D.B. Pitblado	Raymond H. Bonham Carter
Jean de Largentaye	Jacques Waïtzenegger
Wilhelm Hanemann	Walter Habermeier
J.J. Anjaria	S.L.N. Simha
Ahmed Zaki Saad	Albert Mansour
Gengo Suzuki	M. Kumashiro
André van Campenhout	Maurice Toussaint
Louis Rasminsky	L. Denis Hudon
Jorge A. Montealegre	Lempira E. Bonilla
J.M. Garland	F.C. Pryor
Pieter Lieftinck	H.M.H.A. van der Valk
Guillermo Walter Klein	Javier Urrutia
Maurício C. Bicalho	Gabriel Costa Carvalho
Beue Tann	I-Shuan Sun
Thorhallur Ásgeirsson	Gabriel Kielland
Sergio Siglienti	Costa P. Caranicas
Soetikno Slamet	Amon Nikoi

Directors of Departments and Offices

J.V. Mládek	Acting Director, African Department
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
Jean-Paul Sallé	Assistant Director, European Office (Paris)

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LETTER OF TRANSMITTAL
TO THE BOARD OF GOVERNORS

June 29, 1962

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, 1962.

Yours sincerely,

/s/

PER JACOBSSON

Chairman of the Executive Board

Chairman of the Board of Governors

International Monetary Fund

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Introduction

The World Payments Situation

THE year 1961 was one of general expansion in the industrial countries. In the United States and Canada, industrial production and real national product resumed their upward course during the spring of 1961, following the mild recession of 1960. Expansion continued in Europe and Japan, although at a slower rate than in the earlier year, as production approached the limits of the available supplies of labor and, in some countries, investment demand became less insistent. In the aggregate, world industrial production (excluding the countries in the Soviet area) increased by about 3½ per cent from 1960 to 1961, against 7 per cent from 1959 to 1960; and the value of world trade, which had risen by 12 per cent from 1959 to 1960, increased by some 5 per cent from 1960 to 1961.

Since the recession year 1958, the expansion of world trade has, to a large extent, been in the form of an increase in trade of the industrial countries among themselves. By 1961, this trade was nearly 50 per cent above that in 1958. During the same period, the imports of the industrial countries from the primary producing countries increased by only 15 per cent. Persistent price weakness of primary commodities in recent years was an important factor in the relatively unsatisfactory development of exports of the primary producing countries. The availability of the Fund's resources was helpful to many of these countries in 1961; in fact, the Fund's transactions with primary producing countries were larger then than in any preceding year.

Drawings by 21 such countries totaled the equivalent of $979 million, and undrawn balances under stand-by arrangements at the end of the year amounted to the equivalent of $495 million, against the equivalent of $383 million at the end of 1960.

It is clear, however, that the postponement for a relatively short period, by means of credit, of the impact of balance of payments difficulties is of limited value to a country unless there is a reasonable expectation that its exports will recover or its import demand will decline. Important contributions can be made to the demand for the products of less developed countries by improved access to the markets for their products, reinforced by a vigorous and sustained expansion in the developed countries. But, for the improvement of their position, the less developed countries will mainly need to achieve a long-run strengthening and broadening of their economies. Progress toward this end is conditioned by many factors, including general and technological education, the provision of sufficient capital from abroad on reasonable terms, and maximum access to the markets of the industrial countries. A no less important condition for sustained development, which is discussed in some detail in Chapters 2 and 3, is that the economy be provided with the solid foundation of sound monetary and fiscal policies. Through its extensive and systematic collaboration with the less industrialized countries to attain financial stability, the Fund continues to work toward the fulfillment of one of its purposes: ". . . the development of the productive resources of all members. . . ."

Important shifts in the trade positions of a number of leading countries affected the world payments situation during 1961. Between the first and second halves of the year, the payments positions of the United Kingdom and Germany moved closer to balance, as the U.K. deficit and the German surplus on goods and services were both greatly reduced. At the same time, however, the surplus position of the other industrial countries in Europe showed a sharp increase. In the first half of 1961, the U.S. trade surplus, reflecting a large increase in exports and some decline in imports since 1959, had attained a level sufficient, in conjunction with net receipts on account of nonmilitary services, to cover outlays abroad on military assistance, government grants, and public and private long-term capital; but in the second half of the year, the surplus was no longer sufficient, as imports increased in response to economic recovery, and there was also a larger outflow of capital. Japan's trade position deteriorated sharply from 1960 to 1961, although an inflow of short-term capital kept reserves rising during the first four months of the year. While there was some improvement in the position of the primary producing countries as a group in the course of 1961, these countries continued to be in deficit on current and long-term capital account throughout the year.

The over-all picture of world payments therefore continued to show certain important elements of imbalance, and it is especially important that the continuing efforts of the two reserve centers, the United States and the United Kingdom, to achieve a strong balance of payments position be successful. The shifts in position that have taken place are evidence, however, that adjustments do take place, even though not always quickly, and that the imbalances evident at any moment of time should not too readily be regarded as symptoms of an incurable malady of the world's payments structure. But one cannot overlook the conditions in which some of the changes toward balance observed in the past year were brought about. Thus the improvement in the balance of payments of the United Kingdom was due in part to a large decline in imports, associated with some slackening of economic activity; and the reduction in Germany's surplus on current account reflected in part an upward pressure on wages and prices in that country.

Some progress has been made in dealing with sudden movements of short-term capital, which had been extremely disturbing during 1960 and the early part of 1961. In addition to the impact of certain speculative developments, large differentials in short-term interest rates not offset by costs of forward exchange cover had drawn funds away from the United States in 1960 and early 1961. During this period, for example, roughly $500 million flowed out into assets expressed in sterling and Canadian dollars alone. Since the middle of 1961, however, the conditions in the money markets in the main industrial countries have become less divergent, and there has also been a deliberate and increasing tendency in the industrial countries to influence short-term interest rates in such a manner that they would not induce disturbing capital movements. The discount rates in the main centers have moved closer together. While the U.S. discount rate has stayed at 3 per cent since mid-1960, the rate in Germany has been brought down from 5 per cent to 3 per cent; and the rate in the United Kingdom, which was raised sharply to 7 per cent, to deal with the serious situation in July 1961, was lowered by stages to 4½ per cent by the end of April 1962. When account is also taken of the difference between spot and forward exchange quotations, the profitability of moving funds from one center to another on a covered basis has, on the whole, been greatly reduced in the last two years.

These developments have tended to lessen the inflow or outflow of short-term balances seeking higher returns. Nevertheless, short-term and long-term capital continues to flow, on balance, out of the United States to many areas of the world, while a number of European countries with strong balance of payments positions continue to be net importers of private long-term capital. Throughout 1961 and into 1962, large sums have been borrowed in the United States in the form of bank loans and acceptance credits, especially by Japan. In part, this outflow is due to the fact that interest rates still make borrowing in the United States less costly than in most other markets. In part, it is a reflection of the organization and the breadth of the U.S. capital and money markets, which make the flotation of large loans (of which a substantial part is in fact often placed in Europe) or the arrangement of large credits more feasible there than anywhere else in the world. But part of the tendency toward a net outflow from the United States is attributable to the considerable impediments against capital exports that still exist in most European countries. While there has been a tendency to reduce these restrictions or to relax their application, e.g., by permitting the flotation of certain foreign loans in European capital markets, the increasing supply of capital in Europe has by no means been fully reflected in international capital movements. A number of countries with strong payments positions have reduced their rate of reserve accumulation by repaying intergovernmental debts before maturity and by increasing aid to the less developed countries; some of them could further assist the attainment of international balance by taking positive steps, including measures for a better organization of their capital markets, which could lead toward an increased net outflow of capital on private account as well.

One of the outstanding features of the past year in matters of finance has been the movement toward greater international monetary cooperation. The steps taken in this direction reflect increasing awareness by national monetary authorities of the new problems created by widespread convertibility of currencies and the growing international volatility of capital. This new situation was brought home sharply by a number of unsettling occurrences in late 1960 and the first half of 1961. In October 1960, pressure developed on the dollar. Nervousness on the part of the public at that time caused an increase in private demand for gold, which pushed the price of gold in London and other markets well above the official price of $35 an ounce. This particular phase abated as, first, the price in the London market was brought back close to $35 by official sales of gold, and, second, President Kennedy early in February 1961 pledged maintenance of the gold value of the U.S. dollar and promised determined action to correct the deficit in the U.S. balance of payments.

One month later, however, the revaluations of the deutsche mark and the Netherlands guilder, though in the long run contributing to a better equilibrium in the world balance of payments position, were followed by a new wave of speculative capital movements. The direction of the flows indicated an expectation by the public that those revaluations would be followed by a further revaluation of the deutsche mark or the guilder, or by appreciations or depreciations of other currencies. A large proportion of the burden of these movements fell on sterling, a currency in which large balances were held and whose basic position at the time was known to be weak.

The disturbing occurrences during the autumn and winter of 1960-61 gave rise to a determination in the major financial centers to do what was necessary, in the short run as well as by more fundamental changes, to defend the existing world monetary structure. After its Annual Meeting in September 1960, the Fund, with these ends in view, had begun to study its policies in a number of related fields, including the currencies to be used in drawings and repurchases, the various possibilities of Fund borrowing under Article VII, and the availability of the Fund's resources for use in connection with capital transactions. The Fund's Board of Executive Directors first discussed these questions in February 1961. In March 1961, the Governors of the main European central banks issued a joint statement that all rumors of further changes in currency values were unfounded. At the same time, a number of European central banks granted short-term credits for the support of sterling, to a total amount of more than $900 million. These credits gave the U.K. Government time to work out a comprehensive program, announced in Parliament in July, to counteract the pressures on sterling. The United Kingdom then received substantial assistance from the International Monetary Fund; nine different currencies equivalent in all to $1,500 million were drawn, and a stand-by arrangement for a further $500 million was concluded. The announcement of these measures in the United Kingdom, together with the massive Fund assistance, led almost immediately to a reversal of the trend on the exchange markets, especiaLy as there was a pent-up demand for sterling held back during the period of uncertainty.

Shortly before the U.K. transaction, the ability of the Fund to counter disturbing movements of funds had been strengthened by the decision of the Executive Board making clear that the Fund's resources could be used to offset the effects of capital movements in accordance with the relevant provisions of the Articles of Agreement, and thus eliminating any doubt that might have persisted on that score.

The arrangements negotiated during the year to replenish in case of need the Fund's resources by borrowing under Article VII of the Agreement are described fully in Chapter 2. They constituted a further collaborative measure for the defense of the monetary system. Proposals for multilateral credit arrangements between the Fund and the main industrial countries had begun to be discussed early in 1961. In the light of developments during the year, the arrangements concluded by the year end were focused more specifically on the objective of forestalling or coping with an impairment of the international monetary system.

The borrowing arrangement is one manifestation of a growing tendency toward international solidarity in the monetary field, but there are many other signs of such a tendency. U.S. representatives now attend regularly the meetings of the Bank for International Settlements in Basle. Discussion of current financial and monetary matters has become an important part of the work of the Organization for Economic Cooperation and Development in Paris. A number of the leading central banks are evolving a policy aimed at the prevention of disturbing price movements in the London gold market. Beyond this, the entry of the U.S. authorities into the spot and forward markets for foreign exchange has been carried out in close cooperation with monetary authorities in other countries; such cooperation is essential if official exchange operations are to play a constructive role.

These manifold new developments can be expected to lead to a strengthening of the world monetary system; they also hold out hope for a closer coordination of economic and financial policies among the industrial countries, to benefit the entire community of nations.

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Part I

THE WORK OF THE FUND

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Chapter 1

The Activities of the Fund

THIS chapter discusses the work of the Fund during the fiscal year 1961-62. The policies underlying these activities, and some examples of the Fund's experience over longer periods, are reviewed in Chapters 2 and 3.

Membership and Quotas

Five new members joined the Fund during the year, bringing the total membership to 76. Laos became a member on July 5, 1961, with a quota of US$7.5 million; New Zealand on August 31, with a quota of US$125 million; Nepal on September 6, with a quota of US$7.5 million; Cyprus on December 21, with a quota of US$11.25 million; and Liberia on March 28, 1962, with a quota of US$11.25 million. On October 27, 1961, the Executive Directors concluded that the Syrian Arab Republic and the United Arab Republic were separate members of the Fund, with quotas of US$15 million and US$90 million, respectively.

The Board of Governors approved terms and conditions for the admission to membership of Senegal, Sierra Leone, Somalia, and Togo. Applications have also been received from the Federal Republic of Cameroon, the Central African Republic, the Republics of Chad, Congo (Brazzaville), Congo (Leopoldville), Dahomey, Gabon, Guinea, the Ivory Coast, Mali, the Niger, and the Upper Volta, and from Jamaica, Kuwait, and Tanganyika.

The period in which members may consent to increases in their quotas under the Board of Governors' Resolutions of February 2 and April 6, 1959, on the Enlargement of Fund Resources Through Increases in Quotas,[1] has been extended to June 30, 1962. Only three members have not yet availed themselves of increases under these Resolutions. As the result of payments during the year by nine members of annual installments of increases (under these Resolutions) in their quotas, and of the admission of new members, the aggregate of Fund quotas on April 30, 1962 rose to US$15,056.9 million, from $14,850.7 million on April 30, 1961.

The members of the Fund, their quotas, voting powers, Governors, and Alternate Governors on April 30, 1962 are listed in Appendix I, and changes in membership of the Board of Governors in Appendix II. The Executive Directors and Alternate Directors and their voting powers are shown in Appendix III, and changes in membership of the Executive Board in Appendix IV.

Fund Transactions

Purchases and Repurchases, 1961-62

The period May 1, 1961 to April 30, 1962 was a record year for the Fund in every phase of operational activity. Not only did total sales of currency, and the amount of stand-by arrangements agreed, exceed by far the comparable figures for any financial year in the Fund's history, but repurchases by members were also substantially above any previous year's figures. The financial assistance rendered by the Fund in the preceding financial year had been entirely to nonindustrial countries. In 1961-62 two industrial countries, the United Kingdom and Japan, received assistance from the Fund. The drawing by the United Kingdom was the largest ever made in the Fund, and the stand-by arrangements with these two countries were the largest entered into during

[1] *Annual Report,* 1959, pages 185-89.

the year (Tables 1 and 2). Of the 30 members which received financial assistance from the Fund, either through direct purchase transactions or in the form of stand-by arrangements, 16 were in Latin America, 4 in Europe, 3 in the Middle East, 6 in the Far East (including Australia), and 1 in Africa. Repurchases were made by 24 members (Table 3). The greatest number of repurchasing members was also in Latin America, namely 9; 4 were in Europe, 3 in the Middle East, 4 in the Far East (including Australia), and 4 in Africa. As in previous years, improvements in the monetary reserve positions of several members enabled them to make large repurchases, in accordance with Fund policy, before the expiration of the maximum period (three to five years), thus strengthening their secondary line of reserves as represented by potential recourse to the Fund's resources.

New stand-by arrangements or extensions of existing arrangements were agreed with 24 members, for a total amount equivalent to $1,633 million (Table 2). One of these was a 12-month stand-by arrangement for $100 million with Australia, but in view of its improved economic position Australia found it possible to cancel this during the course of the year. The stand-by arrangement with the United Kingdom for the equivalent of $500 million was augmented by repurchases by the United Kingdom during the year, to an amount of $1,130 million on April 30 and to $1,200 million from May 1. The total amount available to members under stand-by arrangements at the end of the financial year was $1,942.9 million ($2,012.9 million effective May 1). All these arrangements were for a period of one year, with the exception of that with the Syrian Arab Republic, which was for 6 months, and that with Turkey, which was concluded on March 30, 1962, for the remainder of the calendar year.

The use of the Fund's resources during the year required in each case a waiver of the provision of Article V, Section 3, of the Fund Agreement, which limits purchases by a member to amounts based on 25 per cent of quota in any 12-month period.

The use of an increasing number of members' currencies in purchases from the Fund, which was reported in last year's Annual

TABLE 1. PURCHASES OF CURRENCY FROM THE FUND, FISCAL YEAR ENDED APRIL 30, 1962

(In millions of U.S. dollars)

Member Purchasing	Belgian Francs	Canadian Dollars	French Francs	Deutsche Mark	Italian Lire	Japanese Yen	Netherlands Guilders	Swedish Kronor	Pounds Sterling	U.S. Dollars	Total
	←——— *U.S. dollar equivalent of currency purchased* ———→										
Argentina	12.00		12.00	12.00	12.00		12.00				60.00
Bolivia										2.00	2.00
Brazil				25.00	10.00					25.00	60.00
Ceylon									11.25		11.25
Chile			17.50	10.00						7.50	35.00
Colombia					10.00		10.00			25.00	45.00
Costa Rica										10.00	10.00
Ecuador										10.00	10.00
El Salvador										8.00	8.00
Guatemala										3.00	3.00
Haiti										1.50	1.50
Honduras										3.75	3.75
India			15.00	45.00	15.00	5.00			60.00	110.00	250.00
Indonesia			7.00	18.00	10.25				7.00	40.25	82.50
Iran				7.50							7.50
Mexico										45.00	45.00
Nicaragua										4.50	4.50
Philippines				11.00					11.20	6.10	28.30
Turkey			3.00	5.00	3.00					5.00	16.00
United Arab Republic				8.75	5.00				11.20	14.95	39.90
United Kingdom	90.00	75.00	270.00	270.00	120.00	75.00	120.00	30.00		450.00	1,500.00
Yugoslavia			2.00	2.00			5.00	5.00		6.00	20.00
Total	102.00	75.00	326.50	414.25	185.25	80.00	147.00	35.00	100.65	777.55	2,243.20

Report, continued during the financial year just concluded, and for the first time there was also a wide use of member currencies in repurchases. From the beginning of exchange transactions in 1947 through April 30, 1958, purchases of U.S. dollars represented 91.7 per cent of all drawings. During the financial year 1960-61, only 36.4 per cent of total purchases were in U.S. dollars. In 1961-62, when there were exchange transactions in ten different currencies, the amount drawn in U.S. dollars fell to 34.7

TABLE 2. FUND STAND-BY ARRANGEMENTS WITH MEMBERS, FISCAL YEAR ENDED APRIL 30, 1962

(In millions of U.S. dollars)

Member	Date of Inception	Date of Expiration	Amount	New or Extended in 1961-62	Amount Available April 30, 1962
Argentina	Dec. 12, 1960	Dec. 11, 1961	100.00		—
	Dec. 12, 1961	Dec. 11, 1962	100.00	100.00	100.00
Australia	May 1, 1961	Apr. 30, 1962[1]	100.00	100.00	—
Bolivia	Jul. 27, 1961	Jul. 26, 1962	7.50	7.50	5.50
Brazil	May 18, 1961	May 17, 1962	160.00	160.00	100.00
Chile	Feb. 16, 1961	Feb. 15, 1962	75.00		—
Colombia	Nov. 1, 1960	Oct. 31, 1961	75.00		—
	Jan. 1, 1962	Dec. 31, 1962	10.00	10.00	5.00
Costa Rica	Oct. 4, 1961	Oct. 3, 1962	15.00	15.00	5.00
Ecuador	Jun. 8, 1961	Jun. 7, 1962	10.00	10.00	—
El Salvador	Jul. 13, 1961	Jul. 12, 1962	11.25	11.25	11.25
Guatemala	Jun. 6, 1960	Jun. 5, 1961	15.00		—
	Aug. 14, 1961	Aug. 13, 1962	15.00	15.00	12.00
Haiti	Oct. 1, 1960	Sep. 30, 1961	6.00		—
	Oct. 1, 1961	Sep. 30, 1962	6.00	6.00	4.50
Honduras	May 1, 1961	Apr. 30, 1962	7.50	7.50	—
Iceland	Feb. 16, 1961	Dec. 31, 1961	1.63		—
	Mar. 22, 1962	Mar. 21, 1963	1.63	1.63	1.63
Indonesia	Aug. 16, 1961	Aug. 15, 1962	41.25	41.25	—
Iran	Oct. 10, 1960	Mar. 20, 1962	35.00	35.00	—
Japan	Jan. 19, 1962	Jan. 18, 1963	305.00	305.00	305.00
Mexico	Jul. 13, 1961	Jul. 12, 1962	90.00	90.00	45.00
Nicaragua	Nov. 3, 1960	Nov. 2, 1961	7.50		—
Paraguay	Oct. 10, 1960	Oct. 9, 1961	3.50		—
	Dec. 11, 1961	Dec. 10, 1962	5.00	5.00	5.00
Peru	Mar. 1, 1961	Feb. 28, 1962	30.00		—
	Mar. 1, 1962	Feb. 28, 1963	30.00	30.00	30.00
Philippines	Apr. 12, 1962	Apr. 11, 1963	40.40	40.40	40.40
South Africa	Jul. 6, 1961	Jul. 5, 1962	75.00	75.00	75.00
Syrian Arab Republic	Mar. 26, 1962	Sep. 30, 1962	6.60	6.60	6.60
Turkey	Jan. 1, 1961	Dec. 31, 1961	37.50		—
	Mar. 30, 1962	Dec. 31, 1962	31.00	31.00	31.00
United Kingdom	Aug. 8, 1961	Aug. 7, 1962	500.00	500.00	1,130.00[2]
Uruguay	Jun. 6, 1961	Jun. 5, 1962	30.00	30.00	30.00
Yugoslavia	Jan. 1, 1961	Dec. 31, 1961	30.00		—
Total				1,633.13	1,942.88

[1] Canceled by Australia on September 5, 1961.
[2] Increased from \$500 million by repurchases of \$280 million, \$140 million, \$210 million, and, with effect from May 1, 1962, an additional \$70 million.

TABLE 3. REPURCHASES OF CURRENCIES FROM THE FUND, FISCAL YEAR ENDED APRIL 30, 1962

(In millions of U.S. dollars)

Member Repurchasing	Gold	Belgian Francs	Canadian Dollars	French Francs	Deutsche Mark	Italian Lire	Netherlands Guilders	Pounds Sterling	U.S. Dollars	Total
	←		*U.S. dollar equivalent*	*of currency*	*repurchased*			→		
Argentina									48.00	48.00
Australia			10.00	15.00	35.00	10.00	10.00		95.00	175.00
Bolivia									5.04	5.04
Brazil									20.00	20.00
Chile									10.40	10.40
El Salvador	11.25								8.00	19.25
Haiti									3.10	3.10
Honduras	0.02								1.90	1.92
India								60.00	67.50	127.50
Indonesia	14.00									14.00
Iran	15.92								21.11	37.03
Libya									1.07	1.07
Morocco			—[1]						7.52	7.52
Nicaragua	0.01								1.49	1.50
Paraguay									1.75	1.75
Philippines	0.67								2.24	2.91
South Africa									37.49	37.49
Spain	12.11		0.30						2.59	15.00
Sudan									2.92	2.92
Syrian Arab Republic	1.00								1.88	2.88
Turkey									5.50	5.50
United Arab Republic	7.72								4.99	12.71
United Kingdom		30.00	20.00	50.00	175.00	10.00	35.00		380.00	700.00
Yugoslavia									7.50	7.50
Total [2]	62.70	30.00	30.30	65.00	210.00	20.00	45.00	60.00	737.00	1,260.00

[1] Less than $50,000.
[2] Totals may not equal sums of items because of rounding.

per cent. (If the U.S. dollars obtained by the sale of gold are disregarded, this percentage becomes 28. If repurchases are also taken into account, there was no net use of U.S. dollars in 1961-62). Japanese yen and Swedish kronor were used for the first time in Fund exchange transactions. In the course of the financial year, the Fund's holdings of Italian lire and deutsche mark, expressed as a percentage of members' quotas, became the lowest of any Fund holdings, falling to 10 per cent and 8 per cent, respectively; by April 30, 1962, repurchases made in these currencies had raised these ratios to 17 per cent and 33 per cent. In connection with the large exchange transaction with the United Kingdom, the Fund replenished its holdings of the various currencies concerned by the sale of an amount of gold equivalent to US$500 million; had it not been for this replenishment, the Fund would not have been able to make available some part of the currencies which in the event were used in transactions during the year, because its holdings of these currencies would have been exhausted.

Before May 1, 1961, repurchases were made in gold or U.S. dollars and to a small extent in Canadian dollars and sterling; in the period under review a number of other currencies were used for the first time, as shown in Table 3. This was made possible through the acceptance, by the countries whose currencies were so used, of the obligations of Article VIII, which makes these currencies eligible for use in repurchases provided that the Fund's holding of each currency is below 75 per cent of the country's quota.

Thus in the year under review the Fund has served much more fully than in any other year of its history as the multilateral revolving fund envisaged at Bretton Woods.

Summary of Transactions

From the beginning of Fund operations until April 30, 1962, exchange transactions were consummated with 44 members, many of which used Fund resources on several occasions. Three members received Fund financial assistance in the form of stand-by arrangements without drawing on them. Of this total of 47 members, 19 are in Latin America, 12 in Europe, 5 in the Middle East, 7 in the Far East, and 4 in Africa. Total Fund sales were equivalent to US$6,265.5 million. All Fund transactions are summarized in Table 4 and details are shown in Appendix V.

TABLE 4. SUMMARY OF FUND TRANSACTIONS, FISCAL YEARS ENDED APRIL 30, 1948-62

(In millions of U.S. dollars)

	Total Purchases by Members	Total Stand-By Arrangements in Force at End of Fiscal Year	Total Repurchases by Members
1948	606.04	—	—
1949	119.44	—	—
1950	51.80	—	24.21
1951	28.00	—	19.09
1952	46.25	—	36.58
1953	66.12	53.00	184.96
1954	231.29	90.00	145.11
1955	48.75	90.00	276.28
1956	38.75	97.50	271.66
1957	1,114.05	968.90	75.04
1958	665.73	884.28	86.81
1959	263.52	1,132.84	537.32
1960	165.53	291.88	522.41
1961	577.00	338.62	658.60
1962	2,243.20	1,942.88	1,260.00
Total[1]	6,265.48		4,098.05

[1] Totals do not equal sums of items because of rounding.

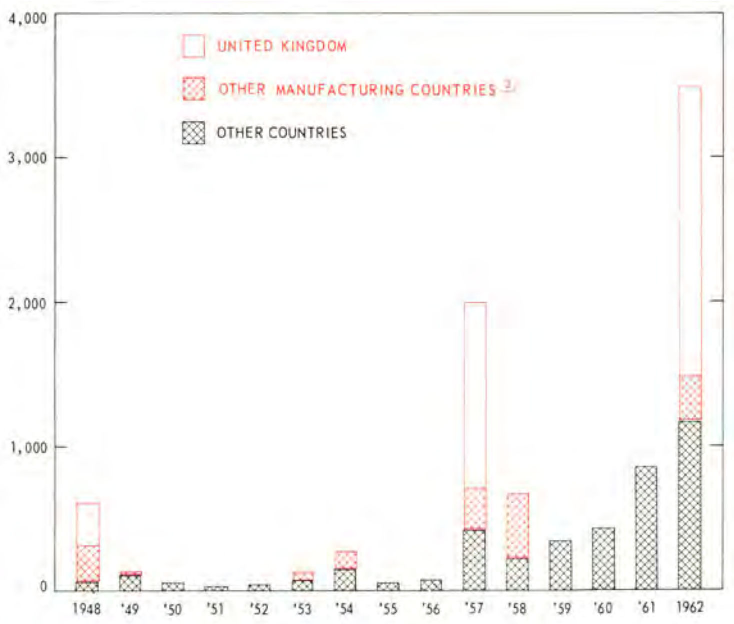
A picture of the total financial assistance accorded by the Fund to members is given by combining the amount of new stand-by arrangements granted in each period with the amount of exchange transactions not effected under stand-by arrangements (thus eliminating the duplication which results from listing drawings under stand-by arrangements in both categories). The total assistance given by the Fund, so measured, has amounted to $9.1 billion, as shown in Chart 1 and Table 5. To the end of April 1962, repayments to the Fund had been made by 38 members, either by repurchases in gold or convertible currencies or by purchases of the drawing members' currencies by other members. On April 30, 1962, the total amount of purchases still outstanding was equivalent to US$2,015.2 million. On that date, the amounts drawn had been outstanding for the following periods:

	Amount in millions of U.S. dollars	Number of members involved
12 months or less	1,456.0	21
13 to 18 months	180.5	8
19 to 24 months	129.4	9
25 to 30 months	73.7	6
31 to 36 months	19.9	4
37 to 48 months	119.6	7
Over 48 months	36.1	6

All purchases made prior to June 1957 have been fully reversed.

CHART 1. FUND FINANCIAL ASSISTANCE, FISCAL YEARS ENDED APRIL 30, 1948-62[1]

(In millions of U.S. dollars)



[1] Based on data in Table 5.
[2] Countries in the European Economic Community, the European Free Trade Association (excluding Portugal and the United Kingdom), and Japan.

TABLE 5. TOTAL FUND FINANCIAL ASSISTANCE,
NEW STAND-BY ARRANGEMENTS PLUS EXCHANGE TRANSACTIONS

(In millions of

Member	1948	1949	1950	1951	1952	1953	1954	1955
Argentina								
Australia			20.0			30.0		
Belgium	33.0					50.0		
Bolivia							2.5	
Brazil		15.0	22.5	28.0	37.5	18.8	46.8	
Burma								
Ceylon								
Chile	8.8						12.5	
Colombia								25.0
Costa Rica		1.3						
Cuba								
Czechoslovakia		6.0						
Denmark	10.2							
Dominican Republic								
Ecuador								
El Salvador								
Ethiopia		0.3	0.3					
Finland						9.5		
France	125.0							
Guatemala								
Haiti								
Honduras								
Iceland								
India	28.0	72.0						
Indonesia								15.0
Iran					8.8			8.8
Israel								
Japan							124.0	
Mexico	22.5						50.0	
Morocco								
Netherlands	68.5	6.8						
Nicaragua		0.5						
Norway	5.0	4.6						
Pakistan								
Paraguay						0.9		
Peru							12.5	
Philippines								
South Africa		10.0						
Spain								
Sudan								
Syrian Arab Republic								
Turkey	5.0					10.0	20.0	
United Arab Republic		3.0						
United Kingdom	300.0							
Uruguay								
Venezuela								
Yugoslavia			9.0					
Total[2]	606.0	119.4	51.8	28.0	46.3	119.1	268.3	48.8

[1] Augmentations of stand-by arrangements by repurchases are not included. Renewed stand-by arrangements are included only for the first year in which they were in effect.

FISCAL YEARS ENDED APRIL 30, 1948-62:
NOT EFFECTED UNDER STAND-BY ARRANGEMENTS [1]

U.S. dollars)

1956	1957	1958	1959	1960	1961	1962	Total[2]	Member
	75.0		75.0	100.0	100.0	100.00	450.0	Argentina
					175.0	100.0	325.0	Australia
							83.0	Belgium
	7.5			4.6		7.5	22.1	Bolivia
		37.5	54.8		47.7	160.0	468.5	Brazil
15.0							15.0	Burma
					11.3	11.3	22.5	Ceylon
35.0		2.3	12.5		91.0		162.1	Chile
		25.0		41.3	75.0	10.0	176.3	Colombia
						15.0	16.3	Costa Rica
	25.0	25.0	25.0				75.0	Cuba
							6.0	Czechoslovakia
		34.0					44.2	Denmark
				11.3			11.3	Dominican Republic
		5.0			5.0	10.0	20.0	Ecuador
	2.5		7.5	7.5	11.3	11.3	40.0	El Salvador
							0.6	Ethiopia
							9.5	Finland
	262.5	131.3					518.8	France
					15.0	15.0	30.0	Guatemala
		1.0	5.0	4.9	6.0	6.0	22.9	Haiti
	2.5	3.8	4.5	7.5		7.5	25.8	Honduras
				8.4	1.6	1.6	11.7	Iceland
	200.0					250.0	550.0	India
	55.0					82.5	152.5	Indonesia
8.8	19.7			5.0	65.0		116.0	Iran
		3.8					3.8	Israel
		125.0				305.0	554.0	Japan
			90.0			90.0	252.5	Mexico
				25.0			25.0	Morocco
		137.5					212.9	Netherlands
	3.8	7.5	7.5		7.5		26.8	Nicaragua
							9.6	Norway
			25.0		12.5		37.5	Pakistan
	2.0	5.5		2.8	3.5	5.0	19.6	Paraguay
		25.0		27.5	30.0	30.0	125.0	Peru
15.0			8.8		6.3	68.7	98.7	Philippines
		50.0			37.5	75.0	172.5	South Africa
				75.0			75.0	Spain
			5.0	1.3			6.3	Sudan
					15.0	6.6	21.6	Syrian Arab Republic
		13.5	25.0		37.5	31.0	142.0	Turkey
	30.0			7.5	27.3	39.9	107.7	United Arab Republic
	1,300.0					2,000.0	3,600.0	United Kingdom
						30.0	30.0	Uruguay
				100.0			100.0	Venezuela
		22.9			75.0		106.9	Yugoslavia
73.8	1,985.5	655.5	345.5	429.5	855.9	3,468.8	9,102.1	Total[2]

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

During the past year Czechoslovakia, a former Fund member, completed repayment of a drawing, in fulfillment of a settlement arrangement made at the time of Czechoslovakia's withdrawal from the Fund. In addition to repurchases in repayment of drawings, repurchases were also made by 22 of the 37 members that had originally paid less than 25 per cent of their quotas in gold.

Fund Charges

Currently, 27 members are paying the charges levied by the Fund on holdings of a member's currency in excess of quota; the amount of such charges incurred during the year under review totaled $21.4 million, compared with $11.0 million during the preceding year. Since the beginning of the Fund's operations, 39 members have been subject to such charges. At present, part of these charges is paid by 4 members in their own currencies in accordance with the provision in the Fund Agreement that permits such payments if a member's monetary reserves are less than half of its quota. Service charges on drawings amounted to a total of $11.2 million during the year under review, compared with $2.9 million for the previous financial year. Charges collected on stand-by arrangements, after deduction of the amounts credited against service charges if and when drawings were made under the arrangements, totaled $3.7 million during the financial year ended April 30, 1962; of this amount, $0.5 million represents income for that period.

The present schedule of charges, which has been in effect since January 1, 1954, was reviewed by the Executive Board and extended until April 30, 1963. It is set out in Appendix VI.

Computation of Monetary Reserves

By the end of the financial year, all Fund members with the exception of three had submitted monetary reserves data for April 30, 1961. Of these three members, two could not have incurred a repurchase obligation. The Fund's holdings of the currency of the third member, Cuba, are above 75 per cent of quota, and an agreement has been reached for certain repurchases, but in the absence of monetary reserves data it is not possible to ascertain whether a repurchase obligation under Article V, Section 7(b), has been incurred.

Consultations with Members

Members of the Fund that maintain exchange restrictions under Article XIV of the Fund Agreement are required to consult with the Fund annually concerning the retention of these restrictions. In accordance with this requirement, consultations were held during the financial year 1961-62 with 36 such member countries; for all but one of them, Fund missions were sent to the countries concerned. As in previous years, these annual consultations continued to provide opportunities for useful collaboration between the Fund and its members. Several of the consultations under Article XIV were combined with discussions of new financial programs or included reviews of such efforts already being made. Some of the discussions also covered the initiation or renewal of stand-by arrangements with the Fund, the simplification of exchange systems, the reduction of restrictions, and other matters of mutual concern to the member and the Fund.

Since May 1961, discussions have also been held with 11 members of the Fund which have accepted the obligations of Article VIII, Sections 2, 3, and 4, of the Fund Agreement: these are, Belgium, Canada, France, the Federal Republic of Germany, Ireland, Italy, Luxembourg, the Netherlands, Peru, the United Kingdom, and the United States. Consultations with Article VIII countries are mandatory only if the countries concerned maintain or introduce exchange measures which require the approval of the Fund under that Article. However, the Executive Board decision of June 1, 1960[1] stressed the merit of holding periodic discussions between the Fund and its members even if no questions

[1] *Annual Report,* 1960, pages 29-31.

involving action under Article VIII arise. The discussions held in 1961-62 involved visits by staff missions to the capitals of the countries concerned. These discussions provided the opportunity not only for close contacts with the members but also for exchanges of views on monetary and financial developments; they have thus furthered the Fund's purposes by providing machinery for consultation and collaboration on international, financial, and monetary policies. In accordance with the Executive Board decision referred to above, it is intended, with the cooperation of the countries concerned, to continue holding such discussions at intervals of about one year.

Technical Assistance and Training Programs

The Fund's activity in helping countries to analyze their financial position, and to resolve problems of policy or of a technical nature, is by no means confined to the annual consultations referred to above, but is a continuous function, carried out by frequent contacts with member countries both at Fund headquarters and in the countries concerned.

At the request of member countries the Fund has continued to provide technical advice and assistance directed toward specific problems and tasks in the monetary and financial field. Fund staff teams have assisted several member countries to formulate appropriate monetary, fiscal, and exchange policies, and stabilization programs. The services of the Fund staff have also been made available to certain member countries to help them in the establishment and reform of central banking arrangements, and of monetary and balance of payments statistics. Assignments have varied from a few weeks to more than a year. A number of nonmember countries, particularly in Africa, have been assisted in the preparatory work leading to membership in the Fund and in matters relating to the organization of new monetary and central banking arrangements.

At headquarters the Management has been host to many visiting delegations, especially from African countries, whose representatives wished to learn more details of the requirements of, and the technical assistance offered by, the Fund. Other senior officials of member countries have also visited the Fund in large numbers, for periods ranging from a few days to several weeks. In addition, groups of graduate students or participants in the technical training programs of other international agencies, exchange programs, etc., have been frequently received at Fund headquarters for seminars on the over-all work of the Fund or on specific technical subjects.

Training Programs

Since 1951, the Fund has operated in Washington training programs for qualified nationals of member countries. These programs, the duration of which has varied from 6 to 12 months, have gradually expanded until they now cover a variety of financial studies—in particular, the operations and policies of the Fund and other international financial organizations; national policies available for meeting the twin objectives of economic development and avoidance of financial instability; and techniques of statistical compilation and analysis. The programs are one of several channels through which the Fund tries to assist central banks and member governments in their financial management by placing at their disposal the experience acquired by the Fund staff. The arrangements by which the nationals of member countries are able to attend the training programs, and for this purpose spend several months of residence in Washington, provide intensive opportunities for participants to gain insight into numerous aspects of financial policy and statistical techniques. In 1961-62, the number of participants in the program was 24; during the past 11 years, a total of 238 persons from central bank and government staffs of member countries have taken part.

With a view to increasing the amount of such training services that can be offered to members, the Fund is shortening its training program in 1962-63 to 5 months, without materially reducing the areas of work covered. This shortening will economize on the time that participants need to be absent from their home responsibilities; also, it will make possible the offering of two programs within each 12 months, thus doubling the number of appointments that can be made.

Publications

The Fund's regular program of publications was maintained in 1961-62. The list includes the *Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1961* (Sixteenth Annual Report); the *Twelfth Annual Report on Exchange Restrictions;* the *Summary Proceedings of the Sixteenth Annual Meeting of the Board of Governors;* the *Balance of Payments Yearbook,* Vol. 13, 1956-60; *Staff Papers,* Vol. VIII, Nos. 2 and 3, and Vol. IX, No. 1; the monthly *International Financial Statistics,* with a *Supplement to 1962/63 Issues* containing annual material for 1937 and 1948-52 and quarterly data for 1957, 1958, and 1959; and the weekly *International Financial News Survey.* There were two issues during the year of the *Schedule of Par Values.* 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.

In addition to its regular publications, the Fund published *Central Banking Legislation: A Collection of Central Bank Monetary and Banking Laws;* this volume comprises statutes and related materials selected and annotated by Mr. Hans Aufricht, of the Fund's Legal Department. The collection makes available, in English, the consolidated texts of central banking and monetary laws of 21 countries, together with summaries of, and selected provisions from, their general banking laws. The laws of these countries constitute a representative cross-section of both the traditional and the most recent legal techniques employed for the purpose of regulating money and credit. The countries covered are Australia, Burma, Canada, Ceylon, Costa Rica, Cuba, the Dominican Republic, El Salvador, Guatemala, Honduras, India, Indonesia, Japan, Korea, Mexico, Nicaragua, Pakistan, the Philippines, Rhodesia and Nyasaland, South Africa, and the United Kingdom.

Cooperation With Other International Organizations

The Fund continues to maintain close relations, both on the technical level and on matters of broader scope, with other international organizations in related fields of interest, especially with the United Nations and its regional commissions and technical bodies, the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade (GATT), the Organization for Economic Cooperation and Development, the International Bank for Reconstruction and Development, the Bank for International Settlements (BIS), and the Inter-American Development Bank.

The Managing Director addressed the 33rd Session of the UN Economic and Social Council (ECOSOC) on the occasion of the presentation of the Fund's Annual Report for 1961, and attended the Annual Meeting of the BIS. Fund representatives attended also the 32nd Session of the ECOSOC, the 16th Session of the UN General Assembly, the 32nd and 33rd Sessions of the Administrative Committee on Coordination, and the 7th Session of the Governing Council of the Special Fund. As in previous years, Fund staff members participated in meetings of the Economic Commissions for Africa, Asia and the Far East, Europe, and Latin America, the Food and Agriculture Organization, the European and African Statisticians Conferences, and the UN Statistical Commission. Collaboration on the subject of compensatory financing of commodity fluctuations (on which the Fund submitted a study to the UN Commission on International Commodity Trade in 1960) continued in discussions held under the auspices of the United Nations, the Food and Agriculture Organization, and the Organization of American States. The Fund was represented at the Special Meeting of the Inter-American Economic and Social Council at the Ministerial Level held at Punta del Este, Uruguay, and at the inauguration of the Central American Bank for Economic Integration at Tegucigalpa, Honduras. Most of these organizations were represented at the Annual Meeting of the Fund's Board of Governors in Vienna in September 1961.

The arrangements for cooperation between the Fund and the Organization for European Economic Cooperation were continued with its successor, the Organization for Economic Cooperation and Development. Provision for attendance by Fund staff at meetings of various organs of the Organization has been extended to include the Economic Policy Committee.

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

Staff

At the end of the fiscal year, the Fund staff numbered 491, including 19 temporary employees and 1 on extended leave.

During the year there was a net increase of 17. Pursuing its policy of appointing staff members on as wide a geographical basis as possible, the Fund recruited 76 new staff members from 25 member countries. The total number of nationalities included on the staff was 54. For the purpose of rendering technical assistance as described above, staff members on long-term assignments were made available during the past year to 12 countries.

Finance

During the financial year, the Fund's operating income of $33,106,768 exceeded its total expenditure by $24,950,966. This amount was transferred provisionally to a General Reserve pending action by the Board of Governors. The General Reserve now totals $71,812,436.

The Fund continued its program of investing a part of its gold holdings in U.S. Government securities, with the understanding that the same quantity of gold can be reacquired whenever the investment is terminated. The amount currently invested is $800 million. The income from the Fund's investments, amounting to $22,779,476 for the financial year, was credited to a Special Reserve, which on April 30, 1962 showed a balance of $64,944,366.

The administrative budget approved by the Executive Directors for the period May 1, 1962-April 30, 1963 is presented in Appendix VII. Comparative income and expenditure figures for the fiscal years 1960, 1961, and 1962 are given in Appendix VIII.

The Executive Board requested the Governments of Argentina, Finland, and the United States to nominate members of the Audit Committee for 1962. The following nominations were made and confirmed: Mr. Luis Larrosa, Chief Accountant, Banco Central de la República Argentina; Mr. Svante Kihlman, Chairman of the Board of Directors of the Association of Certified Public Accountants of Finland and member of the Board of

Auditors, Central Chamber of Commerce; and Mr. Samuel J. Elson, Deputy Commissioner, Central Reports, Bureau of Accounts, U.S. Treasury Department. The report of the Committee is submitted separately. Appendix IX gives the Auditors' Certificate, together with the audited Balance Sheet for April 30, 1962, the audited Statement of Income and Expenditure with supporting schedules, and audited financial statements of the Staff Retirement Fund.

Chapter 2

Use of the Fund's Resources

General Policies

THE policies which guide the Fund on the use of its resources continue to be those outlined in previous Annual Reports. Members are given the overwhelming benefit of the doubt in relation to requests for transactions within the "gold tranche," that is, for drawings which do not increase the Fund's holdings of the currency beyond an amount equal to the member's quota. The Fund's attitude to requests for transactions within the "first credit tranche"—that is, transactions which bring the Fund's holdings of a member's currency above 100 per cent but not above 125 per cent of its quota—is a liberal one, provided that the member itself is making reasonable efforts to solve its problems. Requests for transactions beyond these limits require substantial justification. They are likely to be favorably received when the drawings or stand-by arrangements are intended to support a sound program aimed at establishing or maintaining the enduring stability of the member's currency at a realistic rate of exchange. Any drawing exceeding 25 per cent of a member's quota within any twelve months (except to the extent that the Fund holds less of the member's currency than 75 per cent of its quota), or any drawing which would increase the Fund's holdings of that currency to more than 200 per cent of the quota, requires the grant of a waiver in favor of the member, under Article V, Section 4. The first waiver of the former kind was granted in August 1953, and such waivers have since been granted frequently. No country has been granted a waiver for drawings that would increase the Fund's holdings of its currency beyond the limit of 200 per cent of its quota. The largest amount of a member's currency, in terms of a percentage of quota, which the Fund has ever held is 175 per cent for a number of countries, but the Fund has granted stand-by arrangements under which the Fund's holdings of a currency could be increased to 200 per cent of quota.

A member's drawing increases the Fund's holdings of its currency. A member is expected to reduce the Fund's holdings of its currency after a drawing when the problem for which it has used the Fund's resources is solved, and in any event not later than three to five years after the drawing. Drawings made under stand-by arrangements are repayable in three years or less. The scale of charges for drawings recognizes the desirability of prompt repurchase by increasing the charges with the passage of time; under the present scale, in conjunction with Article V, Section 8(d) and the Fund's established policies, the member considers and agrees with the Fund, not later than three years after a drawing, how to reduce the Fund's holdings of the member's currency. More is said below about the kinds of policy which members are encouraged to pursue in order to restore equilibrium in their balance of payments, rebuild their reserves, and repurchase their currencies from the Fund within the appropriate period.

Use of Resources to Finance Capital Transactions

When the Annual Report for 1961 was written, the Fund was engaged in a re-examination of the legal and policy aspects of the provisions in the Articles of Agreement respecting the use of the Fund's resources to finance movements of capital. As far as the legal position is concerned, the Executive Board decided by way of clarification that a previous Decision[1] did not preclude

[1] *First Annual Meeting of the Board of Governors, Report of the Executive Directors and Summary Proceedings, September 27 to October 3, 1946,* page 106.

the use of the Fund's resources for capital transfers in accordance with the provisions of the Articles, including Article VI.[1]

The basic improvement in the strength of the principal European currencies which led to the attainment of external convertibility in December 1958, followed by the acceptance in February 1961, by the countries concerned, of the obligations of Article VIII, has greatly facilitated the international movement of short-term capital in search of maximum interest yields, or for other reasons. Article VI precludes use of the Fund's resources "to meet a large or sustained outflow of capital"; but it is, of course, clear that a temporary outflow of short-term capital can create difficulties indistinguishable from those arising from an adverse development of any other items in the balance of payments. Moreover, the precise cause of any particular drain on a country's exchange reserves may be unknown in the short run; and the use of resources obtained from the Fund cannot be reserved to cover any individual source of weakness in the reserves to the exclusion of others. It is the Fund's view that it should not be precluded from assisting a member because the latter's difficulties are caused or accentuated by an outflow of short-term capital, which cannot be deemed large or sustained. If a country facing an outflow of capital were to turn to the Fund for assistance, the test to be applied by the Fund would be in accordance with its accepted principles, i.e., that appropriate measures were being taken so that equilibrium in the balance of payments would be restored, and that assistance provided by the Fund would be repaid within a maximum period of three to five years.

Increases in the Fund's Resources by Borrowing

Early in 1961 the Executive Board began to give consideration to the question of increasing the Fund's resources by means of borrowing under Article VII of the Fund Agreement. Convertibility of the main currencies had stimulated international trade and movements of capital; at the same time it made pos-

[1] See Appendix XI for text of the Decision.

sible substantial shifts of funds from one country to another. To avoid any undesirable impact on the functioning of the international monetary system as a result of such developments, it had become imperative to strengthen the resources which might be made available, and so to enable countries which experience difficulties to pursue appropriate policies. Fortunately, most of the industrial countries already possess substantial reserves of their own. For its part, the International Monetary Fund has nearly $3 billion in its gold account and $6.5 billion in the currencies of the main industrial countries. At any given time, however, some of these countries may be facing balance of payments difficulties, making it advisable that, temporarily, their currencies should not be drawn from the Fund. The considerations for the selection of currencies to be used in drawings on the Fund are discussed below (page 36). It will be seen that drawings should be made largely in the currencies of those countries that have strong balance of payments and reserve positions. The borrowing arrangements envisaged were designed to provide the Fund with additional resources of these latter currencies at times when they were needed to forestall or cope with an impairment of the international monetary system. In this way, both the liquidity of the Fund and the resilience of the monetary system would be enhanced, to the benefit of all members.

After extensive discussion, at the Annual Meeting in Vienna and subsequently, of the proper role and method of Fund borrowing in present circumstances, the Executive Board took, on January 5, 1962, a "Decision on General Arrangements to Borrow," which is reproduced in Appendix XI. This decision sets out the terms and conditions under which the Fund would be able to borrow supplementary resources in order to fulfill more effectively its role in the international monetary system under conditions of convertibility, including greater freedom for short-term capital movements. Ten main industrial countries, after such authorizations have been obtained as may be necessary to enable them formally to adhere to the arrangements, will stand ready to lend their currencies to the Fund up to specified amounts when the Fund and these countries consider that supplementary resources are needed to forestall or to cope with an impairment of the international monetary system. The total of such supplementary resources amounted to the equivalent of $6.0 billion, composed as follows:

Country	Amount (equivalent in million U.S. dollars)
Belgium	150
Canada	200
France	550
Germany, Deutsche Bundesbank	1,000
Italy	550
Japan	250
Netherlands	200
Sweden	100
United Kingdom	1,000
United States	2,000

In an exchange of letters among themselves, the ten countries have set down the procedures that they will follow in making supplementary resources available to the Fund for the financing of a particular Fund transaction for which such resources are considered necessary. These procedures will enable the Fund to make practical use of the facilities envisaged in Article VII, by providing for the speedy mobilization of the additional resources.

The Fund decision provides that requests by participant countries for drawings for which supplementary resources are required will be dealt with according to the Fund's established policies and practices with respect to the use of its resources. Repayment to the Fund of such assistance will have to be made when the country's problem is solved, and in any event within three to five years. In its turn, when the Fund receives repayment, it will repay the countries that made supplementary resources available; in any event, the Fund will repay not later than five years after a borrowing. Rights to repayment are backed by all the assets of the Fund. Moreover, a country that has lent to the Fund can receive early repayment, should it request and need this because its own payments position has deteriorated. In this way, the claims of countries that have lent supplementary resources to the Fund have been guaranteed a highly liquid character.

Interest on the resources lent to the Fund will be based on a formula which at present yields a rate of 1½ per cent per annum; in addition, the Fund will pay a charge of ½ of 1 per cent on each borrowing transaction.

The borrowing arrangements will become effective when at least seven countries with commitments totaling the equivalent of $5.5 billion formally notify the Fund of their adherence to the arrangements. The arrangements will remain in effect for four years, with provisions for extension. The amounts included in the arrangement may be reviewed from time to time in the light of developing circumstances, and altered with the agreement of the Fund and all the participating countries.

Currencies to Be Drawn and to Be Used in Repurchases

The Executive Directors approved on July 20, 1962, the following statement and decided that it should be included in the Annual Report (see Appendix XI, page 245).

From the beginning of the Fund's operations through 1957, drawings were overwhelmingly made in U.S. dollars. Starting in 1958, however, the Fund has increasingly encouraged drawings in other currencies, and this has been facilitated by the introduction of *de facto* convertibility for the currencies of the main industrial countries. Since the same currencies have become formally convertible under Article VIII in February 1961, repurchases have also begun to be made in these currencies.

Certain practices have been developed which take into account the new situation of the increasing number of currencies usable for the transactions of the Fund. These practices are still in a state of evolution as increased experience is being gained. The following paragraphs set out what may be regarded as appropriate practices to be followed for the time being.

I. Procedure

When a substantial number of currencies other than the U.S. dollar became usable for drawings, the drawing countries began to discuss with the Managing Director what currencies might be drawn. It gradually became the practice that consultation should take place between the drawing country and the Managing Director about the currencies to be drawn, and this practice has now become established in connection with all stand-by arrangements and drawings. Before giving advice to the drawing country, the Managing Director has got into contact with countries whose currencies might be drawn, even in circumstances where speed in arranging the drawing was essential. These consultations and the contacts with the countries concerned have thus become an integral part of the procedure which has been evolved.

In addition, an attempt is being made to indicate from time to time the amounts likely to be drawn and what might be a proper distribution of drawings among different currencies. Since under stand-by arrangements even fairly large drawings may be made suddenly, such indications as will be given can only be tentative and informal but they can, even so, serve a useful purpose in contributing to the maintenance of close contact between the Managing Director and the countries whose currencies may be drawn.

It has been concluded that the Fund has the legal authority to specify the convertible currencies to be used in making repurchases in discharge of obligations to repurchase that do not arise under Article V, Section 7(b), and that, accordingly members are required to obtain the prior agreement of the Fund on the convertible currencies to be used in making such repurchases. Such repurchases must not increase the Fund's holdings of a member's currency beyond 75 per cent of that member's quota or decrease the Fund's holdings of the repurchasing member's currency below 75 per cent of that member's quota.

Until further notice, and in order to maintain conditions which foster repurchases and the revolving character of the Fund's resources, the Fund will accept any convertible currency fulfilling the conditions set forth in the last sentence above, provided that the repurchasing member has consulted the Managing Director on the currencies, and the amounts of each, to be used by the member in making its repurchase. Before giving his advice, the Managing Director will consult with countries whose currencies could be used in repurchase, and he will also attempt to give advance indications comparable to those relating to the currencies to be drawn. In all of these consultations, the Managing Director's recommendations will be guided by the principles regarding the currency composition of repurchases set out in Section II below.

The preceding paragraph shall apply to those repurchase obligations outside Article V, Section 7(b) that are entered into after July 20, 1962. Members that entered into such obligations before that date shall be invited to consult the Managing Director on the currencies to be used in discharging these obligations, and the Managing Director will follow the procedure and be guided by the considerations referred to in the preceding paragraph.

The Managing Director will notify the Executive Directors at least two business days before any repurchase under the preceding paragraphs is carried out.

Where consultations with a country are referred to in this document they will normally be conducted with the Executive Director appointed or elected by such country.

II. Criteria for the Selection of Currencies for Drawings and Repurchases

The experience of the Fund in recent years has made it possible to indicate the main considerations which govern the selection of currencies for drawings and repurchases.

Drawings

With regard to the question of the selection of currencies for a particular drawing or for drawings in general, account has been taken of the balance of payments and reserve positions of the countries whose currencies are considered for drawing, as well as of the Fund's holdings of these currencies.

It has been found in practice that weight has to be given to all these three considerations, with some differentiation according to specific circumstances, and perhaps most particularly according to the size of the transaction or transactions involved.

During periods when aggregate drawings were moderate in amount, little difficulty was experienced in distributing these drawings among countries with reasonably satisfactory balance of payments positions on the basis of the level of these countries' reserves. When the volume of drawings has been large, it has been necessary to give more importance to the relative balance of payments positions of the countries to be drawn upon, so as to prevent excessive declines in their primary reserves as a result of Fund sales of their currencies. In connection with large drawings, in particular when they are associated with short-term capital movements, it is usually fairly easy to single out the countries whose reserves have benefited from an inflow of capital and to direct drawings more particularly toward the currencies of these countries.

By the attention thus given to the balance of payments position, the Fund has been able to arrange drawings in large measure to offset movements of funds in the exchange markets, and thus contribute to the strengthening of the international payments position. In considering a country's balance of payments position, seasonal fluctuations have not been allowed great weight, and the Fund has avoided drawing prematurely the currency of a country which is in the process of building up reserves from a relatively low position.

In applying the third consideration, account has to be taken of prevailing circumstances. For example, when the Fund's holdings of a particular currency have become very low, this has precluded substantial sales of that currency irrespective of the balance of payments and reserve position of the country concerned. In practice, the Fund has taken account of the level of its holdings of any currency well before the point of actual exhaustion, by gradually—rather than abruptly—reducing its sales of that currency on account of this factor.

Small drawings have normally been executed in one currency only, preferably the currency in which the drawing country holds the bulk of its reserves, even in circumstances where the payments position of the reserve center drawn upon has not been strong. Somewhat larger drawings have usually been distributed over more than one currency, but only exceptionally more than three to five currencies have been involved in a single drawing unless it has been a very large one. As far as possible, factors relevant to the particular drawing country, such as closeness of trade and payments relations, have been taken into account in the selection of the currencies to be drawn.

Repurchases

With regard to repurchases, the range of currencies is, as mentioned in Section I above, limited to currencies that are formally convertible and of which the Fund's holdings are below 75 per cent of the quota. As a result, repurchases in currencies have, until early 1961, been made almost exclusively in U.S. dollars. The U.S. dollar was also, in recent years, a currency that was available in the exchange market at favorable rates which reflected the prevailing balance of payments position.

Increasingly, however, weight has been given, in suggesting the allocation of repurchases among the countries whose currencies can be received in repurchase, to the Fund's holdings of these currencies compared to quotas. It would seem from the point of view of equity, and also with due regard to the liquidity position of the Fund, that great weight should be given to this criterion. But consideration should also be given, when appropriate, to the prevailing balance of payments position. In the case of relatively small repurchases it has been found practical that they be made in the currency in which a country holds its reserves, provided of course that such currency can be received by the Fund.

III. Conversion

It has been the experience in the Fund that a country drawing one or more currencies, after consultation with the Managing Director, has often wanted to convert either the whole or part of the amount drawn in a particular currency into one or more other currencies depending upon the payments that country has to meet or the currencies it normally holds in its reserves. The conversions thus effected have made it possible for the drawing country to meet its payments obligations and to strengthen its reserves in the most effective manner.

In the case of drawings in dollars, sterling and moderate amounts of certain other currencies, there has been no difficulty in effecting conversion at the going rate by transactions in the exchange market. Since the currencies drawn have generally been strong currencies for which there is a demand in the market, such conversion has generally been carried out without any disturbance to the market. For several currencies, arrangements have often been made between central banks, i.e., between the central banks in the drawing country and in the country whose currency is drawn, which provide for direct conversion into the latter's main reserve currency at the prevailing market rate without any commission being charged. In certain cases, however, especially when the amounts involved have been large, consideration has been given to the fact that conversion on the market would have affected exchange rates, and in some cases an allowance for this has been made. A preference has been indicated by two central banks for conversion at par, especially for large drawings.

In accordance with normal central banking procedure, whenever a country desires conversion of a currency it is drawing, it would get in touch with the central bank of the country drawn upon in order to reach an understanding on the most convenient way to arrange such conversion. When conversion has presented a country with difficulties, the assistance of the Managing Director has been sought in order to arrive at an appropriate solution.

The practices outlined above for drawings can, *mutatis mutandis*, be applied when a country needs to obtain a currency in order to make a repurchase from the Fund with that currency.

The Fund will keep the practices with respect to conversion as described above under study, and will re-examine them in the light of further experience.

The Fund's Policies Regarding Financial Stability

From its inception, the Fund has cooperated with countries in the establishment and support of realistic exchange rates and in the maintenance of stability and confidence in monetary systems. In some respects, this is the part of the Fund's work least understood by those not intimately associated with the Fund's financial and technical assistance to members. It derives primarily from the implementation of the purposes outlined in the Fund's Articles of Agreement, not the least of which is to contribute to the "promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy."[1]

[1] Article I(ii).

The maintenance of high levels of employment, and the pursuit of the most rapid rates of economic growth consistent with orderly development and available resources, are now widely accepted as appropriate aims for national policies. One of the aims of the Bretton Woods Conference was to establish an institution which would provide international credit, so that short-term financial difficulties would not frustrate the achievement of these objectives. The Fund's policies with regard to the use of its resources have been directed toward this end. The Fund's advocacy of monetary stability is an expression of its views regarding the best way to achieve high levels of real income and employment, and, in particular, to encourage the development of productive resources. In some respects the problem of maintaining monetary stability is most acute in the less developed countries, where the resources available for investment are almost always smaller than would provide a rate of growth satisfying the aspirations of its citizens for better standards of living; and even with the assistance of development funds from abroad, economic progress tends to lag behind expectations. In these circumstances it is of the greatest importance that countries follow financial policies that will be conducive to economic growth.

The Fund recognizes that the process of economic growth itself is likely to create pressures on resources that may lead to price increases and that not all price increases are incompatible with sound development. However, experience shows that, if prices rise fast enough to initiate a wage-price spiral or to undermine confidence in the real value of assets denominated in money (e.g., savings deposits), economic growth will be discouraged. It is an inflation of this kind with which the following pages are concerned. In individual countries that have acted resolutely to stop such inflations, comparison of the conditions before and after that action show that monetary stability is a prerequisite for rapid economic expansion. A few examples of the results of stabilization are cited in the next section of this Report.

Insofar as inflation stimulates economic expansion, this expansion is often in areas that are not most conducive to a high and sustained rate of growth in the country concerned. It tends, rather, to take the form of ventures aimed, in particular, at the purchasing power of the minority of the population whose incomes rise faster than prices. There is commonly, also, an expansion of those activities (usually the production of nonessential goods) which obtain the greatest degree of protection from the import restrictions that the country may adopt to protect the balance of payments from the effects of inflation. Often these are not the most appropriate uses for the country's resources. At the same time, exports suffer in competition with countries with stable currencies, and the production of price-controlled necessities is discouraged. Indeed, the disincentive to produce for export is one of the most damaging consequences of inflation.

These developments counter, and frequently outweigh, any advantages which may possibly be gained from "forced savings" by the private sector induced by inflation. In fact, experience suggests that these "forced savings" induced by government deficits are often used, not for investment, but to cover the current operating losses of government enterprises, or as subsidies to stabilize the cost of living in an attempt to offset some of the social injustice inherent in inflation. For these reasons there is, as the Fund observed in its Annual Report for 1959, "a growing awareness of the importance of monetary stability. Governments have intensified their efforts to impress the urgency of temporary austerity upon the public, who have now had a long experience of the disruptive effects of inflation, and these efforts have begun to yield positive results. . . ." [1]

A *continuing* inflation is likely to drain resources away from economic development even more directly. One of the most serious effects of inflation is to divert the community's savings from home development into foreign investment. Once inflation gets under way and becomes an expected part of the community's life, the view becomes prevalent that depreciation of the exchange rate is inevitable. One of the easiest ways to obtain pro-

[1] *Annual Report,* 1959, pages 73-74.

tection against a depreciating rate is to acquire foreign assets. Certain aspects of this incentive to capital flight are discussed, in more detail, in the next chapter. Even if a country has exchange control, it may not be able to prevent the flight of capital (as is indicated by the experience of Spain discussed below), and the existence of controls may discourage the inflow of capital. Unless and until a capital flight is reversed, the inflating country loses resources which it can ill spare. A particularly unfortunate feature of the international financial scene in the last decade has been the large flow of private capital from those less developed countries which have tolerated inflation to countries, frequently wealthy, which have maintained monetary stability. This flight of domestic capital has significantly offset, and in some cases exceeded, the inflow of capital to the developing countries.

On the other hand, a country which shows itself determined to maintain stability is better able to attract capital from abroad than one with similar potential which does not maintain monetary stability. More important is the fact that, where reasonable stability of prices and wages can be expected, enterprise will be attracted to long-term ventures of the kind which are essential for sound economic development. Difficult as it may be to change the psychology of the community from the expectation of continuously rising prices to a belief that prices will remain stable, this adjustment is the first requisite for sustained economic growth.

However, it must be admitted that the early stages of stabilization are likely to be difficult; frequently, consumption and investment decline in the short run. But if a stabilization program had not been undertaken, the declines in investment and consumption would almost certainly have been greater. Inflation arises if countries attempt to absorb more real resources than they can produce or are able to borrow abroad. This results in a decline in their international reserves and an exhaustion of their available lines of foreign credit. If inflation is allowed to continue, some much less beneficial expedient, probably a rapidly depreciating exchange rate or further discriminatory and distorting exchange controls, will have to be accepted. Such attempts to offset the effects of inflation will accelerate capital outflow, make foreign credit less available, and force on the country a reduction in consumption and investment as inflation leads to still further distortion of the economy.

If the expectation of continuously rising prices gives way to a belief that they will remain stable, the patterns of investment outlay will be markedly changed from expenditure giving relatively little real benefit to expenditure with substantial real benefit. This realignment of the economy may have, as one of its first consequences, a temporary decline in investment. Investment is a time-consuming process. There is an inevitable lag between the decision to create physical capital and the actual consumption of resources in capital production. On the other hand, once the process of investment is started, it may frequently be cut off rather quickly. One effect of stabilization may well be a quick end to the development of those industries which would be unprofitable in a noninflationary world, and a decline in their demand for investment resources. Even if a stable environment makes alternative industries appear to be profitable fields for investment, it takes time for entrepreneurs to convert their investment intentions into orders for resources. Hence, the period immediately after stabilization may well be marked by a temporary diminution in the demand for investment resources, with a consequent decline in their production. As has been frequently observed, inflation induces an excessive accumulation of inventories. Consequently, at the time of stabilization, stocks of inventories may be expected to be unduly high. As a result, the stabilization period may also be marked by the working off of inventories, and this can result in a temporary reduction in output.

It should be emphasized that the decline in economic activity which may coincide with the halting of an active inflation is temporary. With a new set of expectations, investors are able to make plans for future capital creation, with a consequent rise in their demands for resources. The disinvestment in inventories is necessarily short-lived: after excess stocks of commodities are used, any consumption of the remaining stocks must be met by replacement.

The Fund has frequently discussed with member countries the kinds of policy which are appropriate, in order to "make possible more rapid and significant progress toward the achievement of the Fund's objectives, which include the achievement of monetary stability, the adoption of realistic rates of exchange, the relaxation and removal of restrictions and discrimination, and the simplification of multiple currency practices."[1] Such a program may cover fiscal, credit, and exchange policies, all of which have a direct impact on the rate of growth that can be sustained. Fiscal reform aims at reducing or holding expenditure while taxation is increased, with any remaining budgetary gap financed either from noninflationary domestic borrowing or from the domestic currency proceeds of foreign grants or credit. Monetary reform is directed primarily at limiting bank credit to an order of magnitude that can be safely absorbed without inflation or chronic disequilibrium in the balance of payments. Reserve requirements may be increased, central bank credit to commercial banks curtailed, or credit ceilings imposed on commercial banks. New exchange systems may be established which are intended to permit wider scope for market forces in determining a realistic exchange rate and in allocating foreign exchange among different uses. The adoption of such policies is likely to bring direct beneficial results within the economy; also it has made it possible for many members to obtain foreign resources in addition to their drawings on the Fund. The acceptance by the Fund of a declaration of intent, and the granting of a stand-by arrangement, inspires confidence, in private investors in other countries and in governments, that the country concerned will halt inflation and experience more rapid economic development, and thus become a more promising area for investment.

The Fund's experience, however, suggests that, essential as monetary stability is, it alone will not ensure well-balanced economic growth. Appropriate fiscal and other economic policies

[1] *Annual Report,* 1951, pages 81-82.

are also essential; without such policies, either the community will be discouraged from saving, or savings will be channeled into investments of little value to the community. It must also be recognized that for most countries rapid growth is possible only with the assistance of foreign capital. This capital will not be attracted to a country with development potential unless its policies are directed to the fulfillment of this potential. But sound policies alone cannot ensure rapid development. The best of policies can only speed the achievement of potential production; in the short run, development may be arrested by transitory setbacks in output possibilities or market demands.

Experience with Stand-By Arrangements

The experience of a number of countries which have taken steps to stabilize their economies, whether or not assisted by Fund stand-by arrangements, sheds practical light on the principles which have guided the Fund's policies in this field. Mention might be made of the experience of the industrial countries which stabilized their economies in the immediate postwar period, of which the Belgian and Netherlands reforms were striking examples. Later stabilization operations assisted by the European Recovery Program (such as those in Germany and Italy) provided bases for subsequent large increases in economic activity. The stabilization of the French economy in 1958-59, with assistance from the Fund through a drawing and stand-by arrangement, is a further example.

The United Kingdom drawing and stand-by arrangement in August 1961, following the Government's announcement of domestic measures to stem the decline in foreign reserves, was the most notable of the Fund's stand-by operations associated with stabilization measures during the past fiscal year. The measures adopted by the United Kingdom, and the progress achieved after the middle of the year, are discussed below (pages 97-98); so also are contemporary developments in several primary producing countries (pages 106-10). The experience of the Fund and its members with stand-by arrangements over a somewhat longer period may be illustrated here, by considering three less industrialized countries, all of which took steps of varying intensity to end inflation, but which faced somewhat different problems.

Spain provides a notable example. During 1961 that country was able to terminate a stand-by arrangement which had formed part of a joint Fund-OEEC program to assist the implementation of a Spanish reform leading to the rehabilitation of the economy, inaugurated in 1959. In many respects, the problems facing Spain were similar to those of other countries which have decided to restore monetary equilibrium, and the success of this program provides an example of the results that may be expected from such operations. Prior to August 1959, prices in Spain were rising rapidly, there had been frequent exchange rate adjustments, foreign exchange reserves had dwindled to one fourth of their size at the end of 1955, being equal to less than one month's imports, and output was growing only slowly.

To eliminate the primary cause of the inflation (the excessive investment expenditure of autonomous public agencies financed largely through advances from the Bank of Spain), higher taxes as well as measures to limit the total expenditure of the official sector were introduced and successfully implemented. In 1961, central government revenues were 45 per cent higher than in 1958, whereas the increase in expenditure was only a little more than 35 per cent, even though government investment expenditure had risen by over 50 per cent. Advances by the central bank and the foreign exchange institution to the official sector, which in 1958 amounted to more than 12 per cent of the total expenditure of the official sector, were sharply reduced in 1959 and totally eliminated thereafter. Moreover, financing of the government sector by the other banks was eliminated after 1958. The Bank of Spain also took a number of measures designed to restrict credit to the private sector. Consequently, the volume of money, after increasing by approximately one third in the two years ended December 1958, increased by only 4 per cent per annum in the following two years. One of the first steps taken to stabilize the economy in 1959 was the elimination of the complex multiple rate system and the adoption of a par value (which was significantly depreciated compared with many of the important rates which it replaced). Since then, the rate has been maintained within ¾ of 1 per cent of par.

The first results of these steps were visible in the rise in the country's foreign exchange reserves. By December 1961, official foreign exchange holdings had increased more than thirteenfold, to the equivalent of almost a year's imports, even though Spain had repaid, in advance of schedule, the equivalent of $50 million drawn from the Fund and $24 million borrowed from the OEEC. The improvement in the foreign exchange position was attributable mainly to a shift in capital transactions. Prior to the stabilization, there had been a considerable outflow of capital, mainly through the under-invoicing of exports and the retention of the excess proceeds abroad, and through the black market, which was largely fed by tourists' sales of foreign exchange. Once expectations changed regarding the future course of Spanish prices and the exchange rate, exporters tended to convert the full proceeds of their sales into pesetas, the black market dried up and tourist exchange was converted through official channels, and there was a considerable repatriation of previously accumulated foreign balances. In addition, Spain continued to receive foreign aid. At the same time, the flow of private foreign capital to Spain, which had been quite small down to 1958, became important in 1959, and again expanded markedly in 1960.

As a result of all these measures, inflationary pressures were eased to a large extent. In the three years before 1959, the cost of living increased by approximately one third; the subsequent years have been marked by price stability. Immediately after the Government took steps to halt the inflation there was a decline in output, but by late in 1960 these hesitancies were overcome. Total output rose by 4 per cent in 1961, and it continued to rise at an accelerating rate in the early part of 1962. In 1961, the authorities considered it possible to ease their restrictive policies, and the growth in bank credit to the private sector returned to its prestabilization rate. The Spanish economy still faces many problems, but those arising from inflation have largely disappeared.

Peru took positive steps to end inflation in mid-1959 under exceptionally favorable conditions. In the first place, the Peruvian economy is basically one of the more stable of the less industrialized countries. It is one of the most diversified of the primary-product export economies. In the second place, conditions in 1959 were especially propitious. Foreign investment in copper production was reaching fruition. There was also an unusual expansion in fishery production; exports of fish products in 1961 were $50 million greater than in 1958.

In the two years before mid-1959, expansionary policies of the official sector, largely financed by credits from the Central Reserve Bank, had led to a depletion of the Bank's exchange reserves, despite an exchange depreciation. By July 1959, Peru's net international reserves were less than $5 million, equivalent to less than one week's imports. Furthermore, this worsening of Peru's international position was accompanied by a sharply reduced rate of economic growth. Whereas the real gross national product had increased between 1951 and 1956 at an annual rate of over 4.5 per cent, the expansionary financial policies in the two years ended December 1958 were associated with an annual rate of growth of less than one half of 1 per cent.

Faced with this deterioration of the country's economy, the authorities undertook fiscal and monetary reforms. In the three years ended December 1961, government revenue increased by approximately 85 per cent while expenditure rose at a slower rate. The budget deficit in 1959 was reduced to less than 5 per cent of expenditure, from more than 10 per cent in 1957 and 1958. In 1960 there was a sizable cash surplus, and in 1961 a smaller surplus. As a consequence, government borrowing from the central bank was negligible. Starting late in 1958, central bank credit to the other banks was restricted. At the same time, measures were taken to enforce the legal reserve requirements of the banks more strictly, and these requirements were appreciably tightened in April 1960.

These fiscal, credit, and legal reserve policies, supported by annual stand-by arrangements with the Fund, contributed to notable economic and financial improvements. A leveling off in economic activity occurred in 1959, but an expansion of more than 11 per cent in real gross national product was attained in 1960, and the increases in domestic prices were considerably reduced. Growing public confidence also helped to encourage private investment, which rose by an estimated 10 per cent in 1960. The depreciation of the exchange rate was arrested; and after the exchange system was unified in May 1960, the rate appreciated slightly. The central bank's net foreign reserves increased by $28 million in 1960. In 1961 output expanded by approximately 6 per cent and the net official international reserves rose by a further $37 million. While factors other than stabilization contributed to these changes in output and reserves, the slow economic progress and the balance of payments deficits prior to the stabilization program can be explained largely by the impact of inflation in that period. The current rate of progress, under conditions of stability, is among the highest in the world.

In *Colombia,* steps were taken toward monetary stabilization in 1957 under conditions less favorable than those prevailing in Peru. Whereas Peru benefited from external developments, the price of coffee, Colombia's major export, which had started to decline in 1954, fell by more than one third in the three years subsequent to the inauguration of monetary stabilization. In spite of a substantial increase in volume, the foreign exchange value of coffee exports, which represented about 70 per cent of total exports, declined by about 18 per cent over that period. Yet Colombia attempted to overcome the difficulties which excessively expansionary policies had created by the middle of 1957. Following a period when credit expansion was unduly large, Colombia's foreign exchange liabilities (mainly arrears of payment for imports) exceeded its foreign exchange assets by $285 million at the end of 1956. At the end of 1954, its foreign assets had been $125 million larger than its liabilities. In the three years ended December 1957, total credit to the private sector increased by approximately 75 per cent. The expansionary fiscal policies of the national government, financed mainly by central bank credit, gave rise to a fourfold increase in the net government indebtedness to the banking system, and real gross domestic product increased at an annual rate of approximately 3 per cent.

The stabilization policy was adopted in 1957, with the support of a stand-by arrangement with the Fund. Attempts were made to increase government revenues and to slow down the rise in government expenditure. The rediscount facilities of the banks were reduced, ordinary reserve requirements raised, marginal cash reserve requirements instituted, and advance import deposits increased. These policies have been pursued with varying degrees of intensity. There was a considerable depreciation of the exchange rate in 1957 and in subsequent years, but a rather complex multiple rate structure has been maintained. Throughout this period, considerable reliance has been placed on direct trade restrictions. The depreciation of the exchange rate, and the strict import restrictions, contributed to an improvement in Colombia's balance of payments in 1958 and 1959.

In 1957 and 1958, some attempt was made to restrain bank credit. Legal reserve requirements were raised and credit from the central bank to the commercial banks was restricted. However, the Government's policy of financing the purchases of coffee for stockpiling purposes, by advances from the central bank, offset the effects of these restrictions. Credit to the private sector, together with credit for financing coffee purchases, increased by about the same amount as in the immediately preceding years.

In 1959, unlike the two preceding years, the dollar value of exports was maintained on the basis of a larger volume of coffee exports. The central bank ceased to provide finance for coffee retention, and the National Coffee Federation repaid a sizable amount of the credit obtained in the previous year. The commercial banks also reduced their indebtedness to the central bank. These monetary restraints, aided by continued fiscal austerity, made it possible to stabilize the exchange rate through most of 1959 and, by about the middle of the year, to arrest the rise in prices. Following a slight decline in economic activity in 1957 and 1958, the rate of growth in real gross domestic product amounted to about 6 per cent in 1959, the highest rate since 1954.

The stabilization policies contributed to substantial balance of payments surpluses in 1957 and 1958, permitting the reduction by nearly $200 million of short-term liabilities arising from import arrears, and, in addition, a moderate increase in reserves. In 1959, there was a substantial increase in output and a further large balance of payments surplus. The country's problems had not been solved when the authorities, influenced by the early improvement, relaxed their stabilization policies in 1960. The advance in output in that year (4 per cent) was less than in previous years, and there was some decline in the volume of exports and a marked worsening in the balance of payments. In 1961, central bank credit expanded at a much faster rate than in 1960, and the Government's deficit, which had reappeared in 1960, increased. Also, in 1960 central bank financing of coffee stockpiling was resumed. These relaxations in the program led to price increases, government intervention to support the exchange rate, and rising imports, despite a further decline in exports.

* * *

The recent experience in these three countries provides some evidence that the policies of monetary stabilization and their effective implementation have contributed to economic growth. When the basic economic conditions are adverse, as in Colombia, the problems are inevitably difficult. When the nonmonetary conditions are favorable, as in Peru, the problems of maintaining monetary stability and encouraging economic growth are easier. Spain, in an intermediate position, shows even more clearly that economic progress may be expected to be more rapid after the initiation of policies designed to maintain financial equilibrium.

However, it should be emphasized that, while monetary stability is an essential prerequisite for rapid and well-balanced economic growth, stability alone is not enough. Continuous efforts must be exerted in other fields of economic policy, and radical changes may be required in basic fiscal policies and in the financial structure. Vigilance in the financial sphere may be relaxed only at a country's peril. But as economies make progress, more attention needs to be directed to social developments within the limits of the available resources.

Chapter 3

Exchange Rates and Payments Restrictions

Par Values

DURING the 12 months ended April 30, 1962, the Fund concurred in changes in the established par values of the currencies of four member countries. These countries, and the dates upon which the changes took place, were Ecuador (July 14, 1961), Iceland (August 4, 1961), Costa Rica (September 3, 1961), and Israel (February 9, 1962). Each change involved a devaluation required to correct a fundamental disequilibrium. In Costa Rica, Ecuador, and Israel, the changes were also associated with the reduction or virtual elimination of multiple exchange rates. Since the end of the fiscal year the Fund has also concurred in a new par value for the Canadian dollar.

The Fund also agreed to initial par values proposed by New Zealand (October 27, 1961) and Portugal (June 1, 1962) in accordance with the Membership Resolutions for these members. The values established did not involve any change in the effective exchange rate for the New Zealand pound or the escudo. On June 30, 1962, initial par values had been agreed between the Fund and all but the following 13 of its 76 members: Afghanistan, China, Cyprus, Indonesia, Korea, Laos, Liberia, Malaya, Nepal, Nigeria, Thailand, Tunisia, and Viet-Nam (Appendix X).

A number of Fund members continue to use exchange rates which differ from their par values as established under the Articles of Agreement; some of them have fluctuating rates. From October 1950 to June 1961, the Canadian exchange rate was permitted to fluctuate freely, being determined by market forces and with a minimum of official intervention; the maximum variation in Canadian reserves within any calendar year in that period was approximately $125 million. In his budget speech on June 20, 1961, the Minister of Finance announced that, henceforth, the Exchange Fund would "be prepared, as and when necessary, to add substantial amounts to its holdings of United States dollars through purchases in the exchange market." He stated, "No one can say today what the appropriate level of our exchange rate would be when our balance of payments is in a position better suited to our present economic circumstances. But the rate will certainly be lower than it has been of late, and it may well be appropriate for it to move to a significant discount." At the beginning of June 1961, the Canadian dollar was quoted at US$1.015; by June 20, it was approximately equal in value to the U.S. dollar; by the end of June, it was worth US$0.966. Between May and October, official reserves rose by more than $150 million; but during November and December, they declined by about $50 million. From the end of June 1961 until early in 1962, the exchange rate remained fairly stable, falling to an equivalent of US$0.95 in February. This represented a depreciation by about 11 per cent from the peak rate, attained in October 1959. During the first four months of 1962, the exchange rate was supported by sales of about $465 million of foreign exchange by the Exchange Fund. These arrangements were terminated by the adoption on May 2, 1962 of a new par value, as noted above.

Several other countries, particularly in Latin America, have exchange rates which are nominally fluctuating but are in fact fixed by the authorities and changed only occasionally. In many countries these rates showed a high degree of stability during the 12 months reviewed. The problems created by fluctuating exchange rates are further discussed below.

Multiple Currency Practices

Reliance upon multiple currency practices continued to decline during the year under review. As mentioned above, Costa Rica, Ecuador, and Israel adopted new and virtually unified exchange rate systems. In *Costa Rica,* the change involved the abolition of a dual rate system with some mixing rates on the export side; in its place, the new par value was applied to all transactions, except for certain transitional arrangements, most of which have since expired. In *Ecuador,* a complex multiple rate system was replaced by a single par value applying to most transactions; only a minor free market with a fluctuating rate was retained for some transactions in invisibles and unregistered capital. In *Israel,* a complex system of exchange rates was replaced by a unitary rate based upon the new par value, the only exception being that a small free market has been retained for certain capital transactions.

In January 1962, the *Philippines* substantially simplified its multiple exchange rate system and at the same time removed almost all restrictions on payments. A freely fluctuating rate is now applied to all exchange payments and to all receipts other than 20 per cent of the proceeds of merchandise exports, to which the official par value of ₱2 = $1 is applicable. In *Jordan* the last traces of a multiple currency system were removed when the official exchange rate was extended to all transactions, including those with neighboring countries. In *Brazil,* several changes made in the exchange system during the period under review brought that country substantially closer to its goal of a unified exchange rate. By the end of 1961, most exchange transactions there were taking place at the free market rate, which was pegged; however, in a number of instances, various other requirements affected the cost of exchange transactions. In the period under review, the *United Arab Republic* simplified its exchange system by consolidating the different premiums on foreign exchange applied to various receipts and payments into a single premium applicable to most exchange transactions. In May 1962, the

U.A.R. adopted a rate of LE 1 = $2.30, applicable to all but a few categories of transactions. The U.A.R. is following a policy designed to extend the application of the rate to all transactions in the near future.

There were a few exceptions to the general trend away from multiple rates: Chile reintroduced a dual rate system in January 1962, and Korea re-established exchange subsidies for private exports. At the end of the period under review, 12 member countries continued to employ multiple exchange systems; of these, 6 countries had systems consisting essentially of only two effective exchange rates.

Fund Policy Regarding Fluctuating Exchange Rates

The Fund's position with regard to fluctuating exchange rates was defined in 1951 in the following terms:[1] "In previous Annual Reports the Fund has discussed the par value system that was agreed at Bretton Woods, noting particularly that the system is one of stability of rates rather than rigidity. The governments that negotiated the Fund Agreement concluded that the exchange rate system best calculated to promote the Fund's purposes is a system of fixed par values agreed with the Fund and subject to occasional adjustment—in accordance with orderly procedures—for the purpose of correcting any fundamental disequilibrium that may develop in the economic relationships of the member countries.

"From time to time, in the public press and in both technical and non-technical discussions of foreign exchange policy, this par value system has come under critical review. There has been some advocacy not only of fluctuating exchange rates to suit particular circumstances facing a given country but even of a large number of rates fluctuating at the same time. One important argument offered in favor of this system is the idea that

[1] *Annual Report,* 1951, pages 36-41.

exchange rates should be left to find their own level, in the belief that market forces can best determine appropriate valuations for currencies. A fluctuating rate is sometimes advocated as a procedure better designed than changes in par values to facilitate frequent changes in the rate of exchange when such changes are made necessary by unstable foreign or domestic conditions. Those who favor a 'fluctuating rate system' also argue that each rate of exchange should move so as to protect the domestic economy from pressures arising abroad, and, under other circumstances, that the exchange rate should protect the balance of payments against pressures arising out of domestic economic policies.

"The continuing interest in alternative foreign exchange arrangements calls for a brief review of the par value system and of the objectives that it serves. The system is not a wise one merely because it was written into the Articles of Agreement. But it is correct to state that it was written into the Articles of Agreement because it emerged from the experience of the world over a period of many years. No one would deny that the maintenance of a given exchange rate is sometimes made very difficult either by a set of internal policies or by the external economic forces with which countries must deal. In the main, these difficulties arise from the fact that changing economic forces operate with unequal effects on various countries. Nevertheless, it is a striking fact that the maintenance of stable rates of exchange is virtually the invariable objective of all countries at all times; even those countries that have embarked on a policy of fluctuating rates have in practice generally stabilized their rates within narrow limits over long periods of time.

"Those who advocate allowing rates to find their 'natural' level, permitting market forces to determine a rate of exchange that will be stabilized, seek to provide a simple solution for a very complex problem. There is no such thing as a 'natural' level for the rate of exchange of a currency. The proper rate will, in each case, depend upon the economic, financial and monetary policies followed by the country concerned and by other countries with whom it has important economic relationships. If the economy of a country is to adapt itself to a given exchange rate, there must be time for the producers, sellers and buyers of goods and services to respond to the new set of price and cost relationships to which the rate gives rise. This means that in the short run changes in the exchange rate are either no test or a very poor test of basic economic inter-relationships. It also means that whether a given exchange rate is at the 'correct' level can be determined only after there has been time to observe the course of the balance of payments in response to that rate. Moreover, past experience with fluctuating rates of exchange has proved that movements in the rate are significantly affected by large speculative transfers of capital. Consequently countries prefer to make adjustments in their rates of exchange in a manner that will minimize distortions through speculation. Parenthetically it may be mentioned that generally implicit in the arguments for fluctuating rates is the assumption that some major currency will remain stable as a point against which to operate the fluctuating rates.

"When a rate of exchange becomes inappropriate because of fundamental changes in a country's balance of payments, arising from forces either external or internal, it should be adjusted to the new situation. The Fund Articles are sufficiently broad to permit any necessary and justifiable changes in par values, and if changes are made by the orderly procedure provided by the Articles, sufficient weight will be given to the interests of all members of the international community. In the present circumstances it is essential that the cooperative endeavor represented by the Fund be extended and improved, rather than undermined. By establishing the Fund, its members recognized that each had a responsibility toward all the others; that the action of each had effects on all the others; and that only by working together could they mitigate the evils of economic nationalism and secure the benefits of expanded trade. The course of events since the meeting at Bretton Woods has shown that their judgment was sound.

"For these reasons a system of fluctuating exchange rates is not a satisfactory alternative to the par value system. But there may be occasional and exceptional cases where a country concludes that it cannot maintain *any* par value for a limited period of time, or where it is exceedingly reluctant to take the risks of a decision respecting a par value, particularly when important uncertainties are considered to exist. Even under such circumstances, however, members of the Fund must recognize that should any one of them be moved by these considerations to allow its rate of exchange to fluctuate, other members of the Fund will be affected. For a country whose position in international trade is comparatively unimportant, this consideration may not be as significant as the benefit it expects to derive for its own economy. But there is always the danger of the psychological impact of such action on expectations in other countries that might force these countries to follow the same course. When such a situation is examined with respect to a country with an important position in international trade, particularly if its currency is one of the major trading currencies, the implications for other countries are far more important than the results that it might seek to achieve for its own economy. Moreover, if a substantial number of exchange rates were allowed to fluctuate, complex problems would be created for all countries and a chaotic situation might easily develop.

"What should be the Fund's attitude toward these exceptional cases which, from time to time, have been presented to the Fund and may be again presented in the future? A member of the Fund cannot, within the terms of the Articles of Agreement, abandon a par value that has been agreed with the Fund except by concurrently proposing to the Fund the establishment of a new par value. What a country can do under the circumstances described above is to inform the Fund that it finds itself unable to maintain rates of exchange within the margins of its par value prescribed by the Fund Agreement, and, accordingly, that it is temporarily unable to carry out its obligations under Sections 3 and 4(b) of Article IV.

"The circumstances that have led the member to conclude that it is unable both to maintain the par value and immediately select a new one can be examined; and if the Fund finds that the arguments of the member are persuasive it may say so, although it cannot give its approval to the action. The Fund would have to emphasize that the withdrawal of support from the par value, or the delay in the proposal of a new par value that could be supported, would have to be temporary, and that it would be essential for the member to remain in close consultation with the Fund respecting exchange arrangements during the interim period and looking toward the early establishment of a par value agreed with the Fund. No other steps would be required so long as the Fund considered the member's case to be persuasive, but at any time that the Fund concluded that the justification for the action of the member was no longer sustainable, it would be the duty of the Fund so to state and to decide whether any action under the Fund Agreement would be necessary or desirable.

"The essence of this whole analysis may be very simply expressed. The par value system is based on lessons learned from experience. There is ample evidence that it continues to be supported by the members of the Fund. Exceptions to it can be justified only under special circumstances and for temporary periods. The economic and financial judgment of the Fund in such cases must be tempered by recognition of its responsibilities in the wider field of international relations."

Postwar Experience with Fluctuating Rates

Experience since 1951 has confirmed the views expressed at that time. Except when adopted temporarily, as part of a comprehensive program of exchange reform, "a system of fluctuating exchange rates is not a satisfactory alternative to the par value system." Furthermore, a fixed exchange rate subject to frequent changes, or a temporarily pegged fluctuating rate, is likely to encourage destabilizing speculation which will create even more serious problems than those which arise under a system of freely fluctuating rates.

In specific cases, a short period of fluctuation may be a means of reaching a rate which can subsequently be maintained. Many of the stabilization programs with which the Fund has been associated have included a fluctuating exchange rate as one of the instruments to be used in attaining monetary equilibrium. At the time of stabilization after a period of inflation, the existing trade and exchange controls, particularly in a multiple currency system, make it difficult to state what exchange rate is actually in effect. Even if there has hitherto been only a single rate, the preceding inflation is likely to have made this inconsistent with the existing price structure; and the adjustment required to eliminate the distortions in the economy are likely to make it virtually impossible to estimate in advance the required degree of over-all price change. In such circumstances, it may be impossible to calculate a new rate which would be appropriate after the measures of monetary reform had taken effect. Hence, at the time of stabilization, the choice may often lie between the free determination of the rate in the market and a continuing distortion of the economy by exchange restrictions.

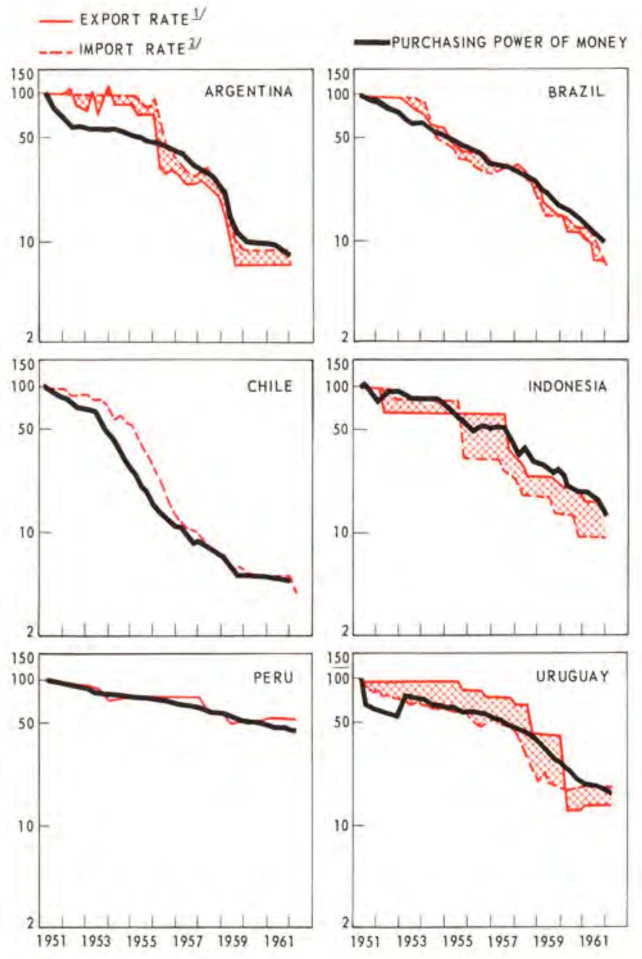
In exceptional circumstances, such as the large capital inflow into Canada in the early 1950's and into Peru for brief periods, the fluctuating rate may have an upward tendency. The experience of the postwar period, however, suggests that if a country does not clearly and quickly adopt a monetary policy aimed at stability, the movements of its fluctuating rate are likely to be oscillations not around a stable value but around a declining trend. It is an illusion to expect the fluctuating rate to ease the problems facing the monetary authorities. On the contrary, by eliminating the rallying point of the defense of a fixed par value, a fluctuating rate makes it necessary for the authorities to exercise greater caution in determining monetary policy.

When fluctuations in the rate become of significant amplitude, these fluctuations may themselves contribute to the forces leading to depreciation. If, as in most countries at present, wages are not equally flexible in both directions, fluctuations in the exchange rate may create inflationary pressures. Any circumstance leading to a temporary depreciation of the rate will raise the domestic currency cost of imports and will directly and indirectly lead to price increases. These increases will encourage demands for higher money wages, at least some of which may be met. Hence, depreciations are likely to encourage increases in domestic costs. By contrast, institutional rigidities limit reductions in money wages, so that exchange appreciations are unlikely to lead to significant decreases in domestic costs. Therefore, a fluctuating rate may be expected to encourage a rising trend in domestic costs. In turn, increases in costs exert a downward pressure on the rate. Thus, if an exchange rate fluctuates widely, it may be expected to depreciate over time. The movements of exchange rates and prices over the last ten years in six countries that had fluctuating rates show, on the whole, a persistent tendency in that direction (Chart 2).

Suggestions that a fluctuating rate serves to maintain an equilibrium relation between an economy following an inflationary policy and the rest of the world are based on the belief that any variations in the rate will be fairly closely associated with changes in the relation between domestic and foreign prices. In practice, however, countries that have sought protection by adopting a fluctuating rate have often pegged the rate rather quickly, even though internal stability and external equilibrium were not assured. Consequently, if the rate was an appropriate one initially, it soon became inappropriate. Recent experience covers quite a few cases where "fluctuating rates" were kept pegged in the face of large losses in reserves and sharp increases in domestic prices. In these circumstances, the fall in reserves convinced importers, exporters, and foreign and domestic holders of liquid assets that a depreciation was inevitable. The demand for imports rose and exports were held back, while capital flight was fostered. All the basic pressures on the rate were aggravated. If the rate had been left to fluctuate freely, its immediate depreciation would have reduced the possible gains to be obtained by capital flight, discouraged imports, and encouraged exports. The pegging of a fluctuating rate, however, while the underlying domestic developments are such that a

CHART 2. SELECTED COUNTRIES: EXCHANGE RATES AND PURCHASING POWER OF MONEY, FIRST QUARTER 1951-FIRST QUARTER 1962

(As percentages of 1951 averages)



[1] For Argentina and Indonesia, implicit export rate; Brazil, implicit export rate excluding coffee; Peru, principal exchange rate, which does not differ markedly from the implicit export rate and the implicit import rate; Uruguay, principal export rate.

[2] For Argentina, Brazil, and Chile, implicit import rate; Indonesia, "other" import rate; Uruguay, free rate.

depreciation is probable, is apt to compound the disadvantages of instability. As a result, the countries concerned suffer many of the hardships created by the uncertainty of exchange rate fluctuations, without obtaining any of the benefits which such a system might produce.

Experience has also shown that when the pegged rate could no longer be held the depreciation of the exchange rate sometimes proceeded more rapidly than the accompanying or ensuing price increases. Depreciation, which is rightly regarded as a symptom of inflation, then became a cause of inflation. As pointed out earlier in this Report, one of the more serious consequences of an inflation is the encouragement of capital flight. Hence, the market forces determining a fluctuating rate reflect not only transactions arising from exports and imports of goods and services, and transfers of investment capital, but also the flight of capital. A rate so determined will rapidly depreciate. Temporarily, the depreciation may be postponed by exchange and trade controls; but even if these controls had no adverse effects in themselves, they could not prevent eventual depreciation.

Recent experience with fluctuating rates, which has been commented on here, suggests that the countries using this device have not, on the whole, been able to protect thereby their economies from pressures arising from abroad, nor to protect their reserves from expansionary domestic economic policies. In particular, a fluctuating exchange rate tends to aggravate the pressures on the balance of payments arising out of domestic economic policies. The continuance of an inflation, to which a fluctuating rate tends to contribute, both by stimulating wage increases and by removing the danger signal of pressures on exchange reserves, tends in the longer run to drive the rate down.

The use of fluctuating rates in the last decade has been limited to a relatively small number of countries, of which only one, Canada, accounts for a substantial proportion of world trade; and Canada, which introduced a fluctuating rate in 1950, adopted, with the approval of the Fund, a new par value after the end of the period with which this Report deals.

It is important to bear in mind, therefore, that the postwar experience with fluctuating rates in a limited number of countries has occurred within the framework of fixed parities, in terms of each other and in terms of gold, for the currencies of well-nigh all the industrial countries. Such changes in the values of the latter currencies as have been made have followed the approval procedure laid down in the Articles of Agreement of the Fund, which is designed to ensure that exchange rates are determined with full consideration of their impact on other countries.

Recent Changes in Payments Restrictions

Developments with respect to restrictions on international payments during the twelve months ended December 31, 1961, and to some extent during the first quarter of 1962, have been described in the *Thirteenth Annual Report on Exchange Restrictions*. The net gain noted there in the liberalization of current payments was the result of divergent experiences of different groups of countries. In general, the industrial countries were able to continue to liberalize their restrictions on imports and import payments; in the process, some of them reduced or eliminated elements of discrimination. On the other hand, some primary producing countries either intensified their import restrictions or made only minor progress toward further import liberalization. The industrial and primary producing countries likewise differed in respect to liberalization of transactions in invisibles, although the general trend toward such liberalization continued.

Spain, in July 1961, issued regulations providing for nonresident accounts in convertible pesetas and thus created a basis for establishing the external convertibility of its currency. Cyprus, France, Italy, and Japan substantially eliminated dollar discrimination in their import licensing policies. Discrimination against imports from Japan was further reduced by some countries, and eliminated by Finland and Spain. Finland, Jordan, and Turkey further liberalized the availability of exchange for transactions in invisibles; however, Iran found it necessary to place limitations on the exchange provided for certain types of payment.

The use of advance deposit requirements as a prerequisite to obtaining import or exchange licenses or to clearing goods through customs showed no clear trend during the period, although there were a number of changes in individual countries. Two countries (Morocco and Tunisia) introduced this device for the first time, but several other countries made changes that reduced its importance. In some countries, the advance deposit requirements were being applied in a discriminatory manner, thus raising the possibility that they would lead to distortion of trade patterns and uneconomic use of resources.

Bilateral payments agreements involving Fund members continued to decline in both number and importance. Seventeen such agreements, to which both parties were Fund members, were terminated, while six new ones were initiated. Of special significance was the reduction in the reliance upon bilateralism among Latin American countries; following the termination of the three important agreements between Argentina and Chile, Argentina and Brazil, and Brazil and Uruguay, as well as some others of lesser importance, bilateral payments arrangements ceased to have any major effect upon the flow of trade and payments within the area. Countries which terminated three or more of their bilateral payments agreements with other members during the period include Brazil, Chile, Norway, and Turkey.

A number of Fund members continue to maintain bilateral payments agreements with countries that are not members of the Fund, mostly the state-trading countries of Eastern Europe; these agreements now constitute by far the most numerous part of the remaining bilateral payments agreements. At the end of 1961, there were in existence 156 agreements with nonmembers, compared with 46 between members. A few new agreements with nonmembers were entered into during the period under review. On the other hand, in the renegotiation of several agreements with nonmembers, increased provision was made for settlement of balances (in excess of the swing limits) in convertible currencies, thus reducing the strictly bilateral aspect of the arrangements. Some other countries (e.g., the United Arab Republic) have taken steps in their trade policy to reduce or eliminate the discrimination in favor of their bilateral partners.

Changes in restrictions over capital payments during the period under review were only minor, except in South Africa, where restrictions were introduced in June 1961 to check a substantial outward flow of capital. As the country's balance of payments improved, it was possible, in March 1962, for the original restrictions to be relaxed somewhat.

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Part II

REVIEW OF THE YEAR

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Chapter 4

The International Economy

THE year 1961 witnessed an easing of some of the more important payments problems which the world was facing at the end of 1960, but developments during the year had rather mixed consequences. Some factors tended to increase the imbalance in international payments; among them were the influence on imports and exports of the divergent trends of activity in various industrial countries—in particular, the greater rate of economic expansion in the United States than elsewhere. Other influences had the opposite effect; among these were, notably, changes in relative costs and some actions of national monetary authorities, including significant steps toward greater international coordination of monetary policy. For the less industrialized countries, the year was again one of difficulty. There were scarcely any increases in the prices of primary products; on the average these prices declined slightly, and the fall in some was substantial. It was also noticeable that, while only a small number of countries were faced with serious inflationary pressures, the strong stand against inflation taken by most of the less industrialized countries in recent years showed signs of being relaxed.

Production, Employment, and Prices in the Industrial Countries

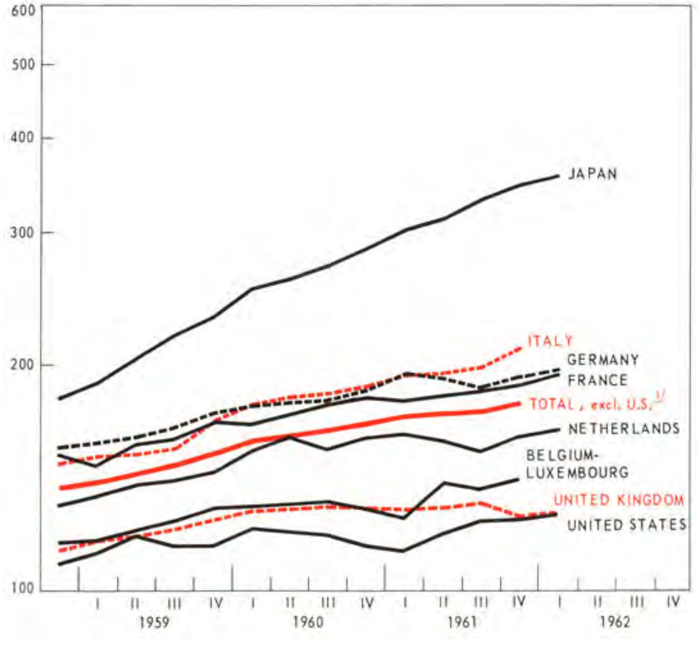
In 1961, world industrial production (excluding the U.S.S.R. and other eastern bloc countries) rose rather steadily and was about 3½ per cent greater than in 1960, following a 7 per cent increase from 1959 to 1960 (Table 6).

For the year as a whole, industrial output in North America (United States and Canada) was only about 1 per cent higher than during 1960; from 1959 to 1960 there had been an increase of 3 per cent. The combined output of the other industrial countries rose by 6 per cent, compared with about 11 per cent from 1959 to 1960.

During 1961 and the early months of 1962 the combined industrial output of Western Europe and Japan continued to expand, though more slowly than during 1960 (Chart 3). In these industrial countries, output rose most rapidly in the first

CHART 3. MANUFACTURING COUNTRIES: INDICES OF INDUSTRIAL PRODUCTION, SEASONALLY ADJUSTED, LAST QUARTER 1958–FIRST QUARTER 1962

(1953=100)



[1] Countries in the European Economic Community and the European Free Trade Association, plus Japan.

Table 6. Selected Industrial Countries: Percentage Changes[1] in Cost of Living, Wage Rates, Real Gross National Product, and Industrial Production, 1960, 1961, and First Quarter of 1962

	Cost of Living			Wage Rates			Real Gross National Product		Industrial Production		
	1960	1961	1962, 1st quarter	1960	1961	1962, 1st quarter	1960	1961	1960	1961	1962, 1st quarter
United States	2	1	1	3	3	4	3	2	3	1	12
Canada	1	1	—	3	3	2	2	2	1	3	10
United Kingdom	1	3	5	3	4	3	4-5[2]	2[2]	7	1	—
Austria	3	3	4	9	9	4	8	5	11	4	4
Belgium	0	1	1	4	3	5	4	4	6	4	11[3]
Denmark	1	4	7	7	13	..	7	4-5	5	..	..
France	4	3	5	7	10	9	6[2]	4-5[2]	11	6	8
Germany, Federal Republic of	1	3	4	9	11	13	9	5	10	6	1
Italy	2	2	3	3	4	8	7	8	15	9	12
Netherlands	3	2	2	8	6	7	8	2-3	13	1	2
Norway	0	3	6	4	7	10	6	5	10	7	6
Sweden	4	3	4	7	9	6	4	4-5	8	3	1
Switzerland	1	2	4	3	4	..	6[4]	6[4]	..	..	..
Japan	4	5	7	6	7	13	13[5]	15[5]	27	23	18
Industrial countries, total[6]	—	—	—	—	—	—	—	—	6-7	3-4	8
World total[7]	—	—	—	—	—	—	—	—	7	3-4	..

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

[1] Annual figures are percentage changes from preceding year; quarterly figures are percentage changes from first quarter of 1961.
[2] Real gross domestic product.
[3] Industrial production in the first quarter of 1961 was comparatively low because of strikes in January.
[4] Real national income.
[5] Fiscal year (April-March).
[6] United States, Canada, Japan, and countries in the European Economic Community and in the European Free Trade Association.
[7] Excluding the U.S.S.R. and associated countries.

quarter of 1961, principally reflecting increases in the Federal Republic of Germany, Italy, and Japan. In the second and third quarter the rate of growth declined; thereafter it accelerated, owing to relatively high increases in these three countries and in the Netherlands that more than offset a reduction in the United Kingdom.

In North America industrial output continued to decline through the first quarter of 1961, increased sharply in the following two quarters, and rose more moderately thereafter; this upward trend was in contrast to the slight decline during 1960. By mid-1961, industrial production and income had exceeded the peak reached before the mild recession of 1960, while prices remained remarkably stable. The recovery in output was associated with increasing employment, but unemployment remained high. In the United States, unemployment did not decline significantly from its recession maximum until the last two months of 1961, and the rate of unemployment over the year as a whole was almost equal to that in 1958, which was the highest in any postwar year. Unemployment in Canada, which was at a postwar record height in December 1960, had by the end of 1961 been somewhat reduced, and was at approximately the same percentage of the labor force as in the United States.

The recovery in the *United States* started early in 1961 and was associated with an increase in all the major components of national expenditure. A shift of inventory investment, from a decumulation at an annual rate of $4.0 billion in the first quarter to a net increase at an annual rate of $2.8 billion in the second, was the most significant change in the first half of the year. In the last quarter of the year, inventory accumulation reached an annual rate of $5.3 billion. A resurgence of private consumption expenditures during the last three quarters of 1961 contributed somewhat more to the increase in final sales than both the rise in total government expenditures on goods and services and the improvement in private fixed investment. In *Canada,* the revival of economic activity after the first quarter of 1961 stemmed from a substantial increase in government expenditures, an expansion of consumer expenditure (particularly in durable goods), a further rise in exports, and a rather modest build-up of inventories. The downward trend in private fixed investment was reversed in the third quarter, and inventories rose substantially late in the year.

In the industrial countries of *Continental Europe,* the declines in rates of growth reflected shortages of capacity rather than a failure of final demand to rise. Productivity in these countries rose in general much less than during recent years and there were also substantial wage increases, which in several cases appreciably exceeded the growth in productivity. In most of these countries, unemployment, which was already very low at the beginning of 1961, declined further during the year. In *Belgium,* unemployment, which had still been a problem in 1960, was reduced to very moderate proportions, mainly as a result of the economic upswing; and in *Italy,* where the rate of unemployment continued to be higher than in the other industrial countries in Europe, certain shortages of labor were experienced in the course of 1961, as the rapid economic expansion and migration again reduced unemployment sharply. The high degree of mobility of labor in Europe in recent years has indeed been a major factor in reducing unemployment in some countries, and mitigating the scarcity of labor in others. For instance, in *Germany* the number of foreign workers has increased by about half a million over the last two years; and in *Switzerland* a similar number of foreign workers have been employed, representing about one fourth of the labor force in 1961.

As the increases in output in Continental Europe were, in general, smaller than those of 1960, the range of the increases was narrower; in most countries, the increase in real national income was close to 5 per cent. At the two extremes were *Italy,* where national product in real terms rose at an even higher rate (8 per cent) than from 1959 to 1960 (7 per cent), and the *Netherlands,* where real national income rose by only 2-3 per cent (against 8 per cent a year earlier). The slower growth in the Netherlands was associated with the introduction of the five-day week, which resulted in an effective reduction in the supply of labor. The rate of growth in *Germany* (5 per cent) was equal to the average, but represented a considerable slowing down from the spectacular increases in real income in other recent years. In most of the countries of Continental Europe, private consumption, stimulated by rapidly rising wages, rose by a higher percentage than did production. On the other hand, the growth in fixed investment from 1960 to 1961 was smaller in some of these countries (for example, Germany and the Netherlands) than the increase from 1959 to 1960. Moreover, exports in general rose less rapidly; and as the rate of increase in output slowed down, investment in inventories was either reduced or followed by a decumulation.

In the *United Kingdom,* industrial production resumed its growth in the first half of 1961, stimulated by rising investment in plant and equipment, increased private consumption and, through the first quarter, a moderate rise in exports. After the middle of the year, total expenditure and output declined when the pressures of demand, which had induced a balance of payments deficit, were eased as a result of the official restraint discussed elsewhere in this Report. This change was reflected mainly in a fall in private consumption and a continued reduction in the rate of inventory accumulation, combined with a failure of exports to rise after the first quarter of the year; fixed investments declined in the last quarter. After July the rise in wage rates and prices slowed down.

In *Japan,* industrial production continued to rise during 1961 at a faster rate than elsewhere, although the increase slowed down somewhat toward the end of the year and in the early part of 1962. The expansion was generated by an intense domestic demand, especially for investment goods, which caused a sharp rise in imports. However, the expansion was not, as in recent years, supported by a substantial rise in exports. The cost of living rose more in Japan than in any other industrial country, and wages rose slightly more than the cost of living. As a balance of payments deficit developed in the course of 1961, the authorities introduced measures to curb the domestic expansion.

The movements in prices and wages, shown in Table 6, appear, on the whole, to have been in the direction of easing the payments problem, although their full effect will take some time to work itself out. In general, in both 1960 and 1961, wage increases in Continental Europe—the main surplus area—considerably exceeded those in the major deficit countries—the United States and the United Kingdom. There were particularly marked increases in the two countries which in recent years have had the largest surpluses, France and Germany, but, until recently, a relatively modest rise in the other major surplus country, Italy. The impact on international transactions of the rise in wages was reinforced in both Germany and the Netherlands by an appreciation of the national currency by about 5 per cent. The divergent changes in prices and costs, combined with those in the rate of economic activity, brought about significant changes in the surpluses and deficits in individual countries' balances of payments; these are discussed in Chapter 5.

Main Trends in World Trade

World trade, like world industrial production, increased much less from 1960 to 1961 than from 1959 to 1960, the volume of exports rising by about 5 per cent, compared with 12 per cent in the earlier period. A rapid expansion of world exports in the first half of 1960 slackened considerably in the latter half of that year. The changes in the value of trade between the full years 1960 and 1961 shown in Table 7, being strongly influenced by the growth of trade in the early part of 1960, do not provide a clear indication of more recent developments.

The slowing down of the expansion of world trade in 1960 followed the appearance of a declining trend in U.S. industrial production after the first quarter and a diminution of the rate of growth of total industrial production in the other manufacturing countries in the second half of 1960 (Chart 3). During 1961, as has been seen, there were offsetting changes in the growth

TABLE 7. VALUE OF WORLD TRADE, 1958-61

	Value f.o.b. (billion U.S. dollars)				Percentage Change from Preceding Year[1]			
	1958	1959	1960	1961	1958	1959	1960	1961
World exports[2]	94.4	100.4	112.4	117.6	–5	6	12	5
Exports of United States[3]	16.4	16.4	19.6	20.1	–16	—	19	2
Exports of other manufacturing countries[4]								
EEC countries	22.8	25.2	29.7	32.3	1	11	18	9
EFTA countries[5]	15.8	16.8	18.3	19.2	–3	6	9	5
Japan	2.9	3.5	4.1	4.2	—	20	17	4
Total	41.5	45.5	52.1	55.7	—	10	15	7
Exports of primary producing countries[6,7]	36.5	38.5	40.7	41.8	–4	5	5	3
Trade of manufacturing countries with each other								
Exports of United States to other manufacturing countries[3]	5.0	5.2	7.4	7.7	–24	4	43	4
Exports of other manufacturing countries to United States	3.7	5.1	4.9	4.7	12	40	–5	–4
Trade between other manufacturing countries	18.5	20.8	25.0	28.0	–4	13	20	12
Of which, Trade between EEC countries	6.9	8.2	10.3	11.9	–4	19	25	16
Total	27.2	31.1	37.3	40.4	–7	14	20	9
Exports of manufacturing countries to primary producing countries								
From United States[3]	11.2	11.2	12.0	12.3	–12	–1	8	2
From other manufacturing countries	17.7	17.8	20.1	20.8	—	—	13	3
Total	28.9	29.0	32.1	33.1	–5	—	11	3
Exports of primary producing countries to manufacturing countries								
To United States[7]	9.2	9.8	9.4	9.5	–4	7	–4	1
To other manufacturing countries[7]	16.3	17.3	19.5	20.0	–4	6	13	2
Total[7]	25.5	27.1	28.9	29.5	–4	6	6	2
Trade of manufacturing countries with Soviet area and Mainland China								
Exports of manufacturing countries	1.8	1.7	2.3	2.3	15	–3	28	—
Exports of Soviet area and Mainland China[7]	1.5	1.8	2.0	2.3	5	18	9	16

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] Based on unrounded value figures.
[2] Excluding exports of the Soviet area and Mainland China, and U.S. military aid.
[3] Excluding military aid.
[4] Members of the European Economic Community (Belgium-Luxembourg, France, Germany, Italy, and the Netherlands), members of the European Free Trade Association except Portugal (Austria, Denmark, Norway, Sweden, Switzerland, and the United Kingdom), and Japan.
[5] Excluding Portugal.
[6] Countries exporting mainly primary products and semimanufactures, i.e., all countries excluding those classified as "manufacturing countries" and also excluding the Soviet area and Mainland China.
[7] 1961 figures are partly estimated.

of production in North America and in other industrial countries. A slowing down of expansion in Western Europe after the first quarter moderated the effect of the recovery in the United States in stimulating a further expansion of world trade. In these circumstances, the moderate but steady growth of world trade during the 18 months to December 1961 resulted from divergent changes in the imports of the United States, the other manufacturing countries, and the primary producing areas. While the seasonally adjusted value of U.S. imports fell by 7 per cent between the first and second half of 1960, imports of the other manufacturing countries rose by 3½ per cent and those of the primary producing countries by about the same proportion. Between the second half of 1960 and the first half of 1961, the decline in U.S. imports moderated and imports of the other manufacturing countries rose considerably; but these improvements were partly offset by a slight decline in imports of the primary producing areas. In the latter half of 1961, the value of U.S. imports was 13 per cent greater than during the first half year, but the imports of industrial Europe and Japan were only about 2½ per cent higher, and total imports of primary producing areas seem to have increased somewhat less.

Over the year as a whole, there was a slight growth in the imports of the primary producing countries. Manufacturing countries' imports from the primary producing areas, after rising by more than 5 per cent from the second half of 1959 to the first half of 1960, declined appreciably in value in the second half of 1960, and remained at about the same level during the first half of 1961. However, they recovered in the second half year, and over the year 1961 as a whole were slightly higher than in 1960.

Manufacturing Countries

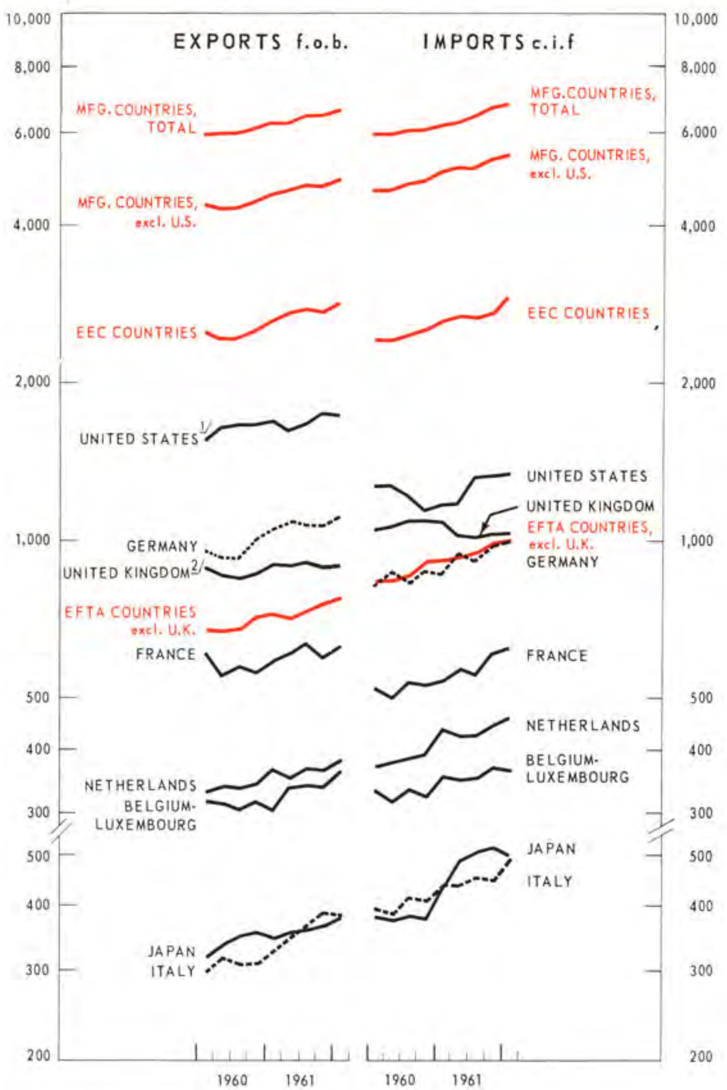
Trade between the manufacturing countries increased by about 10 per cent from mid-1960 to mid-1961, and somewhat more rapidly in the latter half of 1961, when U.S. imports from manufacturing countries were about the same as during the first half of 1960, after having been about 15 per cent lower in each of the two intervening half years. The imports of other manufacturing countries from the United States failed to increase between the second half of 1960 and the first half of 1961, and declined slightly in the second half of 1961. Trade between the manufacturing countries other than the United States rose by about 16 per cent from the first half of 1960 to the first half of 1961, and continued to expand, though at a slower rate, from the first to the second half of 1961. The slowing down was mainly a reflection of a reduced rate of expansion of trade within the European Economic Community (EEC); there was also a decline in the United Kingdom's imports from Western Europe following a marked increase in the first half of 1961. The imports of countries in the EEC from the European Free Trade Association (EFTA) rose about twice as fast as their exports to EFTA between the first and second half of 1961.

There have recently been some interesting contrasts in the development of trade of major manufacturing countries which, if maintained, could lessen the problem of persistent balance of payments surpluses and deficits for these countries. As indicated in Chart 4 (which shows seasonally adjusted figures), the imports of the principal surplus countries have shown a strong upward trend since the beginning of 1960; and for each country except Italy (whose exports rose rapidly in 1961), the value of imports has risen proportionately more than that of exports. The two main deficit countries, the United States and the United Kingdom, are the only major manufacturing countries whose imports have not increased substantially since the beginning of 1960. However, their exports have also risen less rapidly than those of most of the other manufacturing countries.

These contrasts became less marked during 1961. The expansion of exports from all the Common Market countries except Italy, and from Japan, either flattened out or gave way to slight declines in the latter part of the year. The exports of the United Kingdom showed little change. The United States, whose exports had dipped as industrial expansion in Western Europe slowed down in the

CHART 4. EXPORTS AND IMPORTS OF MANUFACTURING COUNTRIES: SEASONALLY ADJUSTED VALUES

(Quarterly averages of monthly rates, in millions of U.S. dollars)



[1] Excluding military shipments.
[2] Including re-exports.

middle of the year, was the only major manufacturing country, apart from Italy, whose exports increased in the latter part of 1961; however, this rise was due almost entirely to an increase in aid shipments.

The most marked changes in trade in the first quarter of 1962 were, perhaps, the slight fall in Italy's exports and in Japan's imports—each change following a sharp rise in the course of 1961—and the accompanying acceleration in the increase of Italy's imports and Japan's exports. The contrast in the development of the exports of the United States and the United Kingdom, and of those of most other manufacturing countries, again became very evident as U.S. and U.K. exports failed to expand, unlike those of most of the other manufacturing countries.

The competitive position of the deficit countries vis-à-vis some of the countries that had the largest surpluses in 1960 was improved in 1961 by relative price changes and the appreciation of the deutsche mark and the guilder. Dollar prices for German exports of manufactures seem to have risen by the full 5 per cent of the exchange appreciation; those of the Netherlands may have risen somewhat less. The competitive strength of the United States and the United Kingdom vis-à-vis these two countries appears to have increased quite substantially between 1960 and 1961, as the unit value of U.S. and U.K. exports scarcely increased; to judge from the admittedly imperfect indicator of average unit values for exports, their competitive position now is also considerably stronger in relation to France than it was immediately following the devaluation of the franc at the end of 1958 (Table 8). On the other hand, the prices of exports of manufactures from both Italy and Japan seem to have fallen from 1960 to 1961 after having increased from 1959 to 1960.

The declines in the U.S. and U.K. shares in world exports of manufactures have moderated in the last year or two. As Chart 5 shows, the U.K. share in total exports of manufactures from ten major manufacturing countries changed little from 1960 to 1961, in contrast to preceding years when it declined; and the U.S. share fell much less steeply from 1959 to 1961 than from 1957 to 1959. Indeed, from 1959 to 1960 the U.S. share actually increased; while this was due in part to a marked rise in its share in exports of chemicals and machinery and transport equipment (especially aircraft) to Western Europe, following considerable declines in 1958 and 1959, it was also influenced by the fact that the United States was, of course, the only country whose exports

TABLE 8. TEN MAJOR COUNTRIES: INDICES OF AVERAGE UNIT VALUES, IN DOLLARS, OF EXPORTS OF MANUFACTURES

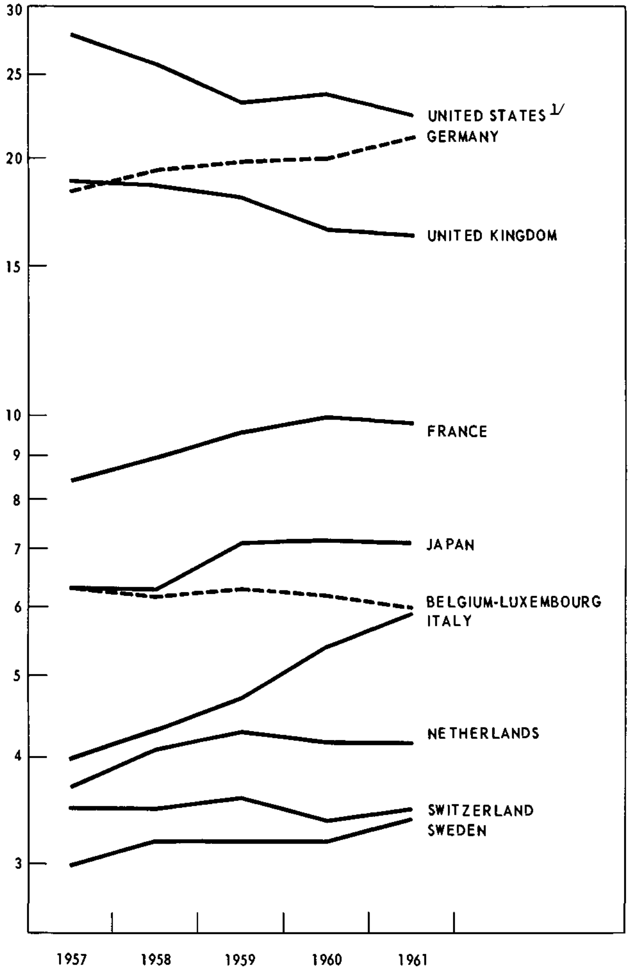
(1957 = 100)

Countries Ranked in Descending Order of Percentage Increase Between 1957 and Fourth Quarter of 1961	1958	1959	1960	1961	1961, Fourth Quarter
United States	100.7	103.9	105.9	107.5	107.7
Germany, Federal Republic of	101.0	99.1	100.0	105.7	107.0
United Kingdom	101.9	102.0	104.4	105.5	105.6
Sweden	100.4	100.5	102.5	104.8	104.6
Netherlands	98.5	97.8	98.5	102.7	102.7
Japan	97.2	99.1	101.7	97.8	96.8
France	97.7	89.5	94.5	95.3	95.9
Belgium-Luxembourg	96.3	92.9	93.2	92.9	92.6
Italy	96.2	89.3	92.4	88.6	87.9
Switzerland	101.1	99.0	....	....	....
Total, 10 countries	99.6	98.0	99.8[1]	100.9[1]	100.8[1]

Source: Data supplied by the Statistical Office of the United Nations.
[1] Excluding Switzerland.

were not affected by the decline in U.S. imports of manufactures between 1959 and 1960. (Conversely, the fact that U.S. imports of manufactures were rising much more rapidly than total world trade in manufactures from 1957 to 1959 was responsible for part of the decline in the U.S. share of exports in that period.) The rise in the combined shares of Germany, Italy, France, and Japan, whose exports have expanded rapidly in recent years, has also moderated somewhat since 1959. The shares of France and Japan declined very slightly from 1960 to 1961, but that of Italy has risen even more steeply since 1959 than previously. The fact that Germany's share did not increase from 1959 to 1960 seems to have been partly due to the sharp rise in U.S. exports to Western Europe (which is also reflected

CHART 5. PERCENTAGE SHARE OF EACH OF TEN MAJOR COUNTRIES IN EXPORTS OF MANUFACTURES FROM THESE COUNTRIES



[1] Excluding military shipments.

in the unusually steep decline of the U.K. share at that time). While Germany's share again rose markedly from 1960 to 1961, it did not show any strong upward tendency in the course of 1961.

The value of total world trade in manufactures was only about 5 per cent greater in 1961 than in 1960—about half the average annual rate of increase since the mid-1950's. Export prices for manufactures rose by a little over 1 per cent, following a somewhat larger rise from 1959 to 1960.

Primary Producing Countries

The terms of trade of primary producing countries deteriorated further during 1961, as the average unit value of their exports fell while that of industrial countries' exports rose slightly. For the year as a whole, the prices of primary products were, on the average, some 4 per cent below their level in 1960, foodstuffs and industrial materials being equally affected. Between the end of 1960 and the end of 1961, these prices declined by 2 per cent, compared with a decrease of 6 per cent in each of the two preceding years. Early in 1961, the prices of industrial materials rallied, producing a slight advance in the global index; in the second quarter, however, the movement leveled off; and later in the year, the downward movement was resumed, reflecting to some extent the slackening of demand from some major European industrial countries.

The prices of individual primary products, and of major groups of products, moved diversely from 1960 to 1961, in contrast to their rather uniform movements from 1959 to 1960. These changes, in turn, were reflected in the divergent behavior of exports of countries in the various groups shown in Table 9. The prices of most tropical foodstuffs were lower in 1961 than in 1960 and some of them, notably cocoa, copra, and African robusta coffee, fell by as much as 20 per cent. There was consequently a decline in the total receipts of countries exporting mainly tropical foods (other than coffee). Prices of coffee, except for African robustas, were comparatively well maintained in spite

TABLE 9. TRADE OF PRIMARY PRODUCING COUNTRIES, 1960 AND 1961

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

	Exports f.o.b.			Imports c.i.f.		
	1960	1961	Percentage change	1960	1961	Percentage change
Countries exporting mainly						
Coffee						
Brazil	1,269	1,403	11	1,462	1,460	—
Others[1, 2]	953	928	—3	1,078	1,062	—1
	2,222	2,331	5	2,540	2,522	—1
Other tropical foods[3]						
Nigeria	462	486	5	603	622	3
Philippines	560	499	—11	713	721	1
Ceylon	385	364	—5	412	358	—13
Others[4]	1,637	1,660	1	1,917	1,876	—2
	3,044	3,009	—1	3,645	3,577	—2
Other agricultural products[5]						
Australia	1,962	2,325	19	2,704	2,395	—11
Argentina	1,079	964	—11	1,249	1,460	17
New Zealand[1]	846	793	—6	786	907	15
Thailand	408	478	17	453	486	7
United Arab Republic	550	462	—16	646	662	2
Pakistan	393	400	2	654	642	—2
Others[1, 6]	1,823	1,981	9	2,980	3,073	3
	7,061	7,403	5	9,472	9,625	2
Metals and rubber						
Malaya	956	857	—10	703	728	4
Indonesia	840	784	—7	574	794	38
Rhodesia and Nyasaland	576	579	1	495	489	—1
Chile[1]	488	496	2	500	570	14
Others[7]	631	638	1	536	590	10
	3,491	3,354	—4	2,808	3,171	13
Petroleum						
Venezuela	2,432	2,415	—1	1,188	1,161	—2
Netherlands Antilles	658	709	8	824	866	5
Others[1, 8]	3,934	4,031	2	1,928	2,022	5
	7,024	7,155	2	3,940	4,049	3
Other major exporters						
Canada	5,575	5,833	5	6,150	6,195	1
India	1,331	1,396	5	2,293	2,131	—7
South Africa	1,237	1,331	8	1,711	1,549	—9
Singapore	1,136	1,081	—5	1,332	1,296	—3
Finland	989	1,054	7	1,062	1,151	8
Mexico	765	826	8	1,186	1,139	—4
Spain	725	709	—2	722	1,092	51
Hong Kong	689	688	—	1,026	1,045	2
Yugoslavia	566	569	1	826	910	10
Peru	430	494	15	373	468	25
Morocco	354	343	—3	413	452	9
	13,797	14,324	4	17,094	17,428	2
All other countries[1, 9]	4,100	4,250	4	6,910	7,050	2
Grand total[1, 9]	40,740	41,830	3	46,410	47,420	2

Source: Based on data from International Monetary Fund, *International Financial Statistics,* July 1962.

[1] 1961 figures are partly estimated.

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

[3] Cocoa, tea, sugar (cane), bananas, oilseeds, and vegetable oils.

[4] China (Taiwan), Cuba, Dominican Republic, Ecuador, Ghana, Honduras, Jamaica, and Panama.

[5] Grain, livestock products, textile fibers, and tobacco.

[6] Burma, Greece, Ireland, Kenya, Sudan, Syrian Arab Republic, Turkey, Uganda, and Uruguay.

[7] Bolivia, Congo (Leopoldville), and Viet-Nam.

[8] Brunei, Iran, Iraq, Kuwait, Saudi Arabia, Sarawak, and Trinidad.

[9] Total figures are rounded to the nearest $10 million.

of another large crop; quota restrictions, under the Agreement between producing countries, were successful in averting a stronger response of prices to mounting surpluses. A minor rise in the volume of coffee exported tended to maintain receipts from that product at the same level as in 1960; some of the coffee-exporting countries, indeed, increased their total receipts by expanding other exports.

With the notable exceptions of long-staple cotton and butter, for which prices sagged, prices for nontropical crops and for livestock products were firm. Several advanced, reflecting either strong demand or (like jute) a continued shortage of supplies. Exports of the group of countries exporting mainly nontropical agricultural and livestock products showed an increase of some 5 per cent.

Prices of nonferrous metals, except tin, and of rubber were considerably lower in 1961 than in 1960; therefore, the export receipts of the countries largely dependent on these exports were adversely affected. Tin prices continued to rise, as further shortages appeared.

Quoted prices of crude oil were not changed between 1960 and 1961, but discounts to major importers continued to be given. Preliminary data suggest that there was little change in the export receipts of major crude oil exporters.

Financial Policies in the Industrial Countries

The problems which the national authorities of the industrial countries encountered in formulating financial policies in 1961 differed greatly from one country to another. In the United States, the domestic situation pointed to a policy of stimulating economic expansion, but the continued balance of payments deficit created difficulties for the implementation of such a policy. The situation was somewhat similar in Canada, where the authorities wished to stimulate economic expansion and at the same time to reduce the large deficit on current account. Most of the countries in Continental Europe had comfortable balance of payments positions, and several were running large surpluses in their international transactions. Their most pressing problem was to dampen excessive demand so as to avoid large rises in prices and costs; however, domestic monetary and fiscal policies directed toward this end were apt to increase the imbalance in international transactions. In the United Kingdom and Japan, both of which were running deficits on their basic international accounts, the need for measures to adjust the balance of payments led to various remedial steps being taken as the year progressed.

Apart from a few changes in the positions of individual countries, the problems with which the authorities were faced at the beginning of 1961 were in many respects similar to those that had existed a year earlier. However, a fundamental change in policy attitudes had taken place. Developments during 1960 had demonstrated that policies directed to influencing economic activity primarily through changes in the level of short-term interest rates were, in the existing situation, likely to stimulate large disequilibrating international movements of funds, which not only might aggravate imbalances in international transactions but also might subvert domestic economic policies. It was increasingly realized that, in determining the appropriate level of interest rates, it would be necessary to consider their effect on the international movements of funds. It was seen, therefore, that greater reliance would have to be placed on policies which influenced demand directly, rather than indirectly through changes in interest rates, and that other steps to offset the international repercussions of interest rate changes might be appropriate, such as intervention in the forward markets.

National Policies

In the *United States,* fiscal policy was directed primarily toward expansion. There was a deficit of $6.8 billion in the Federal Government's cash accounts in 1961, compared with a surplus of \$3.6 billion in 1960. On a national accounts basis, the surplus in 1960 was \$3.3 billion and the deficit in 1961 was \$3.6 billion—almost ¾ of 1 per cent of the gross national product. Basically, monetary policy also was directed toward expansion; but the Federal Reserve System's open market operations were changed so as to minimize the effect of its actions on short-term interest rates. The effect on bank reserves of the gold outflow of approximately \$1 billion was more than offset by net open market purchases of \$1.5 billion, together with other factors, and there was a rise of about \$1 billion in the reserves of the banks. At the same time, there was a large increase in time deposits. As a result, the banks were able to increase their loans and investments by \$16 billion, and the money supply rose by \$4.1 billion, while time deposits rose by \$9 billion. In 1960, loans and investments had increased by \$9 billion, and the money supply had decreased by \$1 billion.

If the Federal Reserve System, following its open market policy of earlier years, had confined its operations almost exclusively to Treasury bills, its purchases during 1961 might well have led to a decline in short-term interest rates, and the outflow of short-term capital would have been further stimulated. Instead, the System bought longer-term securities, both in order to avoid downward pressure on short-term rates and to help to stimulate the flow of long-term funds into private investment. During 1961, the System purchased \$2.6 billion of government securities with a maturity of more than one year; nearly \$800 million of these securities had maturities exceeding five years. The purchases were greater than the System's total net purchases during 1961; on balance, therefore, short-term securities sold or maturing during the year were replaced by longer-term issues. At the same time, the Treasury, in administering the portfolios of various government investment and trust accounts, made substantial purchases of securities of more than ten years' maturity. As a result, the yield on Treasury bills fell less than might have been expected, given the total amount of open market operations. Whereas it had averaged a little less than 3 per cent in

1960, it was maintained between 2¼ and 2½ per cent through most of 1961, and rose to 2¾ per cent early in 1962. On the other hand, the average yield on government securities maturing in more than ten years, which had declined from a high point of 4.4 per cent at the beginning of 1960 to 3.9 per cent at the beginning of 1961, was reduced further, to 3.7 per cent at the end of May. However, by the end of the year it had risen to 4.1 per cent and remained at this level during the early part of 1962.

In *Canada,* fiscal and monetary policies in 1961 were directed toward the expansion of economic activity, the policies being strengthened at midyear. On a national accounts basis, the deficit of the Federal Government during 1961 was $446 million, compared with $251 million in 1960. The Bank of Canada's policies encouraged stability in the chartered banks' statutory cash reserves during the first half of the year, but in the second half allowed them to rise by approximately $60 million. During the year, the money supply together with personal savings deposits rose by 9 per cent; if personal savings are disregarded it rose by 12 per cent. The Treasury bill rate fell from an average of 3.2 per cent in the first five months of 1961 to an average of 2.6 per cent during the rest of the year; however, toward the year-end it rose and early in 1962 it reached about 3.1 per cent. These policies were supplemented by the exchange rate changes discussed in the preceding chapter.

In the *Federal Republic of Germany* a large balance of payments surplus in 1960, coinciding with strong pressures on domestic resources, had created difficult problems of reconciling internal and external policy objectives. The policies adopted in 1961, however, resulted in considerable progress in the course of the year toward the reduction of excessive demand pressures, on the one hand, and the correction of external imbalance, on the other. The most important factor in the attainment of a better balance between supply and demand in the economy, and in the dampening of inflationary pressures, was the appreciation of the deutsche mark by 5 per cent in March 1961. While this measure, and the almost simultaneous appreciation of the Netherlands guilder, could not at once put an end to the prevailing distrust of exchange rate relationships, and a new wave of speculative movements of short-term capital started which temporarily aggravated the German balance of payments surplus, their long-term effect was undoubtedly in the opposite direction.

In 1960, the authorities had endeavored to dampen domestic demand by raising interest rates; but, despite the imposition of direct restrictions on foreign short-term investment in Germany, this policy had resulted in an inflow of capital that temporarily aggravated the German surplus problem and frustrated the conduct of monetary policy. Accordingly, a change of tactics was initiated in November 1960, when the Bundesbank reduced its discount rate from 5 per cent to 4 per cent; further reductions in January and May 1961 lowered the rate to 3 per cent. The Bundesbank also followed an open-market policy designed to maintain low interest rates. It lowered the discount on its sales of short-term securities. By the beginning of 1962, 3-month Treasury bills were being offered at a discount of 1⅞ per cent, the lowest in the postwar period, and, contrary to the previous practice, the selling rate for 2-year Treasury bonds was ¼ per cent below the Bank's discount rate. These interest policies were supplemented by steps to ease the domestic liquidity of the banks, inter alia in order to offset the effects of the surplus in the Government's domestic cash transactions. The minimum reserve requirements against the banks' domestic liabilities were successively reduced. Whereas the required reserves on the average were equal to 12.3 per cent of the banks' total liabilities subject to reserve requirements at the end of 1960, the comparable figure at the end of 1961 was 8.0 per cent. Moreover, in November 1961 the rediscount quotas were increased, and in August 1961 the banks were permitted to sell DM 1 billion of 2-year "mobilization" Treasury bonds, which at the Bundesbank's request had been taken by the larger institutions for the purpose of "sterilizing" a part of their liquidity reserves.

These domestic policy measures were largely designed to discourage capital funds from moving to Germany, and to encourage a capital outflow. The Bank also took more direct steps toward this end. The reserve requirements against the banks' foreign liabilities were changed in two directions. To encourage them to hold foreign rather than domestic liquid assets, foreign holdings were made deductible from foreign liabilities in determining the base for the minimum reserve requirements. To make this measure more effective, the reserve requirements against foreign liabilities were raised to the legal maximum. Further, the Bundesbank continued to provide forward cover for U.S. dollar short-term assets held by the commercial banks. In the twelve months following the change of policy in November 1960, the banks' foreign assets rose by more than DM 3.5 billion.

By the end of 1961, it was apparent that Germany was attaining a more balanced position in its international transactions; accordingly, in February 1962 the Bundesbank lowered the requirements for reserves against the banks' foreign liabilities to the ratios applied to domestic liabilities. In March and April, the discount on the Bank's sales of short-term securities was slightly increased, and in May the prohibition of the payment of interest on nonresident-owned time deposits was canceled.

The *Netherlands,* whose problems were similar to those of Germany, had similar policies. Early in 1961, the guilder was appreciated by 5 per cent, practically concurrently with the German revaluation. In 1960, low interest rates in the money market had been maintained in order to encourage an outflow of short-term capital. Even though, at the beginning of 1961, interest rates were lower than in any other major money market, monetary policies induced a further reduction in these rates during the year. The authorities also decided to reopen to a limited extent the domestic capital market for foreign bond issues. In other respects, however, steps were taken to restrain the public's liquidity. In 1960, these had included successful efforts to consolidate the short-term public debt. From July 1961, the Netherlands Bank implemented an agreement between itself and the commercial banks and agricultural credit institutions designed to limit credit to the private sector. Under this agreement, short-term credit was not to be increased by more than 1 per cent a month in 1961 or by more than ½ per cent a month in the first eight months of 1962. If the total volume of credit granted by all private banks and agricultural credit institutions collectively exceeded these limits, those banks which had individually exceeded them were to be required to hold supplementary interest-free deposits with the Netherlands Bank. In the early months of 1962 the limits were exceeded, and for that reason the discount rate was increased from 3½ per cent to 4 per cent in April. The authorities decided also to reduce the extent to which the capital market this year would be open to foreign bond issues.

The authorities in *Switzerland* were likewise faced with a conflict between the requirements of external and internal balance. Although the balance on Swiss current international transactions changed from surplus in 1960 to deficit in 1961, the inflow of capital increased even more, so that the rise in official reserves was somewhat greater in 1961 than in 1960. The authorities wished to restrain domestic expansion and to discourage a capital inflow. To achieve the latter end, they maintained interest rates at levels below those in nearly all other capital markets, and continued the requirement that short-term foreign deposits in Swiss banks carry a negative rate of interest. In order to restrain domestic demand, the authorities offset the major part of the increase in the National Bank's foreign assets, which amounted to almost Sw F 2 billion, by blocking more than Sw F 1 billion of the increase in the cash reserves of the banks, and by increasing the Government's deposits by almost Sw F 0.2 billion. In addition, in April 1962 the National Bank requested the commercial banks to limit credit to domestic borrowers to a prescribed rate of increase, and subjected credits granted in excess of this rate to supplementary reserve requirements.

In *Belgium-Luxembourg,* the balance of payments position gave rise to a decision, in August, to start lowering short-term rates. The National Bank reduced its basic discount rate from 5 per cent to 4 per cent in four steps between August 1961 and March 1962. The reduction was limited because of the high level of economic activity which was maintained. On January 1, 1962 the money market was reorganized by a number of measures aimed at increasing the flexibility as well as the efficacy of monetary controls.

France emerged in the course of 1961 as the major surplus country in the world, but pressures on French domestic resources were, at the beginning of the year, probably less than in Germany, the Netherlands, or Switzerland. The continued rise in foreign exchange reserves was not offset by the Bank of France, and the resulting increase in the cash reserves of the commercial banks induced a rise in credit to the private sector which was accompanied by a slight decline in short-term interest rates. In January 1961, a new instrument of monetary control was introduced by requiring the banks to maintain a certain ratio between their liquid assets (cash holdings, Treasury bills, medium-term paper, export bills, and short-term paper for the financing of trade in cereals) and their sight and time deposit liabilities. The ratio was established at 30 per cent, roughly corresponding to the actual position of the banks. In January 1962, as demand pressures in the economy were rising, the ratio was increased to 32 per cent. Previously, the National Credit Council had advised banks to be cautious in their granting of credits. The over-all budgetary deficit of the Government remained in 1961 about the same as in each of the two preceding years, and the average length of its debt was shortened, so that long-term interest rates eased slightly.

Fiscal and monetary policies in *Italy,* also a major surplus country, were again directed toward the encouragement of a moderate degree of expansion. Government cash transactions continued to be in approximate balance. Part of the liquidity arising from the balance of payments surplus was absorbed by government borrowing, so that the Government could reduce its net indebtedness to the Bank of Italy. However, these operations were smaller than the increase in official foreign exchange reserves, and the supply of money and of other forms of liquidity continued to grow.

The bank rate in the *United Kingdom* was lowered in October and December 1960, largely to help in curtailing an inflow of short-term funds, but general monetary conditions remained tight. Meanwhile, fiscal policy was changed in the direction of restriction: the budget for the fiscal year 1961-62 provided for a much smaller over-all deficit than in recent years. Toward the middle of 1961, renewed shortages of labor and the disappointing progress of the basic balance of payments, combined with speculative outflows of capital, made a further strengthening of this policy necessary, and in July, the bank rate was raised from 5 per cent to 7 per cent. This measure was part of a general program of restraint, announced prior to the Government's request for a drawing on, and a stand-by arrangement with, the Fund. The London clearing banks and the Scottish banks were required to increase their "special deposits" with the Bank of England by 1 per cent and by 1/2 per cent of their deposit liabilities, respectively. At the same time, these banks and other financial institutions were requested to restrict advances for financing personal consumption or for speculative purposes, but to continue to provide finance which would promote exports. Most indirect tax rates were administratively raised by the legal maximum of one tenth in order to restrain personal consumption, and a temporary halt in wage increases in the Civil Service and in the nationalized industries was announced, with an appeal to labor and management in private industry to follow this lead, pending the evolution of a longer-term wage policy. The Government announced its intention to contain its own expenditures, including expenditures abroad, to examine requests for approval of private investment outside the sterling area more stringently, and to encourage domestic firms to repatriate higher proportions of their foreign earnings. Largely because of a marked improvement in the balance of payments, the bank rate was reduced to 6½ per cent in October, to 6 per cent in November, by two steps to 5 per cent in March 1962, and to 4½ per cent in April

1962. The budget submitted in April 1962, again providing for an over-all deficit less than the normal growth of savings in government securities, continued the general policy of leaving room within the economy for an expansion in exports necessary to improve the basic external balance.

During 1961, *Japan* faced a continued rise in domestic demand. As a consequence, the demand for imports accelerated, while exports were restrained both by the domestic boom and by a failure of foreign demand to rise as much as in earlier years. To meet these difficulties, fiscal and monetary policies were directed toward limiting domestic expenditures. The Government's cash surplus, which was large in 1960, further increased in 1961. The Bank of Japan's discount rate was raised in two steps from 6.6 per cent to 7.3 per cent. The penalty rate for banks' borrowings above their credit ceilings was increased, and reserve requirements and importers' advance deposit requirements were raised. To bridge the period until these measures might be expected to affect the balance of payments, the Japanese authorities obtained substantial loans from U.S. commercial banks and entered into a stand-by arrangement with the Fund.

International Cooperation

The general movement toward greater international cooperation in the monetary field, discussed in the Introduction to this Report, was supplemented by a number of specific transactions. These took two forms. In the first place, a number of short-term credits were arranged between national monetary authorities for the purpose of easing international payments. In the second place, central banks and treasuries intervened on a larger scale in the forward markets. Since large discounts or premiums on forward transactions in foreign exchange may tend to influence international movements of capital in a way similar to interest differentials between countries, coordinated intervention in the forward markets has an effect on such capital movements similar to that of the coordination of monetary policies.

The most significant of the short-term credits were those granted to the United Kingdom under the "Basle arrangements." These credits, totaling some $900 million, were repaid by the end of the year. Part of the repayment was made by the transfer of currencies obtained from the United Kingdom's drawing on the Fund, part was made possible by a renewed inflow of capital to the United Kingdom, and Sw F 215 million was funded under an arrangement with the Government of Switzerland.

During 1961 and early 1962, for the first time in 25 years, the United States entered into foreign exchange transactions for monetary purposes, as distinct from the more or less routine handling of foreign exchange to meet the Government's operating needs abroad. The Treasury began limited operations in March 1961, and in February 1962 the Federal Reserve System announced its decision to enter the exchange markets for its own account. A number of arrangements have been made between the European countries and the United States, permitting the United States in cooperation with the European central banks to operate in the spot and forward exchange markets. The first of these arrangements was with the German authorities and provided for operations in New York in deutsche mark. This was followed later by the acquisition of deutsche mark by the U.S. Treasury as a part of a German debt prepayment. In October 1961 the United States borrowed Sw F 200 million from the Swiss Government. The equivalent of $75 million in Italian lire was borrowed early in 1962. In addition, during the first half of 1962, reciprocal currency arrangements were entered into between the Federal Reserve System and the Bank of England, the Bank of France, the Netherlands Bank, and the National Bank of Belgium, in each case for amounts up to the equivalent of $50 million. Late in June a similar arrangement was entered into between the Federal Reserve System and the Bank of Canada for $250 million.

All transactions have been carried out in close consultation with, and usually jointly with, the financial authorities of the other countries involved. The operations thus far have been largely exploratory in character, designed to limit temporary disturbances in the exchange markets. There have been some minor selling operations in the spot market, using foreign exchange acquired in Switzerland and Italy chiefly by borrowing; but operations have been mainly concentrated in forward exchange. As mentioned above, the first and most important of these latter operations took place, in conjunction with the Bundesbank, in the forward market for deutsche mark in March 1961. U.S. forward sales of deutsche mark reached a peak equivalent to about $350 million in mid-June, and, including renewals, aggregated considerably more over the period as a whole. They have all been settled. Total forward exchange operations undertaken by the Treasury in deutsche mark, Swiss francs, Netherlands guilders, and Italian lire amounted to about $1.5 billion in the 14 months to May 1962.

Throughout the past year the Bundesbank continued to intervene in the forward mark-dollar market, by agreeing to provide forward cover for the foreign balances of German commercial banks. It is known that other countries, although they do not publish information on such transactions, have also intervened in the exchange markets to limit the spreads between spot and forward quotations.

Reference to international cooperation in the London gold market is made in Chapter 6.

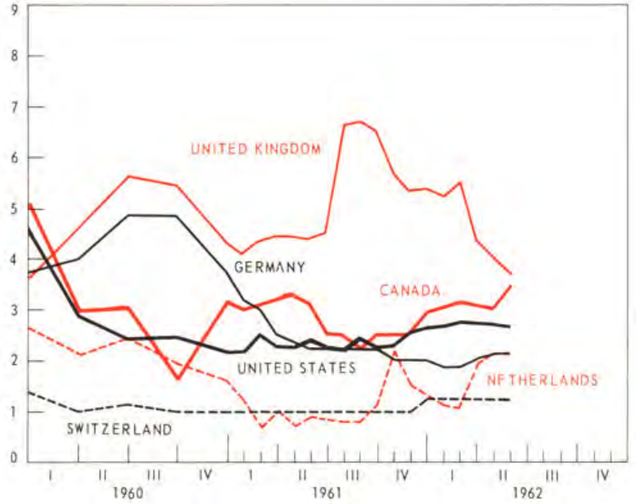
Interest Rates and Forward Exchange Rates

Speculation apart, two factors are as a rule indicative of the inducements for international movements of short-term capital between the main financial centers under conditions of convertibility: the differences in short-term interest rates from country to country, and the premiums or discounts on forward exchange rates. As discussed in earlier sections of this chapter, the past year witnessed efforts to limit the disequilibrating movements of short-term capital arising from each of these two factors. The effect of these efforts is illustrated in Charts 6, 7, and 8.

Chart 6 shows the most nearly comparable published interest rates in five countries. Except for Switzerland, where the call money rate is quoted, this chart records the interest rates on 3-month Treasury bills. The premiums or discounts on 3-month forward exchange rates, expressed at annual rates, with the U.S. dollar rate chosen as the base, are plotted in Chart 7. Chart 8, which combines the two preceding charts, provides indices of the profitability of moving funds from the United States to other countries on a covered basis. Subject to the limitations discussed

CHART 6. MONEY MARKET RATES IN SELECTED COUNTRIES[1]

(In per cent per annum)



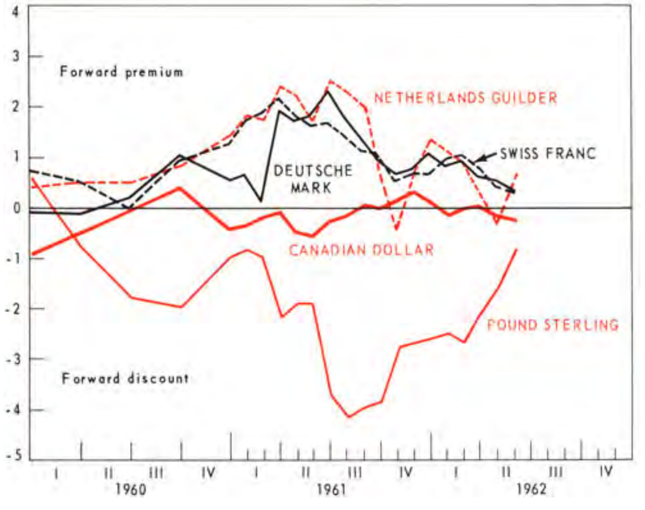
[1] For Canada, the Netherlands, the United Kingdom, and the United States, 3-month Treasury bill rate; Germany, discount on the Bundesbank's sales of 3-month Treasury bills; Switzerland, call money rate.
Data are for end of quarter, December 1959-December 1960, and end of month, January 1961-May 1962.

below, the differences between the net yields may be regarded as an indication of the incentives to move funds on a covered basis from one market to another outside the United States.

Whenever possible, the Treasury bill rates have been used because Treasury bills in different money markets are alternative forms of investment for those wishing to place funds on a short-term basis, and because there is more similarity between the Treasury bills issued in different countries than there is between other financial instruments, even though they may have the same or similar titles. Hence, a comparison of Treasury bill quotations is likely to provide a measure of interest rate differentials, unim-

CHART 7. FORWARD PREMIUMS OR DISCOUNTS ON MAJOR CURRENCIES AGAINST THE U.S. DOLLAR[1]

(*In per cent per annum*)



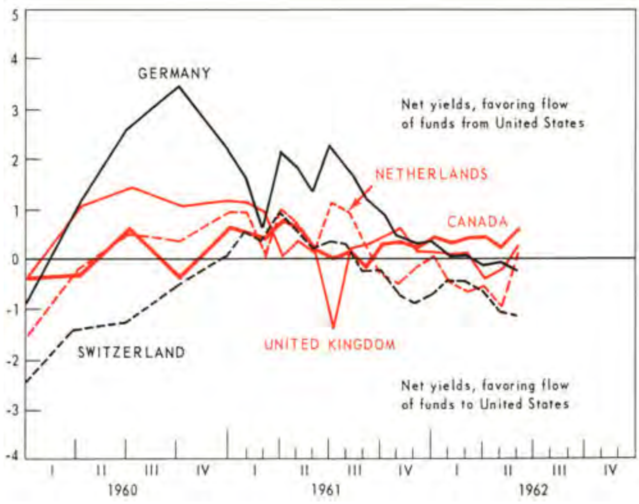
[1] Data are for end of quarter, December 1959-December 1960, and end of month, January 1961-May 1962.

paired by differences in risk, terms of payment, or other attributes of the documents compared.

For a number of reasons, these charts should not be interpreted too literally. They cover only part of the short-term capital market. In the first place, there are other forms of money market investments which carry comparable risks, but between which the interest differentials are not the same as they are between Treasury bills. Some examples of this are three-month deposits with banks (mainly in the United Kingdom, but also in Continental Europe and Canada) denominated in dollars (so-called Euro-dollars); three-month deposits with local authorities in the United Kingdom; and three-month deposits, mainly with French banks, denominated in sterling (so-called Euro-sterling). However, the differences in yields on such investments moved similarly to Treasury bill differentials in 1961, and it may perhaps be assumed that, in general, the rates selected for the comparison made here are representative of the broad movements in interest rates in the money markets of the five countries. Nevertheless, there have been changes in relative interest rates for individual types of investments, and the rates shown in Chart 6 should therefore be regarded as indicative of ranges only.

CHART 8. INTEREST RATE DIFFERENTIALS, ADJUSTED FOR PREMIUMS OR DISCOUNTS, BETWEEN THE UNITED STATES AND SELECTED COUNTRIES [1]

(In per cent per annum)



[1] The yield on 3-month U.S. Treasury bills is taken as a base line. The difference between this yield and the money market rates in other countries shown in Chart 6, minus the discount (or plus the premium) shown in Chart 7, is plotted relative to the base line. Distances between the curves measure the incentive to move funds on a covered basis between the national markets. See text, pages 100-103.

Data are for end of quarter, December 1959-December 1960, and end of month, January 1961-May 1962.

In the second place, part of the international movements of short-term capital takes the form of borrowing and lending rather than of transactions in money market instruments. While most comparisons of borrowing rates indicate net differentials similar to those in the money market, there were during 1961 some important rates to which this did not apply. Bank lending rates in the United Kingdom tended to be higher than those in the United States and, if cover in the forward market were not sought (as, for a substantial volume of international short-term borrowing, it was not) it would have been more profitable for borrowers to seek accommodation in the United States than in the United Kingdom. But the difference between these bank lending rates was less than the discount on the pound sterling in the sterling-dollar forward market. Hence, borrowing on a covered basis would tend to have been undertaken in London rather than in New York—although limitations on the freedom of U.K. banks to lend to nonresidents would have prevented any appreciable volume of borrowing of this kind.

The use of the charts to interpret short-term capital movements to and from Germany is subject to particularly strong qualifications, because of the restrictions on the inward movements of foreign short-term capital that were maintained in that country. Because of these restrictions, inflows of funds into Germany for temporary investment took, for the most part, the form of purchases of fixed-interest-bearing securities and commercial lending. Moreover, the charts do not describe adequately the incentives for the German commercial banks to move funds to and from abroad, since the modifications in the reserve requirements and the swap policies providing special forward rates for U.S. dollars offered by the Bundesbank to German banks made it profitable for them to move funds abroad, rather than the reverse as is indicated by the charts. While it is believed that the charts provide a reasonably correct indication of the variations in these incentives to move capital to and from Germany in the forms in which such movements could take place, the absolute level of the curve for Germany is likely to be incorrect. In particular, while Chart 8 shows a net yield on movements of funds from the United States to Germany during the second half of 1961, the incentives that in fact induced short-term capital movements were in the opposite direction during that period.

Even so, with allowance for all the qualifications to which the data are subject, the charts suggest that the net gain to be made from short-term capital movements to take advantage of the opportunities for interest arbitrage was, on the whole, less in 1961 than in 1960. At the same time, the increase in privately owned international balances, and in particular the increase in the proportion of these balances held on a covered basis that followed the German and Dutch revaluations, brought about some widening of the forward discounts or premiums relative to the interest rate differentials, which reduced the incentive to move funds. As 1961 progressed, there was a tendency for the net gains to decline further. The appreciable net additional yield obtainable on capital transferred from the United Kingdom to the United States in the middle of 1961 reflected primarily the large discount on the pound arising temporarily from speculation regarding exchange revaluations. Similarly, the premium on the deutsche mark in the early part of the year was a major factor contributing to a movement of capital into Germany, for example in the form of commercial lending.

While developments in interest rates and forward exchange rates in major financial centers thus brought about an easing of short-term capital movements between such markets in the course of 1961, the short-term capital movements from the United States to other countries—in particular, Japan and the Latin American Republics—continued on a considerable scale throughout 1961 and in early 1962. These movements were thus not diminished by the greater coordination of monetary policies among the major industrial countries, and constituted a considerable disequilibrating element in the U.S. balance of payments in 1961 as well as in 1960. Movements of short-term capital to and from the United States are further reviewed in Chapter 5.

Developments in the Less Industrialized Countries

In the less industrialized countries as a group, the expansion of credit in 1961 was, on the whole, greater than in 1960, although in somewhat fewer countries than in 1960 did this expansion exceed 20 per cent of the money supply (Table 10, columns 9 plus 11). In part, the political pressures leading to expansion were strengthened by the continued tendency for the prices of primary products to fall, even though the declines in these prices were generally less in 1961 than in earlier years. Since, as a consequence, export receipts scarcely rose, there were few increases in foreign exchange earnings to offset the rising demands for foreign exchange resulting from credit expansion. Accordingly, the reserves of the less industrialized countries tended to remain rather low, or to decline (column 5). In those countries where export earnings or other receipts from abroad did rise, increasing domestic income and government revenues lessened the pressures for expansionist policies; here the growth of net domestic assets held by the monetary system (column 7) tended to be kept in check. The effect was similar in a number of countries where the private sectors, responding to the general weakening of inflationary pressures in recent years, increased their holdings of time and savings deposits and other nonmonetary liabilities of the banks (column 13). However, in only about one fourth of the countries shown in Table 10 did the growth of total domestic credit fall short, for whatever reason, of the increase in nonmonetary liabilities of the banks, resulting in a contraction of net domestic assets.

In 1961, as in earlier years, monetary policies aimed at restraining credit expansion in less industrialized countries took the form of limiting the supply of credit rather than of raising the cost of borrowing. In a number of countries, the tools of monetary and credit control were improved during the past year.

Economic growth and relative financial stability characterized the year's experience in a number of countries, including several of those that increased their net foreign exchange reserves.

Developments in *Peru* and *Spain* are reviewed in Chapter 2. In *Iran,* a policy of stabilization initiated in the fall of 1960 halted the rapid expansion of credit, and the depletion of foreign exchange reserves was reversed in 1961. A major improvement in banking policy was introduced late in the year, when the banks were made subject to variable liquidity ratios. Minimum ratios are 40 per cent against deposits, and the banks are not permitted to expand their lending activities unless their ratio is above 50 per cent. There was further economic progress in *Thailand,* following improvement in 1960; both agricultural and industrial production continued to increase in 1961. In both years, the Government had a cash surplus, and credit expansion to the private sector was moderate. The balance of payments showed a substantial surplus for 1961. In *India,* where the rate of growth of industrial production was again relatively high, monetary policy continued to be implemented with flexibility. Increasing reliance was placed on general credit controls, especially the three-tier (or slab) system of discount rates for commercial bank borrowing from the Reserve Bank of India.

In some countries where inflationary pressures became significantly stronger in 1961, there were signs that the authorities were prepared to take restraining action. In *Israel,* the rapid expansion of bank credit to the private sector in the first half of the year was slowed down somewhat in the second half, by restrictive measures. Minimum liquidity requirements were raised from 38 per cent to 42 per cent between April and October 1961. On February 9, 1962, the Israel pound was devalued, in connection with the unification of the exchange system; at the same time stabilization measures were inaugurated. In *El Salvador,* an increase in the central bank's discount rate in June 1961, coupled with a more cautious monetary policy pursued within the framework of a stabilization program adopted at midyear, was instrumental in halting the deterioration in the country's internal and external financial position. In the *Philippines,* a reversal of earlier policies of fiscal and credit restraints led in 1961 to a rapid domestic monetary expansion and a sharp decline in foreign

TABLE 10. SELECTED LESS INDUSTRIALIZED COUNTRIES: CHANGES IN MONEY SUPPLY, 1954-61, AND FACTORS AFFECTING CHANGES IN MONEY SUPPLY, 1960 AND 1961 [1]

	Percentage Change in Money Supply			Change in Net Foreign Assets[2]		Change in Net Domestic Assets		Net Government Borrowing from Banking System[3]		Bank Credit to Private Sector		Inc. (−) or Dec. in Other Liabilities[4]	
				←As percentage of money at beginning of year→									
	Average 1954-59 (1)	1960 (2)	1961 (3)	1960 (4)	1961 (5)	1960 (6)	1961 (7)	1960 (8)	1961 (9)	1960 (10)	1961 (11)	1960 (12)	1961 (13)
Argentina	27	26	15	11	−10	15	25	2	8	32	32	−19	−15
Bolivia	87	8	18	−12	15	20	3	20	1	—	7	—	−5
Brazil	27	38	50	−1	2	39	48	14	20	34	32	−9	−4
Burma	14	−3	3	2	−4	−5	7	−5	6	5	4	−5	−3
Ceylon[5]	5	2	2	−16	−8	18	10	25	14	3	−1	−10	−3
Colombia	15	10	24	—	−4	10	28	−3	15	16	21	−3	−8
Dominican Republic	7	12	2	−19	−17	31	19	16	13	−32	−7	47	13
Ecuador	5	10	3	−3	−8	13	11	3	15	21	5	−11	−9
El Salvador	3	−6	−4	−25	−3	19	−1	2	12	22	−11	−5	−2
Ghana	5	18	36	−24	−39	42	75	37	33	9	40	−4	2
Greece	17	18	15	2	5	16	10	19	11	24	14	−27	−15
Guatemala	7	−5	1	9	2	−14	−1	−11	1	5	7	−8	−9
Haiti	−5	—	13	11	0	−11	13	−14	7	4	7	−1	−1
Honduras	−1	−1	1	3	−6	−4	7	−1	1	3	7	−6	−1
Iceland[6]	17	−3	29	3	41	−6	−12	−3	−7	25	56	−28	−61
India	6	9	5	−1	−2	10	7	3	5	9	7	−2	−5
Indonesia[7]	27	37	25	13	−9	24	34	14	30	19	31	−9	−27
Iran[8]	17	1	−1	−5	6	6	−7	3	−9	13	17	−10	−15
Israel	16	21	10	29	20	−8	−10	−2	−10	19	30	−25	−30
Jordan	..	8	11	2	13	6	−2	−7	−1	14	9	−1	−10

TABLE 10 (*concluded*). SELECTED LESS INDUSTRIALIZED COUNTRIES: CHANGES IN MONEY SUPPLY, 1954-61, AND FACTORS AFFECTING CHANGES IN MONEY SUPPLY, 1960 AND 1961 [1]

	Percentage Change in Money Supply			Change in Net Foreign Assets[2]		Change in Net Domestic Assets		Net Government Borrowing from Banking System[3]		Bank Credit to Private Sector		Inc. (—) or Dec. in Other Liabilities[4]	
				←As *percentage of money supply at beginning of year*→									
	Average 1954-59 (1)	1960 (2)	1961 (3)	1960 (4)	1961 (5)	1960 (6)	1961 (7)	1960 (8)	1961 (9)	1960 (10)	1961 (11)	1960 (12)	1961 (13)
Korea[6]	31	5	47	3	30	2	17	−21	11	29	43	−6	−37
Malaya	6	5	1	25	4	−20	−3	−21	−8	8	10	−7	−5
Mexico	12	9	7	−5	−2	14	9	11	12	3	2	—	−5
Nicaragua	−1	4	3	−11	−7	15	10	21	—	—	9	−6	1
Pakistan	9	7	—	1	−3	6	3	7	1	8	10	−9	−8
Paraguay[5]	20	2	24	−14	10	16	14	20	8	3	10	−7	−4
Peru	12	13	19	17	17	−4	2	−6	−3	21	22	−19	−17
Philippines	8	3	17	7	−18	−4	35	−10	25	10	34	−4	−24
Sudan	2	7	19	33	−9	−26	28	−52	24	33	12	−7	−8
Syrian Arab Republic	10	12	5	−13	−15	25	20	9	19	21	−2	−5	3
Thailand	7	11	12	12	16	−1	−4	−28	−4	9	7	18	−7
United Arab Republic	4	3	8	−5	−5	8	13	9	17	1	−3	−2	−1
Uruguay	19	32	23	−40	15	72	8	−15	−4	63	31	24	−19
Venezuela	13	−6	3	−7	−3	1	6	6	8	−18	−1	13	−1
Viet-Nam	4	19	3	9	−12	10	15	10	8	4	8	−4	−1

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

[1] The figures for net foreign assets include all IMF accounts; those for net government borrowing from the banking system have been adjusted in order to eliminate the effect of changes in the net IMF position (if any).

[2] Foreign assets are reported in gross terms for a number of countries. For most of these countries, foreign liabilities are unimportant and do not change markedly in the short run. Hence, changes in gross foreign assets may be taken as an approximate reflection of changes in net foreign assets.

[3] 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.

[4] 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.

[5] Data for 1961 cover the 12 months ended November 1961.

[6] Data adjusted to eliminate effect of foreign asset and liability revaluations.

[7] Data for 1961 cover the 12 months ended September 1961.

[8] Data for 1960 and 1961 cover the 12 months ended March 1961 and March 1962, respectively.

exchange reserves. Early in 1962, the authorities instituted corrective measures: the central bank raised its discount rate from 3 per cent to 6 per cent, imposed ceilings on central bank loans to commercial banks, and raised reserve requirements on peso demand deposits with banks. In *Ecuador,* the drain on reserves during the last quarter of 1960 and the first half of 1961, which was associated with excessive credit expansion, particularly to the official sectors, was halted after the adoption of a stabilization program in the middle of the year. Further expansion of central bank credit was severely limited by the application of ceilings on gross credit, and legal reserve requirements were raised.

On the other hand, a number of countries—particularly Argentina, Brazil, Chile, Colombia, Ghana, and Indonesia—followed expansionary financial policies in 1961, which resulted in a sharp decline in their foreign exchange reserves or a rapid increase in prices, or both. In most of these countries, government borrowing from the banking system was the main source of the expansion. In *Argentina,* the monetary situation showed signs of strain, in contrast to 1960 when further progress was made toward stability. An unduly large expansion of bank credit to the private sector and excessive wage increases in 1961 were reflected in substantial price rises and a serious loss of reserves. In *Brazil,* inflationary pressures, stimulated by government deficits, losses on exchange contracts, and expansion of bank credit to the private sector, continued to be reflected in large increases in domestic prices and a depreciation of the cruzeiro. In *Chile,* a mounting government deficit, financed primarily through central bank credit, coupled with a rigidly pegged exchange rate, contributed to a record balance of payments deficit. In *Indonesia,* a rapid expansion of bank credit to the Government was accompanied by a sharp rise in prices and a serious decrease in reserves.

Chapter 5

Balance of Payments Developments

THE year 1961 was marked by important changes in both surpluses and deficits in basic balances of payments (i.e., those arising out of international transactions on current and long-term capital account, excluding certain special transactions), and also in flows of short-term capital. The changes in the basic balances of various industrial countries, and of the primary producing countries as a group, occurred mainly in current account items. These balances were strongly influenced by the changes in economic activity, the relative rate of employment, and the associated movements in prices and costs in the major industrial countries, which have been described in Chapter 4, pages 73-79. Disequilibrating movements of short-term capital between major financial centers had imposed exceptionally severe pressures on the international payments mechanism in 1960 and the early months of 1961. These were successfully checked in the latter part of 1961, as a result of the changes in financial policies and other measures outlined in Chapter 4, as well as of the greater similarity in the cyclical positions of the industrial countries in 1961 than in 1960.

General Review of Industrial Countries

Among the most important changes in the basic balance of payments positions of various industrial countries that took place from 1960 to 1961, or during the course of 1961, were the reappearance of a large deficit in the U.S. balance of payments in the second half of 1961 (following a small surplus in the first half when imports were reduced by the recession); and the emergence of a considerable deficit for Japan. The changes were directly related to increased economic activity in these countries. The striking change in the German position, to a slight basic deficit in the second half of 1961 after years of substantial surpluses, was associated with a renewed expansion of activity on a seasonally adjusted basis and a very high level of employment, accompanied by strong demand pressures and rising costs. A further factor was the appreciation of the deutsche mark, the effects of which were felt only gradually in the course of the year. A sharp reduction in the basic balance of the Netherlands arose from similar circumstances, but occurred in the first half of the year. A rise in the basic deficit of Switzerland was also associated with the expansion of production at full employment. Conversely, the virtual elimination of the basic deficit of the United Kingdom, following a further increase in the first half of 1961, was brought about largely by a decline in imports as a consequence of the measures to restrain domestic demand, which are discussed in Chapter 4. France and Italy—although their output rose more rapidly than that in some of the other industrial countries—continued to be favored by greater structural possibilities of expanding industrial production and exports than existed in most of the other countries; their basic surpluses increased considerably from 1960 to 1961. An improvement in the payments position of Belgium was in part a reflection of easier conditions in the labor market there than in Germany and the Netherlands, and probably of the advantage gained from the appreciation of the deutsche mark and the guilder.

The estimates in Table 11 do not provide much evidence of marked progress toward greater balance in international payments in the course of the last two years. The basic deficit of the United States was slightly larger in the second half of 1961 than in the first half of 1960, as the cyclical factors which had lessened the deficit in the two intervening half years were reversed. The reduction in the basic deficit of the United Kingdom in the second half of 1961 was achieved at the cost of a slight fall in production. In both these countries, the problem of combining economic growth with external balance remained. The most helpful development recorded was the sharp reduction of the surpluses of Germany and the Netherlands, but this was, to some extent, offset by the strengthening of the basic positions of France, Italy, and some other countries in Continental Europe. It seems likely, however, that the balances of payments for 1961 did not fully reflect the important economic adjustments, particularly the changes in relative prices, costs, and incomes, that took place in that year. As pointed out in Chapter 4, these changes were gen-

TABLE 11. BASIC BALANCE OF PAYMENTS SUMMARY, 1960 AND 1961 [1]

(In billions of U.S. dollars)

	1960		1961	
	First half	Second half	First half	Second half
United States	—1.1	—0.7	0.2	—1.3
United Kingdom	—0.5	—0.5	—0.8	—0.1
France [2]	0.5	0.3	0.7	0.5
Italy [3]	—0.1	0.4	—	0.6
Germany, Federal Republic of	0.3	0.7	0.8	—0.1
Other industrial countries				
In Europe	0.1	—	—0.5	0.4
Japan	—0.1	0.2	—0.6	—0.5
Primary producing countries				
Australia, Canada, New Zealand, and South Africa	—0.2	—0.6	—0.3	0.1
Other	0.3	—0.5	—0.1	—0.2
Balancing entry [4]	0.8	0.7	0.6	0.6

Sources: Based on data reported to the International Monetary Fund, and Fund staff estimates.

[1] The basic balance of payments covers goods, services, transfer payments, and long-term capital transactions less certain transactions that are considered to be of an extraordinary character. The main part of these extraordinary transactions consists of repayments on post-EPU debts and advance debt repayments. No sign indicates credit; minus sign indicates debt.

[2] Covering transactions with the non-franc area only.

[3] Including inflows of Italian banknotes; see page 137. Accordingly, the entries for Italy should be regarded as quite tentative.

[4] If it were not for statistical errors, the sum of basic balances for all countries could be expected to show a small excess of surpluses over deficits in 1960 and 1961. Conceptually, the sum covers (1) nonmonetary gold transactions of the countries included in the table, the counterpart of which—changes in world official gold holdings—is not part of the basic balance, and (2) the balance of these countries' current and long-term capital transactions with (a) international organizations and (b) other countries, mainly those in the Soviet area. In 1960 and 1961, the balance with international organizations was negative, but slightly smaller than the positive entry for nonmonetary gold. The fact that the table records an excess of deficits thus implies that the country figures tend to err more frequently in the direction of overstating deficits or understanding surpluses than in the opposite direction.

erally in the direction of reducing surplus and deficit positions; their effects can be expected only with a time lag, and they may be reinforced as the remaining major surplus countries reach the limits of their productive capacity.

There may also be considerable scope for adjustment on capital account. The net outflow of U.S. and foreign private long-term capital from the United States during 1961 was more than $2 billion, an amount not significantly different in total from the net outflows of the previous five years. There was a small net outflow of private long-term capital from the United Kingdom (the Ford transaction being treated as completed in 1960), the Netherlands, and Switzerland. Most of the other industrial countries, however, were net importers of private long-term capital in 1961, as they have generally been in recent years. Increased exports of capital by some of these countries could contribute, to an important extent, toward a more balanced pattern of international payments. This end could also be furthered by improvements in the organization of capital markets in the countries that are potential capital exporters; by the elimination of the restrictions on capital exports that still remain in these countries; and by a further reduction of long-term interest differentials between surplus and deficit countries.

The effects of short-term capital movements and special transactions in moderating or intensifying the basic deficit or surplus positions of various industrial countries during 1961 are described in the following pages. It will suffice here to say that, although the recorded outflow of nearly $1.5 billion in 1961 of U.S. short-term capital was almost matched by the recorded inflow of foreign short-term capital (other than reserve holdings), the effect of these movements was to add to the U.S. balance of payments problem in 1961, since foreign short-term assets in the United States are generally more liquid than U.S. short-term claims on foreigners. About half of the outflow of U.S. short-term capital went to Japan, mainly for the purpose of financing trade, and thus helped to offset part of the basic deficit. Heavy inflows of private short-term capital added to the surplus problem of Germany in the first half of the year, and considerable outflows reduced it in the latter half. The opposite situation prevailed in the United Kingdom, where short-term capital movements aggravated the deficit until July and subsequently eased it. Inflows of short-term capital into Switzerland are believed to have been responsible for a substantial increase in reserves despite a recorded deficit on current and long-term capital account. Large advance debt repayments by Germany (mainly to the United States) and by France (mainly to other countries in Europe) helped to moderate over-all surplus and deficit positions in the course of the year.

Individual Industrial Countries

United States

The balance of payments of the United States for 1961 showed considerable improvement over 1960, although the improvement was confined mainly to the first half of the year, the figures for that period being in approximate balance. The basic deficit on current and long-term capital account, excluding certain extraordinary transactions, was reduced from $1.7 billion in 1960 to $1 billion in 1961 (Table 12). Seasonally adjusted, it rose again, to an annual rate of almost $2.6 billion in the second half of the year, but fell from the third to the fourth quarter. The reduction in the outflow of reserves, including the U.S. net position with the Fund, from over $2.4 billion in 1960 to about $0.6 billion in 1961 was even more pronounced than the reduction in the basic deficit. The increase in liabilities to foreign central banks and governments was greatly reduced, to about $650 million, and would have been completely eliminated had it not been for large withdrawals of foreign commercial bank funds at the end of the year; these were returned early in 1962. On the other hand, liquid liabilities to foreign holders other than the monetary authorities increased much more than in 1960.

TABLE 12. UNITED STATES: BALANCE OF PAYMENTS SUMMARY, 1960—FIRST QUARTER 1962[1]

(In millions of U.S. dollars)

			1961				1962
	1960	1961	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar[2]
Goods, services, aid, and long-term capital							
Main categories, seasonally adjusted, excluding major special transactions[3]							
Trade surplus	4,736	5,401	1,692	1,351	1,100	1,258	1,154
Services, remittances, and pensions	—1,753	—1,136	—292	—254	—352	—238	—166
Government grants and capital	—2,615	—3,294	—829	—677	—938	—850	—783
U.S. direct investment abroad	—1,694	—1,475	—457	—269	—429	—320	—331
Other U.S. long-term capital	—850	—1,006	—120	—218	—194	—474	—345
Foreign long-term capital	430	466	122	201	20	123	153
Total	—1,746	—1,044	116	134	—793	—501	—318
Seasonal influences	—	—	—55	—191	—154	400	—182
* Major special transactions[3]	—154	517	—	724	—75	—132	—
Total	—1,900	—527	61	667	—1,022	—233	—500
* Unrecorded transactions	—592	—602	16	—296	243	—565	262
* Short-term capital, n.i.e.							
U.S. private assets	—1,338	—1,472	—461	—355	—117	—539	—354
Foreign nonliquid capital	—95	140	76	73	—13	4	127
Liquid liabilities to foreign nonmonetary sectors	257	587	—55	156	80	406	167
Total	—1,176	—745	—440	—126	—50	—129	—60
* Liquid liabilities to foreign commercial banks	104	615	—19	414	154	66	417
* Liquid liabilities to central banks and governments	1,121	652	11	—340	888	93	—546
* U.S. reserves and IMF position							
Net IMF position	741	—135	25	11	—483	312	237
Gold and convertible currency holdings	1,702	742	346	—330	270	456	190
Total U.S. reserves and IMF position	2,443	607	371	—319	—213	768	427
Memorandum item: change in reserves, IMF position, and liquid liabilities, seasonally adjusted	3,925	2,461	319	—176	910	1,408	476

Source: Based on data from U.S. Department of Commerce, *Survey of Current Business.*
[1] Excluding military aid and transfers financed by it. No sign indicates credit; minus sign indicates debit.
[2] Preliminary.
[3] See text, page 117, for description of major special transactions.
* These items are not seasonally adjusted.

If measured by the change in reserves and total liquid liabilities, the deficit was reduced from $3.9 billion to about $2.5 billion. A substantial part of this decrease can be explained by a few large, nonrecurring capital transactions. These are shown separately in Table 12, where they are identified as "major special transactions." For 1960, the transactions that have been so classified are subscriptions to international organizations; for 1961, the main transactions are advance repayments on U.S. Government loans (credits of $649 million in the second quarter and $40 million in the fourth quarter) and, again, subscription payments. Altogether, these nonrecurring transactions accounted for $670 million of the reduction in the deficit; this was, in fact, the main objective of the advance repayments.

Changes in the goods and services account continued to be dominated by cyclical factors. Perhaps the most striking of these changes was in imports, which in the first half of 1961 were reduced to their lowest figure since the third quarter of 1958, but which rose sharply in the second half (Table 13). This rise was, of course, related to the recovery of business activity in the United States and reflected both an increase in consumption and a rebuilding of inventories. Merchandise exports, other than those financed by government aid, were remarkably stable throughout the whole of 1961; in fact, their total was almost identical with that of the previous year.

Among the service transactions, investment income receipts rose by $460 million from 1960 to 1961. Only a small net decrease was recorded in total U.S. military expenditures abroad, in spite of the measures introduced to effect economies in certain of those expenditures; savings in some areas appear to have been almost matched by higher expenditures in others. Exports of goods and services financed by government grants and loans showed a strong and steady increase over the two years; these transactions, however, do not affect the basic balance, since it includes both the exports and their financing. As Table 13 shows, the United States was in surplus on total current account, i.e., increased its net foreign assets, in both 1960 and 1961.

U.S. private holdings of long-term assets, predominantly in the form of direct investments, showed their customary large increase. The total outflow of U.S. private long-term capital was almost the same as in 1960, as was the inflow of foreign long-term capital; in each year the net outflow was about $2 billion. More than 45 per cent of the U.S. direct investment capital outflow in 1961 was directed to European countries.

TABLE 13. UNITED STATES: BALANCE OF PAYMENTS TRANSACTIONS ON CURRENT ACCOUNT, BY MAIN TYPES, 1960-61 [1]

(In millions of U.S. dollars)

			1961	
	1960	1961	First half[2]	Second half[2]
Goods and services				
Not financed by government aid				
Exports f.o.b.	17,661	17,732	8,835	8,897
Imports f.o.b.	−14,723	−14,514	−6,786	−7,728
Trade surplus	2,938	3,218	2,049	1,169
Investment income receipts	3,222	3,682	1,829	1,853
Other services, net	−1,407	−1,384	−585	−799
Total	4,753	5,516	3,293	2,223
Military expenditures	−3,048	−2,947	−1,526	−1,421
Financed by government aid				
Exports f.o.b.	1,798	2,183	994	1,189
Services	322	391	178	213
Total	2,120	2,574	1,172	1,402
Total goods and services	3,825	5,143	2,939	2,204
Remittances and pensions	−842	−878	−442	−436
Government grants[3]	−1,664	−1,851	−966	−885
Total current account surplus	1,319	2,414	1,531	883

Source: Based on data from U.S. Department of Commerce, *Survey of Current Business.*
[1] Excluding military aid and transfers financed by it. No sign indicates credit; minus sign indicates debit.
[2] Adjusted for seasonal variation, except as otherwise noted.
[3] Not adjusted for seasonal variation.

As in 1960, a substantial outflow of U.S. short-term capital contributed to the over-all balance of payments deficit. The recorded outflow in 1961, almost $1.5 billion, was $130 million larger than in 1960. Unrecorded transactions, which are believed to reflect in part private short-term capital, were about as large as in 1960, accounting for an outflow of $600 million. Movements of short-term capital between major financial centers in response to interest differentials and confidence factors have recently attracted considerably less attention than in 1960, and the statistical evidence suggests that such factors last year played a lesser role in movements of U.S. short-term assets. As indicated in Chapter 4, the commercial inducements for moving funds from the United States to other financial centers were not so great in 1961 as in 1960, and were reduced further in the course of last year. At the end of 1961, of the $4.7 billion of short-term foreign assets reported by U.S. banks (including those held for account of their customers), only $1.1 billion represented claims on the major financial centers in Europe and Canada; the remainder was mainly claims on Japan and the Latin American Republics (more than $1.4 billion for each of these two areas). The rise in these claims in 1961 occurred primarily outside the major financial centers—$639 million being in Japan and $255 million in other countries, compared with $169 million in the major centers. Short-term claims reported by U.S. nonfinancial concerns are more heavily concentrated in the main financial centers, but are quantitatively much less important. (Of $1.5 billion of such claims outstanding at the end of December 1961, $0.9 billion was held in the main financial centers; the increase in total claims during 1961 was about $375 million.) The fact that by far the largest part of U.S. short-term assets—even those on the major financial centers—consists of commercial and financial claims denominated in U.S. dollars also suggests that confidence factors have played only a minor role in determining the recorded movements. The reported rise in foreign currency claims on financial centers was only about $225 million in 1960 and $70 million in 1961.

The recorded outflow of U.S. short-term capital was almost matched by an equal inflow of foreign short-term capital other than official dollar holdings, including $600 million in liquid liabilities to foreign banks and an almost equal amount in liquid liabilities to foreign nonmonetary sectors. This large inflow of foreign capital contrasts with only a small inflow during 1960 as a whole. The change in the behavior of foreign short-term capital undoubtedly reflects mainly interest and confidence factors, and the substantial accumulation in 1961 helped to moderate the outflow of reserves. In liquid liabilities to the foreign nonmonetary sectors, the largest component in both years was the increase in liabilities to international nonmonetary organizations ($400 million or more in each year), in part resulting from the accumulation of subscriptions received in U.S. dollars by these institutions. The larger part of the increase in the inflow between the years was, however, attributable to a swing of over $260 million (from a decrease in 1960 to an increase in 1961) in liabilities to private holders.

In the first quarter of 1962, pressures on the U.S. balance of payments eased considerably. However, there was little change on a seasonally adjusted basis in most of the categories that make up the basic balance, and much of the improvement in the overall balance of payments was attributable to changes in unrecorded transactions, believed to reflect in part an inflow of funds from Canada related to the rapid deterioration of the Canadian balance of payments position. The reduction in reserves (including the U.S. position with the IMF) by well over $400 million was more than matched by a decrease in liabilities to foreign central banks and governments. Liquid liabilities to other foreigners rose somewhat more than the decrease in those to official holders; the movements in both categories are explained in large part by the return of funds held by German commercial banks, which had been repatriated late in 1961 for seasonal reasons. During the second quarter of 1962, the outflow of reserves was further reduced.

United Kingdom and the Sterling Area

The external position of the United Kingdom at the beginning of 1961 was one of considerable weakness, following a continuous deterioration in the balance of current and long-term capital transactions over the preceding two years and a substantial increase of short-term liabilities in relation to reserves.

During the first half of 1961, the pound remained vulnerable to speculative pressures, and a massive withdrawal from sterling took place after the revaluation of the deutsche mark and the Netherlands guilder in early March. As mentioned in the Introduction to this Report, this outflow of capital was countered by informal support from a number of central banks in Europe, the so-called Basle arrangements, under which the United Kingdom was granted short-term assistance, totaling the equivalent of $900 million, in the following months. Despite this assistance, U.K. reserves fell by almost $800 million in the first seven months of 1961.

At the end of July, as described in Chapter 4, a series of measures was introduced with the aim of restoring confidence in sterling and eliminating the continuing deficit on current and long-term capital account by improving the competitive strength of the economy. In August, the United Kingdom arranged for a drawing equivalent to $1,500 million from the Fund, and for a stand-by credit for a further $500 million. Thereafter, the short-term outflow was reversed, and reserves began to rise. By the end of 1961, the assistance received under the Basle arrangements had been repaid, and the U.K. liability to the Fund had been reduced by $420 million as the result of U.K. repurchases.

There was considerable improvement in the basic balance of payments in the second half year: the recorded deficit on current transactions almost disappeared, and there was an exceptional net inflow of long-term capital, including an abnormally large inflow of foreign portfolio capital (Table 14).

The marked improvement in the current account from 1960 to 1961 was due wholly to the reduction in the trade deficit to about the same amount as in 1959. The surplus on services, which had fallen sharply in 1960, continued to decline as a result of increasing government expenditures abroad. Net government expenditures totaled almost $950 million—$150 million higher than in 1960 and almost $300 million higher than in 1959. The increase from 1960 to 1961 mainly reflected higher net military expenditures and larger grants of development aid.

The volume of exports was about 2½ per cent greater than

Table 14. United Kingdom: Balance of Payments Summary, 1960—First Quarter 1962 [1]

(In millions of U.S. dollars)

	1960	1961	1960 First half	1960 Second half	1961 First half	1961 Second half	1962 First quarter
A. Goods, services, and transfer payments							
Exports	10,380	10,817	5,334	5,046	5,502	5,315	2,741
Imports	–11,475	–11,195	–5,743	–5,732	–5,816	–5,379	–2,833
Trade balance	–1,095	–378	–409	–686	–314	–64	–92
Services and transfer payments	288	182	204	84	146	36	151
Total	–807	–196	–205	–602	–168	–28	59
B. Long-term capital							
Official long-term	–288	–115	–106	–182	–28	–87	–31
Private long-term							
Direct investment abroad (net) [2]	–692	–591	–333	–359	–344	–247	
Other investment abroad (net)	–249	–409	–132	–117	–230	–179	
Ford transaction	367[3]	—[3]	—	367[3]	—[3]	—	8
Other direct investment in U.K. (net) [2]	378	263	199	179	115	148	
Other investment in U.K. (net)	286	507	34	252	73	434	
Total	–198	–345	–338	140	–414	69	–23
C. Total (A plus B) [4]	–1,005	–541	–543	–462	–582	41	36
D. Errors and omissions	856	228	383	473	76	125	347
E. Total (C plus D)	–149	–313	–160	11	–506	193	383
F. Short-term capital, n.i.e.	384	–196	143	241	–160[5]	–36[5]	300
G. Overseas sterling holdings							
Non-sterling area: private	837[3]	–815[3]	210	627[3]	–829[3, 5]	14[5]	–97
Non-sterling area: official	473	–67	143	330	–162[5]	95[5]	–38
Sterling area: private	–252	238	–53	–199	143	95	39
Sterling area: official	–381	190	–37	–344	190	—	–202
Total	677	–454	263	414	–658	204	–298
H. Net reserves (including debts under Basle arrangements)							
IMF position	–422	1,047	–92	–330	–42	1,089	–250
Debts under Basle arrangements	—	—	—	—	904[5]	–904[5]	—
Gold and currency holdings	–490	–84	–154	–336	462	–546	–135
Total	–912	963	–246	–666	1,324	–361	–385

For footnotes, see page 123.

in 1960 while imports declined somewhat less; the terms of trade, however, improved by more than 3 per cent, the first substantial improvement since 1957-58. The principal factor in lower import expenditure was the 7½ per cent reduction in the volume of imports of industrial materials, which had risen much more during the preceding year. The volume of imports of raw materials in 1961 was reduced to about the same level as in 1959, but imports of semimanufactures (purchased mainly from other industrial countries) remained about 20 per cent higher than in that year. Expenditure on imports of food, beverages, and tobacco was reduced by about 3½ per cent from 1960 to 1961, although the volume was maintained; expenditure on fuels remained almost unchanged in spite of a 4½ per cent increase in volume. For finished manufactures, however, expenditure rose by 8 per cent.

Exports rose at the end of 1960 and beginning of 1961, but did not continue to increase during most of the remaining months. Although exports to the United States increased sharply in the latter part of 1961, and exports to other industrial countries rose steadily throughout the year, these increases were offset by the declining trend of exports to primary producing countries. In the last quarter of 1961, the value of exports to the primary producing countries was about 7-8 per cent lower than a year earlier, while exports to manufacturing countries in Western

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Footnotes to Table 14.

Source: *United Kingdom Balance of Payments, 1959 to 1961* (Cmnd. 1671).

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

[2] Excluding oil and insurance.

[3] The purchase by the Ford Motor Company of the United States of the minority interest in its U.K. subsidiary for $367 million has been treated as if it had been completed in December 1960 and is therefore included in Group B at that time, while the temporary accumulation and subsequent spending of sterling is excluded from Group G.

[4] These figures differ from the basic balances shown in Table 11 as certain official long-term capital transactions are there excluded for symmetry with the treatment of other countries' basic balances. The transactions excluded in Table 11 comprise advance debt repayments of $189 million by Germany in the first half of 1961 and of $76 million by France in the second half of 1961, as well as the Swiss Government Funding Loan of $50 million in the latter period (see page 99).

[5] Assistance received under the Basle arrangements has been entered in Group H and excluded from Group F ($353 million received in the first half of year, $303 million repaid in the third quarter, and $50 million repaid in the fourth quarter with the proceeds of a loan from Switzerland) and Group G (private, $238 million received in first half of year and repaid in the third quarter; and official, $313 million received in first half of year, of which $285 million was repaid in the third quarter, and $28 million was repaid in the fourth quarter).

Europe and Japan rose by 25 per cent and exports to the United States were 10 per cent higher than those in the last quarter of 1960, when they were unusually low.

A reduction from 1960 to 1961 of $170 million in the net outflow of official capital resulted from advance debt repayments of $200 million by France and the Federal Republic of Germany. The scale of new intergovernment lending was almost unchanged, but the net outflow of other official long-term capital rose slightly. The net movement of private long-term capital changed from an inflow in 1960 to an outflow in 1961 mainly because of the exceptional inflows of private capital in 1960 on account of the Ford Motor Company transaction ($367 million) and of the receipt of $67 million compensation from the United Arab Republic. Private investment abroad by the United Kingdom was about the same as in 1960, when allowance is made for the Egyptian payment in that year; there was, however, a decrease in direct investment by businesses other than oil and insurance, and an increase in portfolio and other investment. Similarly, apart from the Ford transaction, net private long-term investment in the United Kingdom was about $110 million higher in 1961 than in 1960, direct investment declining by a similar amount, and portfolio investment almost doubling.

When the assistance received under the Basle arrangements is excluded, the net outflow of private short-term capital to non-sterling areas totaled about $1,000 million during the first half of 1961, compared with an inflow on the same scale during the second half of 1960. The outflow continued during July, but there seems to have been little net movement of short-term funds over the second half year as a whole.

An improvement in the balance of payments position of the overseas sterling countries as a group, mainly resulting from a sharp reduction in their current account deficit with non-sterling countries, contributed toward easing the pressure on sterling in 1961. While exports to Western Europe, like those to the United Kingdom, failed to increase, exports to North America were 8 per cent higher in value than in 1960, and exports to all other non-sterling countries rose substantially faster, as a result of sharp increases in shipments to Japan and to the countries in the Soviet area. There was a slight reduction in imports from the United Kingdom, Western Europe, and North America. The total deficit on current account, more than $1,400 million, was about $600 million lower than in 1960; over three fourths of the improvement was in transactions with the non-sterling area. The net inflow of capital into the overseas sterling area countries was somewhat larger than in 1960 and exceeded the current account deficit. The movement of long-term capital from the United Kingdom increased slightly, to more than $700 million.

The total official gold and foreign exchange holdings of the overseas sterling countries rose by about $500 million in 1961, to about the same figure as at the end of 1959. Holdings of gold and currencies other than sterling were considerably higher at the end of 1961 than two years earlier, however, while official sterling holdings, although rising by $190 million in 1961, were reduced in the two-year period. The improvement in reserves was achieved in part by net drawings of $328 million from the Fund; these comprised large drawings by India and Australia, and smaller drawings by Ceylon and South Africa. The increase in reserves in 1961 accrued mainly to Australia and South Africa, and much exceeded their combined drawings from the Fund; India and Ceylon barely maintained their reserves in spite of their drawings. There was some decline in the combined reserves of all other overseas sterling countries.

The position of sterling at the end of 1961 was considerably stronger than a year earlier, as a result of the substantial reduction in volatile short-term funds held by foreigners. However, an increase of less than $100 million in centrally held gold and foreign exchange reserves, and a reduction of $880 million in sterling liabilities to holders outside the sterling area (and of only $450 million in total sterling liabilities to overseas holders), was achieved at the cost of an increase of $1,050 million in outstanding debt of the United Kingdom to the Fund between December 1960 and December 1961.

During the first quarter of 1962, the identified balance of current transactions was slightly in surplus for the first time since the third quarter of 1959. When allowance is made for unrecorded current and long-term capital transactions (which are likely to have accounted for a considerable part of the large item for errors and omissions), there was clearly a rather substantial basic surplus. Nevertheless, the greater part of the improvement in the reserve position over the period was due to a renewed heavy inflow of short-term funds into London. A substantial part of the inflow was in foreign currencies deposited with commercial banks and converted by them into sterling for employment in the United Kingdom. About one third of the \$300 million recorded inflow of short-term capital, shown in Table 14, was offset by the reduction in private sterling holdings of non-sterling area residents; but including unidentified transactions, the total inflow of short-term capital probably exceeded this amount. The reserve position of the United Kingdom, including its IMF position, improved by nearly \$400 million, and would have shown an even larger increase but for Australia's repurchase from the Fund of about \$170 million, which correspondingly reduced sterling liabilities to official institutions in the rest of the sterling area.

Federal Republic of Germany

Changes in the balance of payments of Germany in the course of 1961 contributed substantially toward equilibrium in international payments. The surplus on goods and services continued to increase between the second half of 1960 and the first half of 1961, but was reduced by almost 50 per cent in the second half year and declined still further in the first quarter of 1962 (Table 15). The net inflow of private and official long-term capital, excluding special transactions, declined between the second half of 1960 and the first half of 1961 and was followed by a substantial outflow in the latter half of 1961.

TABLE 15. FEDERAL REPUBLIC OF GERMANY: BALANCE OF PAYMENTS SUMMARY, 1960—FIRST QUARTER 1962[1]

(In millions of U.S. dollars)

	1960	1961	1960 First half	1960 Second half	1961 First half	1961 Second half	1962 First quarter
A. Goods, services, and transfer payments							
Exports f.o.b.	11,410	12,635	5,458	5,952	6,161	6,474	3,160
Imports c.i.f.	—10,101	—10,912	—4,896	—5,205	—5,235	—5,677	—2,988
Other merchandise	—45	—122	—7	—38	—34	—88	—43
Trade balance	1,264	1,601	555	709	892	709	129
Paid services to foreign troops	938	945	462	476	495	450	246
Other services	—430	—948	—147	—283	—344	—604	—185
Total goods and services	1,772	1,598	870	902	1,043	555	190
Transfer payments	—694	—869	—345	—349	—370	—499	—238
Total	1,078	729	525	553	673	56	—48
B. Long-term capital							
Transactions in bonds	333	72	49	284	156	—84	9
Transactions in shares	—9	283	—82	73	146	137	37
Other private long-term capital	—90	—141	—55	—35	—68	—73	22
Advance debt redemption	—	—780	—	—	—780	—	—
Other government long-term capital	—283	—293	—134	—149	—116	—177	—50
Repayments on post-EPU claims	278	236	77	201	66	170	3
Other Bundesbank assets (increase —)[2]	—25	—201	12	—37	—29	—172	1
Total	204	—824	—133	337	—625	—199	22
C. Total (A + B)	1,282	—95	392	890	48	—143	—26
Total, excluding certain extraordinary transactions[3]	1,028	652	303	725	793	—141	—30
D. Short-term capital, n.i.e. (including net errors and omissions)	590	440	294	296	781	—341	133
E. Commercial bank net liquid foreign assets (increase —)	347	—262	338	9	—801	539	—692
F. IMF position and net reserves							
IMF position	—40	—329	—28	—12	—134	—195	75
Bundesbank liabilities[4]	5	—23	12	—7	141	—164	57
Foreign exchange (increase —)[5]	—1,850	955	—873	—977	501	454	456
Monetary gold (increase —)	—334	—686	—135	—199	—536	—150	—3
Total	—2,219	—83	—1,024	—1,195	—28	—55	585

Sources: Deutsche Bundesbank, *Monthly Report*, May 1962, and supplementary data made available by the Bundesbank.

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

[2] Covers IBRD bonds and notes and repayments received on consolidated credits.

[3] This balance is intended to facilitate analysis of the more basic factors in the balance of payments. It excludes the following extraordinary transactions: (a) advance debt redemption, (b) repayments on post-EPU claims, and (c) other Bundesbank assets, i.e., IBRD bonds and notes and repayments received on consolidated credits. However, it includes private transactions in securities, which are likely to fluctuate widely in the short run. Such transactions should be taken into account in evaluating the balance.

[4] Excluding liabilities to the IMF.

[5] Foreign exchange covers freely usable foreign exchange and earmarked assets.

The basic surplus on account of goods and services and long-term capital transactions during the first half year, again excluding special transactions, totaled almost $800 million. In the second half year, it disappeared. At the same time, a substantial outflow of short-term capital (other than commercial bank net foreign exchange assets but including errors and omissions) replaced the inflow during the first half year, which had exceeded that in the entire year 1960.

In the first half of 1961, special official transactions, which, owing to heavy repayments of post-EPU debt, had given rise to a net inflow of $160 million in the second half of 1960, provided a net outflow of $750 million in the first half of 1961, mainly as a result of the advance repayments in April and May of debts arising out of postwar economic aid from the United States, the United Kingdom, and France. The commercial banks increased their net foreign exchange holdings by $800 million. Consequently, there was only a slight increase in official reserves, whereas the increase would have been greater than during the previous six months except for those extraordinary official transactions and the success of measures taken to encourage the commercial banks to increase their liquid foreign assets. In the second half of 1961, substantial repayments of post-EPU debts to Germany were offset by large purchases of IBRD bonds and notes. The disappearance of the basic surplus and the outflow of short-term capital would have resulted in a considerable reduction of reserves except for a large-scale repatriation of commercial bank funds at the end of the year. In the first quarter of 1962, when the basic balance showed a very slight deficit, the renewed outflow of bank funds was responsible for the decline of almost $600 million in official reserves (including the IMF position).

The marked lessening in the course of 1961 of the underlying imbalance of the German payments position was a reflection both of internal developments and of measures taken by the authorities to reduce the payments surplus. The slowing down of the expansion of output associated with a shortage of labor, the more marked upward movement of prices than in recent years consequent upon substantial increases in wages and salaries and smaller gains in productivity, and the continuing rise in money incomes, generally tended to lessen the growth of exports or to increase expenditures on imports of goods and services. The revaluation of the exchange rate in March 1961 influenced the balance of trade in the same direction but had a more immediate impact in stimulating private short-term capital movements, as discussed elsewhere in this Report. Monetary measures adopted to halt or reverse the inflow of foreign funds (see Chapter 4) became increasingly effective as expectations of exchange appreciation gradually disappeared following the revaluation. The Berlin crisis also stimulated an outflow of short-term capital later in the year.

The trade surplus increased by about $340 million from 1960 to 1961, but was sharply reduced in the last quarter of 1961 and the first quarter of 1962. Owing to the backlog of unfilled orders, the effects of revaluation upon exports were felt only gradually. The stimulation of imports as a result of the revaluation was offset in part by a reduction in raw material inventories and the slowing down of industrial expansion. There was no increase from 1960 to 1961 in the dollar value of imports of raw materials and semifinished manufactures; imports of food and feeding stuffs, which had risen much less than other groups from 1959 to 1960, rose by about 8 per cent, and imports of finished goods by about 18 per cent. Import prices in deutsche mark were about 4 per cent lower than in 1960, while the unit value of exports changed very little and their prices in foreign exchange rose almost in line with the change in the exchange rate. The volumes of both exports and imports rose less than from 1959 to 1960, increasing by 6 per cent and 7½ per cent respectively, against increases of 15 per cent and 20 per cent in the earlier period. But while the increase in imports was maintained in the last quarter of 1961, exports were then slightly lower than a year earlier.

The surplus on services (excluding freight and insurance included in the cost of imports), which amounted to $450-500 million in 1959 and in 1960, disappeared in 1961, owing to greatly increased expenditures by German tourists, a larger outflow on account of interest, profits and dividends, and rising payments abroad by the growing numbers of foreign workers employed in Germany. Receipts for services to foreign troops remained about the same as in 1960. At the same time, net transfer payments to foreigners rose by $175 million.

Over the year the net outflow of private and official long-term capital (other than the special transactions referred to above) was about the same as in 1960, but there were substantial changes in the composition of private capital movements. Foreign purchases of German fixed-interest securities were much lower than in 1960, but there was a substantial inflow of other private long-term capital, in contrast to a net outflow in 1960.

One of the major aims of recent monetary and fiscal policies has been to provide more favorable circumstances for private long-term capital exports. A net inflow of private long-term capital, which had reached substantial proportions in the last quarter of 1960 and the first quarter of 1961, diminished sharply in the second quarter of 1961 and was replaced by a net outflow in the third. However, the inflow was resumed to a small extent in the last quarter of 1961 and to a larger degree in the early months of 1962.

The outflow of official long-term capital other than advance debt repayments again amounted to about $275-300 million but government transfer payments were nearly $100 million higher than in 1960, mainly because of higher indemnification payments, which made up nearly three fourths of the total. Official contributions for development aid increased only slightly as a result of commitments undertaken during 1961, but they are expected to amount to about $625 million a year in 1962 and 1963.

France and the Franc Area

The accumulation of net reserves by France, including reserves held for other countries in the franc area, exceeded $1,000 million in 1961, almost double the increase in 1960 (Table 16). The greater accumulation in 1961 was due primarily to the large increase in the recorded basic surplus of France with non-franc area countries; the surplus on goods and services, private transfer payments, and long-term private and government contractual capital transactions rose by almost $400 million, to about $1,170 million. The change from a deficit to a surplus on account of settlements by metropolitan France on behalf of other franc area countries contributed another $100 million to the rise in the over-all surplus. The outflow of advance repayments of long-term official debt increased by more than $100 million from 1960 to 1961, but this was largely offset by an inflow of commercial bank funds, which had shown little net movement in 1960.

More than $300 million of the increase in France's surplus with non-franc area countries was due to a large trade surplus, on a payments basis, following a surplus of moderate amount in 1960, and a large one in 1959. An increase in the net inflow of private long-term capital, and a reduction in the outflow of official long-term capital other than advance repayments, contributed about $50 million each to the rise in the basic surplus. In addition to these recorded changes, a positive balance of more than $100 million for errors and omissions in the provisional estimates probably represents, for the most part, an understatement of the increase in the positive balance in various elements of the payments balance just mentioned.

The increase in France's recorded surplus on goods and services, private transfer payments, and long-term capital transactions other than advance debt repayments was due mainly to increases of about $240 million each in the surplus with other members of the European Economic Community (EEC) and with the rest of Western Europe (Table 17). In transactions with EEC countries, the principal changes were higher transfer payments by Germany and a substantial increase in the trade surplus with the others. The net inflow of private long-term capital from

TABLE 16. FRANC AREA: BALANCE OF PAYMENTS SUMMARY, 1959-61[1]

(In millions of U.S. dollars)

	1959	1960	1961	1960 First half	1960 Second half	1961 First half	1961 Second half
I. METROPOLITAN FRANCE							
A. Goods, services, and transfer payments							
Trade balance	436	92	396	78	14	167	229
Services	274	551	462	269	282	270	192
Total goods and services	710	643	858	347	296	437	421
Transfer payments	31	–9	70	–3	–6	28	42
Total	741	634	928	344	290	465	463
B. Long-term capital							
Private	567	305	359	181	124	211	148
Advance debt redemption	} –274	–185	–320	–15	–170	–40	–280
Other official long-term capital		–169	–119	–34	–135	–14	–105
Total	293	–49	–80	132	–181	157	–237
C. Total (A + B)	1,034	585	848	476	109	622	226
Total, excluding advance debt redemption	....	770	1,168	476	294	639	529
D. Private short-term capital	–164	–42	–117	–30	–12	–81	–36
II. REST OF FRANC AREA							
E. Net transactions with non-franc area	59	–19	72	–7	–12	51	21
III. TOTAL FRANC AREA							
F. Net errors and omissions	108	8	111	–16	24	27	84
G. Commercial banks assets (net)	386	–14	105	–31	17	150	–45
H. Reserve movements							
IMF position	–16	–186	–225	–55	–131	–28	–197
Other liabilities	–460	27	57	–1	28	–12	69
Foreign exchange (increase –)	–407	–8	–371	–75	67	–350	–21
Monetary gold (increase –)	–540	–351	–480	–261	–90	–379	–101
Total	–1,423	–518	–1,019	–392	–126	–769	–250

Source: Data provided by the French authorities.

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

EEC countries amounted only to about $50 million, but the net inflow from other Western European countries increased sharply, to nearly $140 million. The large surplus with the United States and Canada was reduced by more than $100 million, principally as a result of an increase in the deficit on trade with those countries. However, the heavy net inflow of private long-term capital from them continued; it totaled $150 million in 1961.

TABLE 17. METROPOLITAN FRANCE: CHANGES IN BASIC ELEMENTS OF BALANCE OF PAYMENTS BETWEEN 1960 AND 1961, BY AREAS[1]

(In millions of U.S. dollars)

	Changes in Net Balances				Actual Payments Balance of Basic Elements, 1961
	Goods, services, and transfers (1)	Private long-term capital (2)	Government long-term capital[2] (3)	Total, cols. 1-3 (4)	
European Economic Community	220	4	14	238	348
Other Western European countries	102	72	63	237	416
North America	–116	16	–27	–127	356
Eastern Europe	–27	–1	—	–28	60
Rest of world[3]	115	–37	—	78	–12
Total, non-franc area	294	54	50	398	1,168[4]

Source: Data provided by French authorities.
[1] The table covers settlements by institutions in Metropolitan France on account of transactions of any part of the franc area with the non-franc area; see footnote 1 to Table 19.
[2] Excluding advance repayments of official debt.
[3] Including international institutions.
[4] Table 16, item C, excluding advance debt redemption.

Changes in the timing of payments tended to exaggerate the trade surpluses in 1959 and 1961 and to reduce that for 1960. Favorable changes in leads and lags, following devaluation, increased the surplus for 1959; the lengthening, in 1960, of the time accorded for repatriation of export proceeds, and the consequent delaying of export receipts from 1960 to 1961, diminished that for 1960. Otherwise there would have been an increase in the trade surplus both from 1959 to 1960 and from 1960 to 1961. Moreover, if the entries reflecting the extraordinary repatriation of private long-term capital in 1959 were eliminated, the basic balance would also show a continued rise from year to year during the period 1959-61, and the surplus for 1961 would considerably exceed that for 1959.

Customs data (with import values approximately adjusted to an f.o.b. basis) indicate that the trade surplus with non-franc areas in 1961 was about $220 million larger than in 1960, (and about $270 million larger than in 1959). The value of exports was about 11 per cent higher and that of imports about 7 per cent higher, following an increase of more than 25 per cent for each from 1959 to 1960. Total exports rose substantially less from 1960 to 1961, as exports to the franc area declined; imports from the franc area increased by about 5 per cent. As in 1960, the most marked expansion in exports to non-franc countries was in capital goods and agricultural products. The value of each of these groups rose by more than 25 per cent, following increases of 45 per cent from 1959 to 1960. The rapid growth of these exports in recent years has been made possible, on the one hand, by the extensive re-equipment and expansion of capacity in the capital goods sector that has been carried out and, on the other, by the heavy increases in agricultural production, and concomitant agricultural surpluses, that have resulted from the application of more modern techniques. French exports of cereals and sugar, for example, tripled in value between 1959 and 1961. In 1960, production of cereals was nearly one fifth greater than its average in 1956-58, and production of sugar had risen by nearly one half.

Imports of raw materials from non-franc countries failed to increase following a large rise from 1959 to 1960, and imports of petroleum products again declined. Imports of semi-manufactures and capital goods rose much less rapidly than from 1959 to 1960. However, imports of finished consumer goods again increased by almost 50 per cent, perhaps reflecting further liberalization.

After April 1961, only a very limited number of industrial products remained subject to quantitative restrictions; a few (notably coal, petroleum products, and aeronautical equipment) were subject to state trading. In addition to reducing customs duties on imports from EEC countries, France took a first step in 1961 toward bringing the duties on imports from other areas into line with the common external tariff of the EEC.

The lowering of tariff barriers between the EEC countries, and the closer integration of those countries through increasing commercial relations and interconnected private investment, has recently encouraged a much more rapid expansion of French trade with other EEC countries than with the rest of the world, excluding the franc area. From 1959 to 1960 both exports to, and imports from, EEC countries rose almost twice as fast as trade with all other non-franc areas. From 1960 to 1961 three fourths of the increase in exports, and almost all the increase in imports, was in trade with the EEC.

When allowance is made for seasonal variations (particularly in the timing of official capital movements, which are normally heavier in the second half of the year), the strength of the French balance of payments appears to have been sustained throughout 1961. A substantial further increase in reserves in the early months of 1962 seems to have reflected the continuation of a strong underlying payments position.

Italy

The over-all surplus of Italy's balance of payments, as measured by the increase in the net foreign exchange assets of the banking system ($500 million), was slightly greater in 1961 than in 1960 (Table 18). The surplus fell by more than $250 million between the first half of 1960 and the same period of 1961, but rose by more than $300 million between the second halves of the two years. In the first quarter of 1962, however, there was an over-all deficit, and the net foreign exchange assets of the banking system declined by $220 million. While the timing of tourist receipts and other seasonal factors tend to make the balance of payments of Italy more favorable in the second than in the first half of the year, the recent change from surplus to deficit cannot be explained only by such factors. It also reflects a deterioration in the seasonally adjusted trade balance (see Chart 4, page 83) and most likely some outflow of capital.

Unfortunately, the statistics do not permit an accurate analysis

TABLE 18. OTHER MANUFACTURING COUNTRIES OF WESTERN EUROPE, AND JAPAN: BALANCE OF PAYMENTS SUMMARIES, 1960 AND 1961[1]

(In millions of U.S. dollars)

	1960					1961				
	Balances of			Increase (—) or Decrease in		Balances of			Increase (—) or Decrease in	
	Goods, services, and private transfers	Private capital[2]	Official transfers and capital[3]	Commercial bank net short-term assets	Reserves[4]	Goods, services, and private transfers	Private capital[2]	Official transfers and capital[3]	Commercial bank net short-term assets	Reserves[4]
Austria	—57	71	—37	35	—12	—5	139	—1	8	—141
Belgium-Luxembourg	160	—84	88	28	—192	106	36	—68	196	—270
Denmark	—61	42	—71	48	42	—96	66	6	29	—5
Italy	352	151	—47	—333	—123	549	71	—117	11	—514
Netherlands	345	—17	—26	105	—407	157	—114	—147	166	—62
Norway	—106	126	2	7	—29	—209	156	—7	57	3
Sweden	—116	74	—1	94	—51	16	169	14	—4	—195
Switzerland	94	231	—64	....	—261	—150	586	....	....	—436
Japan	224	—67	—47	394	—504[5]	—918	33	—65	552	398[5]

Source: Based on data reported to International Monetary Fund. For 1961, the data for some countries are provisional and are not comparable with those for 1960.

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

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

[3] Excluding capital movements considered as reserve movements; see footnote 4.

[4] Reserve movements generally cover changes in official holdings of gold and foreign exchange assets, in official short-term liabilities, and in net IMF positions. Repayments on post-EPU claims and debts are included with official transfers and capital.

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

to be made of changes in the balances of various current and capital transactions; it is not possible to determine to what extent the large amounts reported for the repatriation of Italian bank notes ($185 million in 1960 and $330 million in 1961) arose from current transactions or from either long-term or short-term capital transactions, although it seems likely that they refer for the most part to transactions on capital account. The recorded surplus on "goods, services, and private transfers" (from which are excluded all transactions paid for in repatriated bank notes) rose from about $350 million in 1960 to $550 million in 1961, but remained some $200 million lower than in 1959. The trade deficit was reduced by about $100 million, to $530 million, mainly because of a reduction in the rate of accumulation of raw material inventories. The value of imports rose by about 11 per cent and exports by 14 per cent. Net receipts from tourism rose by about $100 million for the second consecutive year; there was also an 8 per cent increase in emigrants' remittances, which amounted to $230 million in 1961. During the course of 1961, exports rose at a faster rate than imports, and the seasonally adjusted trade balance improved after the first quarter of the year; however in the early months of 1962 exports failed to expand, while imports rose markedly.

There was a slight rise in the net outflow on account of official transfers and capital movements. The recorded net inflow of foreign private capital again increased by about $160 million and exceeded $600 million in 1961, while the recorded outflow of Italian capital totaled about $100 million, as in 1960. However, since the inflow of lira notes suggests a substantial unrecorded outflow of private capital, the figure for foreign private capital is likely to be overstated and that for Italian capital understated. Many of the notes are believed to have been deposited in foreign bank accounts and utilized mainly to acquire Italian securities held abroad, a technique used for tax evasion purposes. If, in fact, most of the notes reflect capital transactions, the net inflow of private capital appears to have been moderate in both 1960 and 1961. The net inflow of private capital may be further reduced, or reversed, as a result of legislation passed in July 1961 to facilitate the granting of credits abroad.

Netherlands

The Netherlands balance of payments recorded a small deficit in 1961, after several years of surplus. The basic balance showed a deficit of about $40 million, compared with a surplus of about $300 million in 1960. The net outflow of short-term funds and unidentified capital transactions seems to have almost disappeared in 1961. A small increase in official reserves including the net IMF position, following a substantial rise in 1960, was associated with the continued inflow of commercial bank funds from abroad (Table 18).

The surplus on goods and services and private transfers, which had been considerable in 1960, was greatly reduced in 1961, mainly as a result of the appearance of a large trade deficit; there had been a small trade deficit in 1960 and approximate balance in 1958 and in 1959. While the dollar value of imports rose by nearly 9 per cent, that of exports was only about 2 per cent higher than in 1960. Net earnings from transportation services and investment income increased, but those from other private service transactions fell considerably.

There was a substantial net outflow of private and official long-term capital in 1961, whereas in 1960 the net movement in each had been small; on the official side, repayments increased sharply. The greater outflow of private long-term capital arose mainly from a sharp increase in purchases of foreign securities by Dutch residents; this was stimulated by the reopening of the capital market to approved foreign bond issues in April, for the first time in more than five years. There was a marked decline in sales of Dutch securities abroad; however, long-term credits and net direct foreign investment resulted in a smaller outflow than during the preceding year.

Japan

Japan's balance of payments deteriorated sharply in 1961. There was a deficit of $918 million on account of goods, services, and private transfers, compared with a surplus of $224 million in 1960 and one of $441 million in 1959. Net official reserves (including the IMF position) declined by about $400 million, after having risen by about $500 million in 1960 (Table 18).

The deterioration was brought about by a slackening in the growth of exports and a rapid increase in imports, stimulated by the investment-induced boom. The trade balance was in deficit by $592 million, in contrast to a surplus of $268 million in 1960, and there was a marked increase in net expenditures for shipping and other services. The value of imports rose by nearly 30 per cent from 1960 to 1961, following an increase of a little less than 25 per cent from 1959 to 1960; but exports rose by less than 5 per cent, compared with an increase of 17 per cent between the preceding two years. The slower growth of exports reflected the recession in the United States (exports to the United States and Canada declined by more than 3 per cent) and the failure of the imports of primary producing countries to rise appreciably, as well as the effects of strong demand on the home market. While machinery exports increased by about 20 per cent, all other major groups showed declines; textile exports, for example, fell by nearly 6 per cent.

Notwithstanding the worsening of the balance of payments, the authorities started to accelerate their program for liberalization of trade and exchange transactions, with the aim of freeing 90 per cent of imports from restriction by October 1962. The prospect of increased foreign competition as a result of import liberalization provided an important stimulus to investments in modernization of plant and equipment during 1961.

Japanese investment abroad is also being encouraged. Although there was only a small net outflow of private long-term capital ($41 million, compared with $82 million in 1960), private long-term investment abroad increased by more than $120 million, to $266 million, chiefly as a result of increased loans and trade credits, which more than doubled, and a moderate increase in direct investment, which totaled $93 million. These increases were more than offset, however, by higher foreign private investment in Japan. Direct and portfolio investments by foreigners, which had been small in 1960, rose to $61 million and $72 million, respectively, under the stimulus of strong investment incentives within the economy; portfolio investment, in particular, was greatly encouraged by the shortening of the waiting period for repatriation of foreign capital and the easing of restrictions on the transfer of yen funds held by nonresidents. Long-term loans and trade credits provided by foreigners rose by more than $50 million, to $92 million.

The effect on reserves of the large deficit on current and long-term capital account was mitigated by the continued inflow of short-term funds. The main elements in this inflow—a further large increase in the outstanding amount of import usance bills and increased borrowing from foreign banks—were reflected in a further substantial decline in the net foreign asset position of commercial banks (Table 18). Official holdings of foreign exchange fell by $382 million and official liabilities increased by $97 million, but gold holdings rose slightly and the net IMF position improved by $55 million as a result of yen drawings made by the United Kingdom and India.

In order to help to provide needed foreign exchange while the domestic remedial measures were taking effect, the authorities concluded, in November 1961, a credit arrangement with U.S. commercial banks for $200 million (of which half is reflected in the rise in official liabilities referred to above and half was drawn in January and February 1962). In January 1962, arrangements were made for a stand-by of $305 million with the Fund and for credits with U.S. commercial banks under the guarantee of the Export-Import Bank of Washington to cover $125 million of imports of U.S. agricultural products; nearly $60 million of the latter amount had been drawn by the end of April 1962.

In the early months of 1962, industrial production ceased to expand and the payments position eased. Imports declined slightly, and on a seasonally adjusted basis exports expanded more rapidly than during 1961 (see Chart 4, page 83). Foreign exchange reserves rose by about $70 million during the first four months of 1962—that is, by rather less than half the amount of drawings on special credits referred to above.

General Review of Primary Producing Countries

The change from 1960 to 1961 in the aggregate basic deficit in the balance of payments of the primary producing countries appears quite small (Table 11, page 113). An appreciable deficit emerged in the second half of 1960, but was reduced thereafter and was almost eliminated in the latter half of 1961. These movements are largely explained by the changes in trade between the primary producing countries and the manufacturing countries that are reviewed in Chapter 4. It is noteworthy that the primary producing countries thus continued to be in deficit on their basic accounts in 1961 although this was a year of high activity in Western Europe and of increasing output in the United States and Canada. In both 1960 and 1961, the basic deficit was largely covered by an inflow of short-term capital, and the aggregate reserves of the primary producing countries, with allowance made for their positions with the Fund, did not change much in either year.

However, the changes in the balance of payments positions of the more industrialized countries (Canada, Australia, New Zealand, and South Africa), on the one hand, and the developing countries, on the other, were quite large and divergent. As Table 11 shows, the industrial group considerably reduced its aggregate basic deficit from 1960 to 1961, whereas that of the developing countries appears to have increased slightly. These divergent changes were brought about mainly by opposite movements in the goods and services balances of the two groups (Table 19). Exports of the industrial group were considerably

TABLE 19. PRIMARY PRODUCING COUNTRIES: BALANCE OF PAYMENTS SUMMARIES, 1960 AND 1961

(In millions of U.S. dollars)

	Balance of Goods, Services, and Private Transfer Payments [1]		Balance of Capital and Central Government Transfer Payments [1, 2]		Increase (—) or Decrease in Official Reserves and in Net IMF Position [3]		Official Reserves, End of
	1960	1961	1960	1961	1960	1961	1961
Canada	−1,192	−920	1,152	1,208	40	−288	2,064
Latin American Republics							
Argentina	−205	−558	466	330	−261	228	461
Brazil	−551	−254	526[4]	349	25	−95	563[5]
Chile	−155	−232	147	140[6]	8	92	74
Colombia	−85	−111	48	42	37	69	149
Dominican Republic	49	29	−70	−46	21	17	9
Mexico	−182	−78	162	51	20	27	411
Peru	29	10	−11	24	−18	−34	102
Uruguay	−82	−16	81	23	1	−7	194
Venezuela	442	450	−557	−479	115	29	542
Other[7]	−195	−211	180	189	15	22	190
Total	−935	−971	972	623	−37	348	2,695
Overseas sterling area[8]							
Australia	−858	−249	500	579	358[9]	−330[9]	1,348[9]
Burma	−26	−17	18	8	8	9	112
Ceylon	−57	−26	13	16	44	10	90
Ghana	−95	−152	50	−48	45	200	182
India	−745	−663	670	532	75	131	665
Libya	−32	−18	45	23	−13	−5	84
Malaya	122	−7	5	56	−127	−49	824[10]
New Zealand	−66	−146	26	95	40	51	95
Pakistan	−237	−257	252	218	−15	39	376
Rhodesia and Nyasaland	−28	−27	2	58	26	−31	226
South Africa	4	281	−204	−157	200	−124	394
U.K. Colonial Territories[11]	−493	−450	527	450	−34	—	1,669[12]
Other[13]	−98	−73	99	105	−1	−32	412
Total	−2,609	−1,804	2,003	1,935	606	−131	6,477
Other							
Ethiopia	−12	−24	16	26	−4	−2	57
Indonesia	−62	−230	117	5	−55	225	146
Iran	−82	−69	16	105	66	−36	208
Iraq	−20	−42	−20	−1	40	43	211
Philippines	−64	−100	97	27	−33	73	44
Spain	362	175	22	154	−384	−329	869
Sudan	−3	−61	36	50	−33	11	177
Syrian Arab Republic	−62	−26	52	10	10	16	33
Thailand	−35	13	87	−13	−52	....	....
Turkey	−117	−159	107[14]	134[14]	10	25	237
United Arab Republic	−86	−113	2	46	84	67	221
Other[15]	−1,053	−1,260	1,168	1,278	−115	−18	2,915
Total	−1,234	−1,896	1,700	1,821	−466	75	5,118
Grand Total	−5,970	−5,591	5,827	5,587	143	4	16,354
Of which							
More industrialized countries	−2,112	−1,034	1,474	1,725	638	−691	3,901
Less industrialized countries	−3,858	−4,557	4,353	3,862	−495	695	12,453

For footnotes, see page 143.

higher and imports were lower in 1961 than in 1960. In contrast, the exports of the developing countries rose by only a minor amount, which was insufficient to sustain the increase in their imports by about 3 per cent. While the total deficit of these countries on goods and services account is estimated to have increased from about $3.9 billion in 1960 to about $4.6 billion in 1961, part of the increase was matched by a higher inflow of aid and long-term capital, in part representing consolidation in 1961 of short-term debts accumulated in 1960. Their total balance on current and long-term capital account is estimated to have deteriorated by only some $0.3 billion (Table 11). These figures for the aggregate balances of the two groups of primary producing countries on selected accounts should, of course, be regarded as indications of orders of magnitude rather than precise estimates.

The difference in experience between the two groups of countries appears to have been accentuated by movements of short-term capital, which supported the improvement in the position of the more industrialized countries and brought about a major deterioration in that of the developing countries. As a result, the industrial group showed a striking improvement in

Footnotes to Table 19.

Sources: Based on data reported to the International Monetary Fund. For 1961, data for many countries are provisional.

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 Monetary Fund, *International Financial Statistics*. Minus sign indicates an increase in assets, a gold subscription to the Fund, a repayment of a drawing on the Fund, or another reduction of Fund holdings; no sign indicates a decrease in assets, a drawing on the Fund, or another increase in Fund holdings.

4 Including $125 million of net receipts from swap transactions.

5 Including $215 million pledged as collateral.

6 Including drawings of $45 million on special loans from the Export-Import Bank of Washington.

7 Excluding Cuba.

8 Excluding Persian Gulf Territories, Singapore, and Hong Kong.

9 Including commercial banks.

10 Including all foreign assets of the Malaya-British Borneo Currency Board, which covers—in addition to the Federation of Malaya—Singapore, Sarawak, North Borneo, and Brunei.

11 Including Cyprus and Nigeria.

12 Including private as well as official holdings. Excluding Nigeria.

13 Iceland, Ireland, and Jordan.

14 Including drawings on special loans from the European Fund: $21.5 million in 1960 and $28.5 million in 1961.

15 China (Taiwan), Finland, Greece, Israel, Korea, Overseas French Franc Area. Portugal, Viet-Nam, and Yugoslavia.

its over-all balance of payments; an increase of some $700 million in official reserves and net positions with the Fund contrasted with a decline of some $640 million in 1960. The over-all position of the developing countries, which had shown a surplus of about $500 million in 1960, showed a deficit of about $700 million in 1961. A large portion of this deficit was financed by Fund resources; net drawings on the Fund by the developing countries amounted to some $450 million.

If Spain—the only developing country having a substantial addition to reserves in 1961 ($330 million)—is excluded, each of the three groups of developing countries was in approximate over-all balance in 1960, but in deficit in 1961. In 1961, as shown in Table 19, the reserves and net IMF position of the developing sterling countries fell by some $270 million; of the Latin American countries, by nearly $350 million; and of "all other countries," excluding Spain, by about $400 million. The deterioration in the position of the latter countries was accounted for by an increase in the goods and services deficit, owing mainly to larger imports. In contrast, the less developed countries in Latin America and in the sterling area showed only minor changes in their trade and total goods and services balances, and the worsening of the over-all balance of payments in each group was attributable to a reduction in the net inflow on account of economic aid and capital movements (including unrecorded transactions) of the order of $250-300 million. In the sterling area countries there seems to have been some reduction in the inflow of foreign aid and capital. In Latin America, on the other hand, this inflow was apparently larger in 1961 than in 1960: net imports of capital from the United States, the main source of foreign funds, increased by some $400 million, and German long-term investment and IBRD disbursements were also somewhat larger than in the previous year; these three sources together provided $1.4 billion. The total net inflow on long-term and short-term capital account, including movements of Latin American funds, appears to have been substantially less than this amount. The difference may be attributable in part to repayments of short-term debts not included in the above figures; but the large discrepancy suggests that a considerable outflow of Latin American capital may have been responsible for much of the decline in the area's reserve position.

Individual Primary Producing Countries

Canada

Canada's current account deficit declined in 1961 to less than $1 billion, the lowest since 1955.[1] The merchandise trade balance improved by more than $0.3 billion and showed a surplus for the first time since 1954. Exports responded to the growth in economic activity in the United States, and were also increased by substantial sales of wheat to China (Mainland) and Eastern Europe. In the second half of the year, they benefited from the reduction in the exchange value of the Canadian dollar. Merchandise imports continued to decline in the first half of the year, but rose in response to the recovery of Canadian economic activity in the second half. Four fifths of the improvement in the trade balance in 1961 was due to the rise in the export surplus with countries other than the United States and the United Kingdom. The deficit on account of services increased to a record total of some $1.1 billion and held the improvement of the current account balance to $0.2 billion.

Net inflows of capital in long-term forms financed a smaller proportion of the current account deficit in 1961 than in any postwar year except 1955. These inflows totaled $0.6 billion in 1961, compared with $0.8 billion in 1960. The main type of capital responsible for the decline was direct investment in Canada, which fell to $0.4 billion from a peak of more than $0.6 billion in 1960; the 1961 figure was, however, still relatively high. U.S. capital appears to have accounted for virtually the entire net inward movement of long-term capital in 1961, small flows to and from the other areas being about balanced.

[1] All figures in this section are in U.S. dollars.

The decline in the inflow of long-term capital was more than offset by an increase in that of short-term capital, which totaled \$0.7 billion in 1961. During the year, the gold and foreign exchange assets of the Exchange Fund were augmented by about \$230 million, the increase being largely concentrated in the first and last quarters of the year.

During the first quarter of 1962, the Canadian trade and current account deficit was somewhat larger than a year earlier. At the same time, inflows of capital were approximately balanced by outflows, and official reserves declined by \$350 million. Pressures on the Canadian dollar continued in the following months. On May 2, a par value equivalent to 92.5 U.S. cents was established; and in June, Canada drew the equivalent of \$300 million on the Fund and secured an amount equivalent to an additional \$750 million in financing from foreign governments and central banks in support of the Canadian dollar.

Overseas Sterling Area

Australia's exports rose by nearly 20 per cent from 1960 to 1961 and were the highest on record. Most of the advance was accounted for by a sharp rise in wheat shipments, partly to China (Mainland), and by increased exports of wool at slightly improved prices, but there was also a marked increase in other exports, including metals and manufactured goods. A continued rise in imports resulted in a sizable trade deficit through the first quarter of 1961. In April 1961, Australia drew the equivalent of \$175 million from the Fund and obtained a stand-by arrangement. Subsequently, however, the restrictive policies adopted late in 1960 took effect and, as demand abated, imports slowed down considerably. In conjunction with the expansion of exports, this resulted in a rapid replenishment of reserves; and in September 1961 the stand-by was canceled. During the first half of the year, there was an unusually large inflow of short-term funds, reflecting, in part, the monetary restraint in Australia, although long-term investment from overseas probably also increased. Some of these short-term funds were returned in the second half of the year, but the total new inflow of capital for the year as a whole was greater than in 1960. The improvement in the country's payments position continued in the early months of 1962, exports remaining high while imports remained relatively low; and in March 1962, Australia repurchased from the Fund an amount equal to its 1961 drawing.

South African reserves, which had declined in 1960, increased in 1961 as the outflow of capital was halted and a sizable surplus on goods and services account developed. This was achieved, in the main, through curbing payments, although there was a rise in exports. Early in the year, controls on imports were tightened; and for the year as a whole, imports were 9 per cent less than in 1960. Furthermore, exchange allowances were curtailed for travel, for emigrants, and for some other types of remittance. A continued outflow of private funds, partly in the form of direct investment in Rhodesia, led to the imposition in the second half of the year of additional restrictions on capital movements. On the other hand, foreign credits were received from various sources, including the IBRD ($25 million) and German and Italian commercial banks ($20 million); some $75 million, including renewal of revolving credits, was provided by U.S. sources.

As a result, South African reserves, which had been declining through the first half of the year, showed an increase of some $170 million in the second half. The accumulation of reserves continued after the turn of the year, and $37.5 million drawn from the Fund in 1960-61 was repurchased in February and March 1962.

India's balance of payments position in 1961 remained under considerable strain. Gross reserves had fallen by nearly $150 million in the course of 1960, in part as a result of a repayment of $72.5 million to the Fund; in 1961 they were maintained very close to their total at the end of 1960, but this was achieved by a drawing on the Fund of $122.5 million net. The deficit on account of goods and services was much less in 1961 than in 1960; the improvement in the trade balance was, however, partially neutralized by a considerable increase in the service payments on foreign loans.

Export receipts increased by some 5 per cent, owing to larger shipments of tea and the expansion of a substantial number of other exports, including sugar, coffee, tobacco, cotton, wool, iron ore, and engineering products. Receipts for jute textiles also exceeded those in 1960; higher prices more than counterbalanced the effect of a smaller volume that was due to a shortage of jute. Imports were below those in 1960. The net inflow of capital and aid continued at a high rate.

The deterioration in the payments position of *Ghana,* which had been under way for a few years, continued in 1961 at a greatly accelerated rate. Official foreign exchange holdings declined by as much as $200 million. Export receipts were about the same as in 1960, as a sizable expansion in the volume of cocoa shipments offset the effect of a further sharp decline in prices. However, imports, which had increased sharply in the preceding two years, rose further in 1961, reflecting continued expansion in development expenditure and in consumption. Net payments on services also exceeded those in 1960. A large part of the decline in reserves, however, stemmed from a substantial net outflow of capital; loans of $28 million extended by the Government and other capital items amounting to $55 million by far outweighed small credits received from abroad.

The reserves held by the Central Bank of *Nigeria* declined by some $25 million in 1961. The trade deficit was slightly reduced, as exports rose somewhat more than imports. The latter were kept in check, despite the considerable wage and salary increases granted in 1960, as import duties were raised later in that year in order to restrain import demand.

Malaya's exports were adversely affected by the sharp decline in rubber prices between 1960 and 1961. Though higher prices and receipts for tin provided some offset, total export receipts were much lower in 1961 than in the previous year. This development, in conjunction with some increase in imports and the continued large remittances of migrants, wiped out the surplus on current account. An increased net inflow of capital, however, permitted a further addition to reserves, though on a considerably smaller scale than in 1960.

The drain on *Ceylon's* reserves in the last few years, caused by a considerable expansion of imports while exports remained sluggish, abated in 1961. Gross reserves, supported by a drawing of $11 million from the Fund, showed no further decline. Export receipts, in spite of increased earnings from tea, were somewhat smaller than in 1960, owing mainly to the sharp decline in prices and in receipts for rubber. However, credit restrictions and more rigid controls over imports imposed late in 1960 and early 1961 resulted in a reduction of imports.

The deterioration in the payments position of the other sterling area countries taken as a group was shared by most individual countries. Only a few, notably Iceland, Ireland, and Rhodesia, showed improvement in 1961 over 1960.

Latin America

Within the Latin American area, the most marked deterioration was in *Argentina,* where reserves, after allowance for changes in the net IMF position, declined by some $230 million, against an increase of some $260 million in 1960. This resulted, in the main, from a sharp increase in the trade deficit. Owing to a very poor wheat crop, shipments of grain were much smaller in 1961 and total export receipts declined by some $100 million. The greater part of the worsening in the trade balance, however, stemmed from an increase in imports, which reflected the reappearance of inflationary pressures in the country. Foreign investment continued on a large scale, but the total net inflow of foreign and domestic capital was less than in 1960.

The balance of payments of *Chile* also showed a serious deterioration in 1961. Although exports appear to have been slightly larger than 1960, a considerable rise in imports, related to a large expansion of domestic credit, increased the deficit on goods and services account. This deficit, coupled with a slightly reduced inflow of capital resulting in part from the termination of the expansion program by the large mining companies, caused a considerable drain on reserves. In spite of net drawings of nearly $60 million from the Fund, and a net increase of almost $20 million in other short-term foreign obligations, gross reserves declined by some $40 million. (A part of the remaining reserves of $74 million at the end of 1961 was pledged as collateral.) Early in 1962, measures designed to relieve balance of payments pressure were taken. They include the introduction of a dual exchange market, as well as restrictions on imports.

The balance of trade of *Brazil* improved in 1961 in spite of mounting inflationary pressures, largely because of a substantial depreciation of effective exchange rates which more than offset the increase in domestic prices. Exports increased by 10 per cent; the value of coffee exports was unchanged from 1960, but shipments of cotton and minor agricultural exports rose markedly, and those of iron and manganese ore continued their steady upward trend. Total imports, on the other hand, were virtually the same as in 1960. There was a marked improvement in the recorded balance on services account. During the year, a backlog of accumulated arrears and many short-term debts were liquidated, and gross reserves increased. This was facilitated by drawings of $60 million on the Fund and by receipts of over $250 million from foreign official institutions and commercial banks. Additional relief was provided by the postponement of approximately $100 million of amortization payments to European and U.S. suppliers, scheduled for 1961, and by an increase, from $28 million in 1960 to $84 million in 1961, in the amount of wheat imports received under U.S. Public Law 480.

The outflow of capital from *Venezuela,* which had caused a severe drain on reserves in recent years, slowed down in 1961. Export receipts were somewhat smaller than in 1960, mainly because of a decline in "minor exports"; shipments of iron ore declined, and receipts for coffee and cocoa remained below those in 1960. Imports were also reduced somewhat, and the surplus on goods and services account was much the same as in 1960. Gross reserves, which had declined by almost $900 million between 1957 and the end of 1960, showed only a minor decrease in 1961.

In 1961, *Mexico's* receipts from exports and tourism exceeded those in 1960, while imports declined and foreign net investment was greater than in 1960. But there was a heavy outflow of short-term capital. The impact of this outflow on reserves was mitigated by drawing $45 million from the Fund.

The balances of payments of *Peru* and *Colombia* are discussed in Chapter 2.

Other Countries

In *Indonesia*, price inflation and lagging production were reflected in a seriously worsened balance of payments. A relaxation of import restrictions released repressed demand, and imports rose by some $200 million between 1960 and 1961. Though the decline in export earnings was partly caused by the sharp fall in rubber prices, a decline in production of tin greatly reduced shipments, in spite of high world demand and prices. The net inflow on account of aid and capital was nearly eliminated. The deficit was largely met by drawing down reserves and a net use of Fund resources, amounting to $34 million.

The deterioration in the payments balance of the *Philippines* in 1961 stemmed mainly from an increase in the merchandise trade deficit and a larger outflow of private capital. The increase in the trade deficit, in turn, was largely accounted for by a worsening of the terms of trade, primarily caused by a decline in the price for coconut products. Smaller receipts from official transfers and higher repayments on U.S. loans added to the strain and, in spite of the borrowing of $54 million from U.S. banks, reserves declined by $73 million. The corrective measures taken early in 1962 are mentioned in Chapter 4.

Both *Morocco* and *Tunisia* were adversely affected by poor crops, resulting from drought, which not only reduced exportable supplies but also necessitated larger imports of foodstuffs. In addition, there were increased imports of capital goods for the development of industries. In order to reduce the trade deficit, both countries introduced advance deposits on imports of consumer goods; in addition, Morocco raised customs duties on these goods. The payments problem of Morocco was further aggravated by the reduction of U.S. and French military expenditures in the country; in spite of continued U.S. aid, reserves fell in 1961, in contrast to 1960 when they had increased. The reserve position of Tunisia also deteriorated.

The pressure on *Iran's* balance of payments eased in 1961, mainly as a result of substantial foreign aid and the measures adopted under the stabilization program. In addition, a better harvest and rising oil revenues contributed to the improvement. Foreign exchange reserves abroad showed an increase of $36 million, against a loss of $66 million in 1960. Early in 1962, Iran was able to make an unscheduled repurchase from the Fund.

Chapter 6

Gold and Silver

Gold Production

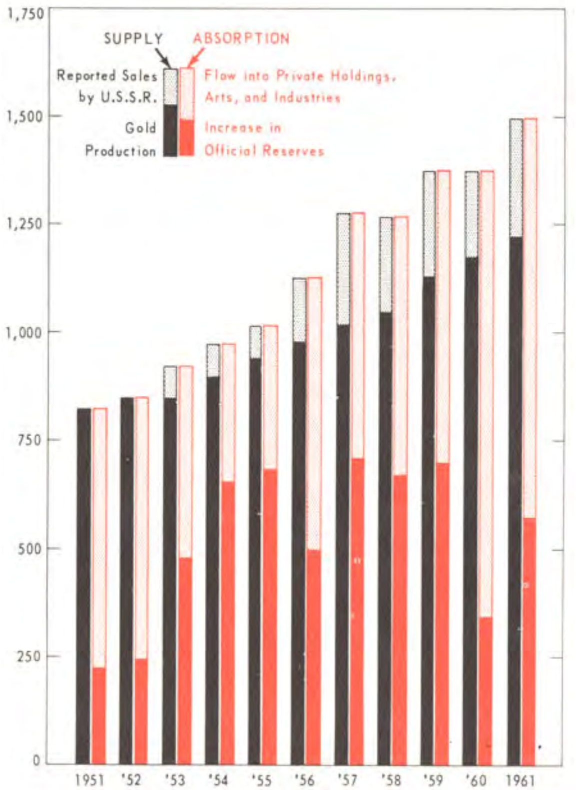
WORLD production of gold, excluding output in the U.S.S.R. and countries associated with it, increased in 1961 by nearly 4 per cent, to a new postwar peak for the eighth consecutive year (Chart 9). The increase, of 1.3 million fine ounces, raised output to almost 35 million ounces. Valued at US$35 per fine ounce, output in 1961 was $1,220 million, compared with $1,175 million in 1960 and $1,125 million in 1959. The value in 1961 was about 66 per cent more than the postwar minimum of $736 million in 1945, and only about 4 per cent less than the all-time peak of $1,264 million attained in 1940.

Output in the Republic of South Africa increased in 1961 by about 1.6 million ounces (the equivalent of $54.5 million), to 22.9 million ounces ($802.9 million), the highest figure ever recorded in South Africa and equal to about 66 per cent of world production (Table 20). It represented an increase of slightly more than 7 per cent over output in 1960, and was almost double the 1951 figure. Further increases may be expected as the new mines in the Orange Free State and on the Far West Rand develop. The second largest absolute increase in production in 1961 was recorded in Japan, where output rose by the equivalent of $1.4 million, to about $13.2 million. There was also an increase in Nicaragua, equivalent to $1 million, bringing total production in that country to $7.9 million. Last year's production in Australia, India, and the Philippines was about the same as in 1960.

Output declined in most of the other gold producing countries. In Canada, the second largest gold producer outside the U.S.S.R. and countries associated with it, the value of output fell by the equivalent of $6.5 million, to $155 million, about 4 per cent less than in 1960, and substantially below the maximum of $188 million attained in 1941. In the United States, the third largest producer, the value fell by the equivalent of $5.8 million, to $53

CHART 9. ESTIMATED SUPPLY AND ABSORPTION OF GOLD, 1951-61

(In millions of U.S. dollars)



million, 10 per cent less than in 1960 and about 69 per cent less than the maximum of $170 million reached in 1940. The value declined by the equivalents of $2.4 million in Ghana, $2.1 million in Mexico, and $1.9 million in Colombia.

TABLE 20. VALUE OF WORLD GOLD PRODUCTION, EXCLUDING OUTPUT OF U.S.S.R. AND ASSOCIATED COUNTRIES

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

	1940	1945	1957	1958	1959	1960	1961
South Africa	492	428	596	618	702	748	803
Canada	186	95	155	160	157	162	155
United States	170	32	63	62	57	59	53
Australia	57	23	38	39	38	38	37
Ghana	31	19	28	30	32	31	28
Southern Rhodesia	29	20	19	19	20	20	20
Philippines	39	—	13	15	14	14	15
Colombia	22	18	11	13	14	15	13
Congo (Leopoldville)	20	12	13	12	12	—	—
Mexico	31	17	12	12	11	11	9
Other[1]	187	72	69	68	68	77	87
Total[1]	1,264[2]	736	1,017	1,048	1,125	1,175	1,220

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

Both in production and in profitability, the gold mining industry in South Africa established new records in 1961. Primarily as a result of the expansion of production in the new mines, the average grade of ore per ton milled rose gradually from 4.553 dwt. in 1956 to 6.142 dwt. in 1961. The total African labor strength increased to a total of 382,000 at the end of 1961, and the number of tons of ore milled was about 3 per cent higher than in 1960. The combined working profits from gold, uranium, and other products in 1961 rose to R 264.0 million, from R 254.6 million in 1960; and dividends paid by all producers of gold and uranium during 1961 increased to R 99.5 million, from R 93.9 million during the previous year. Although in 1961 the profitability of the gold mining industry in South Africa as a whole was greater than ever before, the productivity of the older marginal mines that have no higher grade ore to which to turn during periods of high costs is still a matter of great concern to the industry.

The gold mining industry elsewhere is also concerned about rising costs and declining production. Where possible, mines have shifted to the production of higher grade ore, but some mines have been unable to do this and some governments have found it necessary to render financial assistance to producers by means of tax reductions or direct subsidy schemes (pages 163-64, below).

Gold Holdings

The stock of gold held by the monetary authorities in the world is estimated to have increased during 1961 by about $605 million (Table 21), compared with increases of about $340 million in 1960, $695 million in 1959, $680 million in 1958, $705 million in 1957, and $230 million in 1951, the smallest increase in the postwar period. These figures exclude the holdings of the U.S.S.R. and countries associated with it, but include those of the International Monetary Fund, the Bank for International Settlements, and the European Fund, established under the European Monetary Agreement. At the end of 1961, world monetary gold reserves, thus defined, amounted to approximately $41.1 billion. The important shifts in the distribution of these reserves which took place in 1961 are discussed in Chapter 7.

TABLE 21. SOURCE OF CHANGES IN WORLD GOLD RESERVES, 1959-61

(In millions of U.S. dollars)

	1959	1960	1961
Production	1,125	1,175	1,220
Soviet sales	255	200	275
Total available	1,380	1,375	1,495
Consumption in industry and arts, and private hoarding	−685	−1,035	−890
Total added to world monetary gold stock	695	340	605
IMF gold transactions			
Subscriptions	−1,201	−189	−72
Sales to countries	300	300	500
Repayments, etc.	−174	−143	−66
BIS and EPU/EF gold transactions	178	−130	−135
Total added to countries' monetary gold stock	−202	178	832

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

Russian sales of gold in Western Europe during 1961 have been estimated at $275 million. Since the value of gold output outside the U.S.S.R. was $1,220 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 $1,500 million. A comparison of these supplies with the estimated aggregate increase of about $605 million in official gold holdings suggests that in 1961 the equivalent of about $890 million was absorbed by private holders and the arts and industries, about $150 million less than in 1960.

During the twelve-year period January 1, 1950-December 31, 1961, an estimated $7.3 billion in gold was used in the arts and industries or disappeared into private hoards. This is equivalent to well over half the total supply, during the same period, of gold from new production outside the Soviet area and sales by the U.S.S.R. and countries associated with it. The diversion of gold to private holders is of great concern to the monetary authorities of the world. Even with the improvements that have taken place in the reserve strength of many countries, it is still in the best interest of Fund members that, as far as possible, gold should be channeled into official reserves rather than into private hoards. Only as gold is held in official reserves can it be used by monetary authorities to maintain stability of exchange rates and to meet balance of payments needs.

Gold Markets and Prices

New York

During and since World War II, New York has been the principal center of the world for transactions in monetary gold by governments, central banks, and international financial institutions. It does not provide a gold market like London, Paris, and Zürich, where the price fluctuates from day to day, or where private purchases may be made for various purposes. It is the center through which the U.S. Treasury is prepared to buy gold for official monetary purposes in unlimited amounts at $34.9125 a fine ounce, and to sell it at $35.0875. In this way the world official price for gold has been kept stable since 1934. Many central banks, governments, and international financial institutions find it to their advantage to have a substantial portion of their gold reserves earmarked at the Federal Reserve Bank of New York, to meet their monetary requirements. Substantial movements in and out of these reserve accounts have been recorded over the years.

Of the total gold holdings of the monetary authorities of the world, excluding those of the U.S.S.R. and associated countries, $28.9 billion (70 per cent) was physically located in the United States at the end of 1961. Between the end of 1957 and 1961, the U.S. Treasury's net sales of gold, principally to Western European countries, amounted to $5.9 billion. During the same period, gold held under earmark by the Federal Reserve Bank of New York for the account of foreign central banks and governments and international financial institutions rose by an equivalent amount, to a total of $11.9 billion. In addition to substantial purchases from, and sales to, the United States by foreign monetary authorities, there were other movements of gold in 1961 between foreign accounts as a result of gold transactions facilitated by the services of the Bank for International Settlements and of the Fund.

London

The Bank of England, with the cooperation of the U.S. Treasury and the central banks of continental European countries, was successful in preventing new upheavals in the London gold market during the year under review. The price of gold in London, which from October 19, 1960 through February 1, 1961 had exceeded $35 an ounce by more than 1 per cent, almost immediately thereafter fell and remained below $35.24 per fine ounce, the price at which it would be profitable to buy gold in New York for resale in London. Various developments helped to make this possible. The U.S. Treasury publicly indicated its general approval of intervention by the United Kingdom in the gold market, thus assuring the Bank of England that it could replenish in the United States its gold holdings which were reduced by sales on the London market. The virtual withdrawal of continental European central banks from purchasing gold on the London market for most of the period under review also had a considerable influence toward keeping the market under control. These two factors, together with the increased supplies to the market from the U.S.S.R. and from sales by U.S. residents, who were required by Executive Order to dispose of their gold holdings by June 1, 1961, facilitated the supervision by the Bank of England of the operations of the London bullion market.

During 1961, the United Kingdom imported gold worth $1,777.7 million, of which $756.2 million came from its own stock located in the United States, $714.5 million from the Republic of South Africa, $223.2 million from the U.S.S.R., and most of the remainder from other gold producing countries in the sterling area and from Canada. Exports from the United Kingdom amounted to $861.1 million, of which $308.2 million went to Switzerland, $154.9 million to France, $66.1 million to the Federal Republic of Germany, and $61.0 million to Italy. The excess of total imports over total exports left a net increase of $916.5 million in the gold stocks physically located in London.

The figures in the preceding paragraph represent actual shipments of gold to and from London during the year; they are not, of course, indicative of the turnover in the London market, which at the daily "fixing" is reported to have been some 5 per cent above that for 1960, while business outside the "fixing" was slightly less than in 1960. The main supplier of the market was the Bank of England, as agent for the sale of most of South African production and of substantial amounts on behalf of the Exchange Equalization Account.

The price of gold in London during the financial year ended April 30, 1962 was relatively stable when compared with the violent movements during the preceding year (Chart 10). The dollar price of gold (converted at the buying rate for dollars in London at the time of the daily fixing) remained below the U.S. selling price during May and June 1961, the minimum price for that period being $35.0561 a fine ounce on May 29. An abundant supply of gold on the market at that time (from sales by the United Kingdom, the U.S.S.R., and U.S. resident holders of gold) enabled several central banks in Western Europe to increase their gold holdings without the increase having any marked effect on the price of gold in London. In July, following the renewal of uncertainties over the international political situation and the stability of reserve currencies, the price of gold rose above the U.S. selling price, and the monthly average market price remained above this price through February 1962. The daily price reached a peak of $35.2019 on September 14, 1961 and remained close to this figure during October and much of November. Subsequently, it fluctuated between $35.1363 on December 27, 1961

CHART 10. PRICE OF GOLD IN LONDON MARKET, MONTHLY AVERAGES, MARCH 1954-APRIL 1962

(In U.S. dollars a fine ounce)

and $35.1684 on January 19, 1962. A sharp decline in hoarding and speculative demand, together with the abstention of European central banks from the market at a time when supplies were increased by active selling on the part of an undisclosed source, caused the price to fall ½ cent below the U.S. selling price on February 23, 1962. Later, it declined further, to $35.0710 on April 5, and was quoted at $35.0725 on April 30.

During the year under review, the sterling price of gold fluctuated between a maximum of 252s. 4½d. a fine ounce on July 21, 1961 and a three-year minimum of 249s. 1¼d. on March 13, 1962. At the end of April, it was quoted at 249s. 5½d.

While changes in normal market factors of supply and demand were mainly responsible for the lower level of gold prices, the extension of international financial cooperation to the London gold market also added to the stability of gold prices. The understanding between central banks participating in the "Basle arrangements" has been of an informal character, subject to change from time to time as circumstances warrant. Important elements in this cooperative approach included the avoidance of competitive buying, and the supply of gold to the market in certain circumstances.

Sales by South Africa

During 1961 a total of 2,505 bars of gold, weighing 1,010,000 fine ounces, were sold by the South African Reserve Bank to buyers resident outside the sterling area. Early in February 1962, the Republic of South Africa announced a decision, in response to an approach made by "financial circles abroad," to export a "test consignment" of South African two-rand gold pieces. It was said that larger quantities of these coins would be sold later on the foreign market if the experiment were successful.

Other Developments

In other markets where bar gold is traded directly for U.S. dollars, the prices deviated very little from the London dollar price during the period under review. In markets where gold is traded in local currencies (Table 22), the prices in general tended to move in the same direction as those in the London market, even though in these markets the day-to-day movements of the U.S. dollar equivalent prices may diverge from those of the London prices because of exchange rate fluctuations and the special characteristics of each market.

The price of gold coins in most free markets continued the general upward trend that had begun in mid-1960, reaching in January 1962 the highest premiums over the value of bar gold that have been recorded in recent years. In Paris, for example, the price

TABLE 22. PRICES OF GOLD IN VARIOUS WORLD MARKETS

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

	Bar Gold		Sovereign		Napoleon	
	End of Apr. 1961	End of Apr. 1962	End of Apr. 1961	End of Apr. 1962	End of Apr. 1961	End of Apr. 1962
Beirut	35.28	35.25	40.60	40.92	41.37	42.85
Bombay[1]	79.10	78.71	—	—	—	—
Brussels	35.14	35.14	39.55	39.96	40.99	43.27
Hong Kong	39.75	38.63	—	—	—	—
Milan	35.48	35.43	40.04	40.90	41.22	44.88
Paris	35.72	35.29	40.21	39.88	41.05	42.96

[1] Prices on internal domestic market, converted at par value; imports and exports are prohibited.

of the napoleon rose from the equivalent of $40.86 a fine ounce (15 per cent premium over bar gold on May 2, 1961) to $47.32 (31 per cent premium on January 18, 1962), the highest figure since August 1957. Parallel with the decline in the price of bar gold, the price of gold coins in most markets declined in the latter part of February 1962; and in Paris the napoleon was quoted at the equivalent of $43.73 a fine ounce on March 30, 1962.

As a result of the increased demand for gold coins, more than 3 million sovereigns were exported from the United Kingdom in 1961.

Gold Transactions Service

Since the inauguration of the Fund's gold transactions service in March 1952, the central banks of 25 member countries and 5 international organizations have purchased or sold gold through the facilities provided by the Fund. During the year under review, the completion of 5 transactions amounting to a total of about $27 million was facilitated by the Fund. Since March 1952 there have been 119 transactions, amounting to about $1,083 million.

Changes in National Policies Affecting Gold

Pursuant to the Foreign Trade and Payments Law of April 28, 1961, which came into force on September 1, 1961, there are now no restrictions in the Federal Republic of Germany on gold transactions between residents and nonresidents or on the export and import of gold. The import of gold originating from any one of the countries in the Soviet area, however, requires a special license.

It was announced by the central bank of Iran in December 1961 that the import of gold into Iran, except by the central bank itself, was prohibited.

The Government of Hungary has minted gold coins in denominations of 500, 100, and 50 forints in commemoration of the 150th anniversary of the birth of Franz Liszt and the 80th anniversary of the birth of Bela Bartók.

Gold Subsidy Programs

The gold subsidy programs of the Governments of Australia, Canada, and Colombia, discussed in previous Annual Reports, were still in operation during the past year. In October 1961, Australia consulted the Fund with regard to a modification of its system of gold subsidies, designed to remove inequities which had arisen because of the previous sharp distinction between "small" and "large" producers. The modification makes it possible for those "large producers" whose annual output is more than 500 but not more than 1,075 ounces to become eligible, if they so elect, for payment of a flat-rate subsidy irrespective of costs and profits. The rate of subsidy that is payable to such producers diminishes from £A 2 8s. 0d. an ounce at an annual output of 500 ounces to nil at an annual output of 1,076 ounces. The amendment involves no change in the basic structure of the subsidy scheme described in the Fund's Annual Reports for 1955, 1958, and 1960, which has been extended to June 30, 1965.

In June 1961, the Philippine Republic reintroduced direct subsidies to gold producers. All producers were classified into two categories—marginal and overmarginal—depending on whether or not their net profits fell short of "base profits," which are calculated separately for each mine. In order to be eligible for the subsidy, gold producers are required to sell their entire output to the Central Bank at the official price, which is defined as the peso equivalent of US$35 an ounce or other price set by the Government. The maximum subsidy, in addition to the official price, is ₱ 65 an ounce for marginal producers and ₱ 50 an ounce for overmarginal producers. However, the total amount received is not to exceed ₱ 170 an ounce for marginal producers and ₱ 155 an ounce for overmarginal producers.[1] These arrangements replaced others by which subsidies were given to gold producers through the exchange system.[2] The Fund deemed the modified system of Australia and the new arrangements adopted by the Philippines to be consistent with the objectives of the Fund's statement of December 11, 1947 on gold subsidies.[3]

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

Silver

The directive of the President of the United States on November 28, 1961 to the U.S. Treasury to suspend further sales of

[1] On June 30, 1962, the approximate dollar equivalents of these four figures were $17, $13, $44, and $40, respectively.
[2] *Annual Report,* 1958, page 144.
[3] *Annual Report,* 1948, pages 79-80.

free (nonmonetary) silver to industrial and artistic users at 91 cents an ounce, and to suspend its use for coinage, is of major significance to silver-producing countries and to world silver markets. The price of silver immediately rose, in London to 84½d. an ounce and in New York to $1.00¾. Subsequently, the price continued upward, reaching $1.04¾ in New York on December 15, and remaining unchanged there for the rest of the calendar year. In London the price rose on December 19 and 20 to 88¾d., the highest price since 1920. In mid-February, the price in the New York market declined to $1.02 an ounce, because more silver was offered (chiefly by producers) than could be absorbed. At the same time it was quoted in London at 85¼d.

The decision to suspend sales of free silver was precipitated by the decline of the U.S. Treasury's holdings of free silver, from a peak supply of 222 million ounces in April 1959 to about 22 million ounces in November 1961. Although total Treasury holdings of silver were 3,349 million ounces at the close of 1961, all but the free silver was required for the backing of the silver certificates and for use in silver coins. Because the remaining amount of free silver was so small, the Presidential directive of November 1961 also specified that silver required to meet coinage needs should be obtained by the retirement from circulation of a sufficient number of $5 and $10 silver certificates.

In addition to the foregoing measures, the President announced that he would request the Congress to repeal the Silver Purchase Acts of 1934, 1939, and 1946, and to authorize the Federal Reserve Banks to replace $1 and $2 silver certificates with Federal Reserve notes. "These actions," stated the President, "will permit the establishment of a broad market for trading in silver on a current and forward basis, comparable to the markets in which other commodities are traded. Our new policy will, in effect, provide for the eventual demonetization of silver except for its use in subsidiary coinage." As this Report is written, the resulting bills are pending before the appropriate committees of the present session of Congress.

World consumption of silver for industrial and artistic uses and for coinage purposes has expanded greatly; in recent years, it has been well in excess of world production. Average annual consumption since 1959 has been estimated at more than 300 million ounces, and current production at about 235 million ounces. The shortfall in production has been met by offerings of demonetized silver from Mainland China and other sources, as well as by sales from the U.S. Treasury's stock of free silver.

Chapter 7

World Reserves

IN 1961, the increase in the gold and foreign exchange holdings of national monetary authorities (excluding the U.S.S.R. and countries associated with it) was a little more than $1.7 billion, or almost 3 per cent. This compares with an increase of $2.7 billion (about 4¾ per cent) in 1960. In contrast to 1960, when the rise took the form almost entirely of foreign exchange assets, the increment in 1961 was about equally divided between gold and foreign exchange. The size, distribution, and composition of official reserves is shown in Table 23.

Growth of Reserves

The growth of world reserves, as conventionally measured, depends on several factors, all of which have affected the figures to an important extent at one time or another during the past three years. The following are the main considerations.

1. *Addition to reserves of new gold production or gold dishoarded by the private sectors.* Less than half the gold becoming available since 1950 has been added to official stocks (see above, page 157). In 1960 the proportion fell to about 25 per cent, and in 1961 it was 40 per cent (see Chart 9 and Table 21, pages 154 and 156). Since changes in private hoarding are affected chiefly by changes in confidence, there is some relation between additions to official reserves and the world balance of payments.

However, this connection is likely to be imperfect, because the state of confidence is not necessarily based on a sound appraisal of current and prospective economic developments.

2. *Composition of reserves.* Foreign exchange assets usually take the form of claims on the two principal reserve centers (United States and United Kingdom), but may also include claims on other financial centers, deposits with the Bank for International Settlements (BIS), bonds of the International Bank for Reconstruction and Development, etc. In the last five years, countries other than the United States and the United Kingdom have increased their gold holdings much more rapidly than their foreign exchange assets. They held 39 per cent of their reserves in gold at the end of 1956, and 48 per cent of a greatly increased total at the end of 1961. This rise in part reflected an increased preference of individual countries for gold; but it was also due to a larger-than-average increase in the reserves of some countries whose established policies called for a high percentage of gold to total reserves.

TABLE 23. COUNTRIES' OFFICIAL GOLD AND FOREIGN EXCHANGE RESERVES, 1958-61

(In billions of U.S. dollars)

	1958	1959	1960	1961
Countries' reserves at end of year				
United States	20.58	19.51	17.80	17.06[1]
Germany, Federal Republic of	5.73	4.53	6.74	6.54
Italy	2.08	2.95	3.08	3.42
United Kingdom	3.11	2.75	3.24	3.32
France	1.05	1.72	2.07	2.94
Switzerland	2.06	2.06	2.32	2.76
Other exporters of industrial products	5.46	5.56	6.71	6.89
Australia, Canada, New Zealand, South Africa	3.57	3.75	3.10	3.90
Other exporters of primary products	13.66	14.21	14.64	14.59
Total	57.30	57.04	59.70	61.42
Composition of countries' reserves at end of year				
Gold [2]	38.07	37.87	38.05	38.88
Liquid claims on United States	8.56	9.42	10.52	11.10
Sterling claims on United Kingdom [3]	6.67	7.14	7.24	7.25
Credit balance in EPU	1.37	—	—	—
Currency deposits with BIS	0.50	0.38	0.48	0.62
Other, including net errors and omissions	2.13	2.23	3.41	3.57[1]
Total	57.30	57.04	59.70	61.42

Sources: International Monetary Fund, *International Financial Statistics*, and Fund staff estimates.
[1] Including U.S. official claims in convertible currencies ($116 million).
[2] Including gold deposits with the Bank for International Settlements (BIS).
[3] Including funded sterling debt to Portugal.

Table 24 shows that between the end of 1958 and the end of 1961 several individual countries altered substantially the proportion of their reserves held in gold. The United Kingdom's reserves over the three years increased by $219 million, but its estimated gold holdings fell by $550 million, reducing these holdings from 92 per cent to 69 per cent of its total reserves. Germany and the Netherlands, on the other hand, added $1,025 million and $531 million, respectively, to their holdings of gold, which thus

TABLE 24. CHANGES IN OFFICIAL GOLD STOCKS, BY HOLDER, 1959-61

	1959	1960	1961	Gold as Per Cent of Gross Reserves	
	(Million U.S. dollars)			End of 1958	End of 1961
International monetary institutions					
International Monetary Fund	1,075	32	−362		
European Payments Union/European Fund	−86	15	1		
Bank for International Settlements	−92	115	134		
Countries					
United States	−1,075	−1,703	−857	100	99
United Kingdom	−350	300	−500	92	69
France	540	351	480	71	72
Germany, Federal Republic of	−2	334	693	46	56
Italy	663	454	22	52	65
Netherlands	82	319	130	71	92
Switzerland	9	251	375	93	93
Austria, Belgium, Norway, Sweden	−64	16	98	59	51
All other countries	−5	−144	391	30	28
World official gold holdings	695	340	605		

Source: Derived from International Monetary Fund. *International Financial Statistics.* The figures for the United Kingdom are Fund staff estimates based on data published in the U.S. *Federal Reserve Bulletin.*

rose from 46 per cent to 56 per cent of the total reserves in Germany, and from 71 per cent to 92 per cent in the Netherlands. At the end of 1958, however, the reserves of both countries included large amounts of EPU credit balances which are excluded entirely from the 1961 figures (having been converted after 1958 into bilateral claims, of which about $260 million was still due to Germany and $9 million to the Netherlands at the end of 1961). The German reserves at the end of 1958 also included relatively large amounts of assets having only limited usability. If these and the EPU balances are both excluded from the figures of total reserves, the proportion of gold held by Germany fell from 60 per cent at the end of 1958 to 56 per cent at the end of

1961, and the proportion of gold held by the Netherlands rose only from 82 per cent to 92 per cent. Italy added $1,139 million to its gold holdings and $200 million to its foreign exchange, increasing the proportion of the former from 52 per cent to 65 per cent of total reserves.

3. *Balance of payments of the reserve centers.* Since most foreign exchange assets held by national monetary authorities traditionally take the form of claims on the United States and the United Kingdom, deficits of these reserve centers, insofar as they are financed by increases in their liquid liabilities to official holders abroad, produce an expansion of the aggregate official foreign exchange holdings.

During the decade 1952-61, national monetary authorities' liquid claims on the United States rose by more than $7.0 billion, an amount larger than total additions to official gold stocks during the same period. The increase of some $0.6 billion in these claims in 1961 was fairly close to the annual average for the longer period. Official sterling claims on the United Kingdom have remained fairly stable for a number of years. Changes in reserves in the form of official liquid claims on other countries were in 1961 much smaller than those in dollars and sterling, although they have been increasing in recent years. At the end of 1960, official holders are believed to have had at least $2.0 billion in deposits denominated in other convertible currencies, such as deutsche mark, Swiss francs, and French francs, as well as in deposits with the BIS. These holdings may have increased somewhat in 1961. In addition, various central banks held significant amounts of deposits denominated in dollars and sterling with foreign commercial banks outside the United States and United Kingdom, respectively, while central banks in several continental European countries had made available to commercial banks in those countries substantial amounts of dollars through short-term swaps and deposits. On the other hand, the United States began in 1961, for the first time in many years, to acquire claims on the Continental European financial centers; however, these holdings amounted only to $116 million at the end of the year.

4. *Transfers of assets from private to official holders.* Because world reserves conventionally cover only official holdings, their size is affected by transactions between the official sector and the private bank and nonbank sectors. Shifts of this sort may reach significant proportions. In December 1961, for example, the German commercial banks converted into deutsche mark foreign assets in excess of $600 million for seasonal requirements, including window dressing purposes. Most of this was reflected in an increase in the Bundesbank's net reserves. An even larger amount of such assets was deposited abroad by the commercial banks in the following month. If it had not been for this single factor, world official exchange holdings would have shown only a very small increase during 1961.

5. *Transactions with international institutions.* The main Fund transactions affecting national reserves are those involving gold, i.e., subscriptions and repayments to the Fund and sales of gold by the Fund. Subscriptions and repayments reduce countries' gold stocks (thereby causing an apparent decrease in national reserves), while sales of gold by the Fund increase them. In fact, the largest source of the difference between countries' additions to their official gold stock in 1960 ($180 million) and that in 1961 ($830 million) was transactions with the Fund. In 1960, gold sales of $300 million by the Fund for investment were approximately balanced by gold subscriptions and repayments to it. In 1961, the Fund sold $500 million to replenish its supply of currencies, while its receipts were less than $150 million. Since these transactions have an exactly opposite effect on countries' net IMF positions, changes in countries' reserves taken by themselves may be rather misleading. However, it is not possible to calculate the effects of drawings from the Fund and of currency repurchases on the statistics of aggregate country reserves. In general, drawings increase countries' reserves, but only insofar as the currencies drawn remain in the reserves of the drawing country or are added to those of some other country. Transactions with other international organizations as a rule play a very minor role in the net creation or liquidation of coun-

tries' reserves, since they usually involve only the exchange of one form of asset for another. An exception was countries' credit balances in the European Payments Union (EPU), which were generally considered by their holders as part of their reserves. When these balances were converted into bilateral claims and liabilities at the liquidation of the EPU in 1959, assets amounting to $1.4 billion were eliminated from the figures on world reserves. Actually, this transaction had very little effect on world liquidity, since all the major EPU creditor countries had ample reserves in other forms and were in comfortable balance of payments positions.

When the effects of these various factors are considered as a whole, one main reason for the slower growth of world reserves in 1961 than in 1960 proves to have been the reduction in the over-all balance of payments deficit of the United States, although it is, of course, impossible to determine the extent to which a larger U. S. deficit in 1961 would have been reflected in an addition to official reserves of other countries rather than in a redistribution of the world's gold reserves. An offsetting factor, which presumably was related to the reduction in the U.S. deficit, was the apparent reduction of about $150 million in gold hoarding. More important were gold transactions with the Fund, which added $360 million to national reserves in 1961 but had reduced such reserves by a small amount in 1960.

Reserves and International Liquidity

As in other recent years, the reserves of the industrial countries in continental Europe rose more than the increase in world reserves. Among countries whose exports consist mainly of primary products, there was a rise in the reserves of the more developed countries (Australia, Canada, etc.). On the other hand, the reserves of the United States and Japan declined, and those of the less industrialized countries as a group fell slightly. It is in large part because of this uneven distribution of the addition to world reserves that the rise is a most imperfect indication of the change in international liquidity as it affects the international financial climate.

When evaluating the current status of international liquidity in a broader sense, it is also necessary to take account of the large increases during recent years in the foreign assets of commercial banks and other private holders, particularly in the countries whose currencies have become convertible. The extent to which such assets can, in an emergency, be counted upon by the monetary authorities as being available to finance balance of payments deficits depends upon the institutional arrangements and traditions of different countries. Nevertheless, the tendency is in the direction of greater freedom for the international movement of private funds with a minimum of interference by the authorities except through monetary policy.

In fact, the effect of private foreign exchange holdings on international liquidity (and in particular the international liquidity of the main industrial countries) varies considerably with the international payments situation. When the underlying situation is one of stability, movements of private short-term capital may be expected to be predominantly of an equilibrating character, i.e., to be directed from surplus countries to deficit countries. They will, therefore, reduce the need for the authorities to intervene in the exchange markets. However, even in the absence of any basic disequilibria among the financial centers, this market mechanism cannot be perfect; there is no assurance that the amounts of private funds moving from country to country will be, in all phases of the business cycle, equal to those needed to balance other international transactions. At times, private short-term capital may flow to countries in surplus positions on other accounts. Therefore, even when the basic balance of payments positions of all major countries are sound, the possibility of disequilibrating capital movements cannot be completely disregarded.

In a situation where there are surplus and deficit positions of a rather persistent character, as in recent years, there is a greater risk that large disequilibrating movements of short-term funds will occur. This risk may, however, be reduced by policies directed toward harmonization of interest rates and coordinated intervention in forward exchange markets. Private holdings of liquid foreign assets tend to be concentrated in the two reserve centers, where the institutional arrangements for the placement of short-term funds in the money market are more highly developed than elsewhere, and both these centers have tended to be in weak balance of payments positions. A realization of these conditions was one of the factors that led to the measures to strengthen the international monetary system discussed elsewhere in this Report, and to increased reliance on the resources of the International Monetary Fund.

Reserves and Access to the Fund's Resources

As was pointed out in the Annual Report for 1961, "countries are entitled, under the Fund's Articles of Agreement, when certain conditions are fulfilled, to purchase foreign exchange equivalent to their gold subscriptions plus 100 per cent of their quotas in the Fund." [1]

The availability of assistance from the Fund varies in accordance with the size of the drawing in relation to quota. In drawing within the gold tranche, a member is granted the overwhelming benefit of any doubt, and to that extent a member country's potential to draw on the Fund is virtually as freely available as the country's own gold and foreign exchange holdings. Drawings in the further tranches are subject to increasing degrees of scrutiny by the Fund, but each member country is well acquainted with the criteria which the Fund adopts in dealing with requests for such drawings. Each can thus judge with a high degree of assurance whether it will be able to use the Fund's resources along with its own, and larger drawings seldom require any conditions that the member itself does not consider reasonable under the circumstances and that it simultaneously does not

[1] *Annual Report*, 1961, page 114.

impose in connection with the use of its own reserves. The amounts of credit potentially available to member countries from Fund resources are substantial. The quotas of the primary producing countries average 17 per cent of their annual export receipts, or more than two months' exports; and for the manufacturing countries, whose exports fluctuate much less, the corresponding percentage is 12-13. Measured in terms of national reserves, Fund quotas amount to about 34 per cent for the primary producing countries, 22 per cent for the manufacturing countries, and about 25 per cent for all Fund members combined.

When considering members' own reserves in conjunction with their access to the Fund, the different functions of reserves have to be borne in mind. One function is to gain time for corrective action, and the Fund's resources have typically assisted members in this way. Another main function of reserves is that they should give confidence, and confidence is often increased when national reserves are supplemented by currencies drawn from the Fund. This is because a Fund drawing is frequently accompanied by policies and corrective measures that in themselves inspire confidence. This often leads to other official or private credits or assistance from abroad; and once the necessary policy adjustments have been carried out, the resulting improvement in the country's internal and external positions frequently stimulates a repatriation of resident capital and an increased inflow of foreign capital. Thus a country's drawing potential in the Fund has a high degree of effectiveness in dealing with that country's balance of payments difficulties.

As mentioned in Chapter 2, the Fund's holdings of gold and the currencies of the main industrial countries totaled more than $9.5 billion on April 30, 1962. An additional $6 billion in these currencies will be available when the general arrangements to borrow become effective. The existence of these resources and the knowledge that they can be directed toward situations of disequilibrium, including those arising from movements of short-term capital, have a stabilizing effect on exchange markets, which has been increasingly felt in the course of the past year.

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APPENDICES

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Appendix I. MEMBERS, QUOTAS, GOVERNORS, AND VOTING POWER
as of April 30, 1962

Member	Quota: Amount (000,000's)	Quota: Per Cent of Total	Governor / *Alternate*	Votes: Number[1]	Votes: Per Cent of Total
Afghanistan	$ 22.50	0.15	Abdullah Malikyar *Habibullah Mali Achekzai*	475	0.28
Argentina	280.00	1.86	Carlos A. Coll Benegas *Eustaquio Méndez Delfino*	3,050	1.80
Australia	400.00	2.66	Harold Holt *J. M. Garland*	4,250	2.51
Austria	75.00	0.50	Reinhard Kamitz *Franz Stoeger-Marenpach*	1,000	0.59
Belgium	337.50	2.24	Hubert Ansiaux *Maurice Williot*	3,625	2.14
Bolivia	22.50	0.15	Augusto Cuadros Sánchez *Claudio Calderón Manrique*	475	0.28
Brazil	280.00	1.86	Walther Moreira Salles *Octavio Gouvea de Bulhoes*	3,050	1.80
Burma	30.00	0.20	Kyaw Nyein *San Lin*	550	0.32
Canada	550.00	3.65	Donald Methuen Fleming *Louis Rasminsky*	5,750	3.39
Ceylon	45.00	0.30	Felix R. Dias Bandaranaike *D. W. Rajapatirana*	700	0.41
Chile	100.00	0.66	Eduardo Figueroa *Alvaro Orrego Barros*	1,250	0.74
China	550.00	3.65	Chia-Kan Yen *Pao-Hsu Ho*	5,750	3.39
Colombia	100.00	0.66	Eduardo Arias Robledo *Germán Botero de los Ríos*	1,250	0.74
Costa Rica	15.00	0.10	Alvaro Castro *Alvaro Vargas*	400	0.24
Cuba	50.00	0.33	Segundo Ceballos Pareja *René Monserrat*	750	0.44
Cyprus	11.25	0.07	C. C. Stephani *A. M. Pikis*	362	0.21
Denmark	130.00	0.86	Svend Nielsen *Einar Dige*	1,550	0.91
Dominican Republic	15.00	0.10	José Joaquín Gómez *Lydia Pichardo Lapeyretta*	400	0.24
Ecuador	15.00	0.10	Nicolás Fuentes Avellán *Eduardo Larrea*	400	0.24

Appendix I (*continued*). MEMBERS, QUOTAS, GOVERNORS, AND VOTING POWER as of April 30, 1962

Member	Quota: Amount (000,000's)	Quota: Per Cent of Total	Governor / *Alternate*	Votes: Number[1]	Votes: Per Cent of Total
El Salvador	$ 11.25	0.07	Francisco Aquino h. *Luis Poma*	362	0.21
Ethiopia	11.40	0.08	Yawand-Wossen Mangasha *Stanislaw Kirkor*	364	0.21
Finland	57.00	0.38	Klaus Waris *Eero Asp*	820	0.48
France	787.50	5.23	Jacques Brunet *André de Lattre*	8,125	4.79
Germany, Federal Republic of	787.50	5.23	Karl Blessing *Hans Karl von Mangoldt-Reiboldt*	8,125	4.79
Ghana	35.00	0.23	F. K. D. Goka *Hubert C. Kessels*	600	0.35
Greece	60.00	0.40	Xenophon Zolotas *John S. Pesmazoglu*	850	0.50
Guatemala	15.00	0.10	Arturo Pérez Galliano *Francisco Fernández Rivas*	400	0.24
Haiti	11.25	0.07	Antonio André *Vilfort Beauvoir*	362	0.21
Honduras	11.25	0.07	Jorge Bueso Arias *Roberto Ramírez*	362	0.21
Iceland	11.25	0.07	Gylfi Gíslason *Vilhjálmur Thor*	362	0.21
India	600.00	3.98	Morarji R. Desai *P. C. Bhattacharyya*	6,250	3.69
Indonesia	165.00	1.10	Soemarno *Pratikto Sastrohadikoesoemo*	1,900	1.12
Iran	70.00	0.46	Ali Asghar Pourhomayoun *G. Reza Moghadam*	950	0.56
Iraq	15.00	0.10	Abdul Latif Al-Shawaf *Subhi Frankool*	400	0.24
Ireland	45.00	0.30	Seamas O Riain *Maurice Moynihan*	700	0.41
Israel	25.00	0.17	Levi Eshkol *David Kochav*	500	0.29
Italy	270.00	1.79	Vacant *Paolo Emilio Taviani*	2,950	1.74
Japan	500.00	3.32	Mikio Mizuta *Masamichi Yamagiwa*	5,250	3.10

Appendix I (*continued*). MEMBERS, QUOTAS, GOVERNORS, AND VOTING POWER as of April 30, 1962

Member	Quota: Amount (000,000's)	Quota: Per Cent of Total	Governor / *Alternate*	Votes: Number[1]	Votes: Per Cent of Total
Jordan	$ 6.30	0.04	Hashem Jayousi *Abdul Karim Humud*	313	0.18
Korea	18.75	0.12	Byung Kyu Chun *Chang Soon Yoo*	437	0.26
Laos	7.50	0.05	Phouangphet Phanareth *Oudong Souvannavong*	325	0.19
Lebanon	6.75	0.04	André Tueni *Farid Solh*	317	0.19
Liberia	11.25	0.07	Charles Dunbar Sherman *James Milton Weeks*	362	0.21
Libya	11.00	0.07	Khalil Bennani *Faraj Bugrara*	360	0.21
Luxembourg	12.00	0.08	Pierre Werner *Pierre Guill*	370	0.22
Malaya	32.50	0.22	Tan Siew Sin *W. H. Wilcock*	575	0.34
Mexico	180.00	1.20	Antonio Ortiz Mena *Rodrigo Gómez*	2,050	1.21
Morocco	52.50	0.35	M'Hamed Douiri *M'Hammed Zeghari*	775	0.46
Nepal	7.50	0.05	Rishikesh Shaha *Govind Prasad Lohani*	325	0.19
Netherlands	412.50	2.74	M. W. Holtrop *E. van Lennep*	4,375	2.58
New Zealand	125.00	0.83	H. R. Lake *E. C. Fussell*	1,500	0.88
Nicaragua	11.25	0.07	Francisco J. Laínez *Federico E. Lang*	362	0.21
Nigeria	50.00	0.33	Festus Sam Okotie-Eboh *Roy Pentelow Fenton*	750	0.44
Norway	100.00	0.66	Erik Brofoss *Christian Brinch*	1,250	0.74
Pakistan	150.00	1.00	S. A. Hasnie *Zahiruddin Ahmed*	1,750	1.03
Panama	0.50	0.01	René Orillac *Carlos F. Alfaro*	255	0.15
Paraguay	11.25	0.07	César Barrientos *Edgar F. Taboada*	362	0.21

Appendix I (*concluded*). MEMBERS, QUOTAS, GOVERNORS, AND VOTING POWER as of April 30, 1962

Member	Quota: Amount (000,000's)	Quota: Per Cent of Total	Governor / *Alternate*	Votes: Number[1]	Votes: Per Cent of Total
Peru	$ 32.50	0.22	Enrique Bellido *Emilio G. Barreto*	575	0.34
Philippines	75.00	0.50	Andres V. Castillo *Bienvenido Y. Dizon*	1,000	0.59
Portugal	60.00	0.40	Rafael Duque *Manuel Jacinto Nunes*	850	0.50
Saudi Arabia	55.00	0.37	Ahmed Zaki Saad *Vacant*	800	0.47
South Africa	150.00	1.00	T. E. Dönges *G. W. G. Browne*	1,750	1.03
Spain	150.00	1.00	Alberto Ullastres *Manuel Varela*	1,750	1.03
Sudan	15.00	0.10	Abdel Magid Ahmed *Mamoun Beheiry*	400	0.24
Sweden	150.00	1.00	Per V. Åsbrink *S. F. Joge*	1,750	1.03
Syrian Arab Republic	15.00	0.10	Vacant *Vacant*	400	0.24
Thailand	45.00	0.30	Sunthorn Hongladarom *Bisudhi Nimmanahaeminda*	700	0.41
Tunisia	16.20	0.11	Hédi Nouira *Mongi Slim*	412	0.24
Turkey	86.00	0.57	Sefik Inan *Ziya Müezzinoğlu*	1,110	0.65
United Arab Republic	90.00	0.60	Abdel Moneim El Kaissouni *Vacant*	1,150	0.68
United Kingdom	1,950.00	12.95	Selwyn Lloyd *M. H. Parsons*	19,750	11.65
United States	4,125.00	27.40	Douglas Dillon *George W. Ball*	41,500	24.47
Uruguay	30.00	0.20	Romeo Maeso *Daniel Rodriguez Larreta*	550	0.32
Venezuela	150.00	1.00	J. J. González Gorrondona *Hernán Avendaño*	1,750	1.03
Viet-Nam	18.50	0.12	Vu Quoc Thuc *Buu Hoan*	435	0.26
Yugoslavia	120.00	0.80	Janko Smole *Bosko Tonev*	1,450	0.86
	$15,056.90	100.00[2]		169,564	100.00[2]

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

Appendix II. Changes in Membership of Board of Governors

Changes in the membership of the Board of Governors between May 1, 1961 and April 30, 1962 were as follows:

J. M. Garland succeeded Howard Beale as Alternate Governor for Australia, May 9, 1961.

Vilhjálmur Thor succeeded Thor Thors as Alternate Governor for Iceland, May 13, 1961.

Roberto T. Alemann succeeded Alvaro Alsogaray as Governor for Argentina, effective May 19, 1961.

Khalil Bennani succeeded Omar Mahmud Muntasser as Governor for Libya, June 4, 1961.

Rafael Duque was appointed Governor for Portugal, June 8, 1961.

Manuel Jacinto Nunes was appointed Alternate Governor for Portugal, June 8, 1961.

Ahmad Majidian was reappointed Alternate Governor for Iran, June 14, 1961.

Claudio Calderón Manrique succeeded Franklin Antezana Paz as Alternate Governor for Bolivia, June 16, 1961.

Emilio G. Barreto was reappointed Alternate Governor for Peru, June 16, 1961.

F. K. D. Goka succeeded K. A. Gbedemah as Governor for Ghana, June 20, 1961.

Yu Taik Kim succeeded Yung Seun Kim as Governor for Korea, July 5, 1961.

Andres V. Castillo succeeded Miguel Cuaderno, Sr., as Governor for the Philippines, July 5, 1961.

Francisco Aquino h. succeeded Carlos J. Canessa as Governor for El Salvador, July 6, 1961.

Francisco J. Laínez succeeded Guillermo Sevilla Sacasa as Governor for Nicaragua, July 20, 1961.

Federico E. Lang succeeded Francisco J. Laínez as Alternate Governor for Nicaragua, July 20, 1961.

André Tueni succeeded Nasr Harfouche as Governor for Lebanon, July 24, 1961.

Hubert Ansiaux was reappointed Governor for Belgium, July 25, 1961.

César Barrientos was appointed Governor for Paraguay, July 31, 1961.

Edgar F. Taboada succeeded Pedro R. Chamorro as Alternate Governor for Paraguay, July 31, 1961.

Rishikesh Shaha was appointed Governor for Nepal, August 9, 1961.

Govind Prasad Lohani was appointed Alternate Governor for Nepal, August 9, 1961.

Byung Kyu Chun succeeded Yu Taik Kim as Governor for Korea, August 14, 1961.

Chang Soon Yoo succeeded Byong Do Min as Alternate Governor for Korea, August 14, 1961.

Faraj Bugrara was appointed Alternate Governor for Libya, August 14, 1961.

Phouangphet Phanareth was appointed Governor for Laos, August 15, 1961.

Oudong Souvannavong was appointed Alternate Governor for Laos, August 15, 1961.

Louis Rasminsky succeeded James Elliott Coyne as Alternate Governor for Canada, August 16, 1961.

Ali Asghar Pourhomayoun succeeded Ebrahim Kashani as Governor for Iran, August 16, 1961.

G. Reza Moghadam succeeded Ahmad Majidian as Alternate Governor for Iran, August 16, 1961.

Luis Poma succeeded Miguel Dueñas Palomo as Alternate Governor for El Salvador, August 24, 1961.

Akram Darey succeeded Husni A. Sawwaf as Governor for the United Arab Republic, August 30, 1961.

H. R. Lake was appointed Governor for New Zealand, August 31, 1961.

E. C. Fussell was appointed Alternate Governor for New Zealand, August 31, 1961.

Eduardo Z. Romualdez was reappointed Alternate Governor for the Philippines, effective September 1, 1961.

Bosko Tonev succeeded Nenad Popovic as Alternate Governor for Yugoslavia, September 1, 1961.

Vu Quoc Thuc succeeded Tran Huu Phuong as Governor for Viet-Nam, September 7, 1961.

Buu Hoan succeeded Vu Quoc Thuc as Alternate Governor for Viet-Nam, September 7, 1961.

Abdul Hai Aziz succeeded Abdullah Malikyar as Governor for Afghanistan, September 16, 1961.

Mohammed A. Kazimi succeeded Habibullah Mali Achekzai as Alternate Governor for Afghanistan, September 16, 1961.

Vilfort Beauvoir succeeded Antonio André as Governor for Haiti, September 16, 1961.

Baqir H. Hasani succeeded Abdul Latif Al-Shawaf as Governor for Iraq, September 16, 1961.

Guido Carli succeeded Giuseppe Pella as Governor for Italy, September 16, 1961.

Guillermo Sevilla Sacasa succeeded Francisco J. Laínez as Governor for Nicaragua, September 16, 1961.

Alfredo Machado-Gomez succeeded J. J. González Gorrondona as Governor for Venezuela, September 16, 1961.

Benito Raul Losada succeeded Hernán Avendaño as Alternate Governor for Venezuela, September 16, 1961.

Abdullah Malikyar succeeded Abdul Hai Aziz as Governor for Afghanistan, September 23, 1961.

Habibullah Mali Achekzai succeeded Mohammed A. Kazimi as Alternate Governor for Afghanistan, September 23, 1961.

Antonio André succeeded Vilfort Beauvoir as Governor for Haiti, September 23, 1961.

Abdul Latif Al-Shawaf succeeded Baqir H. Hasani as Governor for Iraq, September 23, 1961.

Giuseppe Pella succeeded Guido Carli as Governor for Italy, September 23, 1961.

Francisco J. Laínez succeeded Guillermo Sevilla Sacasa as Governor for Nicaragua, September 23, 1961.

J. J. González Gorrondona succeeded Alfredo Machado-Gomez as Governor for Venezuela, September 23, 1961.

Hernán Avendaño succeeded Benito Raul Losada as Alternate Governor for Venezuela, September 23, 1961.

Akram Darey and Abdel Hakim El Rifai ceased to be Governor and Alternate Governor, respectively, for the United Arab Republic, after the Executive Directors concluded on October 27, 1961 that the Syrian Arab Republic and the United Arab Republic are separate members of the Fund.

Masamichi Yamagiwa was reappointed Alternate Governor for Japan, December 1, 1961.

Sefik Inan succeeded Kemal Kurdaş as Governor for Turkey, December 21, 1961.

Ziya Müezzinoğlu succeeded Kemal Siber as Alternate Governor for Turkey, December 27, 1961.

André de Lattre succeeded Jean Sadrin as Alternate Governor for France, effective January 1, 1962.

Bienvenido Y. Dizon succeeded Eduardo Z. Romualdez as Alternate Governor for the Philippines, effective January 4, 1962.

José Joaquín Gómez succeeded Manuel V. Ramos as Governor for the Dominican Republic, effective February 19, 1962.

Walther Moreira Salles succeeded Clemente Mariani Bittencourt as Governor for Brazil, February 23, 1962.

M. W. Holtrop was reappointed Governor for the Netherlands, effective March 1, 1962.

E. van Lennep was reappointed Alternate Governor for the Netherlands, effective March 1, 1962.

C. C. Stephani was appointed Governor for Cyprus, March 8, 1962.

A. M. Pikis was appointed Alternate Governor for Cyprus, March 8, 1962.

Carlos A. Coll Benegas succeeded Roberto T. Alemann as Governor for Argentina, March 9, 1962.

Lydia Pichardo Lapeyretta was appointed Alternate Governor for the Dominican Republic, March 15, 1962.

Giuseppe Pella resigned as Governor for Italy, March 24, 1962.

Abdel Moneim El Kaissouni was appointed Governor for the United Arab Republic, March 31, 1962.

P. C. Bhattacharyya succeeded H. V. R. Iengar as Alternate Governor for India, effective April 6, 1962.

Charles Dunbar Sherman was appointed Governor for Liberia, April 23, 1962.

James Milton Weeks was appointed Alternate Governor for Liberia, April 23, 1962.

Appendix III. EXECUTIVE DIRECTORS AND VOTING POWER as of April 30, 1962

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	25.14
D. B. Pitblado *Raymond H. Bonham Carter*	United Kingdom	19,750	19,750	11.96
Jean de Largentaye *Jacques Waïtzenegger*	France	8,125	8,125	4.92
Wilhelm Hanemann *Walter Habermeier*	Federal Republic of Germany	8,125	8,125	4.92
J. J. Anjaria *S. L. N. Simha*	India	6,250	6,250	3.79
ELECTED				
Ahmed Zaki Saad (United Arab Republic) *Albert Mansour (United Arab Republic)*	Afghanistan	475		
	Ethiopia	364		
	Iran	950		
	Iraq	400		
	Jordan	313		
	Lebanon	317		
	Pakistan	1,750		
	Philippines	1,000		
	Saudi Arabia	800		
	Sudan	400		
	Syrian Arab Republic	400		
	United Arab Republic	1,150	8,319	5.04
Gengo Suzuki (Japan) *M. Kumashiro (Japan)*	Burma	550		
	Ceylon	700		
	Japan	5,250		
	Thailand	700	7,200	4.36
André van Campenhout (Belgium) *Maurice Toussaint (Belgium)*	Austria	1,000		
	Belgium	3,625		
	Korea	437		
	Luxembourg	370		
	Turkey	1,110	6,542	3.96
Louis Rasminsky (Canada) *L. Denis Hudon (Canada)*	Canada	5,750		
	Ireland	700	6,450	3.91

Appendix III (*continued*). EXECUTIVE DIRECTORS AND VOTING POWER as of April 30, 1962

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Per Cent of Total
José Antonio Mayobre (Venezuela)	Costa Rica	400		
Jorge A. Montealegre (Nicaragua)	Cuba	750		
	El Salvador	362		
	Guatemala	400		
	Honduras	362		
	Mexico	2,050		
	Nicaragua	362		
	Venezuela	1,750	6,436	3.90
J. M. Garland (Australia)	Australia	4,250		
F. C. Pryor (Australia)	South Africa	1,750		
	Viet-Nam	435	6,435	3.90
Pieter Lieftinck (Netherlands)	Israel	500		
H. M. H. A. van der Valk (Netherlands)	Netherlands	4,375		
	Yugoslavia	1,450	6,325	3.83
Guillermo Walter Klein (Argentina)	Argentina	3,050		
Javier Urrutia (Chile)	Bolivia	475		
	Chile	1,250		
	Ecuador	400		
	Paraguay	362		
	Uruguay	550	6,087	3.69
Maurício C. Bicalho (Brazil)	Brazil	3,050		
Vacant	Colombia	1,250		
	Dominican Republic	400		
	Haiti	362		
	Panama	255		
	Peru	575	5,892	3.57
Beue Tann (China)	China	5,750	5,750	3.48
I-Shuan Sun (China)				
Thorhallur Ásgeirsson (Iceland)	Denmark	1,550		
Gabriel Kielland (Norway)	Finland	820		
	Iceland	362		
	Norway	1,250		
	Sweden	1,750	5,732	3.47

Appendix III (*concluded*). EXECUTIVE DIRECTORS AND VOTING POWER as of April 30, 1962

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Per Cent of Total
Sergio Siglienti (Italy)	Greece	850		
Costa P. Caranicas (Greece)	Italy	2,950		
	Spain	1,750	5,550	3.36
Soetikno Slamet (Indonesia)	Ghana	600		
Amon Nikoi (Ghana)	Indonesia	1,900		
	Libya	360		
	Malaya	575		
	Morocco	775		
	Tunisia	412	4,622	2.80
			165,090[2]	100.00

[1] Voting power varies on certain matters with use by members of the Fund's resources.
[2] This total does not include the votes of Cyprus, Laos, Liberia, Nepal, New Zealand, Nigeria, and Portugal, which did not participate in the Eighth Regular Election of Executive Directors.

Appendix IV. Changes in Membership of Executive Board

Changes in the membership of the Executive Board between May 1, 1961 and April 30, 1962 were as follows:

Lempira E. Bonilla (Honduras) served as Temporary Alternate Executive Director to José Antonio Mayobre (Venezuela), May 10, June 16 (p.m.), and December 18 to 20, 1961, and February 9 to 16, 1962.

C. S. Krishna Moorthi (India) served as Temporary Alternate Executive Director to B. N. Adarkar (India), May 17, 1961.

José Aragonés (Spain) served as Temporary Alternate Executive Director to Sergio Siglienti (Italy), June 16, 1961.

B. N. Adarkar (India) resigned as Executive Director for India, June 21, 1961.

I. G. Patel (India), formerly Alternate Executive Director to B. N. Adarkar (India), was appointed Executive Director for India for the period June 22 to July 31, 1961.

L. Denis Hudon (Canada) served as Temporary Alternate Executive Director to Louis Rasminsky (Canada), June 30, 1961.

C. L. Read (Canada) resigned as Alternate Executive Director to Louis Rasminsky (Canada), June 30, 1961.

L. Denis Hudon (Canada) was appointed Alternate Executive Director to Louis Rasminsky (Canada), effective July 1, 1961.

A. F. M. van der Ven (Netherlands) served as Temporary Alternate Executive Director to Pieter Lieftinck (Netherlands), July 5 to 7 and September 29, 1961.

J. J. Anjaria (India) was appointed Executive Director for India, effective August 1, 1961.

I. G. Patel (India) was appointed Alternate Executive Director to J. J. Anjaria (India), effective August 1, 1961.

Juan Haus Solís (Bolivia) served as Temporary Alternate Executive Director to Guillermo Walter Klein (Argentina), August 11, 1961 and April 25, 1962.

Octavio Rainho da Silva Neves (Brazil) served as Temporary Alternate Executive Director to Maurício C. Bicalho (Brazil), August 11 and September 29, 1961.

Jacques de Groote (Belgium) served as Temporary Alternate Executive Director to André van Campenhout (Belgium), August 28 to September 6, 1961.

Harold G. Heinrich (Australia) served as Temporary Alternate Executive Director to J. M. Garland (Australia), September 29, 1961.

Dominique Sauvel (France) served as Temporary Alternate Executive Director to Jean de Largentaye (France), September 29, 1961.

Gabriel Costa Carvalho (Brazil) resigned as Alternate Executive Director to Maurício C. Bicalho (Brazil), November 20, 1961.

W. A. McKay (Canada) served as Temporary Alternate Executive Director to Louis Rasminsky (Canada), December 8, 1961.

I. G. Patel (India) resigned as Alternate Executive Director to J. J. Anjaria (India), effective December 11, 1961.

S. L. N. Simha (India) was appointed Alternate Executive Director to J. J. Anjaria (India), effective December 12, 1961.

Wilfried Guth (Federal Republic of Germany) resigned as Executive Director for the Federal Republic of Germany, December 31, 1961.

Wilhelm Hanemann (Federal Republic of Germany) was appointed Executive Director for the Federal Republic of Germany, effective January 1, 1962.

Helmut Koinzer (Federal Republic of Germany), formerly Alternate Executive Director to Wilfried Guth (Federal Republic of Germany), was appointed Alternate Executive Director to Wilhelm Hanemann (Federal Republic of Germany), effective January 1, 1962.

Marcilio Marques Moreira (Brazil) served as Temporary Alternate Executive Director to Maurício C. Bicalho (Brazil), January 5 to 19, 1962.

Carlos Brignone (Argentina) served as Temporary Alternate Executive Director to Guillermo Walter Klein (Argentina), January 19 and April 11 to 16, 1962.

W. P. Higman (United Kingdom) served as Temporary Alternate Executive Director to D. B. Pitblado (United Kingdom), March 23, 1962.

Helmut Koinzer (Federal Republic of Germany) resigned as Alternate Executive Director to Wilhelm Hanemann (Federal Republic of Germany), March 31, 1962.

Walter Habermeier (Federal Republic of Germany) was appointed Alternate Executive Director to Wilhelm Hanemann (Federal Republic of Germany), effective April 1, 1962.

Appendix V. FUND TRANSACTIONS: RECONCILIATION OF

from the beginning of

(In millions of

Member (1)	Member's Currency Sold by Fund to Other Members for Their Currency (Col. 2 total equals Col. 3) (2)	Currency Purchased by Member Against Own Currency (Col. 3 total equals Col. 2) (3)	Member's Currency Repurchased by Member with Convertible Currency or Gold (4)	Repurchases of Currency Paid on Subscription in Excess of 75% of Quota (5)	Repurchases of Charges Paid in Member's Currency (6)
Argentina	16.0	277.5	69.5		
Australia		225.0	239.1	14.1	
Austria			7.5	7.5	
Belgium	113.4	83.0	71.6		
Bolivia		14.9	8.6		
Brazil		368.5	188.5		
Burma		15.0	18.2	3.2	
Canada	100.0				
Ceylon		22.5	3.0	3.0	
Chile		139.7	54.7	3.7	
Colombia		110.0	40.0		
Costa Rica		11.3	2.1	0.9	
Cuba		72.5	47.5		
Czechoslovakia		6.0			
Denmark	0.8	44.2	55.3	11.1	
Dominican Republic		9.0			
Ecuador		20.0	5.0		
El Salvador		29.3	29.2		
Ethiopia		0.6	2.0	1.4	
Finland		9.5	18.2	8.7	
France	369.0	518.8	529.0	23.1	
Germany	634.5		45.1	45.1	
Guatemala		3.0			
Haiti		6.9	4.4		
Honduras		18.8	13.2		
Iceland		6.8			
India		550.0	299.9		
Indonesia		152.5	82.0	12.0	
Iran		103.5	83.0		
Iraq			2.0	2.0	
Israel		3.8	3.8		
Italy	215.2				
Japan	80.0	249.0	249.0		
Lebanon			0.9	0.9	
Libya			1.1	1.1	
Mexico		112.5	67.4		
Morocco			7.5	7.5	
Netherlands	184.5	144.1	139.1		
Nicaragua		14.0	9.5		
Norway		9.6	9.6		
Pakistan		12.5			
Paraguay		8.1	5.4		
Peru		14.5	17.6	3.1	
Philippines		58.3	23.7		
South Africa		83.7	83.7		
Spain		50.0	65.0	15.0	
Sudan		6.3	3.3		
Sweden	35.0		8.0	8.0	
Syrian Arab Republic		15.0	4.3	1.5	
Turkey		89.5	46.5		
United Arab Republic		107.7	43.5	5.5	
United Kingdom	451.2	2,361.5	1,366.6	41.4	14.0
United States	4,065.8				
Yugoslavia		106.9	24.0		
Total[1]	6,265.5	6,265.5	4,098.1	219.7	14.0

[1] Items below $50,000 do not appear; because of this, and of rounding, totals do not agree with the sums of the items shown.

PURCHASES, REPURCHASES, AND REPAYMENTS

operations to April 30, 1962

U.S. dollars)

Repurchases Having Effect of Repayment of Currency Purchased (Col. 4 minus 5 and 6) (7)	Sales of Member's Currency Having Effect of Repayment (8)	Other Minor Items Having Effect of Repayment (9)	Total Repayments (Col. 7 plus 8 and 9) (10)	Total Purchases Not Yet Repaid (Col. 3 minus 10) (11)	Member (12)
69.5	16.0		85.5	192.0	Argentina
225.0			225.0	—	Australia
				—	Austria
71.6	11.4		83.0	—	Belgium
8.6			8.6	6.3	Bolivia
188.5			188.5	180.0	Brazil
15.0			15.0	—	Burma
				—	Canada
				22.5	Ceylon
51.0			51.0	88.7	Chile
40.0			40.0	70.0	Colombia
1.2			1.2	10.0	Costa Rica
47.5			47.5	25.0	Cuba
		6.0[2]	6.0[2]	—	Czechoslovakia
44.2			44.2	—	Denmark
				9.0	Dominican Republic
5.0			5.0	15.0	Ecuador
29.2			29.2	—	El Salvador
0.6			0.6	—	Ethiopia
9.5			9.5	—	Finland
505.9	12.5	0.4	518.8	—	France
				—	Germany
				3.0	Guatemala
4.4			4.4	2.5	Haiti
13.2			13.2	5.6	Honduras
				6.8	Iceland
299.9			299.9	250.1	India
70.0			70.0	82.5	Indonesia
83.0			83.0	20.5	Iran
				—	Iraq
3.8			3.8	—	Israel
				—	Italy
249.0			249.0	—	Japan
				—	Lebanon
				—	Libya
67.4		0.1	67.5	45.0	Mexico
				—	Morocco
139.1	5.0		144.1	—	Netherlands
9.5			9.5	4.5	Nicaragua
9.6			9.6	—	Norway
				12.5	Pakistan
5.4			5.4	2.8	Paraguay
14.5			14.5	—	Peru
23.7			23.7	34.6	Philippines
83.7			83.7	—	South Africa
50.0			50.0	—	Spain
3.3			3.3	2.9	Sudan
				—	Sweden
2.9			2.9	12.1	Syrian Arab Republic
46.5			46.5	43.0	Turkey
38.0			38.0	69.7	United Arab Republic
1,311.2	334.5[3]		1,645.7	715.8	United Kingdom
				—	United States
24.0			24.0	82.9	Yugoslavia
3,864.3	379.4	6.7	4,250.3	2,015.2	Total[1]

[2] Settlement by withdrawing member.
[3] Includes the equivalent of sales of sterling which reduced the Fund's holdings of sterling below 75 per cent of the U.K. quota by $43.5 million, and which had the effect of repaying an equivalent part of a subsequent drawing by the United Kingdom.

Appendix VI. SCALE OF FUND CHARGES

The following charges are made by the Fund: a service charge of ½ of 1 per cent of the amount of the purchase of a currency from the Fund, a charge of ¼ of 1 per cent per annum for stand-by arrangements (credited against the service charge if the member makes a purchase during the period of the stand-by), and a charge payable by the member on the Fund's holdings of its currency that exceed its quota. The rate of charge on balances in excess of quota rises in two dimensions: the larger the member's drawings relative to its quota, and the longer the period during which the Fund holds the member's currency.

Charges on transactions effected in 1954 or later are as follows:

Charge for Period Stated and for Portion of Holdings in Excess of Quota

Portion of Holdings Exceeding Quota	Per Cent		
By more than	0	50	75
But by not more than	50	75	100
Service Charge	0.5	0.5	0.5
Charge for Period of	Per Cent Per Annum		
0 to 3 months	0.0	0.0	0.0
3 to 6 months	2.0	2.0	2.0
½ to 1 year	2.0	2.0	2.5
1 to 1½ years	2.0	2.5	3.0
1½ to 2 years	2.5	3.0	3.5
2 to 2½ years	3.0	3.5	4.0*
2½ to 3 years	3.5	4.0*	4.5
3 to 3½ years	4.0*	4.5	5.0
3½ to 4 years	4.5	5.0	
4 to 4½ years	5.0		

Average Effective Rates[1] for Portion of Holdings in Excess of Quota

Portion of Holdings Exceeding Quota	Per Cent		
By more than	0	50	75
But by not more than	50	75	100
Average for Period of	Per Cent Per Annum		
3 months	2.00	2.00	2.00
6 months	2.00	2.00	2.00
1 year	2.00	2.00	2.25
1½ years	2.00	2.17	2.50
2 years	2.12	2.38	2.75
2½ years	2.30	2.60	3.00
3 years	2.50	2.83	3.25
3½ years	2.71	3.07	3.50
4 years	2.94	3.31	
4½ years	3.17		

When a charge reaches 4 per cent per annum, the Fund and the member must consult on means to reduce the Fund's holding of the member's currency. The charge continues to increase by an additional ½ per cent per annum each six months, subject to the following provisions: If agreement is reached for full repurchase

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

* Point at which the Fund and the member consult.

within five years from the date of the drawing, the maximum rate is 5 per cent per annum; but a higher maximum may be fixed by the Fund if the agreement is for a repurchase running beyond five years. Failing agreement, the Fund may impose such charges as it deems appropriate after the rate of 5 per cent per annum is reached.

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

Appendix VII. ADMINISTRATIVE BUDGET

Letter of Transmittal

June 29, 1962

My dear Mr. Chairman:

The administrative budget of the Fund approved by the Executive Board for the Fiscal Year ending April 30, 1963 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

Administrative Budget as Approved by the Executive Board for the Fiscal Year Ending April 30, 1963, Compared with Actual Expenditures for the Fiscal Years 1960-61 and 1961-62

Category of Expenditure	Budget F.Y. 1962-63	F.Y. 1961-62 Budget	F.Y. 1961-62 Actual Expenditures	Actual Expenditures F.Y. 1960-61
I. BOARD OF GOVERNORS	$ 288,000	$ 380,000	$ 369,257	$ 221,887
II. OFFICE OF EXECUTIVE DIRECTORS				
Salaries	$ 777,000	$ 770,000	$ 756,908	$ 728,944
Other compensations and benefits	171,000	159,000	149,179	137,872
Travel	233,000	210,000	181,648	177,671
Total	$1,181,000	$1,139,000	$1,087,735	$1,044,487
III. STAFF				
Salaries	$4,077,000	$3,729,000	$3,656,301	$3,379,480
Other compensations and benefits	1,437,000	1,287,000	1,265,275	1,139,594
Travel	930,000	870,000	798,275	768,486
Total	$6,444,000	$5,886,000	$5,719,851	$5,287,560
IV. OTHER ADMINISTRATIVE EXPENSES				
Communications	$ 234,000	$ 230,000	$ 222,943	$ 180,882
Office occupancy expenses	325,000	317,000	301,895	200,380
Books and printing	186,000	175,000	152,404	135,759
Supplies and equipment	160,000	165,000	153,137	143,465
Miscellaneous	162,000	168,000	142,755	132,291
Total	$1,067,000	$1,055,000	$ 973,134	$ 792,777
TOTAL	$8,980,000	$8,460,000	$8,149,977	$7,346,711

Appendix VIII. Comparative Statement of Income and of Total Administrative Expenditure

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

	Year Ended Apr. 30, 1960	Year Ended Apr. 30, 1961	Year Ended Apr. 30, 1962
INCOME[1]			
Service charges			
Received in gold . .	$ 807,982	$ 2,808,750	$ 4,676,273
Received in members' currencies . .	19,688	76,250	6,539,719
Total	$ 827,670	$ 2,885,000	$11,215,992
Charges on Fund's holdings of members' currencies and securities in excess of quotas			
Received in gold	$11,761,918	$ 7,910,044	$15,914,728
Received in members' currencies.	5,144,818	3,103,122	5,444,359
Total	$16,906,736	$11,013,166	$21,359,087
Other operational income	$ 3,267,393	$ 652,207	$ 530,636
Miscellaneous income.	536	627	1,053
TOTAL INCOME.	$21,002,335	$14,551,000	$33,106,768
TOTAL ADMINISTRATIVE EXPENDITURE	$ 6,673,337	$ 7,346,711	$ 8,149,977

[1] Excludes income from investments transferred to Special Reserve for the fiscal years ended April 30, as follows:

1960 . . . . . . $15,359,726
1961 19,866,077
1962 22,779,476

Appendix IX

FINANCIAL STATEMENTS

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Appendix IX. Financial Statements of International Monetary Fund and Staff Retirement Fund

Letter of Transmittal

June 29, 1962

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, 1962, together with two memoranda from the Audit Committee, which include the audit certificates.

In conformity with the By-Laws, the external audit of the Fund has been performed by an Audit Committee consisting of auditors nominated by three member countries. At the Fund's request, Argentina, Finland, and the United States nominated auditors to serve on this Committee. They respectively nominated Mr. Luis Larrosa, Chief Accountant, Banco Central de la República Argentina; Mr. Svante Kihlman, Chairman of the Board of Directors of the Association of Certified Public Accountants of Finland and member of the Board of Auditors, Central Chamber of Commerce; and Mr. Samuel J. Elson, Deputy Commissioner, Central Reports, Bureau of Accounts, U.S. Treasury Department. The auditors thus nominated were confirmed by the Executive Directors.

It will be noted that, in the period under review, ordinary income amounted to $33,106,768 and expenditure amounted to $8,155,802, resulting in a net income of $24,950,966, which has been transferred provisionally to General Reserve pending Board of Governors' action. In addition, income of $22,779,476 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 29, 1962

To the Managing Director
and the Executive Directors
International Monetary Fund

The report of the Audit Committee, dated June 29, 1962, 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, 1962, includes the following paragraphs relating to the scope of the audit conducted and the audit certificate given:

SCOPE OF THE AUDIT

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

AUDIT CERTIFICATE

We have made an independent examination of the Balance Sheet of the International Monetary Fund as at April 30, 1962, of the Statement of Income and Expenditure 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.

As a result of our examination, we report that, in our opinion, such Balance Sheet and related Statement of Income and Expenditure, together with the notes appearing thereon, present fairly the financial position of the International Monetary Fund as at April 30, 1962, 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/ Samuel J. Elson, Chairman (United States)

/s/ Luis Larrosa (Argentina)

/s/ Svante Kihlman (Finland)

Exhibit A

BALANCE

as at April

Values expressed in U.S. dollars on the

ASSETS

GOLD ACCOUNT (Schedule 1)			
Gold with depositories (See Note 2)		$2,099,220,408	
(59,977,725.955 fine ounces, at US$35.00 per ounce)			
Investments (See Note 3)			
$810,578,000 U. S. Government securities maturing within 12 months, at cost	$799,973,266		
Funds awaiting investment	18,245	799,991,511	$ 2,899,211,919
CURRENCIES AND SECURITIES (Schedule 2)			
With depositories (See Note 4)			
Currencies	$2,370,258,790		
Securities	9,168,510,744	$11,538,769,534	
(nonnegotiable, noninterest bearing demand obligations, payable at face value by members in their currencies)			
Add: Currency adjustment receivable		1,092,140	11,539,861,674
(in accordance with Article IV, Section 8)			
SUBSCRIPTIONS TO CAPITAL—RECEIVABLE (Schedule 3)			
Balances not due			744,527,149
(members whose par values have not yet been established)			
SUBSCRIPTION DUE FROM MEMBER IN RESPECT OF AUTHORIZED INCREASE IN QUOTA (Contra)			50,000,000
OTHER ASSETS (See Note 5) (Schedule 4)			14,246,144
(receivables, accruals, prepayments, and sundry cash)			
TOTAL ASSETS			$15,247,846,886

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):

Afghanistan afghani	20.0000	Indonesian rupiah	45.0000	Thai baht	21.0000
Argentine peso	83.0000	Korean hwan	1,250.00	Tunisian dinar	238.000
Bolivian boliviano	11,875.0	Malayan dollar	3.06122	Vietnamese piastre	35.0000
Canadian dollar	1.05000	Paraguayan guaraní	122.000		
Chilean escudo	1.04900	Peruvian sol	26.8100		

2. Excludes 20,696.670 fine ounces earmarked for members.
3. Made with the proceeds of the sale of 22,856,900.312 fine ounces of gold. Upon termination of the investment, the same quantity of gold can be reacquired.
4. Gold valued at $29.9 million has been pledged as collateral by a member to secure the repurchase of an equivalent amount of its currency not later than twelve months from the date of the related exchange transactions.
5. The assets and liabilities of the Staff Retirement Fund are not included in this Balance Sheet.
6. A stand-by charge has, under certain circumstances, to be credited against the service charge for a drawing under the stand-by arrangement; the maximum amount on April 30, 1962 is $3,722,312. A portion of the stand-by charge is refundable to a member if the arrangement is canceled; the maximum amount on April 30, 1962 is $1,456,719.

Exhibit A

SHEET

30, 1962

basis of established parities (See Note 1)

CAPITAL, RESERVES, AND LIABILITIES

CAPITAL		
Authorized subscriptions of members (Schedule 3)		$15,056,900,000
RESERVES (Exhibit C)		
Special reserve	$64,944,366	
General reserve	71,812,436	136,756,802
SUBSCRIPTION IN RESPECT OF INCREASE IN QUOTA CONSENTED TO BUT NOT YET EFFECTIVE		
Payment due (Contra)		50,000,000
PROVISION FOR POTENTIAL REFUNDS OF STAND-BY CHARGES (See Note 6)		3,722,312
OTHER LIABILITIES (See Note 5) (Schedule 5) (*accruals, etc.*)		467,772
TOTAL CAPITAL, RESERVES, AND LIABILITIES		$15,247,846,886

/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, 1962

Income

Operational charges		$11,746,628	
Charges on balances in excess of quotas		21,359,087	
Other income		1,053	
Total Income (See Note 1)			$33,106,768

Expenditure

Board of Governors		$ 369,257	
Office of Executive Directors			
Salaries	$756,908		
Other compensations and benefits	149,179		
Travel	181,648	1,087,735	
Staff			
Salaries	$3,656,301		
Other compensations and benefits	1,265,275		
Travel	798,275	5,719,851	
Other administrative expenses			
Communications	$222,943		
Office occupancy expenses	301,895		
Books and printing (See Note 2)	152,404		
Supplies and equipment	153,137		
Miscellaneous	142,755	973,134	
Total Administrative Expenditure		$8,149,977	
Other expenditure			
Gold handling and conversion costs	$6,381		
Exchange adjustments	(556)	5,825	
Total Expenditure			8,155,802
Net Income			$24,950,966
(Transferred provisionally to General Reserve pending Board of Governors' action) (Exhibit C)			

Notes:

1. Excludes income from investments amounting to $22,779,476, transferred to Special Reserve (Exhibit C).
2. After deduction of $50,540 for sales of Fund's publications.

STATEMENT OF RESERVES
for the year ended April 30, 1962

SPECIAL RESERVE (See Note)			
Balance, April 30, 1961		$42,164,890	
Add Income from investments in U. S. Government securities for year		22,779,476	
Balance, April 30, 1962			$ 64,944,366
GENERAL RESERVE			
Balance, April 30, 1961		$46,985,046	
Add Net income for year (Exhibit B), transferred provisionally pending Board of Governors' action		24,950,966	
		$71,936,012	
Deduct Transfer to Staff Retirement Plan for past service cost relating to previous fiscal years, resulting from September 5, 1961 amendments to the Plan	$65,387		
Refund of stand-by charges relating to previous fiscal year	58,189	123,576	
Balance, April 30, 1962			71,812,436
TOTAL RESERVES (carried to Balance Sheet)			$136,756,802

NOTE:
Represents income from investments in U.S. Government securities from November 1, 1957.

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Schedule 1 to Exhibit A

GOLD ACCOUNT
as at April 30, 1962

(Cents omitted, therefore details may not add to totals)

Gold with depositories (*59,977,725.955*[1] *fine ounces, at US$35.00 per fine ounce*)			$2,099,220,408

Investments in U. S. Government securities:

Maturing Within	*Face Value*	*Cost*	
3 months	$384,970,000	$380,956,003	
4 to 6 months	114,500,000	111,861,890	
7 to 9 months	123,740,000	121,633,729	
10 to 12 months	187,368,000	185,521,642	
	$810,578,000	$799,973,266	
Funds awaiting investment		18,245	799,991,511
TOTAL GOLD ACCOUNT (carried to Balance Sheet)			$2,899,211,919

[1] Excludes 20,696.670 fine ounces held under earmark by the Fund for the following members:

Member	*Fine Ounces*	*Member*	*Fine Ounces*
Afghanistan	2.258	Libya	0.012
Argentina	2.564	Malaya	2.403
Australia	0.046	Morocco	3.301
Bolivia	3.546	Nicaragua	48.629
Brazil	1.398	Pakistan	1.336
Ceylon	42.137	Paraguay	1.152
Chile	9,736.221	Peru	132.753
Colombia	442.977	Philippines	3.435
Costa Rica	13.534	Saudi Arabia	0.759
Cuba	270.781	South Africa	268.586
Dominican Republic	0.228	Spain	20.996
Ecuador	178.691	Sudan	11.239
El Salvador	7,016.634	Syrian Arab Republic	0.182
Ethiopia	1,820.947	Thailand	0.984
France	0.050	Tunisia	1.040
Guatemala	2.704	Turkey	0.243
Haiti	261.729	United Arab Republic	149.905
Honduras	38.103	United Kingdom	39.383
Iceland	0.010	Viet-Nam	0.405
India	131.777	Yugoslavia	5.044
Indonesia	36.505		
Iran	0.542	TOTAL	20,696.670
Lebanon	1.501		

Appendix IX (*continued*)

Schedule 2 to Exhibit A

CURRENCIES AND
as at April
(Cents and fractional units omitted,

Depositories	National Currencies	Amounts in With Depositories Securities	Currency
Da Afghanistan Bank	Afghanis	—	187,435,199
Banco Central de la República Argentina	Pesos	17,197,434,000	16,168,371,104
Reserve Bank of Australia	Pounds	137,253,065	8,922,045
Austrian National Bank	Schillings	1,439,605,000	19,611,107
Banque Nationale de Belgique	Francs	10,386,338,391	169,111,470
Banco Central de Bolivia	Bolivianos	199,178,899,288	79,516,900,202
Superintendencia da Moeda e do Credito (Brazil)	Cruzeiros	—	7,214,117,853
Union Bank of Burma	Kyats	105,614,512	1,548,705
Bank of Canada	Dollars	379,000,000	6,416,360
Central Bank of Ceylon	Rupees	158,498,344	109,806,277
Banco Central de Chile	Escudos	—	171,712,917
Banco de la República (Colombia)	Pesos	—	282,747,563
Banco Central de Costa Rica	Colones	—	140,762,764
Banco Nacional de Cuba	Pesos	—	62,499,827
Danmarks Nationalbank	Kroner	658,871,074	8,991,520
Banco Central de la República Dominicana	Pesos	10,747,968	9,501,780
Banco Central del Ecuador	Sucres	—	472,494,726
Banco Central de Reserva de El Salvador	Colones	—	21,091,715
State Bank of Ethiopia	Dollars	20,907,319	306,011
Bank of Finland	Markkas	13,489,212,753	184,640,664
Banque de France	New Francs	1,881,600,000	38,976,889
Deutsche Bundesbank	Deutsche Mark	1,010,300,000	31,542,389
Bank of Ghana	Pounds	10,398,069	125,292
Bank of Greece	Drachmas	—	1,349,998,036
Banco de Guatemala	Quetzales	—	14,234,221
Banque Nationale de la République d'Haiti	Gourdes	41,618,304	13,140,163
Banco Central de Honduras	Lempiras	16,640,759	11,382,738
Central Bank of Iceland	Krónur	317,000,000	340,199,441
Reserve Bank of India	Rupees	2,468,880,000	1,289,534,559
Bank Indonesia	Rupiahs	5,494,200,000	3,787,019,186
Bank Markazi Iran	Rials	5,470,446,783	55,041,112
Central Bank of Iraq	Dinars	3,959,072	53,889
Central Bank of Ireland	Pounds	12,961,482	160,915
Bank of Israel	Pounds	55,490,161	752,160
Banca d'Italia	Lire	—	29,529,004,016

SECURITIES
30, 1962
therefore details may not add to totals)

Members' Currencies					
Totals	Currency Adjustment Receivable[1]	Totals After Currency Adjustment	Exchange Rates[2]	U.S. Dollar Equivalents	Per Cent of Quota
187,435,199		187,435,199	20.0000*	9,371,759[3]	—
33,365,805,104		33,365,805,104	83.0000*	401,997,651	143.6
146,175,111		146,175,111	224.000†	327,432,249	81.9
1,459,216,107		1,459,216,107	26.0000	56,123,696	74.8
10,555,449,861		10,555,449,861	50.0000	211,108,997	62.6
278,695,799,490		278,695,799,490	11,875.0*	23,469,119	104.3
7,214,117,853		7,214,117,853	18.5000	389,952,316	139.3
107,163,218		107,163,218	21.0000†	22,504,275	75.0
385,416,360	1,146,747	386,563,107	1.05000*	368,155,340	66.9
268,304,621		268,304,621	21.0000†	56,343,970	125.2
171,712,917		171,712,917	1.04900*	163,692,008	163.7
282,747,563		282,747,563	1.94998	145,000,237	145.0
140,762,764		140,762,764	6.62500	21,247,209	141.6
62,499,827		62,499,827	1.00000	62,499,827	125.0
667,862,595		667,862,595	6.90714	96,691,625	74.4
20,249,748		20,249,748	1.00000	20,249,748	135.0
472,494,726		472,494,726	18.0000	26,249,707	175.0
21,091,715		21,091,715	2.50000	8,436,686	75.0
21,213,331		21,213,331	40.2500†	8,538,365	74.9
13,673,853,417		13,673,853,417	320.000	42,730,791	75.0
1,920,576,889		1,920,576,889	4.93706	389,012,264	49.4
1,041,842,389		1,041,842,389	4.00000	260,460,597	33.1
10,523,361		10,523,361	280.000†	29,465,412	84.2
1,349,998,036		1,349,998,036	30.0000	44,999,934	75.0
14,234,221		14,234,221	1.00000	14,234,221	94.9
54,758,468		54,758,468	5.00000	10,951,693	97.3
28,023,498		28,023,498	2.00000	14,011,749	124.5
657,199,441		657,199,441	43.0000	15,283,707	135.9
3,758,414,559		3,758,414,559	21.0000†	789,267,057	131.5
9,281,219,186		9,281,219,186	45.0000*	206,249,315	125.0
5,525,487,896		5,525,487,896	75.7500	72,943,734	104.2
4,012,961		4,012,961	280.000†	11,236,292	74.9
13,122,398		13,122,398	280.000†	36,742,715	81.7
56,242,322		56,242,322	3.00000	18,747,440	75.0
29,529,004,016		29,529,004,016	625.000	47,246,406	17.5

Schedule 2 to Exhibit A
(*concluded*)

CURRENCIES AND
as at April
(Cents and fractional units omitted,

Depositories	National Currencies	Amounts in: With Depositories: Securities	Amounts in: With Depositories: Currency
Bank of Japan	Yen	113,394,366,218	1,802,627,919
Ottoman Bank (Jordan)	Dinars	1,893,968	22,574
Bank of Korea	Hwan	5,781,250,000	78,125,000
Banque de Syrie et du Liban (Lebanon)	Pounds	10,698,122	357,560
National Bank of Libya	Pounds	2,906,139	39,405
Caisse d'Epargne de l'Etat (Luxembourg)	Francs	544,601,334	6,027,371
Central Bank of Malaya	Dollars	16,836,710	359,711
Banco de México	Pesos	—	2,250,000,501
Banque du Maroc	Dirhams	196,588,559	2,657,440
De Nederlandsche Bank N. V.	Guilders	761,500,000	16,286,288
Reserve Bank of New Zealand	Pounds	33,260,000	451,147
Banco Central de Nicaragua	Córdobas	—	90,562,850
Norges Bank	Kroner	528,357,542	7,179,318
State Bank of Pakistan	Rupees	630,841,698	66,626,749
Banco Nacional de Panama	Balboas	367,000	5,162
Banco Central del Paraguay	Guaraníes	—	1,364,397,501
Banco Central de Reserva del Peru	Soles	644,737,145	8,728,772
Central Bank of the Philippines	Pesos	59,500,000	122,084,781
Saudi Arabian Monetary Agency	Riyals	183,139,882	2,479,428
South African Reserve Bank	Rand	79,254,130	1,103,009
Banco de España	Pesetas	6,000,000,000	749,976,793
Bank of Sudan	Pounds	5,699,702	53,479
Sveriges Riksbank	Kronor	—	452,454,882
Banque Centrale de Syrie (Syrian Arab Republic)	Pounds	24,317,697	26,890,180
Bank of Thailand	Baht	505,009,000	6,841,896
Banque Centrale de Tunisie	Dinars	1,304,000	19,529
Banque Centrale de la République de Turquie	Liras	753,787,759	212,744,403
Central Bank of Egypt (United Arab Republic	Pounds	23,294,134	24,480,914
Bank of England	Pounds	774,525,000	6,992,435
Federal Reserve Bank of New York	Dollars	2,620,000,000	74,462,079
Riggs National Bank of Washington, D.C.[4]	Dollars	—	151,480
Banco de la República Oriental del Uruguay	Pesos	164,269,653	2,229,287
Banco Central de Venezuela	Bolívares	371,796,449	5,037,814
National Bank of Viet-Nam	Piastres	—	157,500,000
Banque Nationale de la République Fédérative Populaire de Yougoslavie	Dinars	—	54,033,567,681
TOTALS (in U.S. dollar equivalents)		$9,168,510,744	$2,370,258,790

[1] In accordance with Article IV, Section 8.
[2] Parity rates, except for those marked *, which are provisional rates for bookkeeping purposes. Rates marked † represents U.S. cents per currency unit; all other rates represent currency units per U.S. dollar.

SECURITIES
30, 1962
therefore details may not add to totals)

Members' Currencies: Totals	Currency Adjustment Receivable[1]	Totals After Currency Adjustment	Exchange Rates[2]	U.S. Dollar Equivalents	Per Cent of Quota
115,196,994,137		115,196,994,137	360.000	319,991,650	64.0
1,916,542		1,916,542	280.000†	5,366,320	85.2
5,859,375,000		5,859,375,000	1,250.00*	4,687,500[3]	—
11,055,683		11,055,683	2.19148	5,044,847	74.7
2,945,545		2,945,545	280.000†	8,247,526	75.0
550,628,705		550,628,705	50.0000	11,012,574	91.8
17,196,421		17,196,421	3.06122*	5,617,506[3]	—
2,250,000,501		2,250,000,501	12.5000	180,000,040	100.0
199,246,000		199,246,000	5.06049	39,372,867	75.0
777,786,288		777,786,288	3.62000	214,858,090	52.1
33,711,147		33,711,147	278.090†	93,747,329	75.0
90,562,850		90,562,850	7.00000	12,937,550	115.0
535,536,860		535,536,860	14.0000†	74,975,160	75.0
697,468,447		697,468,447	21.0000†	146,468,373	97.6
372,162		372,162	1.00000	372,162	74.4
1,364,397,501		1,364,397,501	122.000*	11,183,586	99.4
653,465,918		653,465,918	26.8100*	24,373,961	75.0
181,584,781		181,584,781	2.00000	90,792,390	121.1
185,619,310		185,619,310	4.50000	41,248,735	75.0
80,357,140		80,357,140	140.000†	112,499,996	75.0
6,749,976,793		6,749,976,793	60.0000	112,499,613	75.0
5,753,181		5,753,181	287.156†	16,520,605	110.1
452,454,882		452,454,882	5.17321	87,461,147	58.3
51,207,877		51,207,877	2.19148	23,366,801	155.8
511,850,896		511,850,896	21.0000*	24,373,852[3]	—
1,323,529		1,323,529	238.000†*	3,150,000[3]	—
966,532,162		966,532,162	9.00000	107,392,462	124.9
47,775,049		47,775,049	287.156†	137,188,921	152.4
781,517,435		781,517,435	280.000†	2,188,248,819	112.2
2,694,462,079		2,694,462,079		2,694,462,079	65.3
151,480		151,480		151,480	
166,498,940		166,498,940	7.40000	22,499,856	75.0
376,834,264		376,834,264	3.35000	112,487,840	75.0
157,500,000		157,500,000	35.0000*	4,500,000[3]	—
54,033,567,681		54,033,567,681	300.000	180,111,892	150.1
$11,538,769,534	$1,092,140	$11,539,861,674		$11,539,861,674	

[3] Represents currency paid in respect of an increase in quota; the currency portion of the original subsciption will not become due until a par value has been established.
[4] Checking accounts are maintained with Riggs National Bank of Washington, D.C., for the purpose of making local payments for administrative expenditures.

Appendix IX (*continued*)

Schedule 3 to Exhibit A

STATUS OF SUBSCRIPTIONS TO CAPITAL
as at April 30, 1962

(Expressed in U.S. dollars)

(Cents omitted, therefore details may not add to totals)

Members	Quotas	Subscriptions to Capital Receivable		*Notation*
		Balances Not Due (par values not established)	Balances Due (par values established)	Increases in Quotas Consented to But Not Yet Effective
Afghanistan	$ 22,500,000	$ 7,499,972		
Argentina	280,000,000			
Australia	400,000,000			
Austria	75,000,000			
Belgium	337,500,000			
Bolivia	22,500,000			
Brazil	280,000,000			
Burma	30,000,000			
Canada	550,000,000			
Ceylon	45,000,000			
Chile	100,000,000			
China	550,000,000	549,945,000		
Colombia	100,000,000			
Costa Rica	15,000,000			
Cuba	50,000,000			$50,000,000[1]
Cyprus	11,250,000	9,297,482		
Denmark	130,000,000			
Dominican Republic	15,000,000			
Ecuador	15,000,000			
El Salvador	11,250,000			
Ethiopia	11,400,000			3,600,000[2]
Finland	57,000,000			
France	787,500,000			
Germany, Federal Republic of	787,500,000			
Ghana	35,000,000			
Greece	60,000,000			
Guatemala	15,000,000			
Haiti	11,250,000			
Honduras	11,250,000			
Iceland	11,250,000			
India	600,000,000			
Indonesia	165,000,000			
Iran	70,000,000			
Iraq	15,000,000			
Ireland	45,000,000			
Israel	25,000,000			
Italy	270,000,000			
Japan	500,000,000			
Jordan	6,300,000			4,950,000[2]
Korea	18,750,000	9,374,974		

Status of Subscriptions to Capital
as at April 30, 1962
(Expressed in U.S. Dollars)
(Cents omitted, therefore details may not add to totals)

Members	Quotas	Subscriptions to Capital Receivable		*Notation*
		Balances Not Due (par values not established)	Balances Due (par values established)	Increases in Quotas Consented to But Not Yet Effective
Laos	$ 7,500,000	$ 5,624,944		
Lebanon	6,750,000			
Liberia	11,250,000	11,092,402		
Libya	11,000,000			$4,000,000[2]
Luxembourg	12,000,000			3,000,000[2]
Malaya	32,500,000	24,124,989		5,000,000[2]
Mexico	180,000,000			
Morocco	52,500,000			
Nepal	7,500,000	7,237,496		
Netherlands	412,500,000			
New Zealand	125,000,000			
Nicaragua	11,250,000			
Nigeria	50,000,000	44,999,923		
Norway	100,000,000			
Pakistan	150,000,000			
Panama	500,000			
Paraguay	11,250,000			
Peru	32,500,000			5,000,000[2]
Philippines	75,000,000			
Portugal	60,000,000	44,999,975		
Saudi Arabia	55,000,000			
South Africa	150,000,000			
Spain	150,000,000			
Sudan	15,000,000			
Sweden	150,000,000			
Syrian Arab Republic	15,000,000			
Thailand	45,000,000	9,374,991		
Tunisia	16,200,000	11,579,998		6,300,000[2]
Turkey	86,000,000			
United Arab Republic	90,000,000			
United Kingdom	1,950,000,000			
United States	4,125,000,000			
Uruguay	30,000,000			
Venezuela	150,000,000			
Viet-Nam	18,500,000	9,374,995		4,000,000[2]
Yugoslavia	120,000,000			
Totals	$15,056,900,000	$744,527,149	Nil	

[1] Subscription payment due.
[2] Subscription installments not yet due.

Appendix IX (*continued*)

Schedule 4 to Exhibit A

OTHER ASSETS

as at April 30, 1962

(Cents omitted, therefore details may not add to total)

ACCOUNTS RECEIVABLE—MEMBERS		$ 6,750,054
ACCRUED INCOME FROM INVESTMENTS		7,266,997
SUNDRY DEBTORS		141,492
PREPAYMENTS		56,878
SUNDRY CASH		30,721
FIXED PROPERTY		
At cost	$5,728,686	
Less: Reserve	5,728,686	—
FURNITURE, EQUIPMENT, AND AUTOMOBILES		
At cost	$940,507	
Less: Reserve	940,507	—
LIBRARIES		
At cost	$88,360	
Less: Reserve	88,360	—
TOTAL OTHER ASSETS (carried to Balance Sheet)		$14,246,144

Schedule 5 to Exhibit A

OTHER LIABILITIES

as at April 30, 1962

(Cents omitted, therefore details may not add to total)

ACCRUALS	$377,440
ACCOUNTS PAYABLE	74,159
DEFERRED CREDITS	16,172
TOTAL OTHER LIABILITIES (carried to Balance Sheet)	$467,772

Staff Retirement Fund

Memorandum by the Audit Committee

June 29, 1962

To the Managing Director
and the Executive Directors
International Monetary Fund

The report of the Audit Committee, dated June 29, 1962, 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, 1962, includes the following paragraphs relating to the scope of the audit conducted, the investments held, and the audit certificate given with respect to the Staff Retirement Fund:

Scope of the Audit

An examination was made by the Audit Committee of the separate accounts and financial statements relating to the Staff Retirement Fund for the fiscal year ended April 30, 1962. 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, and examined the Report on the Thirteenth Actuarial Valuation of the Plan as at April 30, 1961 submitted on July 28, 1961 by the Staff Retirement Fund's Actuary. The Audit Committee made what it considered an adequate test check of the various classes of transactions, taking into account the audit coverage made by the Internal Auditor, as reported by him to the Committee. The report of the Internal Auditor, among other audit activities conducted by his staff, showed that a detailed examination had been made of the Participants' Accounts.

Investments

A confirmation was received by the Audit Committee directly from the depository concerning the investments held by it as at April 30, 1962, as custodian for the International Monetary Fund Staff Retirement Fund. The Audit Committee 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	34.04	$ 3,587,961
International Bank for Reconstruction and Development	Maximum 20	15.45	1,628,394
Corporate (other than convertible)	Maximum 25	17.71	1,866,163
Corporate convertible	Maximum 5	—	—
Corporate stocks	Maximum 35	32.80	3,455,757
Totals		100.00	$10,538,275

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, 1962, we report that, in our opinion, the Balance Sheet, Statement of Source and Application of Funds, 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, 1962 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/ Samuel J. Elson, Chairman (United States)

/s/ Luis Larrosa (Argentina)

/s/ Svante Kihlman (Finland)

Exhibit I

STAFF RETIREMENT FUND

BALANCE SHEET

as at April 30, 1962

ASSETS

CASH AT BANKS			$ 9,470
INVESTMENTS			
Bonds, at amortized value			
United States Government (*market value, $3,597,093*)	$3,587,961		
International Bank for Reconstruction and Development (*market value, $1,666,223*)	1,628,394		
Corporate (*market value, $1,714,583*)	1,866,163	$7,082,518	
Corporate stocks (common), at cost (*market value, $4,963,656*)		3,455,757	10,538,275
ACCRUED INTEREST ON BONDS			108,235
ACCRUED CONTRIBUTIONS FROM PARTICIPANTS AND EMPLOYER			26,423
TOTAL ASSETS			$10,682,403

LIABILITIES AND RESERVES

PARTICIPANTS' ACCOUNT (Schedule I)	$ 2,285,011
ACCUMULATION ACCOUNT (Schedule II)	7,263,418
RETIREMENT RESERVE ACCOUNT (Schedule III)	843,323
RESERVE AGAINST INVESTMENTS (Schedule IV)	290,651
TOTAL LIABILITIES AND RESERVES	$10,682,403

/s/ Y. C. KOO
Treasurer

/s/ PER JACOBSSON
Managing Director

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

Appendix IX *(continued)*

Schedule I to Exhibit I

STAFF RETIREMENT FUND
STATEMENT OF PARTICIPANTS' ACCOUNT
for the year ended April 30, 1962

(Cents omitted, therefore details may not add to totals)

	Prior Service	*Participating Service*	*Additional Contributions*
BALANCE, April 30, 1961	—	$1,966,204	$11,735
Add			
Participants' contributions	$6,931	$ 306,197	$ 4,080
Interest credited to participants		65,320	432
Transfers from prior service contributions		6,931	
Transfers from IBRD Retirement Plan		5,735	
	$6,931	$ 384,184	$ 4,512
Deduct			
Refunds on withdrawals of participants		$ 48,686	
Refunds on death (prior to retirement)		6,378	
Transfers to Retirement Reserve Account		26,561	
Transfers to participating service contributions	$6,931		
	$6,931	$ 81,626	—
BALANCE, April 30, 1962	—	$2,268,762	$16,248
TOTAL (carried to Balance Sheet)		$2,285,011	

Staff Retirement Fund
Statement of Accumulation Account
for the year ended April 30, 1962

(Cents omitted, therefore details may not add to totals)

BALANCE, April 30, 1961		$6,375,120
Add		
Employer's contributions		
Participating service	$627,192	
Prior service	23,834	651,026
Income from investments		
Interest earned on bonds	$269,125	
Dividends received on corporate stocks	151,937	
Other	725	421,788
Net profit on sales of investments	$6,248	
Less: Transfer to Reserve Against Investments	6,248	—
Transfers from IBRD Retirement Plan		22,629
		$7,470,565
Deduct		
Transfers to Retirement Reserve Account	$88,153	
Withdrawal benefits	12,906	
Death benefits (prior to retirement)	16,886	
Interest transferred to Participants' Account	65,752	
Interest transferred to Retirement Reserve Account	23,447	207,147
BALANCE, April 30, 1962 (carried to Balance Sheet)		$7,263,418

Schedule III to Exhibit I

Staff Retirement Fund
Statement of Retirement Reserve Account
for the year ended April 30, 1962

(Cents omitted, therefore details may not add to totals)

Balance, April 30, 1961		$749,281
Add		
Transfers from		
Participants' Account	$26,561	
Accumulation Account	88,153	114,715
Interest credited		23,447
		$887,444
Deduct		
Pension payments to		
Retired participants	$40,308	
Beneficiaries of deceased participants	3,813	44,121
Balance, April 30, 1962 (carried to Balance Sheet)		$843,323

Schedule IV to Exhibit I

Staff Retirement Fund
Statement of Reserve Against Investments
for the year ended April 30, 1962

(Cents omitted, therefore details may not add to totals)

Balance, April 30, 1961			$284,402
Add			
Transfer from Accumulation Account, representing			
Profits on sales of			
Bonds	$2,458		
Corporate stocks	9,172	$11,630	
Less: Losses on sales of bonds		5,382	6,248
Balance, April 30, 1962 (carried to Balance Sheet)			$290,651

Exhibit II

Staff Retirement Fund

Statement of Source and Application of Funds

for the year ended April 30, 1962

Funds Provided		
By Income		
Participants' contributions		
Prior service	$ 6,931	
Participating service	306,197	
Additional voluntary contributions	4,080	$ 317,208
Employer's contributions		651,027
Income from investments	$421,063	
Less: Amortization of bond discounts and premiums (net)	5,171	415,892
Transfers from Retirement Plan of International Bank for Reconstruction and Development		28,365
Total Income		$1,412,492
By Investments		
Sales and redemptions of investments (book value)		
U.S. Treasury bonds	$328,858	
Corporate bonds	51,421	
Corporate stocks	52,478	432,757
By Profits from Sales and Redemptions of Investments (net), Transferred to Reserve Against Investments		6,248
Total Funds Provided		$1,851,497
Funds Applied		
To Withdrawals, Death Benefits, and Pension Payments		
Payments to participants on withdrawal		$ 61,593
Death benefits (prior to retirement)		23,265
Pension payments to		
Retired participants	$40,309	
Beneficiaries of deceased participants	3,813	44,122
Total Withdrawals, Death Benefits, and Pension Payments		$ 128,980
To Purchases of Investments		1,720,773
To Increase in Working Capital Between 1961 and 1962 (Schedule I)		1,744
Total Funds Applied		$1,851,497

Appendix IX (*concluded*)

Schedule I to Exhibit II

STAFF RETIREMENT FUND

STATEMENT OF CHANGES IN WORKING CAPITAL

(Cents omitted, therefore details may not add to totals)

	April 30, 1962	April 30, 1961	Increase (+) Decrease (—)
CURRENT ASSETS			
Cash	$ 9,470	$ 9,695	—$ 225
Accrued interest on bonds	108,235	112,522	— 4,287
Accrued contributions receivable from participants and employer	26,423	23,401	+ 3,020
	$144,128	$145,620	—$1,492
Less: Current liabilities			
Accounts payable	—	3,236	— 3,236
WORKING CAPITAL (increase carried to Exhibit II)	$144,128	$142,383	+$1,744

Appendix X. Schedule of Par Values—as of June 30, 1962

A. 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[1]	Afghani	Par value not yet established			
Argentina[2]	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[3]	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	Dollar	0.822 021	37.837 8	1.081 08	92.500 0
Ceylon	Rupee	0.186 621	166.667	4.761 90	21.000 0
Chile[4]	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	0.134 139	231.875	6.625 00	15.094 3
Cuba	Peso	0.888 671	35.000 0	1.000 00	100.000
Cyprus	Pound	Par value not yet established			
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	0.049 370 6	630.000	18.000 0	5.555 56
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	0.222 168	140.000	4.000 00	25.000 0
Ghana	Pound	2.488 28	12.500 0	0.357 143	280.000
Greece	Drachma	0.029 622 4	1,050.00	30.000 0	3.333 33
Guatemala	Quetzal	0.888 671	35.000 0	1.000 00	100.000

SCHEDULE OF PAR VALUES—as of June 30, 1962

A. CURRENCIES OF METROPOLITAN AREAS (*concluded*)

		Par Values In Terms of Gold		Par Values In Terms of U.S. Dollars	
Member	Currency	Grams of fine gold per currency unit	Currency units per troy ounce of fine gold	Currency units per U.S. dollar	U.S. cents per currency unit
Haiti	Gourde	0.177 734	175.000	5.000 00	20.000 0
Honduras	Lempira	0.444 335	70.000 0	2.000 00	50.000 0
Iceland	Króna	0.020 666 8	1,505.00	43.000 0	2.325 58
India	Rupee	0.186 621	166.667	4.761 90	21.000 0
Indonesia[1]	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	0.296 224	105.000	3.000 00	33.333 3
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 [1]	Hwan	Par value not yet established			
Laos	Kip	Par value not yet established			
Lebanon	Pound	0.405 512	76.701 8	2.191 48	45.631 3
Liberia	Dollar	Par value not yet established			
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[1]	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
Nepal	Rupee	Par value not yet established			
Netherlands	Guilder	0.245 489	126.700	3.620 00	27.624 3
New Zealand	Pound	2.471 30	12.585 9	0.359 596	278.090
Nicaragua	Córdoba	0.126 953	245.000	7.000 00	14.285 7
Nigeria	Pound	Par value not yet established			
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[5]	Guaraní				
Peru[1, 6]	Sol				
Philippines	Peso	0.444 335	70.000 0	2.000 00	50.000 0
Portugal	Escudo	0.030 910 3	1,006.25	28.750 0	3.478 26
Saudi Arabia	Riyal	0.197 482	157.500	4.500 00	22.222 2
South Africa	Rand	1.244 14	25.000 0	0.714 286	140.000
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
Syrian Arab Republic	Pound	0.405 512	76.701 8	2.191 48	45.631 3
Thailand[1]	Baht	Par value not yet established			
Tunisia[1]	Dinar	Par value not yet established			
Turkey	Lira	0.098 741 2	315.000	9.000 00	11.111 1
United Arab Republic	Pound	2.551 87	12.188 5	0.348 242	287.156
United Kingdom	Pound Sterling	2.488 28	12.500 0 (or 250 shillings)	0.357 143	280.000
United States	Dollar	0.888 671	35.000 0	1.000 00	100.000
Uruguay	Peso	0.120 091	259.000	7.400 00	13.513 5
Venezuela	Bolívar	0.265 275	117.250	3.350 00	29.850 7
Viet-Nam[1]	Piastre	Par value not yet established			
Yugoslavia	Dinar	0.002 962 24	10,500.0	300.000	0.333 333

[1] 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).

[2] 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.

[3] 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 11,875 bolivianos per U.S. dollar.

[4] 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.

[5] 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. Computations by the Fund involving guaraníes are made at the rate of 122 guaraníes per U.S. dollar.

[6] 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. No new par value has been proposed to the Fund. Computations by the Fund involving Peruvian soles are made in accordance with the rules on transactions and computations for fluctuating currencies; see *Annual Report*, 1955, pages 125-27.

SCHEDULE OF PAR VALUES—as of June 30, 1962

B. 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					
Ruanda-Urundi[1]	Franc (parity with Belgian franc)	0.017 773 4	1,750.00	50.000 0	2.000 00
FRANCE					
Algeria [1]	New Franc (parity with French new franc)	0.180 000	172.797	4.937 06	20.255 0
French Guiana Guadeloupe Martinique	Franc (= 0.01 French new franc)	0.001 800 00	17,279.7	493.706	0.202 550
Comoro Islands Réunion St. Pierre and Miquelon	CFA Franc (= 0.02 French new franc)	0.003 600 00	8,639.86	246.853	0.405 099
French Polynesia New Caledonia New Hebrides Wallis and Futuna Islands	CFP 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
NETHERLANDS					
Netherlands Antilles	Guilder (= 1.919 555 Netherlands guilders)	0.471 230	66.004 9	1.885 85	53.026 4
Netherlands New Guinea	Guilder	Par value not yet established			
Surinam	Guilder (= 1.919 555 Netherlands guilders)	0.471 230	66.004 9	1.885 85	53.026 4

UNITED KINGDOM					
Gambia Federation of Rhodesia and Nyasaland Bahamas Bermuda Falkland Islands Gibraltar Jamaica Malta	West African Pound[2] Rhodesia and Nyasaland Pound[2] Bahamas Pound[2] Bermuda Pound[2] Falkland Islands Pound[2] Gibraltar Pound[2] Jamaican Pound[2] Maltese Pound[2]	2.488 28	12.500 0	0.357 143	280.000
Aden Kenya Uganda Zanzibar	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	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] Became independent in July 1962.
[2] Parity with sterling.

Appendix XI. Executive Board Decisions

A. Use of the Fund's Resources for Capital Transfers

After full consideration of all relevant aspects concerning the use of the Fund's resources, the Executive Directors decide by way of clarification that Decision No. 71–2[1] does not preclude the use of the Fund's resources for capital transfers in accordance with the provisions of the Articles, including Article VI.

Decision No. 1238–(61/43)

July 28, 1961

B. Sale of Gold to Replenish Fund's Currency Holdings

1. The Managing Director shall arrange for the sale of not more than the equivalent of the following amounts of gold to the members listed below for the replenishment of the Fund's currency holdings under Article VII, Section 2:

	Amounts in millions of U.S. dollars
United States	150
France	90
Germany	90
Italy	40
Netherlands	40
Belgium	30
Canada	25
Japan	25
Sweden	10

[1] *First Annual Meeting of the Board of Governors, Report of the Executive Directors and Summary Proceedings, September 27 to October 3, 1946,* page 106, last paragraph.

2. There shall be added after "Article V, Section 6(a)," in paragraph II.1(ii) (a) of Executive Board Decision No. 321–(54/32)[1] the words "or the sale of gold by the Fund under Article VII, Section 2,".

3. The sales referred to in paragraph 1 above shall be at the parity price, or in accordance with Decision No. 321–(54/32)[1] as amended by paragraph 2 above where Decision No. 321–(54/32) applies, and without the payment of charges.

Decision No. 1245–(61/45)

August 4, 1961

C. Transactions and Computations Involving Fluctuating Currencies

Paragraph II.1.(ii)(a) of Executive Board Decision No. 321–(54/32)[1] is amended to read as follows:

> For the sale or purchase by the Fund of a fluctuating currency in exchange for another currency, or the purchase of gold by the Fund under Article V, Section 6(a), or the sale of gold by the Fund under Article VII, Section 2, or voluntary repurchase, or borrowing or the repayment of borrowing under Article VII, Section 2, the last business day in the main financial center of the country of the fluctuating currency, before the Fund instructs its depository to transfer or receive the fluctuating currency.

Decision No. 1283–(61/56)

December 20, 1961

[1] *Annual Report,* 1955, pages 125-27.

D. General Arrangements to Borrow

Preamble

In order to enable the International Monetary Fund to fulfill more effectively its role in the international monetary system in the new conditions of widespread convertibility, including greater freedom for short-term capital movements, the main industrial countries have agreed that they will, in a spirit of broad and willing cooperation, strengthen the Fund by general arrangements under which they will stand ready to lend their currencies to the Fund up to specified amounts under Article VII, Section 2 of the Articles of Agreement when supplementary resources are needed to forestall or cope with an impairment of the international monetary system in the aforesaid conditions. In order to give effect to these intentions, the following terms and conditions are adopted under Article VII, Section 2 of the Articles of Agreement.

Paragraph 1. *Definitions*

As used in this Decision the term:

(*i*) "Articles" means the Articles of Agreement of the International Monetary Fund;

(*ii*) "credit arrangement" means an undertaking to lend to the Fund on the terms and conditions of this Decision;

(*iii*) "participant" means a participating member or a participating institution;

(*iv*) "participating institution" means an official institution of a member that has entered into a credit arrangement with the Fund with the consent of the member;

(*v*) "participating member" means a member of the Fund that has entered into a credit arrangement with the Fund;

(*vi*) "amount of a credit arrangement" means the maximum amount expressed in units of its currency that a participant undertakes to lend to the Fund under a credit arrangement;

(*vii*) "call" means a notice by the Fund to a participant to make a transfer under its credit arrangement to the Fund's account;

(*viii*) "borrowed currency" means currency transferred to the Fund's account under a credit arrangement;

(*ix*) "drawer" means a member that purchases borrowed currency from the Fund in an exchange transaction or in an exchange transaction under a stand-by arrangement;

(*x*) "indebtedness" of the Fund means the amount it is committed to repay under a credit arrangement.

Paragraph 2. *Credit Arrangements*

A member or institution that adheres to this Decision undertakes to lend its currency to the Fund on the terms and conditions of this Decision up to the amount in units of its currency set forth in the Annex to this Decision or established in accordance with Paragraph 3(*b*).

Paragraph 3. *Adherence*

(*a*) Any member or institution specified in the Annex may adhere to this Decision in accordance with Paragraph 3(*c*).

(*b*) Any member or institution not specified in the Annex that wishes to become a participant may at any time, after consultation with the Fund, give notice of its willingness to adhere to this Decision, and, if the Fund shall so agree and no participant object, the member or institution may adhere in accordance with Paragraph 3(*c*). When giving notice of its willingness to adhere under this Paragraph 3(*b*) a member or institution shall specify the amount, expressed in terms of its currency, of the credit arrangement which it is willing to enter into, provided that the amount shall not be less than the equivalent at the date of adherence of one hundred million United States dollars of the weight and fineness in effect on July 1, 1944.

(*c*) A member or institution shall adhere to this Decision by depositing with the Fund an instrument setting forth that it has adhered in accordance with its law and has taken all steps necessary to enable it to carry out the terms and conditions of this Decision. On the deposit of the instrument the member or institution shall be a participant as of the date of the deposit or of the effective date of this Decision, whichever shall be later.

Paragraph 4. *Entry into Force*

This Decision shall become effective when it has been adhered to by at least seven of the members or institutions included in the Annex with credit arrangements amounting in all to not less than the equivalent of five and one-half billion United States dollars of the weight and fineness in effect on July 1, 1944.

Paragraph 5. *Changes in Amounts of Credit Arrangements*

The amounts of participants' credit arrangements may be reviewed from time to time in the light of developing circumstances and changed with the agreement of the Fund and all participants.

Paragraph 6. *Initial Procedure*

When a participating member or a member whose institution is a participant approaches the Fund on an exchange transaction or stand-by arrangement and the Managing Director, after consultation, considers that the exchange transaction or stand-by arrangement is necessary in order to forestall or cope with an impairment of the international monetary system, and that the Fund's resources need to be supplemented for this purpose, he shall initiate the procedure for making calls under Paragraph 7.

Paragraph 7. *Calls*

(*a*) The Managing Director shall make a proposal for calls for an exchange transaction or for future calls for exchange transactions under a stand-by arrangement only after consultation with Executive Directors and participants. A proposal shall become effective only if it is accepted by participants and the proposal is then approved by the Executive Directors. Each participant shall notify the Fund of the acceptance of a proposal involving a call under its credit arrangement.

(*b*) The currencies and amounts to be called under one or more of the credit arrangements shall be based on the present and prospective balance of payments and reserve positions of participating members or members whose institutions are participants and on the Fund's holdings of currencies.

(*c*) Unless otherwise provided in a proposal for future calls approved under Paragraph 7(*a*), purchases of borrowed currency under a stand-by arrangement shall be made in the currencies of participants in proportion to the amounts in the proposal.

(*d*) If a participant on which calls may be made pursuant to Paragraph 7(*a*) for a drawer's purchases under a stand-by arrangement gives notice to the Fund that in the participant's opinion, based on the present and prospective balance of payments and reserve position, calls should no longer be made on the participant or that calls should be for a smaller amount, the Managing Director may propose to other participants that substitute amounts be made available under their credit arrangements, and this proposal shall be subject to the procedure of Paragraph 7(*a*). The proposal as originally approved under Paragraph 7(*a*) shall remain effective unless and until a proposal for substitute amounts is approved in accordance with Paragraph 7(*a*).

(*e*) When the Fund makes a call pursuant to this Paragraph 7, the participant shall promptly make the transfer in accordance with the call.

Paragraph 8. *Evidence of Indebtedness*

(*a*) The Fund shall issue to a participant, on its request, non-negotiable instruments evidencing the Fund's indebtedness to the participant. The form of the instruments shall be agreed between the Fund and the participant.

(*b*) Upon repayment of the amount of any instrument issued under Paragraph 8(*a*) and all accrued interest, the instrument shall be returned to the Fund for cancellation. If less than the amount of any such instrument is repaid, the instrument shall be returned to the Fund and a new instrument for the remainder of the amount shall be substituted with the same maturity date as in the old instrument.

Paragraph 9. *Interest and Charges*

(*a*) The Fund shall pay a charge of one-half of one per cent on transfers made in accordance with Paragraph 7(*e*).

(*b*) The Fund shall pay interest on its indebtedness at the rate of one and one-half per cent per annum. In the event that this becomes different from a basic rate determined as follows:

> the charge levied by the Fund pursuant to Article V, Section 8(a) plus the charge levied by the Fund pursuant to Article V, Section 8(c) (i), as changed from time to time under Article V, Section 8(e), during the first year after a purchase of exchange from the Fund, minus one-half of one per cent,

the interest payable by the Fund shall be changed by the same amount as from the date when the difference in the basic rate takes effect. Interest shall be paid as soon as possible after July 31, October 31, January 31, and April 30.

(*c*) Interest and charges shall be paid in gold to the extent that this can be effected in bars. Any balance not so paid shall be paid in United States dollars.

(*d*) Gold payable to a participant in accordance with Paragraph 9(*b*) or Paragraph 11 shall be delivered at any gold depository of the Fund chosen by the participant at which the Fund has sufficient gold for making the payment. Such delivery shall be free of any charges or costs for the participant.

Paragraph 10. *Use of Borrowed Currency*

The Fund's policies and practices on the use of its resources and stand-by arrangements, including those relating to the period of use, shall apply to purchases of currency borrowed by the Fund.

Paragraph 11. *Repayment by the Fund*

(*a*) Subject to the other provisions of this Paragraph 11, the Fund, five years after a transfer by a participant, shall repay the participant an amount equivalent to the transfer calculated in accordance with Paragraph 12. If the drawer for whose purchase participants make transfers is committed to repurchase at a fixed date earlier than five years after its purchase, the Fund shall repay the participants at that date. Repayment under this Paragraph 11(*a*) or under Paragraph 11(*c*) shall be, as determined by the Fund, in the participant's currency whenever feasible, or in gold, or, after consultation with the participant, in other currencies that are convertible in fact. Repayments to a participant under the subsequent provisions of this Paragraph 11 shall be credited against transfers by the participant for a drawer's purchases in the order in which repayment must be made under this Paragraph 11(*a*).

(*b*) Before the date prescribed in Paragraph 11(*a*), the Fund, after consultation with a participant, may make repayment to the participant, in part or in full, with any increases in the Fund's holdings of the participant's currency that exceed the Fund's working requirements, and participants shall accept such repayment.

(*c*) Whenever a drawer repurchases, the Fund shall promptly repay an equivalent amount, except in any of the following cases:

(*i*) The repurchase is under Article V, Section 7(b) and can be identified as being in respect of a purchase of currency other than borrowed currency.

(*ii*) The repurchase is in discharge of a commitment entered into on a purchase of currency other than borrowed currency.

(*iii*) The repurchase entitles the drawer to augmented rights under a stand-by arrangement pursuant to Section II of Decision No. 876–(59/15)[1] of the Executive Directors, provided that, to the extent that the drawer does not exercise such augmented rights, the Fund shall promptly repay an equivalent amount on the expiration of the stand-by arrangement.

(*d*) Whenever the Fund decides in agreement with a drawer that the problem for which the drawer made its purchases has been overcome, the drawer shall complete repurchase, and the Fund shall complete repayment and be entitled to use its holdings of the drawer's currency below 75 per cent of the drawer's quota in order to complete such repayment.

(*e*) Repayments under Paragraph 11(*c*) and (*d*) shall be made in the order established under Paragraph 11(*a*) and in proportion to the Fund's indebtedness to the participants that made transfers in respect of which repayment is being made.

(*f*) Before the date prescribed in Paragraph 11(*a*) a participant may give notice representing that there is a balance of payments need for repayment of part or all of the Fund's indebtedness and requesting such repayment. The Fund shall give the overwhelming benefit of any doubt to the participant's representation. Repayment shall be made after consultation with the participant in the currencies of other members that are convertible in fact, or made in gold, as determined by the Fund. If the Fund's holdings of currencies in which repayment should

[1] *Annual Report,* 1959, page 191.

be made are not wholly adequate, individual participants shall be requested, and will be expected, to provide the necessary balance under their credit arrangements. If, notwithstanding the expectation that the participants will provide the necessary balance, they fail to do so, repayment shall be made to the extent necessary in the currency of the drawer for whose purchases the participant requesting repayment made transfers. For all of the purposes of this Paragraph 11, transfers under this Paragraph 11(*f*) shall be deemed to have been made at the same time and for the same purchases as the transfers by the participant obtaining repayment under this Paragraph 11(*f*).

(*g*) All repayments to a participant in a currency other than its own shall be guided, to the maximum extent practicable, by the present and prospective balance of payments and reserve positions of the members whose currencies are to be used in repayment.

(*h*) The Fund shall at no time reduce its holdings of a drawer's currency below an amount equal to the Fund's indebtedness to the participants resulting from transfers for the drawer's purchases.

(*i*) When any repayment is made to a participant, the amount that can be called for under its credit arrangement in accordance with this Decision shall be restored *pro tanto* but not beyond the amount of the credit arrangement.

Paragraph 12. *Rates of Exchange*

(*a*) The value of any transfer shall be calculated as of the date of the transfer in terms of a stated number of fine ounces of gold or of the United States dollar of the weight and fineness in effect on July 1, 1944, and the Fund shall be obliged to repay an equivalent value.

(*b*) For all of the purposes of this Decision, the equivalent in currency of any number of fine ounces of gold or of the United States dollar of the weight and fineness in effect on July 1, 1944, or *vice versa,* shall be calculated at the rate of exchange at which the Fund holds such currency at the date as of which the calculation is made; provided however that the provisions of Decision No. 321–(54/32) of the Executive Directors on Transactions and Computations Involving Fluctuating Curriencies,[1] as amended by Decision No. 1245–(61/45)[2] and Decision No. 1283–(61/56),[3] shall determine the rate of exchange for any currency to which that decision, as amended, has been applied.

Paragraph 13. *Transferability*

A participant may not transfer all or part of its claim to repayment under a credit arrangement except with the prior consent of the Fund and on such terms and conditions as the Fund may approve.

Paragraph 14. *Notices*

Notice to or by a participating member under this Decision shall be in writing or by cable and shall be given to or by the fiscal agency of the participating member designated in accordance with Article V, Section 1 of the Articles and Rule G-1 of the Rules and Regulations of the Fund. Notice to or by a participating institution shall be in writing or by cable and shall be given to or by the participating institution.

Paragraph 15. *Amendment*

This Decision may be amended during the period prescribed in Paragraph 19(*a*) only by a decision of the Fund and with the concurrence of all participants. Such concurrence shall not be necessary for the modification of the Decision on its renewal pursuant to Paragraph 19(*b*).

[1] *Annual Report,* 1955, pages 125-27.
[2] Pages 232-33 above.
[3] Page 233 above.

Paragraph 16. *Withdrawal of Adherence*

A participant may withdraw its adherence to this Decision in accordance with Paragraph 19(*b*) but may not withdraw within the period prescribed in Paragraph 19(*a*) except with the agreement of the Fund and all participants.

Paragraph 17. *Withdrawal from Membership*

If a participating member or a member whose institution is a participant withdraws from membership in the Fund, the participant's credit arrangement shall cease at the same time as the withdrawal takes effect. The Fund's indebtedness under the credit arrangement shall be treated as an amount due from the Fund for the purpose of Article XV, Section 3 and Schedule D of the Articles.

Paragraph 18. *Suspension of Exchange Transactions and Liquidation*

(*a*) The right of the Fund to make calls under Paragraph 7 and the obligation to make repayments under Paragraph 11 shall be suspended during any suspension of exchange transactions under Article XVI of the Articles.

(*b*) In the event of liquidation of the Fund, credit arrangements shall cease and the Fund's indebtedness shall constitute liabilities under Schedule E of the Articles. For the purpose of Paragraph 1 (a) of Schedule E, the currency in which the liability of the Fund shall be payable shall be first the participant's currency and then the currency of the drawer for whose purchases transfers were made by the participant.

Paragraph 19. *Period and Renewal*

(*a*) This Decision shall continue in existence for four years from its effective date.

(*b*) This Decision may be renewed for such period or periods and with such modifications, subject to Paragraph 5, as the Fund may decide. The Fund shall adopt a decision on renewal and modification, if any, not later than twelve months before the end of the period prescribed in Paragraph 19(*a*). Any participant may advise the Fund not less than six months before the end of the period prescribed in Paragraph 19(*a*) that it will withdraw its adherence to the Decision as renewed. In the absence of such notice, a participant shall be deemed to continue to adhere to the Decision as renewed. Withdrawal of adherence in accordance with this Paragraph 19(*b*) by a participant, whether or not included in the Annex, shall not preclude its subsequent adherence in accordance with Paragraph 3(*b*).

(*c*) If this Decision is terminated or not renewed, Paragraphs 8 through 14, 17 and 18(*b*) shall nevertheless continue to apply in connection with any indebtedness of the Fund under credit arrangements in existence at the date of the termination or expiration of the Decision until repayment is completed. If a participant withdraws its adherence to this Decision in accordance with Paragraph 16 or Paragraph 19(*b*), it shall cease to be a participant under the Decision, but Paragraphs 8 through 14, 17 and 18(*b*) of the Decision as of the date of the withdrawal shall nevertheless continue to apply to any indebtedness of the Fund under the former credit arrangement until repayment has been completed.

Paragraph 20. *Interpretation*

Any question of interpretation raised in connection with this Decision which does not fall within the purview of Article XVIII of the Articles shall be settled to the mutual satisfaction of the Fund, the participant raising the question, and all other participants. For the purpose of this Paragraph 20 participants shall be deemed to include those former participants to which Paragraphs 8 through 14, 17 and 18(*b*) continue to apply pursuant to

Paragraph 19(*c*) to the extent that any such former participant is affected by a question of interpretation that is raised.

ANNEX

Participants and Amounts of Credit Arrangements

	Units of Participant's Currency	
1. United States of America	US$	2,000,000,000
2. Deutsche Bundesbank	DM	4,000,000,000
3. United Kingdom	£	357,142,857
4. France	NF	2,715,381,428
5. Italy	Lit	343,750,000,000
6. Japan	Yen	90,000,000,000
7. Canada	Can$	208,938,000
8. Netherlands	f.	724,000,000
9. Belgium	BF	7,500,000,000
10. Sweden	SKr	517,320,000

Decision No. 1289-(62/1)

January 5, 1962

E. Currencies to Be Drawn and to Be Used in Repurchases

The Board approves the statement entitled "Currencies to Be Drawn and to Be Used in Repurchases"[1] (SM/62/62, Revision 2), and this statement shall be incorporated in the Annual Report for 1962.

Decision No. 1371-(62/36)

July 20, 1962

[1] See pages 36-41 above.

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