FOR RELEASE
August 10, 1964

1964 ANNUAL REPORT

INTERNATIONAL MONETARY FUND

ANNUAL REPORT
1964

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INTERNATIONAL MONETARY FUND

ANNUAL REPORT

OF THE

EXECUTIVE DIRECTORS FOR THE FISCAL YEAR ENDED APRIL 30, 1964

WASHINGTON, D. C.

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INTERNATIONAL MONETARY FUND

Pierre-Paul Schweitzer

Managing Director and Chairman of the Executive Board

Frank A. Southard, Jr.

Deputy Managing Director

Executive Directors	Alternate Executive Directors
William B. Dale	John S. Hooker
Sir Eric Roll	J. A. Kirbyshire
René Larre	Gérard M. Teyssier
Ulrich Beelitz	Walter Habermeier
J. J. Anjaria	Arun K. Ghosh
Louis Kandé	Semyano Kiingi
Ahmed Zaki Saad	Albert Mansour
J. M. Garland	Roy Daniel
Gengo Suzuki	William Tennekoon
Pieter Lieftinck	H. M. H. A. van der Valk
André van Campenhout	Maurice Toussaint
A. F. W. Plumptre	S. J. Handfield-Jones
Sergio Siglienti	Costa P. Caranicas
Guillermo Walter Klein	Luis Escobar
Maurício C. Bicalho	Antonio de Abreu Coutinho
Práxedes Reina Hermosillo	Carlos Sansón
Beue Tann	I-Shuan Sun
Karl Skjaeveland	Lennart Olofsson
Sumanang	Amon Nikoi

Directors of Departments and Offices

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Hamzah Merghani	Director, African Department
D. S. Savkar	Director, Asian Department
L. A. Whittome	Director, European Department
Irving S. Friedman	Director, Exchange Restrictions Department
Jakob Saper	Acting Director, Fiscal Affairs Department
F. A. G. Keesing	Director, IMF Institute
Joseph Gold	General Counsel
Anwar Ali	Director, Middle Eastern Department
J. J. Polak	Director, Research and Statistics Department
Roman L. Horne	Secretary
Y. C. Koo	Treasurer
Jorge Del Canto	Director, Western Hemisphere Department
J. V. Mládek	Director, Central Banking Service
Jean-Paul Sallé	Director, Office in Europe (Paris)
J. Keith Horsefield	Chief Editor

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LETTER OF TRANSMITTAL

TO THE BOARD OF GOVERNORS

July 2, 1964

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, 1964.

Yours sincerely,

/s/

PIERRE-PAUL SCHWEITZER

Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

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Part I

THE WORLD ECONOMY AND THE FUND

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Chapter 1

General Survey

THE past year was marked by economic progress shared more evenly than for a long time among the different parts of the world. The rise in output in the industrial countries was generally more rapid than during 1962, and the trend in production, which had been hesitant in several key countries in late 1962 and early 1963, was clearly upward a year later. A particularly encouraging aspect was that the primary producing countries participated in the general economic improvement through an unusually large rise in their export earnings.

In contrast to other recent years, when there were significant exceptions, output expanded during 1963 at a satisfactory rate in all the industrial countries. In North America, the economic upswing that began more than three years ago continued through 1963 and appeared to be accelerating in early 1964. In the United Kingdom, recovery early in 1963, following several years of limited growth, was stimulated by expansionary policies, and gained momentum during the course of the year. While scarcity of labor continued to hamper economic expansion in continental Europe, industrial production in that area rose more rapidly than during the two preceding years. In Japan, a vigorous upswing followed the slowdown of 1962 that had arisen from measures to deal with the 1961 balance of payments crisis. The general rise in output in the industrial countries was also accompanied by a larger expansion in world trade than had been experienced for some years, and the value of exports of the primary producing countries rose in line with world trade, i.e., by about 9 per cent.

The rise in the exports of the primary producing countries was about equally attributable to higher volume and higher prices. Prices of primary products, after several years in which they had declined or remained low, rose markedly during 1963, and by early in 1964 had almost returned to their level prior to the general downturn that began in 1957. The improvement in export earnings was widespread and was shared by an increasing number of countries as the year progressed. Since price increases for a number of products came late in 1963, their effect on export receipts will in part be felt only in 1964. This and the further rise in prices in the first months of 1964 made the immediate prospects of primary producing countries more favorable than for many years, although problems of securing better access to export markets for their products persist.

Largely as a result of the rise in their export earnings, together with some increase in foreign aid, the balance of payments of the less industrialized primary producing countries as a group improved by $1.5 billion, changing from deficit to surplus. This was perhaps the most helpful development in international transactions in 1963. There was, however, also some evidence of a tendency toward a reduction in imbalances among the industrial countries, even though new situations of external disequilibrium arose in the course of the year.

The balance of payments deficit of the United States continued to run at a high rate in the first half of the year, but it fell sharply in the second half, and U.S. international transactions were in approximate balance in the first quarter of 1964. Although the improvement was in part due to transitory factors—including exceptional exports of agricultural commodities related to bad harvests in Eastern and Western Europe and the impact of the proposal for an interest equalization tax on certain outflows of capital—some basic influences were also at work. There are signs that three years of sustained growth of the U.S. economy under conditions of price stability, in combination with rising costs and falling profit margins in many of the other industrial countries, have tended to make foreign investments relatively less attractive than domestic investments. Recent trade developments also appear to reflect the increased international competitiveness that the United States has gradually been acquiring over the past few years, although firm evidence of this cannot, in the nature of things, be easily provided.

The balance of payments of the United Kingdom remained in surplus on current account throughout 1963. There was, however, some deterioration of the current balance in the course of the year, in part related to a rebuilding of inventories under the impact of rising activity and rising import prices. After the third quarter of 1963, an appreciable over-all deficit developed, financed, however, mainly by an accumulation of sterling balances, rather than by a decline in reserves.

In Japan, the very high rate of economic expansion has put some strains on the balance of payments; however, in part because the Japanese authorities have taken action earlier than on similar occasions in the past to prevent the boom from getting out of hand, and in part because of the high degree of prosperity in Japan's main markets, the balance of payments deficit on current account that developed was smaller than the inflow of capital.

In continental Europe, balance of payments developments showed conflicting tendencies. The over-all surplus of the area as a whole was largely unchanged from 1962 to 1963, remaining at about $2 billion; but it was lower in the second half of 1963 than in the same period of 1962, with signs of a further decline in early 1964. There was, moreover, a reduction of $0.8 billion from 1962 to 1963 in the area's balance on current account, which was thereby brought into approximate equilibrium. These developments were the product of marked changes in the positions of individual countries. A large German surplus re-emerged progressively in the course of 1963, after a year of near balance. The change was predominantly a reflection of rising demand pressures in the rest of the Common Market area, which in some cases reflected inflationary conditions. Such pressures were particularly strong in Italy where, after several years of substantial surplus, a large balance of payments deficit on current account was accompanied by an outflow of capital. Late in 1963, it became evident that strong demand pressures in France were causing a sizable reduction in the large and hitherto persistent French balance of payments surplus. Since mid-1963, both Italy and France have adopted measures aimed at restoring stability, and more recently attention has been given by the Common Market countries to the problem of inflation in the area as a whole. These efforts should help to reduce imbalances within the area and, although they may also slow down the progress toward solving the problem of the area's surplus position vis-à-vis the rest of the world, it was apparent by early 1964 that this latter problem had in any case come much nearer to its solution.

The major disequilibrium between the United States and the continent of Europe, which has disturbed international payments relationships for several years, appears now to have been sharply reduced. This has been accomplished without contractionary action in the major deficit country that might have had harmful repercussions in many parts of the world. The international monetary system has been able to meet the challenges to which it has been exposed, with a more intimate and effective international cooperation in monetary matters than at any time in history. It should be noted, however, that even after three years of continued expansion, unemployment remained high in the United States, and that the sharp rises in prices and costs in those countries which are still or have until recently been in surplus have created new problems of internal or external balance, or both. The existing rigidities of price systems and cost structures make it difficult for price reductions in deficit countries to play a major role in the adjustment of payments positions, and, with prices remaining stable in the United States, much of the adjustment in relative costs and prices has occurred through increases in the surplus countries. Once set in motion, however, an upward movement of prices and wages may continue after the international imbalance that it helped to correct has been eliminated.

At the same time, the recent sharp increases in costs and prices in the present or former surplus countries are not merely the effect of "imported inflation," i.e., an automatic or deliberate response to the balance of payments situation. Other factors have also been at work. For example, there were countries in which the rise in wages had lagged behind that in productivity, and this situation had built up pressure toward a redistribution of income shares between wage earners and entrepreneurs. The success of the continental European industrial countries and Japan in reaching their goals of full employment and a high rate of growth has also created pressures on wages and prices, whether or not they were, in any country at any particular time, accompanied by balance of payments surpluses.

Incomes policies have been given growing consideration as a possible means of mitigating tendencies toward cost inflation under full employment. Such policies seem likely to be used increasingly to supplement other instruments, although, even if they are generally adopted, there is no guarantee that they will be most effective in the countries chiefly prone to cost pressures. Nevertheless, an incomes policy can contribute to the adjustment process. In a deficit country, it can help to overcome a relatively unfavorable trend of costs and prices. A surplus country, confident in the effectiveness of its incomes policy in holding wage and price movements within appropriate limits, may be more willing to allow the expansionary tendencies of the surplus to have an impact on the economy.

The role of capital movements in facilitating balance of payments adjustment has also attracted increasing attention, focused on possibilities for improving the structure of capital markets in Europe. One point of emphasis has been a desire to correct the existing payments disequilibrium by limiting the outflow of capital from the United States and stimulating a net outflow of capital from continental Europe. The sharp rise in real income in continental Europe would seem to make it natural for that area to become once again a net exporter of capital, although the United States, with a very large part of the world's savings, must be expected to continue to be the most important net supplier of capital to the rest of the world. A revival of European capital markets has been given further impetus during the past year by the proposal for an interest equalization tax in the United States, which has led to some experimentation with new forms of international borrowing in Europe. It has to be borne in mind, however, that the flow of international capital is not always influenced by considerations of balance of payments equilibrium, which will vary over time; and that the removal of imperfections in the mechanism of capital markets cannot be counted upon at all times to ease international payments problems.

The potential role of private capital in assisting more effectively in the process of economic development also needs attention. The flow of private capital to the less developed countries has been discouraged in recent years by a number of phenomena that have accompanied the slow growth of the exports of these countries; these include weak payments and reserve positions, intensive use of payments restrictions, and inflationary developments in many countries brought about by efforts to reach development goals not compatible with the available real and financial resources. The new rise and higher level of prices for primary products, if they prove to be more than temporary, should improve investment opportunities in the less developed countries and also encourage the inflow of foreign capital where the climate for foreign investment is favorable. The movements of private capital are quite sensitive to political developments and attitudes, and actions taken against foreign investments in one country may seriously affect prospects for a flow of capital not only to that country, but also to other countries. But even where conditions are favorable, a substantial flow of private capital to some of the less developed countries will undoubtedly require a willingness, on the part of both investors and developing countries, to adopt new attitudes. It is, of course, equally important that the industrial countries should consider doing anything in their power, by fiscal or other means, to stimulate capital exports to the less developed countries.

However, the larger part of the inflow of foreign finance into the less developed countries will undoubtedly continue to take the form of bilateral or multilateral aid, the net flow of which in 1963 made up about four fifths of the total inflow of foreign financial resources. This may be the only form of foreign finance available, for instance, for some infrastructure projects and other social programs that yield a financial return only indirectly and in the long run. Much of official loans and aid continues to be tied to purchases in the country providing them. In order that aid can be utilized as effectively as possible, this limitation should not be resorted to unless there are compelling justifications for it.

The financial support which the Fund provides to countries in balance of payments difficulties—including that extended under the special compensatory financing facility for countries experiencing a temporary shortfall in export receipts—contributes to the process of economic growth. It does so by helping countries to avoid or reduce wasteful disruptions to economic development by tiding them over their temporary difficulties, or by assisting them to carry out stabilization plans. The Fund is vitally interested in the strengthening of national and international programs for development assistance. During the past year, it has continued to participate in an advisory capacity in the work of a number of consortia and consultative groups that have been set up to coordinate national and international efforts to extend aid to particular countries.

The Fund also warmly supports the efforts that are being made at the international level to improve international trading opportunities and, in particular, the access to markets in the advanced countries for the products of the less developed countries. It attaches great importance to current efforts to diversify these products. Nothing could contribute more to the balanced growth of the less developed countries than a steady rise in their export receipts. This would also help materially in achieving the guiding purposes of the Fund as set out in the Articles of Agreement—not only by promoting exchange stability and facilitating the expansion of international trade in all parts of the world, but also by contributing "to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members."

In two fields which are of special interest to it, the Fund has this year continued to evolve the programs of technical assistance that were outlined in last year's Annual Report. First, it has established a Fiscal Affairs Department, and is recruiting experts in such fields as tax policy, tax systems, tax administration, budgeting and revenues, and expenditure control. It is intended that the services of this Department will be made available as appropriate in the course of the ordinary consultations procedure and, when requested by member countries, by special assignments of technical advisors. Second, the Fund has established a Central Banking Service to assist those member countries that are planning to organize new central banks or to improve or strengthen existing ones. This Service will undertake to engage experts from older central banks to serve in executive or advisory capacities in the central bank requesting the assistance. The Fund has already provided a number of experts through this Service. The two new services, which are described more at length in Chapter 2, should, as they become increasingly effective, prove particularly useful to the large number of newly independent countries that have recently joined the Fund.

The regular consultations continue to provide a valuable opportunity for reviewing member countries' problems and, particularly in the newly independent countries, for communicating technical advice. In addition to the consultations that take place in accordance with Article XIV, the Fund is finding the consultations with member countries that have assumed the obligations of Article VIII increasingly useful. Consultations of both types enable the Fund to inform itself of policy problems and attitudes in all parts of the world, and to have them considered in a world context by the Executive Directors. At the same time, this procedure, together with the more informal staff contacts, permits the Fund to anticipate payments problems encountered by individual countries and, supported by special staff studies, to keep abreast of major trends in international payments in the world as a whole.

* * *

The pattern of international transactions that evolved during 1963 resulted in a substantial increase in international liquidity. Total official reserves of all countries, which had increased by $1 billion during 1962, rose by about $3.4 billion, or more than in any other postwar year. A major factor was the sharp improvement in the balance of payments position of the primary producing countries as a whole. Since these countries generally keep a high proportion of their international reserves in foreign exchange, their $1.6 billion over-all balance of payments surplus in 1963 brought about a nearly equivalent increase in their sterling and dollar holdings. Another factor was a greater increase in world monetary gold holdings than in any postwar year. Both production and Soviet gold sales increased, and there was also less hoarding than in 1962, which was itself a reflection of increased confidence in the international monetary system.

The relative calm in foreign exchange markets during the past year, combined with a further substantial increase in reserves, has created a favorable background for the studies of international liquidity over the longer run that have proceeded both at the Fund and in the group set up by the ten participants in the General Arrangements to Borrow. These conditions permit the problems to be thoroughly explored without the urgency which would otherwise stem from a need for early action. This subject is dealt with in Part II of this Report.

Chapter 2

The Activities of the Fund

Membership, Quotas, and Executive Directors

EIGHTEEN countries become members of the Fund during the year under review, with quotas aggregating $308 million. The list of new members, with their quotas and dates of membership, is given in Table 1.

On April 2, 1964 Cuba notified the Fund of its withdrawal from membership, which became effective on that date. Member countries at the end of the fiscal year numbered 102, representing an increase of 20 per cent in the year.

TABLE 1. NEW FUND MEMBERS, FISCAL YEAR ENDED APRIL 30, 1964

Member	Date of Membership	Quota (*In millions of U.S. dollars*)
Algeria	Sept. 26, 1963	60.00
Burundi	Sept. 28, 1963	11.25
Cameroon	July 10, 1963	15.00
Central African Republic	July 10, 1963	7.50
Chad	July 10, 1963	7.50
Congo (Brazzaville)	July 10, 1963	7.50
Congo (Leopoldville)	Sept. 28, 1963	45.00
Dahomey	July 10, 1963	7.50
Gabon	Sept. 10, 1963	7.50
Guinea	Sept. 28, 1963	15.00
Kenya	Feb. 3, 1964	25.00
Malagasy Republic	Sept. 25, 1963	15.00
Mali	Sept. 27, 1963	13.00
Mauritania	Sept. 10, 1963	7.50
Rwanda	Sept. 30, 1963	11.25
Trinidad and Tobago	Sept. 16, 1963	20.00
Uganda	Sept. 27, 1963	25.00
Upper Volta	May 2, 1963	7.50

The quotas of seven members were increased during the year, as shown in Table 2. The Board of Governors also approved requests for increases in quotas submitted by Italy, from $270 million to $500 million, and from Costa Rica, from $15 million to $20 million; these will go into effect upon receipt of formal consents to the increases from the respective members. With the exception of the requests from Israel and Italy, the increases considered during the year came under the terms of the Decision on Compensatory Financing of Export Fluctuations,[1] which provided that sympathetic consideration would be given to requests for quota adjustments from countries exporting primary products, especially those with relatively small quotas, in order to make these more adequate in the light of fluctuations in export receipts and other relevant criteria.

Further consideration was given during the year to the question of the gold subscription to be required from a member whose quota is increased in connection with the Decision on Compensatory Financing of Export Fluctuations. The Executive Directors decided that they would, if the member so requested for reasons submitted to the Fund, recommend to the Board of Governors that such increases in quota might become effective in five annual installments, with the right to accelerate payment of the additional gold and currency subscriptions and a consequent acceleration of the increase in quota. Provision was also made to give sympathetic consideration to a request for

TABLE 2. INCREASES IN QUOTAS, FISCAL YEAR ENDED APRIL 30, 1964

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

Member	Effective Date	Previous Quota	New Quota
Dominican Republic	Apr. 2, 1964	15.00	25.00
Ecuador	Apr. 23, 1964	15.00	20.00
El Salvador	Nov. 18, 1963	11.25	20.00
Honduras	Oct. 10, 1963	11.25	15.00
Israel	Mar. 26, 1964	25.00	50.00
Syrian Arab Republic	Feb. 27, 1964	15.00	25.00
United Arab Republic	Apr. 23, 1964	90.00	120.00

[1] *Annual Report, 1963,* pages 196-99; *Selected Decisions of the Executive Directors* (Washington, Second Issue, September 1963), pages 40-43.

an exchange transaction up to 25 per cent of the increase to assist a member who wished to pay the gold subscription in such circumstances in full. The Decision is reproduced in Appendix I.

Senegal decided to make use of the option granted to it under its terms of membership to increase its quota from $7.5 million to $25 million; the increase became effective on June 17, 1963. In addition, 8 members paid annual installments (5 of which were final installments) on increases in their quotas under the Board of Governors' Resolutions of February 2, 1959 on Enlargement of Fund Resources Through Increases in Quotas.[2] As a result of the foregoing increases, the admission of new members, and the withdrawal of a member, the aggregate of Fund quotas rose to $15,614.75 million on April 30, 1964, from $15,231.2 million at the close of the preceding fiscal year.

With effect from April 1, 1964, Japan joined those countries that have accepted the obligations of Article VIII, Sections 2, 3, and 4, of the Fund Agreement. Members accepting the obligations of Article VIII, who now number 24 (representing over 60 per cent of world trade),[3] undertake to obtain the Fund's agreement before adopting restrictions on payments for current international transactions or engaging in multiple currency practices or discriminatory currency arrangements.

A nineteenth Executive Director was elected on October 3, 1963 by 24 of those countries which had become members of the Fund since the 1958 Regular Election of Executive Directors, when the number of Directors was increased to 18. This interim election was held in accordance with a resolution of the Governors adopted at the time of the 1962 biennial election of Executive Directors, which called for such an election when countries having a stipulated number of votes became members of the Fund. In view of the fact that the number of Fund members has increased by nearly 50 per cent since the 1958 Regular Election of Executive Directors, the Board of Governors has approved provisions for 20 Executive Directors at the next Regular Election of Directors, to be held during the 1964 Annual Meeting. A list of the Executive Directors and Alternate Executive Directors and their voting power on April 30, 1964 is given in Appendix II, and changes in membership of the Executive Board during 1963-64 in Appendix III.

Par Values

Ethiopia consulted the Fund in December 1963 about a change in the par value of its currency to Eth$2.50000 per U.S. dollar, from the initial par value of Eth$2.48447 per U.S. dollar, established with the Fund on December 18, 1946. Since the proposed change did not exceed 10 per cent of the initial par value, the Fund, in accordance with Article IV, Section 5(*c*), of the Articles of Agreement, noted without objection the new par value, which became effective on December 31, 1963.

Initial par values were established in 1963 by agreement between the Fund and 6 members (Table 3).

TABLE 3. INITIAL PAR VALUES ESTABLISHED, 1963

Member	Effective Date	Units of Member's Currency per U.S. Dollar
Jamaica	March 8	0.357143
Kuwait	April 26	0.357143
Liberia	March 13	1.00000
Nigeria	April 17	0.357143
Somalia	June 14	7.14286
Thailand	October 20	20.8000

General Arrangements to Borrow

On June 11, 1964, Switzerland entered into an agreement with the Fund which associated that country with the Fund's General Arrangements to Borrow. Under this agreement, which took the form of an exchange of letters between the Swiss Ambassador to the United States and the Managing Director of the Fund, Switzerland undertook to give support, which could be on a

[2] *Annual Report, 1959,* pages 185-88.

[3] Austria, Belgium, Canada, Dominican Republic, El Salvador, France, Federal Republic of Germany, Guatemala, Haiti, Honduras, Ireland, Italy, Jamaica, Japan, Kuwait, Luxembourg, Mexico, Netherlands, Panama, Peru, Saudi Arabia, Sweden, United Kingdom, and United States.

reciprocal basis, directly to any participant in the General Borrowing Arrangements for whose benefit the Arrangements are activated, provided that the participant had entered into a bilateral implementing agreement for that purpose with Switzerland. The total of such support to all participants, outstanding at any one time, may not exceed the equivalent of $200 million. The relevant decision of the Executive Directors, and the text of the letters exchanged, are reproduced in Appendix I.

Fund Transactions

Purchases and Stand-By Arrangements, 1963-64

The past year was again an active one for the Fund. Sales of currency exceeded those in the preceding year, and the amount of stand-by arrangements agreed reached a record level. Purchases from the Fund amounted to the equivalent of $625.9 million (Table 4), and the stand-by arrangements agreed during the year amounted to the equivalent of $2,159.85 million (Table 5). Of the 27 members which received financial assistance from the Fund, either through direct purchase transactions or in the form of stand-by arrangements, 4 were industrial countries (Italy, Japan, the United Kingdom, and the United States) and 23 were nonindustrial countries. Italy and the United States accounted for more than 55 per cent of the amount of total purchases, and Japan, the United States, and the United Kingdom for more than 83 per cent of the total available under stand-by arrangements. Fifteen of the members receiving financial assistance were in the Western Hemisphere, 4 in Asia, 4 in Europe, 2 in Africa, and 2 in the Middle East.

TABLE 4. PURCHASES OF CURRENCIES FROM THE FUND, FISCAL YEAR ENDED APRIL 30, 1964

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

Members Purchasing	Total Purchases
Argentina	25.0
Bolivia	2.5
Brazil	60.0
Chile	32.5
Colombia	23.5
Costa Rica	4.0
Haiti	4.5
Honduras	5.0
Indonesia	20.0
Italy	225.0
Liberia	4.1
Nicaragua	13.3
Sudan	5.5
Syrian Arab Republic	12.0
Turkey	18.0
United Arab Republic	16.0
United States	125.0
Yugoslavia	30.0
Total purchases	625.9 [1]

[1] All purchases except those by Brazil, Italy, Sudan, United Arab Republic, and Yugoslavia were made under stand-by arrangements:

	Million U.S. dollars
Total under stand-by arrangements	289.4
Not under stand-by arrangements	336.5
	625.9

For members in need of financial assistance from the Fund, the stand-by arrangement has continued to be a valuable instrument. All except five of the purchases from the Fund during the past fiscal year were made under stand-by arrangements. Two of these—the purchase of the equivalent of $60 million by *Brazil* and the purchase of the equivalent of $16 million by the *United Arab Republic*—were made under the Fund's Decision on Compensatory Financing. On the other hand, as in previous years, some members have found it sufficient to have the Fund's assurances of financial assistance without actually making use of their stand-by arrangements.

The purchase and stand-by arrangement of the *United States* constituted the first use by this member of the resources of the Fund. During the first decade of the Fund's operations, purchases from the Fund had been made overwhelmingly in U.S. dollars, so that the United States was the only member that had extended a large amount of credit to other members through the Fund. Following the adoption in December 1958 of external convertibility by 14 European countries, and the accompanying increase in strength of these members' currencies relative to the U.S. dollar, a broader use of currencies has been made in Fund operations. In the past few years the Fund has encouraged members using the Fund's resources to purchase currencies other than the U.S. dollar. At the same time, repurchases by members have been made primarily with U.S. dollars, thereby gradually reducing the creditor position of the United States in the Fund.

TABLE 5. FUND STAND-BY ARRANGEMENTS WITH MEMBERS, FISCAL YEAR ENDED APRIL 30, 1964

(In millions of U.S. dollars)

Member	Date of Inception	Date of Expiration	Amount	New or Renewed in 1963-64	Amount Available April 30, 1964
Argentina	June 7, 1962	Oct. 6, 1963 [1]	100.00	—	—
Bolivia	Aug. 8, 1962	Aug. 7, 1963	10.00	—	
	Sept. 4, 1963	Sept. 3, 1964	10.00	10.00	7.50
Chile	Jan. 15, 1963	Jan. 14, 1964	40.00	—	
	Feb. 14, 1964	Feb. 13, 1965	25.00	25.00	15.00
Colombia	Jan. 14, 1963	Jan. 13, 1964	52.50	—	
	Feb. 14, 1964	Feb. 13, 1965	10.00	10.00	7.50
Costa Rica	Dec. 24, 1962	Dec. 23, 1963	11.60	—	—
Ecuador	June 8, 1962	June 7, 1963	5.00	—	
	July 1, 1963	June 30, 1964	6.00	6.00	6.00
El Salvador	Sept. 13, 1962	Sept. 12, 1963	11.25	—	
	Sept. 13, 1963	Sept. 12, 1964	5.00	5.00	5.00
Haiti	Oct. 1, 1962	Sept. 30, 1963	6.00	—	
	Oct. 1, 1963	Sept. 30, 1964	4.00	4.00	4.00
Honduras	June 29, 1962	June 28, 1963	7.50	—	
	July 18, 1963	July 17, 1964	7.50	7.50	2.50
India	July 9, 1962	July 8, 1963	100.00	—	
	July 9, 1963	July 8, 1964	100.00	100.00	100.00
Indonesia	Aug. 1, 1963	July 31, 1964	50.00	50.00	30.00
Jamaica	June 13, 1963	June 12, 1964	10.00	10.00	10.00
Japan	Mar. 11, 1964	Mar. 10, 1965	305.00	305.00	305.00
Liberia	June 1, 1963	May 31, 1964	5.70	5.70	1.60
Nicaragua	Mar. 1, 1963	Feb. 29, 1964	11.25	—	
	Apr. 1, 1964	Mar. 31, 1965	11.25	11.25	5.65
Peru	Mar. 1, 1963	Feb. 29, 1964	30.00	—	
	Mar. 1, 1964	Feb. 28, 1965	30.00	30.00	30.00
Philippines	Apr. 12, 1963	Apr. 11, 1964	40.40	—	
	Apr. 12, 1964	Apr. 11, 1965	40.40	40.40	40.40
Syrian Arab Republic	Mar. 12, 1964	Dec. 31, 1964	18.50	18.50	6.50
Turkey	Feb. 15. 1963	Dec. 31, 1963	21.50	—	
	Feb. 15, 1964	Dec. 31, 1964	21.50	21.50	18.50
United Arab Republic	May 7, 1962	May 6, 1963	42.50	—	—
United Kingdom	Aug. 8, 1962	Aug. 7, 1963	1,000.00	—	
	Aug. 8, 1963	Aug. 7, 1964	1,000.00	1,000.00	1,000.00
United States	July 22, 1963	July 21, 1964	500.00	500.00	375.00
Uruguay	Oct. 4, 1962	Oct. 3, 1963	30.00	—	—
Total				2,159.85	1,970.15

[1] Extended from June 6, 1963.

In July 1963 the Fund entered into a stand-by arrangement which permitted the United States to purchase currencies from the Fund to a total equivalent to $500 million. Early in February 1964, the Fund's holdings of U.S. dollars, together with the outstanding repurchase obligations incurred in U.S. dollars by members under Article V, Section 7(*b*), of the Fund Agreement, reached 75 per cent of the U.S. quota. Under Article V, Section 7(*c*) (iii), this precluded the Fund from accepting further U.S. dollars in repurchase from members.[4] On February 13, 1964 the United States purchased the equivalent of $125 million, mainly in deutsche mark and French francs, under its stand-by arrangement. These

[4] Article V, Section 7(*c*), reads: "None of the adjustments described in (*b*) above shall be carried to a point at which
(i) the member's monetary reserves are below its quota, or
(ii) the Fund's holdings of its currency are below seventy-five percent of its quota, or
(iii) the Fund's holdings of any currency required to be used are above seventy-five percent of the quota of the member concerned."

currencies, which can be accepted by the Fund in repurchase, were intended for sale for U.S. dollars at par by the United States to those members of the Fund that keep their international reserves mainly in U.S. dollars and that have repurchase commitments to the Fund. Down to April 30, 1964, 8 members had availed themselves of this facility. While this first drawing by the United States was essentially of a technical nature, it nevertheless demonstrated that the resources of the Fund could be called upon by both large and small countries, not only in time of emergency but also in a more or less routine way.

The purchase of the equivalent of $225 million in March 1964 by *Italy* was also the first use by that member of the Fund's resources; it was at the same time the largest purchase made during the fiscal year. The drawing was within the gold tranche, corresponding to the amount of Italy's gold subscription, augmented by the net amount of drawings of lire from the Fund by other members.

Two other members, Jamaica and Liberia, have also used the Fund's resources for the first time. The stand-by arrangement entered into with *Jamaica* permits drawings equivalent to $10 million to provide an assured secondary line of reserves against unforeseen short-term balance of payments contingencies, and to assist Jamaica to pursue its development effort with a minimum of interruption should such balance of payments difficulties arise. Jamaica did not find it necessary to make a drawing under the stand-by arrangement during the fiscal year. Under *Liberia's* stand-by arrangement, entered into in support of a program of financial reform, the equivalent of $4.1 million was drawn during the year.

In conjunction with Japan's acceptance of the obligations of Article VIII, Sections 2, 3, and 4, the Fund agreed in March 1964 to a stand-by arrangement which permits *Japan* to purchase currencies from the Fund equivalent to $305 million. The arrangement was designed to provide additional resources in support of Japan's reserve position and thus help to defend the convertibility of the yen in the event of temporary balance of payments difficulties. Japan did not find it necessary to draw under the arrangement during the remainder of the fiscal year.

The new stand-by arrangement with *Indonesia* authorized purchases equivalent to $50 million to give financial support to a program of economic stabilization, which provided for a revision of exchange rates and for steps to prevent undue monetary expansion and to strengthen the balance of payments. The equivalent of $20 million was drawn in August 1963. Later, difficulties were encountered in carrying out the program.

In an effort to transform its balance of payments from deficit to surplus and reverse the drain on its official reserves, the *Sudan* purchased the equivalent of $5.45 million to provide time for appropriate remedial measures (which include cuts in government expenditure and increases in taxation) to take effect.

The new arrangement with the *Syrian Arab Republic* for $18.5 million, under which the equivalent of $12 million has been drawn, is to provide support for the efforts being made to overcome a difficult balance of payments position, which has persisted for several years.

The purchase of the equivalent of $30 million in September 1963 by *Yugoslavia* was agreed by the Fund to assist the member's efforts to maintain internal stability and to strengthen its external payments position, which had been subjected to new burdens resulting from the earthquake disaster at Skopje.

Stand-by arrangements agreed during the year with *Bolivia, Honduras, Nicaragua,* and *Turkey* were in continuation, after a short interruption, of the financial support the Fund had accorded in the preceding year. Those with *Chile, Colombia, El Salvador,* and *Haiti* replaced arrangements for larger amounts and the one with *Ecuador* replaced a smaller one.

The stand-by arrangement with the *United Kingdom* for $1,000 million expired in August 1963, without having been used, and was renewed for another year. The stand-by arrangements with *India, Peru,* and the *Philippines* were also renewed.

All but 2 of the 19 stand-by arrangements agreed during the year were for a period of one year. The exceptions were the arrangement with the Syrian Arab Republic, which was for a period of 9½ months, and that with Turkey, which was for a period of 10½ months. The total amount available to members under stand-by arrangements at the end of the financial year was equivalent to $1,970.15 million.

Any drawing or stand-by arrangement exceeding 25 per cent of a member's quota within any 12-month period (except to the extent that the Fund holds less of the member's currency than 75 per cent of its quota) requires a waiver under Article V, Section 4, of the Articles of Agreement. During the year, waivers for this purpose were required for all the stand-by arrangements except those with Colombia, India, Turkey, and the United States, and for all purchases except those by Brazil, Colombia, Italy, Turkey, the United States, and Yugoslavia. A waiver is also required for any drawing or stand-by arrangement which would increase the Fund's holdings of a member's currency to more than 200 per cent of its quota. In 1963-64 the first such waiver was granted, in favor of the United Arab Republic, whose drawing of the equivalent of $16 million under the special arrangements for compensatory financing of export fluctuations brought the Fund's holdings of the member's currency to 215 per cent of its quota.

A Decision of the Executive Directors on July 1, 1963 (reproduced in Appendix I) set out the conditions under which the Fund was prepared, in exceptional circumstances, to enter into a gold collateral transaction with a member because this would promote the purposes of the Fund and give the member the opportunity of adopting policies consistent with the objectives of the Fund.

In order to extend access to the Fund's resources to new members, and to encourage the establishment of realistic exchange rates and ultimately realistic par values, the Executive Directors recommended, and the Governors approved on June 1, 1964, an amendment of the terms and conditions prescribed in the membership resolutions of those members that have not yet agreed initial par values with the Fund. This amendment authorizes the Executive Directors to permit exchange transactions with the member prior to the establishment of an initial par value with the Fund, under such conditions and in such amounts as may be prescribed by the Executive Directors. The Directors decided that this provision should be incorporated in future membership resolutions, and agreed on guidelines for implementing the provision. The relevant Executive Board Decisions are reproduced in Appendix I.

Monetary Reserves and Repurchase Obligations

Article V, Section 7(*b*), of the Fund's Articles of Agreement provides that a member shall repurchase with its monetary reserves (gold and/or convertible currencies) an amount of the Fund's holdings of its currency, in excess of 75 per cent of its quota, equivalent to one half of any increase in the Fund's holdings of its currency that has occurred during the Fund's financial year, plus or minus one half of any increase or decrease in its monetary reserves during the same period. The media in which any such repurchase obligation is to be discharged are determined in accordance with the provisions of Schedule B of the Fund's Articles, subject to the limitations imposed by Article V, Section 7(*c*).

A drawing from the Fund has the effect of increasing the Fund's holdings of the drawing member's currency. If the member's independent monetary reserves do not decrease to the same extent as the amount purchased from the Fund, before the following April 30, the member will incur a repurchase obligation as at that date, provided that the level of its monetary reserves is above its quota and the level of the Fund's holdings of its currency is above 75 per cent of quota. Usually, however, repurchase obligations are the result of an increase in the member's independent monetary reserves above its quota. In such circumstances, a repurchase obligation accrues for a member that initially paid in gold an amount less than 25 per cent of its quota, even if the member has not drawn from the Fund.

Under Rule I-6 of the Fund's Rules and Regulations, data about each member's monetary reserves are to be furnished to the Fund within six months of the end of the Fund's fiscal year, i.e., by October 31. However, in accordance with a decision taken by the Executive Board on May 3, 1963, each member, the amount of whose currency held by the Fund on any April 30 exceeds 75 per cent of its quota, is required to submit provisional (or, if possible, final) monetary reserves data to the Fund not later than the ensuing May 31.[5] On April 30, 1963 this decision applied to 37 members. Repurchase obligations for 17 of these members were calculated, and amounted to a total equivalent to $97,052,126.85, payable in gold and nine convertible currencies.

[5] *Annual Report, 1963,* pages 22, 195; *Selected Decisions of the Executive Directors, op. cit.,* pages 51-52.

This calculation reflected the fact that repurchase obligations that accrued in Canadian dollars, Peruvian soles, sterling, and U.S. dollars were subject to the limitation set out in Article V, Section 7(*c*)(iii), and could be discharged only to the extent that the Fund's holdings of these currencies were below 75 per cent of the quotas of the countries issuing them. Amounts of $219 million in U.S. dollars, the equivalent of $2 million in sterling, and small sums in Canadian dollars and Peruvian soles could not be accepted under this provision and were abated.

By the end of October 1963, 25 members had not supplied the requisite data for April 30, 1963; by April 30, 1964, however, only 7 members' data were outstanding. It is expected that the difficulties in the compilation of data now being experienced will be resolved as members become better acquainted with the Fund's requirements, and their systems for collection of information improve. Of the countries which failed to report monetary reserves data by April 30, 1964, only one (Cuba) could have incurred a repurchase obligation at April 30, 1963, under Article V, Section 7(*b*).

Table 6 sets out the total net repurchase obligations incurred by members since the inception of the Fund. It will be noted that the number of members involved has increased from 3 at April 30, 1948 to 17 at April 30, 1963. This increase reflects not only the larger number of members engaging in transactions with the Fund but also increases in members' monetary reserves, which, in accordance with the provisions of Article V, Section 7(*b*), have to be shared with the Fund.

Since the inception of the Fund, 122 repurchase obligations totaling the equivalent of $1,683.7 million have been incurred by 49 member countries in accordance with the provisions of Article V, Section 7(*b*), of the Fund Agreement. Of these, 24 were incurred by members who had not used the Fund's resources but who had originally paid gold subscriptions equivalent to less than 25 per cent of their quotas.

Repurchases, 1963-64

In addition to the repurchase obligations under Article V, Section 7(*b*), described above, a member drawing from the Fund undertakes to repurchase its own currency equivalent to the amount drawn (except to the extent that other countries draw that member's currency) within a maximum period of three to five years. If a drawing is made under a stand-by arrangement, the maximum period is three years. In practice, the largest part of repurchases is made under commitments of this kind.

TABLE 6. REPURCHASE OBLIGATIONS UNDER ARTICLE V, SECTION 7(*b*), OF THE FUND AGREEMENT, AT APRIL 30, 1948-63

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

	Number of Members Affected	Total Amount	Gold	U.S. Dollars	Pounds Sterling	Canadian Dollars	Deutsche Mark	French Francs	Other Currencies
1948	3	7,336	929	6,407					
1949	4	27,299	9,439	17,861					
1950	6	47,594	21,156	26,438					
1951	7	68,608	19,125	49,483					
1952	4	39,182	38,340	842					
1953	5	84,484	35,554	48,920		10			
1954	10	80,525	34,440	46,084					
1955	7	195,794	68,222	127,554		18			
1956	10	32,581	11,118	21,450		13			
1957	8	104,010	38,228	65,775		3			5
1958	7	238,975	90,998	147,848		124			5
1959	8	308,754	142,994	165,711		48			
1960	8	201,550	124,968	76,192		379			11
1961	8	68,310	53,633	14,366		298			13
1962	10	81,645	18,857	61,341		7	1,330	3	106 [1]
1963	17	97,052	27,242	62,615	7,011		73	106	6
		1,683,699	735,243	938,887	7,011	900	1,403	109	146

[1] Includes the equivalent of $22,000 in Italian lire, $49,000 in Netherlands guilders, and $28,000 in Swedish kronor.

During 1963-64 total repurchases made amounted to the equivalent of $380.41 million (Table 7), the smallest total since 1958. Of the 26 members that made repurchases, 14 were in Latin America, 4 in Asia, 4 in Europe, 2 in the Middle East, and 1 in Africa; the remaining member was Canada. Most repurchases were made on dates when repayments became due in accordance with schedules to which the members had committed themselves, either at the time of their purchase from the Fund or later. Improvements in the monetary reserve position of several members enabled them to make repurchases before the expiration of the maximum period for which their drawings had been made available, thus strengthening their secondary line of reserves in the form of potential recourse to the Fund's resources.

TABLE 7. REPURCHASES OF CURRENCIES FROM THE FUND, FISCAL YEAR ENDED APRIL 30, 1964

(In millions of U.S. dollars)

Members Repurchasing	Total Repurchases
Argentina	36.00
Bolivia	3.50
Brazil	55.50
Burma	[1]
Canada	138.50
Chile	10.00
Colombia	6.00
Costa Rica	1.29
Dominican Republic	9.00
Ecuador	3.27
Guatemala	3.90
Haiti	2.50
Honduras	2.50
Iceland	0.02
India	50.00
Ireland	2.31
Jamaica	1.19
Malaysia	3.37
Nicaragua	12.25
Pakistan	12.50
Paraguay	0.38
Philippines	2.00
Sudan	0.33
Syrian Arab Republic	5.12
Turkey	9.00
Yugoslavia	10.00
Total repurchases [2]	380.41

[1] Less than $5,000.
[2] Total does not equal sum of items because of rounding.

On the other hand, some members were unable to meet large commitments falling due (particularly in connection with purchases made under stand-by arrangements), and new repurchase schedules were agreed permitting these members to make repurchases by installments within a maximum period of five years. Two members were permitted to postpone payment of repurchase obligations incurred under Article V, Section 7(*b*), as at April 30, 1963. Cuba failed to observe a commitment to repurchase in connection with an agreed schedule, and withdrew from the Fund.

Currency Composition of Purchases and Repurchases

The currencies to be used in the discharge of repurchase obligations arising under Article V, Section 7(*b*), are determined by rules specified in the Fund Agreement, as noted above. For other repurchases, and for purchases, the currencies to be used are selected in accordance with the statement on Currencies to Be Drawn and to Be Used in Repurchases approved by the Executive Directors on July 20, 1962.[6]

Purchases and repurchases during the year ended April 30, 1964 are classified by currency in Table 8, in which the two largest drawings, the equivalent of $225 million by Italy and $125 million by the United States, and the largest repurchase, the equivalent of $138.5 million by Canada, are shown separately. Mainly as a result of these transactions, the Fund's holdings of U.S. dollars rose to slightly over 75 per cent of quota early in February 1964 and to 78 per cent on April 30, 1964; its holdings of Italian lire rose by the equivalent of $207 million, from 23 per cent at the end of the previous fiscal year to 99.7 per cent; and its holdings of Canadian dollars were reduced by the equivalent of US$158.5 million, from 125.1 per cent to 96.3 per cent. The Fund's holdings of deutsche mark, expressed as a percentage of the member's quota, became the lowest Fund holding of any currency, falling by the equivalent of $113.8 million, to 18.9 per cent by April 30, 1964. During

[6] *Annual Report, 1962,* pages 36-41 and 245; *Selected Decisions of the Executive Directors, op. cit,* pages 33-39.

Table 8. Drawings and Repurchases by Currency, Fiscal Year Ended April 30, 1964

(In millions of U.S. dollars)

	Drawings				Repurchases				
					Under Article V, Sec. 7(*b*)[1]		Other		
Currency	Italy	United States	Other countries	Total	Canada	Other countries	Canada	Other countries	Total
Gold	—	—	—	—	21.9	5.1	—	—	27.0
Austrian schillings	10.0	—	11.0	21.0	—	—	—	—	—
Belgian francs	20.0	—	14.5	34.5	[2]	[2]	—	5.0	5.0
Canadian dollars	20.0	—	—	20.0	—	—	—	—	—
Deutsche mark	80.0	59.8	54.5	194.3	0.1	[2]	30.0	50.4	80.5
French francs	50.0	59.8	15.0	124.8	0.1	—	30.0	36.7	66.9[4]
Italian lire	—	5.5	23.0	28.5	[2]	[2]	—	10.5	10.5
Netherlands guilders	20.0	—	5.0	25.0	[2]	—	—	5.0	5.0
Spanish pesetas[3]	15.0	—	11.5	26.5	—	—	—	—	—
Swedish kronor	10.0	—	5.0	15.0	[2]	—	—	—	[2]
Pounds sterling	—	—	5.5	5.5	0.2	6.4	—	3.9	10.5
U.S. dollars	—	—	130.9	130.9	56.3	5.4	—	113.4	175.1
Total	225.0	125.0[4]	275.9	625.9[4]	78.5[4]	16.9	60.0	225.0[4]	380.4[4]

[1] Including discharges in respect of previous years.
[2] Less than $50,000.
[3] The peseta is not formally convertible and cannot be accepted for repurchases.
[4] Total does not equal sum of items because of rounding.

the year there was a net use equivalent to $21 million of Austrian schillings, $29.5 million of Belgian francs, $58 million of French francs, $20 million of Netherlands guilders, $26.5 million of Spanish pesetas, and $15 million of Swedish kronor.

Summary of Transactions

Between the beginning of operations by the Fund and April 30, 1964, 51 members purchased currencies and 3 had stand-by arrangements without drawing under them. Of these 54 members, 19 were in Central and South America, 13 in Europe, 7 in the Middle East, 7 in the Far East and Western Pacific, 5 in Africa, and 3 in North America. Total sales by the Fund were equivalent to $7.47 billion. All Fund transactions are summarized in Table 9. Chart 1 shows the drawings outstanding at April 30 in each year, together with the amounts available (but not used) under stand-by arrangements on the same date.

The drawings made by 44 members have been wholly or partly repaid, either through repurchases in gold or convertible currencies or as a result of purchases of their currencies by other members. On April 30, 1964, the total amount of members' purchases still outstanding was equivalent to

Table 9. Summary of Fund Transactions, Fiscal Years Ended April 30, 1948-64

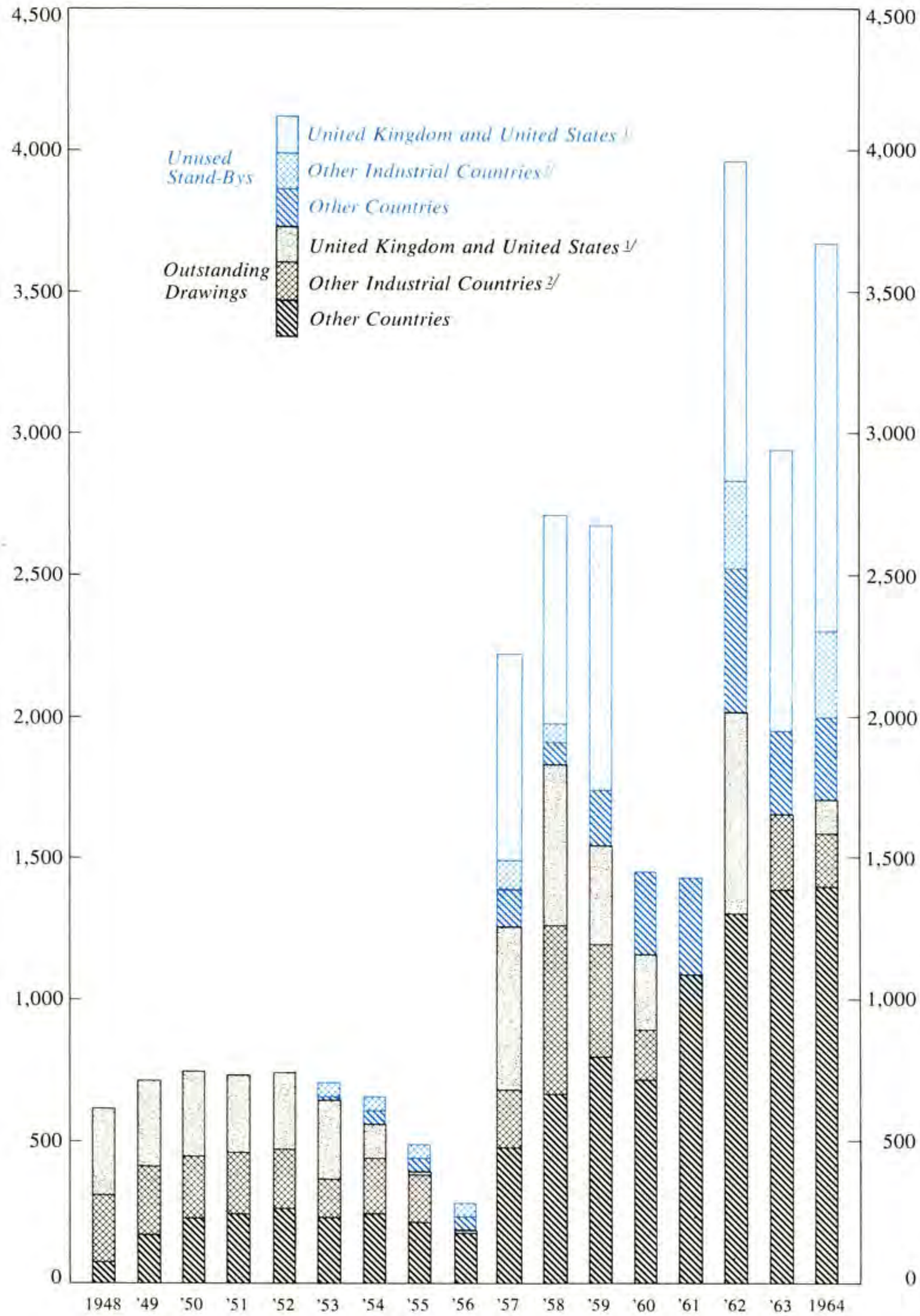
(In millions of U.S. dollars)

	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
1963	579.97	1,287.25	807.25
1964	625.90	1,970.15	380.41
Total[1]	7,471.35		5,285.71[2]

[1] Totals do not equal sums of items because of rounding.
[2] Including $279.5 million repurchased in excess of drawings. Of this amount, $255.4 million represents repurchases that reduced the Fund's holdings of members' currencies below the amounts originally paid on subscription account, and $24.1 million represents repurchases of members' currencies paid as charges. Repurchases do not include sales of currencies equivalent to $731.1 million and other adjustments of $27.8 million, totaling $758.9 million, having the effect of repayment.

CHART 1. OUTSTANDING BALANCES OF DRAWINGS FROM THE FUND, AND UNUSED STAND-BY ARRANGEMENTS, ON APRIL 30, 1948–64

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



[1] United States in 1964 only.
[2] Belgium, Canada, Denmark, France, Italy, Japan, Netherlands, and Norway.

US$1,706.2 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	456.7	18
13 to 18 months	104.9	10
19 to 24 months	284.8	13
25 to 30 months	104.0	8
31 to 36 months	502.9	10
37 to 48 months	241.9	11
Over 48 months	11.0	1

Except for the drawing by Cuba, all purchases made prior to March 3, 1960 have been fully reversed. However, 11 other members have been in a debtor position to the Fund continuously for more than five years, that is, they have not within that period reduced the Fund's holdings of their currency to 75 per cent of quota, or to the level corresponding to their currency subscription. This has been the result of new drawings, agreed with the Fund to meet re-emerging payments problems, being made concurrently with the repurchase of earlier drawings.

Fund Charges

Currently, 23 members are paying the charges levied by the Fund on its holdings of members' currencies in excess of their quotas; the amount of such charges incurred during the year under review totaled $31.5 million, compared with $24.5 million during the preceding year. Since the beginning of the Fund's operations, 44 members have been subject to such charges. At present, part of these charges is paid by 3 members in their own currencies, in accordance with Article V, Section 8(*f*), of the Fund Agreement, which permits such payments if a member's monetary reserves are less than half its quota. The present schedule of charges to be levied on the Fund's holdings of a member's currency in excess of quota, which has been in effect from May 1, 1963, was reviewed by the Executive Board and extended until April 30, 1965. The schedule was given in the Annual Report for 1963 (page 200), and is reproduced in each issue of *International Financial Statistics*. Service charges on drawings amounted to a total of $3.1 million during the year under review, compared with $2.9 million in 1962-63 and $11.2 million in 1961-62. Charges collected on stand-by arrangements, after deduction of the amounts credited against service charges if and when drawings were made under the arrangements, and of refunds resulting from changes in the level of the Fund's holdings of members' currencies that re-created or increased the member's gold tranche, totaled $2.3 million during the year ended April 30, 1964. These charges are not considered as income until the expiration or cancellation of the stand-by arrangement; the income derived from them in the past fiscal year was $1.7 million.

Consultations with Members

Member countries that are availing themselves of the transitional arrangements in Article XIV, Section 2, of the Fund Agreement, rather than accepting the obligations of Article VIII, Sections 2, 3, and 4, are required by Article XIV to consult with the Fund annually on the retention of exchange restrictions. During the fiscal year 1963-64 such consultations were concluded with 45 countries; with others the procedure had been initiated by discussions between representatives of the countries and the Fund staff but had not been completed by the end of the fiscal year. Staff missions visited all except one of the countries concerned. Consultations were also held with 12 members that have accepted the obligations of Article VIII, Sections 2, 3, and 4, of the Fund Agreement. The Executive Board Decision No. 1034–(60/27) of June 1, 1960 [7] stressed the merit of holding periodic discussions between the Fund and its members even if no question involving action under Article VIII should arise.

These periodic exchanges of views are of key importance to the Fund and its members and have proven to be a valuable instrument of international monetary cooperation. On the one hand, they serve to make members' policies more responsive to the aims of the international community. On the other hand, they equip the Fund to be more fully appreciative of the peculiar problems and needs of its individual members, and supply it both with the information necessary

[7] *Annual Report, 1961,* pages 135-37; *Selected Decisions of the Executive Directors, op. cit,* pages 76-78.

for action to meet those needs and with the experience to formulate realistic general policies for the implementation of the Articles of Agreement.

International Indebtedness

The Fund in its frequent contacts with member governments, both in annual consultations and with regard to the use of the Fund's resources, is directly concerned with the debt burden of member countries. This is because debt burdens are often important aspects of the balance of payments and financial relations between members, which are the substance of the Fund's work. An important part of the Fund's concern is that the flow of capital from the creditor countries to the less developed ones is not of an excessively short-term nature, and that the borrowing country is able to manage the servicing problem.

The Fund has included the nature and extent of the debt burden among the elements which need to be dealt with by countries seeking to work out general financial or stabilization plans of action. In the past few years, problems of debt servicing have been encountered to an increasing extent and the Fund has helped some of its members to reach solutions. As one aspect, the Fund encourages countries to reduce undue reliance on short-term and medium-term debt so as to avoid the quick recurrence of payments difficulties arising from this source.

The Fund will continue to be prepared to assist member countries on an individual basis to work out plans of action which include measures to facilitate debt servicing and to improve the balance of payments position. Where such plans of action have been worked out and are supported by use of the Fund's resources, such use can contribute to the easing of the payments problem which has in the past arisen from an excessive debt burden.

Cooperation with Other International Organizations

In addition to its special relationship with the International Bank for Reconstruction and Development and its affiliates, the Fund continued its close contacts with the United Nations, the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade (GATT), the Organization for Economic Cooperation and Development (OECD), the Bank for International Settlements (BIS), and the Inter-American Development Bank (IDB). These organizations were represented, along with other regional and international agencies having similar interests, at the Fund's Annual Meeting in September 1963. Liaison with the United Nations and its various regional and technical bodies has been maintained, including direct working relationships with their staffs and official participation at meetings. There has been close consultation and cooperation with the United Nations on a variety of technical assistance matters.

Fund representatives attended the UN Conference on Trade and Development as well as the meetings of the Preparatory Committee, and prepared background studies in this connection. The Managing Director addressed the Conference shortly after it convened in Geneva in March 1964. He also addressed the Resumed 36th Session of the Economic and Social Council (ECOSOC) on the occasion of presenting the Fund's 1963 Annual Report. Fund representatives attended the 18th Session of the UN General Assembly, the 10th and 11th Sessions of the Governing Council of the Special Fund, the 36th Session of the ECOSOC, and meetings of the Economic Commissions for Africa, Asia and the Far East (ECAFE), Europe, and Latin America, the Commission on International Commodity Trade, and the Food and Agriculture Organization. Staff members also participated in meetings of the interagency Administrative Committee on Coordination, its Preparatory Committee, and its subsidiary Consultative Committees.

Reflecting its interest in economic development, the Fund sent representatives to the 5th Conference of the European League for Economic Cooperation in Brussels, the OECD Study Conference on Government Finance and Economic Development in Athens, and the Conference of Experts on an African Payments Union in Tangier.

In the Latin American area, Fund representatives attended the 2nd annual meetings of the Organization of American States' Inter-

American Economic and Social Council at the Expert and Ministerial Levels, the 5th annual meeting of the Board of Governors of the Inter-American Development Bank, the 3rd meeting of the Governors of the Central American Bank for Economic Integration, the 7th meeting of the Central Banking Experts of the American Continent, and the annual meeting of the Inter-American Council for Commerce and Production.

In February 1964, the Fund staff held a meeting, at the Paris Office, of balance of payments experts from OECD countries to study problems of balance of payments statistics, especially those related to international transportation. This meeting followed one convened by the OECD to discuss a common IMF–OECD questionnaire to be used for balance of payments reporting to both organizations. Staff members also attended the 11th Plenary Session of the Conference of European Statisticians in Geneva and participated in a meeting on balance of payments statistics for technicians from African countries, held under the joint auspices of the Fund and the United Nations Economic Commission for Africa, in Rabat, Morocco. A staff member also participated in the Asian Bankers' seminar arranged in Teheran by the Commission on Asian and Far Eastern Affairs of the International Chamber of Commerce.

Fund missions also attended various meetings of the CONTRACTING PARTIES to the GATT, including the Ministerial Meeting in May 1963 and the 21st Session in February-March 1964. Among other GATT meetings attended by Fund missions have been those at which the CONTRACTING PARTIES have consulted with individual countries on import restrictions maintained for balance of payments reasons. The CONTRACTING PARTIES regularly consult the Fund in this connection and in connection with other matters involving balance of payments considerations. The Fund provides to the GATT the decision which it reaches in its Article XIV consultations, together with background material relating to the consulting country, and its missions cooperate with the GATT committee conducting the consultations. Similar arrangements apply to material arising from the Fund's Article VIII consultations with countries which are also members of the GATT.

Technical Assistance and Training Program

During the year the Fund substantially increased its capacity to provide technical assistance to member countries. In response to requests from members, it has continued to make available staff officers to give technical advice on problems within its area of competence. The assignments have lasted from a few weeks to more than a year, and have covered such problems as improvement of statistics, banking legislation, exchange reforms, and programs of monetary stabilization. In order to meet an emerging need, the Fund this year established a Central Banking Service, which will provide advice on problems arising in connection with the establishment of new central banks, and through which experts can be made available to assist newer central banking institutions in various specialized fields. The experts may serve either in executive and operational positions or as advisors, and may be assigned for periods from a few months to a year or two. They are recruited with the cooperation of experienced central banks in many member countries. The Fund and the requesting institution together meet the cost of the experts' services. Experts have already been placed in new central banks in several member countries. In addition, the Fund has undertaken to furnish special assistance to Congo (Leopoldville) and is recruiting officials to fill a number of senior posts in the financial institutions of that country. This special program of the Fund is coordinated with the UN technical assistance activities in Congo. Several experts have already taken up duty in Congo.

During the year the Fund also began to build up a group of experts qualified in the fields of taxation, budgeting, and financial control, to help countries which would like assistance in dealing with their fiscal problems. In the course of the years, the Fund has on many occasions expressed the view that, while monetary stability is a prerequisite for sustained economic development, it must be accompanied by resolute efforts to increase productivity and capital formation. An orderly development program should ensure that total investment plans are within the financial resources available and that all possibilities for expanding these resources are fully explored. It has become increasingly evident that in a number of countries fiscal difficulties which give rise to deficits in the public sector are a substantial element in economic instability. To the extent that the Fund can, by expert analysis and advice, help such countries to deal with their fiscal problems, the principal task of the Fund in the monetary and exchange fields will be eased. The budget for the fiscal year 1964-65 makes provision for a new Fiscal Affairs Department.

Fund officers have also had valuable short discussions on many specific problems with country officials, both in the field and at headquarters. For its part the Fund particularly welcomes these exchanges. On numerous occasions also, groups from universities, participants in the technical training programs of other institutions, and other persons have been received at Fund headquarters for seminars on the general activities of the Fund or on specific technical subjects. The Fund has also made available members of its staff to give series of lectures on subjects related to its area of interest in training programs of ECAFE, CEMLA (Center for Latin American Monetary Studies), the Asian Institute for Economic Development and Planning, and the SEANZA (Southeast Asia, New Zealand, and Australia) Central Banking Course at Karachi, Pakistan.

Training Program

During 1963-64 the Fund continued its training program for middle-rank and junior-rank staff of member governments as a form of technical assistance in the field of financial analysis and policy. The two 5-month programs which were offered included 51 participants from 43 countries. Among these were 3 countries not previously represented. This brought to 339 the total number of participants and to 73 the number of countries which have been represented in the Fund's training program over the past 14 years.

The Fund has long recognized that its training program plays an important part in the service to its members, and that every effort should be made to strengthen it in the light of emerging requirements. Recently, a broad review of the program has been undertaken, and several changes have been adopted. The program will be gradually expanded over a period of years, in keeping with the growth of the Fund as a whole. Organizationally, the training activities have been regrouped and have now been committed to a new Fund department, known as the IMF Institute.

As the first part of an expanded program, the Fund recognizes the urgent need for a regular program in French, especially for the benefit of the French-speaking countries in Africa, with essentially the same contents as the regular program in English. As a step toward the preparation of such a general French course, the IMF Institute will organize during July-August and during November-December 1964 two special French courses, of six weeks each, for very senior officials from African countries. The broad purpose of these courses is to acquaint such officials with the Fund's operations and its general approach on financial policy, and to gain their support for the Fund's future training activities.

In order to give time to develop changes in its curriculum and methods of instruction, and to assemble a larger professional staff, the IMF Institute will omit the program which should normally begin in September 1964, and start its first regular English course early in 1965.

Management and Staff

Mr. Pierre-Paul Schweitzer, who was appointed Managing Director to succeed the late Per Jacobsson, assumed office on September 5, 1963.

At the end of the fiscal year, the Fund staff numbered 595, including 23 temporary employees and 3 on extended leave. This total represents a net increase of 74 over the total at the beginning of the year. During the year, 147 new staff members were appointed from 41 member countries. Nationals of 59 countries are now on the staff. For the purpose of rendering technical assistance as described above, staff members were made available on long-term assignments to 12 countries.

As reported at last year's meeting of the Board of Governors, an addition to the Fund's headquarters building is now under construction. Completion is expected in 1965.

Administrative Finance

During the financial year, the Fund's operating income of $36,352,072 exceeded its total expenditure by $23,231,549. This amount was transferred provisionally to the General Reserve pending action by the Board of Governors. The General Reserve now totals $116,518,698.

The Fund continued to invest 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 so invested was $800 million. The income therefrom amounted to $27,485,414 for the financial year; it was credited to a Special Reserve, which on April 30, 1964 showed a balance of $117,524,012.

The administrative budget approved by the Executive Directors for the period May 1, 1964-April 30, 1965 is presented in Appendix IV. The budget provides for a strengthening of the staff in several departments to deal with the expanded Fund membership and the continuing high level of activities. Comparative income and expenditure figures for the fiscal years ended 1962, 1963, and 1964 are given in Appendix V.

The Executive Board requested the Governments of El Salvador, India, and Sweden to nominate members of the Audit Committee for 1964. The following nominations were made and confirmed: Mr. Juan Samuel Quinteros, Superintendent of Banks and Comptroller of the Currency for El Salvador; Mr. A. K. Mukherji, Additional Deputy Comptroller and Auditor General of India; Mr. Karl Janne Walck, Head of Division at the National Accounting and Audit Bureau of Sweden. The report of the Committee is submitted separately. Appendix VI gives the Auditors' Certificate, together with the audited Balance Sheet for April 30, 1964 and the audited Statement of Income and Expenditure.

Publications

The Fund's regular program of publications was continued in 1963-64: *Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1963* (Eighteenth Annual Report); *Balance of Payments Yearbook,* Volume 15, 1958-62; *Fourteenth Annual Report on Exchange Restrictions; International Financial News Survey,* weekly; *International Financial Statistics,* monthly and *Supplement to 1963/64 Issues; Schedule of Par Values,* 36th and 37th issues; *Staff Papers,* Volume X, Nos. 2 and 3, Volume XI, No. 1, and *Index* to Volumes I-X; and *Summary Proceedings of the Eighteenth Annual Meeting of the Board of Governors.*

The second issue of *Selected Decisions of the Executive Directors* was published in September 1963.

International Monetary Problems, 1957-63, a collection of speeches made by the late Per Jacobsson during his tenure of office as Managing Director of the Fund, was published in March 1964.

The *Direction of Trade: Annual 1958-62* was published in April 1964. This is the first issue of a new publication, to be issued monthly in conjunction with the International Bank for Reconstruction and Development, to replace *Direction of International Trade,* previously published by the Fund, the Bank, and the United Nations.

Preparations were completed for the publication, again jointly with the International Bank for Reconstruction and Development, of a new quarterly periodical, *The Fund and Bank Review: Finance and Development,* the first issue being that for June 1964.

Part II

INTERNATIONAL LIQUIDITY

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Chapter 3

International Liquidity: The Issues

Introduction

SINCE the last Annual Meeting of the Board of Governors, in Washington in September 1963, the subject of international liquidity has taken a prominent place in the Fund's work. At that Meeting the Managing Director indicated that the Fund would intensify its studies of international liquidity and related questions, and many Governors expressed keen interest in the subject and in the proposed studies. At the same time, the Ministers and Governors of the ten members that have joined in the General Arrangements to Borrow [1] established a study group to make "a thorough examination of the outlook for the functioning of the international monetary system and of its probable future needs for liquidity." [2] This study has been undertaken by a group of Deputies of the Ten, which has reported its findings to the Ministers and Governors.

The Fund is an important source of international liquidity for its members, and it has frequently contributed to the public discussion of problems of international liquidity. In 1953, the Fund published in its *Staff Papers* an article entitled "The Adequacy of Monetary Reserves," written in response to a request by the Economic and Social Council of the United Nations. In 1958, the Fund published a comprehensive staff study, *International Reserves and Liquidity,* undertaken at the request of several member governments. It was concluded in this study that the resources of the Fund were at that time unlikely to be adequate to meet the calls which might under various contingencies be made on them. This study had great weight in the subsequent discussion of Fund quotas, which led to the general quota increase in 1959. The Annual Report for 1963 devoted a chapter to the topic of international reserves and liquidity; it concluded that "the quantitative and qualitative adequacy of the international liquidity structure requires continued close attention" (page 52). Since the Annual Meeting the Fund has prepared a number of technical studies on the subject of international liquidity, some of which have been or are to be published in *Staff Papers.*

In its study of international liquidity the Fund has given due weight to the views and interests of countries at different stages of economic development and with dissimilar economic and financial institutions. At the same time, the provision of international liquidity depends to a very great extent on the policies adopted by the major industrial countries. The Fund has, therefore, found it particularly helpful to keep in close contact with current thinking on these issues among the representatives of these member countries. This cooperation was furthered by the participation of the Fund's Managing Director in meetings of Ministers of the Ten and of staff members at meetings of the Deputies.

Nature and Components of International Liquidity

International liquidity consists of all the resources that are available to the monetary authorities of countries for the purpose of meeting balance of payments deficits. Such liquidity ranges from assets readily available to resources that become available only after extensive negotiation. It may take many forms: reserves of gold and foreign exchange; other assets that can be mobilized in case of need; facilities to draw on the International Monetary Fund or to borrow from other international institutions; various arrangements with foreign central banks or governments to borrow. It also includes, conceptually, such elements, not readily subject to statistical meas-

[1] Belgium, Canada, France, Federal Republic of Germany, Italy, Japan, Netherlands, Sweden, United Kingdom, and United States.

[2] Communiqué of the Ministers and Governors of the ten countries, October 2, 1963 (*Summary Proceedings, Annual Meeting, 1963,* page 286).

urement, as a country's capacity to borrow in the money markets of other countries and, for a reserve center, the willingness of other countries to accumulate further holdings of its currency.

International liquidity thus covers a wide spectrum of availabilities, and any classification into broad categories is to some extent arbitrary. Two types of classification have come into use in recent years. The first distinguishes between "owned" reserves and borrowing facilities; the second between liquidity that is available automatically or without prior conditions that significantly restrict the user's right of access, and liquidity that is available only on prescribed or negotiated conditions as to use or as to the policies to be pursued by the country using it.

These two classifications do not quite coincide. For example, in some countries the use of gold reserves is restricted by domestic legislation. On the other hand, borrowing facilities, once granted, may be usable without further question. Again, the drawing facilities in the International Monetary Fund cannot properly be classified as either owned liquidity or borrowing facilities.

Where it is found useful in this Report to separate total liquidity into two main components, the second of the two classifications mentioned above is used. Liquidity of a wholly or virtually unconditional nature would at the present time include holdings of gold and foreign exchange in freely convertible currencies, gold tranche positions [3] in the International Monetary Fund, and, in many instances, bilateral mutual credit or swap arrangements. Most other forms of international liquidity fall in the conditional category, though in some instances the degree of conditionality involved may be slight.

The Relation Between International Liquidity and the Process of Adjustment of International Payments

To some extent the level of international liquidity has a direct effect on private international transactions. Thus, the strengthening of the world's international liquidity position resulting from the facilities provided by the Fund in recent years, and from the construction of a network of mutual credit arrangements among industrial countries, has discouraged speculative movements on the international exchange markets. However, the principal effects of changes in the level of international liquidity are likely to be those exercised through their repercussions on the policies followed by national governments in relation to balance of payments situations.

Any judgment as to the adequacy of a given level of international liquidity must reflect an estimate and an evaluation of the probable policy effects of expanding or contracting such liquidity.

Increases in international liquidity make it easier for the countries initially benefiting therefrom to pursue more liberal policies respecting trade and capital movements and to follow more expansionary—or less contractionary—financial policies than they might otherwise have done. These influences will be spread through the channels of trade. Even though some of the countries whose exports are stimulated may seek partially to offset the domestic impact of the enhanced foreign demand by measures of domestic policy, an increase in international liquidity may be expected to exercise an upward pressure on the general level of demand, employment, and possibly prices. It will also tend to provide greater maneuvering room to deficit countries, and may therefore in some cases tend to prolong balance of payments disequilibria. On the other hand, a reduction of international liquidity, or its failure adequately to expand, will tend to have the opposite effects on the world economy, and may intensify the pressure on countries in deficit.

Whether these consequences of expanding international liquidity are to be regarded, on balance, as desirable or undesirable will depend on the initial level of such liquidity and on world conditions generally. If many countries were to find it impossible, for lack of international liquidity, to correct maladjustments in their balances of payments without resort to measures destructive of national or international prosperity, or if the general level of effective demand in the world were such as to hamper growth and employment, an expansion of international liquidity would be desirable. On the other hand, a general condition of overabundant demand in the world economy would be an appropriate signal for caution in measures to expand international liquidity.

[3] A member's gold tranche position is measured by the extent to which the Fund's holding of the member's currency falls short of its quota. Such positions can be drawn upon with great freedom. See page 34.

In attempting to resolve these issues, much depends on the type of national economic and financial behavior that it is desired to encourage or discourage, bearing in mind the impact not only on individual countries but also on the world at large. To some extent the relevant objectives and principles of behavior are laid down, explicitly or implicitly, in the Articles of Agreement of the International Monetary Fund; and they have acquired additional concreteness from the experience countries have had in the application of different policies during the postwar period, and from the appraisals made of these policies by the Fund and by other international organizations, such as the Organization for Economic Cooperation and Development.

The promotion of high employment and economic growth and the maintenance of price stability are considered by all countries as predominant desiderata of economic policy. These desiderata have to be pursued in an international setting, which implies that countries must keep their international payments in approximate balance over the average of a period of years. In the short run, balance of payments disequilibria are unavoidable, and, in the absence of adequate liquidity, countries may be forced into measures that are destructive in terms of national and international objectives of economic policy. But, over the longer run, countries must adjust their policies in such a manner as to aim at a payments balance and to restore balance when it has been disrupted. It is essential that the provision of international liquidity—the means to finance disequilibria—be seen always in conjunction with the process of payments adjustment—the steps to eliminate disequilibria. These two aspects are clearly combined in the Fund's purposes—the Fund is *to make its resources available to members;* it is to do so, however, *under adequate safeguards,* in order to provide members with an *opportunity to correct maladjustments in their balance of payments, without,* however, *resorting to measures destructive of national or international prosperity.*[4]

Adjustment is not a process whose working can be determined by some automatic response mechanism. Countries will wish to judge the nature, magnitude, and origin of any disequilibrium in their payments in order to decide whether policy responses are indicated and, if so, what combination of instruments of economic policy at their disposal should be applied in the particular circumstances. As the Fund had occasion to observe in a recent report: if

> a sound set of policies is being followed . . . no change in them would be needed to meet payments difficulties that are due solely to temporary situations in foreign markets, or to such factors as a temporary fluctuation in crops. The mere fact of a falling off in exports would not be taken as an indication that a corrective program was necessary or that the corrective program already envisaged should be intensified.[5]

Balance of payments disequilibria that are of more than transitory character do require corrective policy action. For this purpose it is essential that, in framing its economic policies, each country take account not only of the requirements of its domestic policy objectives but also of the fundamental trends (as distinguished from the transitory fluctuations) in its balance of payments. Countries that are tending to fall into persistent payments deficits should be willing to pursue less expansionary policies than they would otherwise prefer, though they should not be expected to endure situations of high or prolonged unemployment of resources or economic stagnation. Again, countries that are tending to run into persistent surpluses should be willing to pursue, within limits, a more expansionary policy than they would have been inclined to adopt for purely domestic reasons. The wider the range of policies that countries can effectively employ—and countries vary a great deal in this respect—the better they will be able to maintain or quickly restore external balance, while avoiding both unemployment and stagnation or inflationary developments.

It has been well established in the experience of Fund members—developed and less developed—that an important role is to be played by fiscal and monetary policies in restoring balance of payments equilibrium. If such policies create excess demand that spills over into the balance of payments, a change in financial policies will be needed to redress the balance. As fiscal policies become better developed and can more readily be adjusted to changing circumstances, less reliance needs to be placed on monetary policies to influence domestic demand, and this will, in turn, permit more attention to be paid to the effects of monetary policy on the international movement of capital.

[4] Article I (v).

[5] *Compensatory Financing of Export Fluctuations,* (Washington, February 1963), page 11.

One area of adjustment lies in international shifts of relative costs, prices and incomes, with a consequent effect on flows of trade. In modern societies, actual reductions in wage and salary levels are regarded as acceptable only in the most unusual conditions. For this reason, general reductions of costs and prices in deficit countries will usually occur only to the extent that wage increases are kept below increases in productivity, or where other elements of costs or profits are reduced. On the other hand, few countries can completely resist cost and price increases when the underlying pressures for upward adjustment are strong. The result is that international adjustment through changes in relative costs and prices typically involves more upward adjustment in surplus countries than downward adjustment in deficit countries.

In modern industrial countries, governments influence both the economy and the balance of payments by a wide range of internal and external measures. Therefore, in many situations of imbalance, countries (and especially surplus countries) can use a variety of means that both are desirable from a general economic viewpoint and contribute to international adjustment. They may include unilateral tariff reductions by surplus countries experiencing excess demand, cooperation among countries or actions by individual countries to encourage equilibrating movements of long-term and short-term capital, or the provision of special financing (such as advance debt repayments).

Whatever the specific policies adopted, it is clear that unless adequate weight is given to balance of payments considerations in determining these policies, it would be difficult indeed for countries to achieve their domestic goals while maintaining effective par values in the manner provided for in the Articles of Agreement of the Fund, and generally accepted as one of the important foundations of the present international economic system.

Adjustments in exchange rates are of course not precluded by the par value system, and are indeed foreseen by the Articles in the event that a country has fallen into fundamental disequilibrium; but such situations should arise less frequently to the extent that the policies described above are followed. Members are expected to avoid restrictions on payments and transfers for current international transactions to the utmost practicable extent. Restrictions on capital movements may be less objectionable, particularly where they are intended to deal with speculative movements. Because of the difficulties and drawbacks attached to such restrictions, it is, however, preferable to follow, wherever possible, policies aimed at attracting appropriate equilibrating movements of private capital through international coordination of interest rates or similar international action, or to offset undue movements of short-term capital through the use of international liquidity.

A proper use of policies, along the lines described above, should make it possible to correct and reverse balance of payments disequilibria within a reasonably short period, without prolonged unemployment or stagnation in deficit countries or undue inflationary pressures on surplus countries. It is appropriate that the payments gap during this period of adjustment should be bridged by the use of international liquidity.

The adoption of desirable governmental policies, such as we have been discussing, does not depend solely on the level or rate of growth of international liquidity. Direct international agreement on aims of policy and cooperative action toward their achievement are also important. The search for measures to raise the level and improve the stability of the exports of primary producing countries, and the arrangements being concluded to assure a large and steady flow of aid and capital to the developing countries, may in particular be mentioned in this connection. The scope for bringing about desirable adjustments to specific situations through mutual consultation is perhaps greatest among the principal industrial countries. In general, however, control over the supply of international liquidity, especially of conditional liquidity, must be regarded as an important instrument for influencing policies in a desirable direction.

In considering the bearing of the supply of international liquidity on the promotion of adjustment processes, however, it is well to keep two points in mind:

(1) The determination as to whether the available supply of liquidity is adequate or inadequate must always be a matter of judgment, and a collective judgment is particularly difficult to arrive at because the balance of advantage, at any rate in

the short run, may be different with respect to, and in the opinion of, different countries. Action in the liquidity field which absorbs unemployment in one country may promote excessive demand in another, and any change in the supply of international liquidity is likely to involve some transfer of resources, at least temporarily, between countries.

(2) International liquidity is heterogeneous in character and the need for it at any time cannot be expressed in a single over-all figure. Whether or not the common objective of economic policy would, on balance, be promoted by a larger world total of liquidity depends on many factors, such as its composition (as between gold, foreign exchange, credit facilities, etc.), the way in which it is distributed among countries, and the manner in which any increase would be brought about.

Adequacy of International Liquidity

On the occasion of the last Annual Meeting of the Board of Governors of the Fund, it appeared to be generally agreed that international liquidity was adequate. The studies which have been in process during the year have not led to any different conclusion. Situations of underemployment are evident in certain parts of the world; situations of excessive demand elsewhere. There has been no slackening of the growth in world production and trade. The imbalance of payments that existed a few years ago among the industrial countries has been notably reduced. As regards primary producing countries, there has recently been a welcome recovery in the terms of trade to something approximating those of 1957. However, the reserves of these countries, taken as a group, tend to remain small because of their urgent need for imports.

The conclusion that the general level of international liquidity is broadly satisfactory at the present time does not mean that its distribution among countries or the supply of each type of liquidity is equally satisfactory. But the distribution of international liquidity among countries at any moment of time inevitably presents inequalities that reflect the reserve movements resulting from past payments disequilibria.

The concern of present-day analysis is to examine the prospective trend in the adequacy of international liquidity. This is not an easy task. Prospective adequacy depends to a very great extent on such unpredictable factors as the presence, at some future time, of inflationary or contractionary tendencies in the world economy, and the distribution by countries of reserves and of payments deficits and surpluses at that time. Notwithstanding these difficulties, the analysis which follows permits the conclusion that it will be necessary to continue and possibly to broaden international action directed toward the creation of international liquidity.

Demand for Liquidity

Attention may first be directed to the likely expansion of international payments. International liquidity is of course not directly used to make payments for international transactions—exporters and importers use the facilities of international banking and finance for this purpose. But a larger world economy with larger world trade is likely also to involve greater absolute payments disequilibria.

It is important that liquidity considerations should not inhibit industrialized countries from pursuing policies designed to liberalize trade and to augment capital flows and development aid. Some of them, also, have yet to achieve full employment within their domestic economies. Developing countries, faced as they are with large import needs relative to their export incomes and reserves, will also have a rising need for liquidity in order to be able to avert undue disturbance to their development programs because of temporary or unexpected balance of payments difficulties.

Over the last ten years the value of international trade rose at an average rate of 5.8 per cent per annum, and the value of international financial transactions probably rose even more. Even after making allowances for some possible reduction in the rate of growth of the world economy, it would be difficult to put at less than 4 per cent per annum the appropriate increase, under noninflationary conditions, in the over-all value of international transactions over the next ten years.

Estimates of the relationship between payments disequilibria and the level of financial transactions have to be based on certain assumptions as to official policies. It is assumed that convertibility of currencies and the maintenance of effective par values will continue to be accepted as the broad objectives of policy by Fund members. This means that there will be no official support for an international financial system based on fluctuating exchange rates or on a return to restrictions as a means of easing any pressure on the available stock of world liquidity.

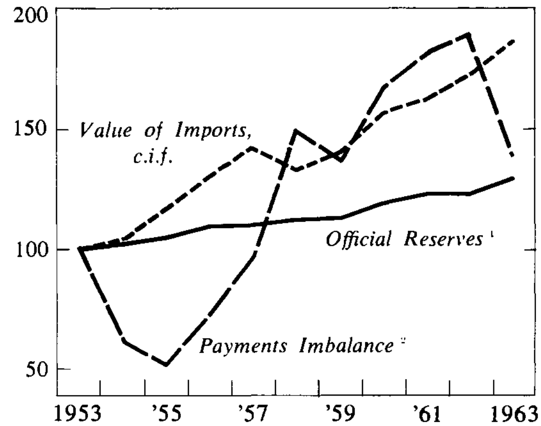
Certain gradual changes in factors affecting the adjustment process—such as increased liberalization of capital movements and a tendency toward closer policy coordination of monetary policies in the main financial centers—will probably continue. The net impact of these on the need for liquidity in the longer run is, however, difficult to gauge. The tendencies that have been visible in recent years toward an improved cooperation between central banks with respect to monetary policy and interest rates should help to reduce payments disequilibria. A rise in private international capital movements relative to international trade could operate in either direction. On the whole, however, while private capital can be helpful in financing moderate swings in the trade balance, in the case of more serious disturbances confidence may tend to be impaired; in view of this, the increased mobility of capital must be counted potentially as a factor enhancing the payments disequilibria. On balance it seems prudent to assume no decline in the magnitude of payments disequilibria relative to the value of international transactions or of international trade. In Chart 2 an indication is given of how payments disequilibria—as measured by the sum of payments deficits of countries having such deficits—have varied relative to international trade and reserves over the past decade.

Supply of Liquidity

Over the last ten years the average rate of growth of gold reserves has amounted to 1.6 per cent per annum, that of foreign exchange reserves to 4.3 per cent per annum, and that of gold tranche positions in the Fund to 7.6 per cent per annum. The average annual rate of growth of these three items combined has amounted to 2.8 per cent per annum (Chart 3). Owing in particular to the large increase in Fund quotas which took place in 1959, the conditional drawing facilities in the credit tranches of the Fund expanded over the decade in question by 6.0 per cent per annum. There was also a substantial growth of mutual credit arrangements on a bilateral basis between the United States and various industrial countries in 1962-63, while less formal credit arrangements were devised in favor of the United Kingdom in 1961 and again in 1963. Assuming that such arrangements were capable of being reactivated or restored, one might estimate that the annual rate of growth of international liquidity in all these forms over the decade amounted to some 3.3 per cent.

CHART 2. ALL COUNTRIES' OFFICIAL RESERVES, IMPORTS, AND PAYMENTS IMBALANCE, 1953–63

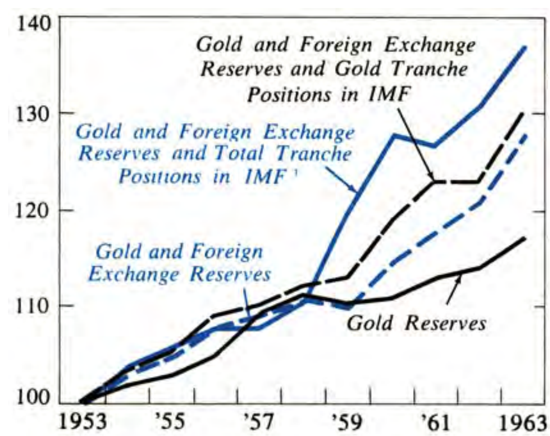
(*1953 = 100*)



[1] Including gold tranche positions in International Monetary Fund.
[2] Sum of payments deficits of countries having such deficits.

CHART 3. INTERNATIONAL LIQUIDITY: COUNTRIES' GOLD AND FOREIGN EXCHANGE RESERVES AND POSITIONS IN THE INTERNATIONAL MONETARY FUND, 1953–63

(*1953 = 100*)

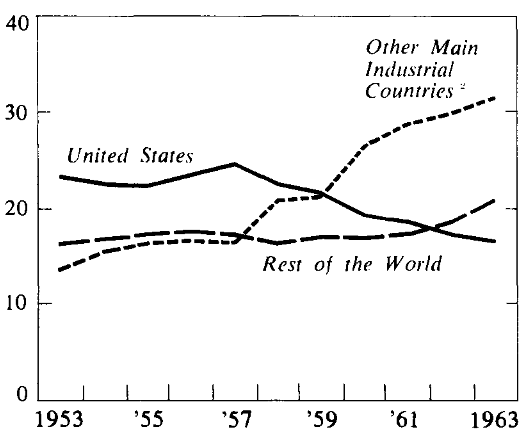


[1] A member's total tranche position is the sum of its gold tranche and credit tranche positions in the Fund.

The considerations just summarized point to the conclusion that in the next decade there is likely to be persistent and substantial growth in the demand for international liquidity. At the same time, the factors which have determined the growth in liquidity during the past decade seem likely to provide a smaller annual rate of growth over the decade to come. The net addition to official gold holdings arising from gold production and sales by the Soviet Union, less the nonmonetary uses of gold, may well in the years ahead be larger than in most recent years; even so, however, it could hardly be expected that the annual rate of increase of monetary gold holdings would exceed 2-2½ per cent. The rapid expansion in foreign exchange reserves over the past decade was attributable to the fact that the United States, whose reserves consist almost entirely of gold, was in deficit vis-à-vis countries that were accumulating a considerable proportion of their surpluses in the form of foreign exchange (Chart 4). It must be assumed that payments deficits of the United States will not contribute to the formation of reserves in future on the same scale as in recent years. It therefore seems safe to forecast that in the future greater reliance than over the past decade will have to be placed on the provision of international liquidity, as needed, by other means. The Fund could make an essential contribution in this connection.

CHART 4. SELECTED COUNTRIES' OFFICIAL RESERVES,[1] 1953–63

(In billions of U.S. dollars)



[1] Including gold tranche positions in International Monetary Fund.
[2] Belgium, Canada, France, Federal Republic of Germany, Italy, Japan, Netherlands, Sweden, Switzerland, and United Kingdom.

Shorter-Term Variations in the Need for and Supply of International Liquidity

Apart from the adequacy of international liquidity in the longer run, the short-run fluctuations in its supply and the need for it deserve consideration. The supply of gold for monetary purposes is dependent on such factors as changes in the conditions governing gold mining, as well as on the confidence factors that influence private gold hoarding. Exchange reserves increase when countries which hold comparatively little foreign exchange in their reserves—including notably the reserve currency countries themselves—are in payments deficit, and decrease when they are in surplus, vis-à-vis countries which hold a substantial proportion of foreign exchange in their reserves. On the basis of considerations such as these, it has been argued that the supply of international liquidity is too dependent on factors having no relation to the need for liquidity, and is not sufficiently responsive to variations in the need for liquidity. In the same vein, it has also been observed that holdings of foreign exchange can vary in the light of the degree of confidence in the key currencies themselves—the desire of countries to hold a larger or smaller proportion of their reserves in the form of currency rather than gold. Some of these factors, notably the confidence factors mentioned above, may work perversely, expanding international liquidity when on general economic grounds it ought to be contracted, and vice versa.

These considerations deserve to be kept in mind; but they do not provide a complete view of the cohesion and the responsiveness to need that have been shown by the system in the postwar period. The first point to be noted in this connection is the great strength of the reserve currencies over the long pull. Owing to this, to the realization by the monetary authorities of many countries of their overwhelming common interest in the maintenance of international monetary order, and to the spirit of cooperation that has prevailed among them, such disturbances to confidence as have occurred after the early postwar crisis affecting sterling have been quite rapidly overcome. It is noteworthy that when a temporary loss of confidence has been evident on the part of some private holders of funds, official holders of dollars or sterling, as the case may be, have not generally changed the composition of their reserves in such a way as to reinforce the movements in private funds, but on the contrary have acted so as to offset these movements and to support the currency under pressure.

When speculative movements of funds have become troublesome, new forms of liquidity have been developed to offset them or to discourage their continuance. Such, for example, were the Basle arrangements which came to the assistance of sterling in 1961 and 1963, the mutual credit (swap) arrangements negotiated by the United States in 1962-63, the gold pooling arrangements put in operation beginning late in 1961, and the development of techniques of medium-term borrowing denominated in the currency of the lending country. The Fund's General Arrangements to Borrow were similarly a demonstration of the willingness to strengthen liquidity arrangements in the light of changing needs. Accelerated repayments of long-term indebtedness previously contracted have also played a useful part in financing deficits and in limiting the transfer of reserves.

There are further elements in the existing system for the provision of international liquidity which show a responsiveness to variations in need. For example, insofar as payments disequilibria are financed through the Fund, the expansion in Fund drawings not merely enables the country in deficit to maintain its reserves; it also expands the over-all level of reserves by increasing the amount of gold tranche positions in the hands of surplus countries. Again, a country, though not currently in payments deficit, can, if it desires to do so, expand its stock of international liquidity without impairing the liquidity position of other countries if it is willing to expand its reserves in the form of currency holdings.

Concluding Observations

Since the end of the war, the international financial system—based on reserves in the form of gold and reserve currencies supported by the International Monetary Fund as well as by certain other credit arrangements—has permitted a signal expansion of the world economy and of international trade. It has made it possible to restore the convertibility of the main currencies and to cope with a number of difficult situations which affected certain currencies. These results have been obtained while a relatively high level of employment was maintained in the world. At the same time, there is no ground for complacency: for example, only modest progress has been made in raising the incomes of the developing countries, and inflationary tendencies are still evident over a wide area.

The accumulation of dollars has constituted an important contribution to the over-all supply of international liquidity since the war, following the accumulation of sterling balances in the preceding years; but, as stated before, the expansion in reserve currency holdings cannot be expected to continue at the rapid rate of recent years. In these circumstances, it would seem both desirable and timely to enter upon a broad exploration of the possible ways to meet any inadequacies in the supply of international liquidity to which the present system might otherwise give rise and to offset any undesirable fluctuations in it.

It has been noted that the financial system has shown great ability to adapt itself to changing requirements. Important improvements have been made in it. When considering any further changes that may be appropriate one should keep in mind the substantial benefits that the system has brought and the perils which it has helped to avoid. It will be wise, therefore, to supplement and improve the system where changes are indicated, rather than to look for a replacement of the system by a totally different one.

Some of the improvements in the system that have already occurred have taken the form of expanding multilateral sources of liquidity; others have been of a bilateral or a regional character. In looking ahead toward the further change that may be necessary, it is important that certain of the characteristic advantages of the multilateral institutional approach to the creation and administration of international liquidity should not be lost to view.

The bilateral credit arrangements between monetary authorities which have been introduced among industrial countries in recent years are useful in several respects, including the speed and secrecy with which they can be invoked to deal with speculation. On the other hand, their bilateral character limits their potential scope. In the first place, it is generally agreed that bilateral arrangements in the form of swaps are essentially of a short-term nature and are not appropriate to meet disequilibria for more than a few months. Secondly, the possibility of undertaking such arrangements is in practice open only to a relatively restricted group of countries. By contrast, multilateral institutions can extend the scope of their operations to a world-wide membership.

The advantage of the multilateral institutional approach is still more marked with respect to ensuring that liquidity is made available to countries at appropriate times and on appropriate terms and conditions. If the amount of international liquidity considered desirable from the standpoint of avoiding excessive restriction of trade or economic activity by deficit countries were provided solely in the form of reserves, payments disequilibria might remain too long uncorrected and surplus countries be forced to provide excessive resources to deficit countries in the form of balance of payments financing. Where payments surpluses prove to have a persistent character, the expansionary pressure which the financing of the corresponding deficits involves is not necessarily inappropriate. However, in many cases more action by the deficit countries is required, and in these cases the provision of liquidity in conditional form is of great use in ensuring that appropriate corrective measures are applied. The advantages of an approach through an international organization in these circumstances are manifold. In particular, it provides the forum for a balanced consideration, and hence the best reconciliation, of the various objectives in the international financial field as they affect all countries: adequate growth and high levels of employment, monetary and exchange stability, and the removal of impediments to international trade and payments.

Chapter 4

The Fund and International Liquidity

The Fund as a Source of Liquidity

ONE of the most important functions of the Fund is to help its member countries by making funds available to them in accordance with the provisions of its Articles of Agreement. The Fund possesses a stock of gold and of member countries' currencies from which members may draw needed currencies in exchange for their own. Such drawings are to be repaid as reserves recover or, at any rate, under existing policies, within three to five years. The Fund is thus a source of short-term or medium-term finance and as such its operations affect the distribution and composition of international liquidity. Moreover, since members can count on having access to the Fund in accordance with established policies and procedures, unused drawing facilities in the Fund constitute a form of international liquidity. Drawings within the gold tranche (i.e., those that do not raise the Fund's holdings of the currency of the drawing country above its quota) are available on a virtually automatic basis. Such drawing rights may be considered as part of a country's reserves, and are so presented in the reserve statistics published by the Fund. Drawings beyond the gold tranche, however, are conditional, in greater or lesser degree, on the adoption by the drawing countries of policies designed to ensure the temporary character of their payments problem, and designed also to eliminate or reduce the member's reliance on exchange restrictions or certain other exchange practices. The amount which a member can draw on a conditional basis is normally limited to the equivalent of its quota. The Fund can, however, waive this quantitative limitation when this is justified, and has declared its willingness to do so in connection with the special facilities recently established for the compensation of export fluctuations.

When a member draws from the Fund, the country whose currency is drawn experiences an improvement in its Fund position. In most cases this will be a gold tranche position, and the improvement will carry with it an increase in drawing rights that are virtually automatic, and hence in reserves as presented in the statistics published by the Fund. Where, as will often be the case, the drawing member is utilizing its drawing facilities in the credit tranches, the net result of the operation will be to reduce aggregate conditional drawing facilities and to increase aggregate reserves.

At present the Fund contributes on a small scale to unconditional liquidity and is a large contributor to conditional liquidity. Gold tranche positions stand at about $3.9 billion. However, much the greater part of these positions are a consequence of gold contributions made by members; and since such contributions have often been associated in part with purchases of gold from reserve centers, they have brought about a reduction in countries' holdings of gold plus reserve currencies that has exceeded the amount of gold tranche positions acquired. The Fund's net contribution to unconditional liquidity is, therefore, only a small fraction of that suggested by the total of gold tranche positions. In sharp contrast, the conditional drawing facilities, in the credit tranches, now total about $14 billion.[1]

As discussed in the preceding chapter, members can use the Fund only to meet balance of payments problems that are temporary in character, and such use is to contribute to the achievement of the purposes stated in the Fund's Articles of Agreement. In exercising its responsibilities with respect to these purposes, and specifically in making financial resources available to its members, the Fund must continuously keep two considera-

[1] Drawing facilities in the Fund are available to be used to meet balance of payments deficits; they cannot, in the nature of things, be used by all countries at the same time. The same qualification attaches to any other totals of international—or, for that matter, domestic—liquidity.

tions in mind: on the one hand, it must act according to standards which are sufficiently definite to be predictable; and on the other hand, it must take into account the unique set of circumstances that characterizes the economic position of any particular country at any particular time. The Fund has had a rich operating experience in evolving general criteria and in making the detailed judgments necessary to apply them to particular cases. Member countries, having given the Fund the central role in the international monetary system, can adapt this role to changing circumstances.

Fund Quotas and Quota Increases

An increase in quotas is the normal way to make it possible to expand the operations of the Fund and to enable it to play a greater role in the provision of international liquidity of a more or less conditional kind.

Quotas play three main roles in the Fund. They are the basis for the magnitude of drawing facilities which members can expect to enjoy. Subject to any borrowing the Fund may undertake, they determine the magnitude of the resources in gold and currencies on which the Fund can rely—though the composition of these resources may be subsequently affected by the Fund's transactions and by any use of gold to replenish the Fund's stock of currencies. Thirdly, they determine the relative voting rights of members.

In accordance with the Articles of Agreement, the Fund makes a review of quotas every five years and as a result of this review may propose a general or a selective adjustment of quotas, or both. However, there is nothing to prevent the Fund from proposing a general adjustment of quotas—which need not be a uniform proportional adjustment for all members—at times other than the quinquennial review, and indeed the general increase in quotas in 1959 was undertaken as a result of a special review of quotas requested by the Board of Governors in 1958. Finally, the Fund can at any time consider a member's request for a change in its quota.

It is appropriate in connection with this discussion of international liquidity to note that the next quinquennial review of quotas by the Executive Board is scheduled for 1965, and to describe certain considerations affecting the desirability of a *general* increase in quotas and of an adjustment of *relative* quotas.

The first consideration is that in a world in which income and trade have expanded rapidly and are expected to continue to do so, the need for the type of liquidity provided by the Fund, like the need for international liquidity in general, may be expected to grow.

Beyond this, insofar as there is some prospect that the rate of growth in the need for international liquidity will outstrip that in the supply, there is a case for relying on the type of conditional liquidity provided by the Fund to assist in filling the resulting gap. This would have the beneficial effect of increasing a type of liquidity that is associated with the adoption of measures that will help to correct payments disequilibria without prejudicing the general prosperity.

A number of other considerations may be mentioned that may be of particular importance for certain individual countries or groups of countries.

(1) The variability of capital flows has increased since 1959. This has tended to aggravate balance of payments deficits and surpluses and therefore to increase the amount of resources needed to finance them. Short-term bilateral arrangements are proving very useful in reducing the impact of these problems; but these arrangements are on the whole limited to the industrial countries, and even in those cases the Fund may have to be brought in if the problems prove to be more than short run.

(2) Account must be taken of the policies that countries follow with respect to the accumulation of reserves. As already noted, each country's accumulation and level of reserves will be affected by the availability and predictability of resources that can be obtained in case of need, principally from the Fund, but also under bilateral or regional arrangements. There is every reason to believe that the reserve behavior of countries will continue to show widely different trends. Some countries clearly assign great importance to increasing their reserves, but many countries have difficulties in doing so and attach importance to increasing their Fund quotas rather than their owned reserves.

(3) Countries have varying ability to round out resources provided by the Fund with resources obtained elsewhere to meet a given balance of payments problem. In a number of instances cer-

tain countries, in particular less developed countries, have found that the amounts available from the Fund in connection with stabilization plans endorsed by the Fund were inadequate, and that additional resources were difficult or impossible to obtain. This problem has been accentuated as more countries have drawings outstanding in the higher credit tranches.

Following the decision of the Executive Board on the Compensatory Financing of Export Fluctuations, a number of quota increases have been granted to primary producing countries with small quotas when these were deemed relatively low. These increases were related to the Bretton Woods formula,[2] revised to give more weight to trade and variability of trade and relatively less weight to national income and holdings of gold and foreign exchange. For other countries, similar adjustments might appropriately be considered in individual cases.

In the case of countries whose currencies have been actively drawn, particular account has to be taken not only of their own need to draw on the Fund to finance potential payments deficits, but also of their ability to provide resources for the Fund when experiencing payments surpluses. This fact need not significantly alter the criteria which it is appropriate to use in such cases. The same structural characteristics which cause a country to have relatively large short-term to medium-term payments deficits may cause it, at other times, to have relatively large short-term to medium-term payments surpluses. However, in the case of certain industrial countries one should also bear in mind their special needs and their special abilities to provide resources, which arise out of the large-scale movements of short-term and portfolio capital between these countries, especially since the restoration of convertibility.

In examining the desirability of quota increases, the liquidity of the Fund itself is also an important consideration. The amount of assistance which a member can obtain from the Fund is not simply a function of the size of its quota but reflects a judgment by the Fund of what is appropriate in the light of the member's payments problem and the measures it is proposing to take to deal with that problem. A general expansion in quotas will therefore not of itself bring about a proportionate increase in drawings, but will increase the Fund's stock of gold and currencies relative to the calls that are likely to be made upon them and enhance confidence in the Fund's ability to meet all justifiable requests for drawings. Provision of adequate resources, enabling the Fund to meet needs with a margin of safety, may also reduce those needs by marshaling the resources and demonstrating the international cooperation that could deter speculation.

The preceding considerations lead to the conclusion that there is a case for an increase in Fund quotas. The Fund should therefore proceed to an early examination of this question in detail. This examination should encompass the magnitude of a general and virtually uniform quota increase, the need for special additional increases for individual countries in the light of the considerations mentioned earlier in this chapter, the timing of such increases, and other relevant considerations. Under the Fund's normal practice, the Executive Directors would begin the quinquennial study of quotas at the end of this year with a view to reaching a conclusion by the end of 1965. There would be advantage in considering quotas as promptly as possible after the Annual Meeting of the Board of Governors. If, having regard to views expressed by Governors, the Executive Directors find that increases in quota are desirable, they could submit an appropriate proposal to the Board of Governors for action.

Quota Increases and the Fund's Gold Policies

When any member's quota is increased it is obliged to add to its subscription to the Fund an amount equivalent to the increase in its quota. Of this additional subscription, 25 per cent is normally made in gold and the remainder in the domestic currency of the member in question.

The payment of gold to the Fund has implications both for the liquidity of the Fund itself and for that of member countries. For the Fund, gold is an asset which can be used at any time to replenish its holdings of any currencies needed for

[2] In its original form this formula combined a member's national income, reserves, imports, exports, and export variability, with certain weights attached to each. The formula was used at the Bretton Woods Conference in 1944 as a help in the determination of countries' initial quotas.

its operations. Through its holdings of gold, the Fund can assure its members that they will be able to draw, in accordance with the Fund's policies, even though its holdings of currencies suitable for drawing are low; and the Fund's gold holdings also assure members that the Fund will not feel obliged to sell their currencies in situations where their own position is not strong enough to stand such sales.

When gold is subscribed to the Fund by a member whose outstanding drawings do not exceed 25 per cent of its previous quota (i.e., which has not previously used up its gold tranche drawing rights), the member in question will experience a change in the composition, rather than in the amount, of its reserves: the decline in its owned reserves of gold will be compensated by an equivalent increase in its gold tranche position in the Fund, the value of which remains constant in terms of gold, and which when needed can be drawn upon virtually on demand. In addition, the member will also gain an enlargement of its conditional drawing facilities roughly equal to its increase in quota. However, where quota increases are obtained by countries that have substantial drawings outstanding, the payment of gold will involve a decline in reserves proper, and the entire improvement in the member's liquidity will take the form of conditional drawing facilities.

In both of these cases there may be repercussions on the holdings of reserve currencies and, therefore, on total world reserves. For example, members who hold the great bulk of their reserves in foreign exchange might have to acquire any gold they subscribe to the Fund by converting holdings of reserve currency. Even if the member held substantial amounts of gold and acquired additional gold tranche positions in the Fund in exchange for its gold subscription, it might feel inclined to obtain at least part of the gold subscribed by way of conversion. These conversions would reduce the gold stocks and thus adversely affect the reserve positions of the reserve center countries.

The problem of striking a proper balance between the need for gold of the Fund and the need for gold of its members is not an easy one. The Fund has twice made use of its gold stocks to replenish its holdings of currencies. In 1957, the Fund acquired $600 million of U.S. dollars for gold, and in August 1961, on the occasion of the sale of $1.5 billion in currencies to the United Kingdom, the Fund purchased for gold the equivalent of $150 million of U.S. dollars and $350 million of the currencies of eight other industrial countries. The Fund now holds $2.3 billion in gold. In addition, the Fund has in its Gold Account an amount of $800 million invested in U.S. Government securities for administrative purposes; the Fund is entitled to reacquire the amount of gold that it sold to the United States for the purpose of this investment.

The adequacy of the Fund's holdings of gold should be considered in relation to the fact that the two members with the largest quotas have almost $7.5 billion of drawing facilities unutilized —though it is very unlikely that these would be drawn simultaneously to the full extent—whereas the balances in currencies of other main industrial countries available to the Fund amount to some $2.0 billion in holdings plus $3.0 billion under the General Arrangements to Borrow.

The preceding discussion suggests that it would be desirable for the Fund's gold holdings to increase when quotas and the Fund's resources in currencies increase. In the past, 25 per cent of all increases in quotas has been paid to the Fund in gold. In present circumstances, however, it may be desirable to consider whether measures should be adopted to mitigate the repercussions of gold payments on the gold reserves of the contributing members and of the reserve centers that may be affected. There are several methods within the Articles by which this might be done, such as a reduction of gold payments by members with low reserves where permitted by Article III; an offsetting of gold payments by measures within the Articles to move gold into members' holdings; and special drawings in connection with gold payments. If measures such as these were considered inadequate, others could be devised which might require an amendment of the Articles of Agreement. All such approaches are deserving of further study.

General Arrangements to Borrow

Insofar as quota increases provide balances in currencies likely to be drawn by other members, they meet to some extent the Fund's need for additional resources that is now covered by the

General Arrangements to Borrow, which were negotiated under the authority of Article VII. To that extent quota increases reduce the Fund's dependence on borrowed resources. There is much to be said for the view that the Fund should conduct its financial operations as much as possible with resources on which it can count permanently without question. But whatever action is taken with respect to quotas, it would probably be desirable for the Fund to have certain stand-by arrangements under which additional amounts of currencies could quickly be borrowed in the event of need. Until thinking about quotas has progressed further, it is too early to be specific about amounts or conditions for future borrowing arrangements. These matters can be considered when the General Arrangements to Borrow, which expire in October 1966, come up for review in the course of 1965.

Potential Further Contribution by the Fund Toward the Supply of Unconditional Liquidity

As stated above, the Fund, under present policies, is primarily a source of liquidity which is linked to the fulfillment of the conditions inherent in the Articles. The Fund creates unconditional liquidity only as a by-product of drawings, and in amounts that are small compared with total quotas.

In practice, members that follow policies that are consistent with the Articles of Agreement have found that they can rely on obtaining financial assistance when needed, and as more and more members have occasion to draw on the Fund and acquire familiarity with its procedures their willingness to use their conditional drawing rights may be expected to grow, thus economizing their demand for reserves.

If, however, it were considered that the international monetary system was moving into an era in which the supply of unconditional liquidity tended to fall short of the need for it, notwithstanding some expansion of the Fund's conditional drawing facilities, there are various possible ways whereby the Fund might enhance its contribution to the supply of international liquidity of a more or less unconditional kind. As has already been mentioned, the provision of unconditional liquidity has not hitherto been a principal preoccupation of the Fund, although the increased role attributed to gold tranche positions in recent years can be seen as a step in that direction. In the period ahead increasing attention may have to be given to the need for and the desirability of further moves along these lines. During the last year, some of the technical aspects of these problems have been analyzed but they require further study. The techniques described in the following paragraphs are presented, therefore, only to suggest the range of technical solutions that might be found, without attempting at this stage to decide whether they fall within the existing Articles. Member countries will ultimately have to decide whether it is necessary and desirable to move in the direction of the creation of unconditional liquidity on an international scale, and, if so, to what extent and in what manner the Fund could be used to this end.

One possible approach that would deserve study, in the light of the purposes of the Fund, would be to make members' access to some portion of the credit tranches more assured than it is at present. Such action might be carried to the point at which it would be tantamount to raising members' unconditional liquidity in the Fund, and in that event each subsequent increase in quotas would increase the amount of unconditional liquidity thus provided.

A second technique, which is, of course, closely related to the Fund's gold policy in connection with quota increases, discussed above, would substitute for a portion of the gold subscription to the Fund an alternative method of payment, e.g., by means of gold certificates. This would *pro tanto* have the effect of providing a member with a gold tranche drawing right without a corresponding reduction in its gold and foreign exchange reserves.

Another approach that might be envisaged could take a variety of forms. Its essence would be the purchase by the Fund of assets, other than the currencies which it acquires in connection with drawings, for the purpose of enhancing members' international liquidity. Such action, whatever its precise form, may conveniently be designated by the generic term of Fund "investment."

The creation of reserves in the form of gold tranche positions as a result of drawings takes place in response to balance of payments disequilibria. Investment operations, on the other hand, could be undertaken on the initiative of the Fund, with a main purpose of creating liquidity, and not necessarily in response to a particular balance of payments need. In considering operations of this kind, attention would have to be paid to the nature of the investment and the principles on which investments would be made. Investments might take place in all member countries or on a selective basis. They might be made in currency or in gold; in the former case, countries' reserves would increase in the form of claims on the Fund, in the latter case, by additions to their gold holdings.

Any acquisition of assets by investment would tend to put a strain on the Fund's resources and create a need for additional resources. Investment would be likely to require an extension of the Fund's own resources derived from subscriptions or of borrowing by the Fund beyond what would otherwise be necessary. Borrowed resources might be provided under negotiated lines of credit, by "deposits" according to suitable criteria, or in other ways. Investment and any borrowing necessary to finance it might be handled separately or they might be arranged in a single operation.

In order that the Fund's investment should in fact increase unconditional liquidity, it would be essential that members treat the resulting liquid claims on the Fund as reserves. As indicated above, a country's gold tranche drawing rights—which increase as the Fund reduces its holdings of a country's currency—already possess characteristics which permit them to be considered as part of a country's reserves. Claims arising from loans made to the Fund under the General Arrangements to Borrow are intended to have the same liquidity as gold tranche positions. Claims on the Fund arising from other kinds of borrowing by the Fund might have similar characteristics.

The types of operation that have been very sketchily indicated in this section would require careful consideration from many points of view before any decision could be reached as to whether it would be appropriate for the Fund to undertake such operations. It is the intention of the Executive Directors to give these matters further study in the period ahead.

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Part III

REVIEW OF THE YEAR

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Chapter 5

Economic Developments in the Industrial Countries

Introduction

Late in 1962, trends in industrial production in many countries were uncertain, and early in 1963 those in Europe were obscured by the effects of the unusually severe winter. It soon became apparent, however, that the economic expansion observed earlier was continuing with renewed vigor in a majority of countries. Even those countries in which the rise in output had been limited in 1962—particularly Japan and the United Kingdom—took part in the general upward movement in the industrial countries that characterized 1963.

In most countries, the main impetus to the expansion originated in the countries themselves. It came, in particular, from the lift to consumption provided by wage increases and the stimulus to private investment resulting from continued expansion and favorable prospects for further growth; in some countries, budget deficits and other fiscal measures were also important. These influences were generally much more powerful in raising demand than was the impact of foreign transactions. However, the high degree of freedom for international payments that prevails in the industrial countries results in economic impulses being easily transmitted from country to country, and this undoubtedly helped to make the expansion of output general and to even out rates of progress. A rapid rise in imports in those countries which were less successful than others in controlling pressures on prices and wages served both to transmit excess demand to other countries and to bring about major changes in the payments positions of individual countries. In addition, short-term and long-term capital outflows from the United States, including the continuing U.S. direct investment in the other industrial countries, served to reinforce the domestic forces pushing for expansion in the recipient countries.

The continued prosperity in all the industrial countries contributed to an increase in the volume of imports from the primary producing countries and to the general rise in prices for primary products that occurred in the course of 1963 and continued in early 1964. These developments, and their impact on the export earnings and balance of payments positions of primary producing countries, are reviewed in later chapters.

Output, Employment, and Wages

The progress in the industrial countries took place against differing economic backgrounds. Efforts to solve the *United States'* two major problems, substantial unemployment and balance of payments disequilibrium, were continued and intensified in 1963. Business activity expanded appreciably, the gross national product at constant prices rising by 3.8 per cent and industrial production by 4.8 per cent from 1962 to 1963 (Chart 5). Nevertheless, little success was achieved in reducing the unemployment rate, which fluctuated between 5.5 per cent and 5.9 per cent over the year, and was on the average about the same as in 1962. The high level of unemployment helped to limit the increase in wages to less than 3 per cent on the average (Chart 6). This relative stability of wages at a time of expansion of output resulted in little change in wage costs (Chart 7). In the first months of 1964, there were signs that unemployment was declining, as the expansion, spurred by a cut in income taxes, gained new momentum. In May, the percentage of the labor force unemployed was lower than it had been for four years.

There was also a marked expansion of activity in *Canada*. The gross national product at constant prices rose by 4½ per cent during 1963. In the last quarter of the year, unemployment declined to approximately 5 per cent of the labor force on a seasonally adjusted basis, compared with close to 6 per cent in the same quarter of 1962. Despite the upward movement in the economy, wages were relatively stable, average money rates rising by approximately 3½ per cent during the year. Labor productivity rose by almost 2 per cent. As a consequence, wage costs rose only slightly.

At the end of 1962, the *United Kingdom* was in the midst of a recession, the unemployment rate for Great Britain being 2.5 per cent—a high level for that country. Owing partly to this recession, the balance of payments on current account had improved in 1962, and in 1963 the authorities considered it appropriate to intensify their expansionary financial policies, while keeping a close watch over the balance of payments. The rise in gross national product and industrial production acquired increased momentum during the year, production being some 8 per cent higher in the fourth quarter than in the corresponding

CHART 5. SELECTED AREAS AND COUNTRIES: INDUSTRIAL PRODUCTION, SEASONALLY ADJUSTED, 1961–APRIL 1964

(1958=100)

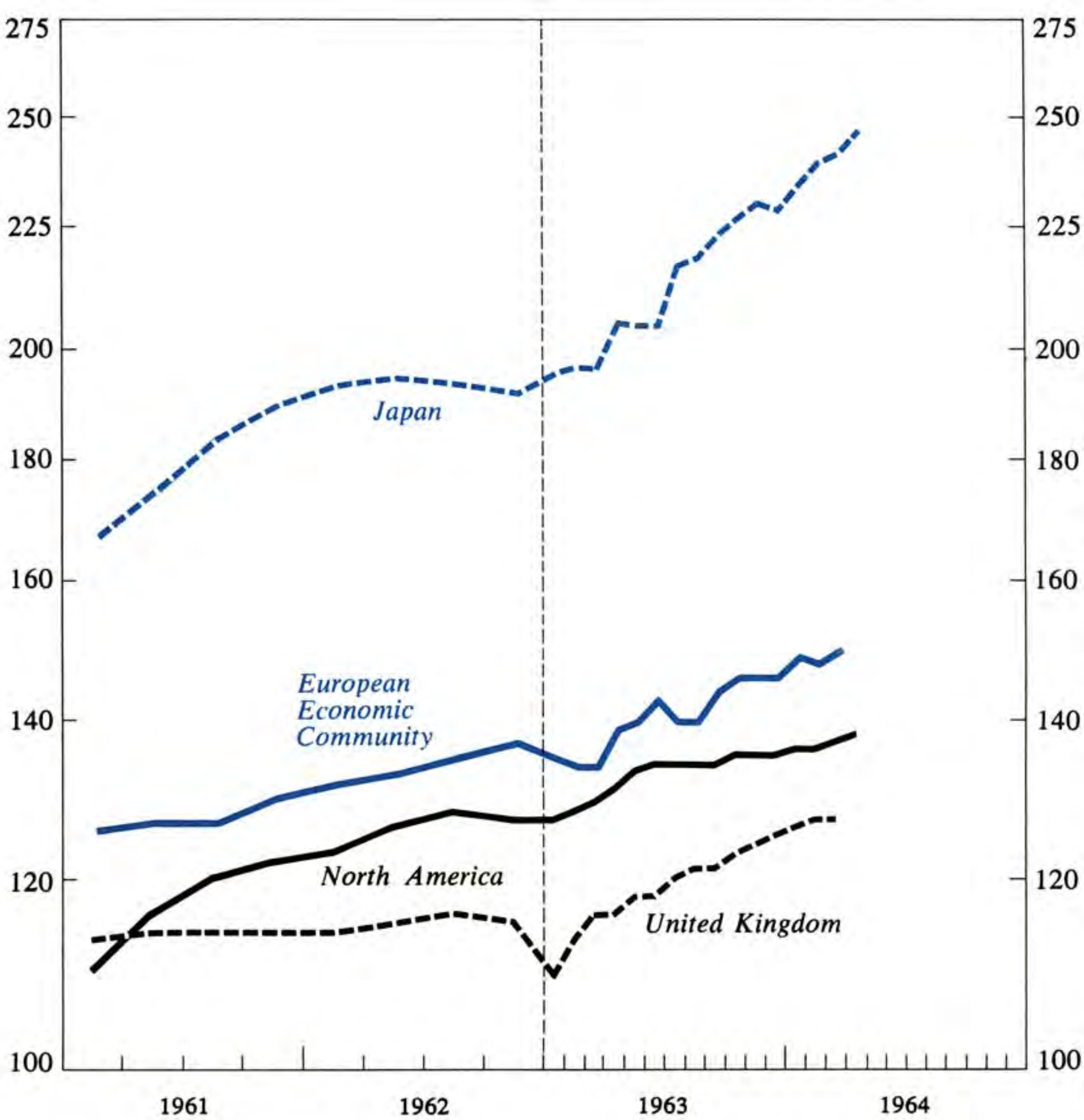


CHART 6. SELECTED AREAS AND COUNTRIES: WAGE RATES, 1961–APRIL 1964

(*1958=100*)

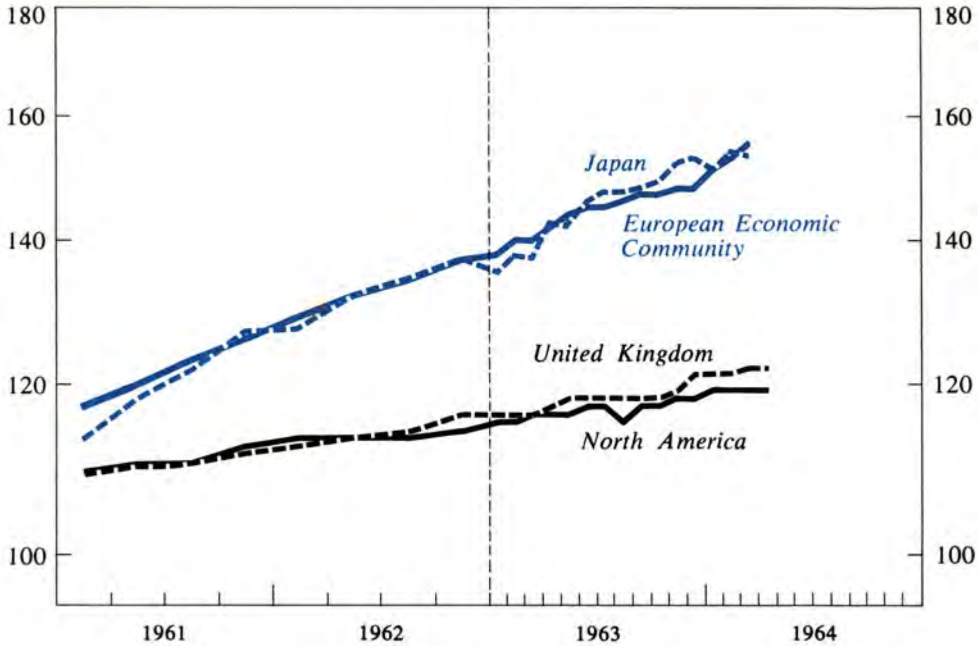
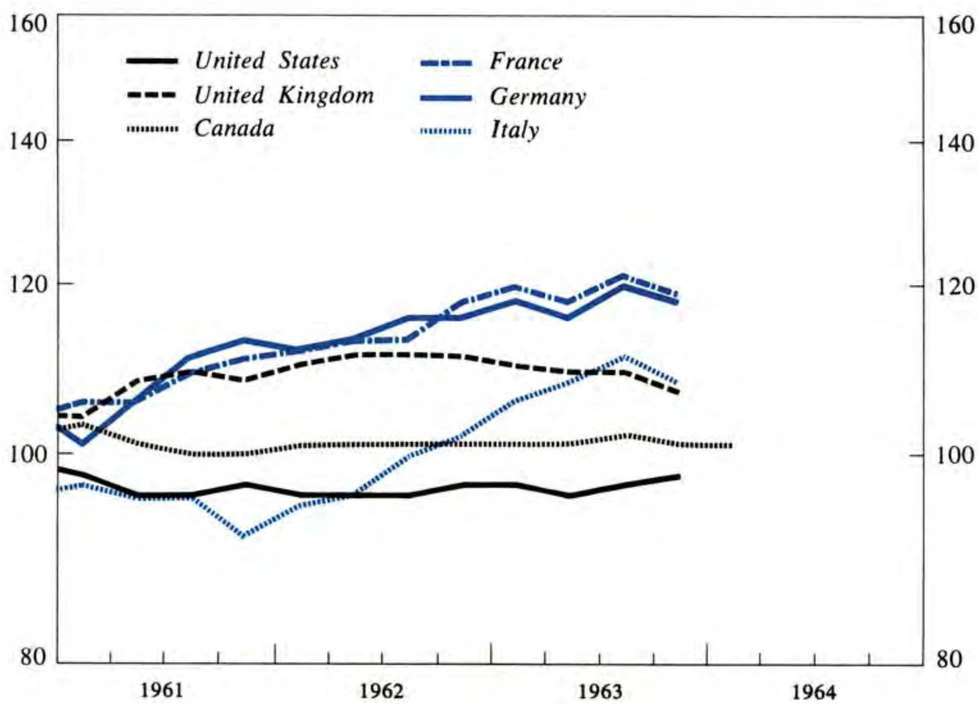


CHART 7. SELECTED COUNTRIES: WAGE COSTS PER UNIT OF OUTPUT IN MANUFACTURING, 1961–FIRST QUARTER 1964

(*1958=100*)



quarter of 1962. Partly because of the severe winter, unemployment increased in the early part of 1963, but by December it had fallen to 2 per cent. The pace of expansion was made possible, to a considerable extent, by bringing into use underemployed productive resources, and was faster than could be sustained over a prolonged period. During the year, the average growth of incomes was rather above the range of 3-3½ per cent annually that was the Government's objective. However, average wage costs per unit of output appear to have fallen in the United Kingdom by approximately 1 per cent over the year.

In continental Western Europe, the rises in output were in general not so dramatic as in North America and the United Kingdom. In the *Federal Republic of Germany,* domestic demand rose less rapidly than it had in earlier years. This contributed to a decline in growth, caused primarily by the slowness of the rise in the labor supply and by adverse weather conditions early in 1963. The gross national product, at constant prices, rose by approximately 3 per cent over 1962, compared with an increase of more than 4 per cent from 1961 to 1962. One sign of the lesser tensions in the economy in 1963 was that hourly wage rates in industry rose by 7 per cent, compared with more than 10 per cent in each of the years 1960-62. However, in the course of 1963 the economy was moving into higher gear, mainly under the impact of inflationary pressures spilling over from other European countries. These pressures were an important cause of the 10 per cent rise in exports and the re-emergence of a balance of payments surplus. Demand pressures were further intensified early in 1964.

In *France,* the expansion in effective demand continued, and was facilitated by an abundant supply of domestic credit and an inflow of capital from abroad. Real output was about 4-5 per cent higher in 1963 than in 1962, although its rate of growth slowed down. The inflationary tendencies that were already apparent in 1962 were intensified. Because of the limited supply of labor, wage rates rose appreciably in 1963. The increase, 8.5 per cent, was about the same as in 1962. Such an increase exceeded the rise in productivity and was one factor behind the increase in industrial prices. The strong demand pressures in the economy led to a reduction in the balance of payments surplus in the course of the year.

Inflationary pressure was, however, most apparent in *Italy*. The extent of the inflation was, in part, reflected in the sharp reversal of the current account of the balance of payments—from a moderate surplus in 1962 to a large deficit in 1963. There was also a considerable rise in the general level of prices. Demand factors (particularly the demand for consumer goods) were strongly expansionary. The excess supply of labor, which in the past had been instrumental in permitting both a rapid economic expansion and a remarkable degree of price stability, was further reduced. The pressure of the demand for labor, in conjunction with the operation of the sliding-scale mechanism which links wage rates to the cost of living, raised wages by more than 12 per cent. This was much more than the concurrent gain in productivity; wage costs per unit of output appear to have risen during the year by more than 10 per cent.

An ample supply of credit contributed to these developments. Bank credit, which had increased substantially in 1962, rose again, by about 20 per cent, in 1963. The rate of expansion, however, slowed down considerably as the result of a restriction of credit by the Bank of Italy, initiated in May 1963. This became progressively more severe during the second half of the year. Italy's economic policy, though concerned with the need to maintain both a satisfactory rate of economic growth and price stability, has been hampered over the past two years by a number of adverse factors. These have included political uncertainties, poor harvests in both 1962 and 1963, and a crisis in confidence, which led to a large outflow of private capital. A main consequence of internal inflation under these conditions has been a substantial balance of payments deficit, financed in part by a reduction in the ample foreign exchange reserves held by the Italian authorities. The rate of growth of real output continued to decline, reflecting the tight supply situation, but the gross national product in real terms was about 5 per cent higher in 1963 than in 1962.

In recent years, demand pressures in *Belgium* have been weaker than in most countries in Europe. In fact, Belgian export prices were, on the average, about 1 per cent lower in 1963 than in 1958. Partly owing to reduced steel prices, Belgian exports made substantial gains in 1963, showing one of the highest rates of increase in the industrial world during that year. This powerful stimulus from external demand, together with large increases in government and private consumption expenditure and a less extensive increase in private investment, led to a pronounced rise in over-all demand in 1963. Employment was already full, and wages rose by 8.1 per cent between December 1962 and December 1963, or considerably more than productivity.

Throughout 1962, *Sweden* was following expansionary policies in anticipation of an expected weakening of foreign demand for the products of the engineering industry and a leveling off in industrial investment. However, there was in fact an increase in the demand for Sweden's exports of manufactured goods and forestry products, so that a marked expansion in the economy was induced. Industrial production rose by 6 per cent between the fourth quarter of 1962 and that of 1963. Wages rose by more than 7.5 per cent. To cope with the new situation, policies were reversed during the year.

In *Switzerland,* business activity expanded strongly during 1963 (although less than in 1962), being stimulated by a rising foreign demand for Swiss goods and by increases in the domestic components of the gross national product, financed to some extent by the continuing inflow of foreign capital. While all sectors shared in this upswing, which followed the severe winter, boom conditions were particularly pronounced in the building industry. Expanding demand intensified pressures in the labor market, inasmuch as the supply of labor did not increase commensurately—in part, because of measures taken by the authorities to slow down the influx of foreign workers. Wages rose appreciably; in the third quarter of 1963, they were 5.1 per cent higher than they had been in the last quarter of 1962.

Wage policy in the *Netherlands* has been shaped in the interests of price stability and full employment, and in order to maintain a strong competitive position in the long run. For these purposes the Netherlands tried, and for a protracted period succeeded, in limiting the increases in its wage levels to smaller proportions than those of neighboring countries. This was considered of primary importance because of the great dependence of the Netherlands economy on international trade. The policy encountered increasing difficulties as full employment was reached and maintained for a number of years, business activity continued to expand, and a rising number of Netherlands workers was attracted by employment abroad. Collective bargaining agreements in the Netherlands have provided since 1960 for substantial increases in workers' pay; in addition, considerable amounts of "black wages" have been paid. During 1963, the rise in wage rates was moderate. However, in October, labor and management agreed that, in 1964, wages would be raised by two steps of 5 per cent each, and could even be increased by a further 4 per cent in individual enterprises under certain conditions. The Government has approved this agreement, together with 12 per cent increases in social security benefits and salaries of state employees. The gap between Netherlands and other European wages will thereby be largely eliminated. For the year 1964, wage costs per worker are expected to be some 15 per cent higher than in 1963.

Of all the industrial countries, the advance in activity was most dramatic in *Japan.* During 1962, the economy had passed through a period of readjustment, marked by a slowing down of business activity, which permitted, however, a significant improvement in the country's balance of payments position. This enabled the Government and the monetary authorities of Japan to relax the restrictive policies which they had adopted earlier. The relaxation, begun in the last quarter of 1962, was continued in the first half of 1963. In the course of 1963, the pace of economic activity accelerated substantially, industrial production rising by about 19 per cent between the fourth quarters of 1962 and 1963. Wages, however, rose by more than 11 per cent between the second half of 1962 and the second half of 1963. This sign of renewed strong inflationary pressure, among others, led the authorities to adopt less expansive policies as the year progressed.

Prices

The wage increases referred to in preceding paragraphs were probably the principal factors underlying price trends during 1963. However, in the United States and Canada, the continued existence of relatively high levels of unemployment and excess capacity limited the scope of the increases in wages and in prices. Wholesale prices were unchanged in the United States and rose by 2 per cent in Canada, while the cost of living rose by less than 2 per cent in both countries (Charts 8 and 9). In the United Kingdom, also, the moderation of the rise in incomes over most of the year probably accounts for the fact that the increases in wholesale prices and the cost of living were of the order of no more than 2 per cent, despite a rise of 6 per cent in import prices during the course of the year. In much of continental Western Europe, prices and wages moved closely together. In France, Italy, and the Netherlands, wholesale prices and the

CHART 8. SELECTED AREAS AND COUNTRIES: WHOLESALE PRICES, 1961–APRIL 1964

(*1958=100*)

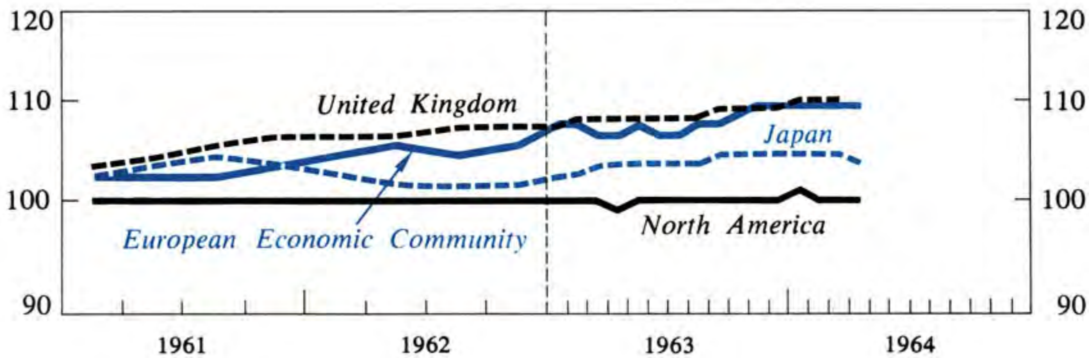
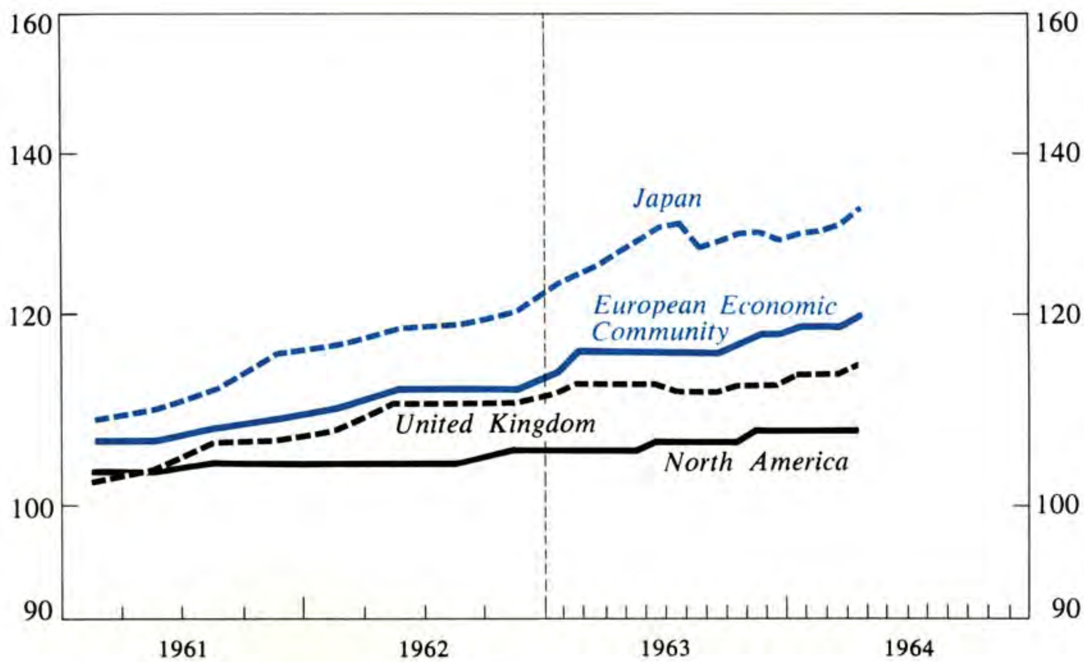


CHART 9. SELECTED AREAS AND COUNTRIES: COST OF LIVING, 1961–APRIL 1964

(*1958=100*)

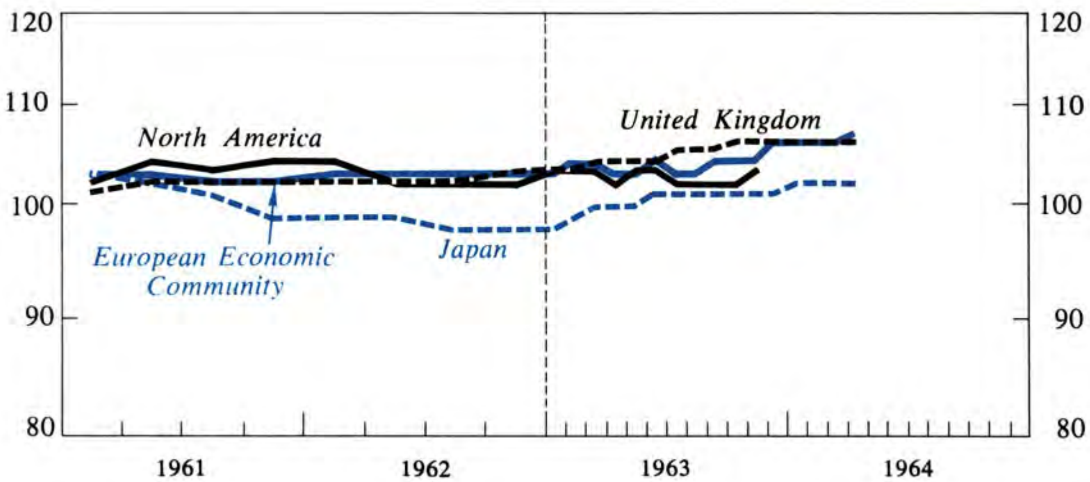


cost of living both rose by more than 5 per cent during the year, and in Sweden they rose by 3-4 per cent. On the other hand, in Belgium and the Federal Republic of Germany more rapid improvements in productivity, reductions in profit margins, or other factors of a special character, resulted in comparatively small changes in prices. Wholesale prices rose by approximately 1 per cent in Germany, and the cost of living by about 3 per cent in both countries. The marked wage increases in Japan were associated with a relatively small increase (3 per cent) in wholesale prices but a rather large rise (7 per cent) in the cost of living.

Despite the marked increases in most domestic prices and wage costs, export prices remained remarkably stable in the industrial countries during 1963 (Chart 10). Only in France, Japan, and the United Kingdom did the over-all index of export prices rise by as much as 3 per cent or more. This stability of export prices was a product of declines, or relative stability, in export prices of manufactures, together with somewhat larger increases in the export prices of other goods, which rose with the general rise in the prices of primary products. Export prices of manufactures fell, for example, in the Federal Republic of Germany and in the United States, and were unchanged in France and Japan. This may imply involuntary cuts in profits to maintain or expand sales in foreign markets, especially in the countries where inflationary pressures have been strong. In any event, the countries in question may have good reason to be concerned about their export capabilities in the future in the face of rising wage and other costs, and also about maintaining investment in their export industries at adequate levels despite the diminishing possibilities of self-financing. In particular, costs are rising in some of the countries experiencing inflation, while they tend to remain constant or to decline in some of the important countries (notably the United States and the United Kingdom) which have had persistent balance of payments problems. This disparity may lead to marked changes in the relative competitive positions of individual countries, and in the structure of international trade. This subject is further discussed in a Supplementary Note, page 123.

CHART 10. SELECTED AREAS AND COUNTRIES: EXPORT PRICES, 1961–APRIL 1964

(1958=100)



Financial Policies

In conducting their financial policies in 1963, a majority of the industrial countries gave more emphasis to domestic objectives than they had for several years past. In the course of 1962, two countries—the United Kingdom and Japan—had strengthened their balance of payments positions, thereby reducing appreciably the balance of payments risks involved in expansionary policies. In the United States, the continued success in maintaining price and cost stability, during a period of sustained rises in costs in most of the other industrial countries, had also enhanced the prospect of avoiding undesirable international repercussions of policies aimed at stimulating growth. The continued reduction in 1963 of the balance of payments surplus of continental European countries tended, on the other hand, to lessen the risk that policies aimed at containing upward pressures on prices and costs would aggravate the international payments problem. In the course of the year, these countries tended to give more attention to stability than to the stimulation of growth, as it became apparent that the world economy had entered a strongly expansionary phase.

Monetary Policies

Early in 1963, the main industrial countries were still following policies directed toward the stimulation of output. Central bank discount rates were reduced in January in the Netherlands, Sweden, and the United Kingdom (Chart 11). The reduction in the bank rate in the *United Kingdom* served to lower some rates which are important determinants of domestic activity (e.g., clearing bank overdraft rates). At the time the bank rate was lowered, the Bank of England announced that loans to the discount market might in future be made, on occasion, at a rate of interest higher than the bank rate. Accordingly, on March 19, 1963, the Bank charged ½ per cent above the bank rate on loans to the market; this served to keep market rates that exert influence on international capital movements (e.g., Treasury bill rates) closer to the bank rate.

The downward trend of rates continued until June 1963, the Japanese discount rate being reduced in March and April, and the Canadian rate in May. However, since mid-1963, the trend has been reversed. In the major deficit countries, the reversal of policy has been aimed primarily at protecting the balance of payments; in other countries, primarily toward containing domestic demand pressures. The Swedish discount rate was raised in June and those in the United States and Belgium in July. Since then, an upward drift has continued, the Canadian rate being raised in August, the Belgian rate in October, the French rate in November, the Netherlands and Swedish rates in January 1964, the U.K. rate in February, and the Japanese rate in March. However, in the United Kingdom, Treasury bill rates did not rise as much as the bank rate in February, so that the structure of rates in that country has returned to a more traditional pattern. By the end of the first quarter of 1964, central bank discount rates in the main industrial countries were generally higher than they had been for five years.

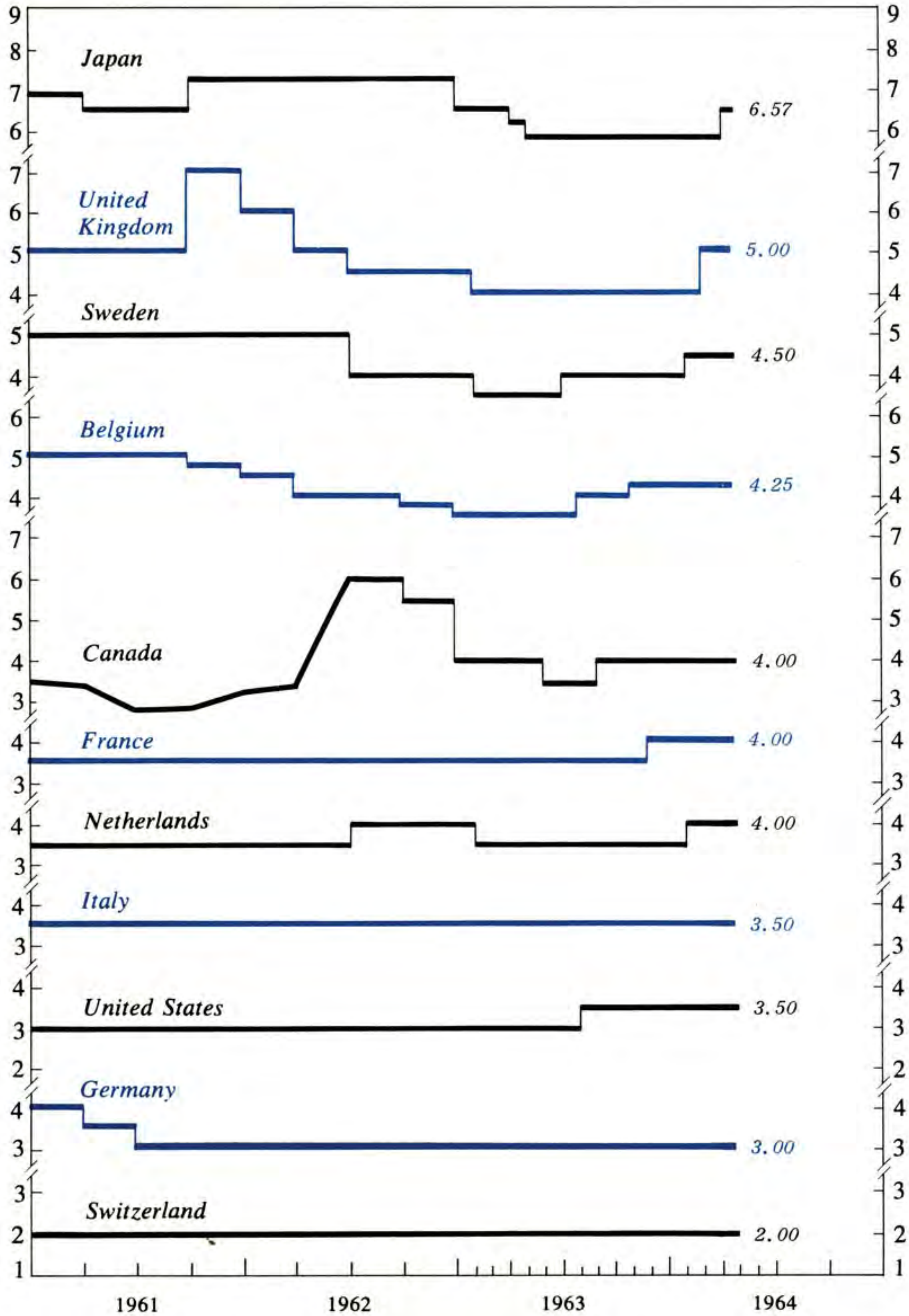
While discount rates were edging upward, the authorities were supplementing them with other policies of monetary restraint. In the *United States,* excess reserves of the member banks were reduced from an average of $550 million in the last quarter of 1962 to one of $450 million in the last quarter of 1963; in the first quarter of 1964, this average was further reduced by $60 million. Free reserves (i.e., excess reserves minus borrowing from the Federal Reserve Banks) fell from an average of approximately $385 million in the last quarter of 1962 to approximately $110 million in the last quarter of 1963, and rose only slightly in the first four months of 1964. As a further encouragement to rising short-term rates, the limits on interest payable on time deposits were raised to 4 per cent for all maturities. Previously, the limit for deposits maturing in 90 days to 6 months had been 2½ per cent, and that for deposits from 6 months to 1 year had been 3½ per cent.

In *France,* the liquidity ratios that the banks are required to maintain were raised from 32 per cent to 35 per cent early in 1963 and to 36 per cent in September. Upward pressures on short-term rates in France were somewhat tempered by a decree that the banks' minimum rates, which are usually changed in accordance with the discount rate, would be raised by only ¼ per cent at the time of the November increase in the discount rate.

In *Italy,* the Bank of Italy took steps to reduce its rediscounts for, and advances to, the banks. These institutions were also requested to restrain their borrowing from abroad, and, eventually, to hold such liabilities at or below specified levels

CHART 11. SELECTED COUNTRIES: CENTRAL BANK DISCOUNT RATES, 1961–APRIL 1964

(In per cent per annum)



(originally that at the end of August; later that at the end of November or December, whichever was the lower).

In *Sweden,* the Sveriges Riksbank introduced in February 1964 a penalty rate of 9 per cent (compared with the discount rate of 4½ per cent), applicable on advances to banks in excess of one half of their capital and published reserves. In April, this penalty rate was made applicable, for those banks that did not observe the recommended liquidity ratios, to advances to them in excess of one fourth of their capital and published reserves.

The Bank of *Japan* lowered its ceilings on rediscounts for, and advances to, banks; in December, it doubled the reserve requirements for demand deposits with commercial banks and certain other financial institutions.

The major exception to this general tendency to apply more traditional monetary instruments in a rather restrictive manner was in the *United Kingdom,* where the Bank of England suggested to the clearing banks that it would not object to a lowering of their liquidity ratios from 30 per cent to 29 per cent in March 1963, and to 28 per cent between September 1963 and April 1964.

More direct measures were also taken to restrict the availability of bank credit. In February 1963, the Bank of *France* requested the commercial banks to limit the increase in their credit to private business to 12 per cent during the ensuing year. In September, this limit was reduced to 10 per cent. In *Italy,* the banks were asked to restrict credit to large enterprises. In October, the *Netherlands* Bank reintroduced its system of credit ceilings, which had been discontinued in January. Between September and December, the increase in credit extended by each commercial bank to the private sector might not exceed more than 4 per cent of the average credit outstanding during the first half of the year. In January 1964, the Bank prescribed that over the period January to April such credits should not exceed by more than 5 per cent the average outstanding a year earlier. In January 1964, the National Bank of *Belgium* recommended to the commercial and savings banks that they reduce the rate of expansion of credits extended to the private sector in 1964 to approximately half their rate of growth in 1963. In *Japan,* the commercial banks were requested to restrict the increase in their loans in the first quarter of 1964 to slightly less than 3 per cent of the amount outstanding at the end of 1963.

In the *Federal Republic of Germany,* the Bundesbank acted to immobilize part of the increase in liquidity accruing to the banks from an inflow of foreign funds. From April 1, 1963, the minimum reserve requirements on foreign deposits with the banks were increased to the legal maximum rates. Payment of interest on foreign time deposits has been prohibited. Finally, to encourage an outflow of funds and hence to limit the increase in domestic liquidity arising from the balance of payments surplus, the Bundesbank reopened its swap arrangements with the commercial banks. However, official forward cover is now granted only for bank holdings of U.S. Treasury bills, instead of for all dollar holdings (including Euro-dollars), as previously.

Debt Management

In several countries, monetary policies were also implemented by active debt management operations. In the *United States,* the volume of all issues maturing in less than five years was reduced by refunding operations, although the total of Treasury bills outstanding increased by an amount equal to about two thirds of the Federal Government's cash deficit. At the same time, the $5 billion net increase in holdings by the Federal Reserve Banks and the U.S. Government investment accounts was almost entirely reflected, on a net basis, in increased holdings of Treasury bills and other securities maturing in less than one year. While from time to time during the year substantial official purchases were made of longer-term securities, on balance the changes in official holdings in the various maturity ranges over one year were mutually offsetting. At the same time, the amount of short-dated securities held by nongovernment sectors declined during the year. These changes were markedly different from the pattern in 1962, when the increases in the holdings of official agencies were concentrated in securities with longer maturities. In both 1962 and 1963, the authorities desired to avoid increasing long-term interest rates and to let short-term rates rise. For 1963 as a whole, it was felt that the short-term interest rate objective could be met adequately through the monetary policies followed, even though net purchases of a substantial volume of Treasury bills by the authorities tended to keep short-term rates from rising as much as they might have done under the impact of the general monetary policies which were followed. The actions of the commercial banks in disposing of short-dated securities partially offset the increase of $16 billion in credit to the private sector, at a time when savings and time deposits were expanding more than demand deposits and the interest rates on savings and time deposits were rising.

Long-term capital inflows were sufficient to cover *Canada's* balance of payments deficit on current account through its period of seasonal weakness early in the year, and the Bank of Canada's operations were geared to some further easing of credit conditions. During April and early May 1963, the Bank cushioned a rapid rise in the prices of long-term bonds by selling on a considerable scale, while continuing its policy of easing credit conditions through acquisitions of Treasury bills and other short-term issues. After mid-May, the Bank was an intermittent buyer of long-term issues as the market weakened, but it became more active during the first two weeks of July when, in anticipation of a rise of interest rates in the United States, further signs of weakness appeared. There was a sharp drop in Canadian bond prices following the announcement of the U.S. Government's proposed interest equalization tax. Prices recovered after it was announced that the new legislation would authorize the exemption of new Canadian issues. In August, however, the prices of both long-term and short-term issues began to fall again, leading to an increase in the bank rate on August 11. The Bank of Canada was inactive in the long end of the market after that date.

In the *United Kingdom,* also, the authorities markedly changed their pattern of borrowing. In 1962, the Government borrowed more than its net requirements on longer-term issues and redeemed Treasury bills. In 1963, its net borrowing requirements were smaller than the financing available from the issue of currency and nonmarketable securities, yet it made small net issues of Treasury bills and redeemed more than £125 million of longer-term issues.

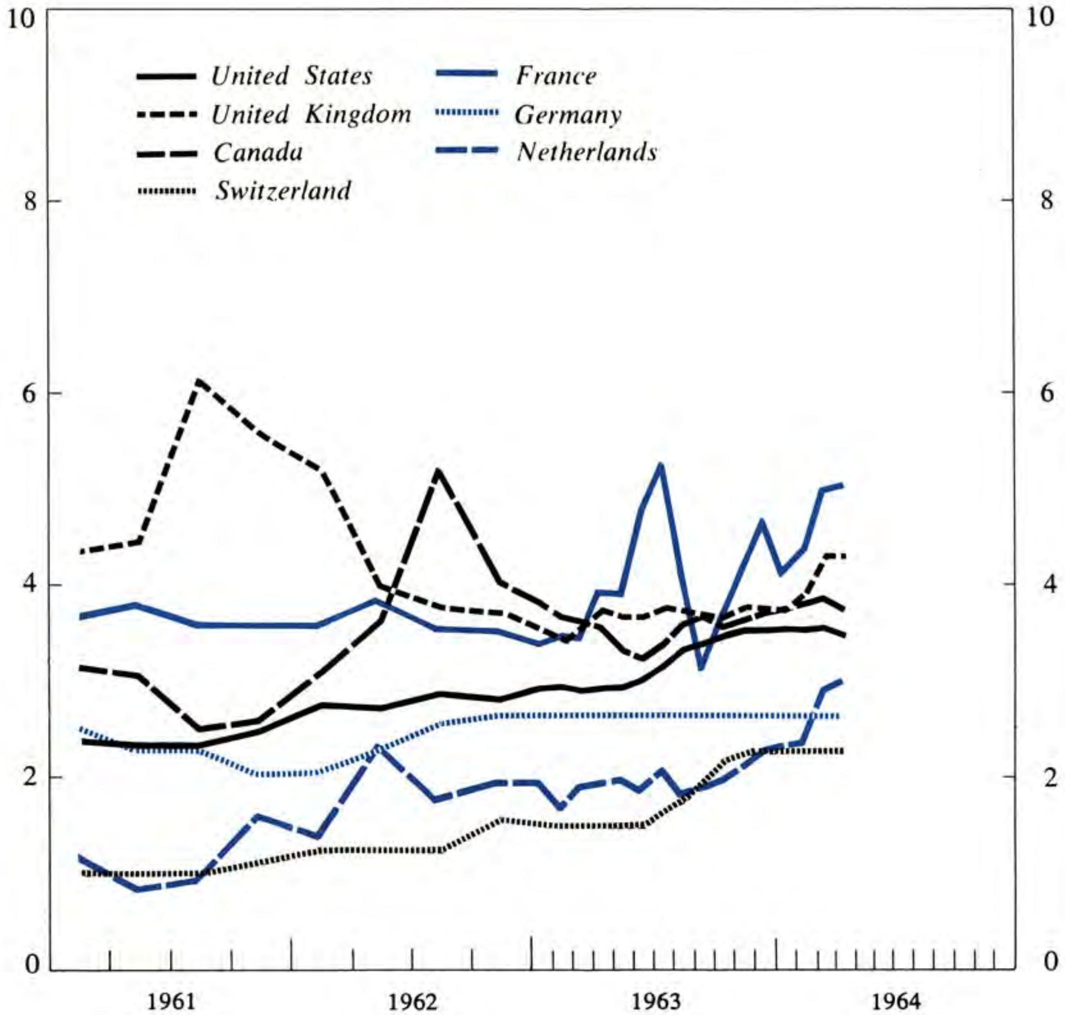
In *France,* the reduced government deficit was largely financed by long-term, rather than short-term, borrowing. For the first time since 1958, the Government decided to float long-term loans. Two loans, totaling F 3 billion, were fully subscribed in 1963, as was a further issue in March 1964. The *Netherlands* also followed a debt management policy which reduced the liquidity of the economy and thus inflationary pressures. The Government's fixed domestic debt was increased by almost f. 1 billion, which was more than sufficient to cover the f. 310 million redemption of foreign currency debt and the Government's cash deficit of f. 270 million. In *Sweden,* the interest rate fixed by mortgage institutions in August on two new issues was ¼ per cent higher than the previously prevailing rate of 5¼ per cent. The National Debt Office issued in January 1964 a 16-year government bond loan yielding 5¾ per cent, and in March a 3-year bond issue at 6 per cent.

Measures to Influence International Capital Movements

As noted, the authorities in the *United States* wished to see short-term rates rise while long-term rates remained essentially stable, their aim being to discourage the outflow of interest-sensitive funds, while avoiding an increase in the cost of capital for domestic investment. Considerable success was attained in achieving this double objective. There was a rise during 1963 of approximately ¾ per cent in the yields on practically all money market paper traded in New York, and at the same time a very small decline in the rates charged on practically all bank loans to business. To keep long-term rates that were low by international standards from encouraging a capital outflow, an attempt was made to establish differential long-term interest rates for domestic and international borrowing in the United States. The Administration proposed that the Congress enact an interest equalization tax which, in effect, would raise the cost of U.S. capital to some foreign borrowers by the equivalent of 1 per cent per annum. The tax would be retroactive to August 1963. It was proposed, however, to exempt from the tax all direct investment, new issues by borrowers in the less developed countries and Canada, and certain other transactions. The Administration has also requested congressional approval for further tax relief on income from new direct investments in the less developed countries.

CHART 12. SELECTED COUNTRIES: SHORT-TERM INTEREST RATES, 1961–APRIL 1964[1]

(*In per cent per annum*)



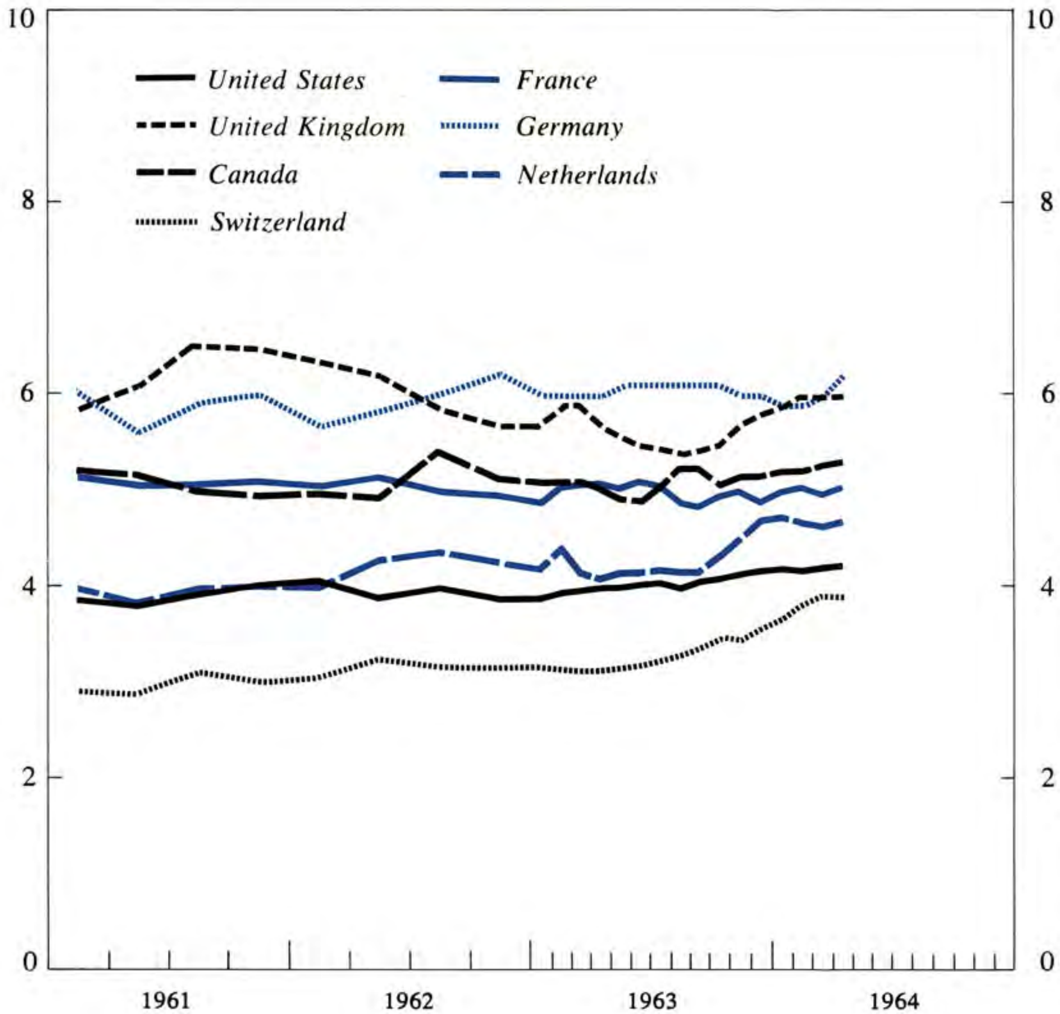
[1] For Canada, the Netherlands, the United Kingdom, and the United States, three-month Treasury bill rate; France and Switzerland, call money rate; Germany, discount on the Bundesbank's sales of three-month Treasury bills.

In the *United Kingdom,* the change in the Bank of England's policies vis-à-vis the discount market was also intended to effect an improvement of the capital account of the balance of payments. It amounted to raising the return to foreign lenders on the short-term market without raising costs for a large part of domestic short-term borrowing.

In several European countries, measures were taken to discourage an inflow or to encourage an outflow of private capital. In the *Federal Republic of Germany* and *Switzerland,* direct prohibitions on the payment of interest on short-term deposits by foreigners, and on the sale of short-term securities to them, were continued or extended. In Germany, where there was a large inflow of capital invested in bonds, it was agreed early in February 1964, with the banking consortium for bonds of the Federal Republic and of its specialized agencies, that the right to subscribe to new issues of such bonds would in certain cases be reserved for a limited period of time to

CHART 13. SELECTED COUNTRIES: LONG-TERM GOVERNMENT BOND YIELDS, 1961–APRIL 1964

(In per cent per annum)

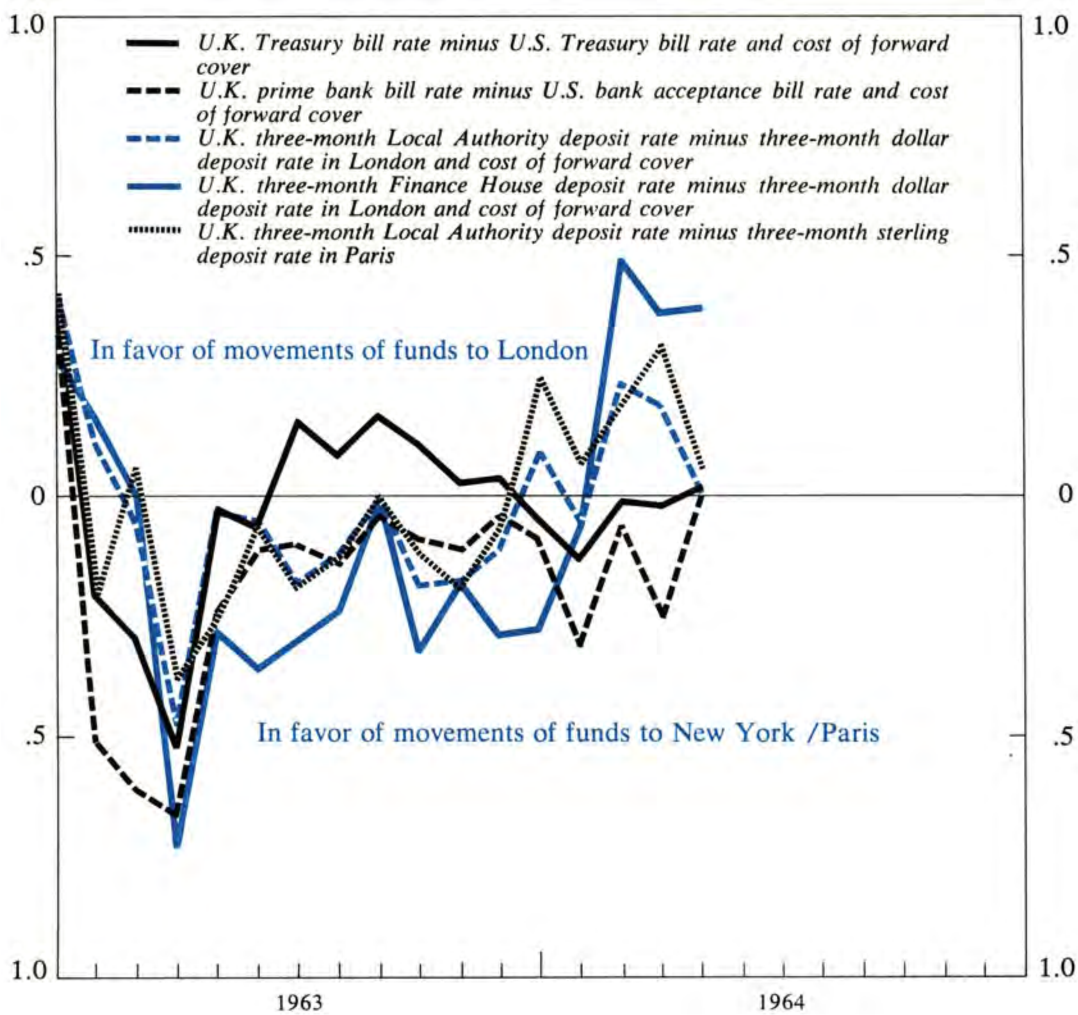


German residents. The Bundesbank has also prohibited payment of interest on time deposits made by nonresidents, and has raised reserve requirements on foreigners' deposits to the legal maximum. Furthermore, the German Government has asked for legislation to impose on nonresidents a 25 per cent withholding tax on income from fixed-interest securities issued by German residents. In order to induce German nationals to invest abroad, a law has been passed granting various tax incentives for investments in less developed countries, and a bill has been submitted to Parliament which would abolish the 2½ per cent tax now levied on bond issues and domestic and foreign share issues.

In *France,* payment of interest on nonresidents' deposits has been prohibited. It has also been decreed that French residents may not borrow abroad without authorization from the Bank of France unless the loans are for F 1 million or less, are granted for no longer than two years, and bear interest at no more than 4 per cent. The

CHART 14. UNITED KINGDOM: TERM INTEREST DIFFERENTIALS, 1963–APRIL 1964

(In per cent per annum)



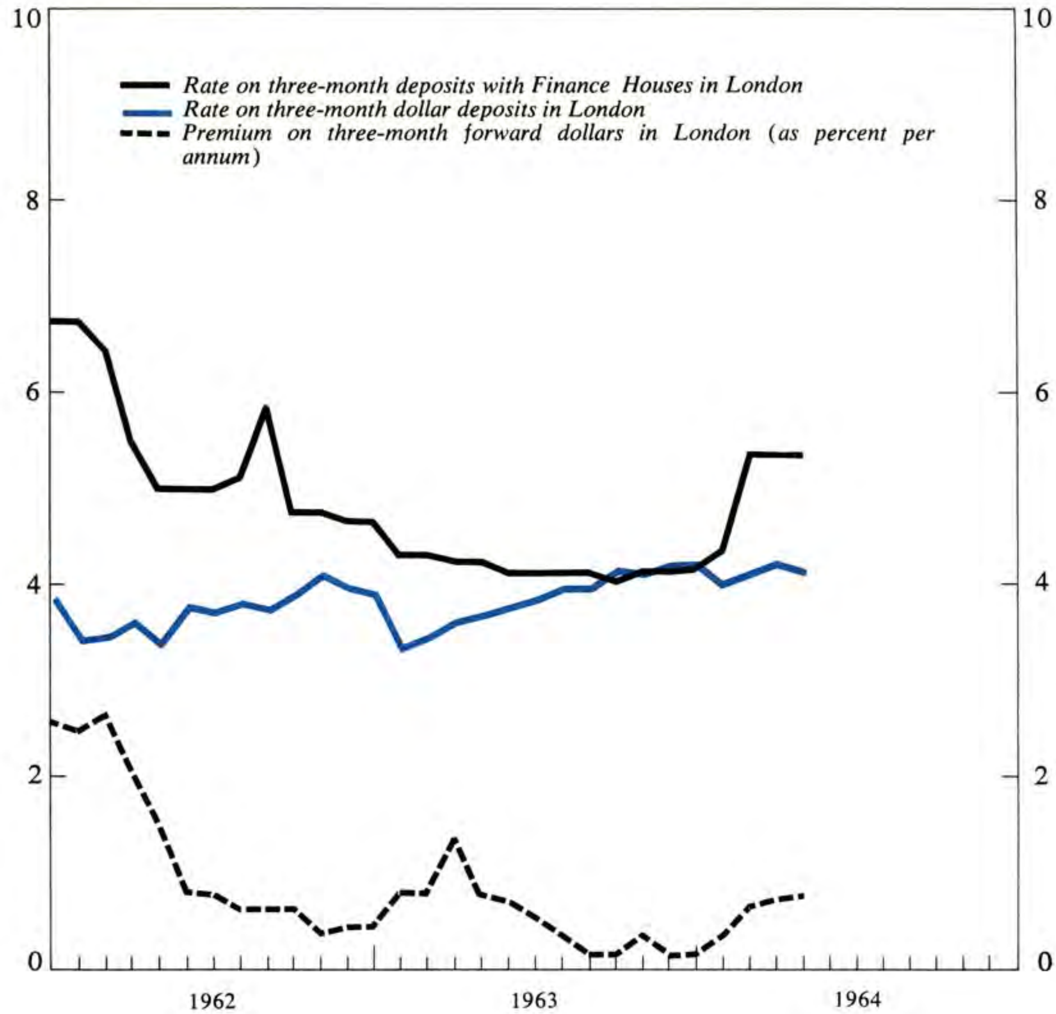
corresponding limits previously in force were F 2 million, five years, and 5 per cent, respectively. Further, the Finance Ministry has subjected to advance notification all "secondary offerings" (i.e., negotiated sales of large blocks of securities at prices different from ruling market quotations) of French shares to foreign interests. This step was aimed at enabling the authorities to supervise foreign direct investment in French enterprises.

Interest Rates

In response to general market pressures in the expanding national economies, as well as to the policies followed by national authorities, interest rates have moved upward over the last 12 months. Generally, however, short-term rates (Chart 12) have risen more than long-term rates (Chart 13). The range between the lowest and highest monthly average long-term yields during 1963 was less than ½ per cent in all the main industrial countries except Belgium (0.62 per cent), Italy (0.65 per cent), and the Netherlands (0.60 per cent). On the other hand, the comparable variations in short-term rates were in excess of ½ per cent, except in the United Kingdom (0.32 per cent) and the Federal Republic of Germany, where the Bundesbank reduced the yields applying

CHART 15. UNITED KINGDOM: RATES ON THREE-MONTH DEPOSITS AND PREMIUM ON THREE-MONTH FORWARD DOLLARS, 1962–APRIL 1964

(In per cent per annum)



to its sales of 18-month and 20-month securities. Short-term yields in the first quarter of 1964 rose by more than 1 per cent in Belgium and, after increases in the central bank discount rates, by more than ½ per cent in the Netherlands and the United Kingdom.

The rather sharp movements in short-term rates tended to produce not only an upward shift in their general level but also greater uniformity among the rates in different countries. At the same time, foreign exchange markets were generally calm, and forward exchange quotations were less influenced by speculative considerations than in other recent years. Incentives for covered interest arbitrage have weakened through the disappearance, for example, of profitable differentials on comparable quotations in the London money market (Charts 14 and 15). The volume of interest-sensitive short-term capital movements appears to have declined since early in 1963. On the other hand, the stability of long-term yields means that the wide international spread in these quotations persisted in 1963 and early 1964. A more detailed discussion of recent developments in the money and security markets will be found in a Supplementary Note, page 113.

Fiscal Policies

Whereas balance of payments considerations in some cases considerably influenced countries' monetary and debt management policies, fiscal policies were largely directed toward domestic objectives. In general, the stimulation of domestic activity was the important aim in North America and the United Kingdom, while in continental Europe the emerging inflationary pressures called for stabilizing, rather than stimulating, fiscal policies.

In the *United States,* there was a relatively large budget deficit during 1963 ($4.0 billion on a cash basis). However, the expansion of activity resulted in tax receipts higher than would otherwise have prevailed, and hence the deficit was lower than in 1962. This decline occurred despite reductions in tax liabilities resulting from the increase in approved depreciation allowances and the investment tax credit. The reduction in personal and corporate income taxes, which was not passed until early in 1964, may have been discounted by U.S. businessmen (and, to a lesser extent, even by U.S. consumers) in 1963, and thus provided further stimulus. While this tax reduction is aimed primarily at stimulating economic growth, it is also hoped that the acceleration of the rise in output and the greater profitability of investment encouraged by it will increase the relative attractiveness of domestic, compared with foreign, investment. Efforts to limit increases in expenditure are designed to avoid excessive expansionary effects and—with a rise in revenues resulting from the expansion of the economy—the cash deficit during the forthcoming financial year is expected to be lower than that in 1963-64. At the same time, the reduction improves the "mix" of U.S. fiscal-monetary policies by giving the monetary authorities greater freedom to apply restraint for balance of payments reasons—should this prove necessary—without serious risk of interrupting the expansion of output and employment.

In *Canada,* the Government's budget deficit in 1963-64 was about the same as in 1962-63. The 1964-65 budget provides only minor changes in tax rates and expenditure programs, but it is expected that the continued expansion of the economy will lead to rising government revenues and a reduced budgetary deficit. In the *United Kingdom,* the 1963 budget changes were introduced to stimulate expansion. One aspect of the change in direction of economic policy early in 1964 was an intention to help to moderate the increase in demand to a more sustainable rate; increases in tax rates in the April budget were designed to raise revenues by approximately £100 million. Even so, it is expected that there will be a large increase in the Government's borrowing requirements in the fiscal year 1964-65.

Fiscal policy in *Japan* was slightly expansionary in the year ended March 1964; however, as revenues were rising substantially with the recovery in economic activity, the deficit on account of government transactions—other than net purchases of foreign reserves—increased only moderately, from ¥ 35 billion to approximately ¥ 53 billion. At the same time, the impact of fiscal policies was overshadowed by a change in the balance of payments. In 1962-63, the financing of foreign exchange acquisitions raised the over-all budget deficit to ¥ 161 billion, but in 1963-64 the effect of these transactions was small.

Retrenchment, rather than stimulus, typified fiscal policy in continental Western Europe. One aspect of the stabilization program in *France,* announced in September 1963, was a reduction in the 1963-64 budget deficit from the original estimate of F 7.0 billion to F 6.2 billion. It is planned that the deficit for the fiscal year 1964-65 will be cut further, to F 4.7 billion. Treasury loans to enterprises have also been reduced.

The budget of *Italy* for the fiscal year 1963-64 provided for unchanged expenditures and a deficit smaller than the actual results for the fiscal year 1962-63. Initial estimates of budget expenditures and the over-all deficit in 1963-64 were higher than in the previous fiscal year; the initial estimates for 1964-65 show a further rise in budget expenditures but a reduced over-all deficit. In September 1963, it was announced that excess revenues in the budget would, contrary to earlier practice, be applied toward reducing the over-all deficit; certain newly authorized expenditures would be met out of new taxes or cuts in previously authorized outlays; sales taxes would be increased on some luxury goods; and subsidies on residential construction, other than low-income housing, would be withdrawn. In November 1963, depreciation rates for industrial plants were increased so as to encourage investment. In December, the new Government pledged itself to block temporarily, at current levels, public expenditures of both the Central Government and the local authorities, to phase out the investment programs of the public sector, and to match with new taxes any net increase in expenditures that might nevertheless become inevitable. The Government imposed a special sales tax in February 1964 on cars and motorboats and raised the processing tax on gasoline. The proceeds of these taxes were to be used in part to finance government-controlled enterprises, thus enabling them to limit their recourse to the capital market. The remainder of the proceeds were to be utilized to encourage small and medium-sized private enterprises in Southern Italy and other sectors of particular interest. Finally, a number of tax changes were adopted to improve the machinery and the effectiveness of the country's capital markets.

In the *Netherlands,* investments by the Central Government and local authorities valued at some f. 200 million, originally planned for the last quarter of 1963 and the first quarter of 1964, were postponed until after October 1964. Tax allowances, suspended in August 1963 and in January 1964 for construction works, were partially suspended after January 31, 1964 for other investments in fixed assets. An increase in taxes on cigarettes and gasoline was introduced on April 1, 1964; the proceeds on an annual basis are estimated at about f. 200 million. In *Belgium,* the decrease in the budget deficit in the early months of 1964 is attributable to higher ordinary receipts and to efforts made by the Government to slow down extraordinary expenditures and to avoid new ordinary expenditures.

A number of countries took more direct steps to influence demand. Restrictions were placed on the extension of credit for the purchase of consumer durable goods in Belgium, France, the Netherlands, and Italy, and for construction in Switzerland. France also reduced the scope of government subsidies to housing. Pressures in the labor market were eased in France by the release of 76,000 servicemen before their period of service was complete, and in Italy by a reduction of three months in the period of service. Furthermore, Belgium, France, and the Federal Republic of Germany encouraged the immigration of foreign labor. On the other hand, Switzerland concluded that the immediate demands arising from immigration put more strain on the economy than was offset by the resulting expansion of output; hence, for this and wider social considerations, the authorities restricted immigration. To relieve pressures on the price level, France reduced a number of customs tariffs, and the Netherlands forbade a number of price-fixing agreements. Finally, direct restrictions on certain price increases were imposed by Belgium, France, and the Netherlands; rent controls were imposed on nonluxury housing in Italy; and in France, the increase in controlled rents, which was scheduled to take place in January, was abrogated.

Some attempts made in recent years to formulate more general policies to influence the level of wages and salaries, generally known as incomes policies, are reviewed in a Supplementary Note, page 117.

Chapter 6

Economic Developments in the Primary Producing Countries

Prices of Primary Products

FOR the primary producing countries, the most important economic development in 1963 and the first part of 1964 was the marked upturn in the prices of primary products (see Chart 16). On the average, these prices (excluding that of petroleum, which was unchanged) were approximately 10 per cent higher in 1963 than in 1962. Roughly half of this rise reflects the upsurge of the "world" price of sugar, which nearly trebled between 1962 and 1963; the average gain excluding sugar amounted to not more than 5 per cent. Prices of foodstuffs (excluding sugar) exceeded the 1962 level by some 6 per cent, while those of raw materials, which had been much better maintained in preceding years, showed a smaller rise.

As prices tended to turn upward during the year, particularly in the last quarter, the general level of primary product prices at the end of 1963 exceeded that at the end of 1962 by nearly 15 per cent, or, if sugar is excluded, by about 9 per cent. This upward movement continued into 1964 and, early in that year, the over-all price level (including or excluding sugar) had reached that prevailing in 1957, i.e., prior to the most recent general downturn of primary product prices.

In assessing the significance of the price increases in 1963 for export receipts in that year, it is important to remember that changes in prices on world markets are as a rule reflected only partly in average prices received by primary producing countries. Though prices had risen by nearly 10 per cent between 1962 and 1963, preliminary data on export receipts indicate that average unit values of primary producing countries (excluding Canada and major petroleum exporters) rose by less than 4 per cent.

To some extent, this considerable difference is explained by the fact that most of the price increases in 1963 occurred toward the end of the year and, in view of the time lag between sales and actual shipment, were not yet reflected in unit values. Moreover, exports of the primary producing countries include certain goods, e.g., some manufactures, whose prices are more stable than those covered by over-all price indices. Furthermore, many agricultural products are customarily sold in the early part, or even in advance, of the crop season, at or close to the prices prevailing at that time; subsequent price changes have little, if any, effect on prices received by exporters. Thus the greater part of the West African cocoa crop exported in the course of 1963 had been sold by the end of January, prior to the considerable rise in prices. Consequently, average unit values for these exports were only about 7 per cent higher than in 1962, while average market prices showed an increase of well over 20 per cent. Again, the first steep advance of sugar quotations occurred in May 1963, when practically no sugar was available in major exporting countries. Moreover, more than half of the sugar trade moves under contract prices, which rose much less than market quotations. Though the latter nearly trebled between 1962 and 1963, increases in the unit value of exports of major exporters ranged from 120 per cent for the Republic of China to some 12 per cent for the Philippines. In contrast, the timing of the rise in wool prices, and the marketing system prevalent in Australia, New Zealand, and South Africa (the three largest suppliers), resulted in a rise in unit values almost equal to the rise in prices.

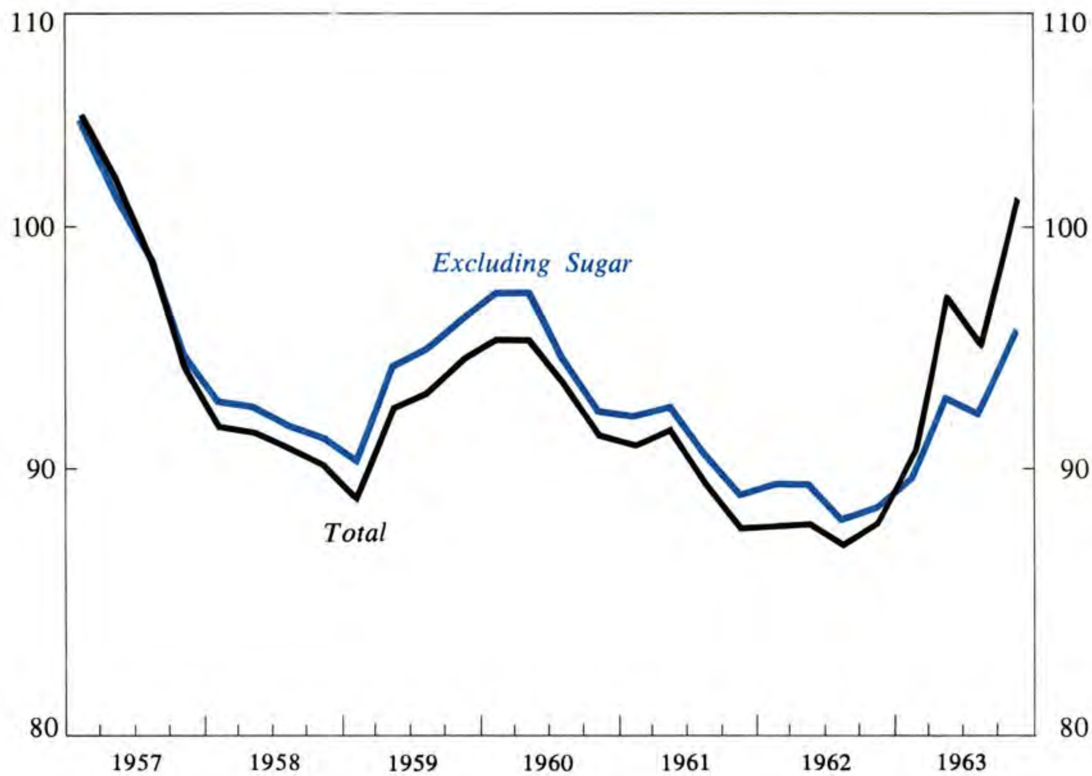
These increases in export prices, while import prices changed very little, resulted in an improvement of approximately 3 per cent in the terms of trade of the primary producing countries (again excluding Canada and petroleum exporters) in 1963. This was the first gain in the terms of trade of these countries since 1954. Consequently, the importing power of their exports, which for many years has tended to rise less than the export volume, advanced, between 1962 and 1963, by about 8 per cent, against a volume increase of roughly 5 per cent.

Trade of Primary Producing Countries

The upward movement of prices, in conjunction with a considerable expansion in the volume of exports, exerted a rather pervasive stimulus on a great number of primary producing countries. The generally favorable development does not imply that all the primary producing countries gained equally from the increase in export prices or from the expansion in the volume of exports that occurred during the year. The exports of most of these countries are concentrated on a few products, and as Chart 17 indicates, there was considerable variation in the movements of individual prices. However, as shown in Table 10, in general most of the groups of primary producing countries experienced either a larger percentage expansion

CHART 16. PRIMARY PRODUCING COUNTRIES: PRICES OF COMMODITIES EXPORTED (EXCLUDING PETROLEUM), 1957–63

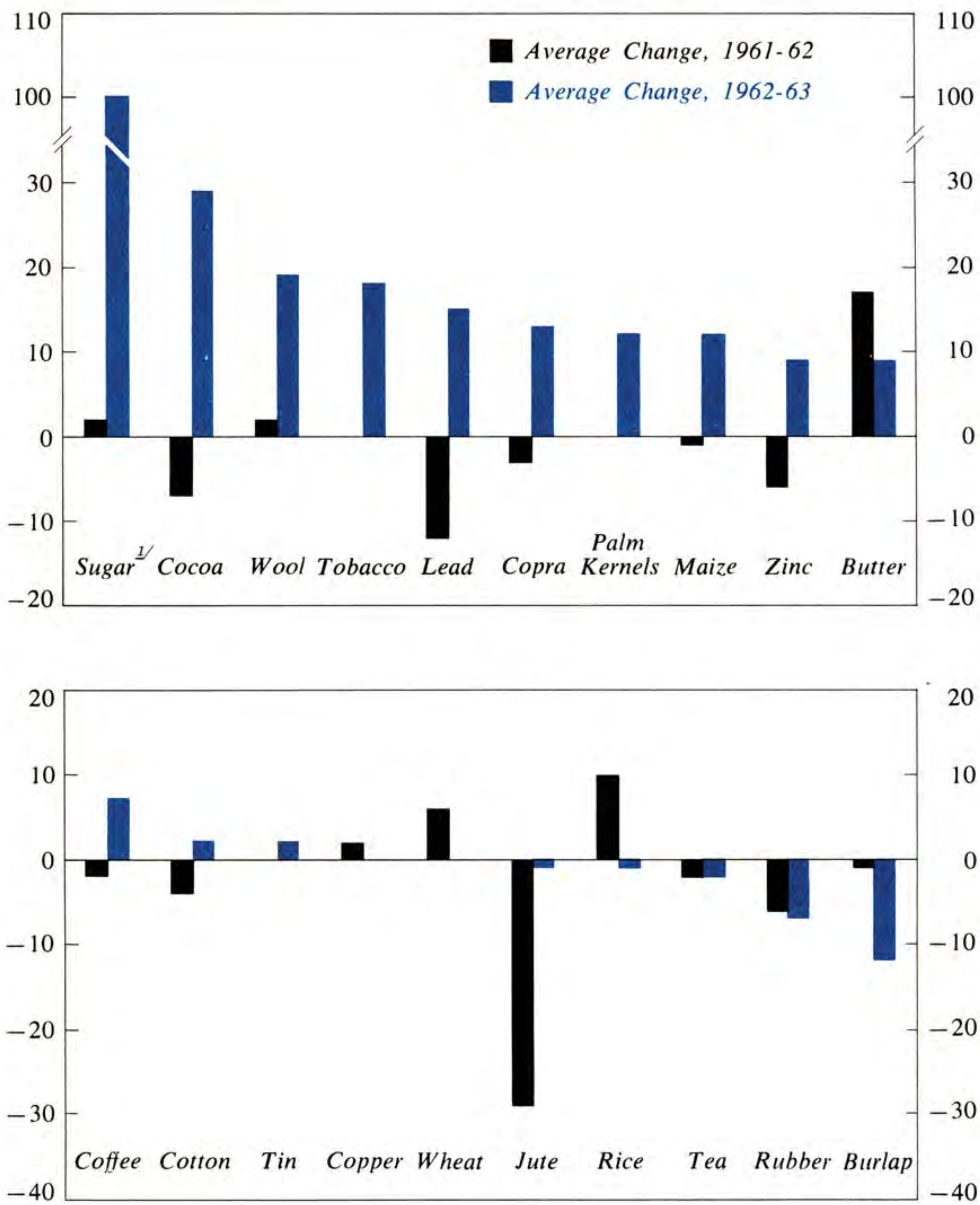
(1957=100)



The extent of price changes for major export products between 1962 and 1963, as well as between 1961 and 1962, may be gauged from Chart 17. The commodities shown there represent some 45 per cent of the value of aggregate exports from primary producing countries (excluding Canada and the major petroleum exporters), including their exports of manufactured goods. As indicated in the chart, 13 of these 20 commodities rose in price between 1962 and 1963, more than half by over 10 per cent. This compares with price increases for only 6 of these products in 1962.

CHART 17. SELECTED PRIMARY PRODUCTS: CHANGES IN AVERAGE PRICES FROM 1961 TO 1962 AND 1962 TO 1963

(In per cent)



[1] Weighted average of "world," U.S., and Commonwealth prices.

TABLE 10. PRIMARY PRODUCING COUNTRIES: TRADE IN 1962 AND 1963 [1]

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

	Exports f.o.b.				Imports c.i.f.			
			Percentage change				Percentage change	
	1962	1963	1961-62	1962-63	1962	1963	1961-62	1962-63
Countries exporting mainly								
Coffee								
Brazil	1,214	(1,406)	−13	16	1,475	(1,487)	1	1
Colombia	463	446	6	−4	540	467	−3	−14
Others	892	1,030	8	15	909	1,014	9	12
	2,569	2,882	−4	12	2,924	2,968	3	2
Other tropical foods								
Ceylon	380	363	4	−4	349	315	−3	−10
Nigeria	472	507	−3	7	568	579	−9	2
Philippines	556	727	11	31	692	729	−4	5
Others	1,258	1,400	7	11	1,544	(1,700)	1	10
	2,666	2,997	5	12	3,153	3,323	−3	5
Other agricultural products								
Australia	2,345	2,789	1	19	2,551	2,775	7	9
Argentina	1,216	1,365	26	12	1,357	981	−7	−28
New Zealand	798	910	1	14	753	903	−16	20
Thailand	458	469	−3	2	546	595	13	9
United Arab Republic	414	522	−16	26	759	908	8	20
Others	2,569	2,765	8	8	4,035	4,458	9	10
	7,800	8,820	5	13	10,001	10,620	4	6
Metals and rubber								
Chile	530	542	5	2	518	637	−11	23
Indonesia	682	(696)	−14	2	647	(460)	−17	−29
Malaya	858	884	—	3	800	828	10	4
Rhodesia and Nyasaland	587	625	1	6	451	425	−8	−6
Others	(464)	(480)	−14	3	(603)	(640)	−12	6
	3,121	3,227	−5	3	3,019	2,990	−3	−1
Petroleum								
Kuwait	1,130	1,190	12	5	285	(290)	14	2
Saudi Arabia	1,070	1,150	9	7	(290)	(300)	5	3
Venezuela	2,594	2,632	8	1	1,096	983	—	−10
Others	3,509	(3,770)	7	7	2,710	(2,690)	−2	−1
	8,303	8,742	8	5	4,381	4,263	−1	−3
Other major exporters								
Canada	6,231	6,779	2	9	6,367	6,618	3	4
Finland	1,104	1,149	5	4	1,228	1,208	7	−2
Hong Kong	768	874	12	14	1,165	1,297	11	11
India	1,409	1,647	2	17	2,355	2,356	2	—
Mexico	930	971	12	4	1,143	1,240	—	8
Morocco	348	384	1	10	434	443	−4	2
Peru	538	540	9	—	534	556	15	4
Singapore	1,116	1,137	3	2	1,318	1,398	2	6
South Africa	1,359	1,431	—	5	1,580	1,852	2	17
Spain	736	736	4	—	1,570	1,956	44	25
Yugoslavia	690	790	21	14	888	1,057	−2	19
	15,229	16,438	4	8	18,582	19,981	6	8
All other countries	4,000	(4,565)	9	14	6,720	(7,195)	−5	7
Grand Total	43,690 [2]	47,670 [2]	4	9	48,780	51,340	2	5

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

[1] Data in parentheses are partly estimated.

[2] This total differs slightly from that for the two groups of Primary Producing Countries shown in Table 13, principally owing to adjustments for internal transport charges in the figures shown for certain countries in this table.

in export earnings in 1963 than in 1962 or an expansion in 1963 compared with a contraction in 1962. The exceptions to this pattern are provided by the petroleum exporting countries, where the rate of expansion was definitely smaller than during the previous year, and by the miscellaneous group of "all other countries," where expansion was at a slightly smaller rate in 1963 than in 1962.

Particularly large gains were made in Brazil, the Philippines, Australia, New Zealand, the United Arab Republic, Hong Kong, India, and the Republic of China. The experience of India is of special interest because its export earnings rose rather sharply in 1963 after many years of very low rates of growth, even though the commodities constituting the major portion of its exports did not share in the general upward movement of primary product prices. The increase in the United Arab Republic's exports reflected some recovery from the decline experienced in 1962 and a growth in its exports of rice; while its cotton exports, totaling $256 million for the 1962/63 crop season, were $50 million higher than in the 1961/62 season, they were almost $100 million below 1960/61. In Argentina, Chile, Finland, Mexico, Peru, Spain, and Yugoslavia, exports expanded at a slower rate in 1963 than in 1962. Two countries, Colombia and Ceylon, actually showed a contraction in export earnings during 1963, whereas they had been able to expand earnings in 1962.

The increased level of activity in most primary producing countries, largely induced by greater export earnings, resulted in imports rising moderately in 1963. The expansion was quite substantial in New Zealand, Thailand, the United Arab Republic, Chile, South Africa, Spain, and Yugoslavia. These increases corresponded in most cases to large increases in export earnings. In some countries, however, imports contracted even when exports expanded. This happened for instance in Argentina, where a considerable expansion of exports was accompanied by an even larger contraction of imports. Elsewhere, the contraction of imports accompanied a negligible expansion of exports (e.g., in Indonesia and Venezuela), or an actual falling off of exports (e.g., in Colombia and Ceylon).

Causes of Price Movements

A number of factors were responsible for the price movements in 1963. For raw materials, the recovery in prices coincided with accelerated expansion of activity in the industrial countries. However, industrial activity had been expanding quite rapidly for the last few years, but raw material prices had continued to decline. The weakness prior to 1963 was most pronounced for agricultural materials, including textile fibers, rubber, and fats and oils. The decline and subsequent recovery of fiber prices has been in line with developments in textile manufacturing, which had not shared in the general prosperity in the preceding years but revived in 1963. Rubber and, to a lesser extent, fats and oils have been increasingly affected by the rapidly rising use of synthetic substitutes; rubber was indeed the main product for which the price decline continued through 1963. The strengthening of rubber prices in the early months of 1964 mainly reflected rising political tension in the Far East. Prices of metals and minerals, which have to some extent been the subject of support operations of various kinds, moved in a narrower range than those of agricultural products. For some of these products, notably copper, both mining and smelting capacity had been greatly expanded in the late 1950's and output has tended to outpace consumption. Thus, in the last few years production has been restricted and, in addition, producers have supported the price by purchasing copper on the market. Late in 1963, however, rising demand prompted producers to relax restrictions. Supply adjustments also had cushioned the price decline of lead; demand for this metal, as well as for zinc, gained strength in 1963 and caused prices to recover. Stagnation in the production of tin in recent years has caused temporary shortages in spite of periodic releases from U.S. stocks; as a result tin prices have been subject to wide gyrations. The sharp advance in the early months of 1964 was a further reflection of political conditions in the Far East.

Prices of foodstuffs are not perceptibly affected by business cycles in industrial countries so long as the latter do not cause major changes in personal income. Their widespread recovery in 1963 stems from conditions in particular markets, which happened to work generally in the same direction. The rise in coffee prices has been largely the result of anticipated shortages of desirable grades and qualities because of expected severe crop failures in Brazil. The strength of cacao prices has been due to anticipation of some reduction in output combined with a considerable increase in consumption in recent years. For sugar, which showed the greatest price increase, the main factor was a reduction in the exportable supply in the 1962/63 season and anticipations of another short crop in the Caribbean in 1963/64. Consumption has been rising in recent years and current import demand continues strong, while production in Europe remained below expectations. Grain prices have gained through the unprecedentedly large purchases by the Soviet countries and Mainland China, where reduced domestic output is being supplemented by purchases abroad. Import demand was also strong from Europe.

The great variety of factors responsible for price increases in 1963 makes it difficult to gauge developments in the near future. However, price movements in the early part of 1964 and the lag in their effect on export unit values permit at least a partial, though tentative, appraisal of what the latter might be in 1964. Prices of sugar remained high through the first four months of 1964 and the greater part of the 1963/64 crop had been sold prior to the downturn in May, which was based on anticipated increases in production mainly in the United States and Europe. Similarly, well over half of the West African main cocoa crop was sold before prices weakened early in 1964. Prices of coffee may be expected to remain well above the 1963 average, though perhaps not at the height of recent months. Thus, prices received and earnings for exports of these three commodities in 1964 should be well in excess of their 1963 levels.

As far as raw materials are concerned, much will depend on the development of business activity in industrial countries. There is no reason to believe, however, that further expansion will lead to sharp price increases, since output of most materials could be raised to meet demand, from capacity either already in existence or in the course of being set up. In any case, the price increases that occurred during 1963 and early in 1964 should help to raise the 1964 export earnings of most primary producing countries above 1963.

Domestic Developments

The full effect of the recent rise in export earnings on domestic developments in the primary producing countries was not felt in 1963. This effect is induced through the rise in the incomes of producers of export goods and subsequently through the ensuing increase in imports and the increased confidence created by improving payments positions. In many of the less developed countries a shortage of foreign exchange is a factor limiting imports of capital equipment and raw materials, and hence industrial production. The increase in the imports of these countries between 1962 and 1963 that was facilitated by the rise in their export earnings should, therefore, have widespread beneficial effects. Preliminary reports from many countries indicate a more rapid rise in domestic output in 1963 than in other recent years, in particular where orderly monetary conditions prevailed in a stable political environment. These preliminary reports do not, however, as yet permit an over-all appraisal of trends in production in the less developed countries as a group or in broader areas. The impact of the rise in exports of these countries on their balance of payments position is analyzed in Chapter 7.

Against the background of generally improving export earnings, the authorities of many of the less developed countries were able to permit a more rapid expansion of money in 1963 than in 1962, without endangering domestic stability. As can be seen from Table 11, increases in official gold and foreign exchange reserves in a number of countries gave an immediate impetus to monetary expansion. Thus, for the first time for several years, an appreciable part of the internal financial expansion in the less developed countries originated from external sources. In several, particularly where domestic pressures for expansion were kept within limits, the expansion associated with this external stimulation tended to be larger than the increase of money. Growing confidence induced the residents of these countries to devote a part of their rising incomes to enlargements of their holdings of savings deposits and other forms of quasi-money. In many countries, this type of

TABLE 11. SELECTED LESS INDUSTRIALIZED COUNTRIES: PERCENTAGE CHANGES IN MONEY SUPPLY, 1956–63, AND FACTORS AFFECTING CHANGES IN MONEY SUPPLY, 1962 AND 1963

	Percentage Change in Money Supply [1]			Change in Net Foreign Assets [2]		Change in Domestic Assets [3]		Net Govt. Borrowing from Banking System [4]		Bank Credits to Private Sector & Official Entities		Change in Quasi-Money [5]		Change in Other Liabilities [6]	
	Annual average 1956-61	1962	1963	←As percentage of money supply at beginning of year→											
				1962	1963	1962	1963	1962	1963	1962	1963	1962	1963	1962	1963
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Argentina	28	3	29	−12	9	21	38	11	24	9	15	4	15	1	3
Bolivia	20	1	20	−10	15	4	13	−2	4	6	9	1	2	−8	7
Brazil	31	64	64	2	2	73	76	26	32	47	44	1	2	11	12
Burma	3	10	43	16	15	−7	26	−9	34	2	−8	2	−3	−3	1
Ceylon	10	5	12	−7	−4	14	18	14	10	. .	8	4	5	−2	−3
Chile [7]	27	29	34	−14	−19	69	78	25	38	44	41	18	12	8	13
China, Republic of	18	8	28	−11	56	48	25	−7	6	54	19	25	36	3	17
Colombia [7]	16	21	12	−2	−3	32	21	15	1	17	20	3	5	6	1
Costa Rica	4	14	12	13	−11	5	7	—	—	—	—	3	2	1	−18
Dominican Republic	5	14	15	4	21	15	15	−4	43	19	−28	4	12	1	8
Ecuador [8]	6	9	10	10	8	2	4	−1	−2	3	6	7	1	−5	1
El Salvador	−3	.	20	8	17	1	20	6	. .	−5	19	15	18	−6	−1
Ethiopia	5	8	7	8	1	1	12	−6	8	7	4	2	1	−2	5
Ghana	12	−5	7	−3	−3	9	21	27	8	−18	13	4	5	8	6
Greece	16	15	18	4	8	25	42	. .	9	26	33	29	30	−15	2
Guatemala	2	4	11	−10	12	20	12	9	−3	11	15	7	9	−1	3
Haiti	−1	4	7	−18	−9	15	13	13	9	2	4	. .	1	−7	−4
Honduras	−1	14	11		−4	21	24	11	14	10	10	10	8	−3	2
Iceland	15	22	. .	46	13	34	28	−9	−11	43	40	52	39	6	3
India	5	10	14	−2	1	19	18	11	11	7	6	5	2	2	2
Indonesia [8]	39	99	88	−10	−1	100	111	77	70	23	41	1	. .	−10	21
Iran	—	8	9	8	4	21	27	−4	. .	25	27	18	16	3	7
Iraq [8]	8	12	8	−8	30	21	−20	18	−18	3	−2	2	. .	−1	2
Israel [7]	14	30	28	37	18	8	28	−18	8	26	20	24	12	−9	6
Jamaica	6	28	−1	23	46	24	−13	33	−3	−9	−10	19	28	1	5
Jordan	8	16	10	23	−20	−2	40	−10	28	8	14	10	5	−4	5
Korea	22	8	6	−18	−11	69	16	35	−2	34	19	23	4	20	−5
Libya	—	13	14	4	33	22	5	13	−10	10	15	10	21	3	2
Malaya	1	5	7	8	. .	5	13	1	6	4	6	3	6	6	. .
Mexico	9	13	16	1	9	16	12	−2	11	18	1	3	7	1	−2
Morocco	—	16	8	−6	−7	20	15	13	11	7	3	1	−1	−2	1
Nicaragua	1	29	13	13	12	24	1	12	−6	12	7	. .	1	8	−1
Nigeria	—	4	6	−12	−22	23	36	−1	22	23	13	4	5	4	2
Pakistan	6	5	15	. .	2	12	22	1	10	11	12	8	8		1
Panama	5	10	23	5	9	23	39	−2	1	25	38	15	26	3	−1
Paraguay	12	−2	11	−4	3	22	34	−1	8	23	26	8	13	13	13
Peru	13	4	9	5	7	18	27	−5	2	23	25	20	24	−1	1
Philippines	8	13	18	5	. .	24	45	1	2	23	43	23	19	−8	8
Saudi Arabia	—	12	21	24	119	. .	−85	−9	−81	9	−4	2	2	10	11
Somalia	—	11	18	−6	−9	28	26	6	6	22	20	2	2	9	−3
Sudan	7	16	12	−9	−26	35	50	17	23	18	28	3	7	7	6
Syria	10	14	3	3	−9	16	16	6	8	10	9	. .	−1	5	5
Thailand	8	. .	7	11	13	11	11		1	11	10	15	11	6	6
Tunisia	—	13	26	−19	−7	36	43	28	23	8	20	2	4	2	7
United Arab Republic	3	−3	16	−11	. .	29	36	24	29	4	7	13	10	7	9
Uruguay [7, 8]	26	−5	21	−2	6	4	66	−7	31	12	35	8	14	.	37
Venezuela	7	−2	8	−1	13	−5	7	−11	−1	6	8	5	11	−8	1
Viet-Nam	6	13	14	−5	9	10	19	3	16	7	3	. .	6	−8	8

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

[1] Net foreign assets plus domestic assets minus quasi-money minus other liabilities.

[2] Foreign assets are reported in gross terms for a few countries. For most of these, 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] The sum of net government borrowing from the banking system and bank credit to the private sector and official entities.

[4] Official entities are excluded from government and included in the private sector wherever possible.

[5] Includes time and savings deposits. Foreign currency deposits, where they exist, are excluded from quasi-money and included in other liabilities.

[6] Includes changes in foreign currency deposits, advance deposits on imports, counterpart funds, exchange profits, capital, and unclassified liabilities.

[7] Data have been adjusted to eliminate the effect of revaluation of foreign assets and liabilities.

[8] Data for 1963 cover the 12-month period ended October 1963 for Ecuador, ended June 1963 for Indonesia, ended November 1963 for Iraq, and ended September 1963 for Uruguay.

saving increased the scope for the financing of capital formation, beyond what had been made possible by the rising foreign receipts.

The monetary expansion associated with increases in foreign earnings is one element in the process discussed above, whereby rising export earnings may be expected to lead to increases in imports with some time lag. Part of the increase in domestic demand arising from an expansion of income and money, stimulated originally by external causes, will be directed toward imports. As a consequence, even if the monetary system does not expand its loans and domestic investments beyond the domestic resources that accrue to it, the reserve accumulation will sooner or later slow down and be brought to a halt. An excessive expansion in domestic credit may hasten this process, and may, if carried too far, bring about a loss of reserves greater than the initial accumulation. Hence, while buoyant foreign receipts may provide a desired stimulus to demand and output, the process needs to be watched to ensure that the monetary expansion is kept within sustainable limits. If demand continues to expand after export receipts have ceased to rise, the maintenance of monetary and exchange stability may sooner or later make it necessary to contract credit or to reduce the rate of credit expansion markedly. If there is a subsequent decline in export receipts, the need for restraining action will be even greater. The volatility of export receipts contributes to the difficulties of monetary management in the less developed countries.

The importance of large external earnings, with a consequent increase in the foreign reserves of the monetary system, was most marked in some of the petroleum exporting countries (e.g., Libya and Saudi Arabia) and in some of the countries, such as those producing coffee and cacao, where exports rose markedly (e.g., Ecuador and Nicaragua). In some other countries, where a rise in export income had resulted in an increased demand for bank credit, it was possible for the commercial banks to expand their loans because a balance of payments surplus had led to a rise in their cash reserves. Such factors induced an expansion in credit, for instance, in some of the countries where exports were rising markedly (e.g., El Salvador and Guatemala), and also in some where the improving prospects were not so closely tied to one or a few individual commodities (e.g., Peru). In these and other countries, where financial policy tended to restrain the expansion of credit within sustainable limits, increased holdings of quasi-money facilitated the financing of investment through the monetary system.

While the monetary expansion in 1963 was larger in most countries than in earlier years, there were few in which it appears to have been excessive. However, in some countries, government deficits continued, and there was a more rapid expansion of money in 1963 than in 1962, resulting from the financing of fiscal requirements. This problem arose in some countries which did not share fully in the increase in incomes resulting from rising prices (e.g., Burma and Ceylon), and in some where political instability imposed strains on the government's finances. In Congo (Leopoldville) these and other difficulties have given rise to complex budgetary and payments problems, which the authorities are making strong efforts, with technical assistance from the Fund, to overcome. In several other countries, where fiscal deficits have been the source of severe inflationary pressures in the past few years (e.g., Argentina, Bolivia, Brazil, Indonesia, the United Arab Republic, and Uruguay), rather rapid inflation continued to hamper progress. Thus, in Argentina, the gross national product at constant prices in 1963 was 5 per cent smaller than in 1962 and approximately equal to its 1960 level (the comparable decline from 1961 to 1962 was 3 per cent); and in Brazil the per capita national product declined in 1963. In some of these countries, the encouragement of development and the maintenance of balance of payments equilibrium were made more difficult because the flow of savings to quasi-monetary holdings declined. The balance of payments problems arising from excessive monetary expansion were not necessarily associated with rising imports, but were, in some countries, repressed by more stringent foreign exchange restrictions or by countervailing limitations on credit to the nongovernment sectors of the economy, with a consequent distortion of the country's financial structure.

In those countries where rapid inflation had been a serious problem in 1962, there was little evidence of any improvement in 1963. On the other hand, there were few signs that countries which had managed to maintain monetary stability up to 1962 were changing their financial policies. There is, however, an intermediate group of countries, in which monetary stability has been endangered in recent years by financial policies intended to compensate for unsatisfactory developments in external income. The recent rise in export earnings from primary products should give a number of these countries an opportunity to regain full monetary stability and thus to provide a firmer basis for sustained economic growth.

The Problem of Growth

For the less developed countries as a group, the immediate economic prospects were favorable in the early months of 1964. In particular, it appeared likely that their export earnings would show a further substantial rise from 1963 to 1964. First, higher unit values could be expected, both because the rise in prices during 1963 had not yet been fully reflected in export earnings for that year, and because there was a further rise in prices for primary products in early 1964. In addition, continued prosperity in the industrial countries gave promise of a rising volume of exports to these countries and, in general, firm markets for raw materials. However, while these conditions created a more favorable climate for economic growth under conditions of monetary stability than had existed for many years, the long-term prospects of the less developed countries remained a difficult problem. The recent rise in their export earnings was partly attributable to temporary factors, and there was no assurance that growth would continue at a rate enabling them to increase their imports sufficiently to meet their targets for economic development.

During the last decade the annual rate of growth of output in the less developed countries, as estimated by the United Nations, was slightly higher than in the developed countries, 4.4 per cent against 4 per cent; but because of the much faster rise in population, per capita income rose less in the former than in the latter, 2.2 per cent per annum against 2.7 per cent. There was a slight deterioration within the decade in the estimated growth rates of the less developed countries (the growth rates of the developed countries, however, fell even more). Because of the difficulties of estimating output in many of the less developed countries, it is possible that the underlying statistics for a number of these countries have a bias both toward overstating rates of growth and toward understating the deceleration that occurred within the decade. The investigations of the United Nations also show that among the less developed countries there has been much greater variation in growth rates from country to country than among the developed countries. Thus, per capita income declined in several less developed countries from 1950 to 1960, and in almost one fourth of these countries per capita income either did not rise or rose less than 1 per cent per annum. In contrast, per capita income rose at least 1 per cent per annum in all the developed countries. Within both groups of countries, variations in growth rates are undoubtedly related, inter alia, to export performance. In general, those countries whose exports are rising at the highest rates also show the highest rates of growth.

For the 1960's, a resolution adopted by the General Assembly of the United Nations has suggested as an objective a minimum rate of growth of national income for individual less developed countries of 5 per cent per annum. The United Nations Conference on Trade and Development recognized the wide concern expressed regarding the inadequacy of this target, and acknowledged the need for steps to be taken by both developing and developed countries to mobilize domestic and international resources for accelerated growth in developing countries at rates even higher, where feasible. The attainment of this objective implies a rate of increase in their imports which is likely only to be possible if the long-term rate of growth in their exports is in future considerably greater than in the past. This requires that the less developed countries should diversify, as well as enlarge, their exports; and that the opportunities for selling these exports in the industrial countries be steadily expanded. These and other problems of economic development were discussed in the Fund's Annual Report for 1963.

A number of constructive proposals for improving the export earnings of the less developed countries and for other measures supporting their development efforts have been considered by the United Nations Conference on Trade and Development, and further attention to these problems may be anticipated in the appropriate international organizations. The Fund has repeatedly emphasized the need for measures to ensure better access to the markets in the industrialized countries for the products of the less developed countries, and it notes with satisfaction that these and related matters are now being subjected to systematic study with a view to coordinated action at the international level. The Fund is vitally interested in the outcome of the present efforts to improve the economic conditions of the less developed countries, and, as noted in Chapter 1, it is lending its active support to these efforts within the sphere of its own activities.

Chapter 7

World Trade, Payments, and Reserves

World Trade

THE continued expansion in the manufacturing countries discussed in Chapter 5 brought about an acceleration in the growth of world trade in 1963. The value of world exports, including those of Soviet countries and Mainland China, was about 8½ per cent higher than in 1962,[1] compared with an increase of about 4½ per cent from 1960 to 1961 and one of about 5½ per cent from 1961 to 1962. The value of exports from primary producing countries rose by about the same percentage as that of exports from manufacturing countries, after failing to do so for a number of years. A main factor underlying this change was a recovery in the prices of exports of primary producing countries, following a decline from 1961 to 1962 and from 1960 to 1961. For the second year in succession, there was little change on average in the unit value of exports of manufacturing countries (Table 12). The volume of exports from primary producing countries rose by rather more than 5 per cent, and that of industrial countries by about 8½ per cent, from 1962 to 1963.

Trade between manufacturing countries rose more rapidly than from 1961 to 1962 (Chart 18). However, a principal factor in the faster growth of total exports of manufacturing countries from 1962 to 1963 was the 6 per cent expansion in their exports to primary producing countries, following little expansion from 1961 to 1962. The value of primary producing countries' exports to the manufacturing countries seems to have risen from 1962 to 1963 by about 8 per cent, compared with about 5 per cent from 1961 to 1962 and about 2½ per cent from 1960 to 1961. In Tables 13 and 14, dealing with the direction of world trade, the primary producing countries are divided into two groups, one comprising the more industrialized primary producing countries (including all primary producing countries in Western Europe) and the other the less industrialized primary producing countries in the Western Hemisphere, Asia, and Africa. The rise in exports to manufacturing countries in 1963 seems to have been broadly similar for both groups; however, the total exports of the first group rose more rapidly, owing principally to a sharp rise in the value of exports from Canada and Australia to the Sino-Soviet Area and to other primary producing countries.

[1] The estimate for exports from the Sino-Soviet Area is tentative.

TABLE 12. EXPORT UNIT VALUES, 1961–63

(1960 = 100)

	1961	1962	1963	Last Quarter, 1963
Primary producing countries				
Canada	101	104	105	105
Australia, New Zealand, South Africa	99	100	107	109
Petroleum producing countries	97	98	97	97
Other primary producing countries outside Europe	97	94	97	98
Manufacturing countries				
United States	102	102	101	101
EEC countries[1]	102	102	102	103
EFTA countries[2]	100	101	102	103
Japan	95	92	95	95

Sources: International Monetary Fund, *International Financial Statistics;* United Nations, *Monthly Bulletin of Statistics,* April 1964.

[1] Belgium-Luxembourg, France, Federal Republic of Germany, Italy, Netherlands.

[2] Austria, Denmark, Norway, Sweden, Switzerland, United Kingdom.

Total exports to manufacturing countries from all areas rose by about 9½ per cent from 1962 to 1963; those to primary producing countries as a whole by about 7½ per cent. World exports to the first group of primary producing countries rose by a slightly higher proportion than the value of total exports of this group. Exports to the other group of primary producing countries rose by about 6 per cent (following an increase of 1 per cent from 1961 to 1962). This increase was smaller than that of the group's own exports; and, for the second year in succession, there was some improvement in the group's trade balance with the world. Recently the Sino-Soviet Area has provided more than 3 per cent of all exports to the manufacturing countries, 5 per cent of those to the first group of primary producing countries, and approaching 7 per cent of all exports to the other primary producing countries. It has taken about 3 per cent of the total exports of manufacturing countries, about 6 per cent of those of the first group of primary producing countries, and about 4 per cent of those of the second group.

Manufacturing countries

The development of manufacturing countries' exports since 1960, including the influence of

CHART 18. INTERNATIONAL TRADE: DIRECTION OF EXPORTS, 1960–63

(In billions of U.S. dollars)

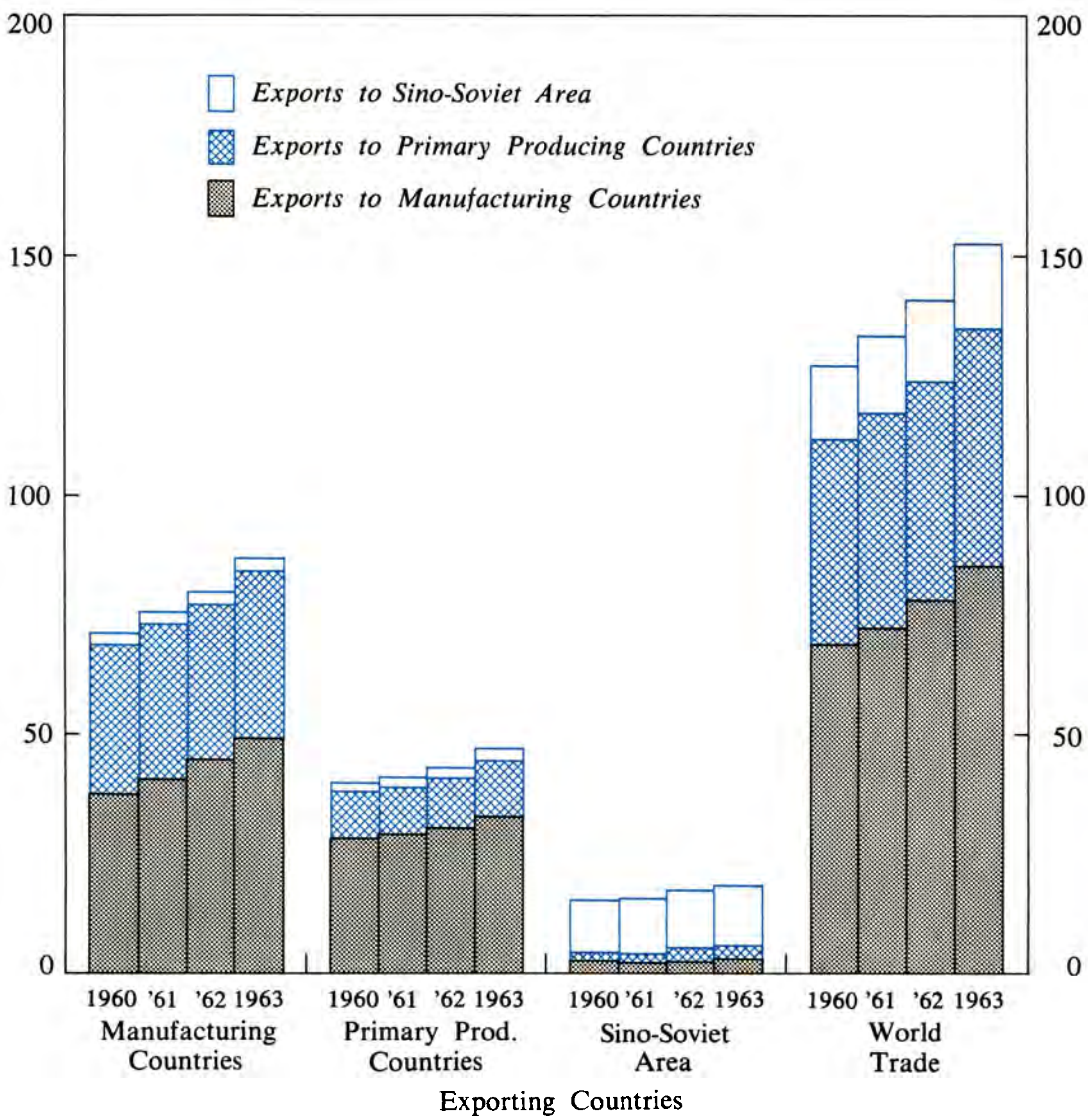


TABLE 13. DIRECTION OF WORLD TRADE, 1960–63
(In billions of U.S. dollars)

Exports from	Year	Exports to: Manufacturing Countries	Primary Producing Countries [1]: Group I [2]	Primary Producing Countries [1]: Group II [3]	Sino-Soviet Area [1,4]	World [1]
Manufacturing countries	1960	37.4	11.8	19.9	2.6	71.7
	1961	40.7	12.0	20.8	2.4	75.9
	1962	44.6	12.4	20.6	2.6	80.2
	1963	49.3	13.7	21.5	2.6	87.1
Primary producing countries [1]						
Group I [2]	1960	10.3	0.7	1.7	0.6	13.3
	1961	10.8	0.8	1.8	0.8	14.2
	1962	11.2	0.8	1.7	0.8	14.5
	1963	12.1	1.0	1.9	1.0	16.0
Group II [3]	1960	18.1	1.8	5.8	1.3	27.0
	1961	18.3	1.8	5.8	1.3	27.2
	1962	19.3	2.2	6.1	1.3	28.9
	1963	20.8	2.4	6.6	1.4	31.2
Sino-Soviet Area [1,4]	1960	2.9	0.6	1.4	10.8	15.7
	1961	2.5	0.6	1.5	11.5	16.1
	1962	2.9	0.8	1.9	12.0	17.6
	1963	3.2	0.9	2.1	12.6	18.8
World [1]	1960	68.7	14.9	28.8	15.3	127.7
	1961	72.3	15.2	29.9	16.0	133.4
	1962	78.0	16.2	30.3	16.7	141.2
	1963	85.4	18.0	32.1	17.6	153.1

Sources: International Monetary Fund and International Bank for Reconstruction and Development, *Direction of Trade;* International Monetary Fund, *International Financial Statistics* and staff estimates.
[1] Figures for 1963 are preliminary estimates.
[2] Australia, Canada, New Zealand, South Africa, and primary producing countries in Europe.
[3] All other primary producing countries.
[4] Including Cuba.

TABLE 14. ANNUAL INCREASES IN VALUE OF TRADE IN VARIOUS DIRECTIONS, 1961–63
(Percentage increase over preceding year)

Exports from	Year	Exports to: Manufacturing Countries	Primary Producing Countries [1]: Group I [2]	Primary Producing Countries [1]: Group II [3]	Sino-Soviet Area [1,4]	World [1]
Manufacturing countries	1961	8.9	1.5	5.0	0.3 [5]	6.0
	1962	9.6	3.5	−1.4	7.5	5.6
	1963	10.5	10.1	4.5	2.0	8.6
Primary producing countries [1]						
Group I [2]	1961	5.1	5.4	2.1	47.0	6.9
	1962	3.5	5.6	−5.7	−1.0	2.4
	1963	8.0	14.1	14.1	22.0	9.9
Group II [3]	1961	1.0	−2.2	—	—	1.0
	1962	5.5	22.0	5.9	−2.3	5.8
	1963	8.1	8.0	8.0	8.0	8.0
Sino-Soviet Area [1,4]	1961	1.4 [5]	−6.4	8.4	5.6	2.3
	1962	12.6	36.7	24.7	4.9	9.1
	1963	9.0	13.5	11.0	5.5	7.0
World [1]	1961	5.2	2.0	3.8	4.6	4.5
	1962	7.9	6.6	1.3	4.4	5.8
	1963	9.5	11.1	5.9	5.4	8.5

Sources: Based on Table 13.
[1] Figures for 1963 are preliminary estimates.
[2] Australia, Canada, New Zealand, South Africa, and primary producing countries in Europe.
[3] All other primary producing countries.
[4] Including Cuba.
[5] Excluding large changes in Cuba's trade over this period.

different trends in trade with various areas, relative export prices, and other factors, is analyzed in a note on their export performance on page 123 (see in particular Charts 26 and 27). Changes from 1962 to 1963 are best understood in the light of the divergent trends of output and activity in three main groups of countries. In one group—Japan and the EEC countries other than Germany—the marked growth of output from 1961 to 1962 was almost maintained or exceeded from 1962 to 1963 and continued to be accompanied, in general, by somewhat more rapid rises in wages and prices than elsewhere. In the second group—the United Kingdom, Norway, Sweden, and Austria—a loss of momentum in earlier years gave way to recovery during 1963. In the third group—Germany, the United States, and Denmark—production rose considerably less from 1962 to 1963 than from 1961 to 1962.

Imports of the countries in the third of these groups rose much more slowly from 1962 to 1963 than from 1961 to 1962. This was principally because of the slowing down in them of the growth of output and demand. In the other manufacturing countries, imports rose considerably faster (Table 15). The imports of Germany and the United States rose by 5-6 per cent in value; and there was no significant increase in the value of Danish imports. Imports into the United Kingdom and the other EFTA countries rose by 7-9 per cent, compared with less than 4 per cent on average from 1961 to 1962. Imports into the EEC countries other than Germany rose by 16 per cent (compared with 11 per cent), and Japanese imports rose by nearly 20 per cent, after a decline from 1961 to 1962.

A comparison of exports with imports shows that, in the EEC group, Italy, France, and the Netherlands expanded their exports considerably less than their imports, with a consequent worsening of their trade balances. Belgium-Luxembourg, which was not subject to the same degree of inflationary pressure, expanded its exports as much as its imports. Most of the EFTA countries achieved about the same rate of growth in exports as in imports, so that their trade balances did not change much. The only marked exception was Austria, whose exports failed to increase in line with imports, in part because of heavy reliance on sales to Germany. The exports of the countries in the third group benefited substantially from the more rapid growth in other countries' imports than in their own, and these countries achieved marked improvements in their trade balances.

TABLE 15. TRADE OF MANUFACTURING COUNTRIES

(Percentage changes over preceding year in values of imports and exports)

	Imports			Exports		
	1961	1962	1963	1961	1962	1963
Japan	29	−3	20	4	16	11
Italy	11	16	24	15	12	8
France	6	13	16	5	2	10
Netherlands	12	5	12	6	7	8
Belgium-Luxembourg	6	8	12	4	10	12
Total EEC countries, excluding Germany	9	11	16	7	7	10
Norway	11	3	9	6	4	10
Sweden	1	7	9	7	7	10
Switzerland	21	12	8	9	9	9
Austria	5	5	8	7	5	5
United Kingdom	−3	2	7	4	3	7
Total EFTA countries, excluding Denmark and Portugal	1	4	8	5	4	8
Germany	8	12	6	11	5	10
United States [1]	−3	11	5	3	4	7
Denmark	4	14	—	3	9	14

Source: International Monetary Fund, *International Financial Statistics,* June 1964.
[1] Excluding military exports.

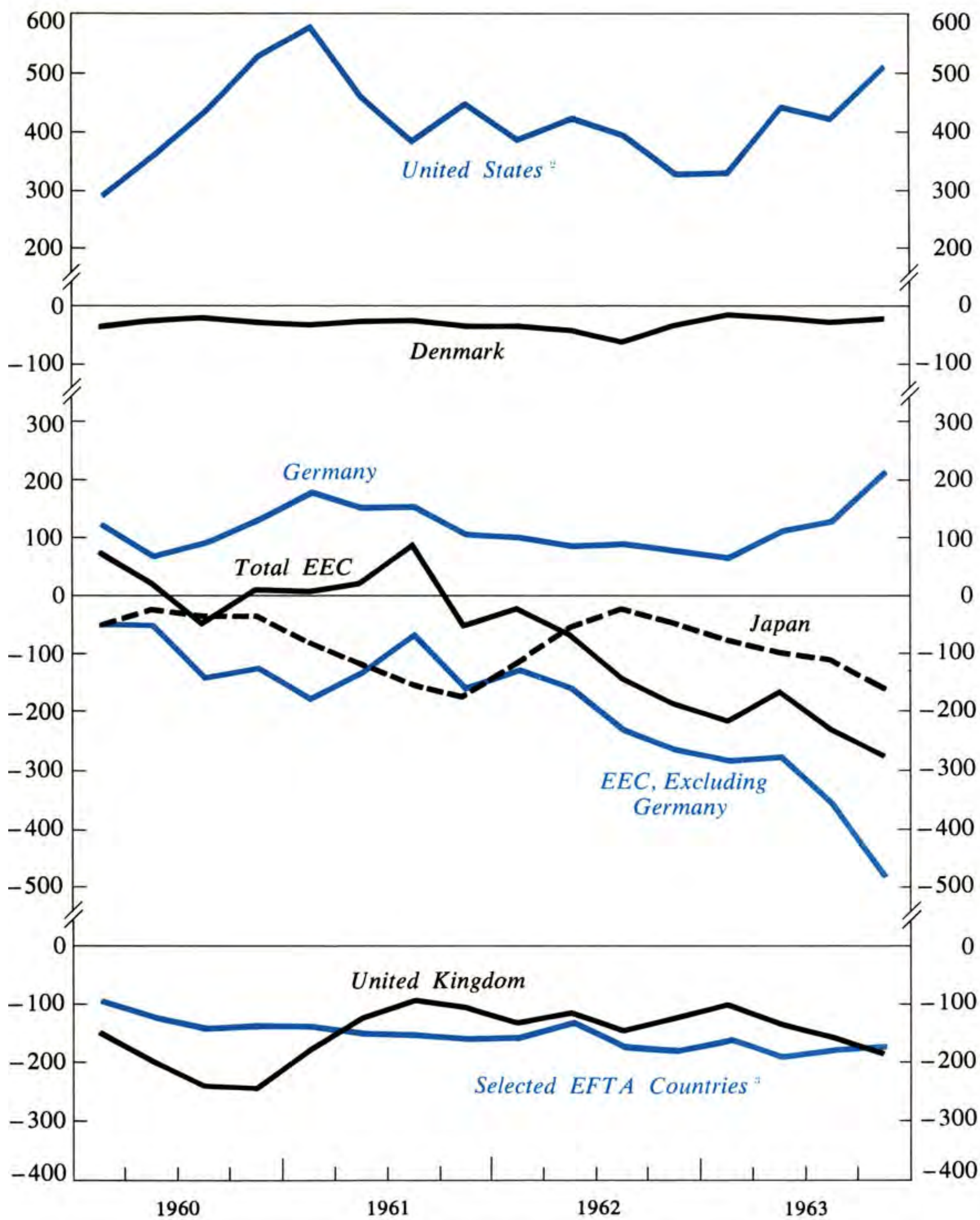
The divergent trends in countries' trade balances became much more marked in the last quarter of the year, when there was a sharp deterioration in the position of EEC countries other than Germany and Belgium-Luxembourg and in that of Japan, and a marked increase in the trade surpluses of Germany and the United States (Chart 19). The deterioration in the position of the EEC countries coincided with an accelerated growth of output, not only in Italy, France, and the Netherlands, but also in Germany, where the faster rise in industrial production was in the main export induced. The acceleration in the final quarter seems to have been less marked in the EFTA group than in the EEC countries. In the United States and Japan, there was actually a slight slowing down in the rate of industrial expansion.

Balance of Payments Developments

When developments in international payments during 1963 as a whole are compared with those in 1962, the broader changes are found to have arisen mainly from trade, which usually dominates short-run changes in current account positions

CHART 19. MANUFACTURING COUNTRIES: SEASONALLY ADJUSTED TRADE BALANCES, 1960–63[1]

(Monthly averages in millions of U.S. dollars)



[1] For the United States, both exports and imports are f.o.b.; for all other countries, exports are f.o.b. and imports are c.i.f.
[2] Exports exclude military shipments; imports refer to general imports.
[3] Austria, Norway, Sweden, Switzerland.

The most notable developments were a continuation of the decline in the collective surplus of the industrial countries of continental Europe on account of goods, services, and private transfers (here referred to as current account), which has been proceeding for several years, and a considerable reduction in the current deficit of the primary producing countries (Chart 20). The current account of industrial continental Europe was reduced to near balance in 1963 and appeared to be deteriorating by the end of the year. The reduced current account deficit of the primary producing countries was considerably smaller than the inflow of long-term financial resources, including all economic aid. These countries as a group had a surplus on account of current and long-term capital transactions ("basic" balance) of some $2.0 billion, compared with a small deficit in 1962; almost all the improvement accrued to the less industrialized countries.

During the last two years, large unrecorded transactions in the European area—in particular, inflows into Switzerland and outflows from Italy—have made it difficult to assess the area's collective "basic" balance, taken here before advance repayments of government debt. The indications are that there was an increase in the net inflow of private long-term capital into the industrial countries of continental Europe of several hundred million dollars, and a reduction in the net outflow from them of official long-term capital (other than advance debt repayments, which fell by $500 million) of the same order of magnitude. Accordingly, the surplus on current and long-term capital account (before advance debt repayments) appears to have been reduced much less than that on current account alone—probably by only a few hundred million dollars. Because of the many statistical uncertainties, a "basic" balance has not been entered in Chart 20 for 1962 or 1963 either for the EEC area or for the industrial countries in continental Europe as a whole. Even for the earlier years, the balance on current and long-term capital account for both areas is subject to considerable statistical doubt, and the surplus is believed to be understated—in particular that for all the industrial countries in continental Europe.

Developments in the collective balance of payments of the industrial countries in continental Europe in 1963, either on current account (Chart 20) or on account of all transactions other than changes in reserves and related items (i.e., in their collective "over-all" balance, see Table 16), were the outcome of divergent tendencies in different countries. There was, as discussed in detail in Chapter 8, a major deterioration in the balance of payments of Italy, a moderate reduction in the surplus of France, and a change from a small deficit to a large surplus in the German balance of payments. There was also a substantial improvement in the balance of payments of Denmark, mainly associated with the changes in its trade, discussed in the preceding section.

If developments in the year as a whole are considered, there was little change from 1962 to 1963 in the position of either the United Kingdom or the United States on current and long-term capital account. In both countries, a relatively small rise in the current surplus was accompanied by a slightly larger increase in the outflow on account of government aid and other official and private long-term capital (other than advance debt repayments by foreign governments). In Japan, a considerable deterioration of the current account was only partly offset by a rise in the inflow of long-term capital.

Although changes in flows of short-term capital from 1962 to 1963 were in most cases rather moderate, they did serve to modify changes in the "basic" balances (from which short-term capital movements are excluded). Recorded outflows of U.S. private short-term capital were slightly higher in 1963 than in 1962, but there was a sharp reduction in the debit for unrecorded transactions, and recorded movements of foreign private short-term capital (including changes in liquid liabilities to foreign private parties) were also more favorable in 1963. Despite the rise in the U.S. deficit on current and long-term capital account before advance debt repayments (Chart 20), the over-all deficit of the United States (also before advance debt repayments) as measured in Table 16 was lower in 1963 than in 1962. (For a more detailed analysis of developments in the U.S. balance of payments—the outcome of which cannot readily be expressed in a single figure—see Chapter 8.) For the United Kingdom, changes from 1962 to 1963 in both recorded movements of short-term capital and unrecorded transactions were particularly unfavorable and, although the recorded

TABLE 16. OVER-ALL BALANCES OF INTERNATIONAL PAYMENTS,[1] FIRST AND SECOND HALF, 1962 AND 1963

(In millions of U.S. dollars)

	Unadjusted				Adjusted for Advance Debt Repayments			
	First half 1962	Second half 1962	First half 1963	Second half 1963	First half 1962	Second half 1962	First half 1963	Second half 1963
A. Countries exporting mainly manufactured products								
United States	−72	−2,169	−1,410	−597	−131	−2,791	−1,469	−864
United Kingdom	747	97	−124	−334	747	97	−124	−334
Common Market countries	130	569	983	353	249	1,252	1,043	606
Belgium-Luxembourg	*−64*	*4*	*136*	*51*	*−64*	*4*	*136*	*51*
France	*629*	*68*	*657*	*215*	*748*	*542*	*717*	*398*
Germany, Federal Republic of	*−354*	*135*	*243*	*477*	*−354*	*135*	*243*	*477*
Italy	*−146*	*439*	*−143*	*−456*	*−146*	*618*	*−143*	*−456*
Netherlands	*65*	*−77*	*90*	*66*	*65*	*−47*	*90*	*136*
Austria	92	144	25	122	92	144	25	122
Switzerland	−53	165	−164	367	−53	165	−164	367
Denmark, Norway, Sweden	4	39	101	104	22	39	101	104
Japan	136	220	60	−24	−87[2]	318[2]	283[2]	−22[2]
Total, Group A	984	−935	−529	−9	839	−776	−305	−21
B. Countries exporting mainly primary products								
Australia	86	56	115	378	86	56	115	378
Canada	−947	1,077	155	−18	−947	984	155	−18
Finland	−23	−19	−9	44	−23	−19	−9	44
New Zealand	49	−14	65	−91	49	−14	65	−91
Portugal	47	54	−24	59	47	54	−24	59
South Africa	222	33	79	40	222	33	79	40
Spain	138	38	−22	109	138	38	−22	109
Subtotal, more industrialized countries	−428	1,225	359	521	−428	1,132	359	521
Latin American Republics	−353	−68	54	303	−353	−68	54	303
Argentina	*−232*	*−57*	*35*	*101*	*−232*	*−57*	*35*	*101*
Other	*−121*	*−11*	*19*	*202*	*−121*	*−11*	*19*	*202*
Miscellaneous sterling countries	−131	75	141	16	−131	75	141	16
Other Europe	8	12	−45	23	8	12	−45	23
Other countries	156	−118	421	148	156	−118	421	148
Subtotal, less industrialized countries	−320	−99	571	490	−320	−99	571	490
Total, Group B	−748	1,126	930	1,011	−748	1,033	930	1,011
C. Excess of surpluses	236	191	401	1,002	91	257	625	990
1. Owing to increase in world monetary gold	185	155	285	560	185	155	285	560
2. Owing to errors and omissions[3]	51	36	116	442	−94	102	340	430
D. Memorandum items								
United States and Canada	−1,019	−1,092	−1,255	−615	−1,078	−1,807	−1,314	−882
Continental Europe in Group A	173	917	945	946	310	1,600	1,005	1,199
Group B, excluding Canada	199	49	775	1,029	199	49	775	1,029

[1] Over-all balances in the first four columns are measured by changes in official gold and foreign exchange assets, in payments agreement credit and debit balances, in net IMF positions, and in (other) liabilities to foreign monetary authorities (the last being entered in fact only for the United States, the United Kingdom, and Canada). This table is based on data on reserves, whereas Table 17 is based on balance of payments reports, which in general cover annual data only. Because of minor differences in the countries covered and between the half-yearly and the annual data, the aggregate "over-all balances" for 1962 and 1963 for the less industrialized primary producers differ slightly from the totals shown in Table 17. No sign indicates surplus; minus sign indicates deficit.

[2] Adjusted for drawings and repayments on short-term credits negotiated by the Japanese authorities in connection with the 1961 balance of payments crisis.

[3] The discrepancies between the figures for advance debt repayments made and received, which result in different errors and omissions in the unadjusted and adjusted series (first four and last four columns, respectively), are due to the omissions from the table of one side of certain transactions because of incomplete information or because the partner is an institution (e.g., the International Bank for Reconstruction and Development).

CHART 20. SELECTED AREAS AND COUNTRIES: BALANCES OF PAYMENTS, 1956–63
(*In billions of U.S. dollars*)

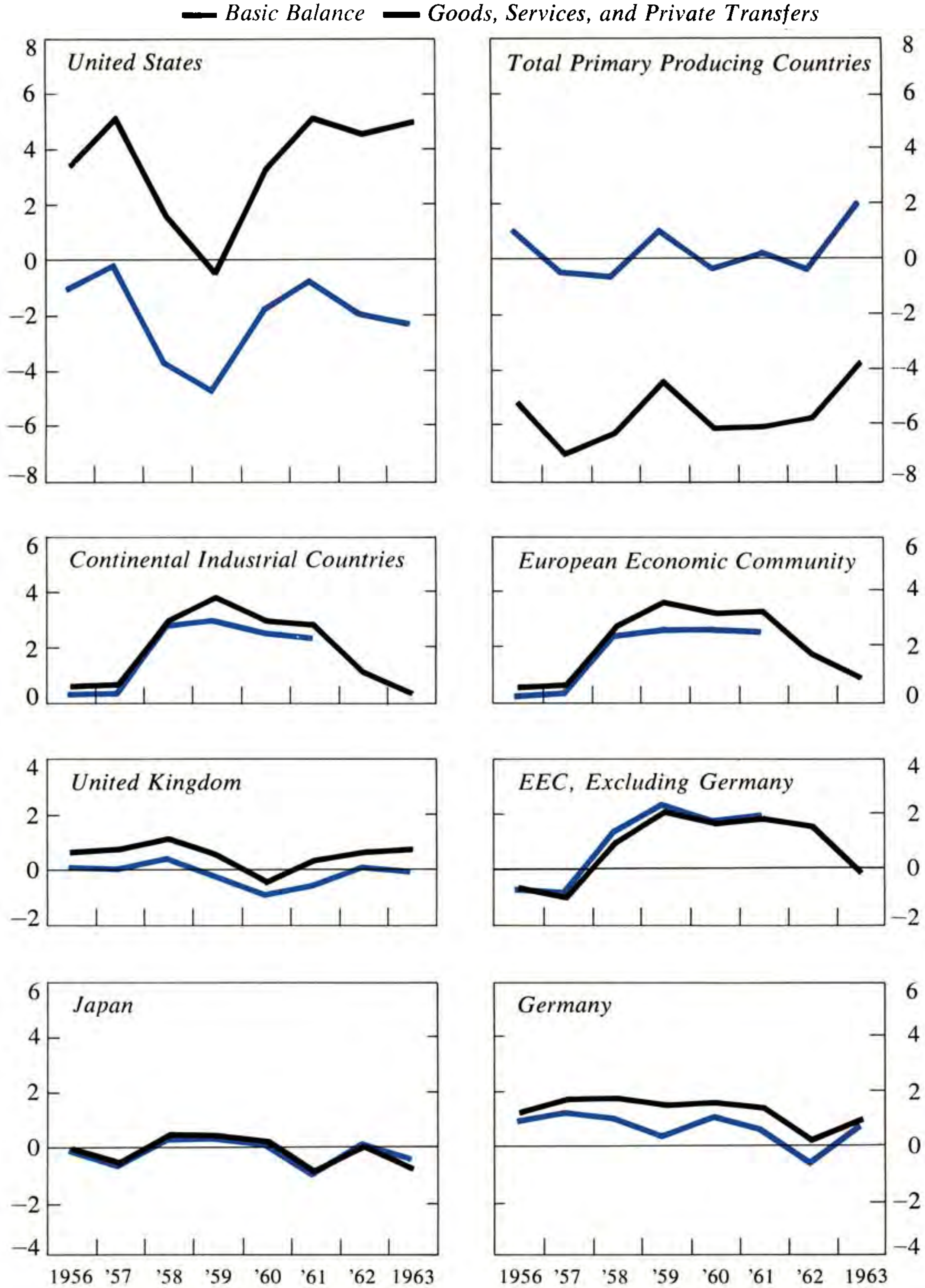


TABLE 17. PRIMARY PRODUCING COUNTRIES: BALANCE OF PAYMENTS SUMMARIES, 1962 AND 1963[1]

(In millions of U.S. dollars)

	1962					1963				
	Goods, Services, and Private Transfer Payments	Central Govern-ment Capital and Aid	Private Long-Term Capital	Other Short-Term Capital (including commercial banks) and Net Errors and Omissions	Total[2]	Goods, Services, and Private Transfer Payments	Central Govern-ment Capital and Aid	Private Long-Term Capital	Other Short-Term Capital (including commercial banks) and Net Errors and Omissions	Total[2]
A. More Industrialized Primary Producers										
Australia	−293	−26	←460→		141	−86	−85	←664→		493
Canada	−763	120	529	166	52	−426	47	494	22	137
Finland	−91	11	44	14	−22	−35	48	50	−32	31
New Zealand	7	11	←25→		43	−28	9	←7→		−26
Portugal	−35	62	46	20	93	−34	5	62	2	35
South Africa[3]	406	−11	−141	−10	244	170	41	−153	71	129
Spain	−70	−3	168	77	172	−177	−19	204	64	72
Total, Group A	−839	164	1,050[4]	348	723	−616	46	1,300[4]	141	871
B. Other Sterling Area[5]										
Burma	15	33	—	−1	47	13	33	−14	−12	20
Ceylon	−37	16	—	6	−15	−31	16	−1	−2	−18
Ghana	−77	47	17	11	−2	−122	53	26	3	−40
Iceland	8	6	−2	8	20	−5	5	3	1	4
India	−874	706	12	14	−142	−754	837	22	−82	23
Ireland	−66	8	50	24	16	−87	11	59	64	47
Jordan	−70	67	14	−4	7	−87	60	4	28	5
Libya	−15	28	−5	−2	6	−15	22	←16→		23
Malaysia[6]	−62	13	66	−15	2	−71	15	40	9	−7
Nigeria	−171	27	95	32	−17	−127	13	←79→		−35
Pakistan	−329	339	3	−11	2	−379	444		−37	28
Rhodesia and Nyasaland	−18	10	−20	42	14	51	13		−70	−6
U.K. Colonial Territories[7]	−118	96	42	−14	6	−110[4]	90[4]	40[4]	−10[4]	10[4]
Total, Group B	−1,814	1,396	272	90	−56	−1,724	1,612	200[4]	−34	54
C. Latin American Republics										
Argentina	−275	22	27	−44	−270	255[8]	6	−90	−22	149
Bolivia	−48	27	21	−4	−4	−55	32	30	−2	5
Brazil	−503	82	192	−21	−250	−147	67	70	−98	−108
Chile	−163	125	72	−54	−20	−185	115	−10	51	−29
Colombia	−134	15	22	23	−74	−173	104	←34→		−35
Costa Rica	−20	9	16	2	7	−27	←30→		−9	−6
Dominican Republic	−4	14	6	−15	1	−18	29	31	−25	17
Ecuador	−17	17	6	6	12	−7	10	6	2	11
El Salvador	—	1	8	−1	8	−22	21	27	9	35
Guatemala	−33	2	10	6	−15	−34	17	30	−3	10
Haiti	−2	2	1	−6	−5	3	—	−2	−4	−3
Honduras	−6	4	3	−1	—	−19	11	21	−13	—
Mexico	−109	−6	272	−148	9	−104	←306→		−79	123
Nicaragua	−13	5	9	3	4	−13	4	15	5	11
Panama	−33	13	14	6	—	−45	28	12	5	—
Paraguay	−7	2	4	1	—	−9	9	5	−4	1
Peru	−20	34	5	−13	6	−48	70	←4→		18
Uruguay	−95	−1	2	20	−74	−4	—		7	3
Venezuela	509	−102	−334	−68	5	568	−42	−331	−38	157
Total, Group C	−973	265	356	−308	−660	−84	500[4]	150[4]	−207[4]	359
D. Other Countries										
China, Republic of	−99	71	11	11	−6	−14	60	18	−11	53
Ethiopia	−29	38	4	−4	9	−27	25	9	−6	1
Greece	−116	41	103	2	30	−85	43	92	−34	16
Indonesia	−248	110	12	80	−46	−114	106	10	−58	−56
Israel	−171	162	130	23	144	−101	76	170	−47	98
Korea	−254	211	3	−11	−51	−351	242	42	18	−49
Morocco	−57	57	—	−27	−27	−39	44	←52→		−47
Philippines	15	18	−35	11	9	167	36	−32	−105	66
Sudan	−57	38	9	4	−6	−74	36	5	−4	−37
Syrian Arab Republic	−47	64	—	−12	5	12	←24→			−12
Thailand	−65	38	72	24	69	−92	47	74	16	45
Tunisia	−100	71	11	2	−16	−109	65	30	9	−5
Turkey	−230	178	43	−23	−32	−244	179	30	−15	−50
United Arab Republic	−365	209	6	43	−107	−339	←344→			5
Viet-Nam	−206	172	12	—	−22	−156	175	—	3	22
Yugoslavia	−66	60	—	5	−1	−86	26	—	—	−60
Other[9]	30[4]	60[4]	−10[4]	−40[4]	40[4]	360[4]	100[4]	−30[4]	−60[4]	370[4]
Total, Group D	−2,065	1,598	371	88	−8	−1,292	1,500[4]	450[4]	−298	360
Grand Total	−5,691	3,423	2,049	218	−1	−3,716	3,658	2,100	−398	1,644
Grand Total, excluding Group A	*−4,852*	*3,259*	*999*	*−130*	*−724*	*−3,100*	*3,612*	*800*	*−539*	*773*

For footnotes, see page 79.

current and long-term capital transactions showed only a small deterioration and remained in approximate balance, the U.K. over-all balance as measured in Table 16 worsened by $1.3 billion. For the industrial countries in continental Europe taken as a whole, larger inflows of short-term capital appear to have reinforced the increase in the inflow of long-term capital, and their collective over-all surplus before advance debt repayments as measured in Table 16 was about $300 million higher in 1963 than in 1962 in spite of the considerable decline in the current balance (Chart 20). The deterioration in Japan's basic balance of payments account was more than equaled by an increase in the inflow of short-term capital, largely in the form of import usance facilities, which automatically increase as imports increase; there was, therefore, little change in the over-all surplus as measured in Table 16. (For further details of the balances of payments of the United Kingdom and Japan, see Chapter 8.) For the primary producing countries, changes in flows of short-term capital between 1962 and 1963 were generally of limited significance.

Some of the more dramatic changes in international transactions that have occurred recently are not apparent if only the annual totals are compared. Thus, the year-to-year comparison obscures the major improvement that has taken place in the balance of payments of the United States since mid-1963, contrasting with a sharp rise in the deficit from the first to the second half of 1962. In early 1964, the payments balance improved further, aided by various transitory factors, and at the end of the first quarter the seasonally adjusted balance showed a small over-all surplus. Recent trends in the over-all position of continental Europe are more difficult to discern because of the conflicting tendencies referred to above. In early 1964, the tendency for continental Europe as a whole appeared to be toward a further reduction in the surplus position that has persisted for many years, with sharply increased imbalances within the area. This tendency may be reversed as stabilization measures in countries experiencing inflationary pressures take effect.

There was also a gradual deterioration during 1963 in the balance of payments of the United Kingdom, in part as a result of a rise in imports associated with economic expansion. In the fourth quarter of the year, the current surplus was nearly eliminated; and in the first quarter of 1964, a current deficit emerged. In Japan, where the current account was in deficit throughout the year, the over-all balance of payments deteriorated from the first to the second half of the year, mainly as a result of a decline in the inflow of capital. The seasonally adjusted trade balance also worsened in the course of the year; before seasonal adjustment, however, the current deficit was higher in the first than in the second half. The deterioration in the seasonally adjusted trade balance appeared to be leveling off in the first quarter of 1964.

The rise in export earnings of the primary producing countries was progressive over 1963 and continued in early 1964, but there was no evidence of an acceleration in their reserve accumulation. These countries have generally not continued to add to their reserves over long periods. It does not seem unlikely that their combined surplus will be somewhat reduced in the course of 1964. Past experience suggests that the impact of such a change would most likely benefit such countries as the United States, the United Kingdom, and Japan more than the countries in continental Europe.

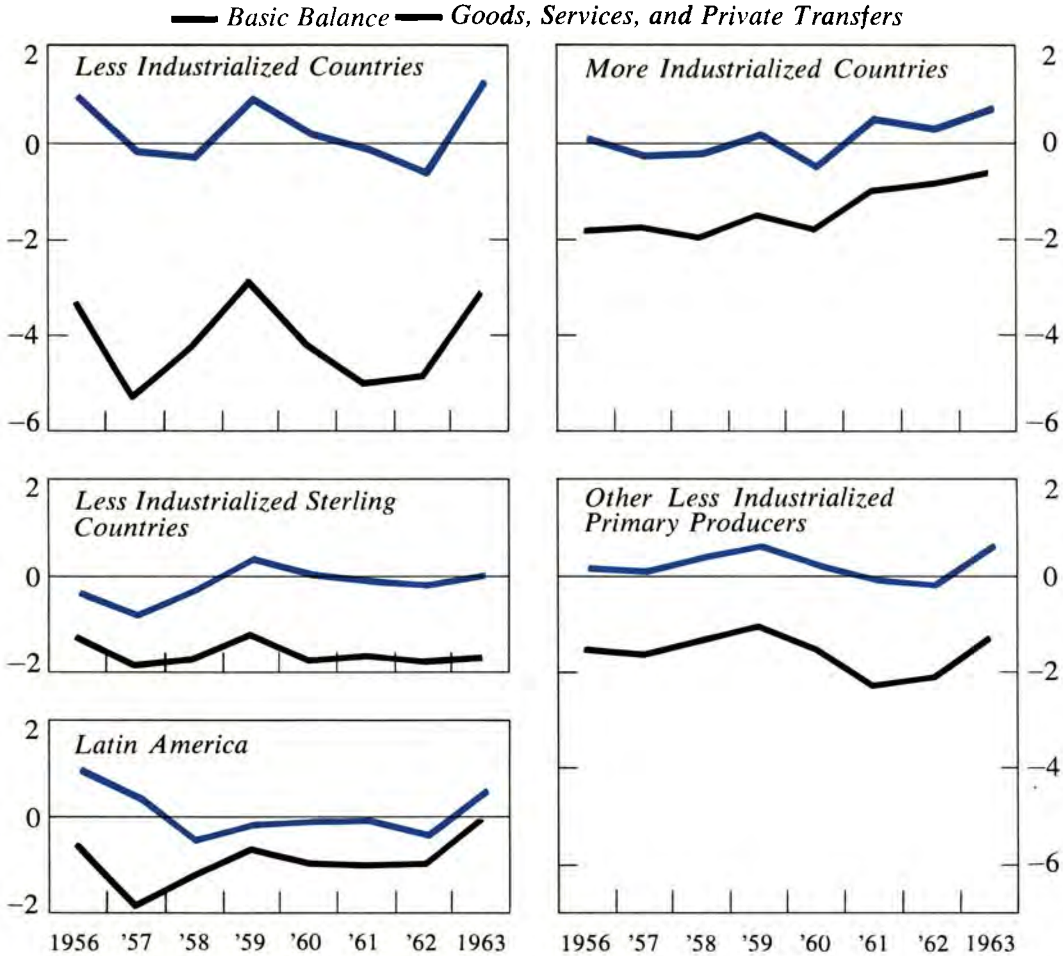
Primary producing countries

Since the sharp rise in the export earnings of the primary producing countries was accompanied by a more moderate increase in their imports, their combined trade balance improved from 1962 to 1963. This is the normal pattern in a period of rising exports, since an increase in exports can

Footnotes to Table 17.
Source: Based on data reported to the International Monetary Fund. For 1963, data for many countries are provisional.
[1] No sign indicates credit; minus sign indicates debit.
[2] Represents net official reserve movements including changes in net IMF position. No sign indicates an increase in assets, a gold subscription to the Fund, a repayment of a drawing on the Fund, another reduction of Fund holdings, or a reduction of other liabilities; minus sign indicates a decrease in assets, a drawing on the Fund, another increase in Fund holdings, or an increase in other liabilities.
[3] Including Basutoland, Bechuanaland Protectorate, and Swaziland.
[4] Fund staff estimate.
[5] Excluding Basutoland, Bechuanaland Protectorate, Cyprus, Hong Kong, Persian Gulf Territories, Sierra Leone, Singapore, and Swaziland.
[6] Malaya only; North Borneo and Sarawak included with U.K. Colonial Territories.
[7] Covering all areas that were colonial territories of the United Kingdom at the end of 1962 except Basutoland, Bechuanaland Protectorate, Hong Kong, Kenya, Northern Rhodesia, Nyasaland, Singapore, and Swaziland.
[8] Includes government transfer payments.
[9] Iran, Iraq, and Saudi Arabia.

CHART 21. PRIMARY PRODUCING COUNTRIES: BALANCES ON ACCOUNT OF GOODS, SERVICES, AND PRIVATE TRANSFERS AND BASIC BALANCES, 1956–63

(In billions of U.S. dollars)



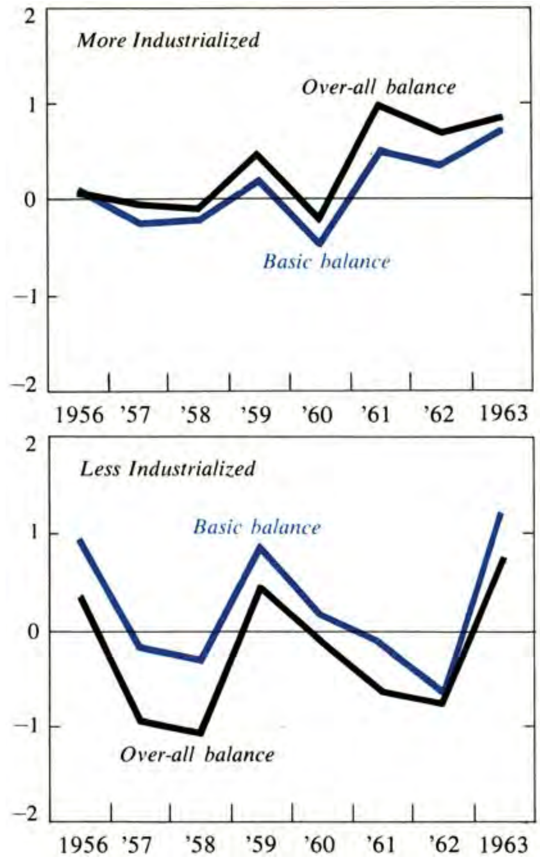
be expected to be followed by an increase in imports only with a certain time lag, whether the level of imports is determined primarily by a free market mechanism or is subject to a high degree of government regulation. The improvement in the trade balance was the major reason for the decrease of about $2.0 billion in the collective deficit on goods and services account of the primary producing countries. Most of the improvement accrued to the less industrialized countries (Groups B, C, and D in Table 17); among the more industrialized countries (Group A in Table 17), variations in the goods and services balances of individual countries tended to cancel out.

Judging from the preliminary figures now available, there was an increase of a few hundred million dollars in the inflow of private long-term capital into the more industrialized countries. This was offset, however, by an almost equivalent change in the opposite direction in short-term capital movements, including unrecorded transactions. The modest rise in the over-all surplus of these countries as a group from 1962 to 1963 was thus about equal to the reduction in the group's goods and services deficit. For the less industrialized countries collectively, a much larger reduction in the goods and services deficit (by almost $1.8 billion) was accompanied by a rise of $0.3 billion in the net inflow on account of governmental transfer payments and capital (representing mainly economic aid). The inflow of private long-term capital appears to have been reduced by about $0.2 billion from the already relatively low level of $1 billion in 1962. There was an apparent increase in outflows on account of short-term capital and unrecorded transactions, which offset part of the improvement in the other accounts. As a result of the changes in all these transactions, the collective over-all balance of the less industrialized countries improved by $1.5 billion. The statistics for the less industrialized countries underlying both Tables 16 and 17 are somewhat tentative; they also fail to cover all such countries. For these countries, the data in the various categories shown in the tables may not, therefore, be fully representative of the less industrialized countries as a group; nevertheless, they are believed to be a reasonably reliable indication of the broader trends in the group's aggregate balance of payments.

For the two groups of primary producing countries and certain subgroups, the collective balances on account of goods and services and on the so-called basic accounts (i.e., goods and services, private long-term capital, and government capital and transfer payments) are shown in Chart 21 for the years 1956-63. A comparison of the over-all balances (including movements of short-term capital and errors and omissions in addition to the transactions entering the basic accounts) with the basic balances for the two main groups during 1956-63 is given in Chart 22. It will be seen that, while the movements of the basic balances and the over-all balances have generally been similar, there has usually been an inflow on account of short-term capital and unrecorded transactions into the more industrialized countries but an outflow from the less industrialized ones. The residual figures for short-term capital and errors and omissions do not, of course, provide a reliable indication of short-term capital movements alone; this is particularly true of the preliminary statistics for 1963. The more complete figures for 1962 that have become available since last year's Annual Report was published have resulted in a downward revision of the residual debit for short-term capital and errors and omissions for the less industrialized countries; and the revised figures suggest that the unrecorded outflow of capital from these countries during 1962 was not nearly so large as the preliminary figures gave reason to suspect.

CHART 22. PRIMARY PRODUCING COUNTRIES: BASIC AND OVER-ALL BALANCES OF PAYMENTS, 1956–63

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



In the two years preceding 1963, the less industrialized countries were generally in deficit, while the more industrialized countries, despite various balance of payments strains, succeeded in improving their reserve positions. Chart 21 and 22 suggest that in 1963 the difference between the two groups was much diminished. Even in 1963, however, considerable dissimilarities become apparent when developments in individual countries are analyzed. In the more industrialized countries, favorable balance of payments positions generally coincided with high and rising levels of activity, considerable freedom in international transactions, and exchange stability. Among the less industrialized countries, on the other hand, there was much greater variety. Between one fourth and one third of these countries were in deficit, and many achieved a surplus only through the intensive application of import and payments restrictions or similar expedients, by depreciating their currencies, or by maintaining domestic activity at an unsatisfactorily low level. Some even incurred deficits in spite of such practices and policies.

In Latin America, for instance, much of the improvement in the area's over-all position is accounted for by two countries—Argentina and Brazil—whose experience in 1963 was far from satisfactory. While the exports of Argentina rose by 12 per cent from 1962 to 1963, most of the improvement in its goods and services balance is attributable to a fall of 28 per cent in its imports. As indicated in the more detailed analysis of Argentina's balance of payments in Chapter 8, the fall in imports in part reflects a depressed level of economic activity, particularly at the beginning of the year, attributable, inter alia, to political uncertainties. The reduction in Brazil's deficit is perhaps more an indication of that country's difficulty in financing a larger one rather than of any improvement in its underlying position. Its exports rose by 16 per cent while its imports remained stationary in spite of sharply rising domestic demands, being checked by a progressive depreciation of the cruzeiro and other changes in the exchange system. The improvement in the goods and services account reflects not only the reduction in the trade deficit but also in part an increase in arrears for interest, dividends, and profits, the remittance of which abroad has been held up under the Remittance of Profits Law. The Government has recently requested the cooperation of its creditors in dealing with the burden of foreign indebtedness.

* * *

It is evident that the balance of payments experience of a number of the less developed countries was far from satisfactory in 1963. Despite the marked improvement in the group's position, many of its members continued to face serious balance of payments problems, and, as indicated in Chapter 6, it remained difficult for most of them to reconcile their targets for economic growth with balance in their international transactions.

Reserve Developments

The rise of $3.4 billion during 1963 in world reserves outside the Sino-Soviet Area was the highest recorded in the postwar period. This is largely explained by two factors: the primary producing countries' balance of payments surplus of $1.6 billion, about $1.4 billion of which appears to have accrued in the form of foreign exchange; and the unusually high increase, $850 million, in world monetary gold holdings (including the holdings of international monetary organizations), which was also a postwar record. As in other years, most of the increase in world monetary gold holdings and of the amount of gold sold abroad by the United States ($392 million) accrued to the other main industrial countries. These countries, as a group, have tended for many years to keep about two thirds of their reserves in gold. In 1963, they added $1,040 million to their gold reserves and $520 million to their official foreign exchange holdings.

TABLE 18. COUNTRIES' OFFICIAL RESERVES, INCLUDING GOLD TRANCHE POSITIONS IN THE INTERNATIONAL MONETARY FUND, END OF CALENDAR YEARS, 1960–63 [1]

(In billions of U.S. dollars)

	1960	1961	1962	1963
Countries				
Main industrial countries	45.69	47.47	47.12	48.37
United States	*19.36*	*18.75*	*17.22*	*16.84*
United Kingdom	*3.72*	*3.32*	*3.31*	*3.15*
Other [2]	*22.61*	*25.40*	*26.59*	*28.38*
Other high income countries [3]	5.28	6.25	7.12	8.34
Other countries	11.75	11.08	11.52	12.48
Total	62.72	64.80	65.76	69.19
Composition				
Gold	38.02	38.85	39.23	40.21
IMF gold tranche positions	3.57	4.16	3.80	3.94
Claims on United States [4]	11.21	11.93	12.35	13.71
Sterling claims on United Kingdom [5]	7.08	7.10	6.21 [6]	6.50
Other [7]	2.84	2.76	4.17 [6]	4.83

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

[1] Excluding the Sino-Soviet Area.

[2] Belgium, Canada, France, Federal Republic of Germany, Italy, Japan, Netherlands, Sweden, and Switzerland.

[3] Other Western European countries, Australia, New Zealand, and South Africa.

[4] Covers short-term liquid liabilities to central banks and governments; foreign official holdings of U.S. Government marketable securities; and foreign official holdings of U.S. Government long-term, nonmarketable securities for those countries that are believed to include such holdings in their reserves figures.

[5] For 1960-61, covers net sterling liabilities to foreign official holders; for 1962-63, covers gross sterling liabilities to foreign central monetary authorities. See also footnote 6.

[6] The change in coverage described in footnote 5 reduces the figure for sterling claims by about $0.6 billion and increases the residual ("other") by the same amount.

[7] Including Euro-dollar claims, non-dollar claims on countries other than the United States, currency deposits with the Bank for International Settlements, and net errors and omissions.

This broad explanation does not cover a number of generally minor movements in monetary gold holdings. Countries made gold payments to the Fund of more than $100 million, mainly as a result of subscriptions and repurchases. (This gold movement was more than offset in national reserves by a somewhat larger increase in aggregate gold tranche positions with the Fund.) On the other hand, there was a decrease of more than $200 million in the net gold holdings of the Bank for International Settlements, an equivalent increase being reflected in national reserves. South Africa added $130 million to its gold reserves, and countries in Western Europe outside the main industrial countries added a little more than $200 million. The generalization above also fails to account for all of the increase in world foreign exchange reserves. Additional factors were increases of more than $100 million in the foreign exchange assets of the United States and of almost $300 million in those of industrial countries included in "other high income countries" in Table 18, a large part of which is attributable to Denmark.

Of the total increase of $3.4 billion in national reserves, about two thirds ($2.3 billion) took the form of foreign exchange assets. The debtors on these increased claims cannot, however, be fully identified from the available statistics. Sterling assets in the form of claims on the United Kingdom rose by about $0.3 billion. Claims on the United States, including $0.5 billion for nonmarketable, medium-term U.S. Government bonds, counted as reserves by the countries holding them, increased by between $1.3 billion and $1.4 billion. Little of the remaining $0.7 billion of the increase can be identified, although some $0.1 billion represents the liabilities corresponding to the increase in the foreign currency holdings of the United States, of which Italian lire apparently formed an important component. One factor contributing to the rest may perhaps be an understatement in U.K. and U.S. statistics of the increase in liabilities to foreign reserve holders, caused by the uncertain classification of liabilities by the foreign sector. Other possible explanations are a reduction in the foreign exchange holdings of countries not included in the statistics (e.g., countries in the Sino-Soviet Area) and an increase in foreign exchange holdings not in the form of dollar claims on the United States or sterling claims on the United Kingdom (e.g., reserves held in the Euro-dollar market).

The increase in reserves during 1963 arose in part from an unusually large surplus accruing to the primary producing countries, which cannot be counted upon to remain a significant source of expansion in international liquidity over the long run. Nevertheless, reserve developments during 1963 were helpful—not so much, perhaps, because they resulted in an exceptionally large increase in world reserves, but because there was an improvement in the distribution of these reserves. Even after the increase, the reserves of the less developed countries generally remained at very low levels.

Chapter 8

Balances of Payments of Selected Countries

IT will be apparent from what has been said in the preceding chapters that the developments in the balances of payments of six countries—the United States, the United Kingdom, Italy, France, the Federal Republic of Germany, and Japan—were of crucial importance in 1963. Chart 23 reflects these developments. This chapter discusses them in some detail, and summarizes very briefly the balances of payments of the other manufacturing countries. The balances of payments of some representative primary producing countries are also surveyed.

United States

Developments in the balance of payments of the United States in 1963 have been dominated by two main influences: a rise in the trade surplus and wide fluctuations in movements of private capital. A very large net outflow of private capital in the first half of the year was followed by a sharp reduction in the second. Government programs to reduce expenditures abroad have also continued to support the balance of payments; in part, this support has taken the form of tying of aid and is reflected in a rise in exports.

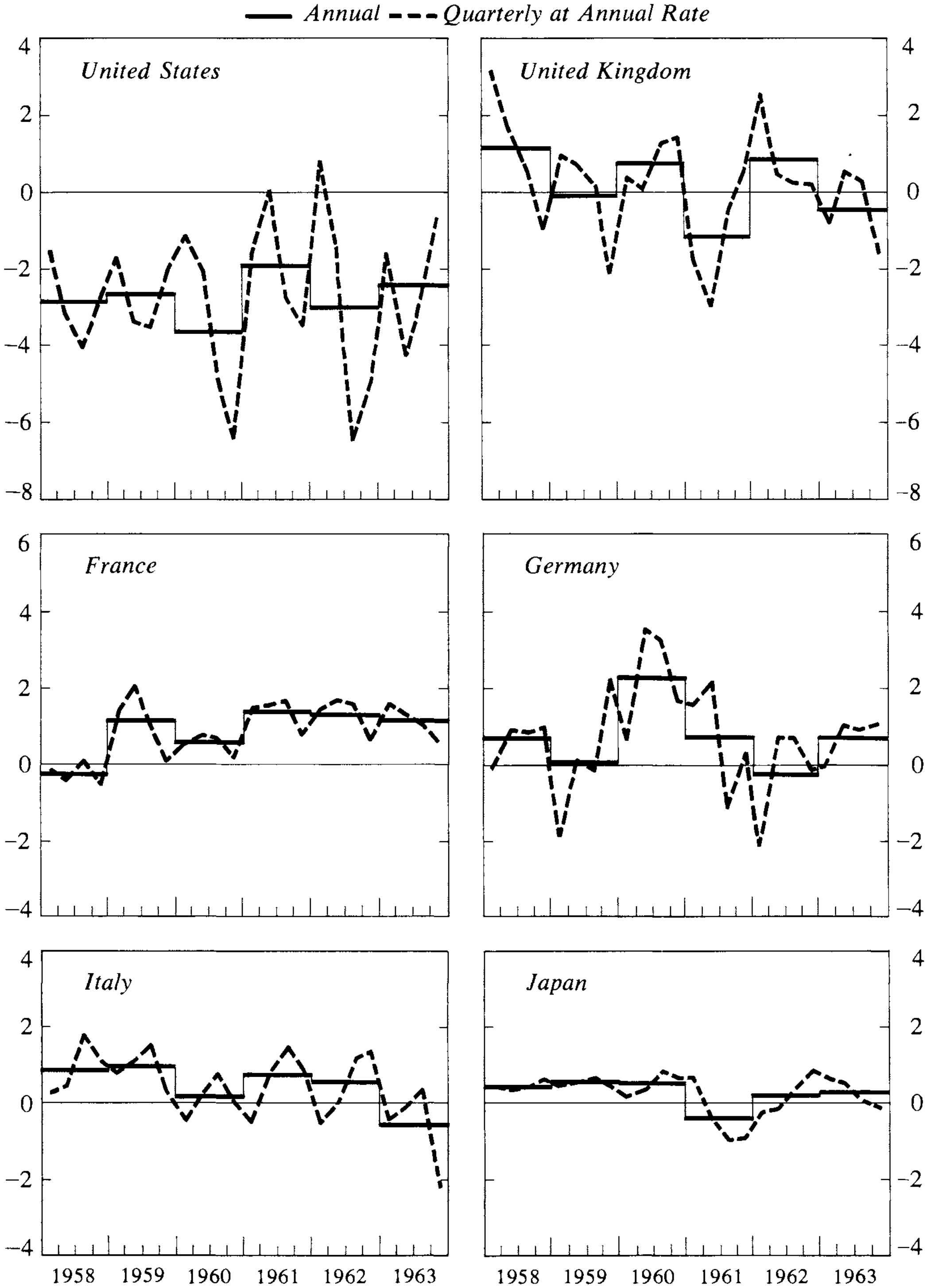
Under the impact of the economic upswing that started three years ago, the trade surplus fell from an annual rate of about $6.5 billion in the trough of the recession to somewhere between $4 billion and $5 billion in the period from the second half of 1961 to the first half of 1963. During this period it exhibited no clear trend. Since then it has steadily risen, and in the first quarter of 1964 it was above the $6.5 billion level of three years earlier. During most of this period, both exports and imports were rising slowly at about the same rate. Since mid-1963, however, there has been a rather sharp rise in exports, while imports have changed only marginally (Table 19). Much of the recent rise in exports comprised agricultural commodities, and it is partially attributable to the poor harvests in 1963 in several countries in Eastern and Western Europe. The failure of imports to rise is probably explained in part by the comparatively slow rate of growth in U.S. industrial output and of inventory accumulation during the second half of 1963. Nevertheless, it is noteworthy that, after three years of sustained growth in the domestic economy, the trade balance is as favorable as it was before the upswing began. During the same period, the rise in income from foreign investments was considerably larger than the net adverse change in other (nonmilitary) services—particularly the rising expenditures for foreign travel.

During the first half of 1963, the outflow of U.S. private long-term and short-term capital reached a peak equivalent to an annual rate of a little more than $5 billion, partly because of an extraordinary volume of new issues of foreign securities, which reached an annual rate of about $2 billion. During the second half of the year, the outflow of capital was much lower—equivalent to about $3 billion annually. Some part of the reduction is attributable to the bill pending before the Congress, proposing an interest equalization tax applicable to foreign securities with certain exceptions (e.g., direct investment and issues by less developed countries); this bill had not been enacted by June 1964. The net outflow on account of new issues and of transactions in foreign securities fell by almost $1 billion from the first to the second half of 1963. However, the outflow of other U.S. long-term capital (excluding direct investment but including bank loans for more than one year, which are not covered by the proposed tax) rose at the same time at an annual rate of $500 million.

Underlying the U.S. program to support the balance of payments has been the policy of

CHART 23. SELECTED MANUFACTURING COUNTRIES: OVER-ALL SURPLUSES AND DEFICITS, 1958–63

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



stimulating growth under conditions of price stability and maintaining short-term interest rates at levels not conducive to large outflows of interest-sensitive funds. There have also been programs to promote exports and to reduce the effect of government expenditure abroad on the balance of payments, e.g., through tying of aid to purchases in the United States. Efforts to curtail military expenditures have been counteracted by a tendency for prices to rise in several overseas countries where U.S. troops are stationed; such expenditures, at a little less than $3 billion, were only marginally lower in 1963 than they had been three years earlier. At the same time, however, military receipts have increased, mainly in respect of equipment made available to other countries, and a further reduction in military expenditures net of such receipts is anticipated. The reduction in net cash foreign expenditures for military purposes between 1960 and 1963 totaled about $800 million. In addition, government-financed exports rose by about $800 million during this period.

The over-all U.S. deficit, as measured by Group F in Table 19, was not much changed from 1962 to 1963, but the outflow of gold was reduced from

TABLE 19. UNITED STATES: BALANCE OF PAYMENTS SUMMARY, 1962–FIRST QUARTER 1964 [1]

(In millions of U.S. dollars)

	1962	1963	1963 First quarter	1963 Second quarter	1963 Third quarter	1963 Fourth quarter	1964 [2] First quarter
A. Goods, Services, Aid, and Long-Term Capital							
Main categories, seasonally adjusted, excluding advance debt repayments							
Exports financed by government grants and capital	2,363	2,720	579	815	633	693	617
Other exports f.o.b.	18,213	19,218	4,405	4,644	4,964	5,205	5,470
Imports f.o.b.	−16,134	−16,931	−4,017	−4,197	−4,353	−4,364	−4,347
Trade surplus	4,442	5,007	967	1,262	1,244	1,534	1,740
Net military expenditures	−2,388	−2,263	−566	−525	−619	−553	−507
Other services, remittances, and pensions	2,271	1,943	509	418	485	531	743
Government grants and capital	−3,694	−3,879	−900	−1,177	−826	−976	−735
Private long-term capital	−2,609	−3,188	−1,098	−910	−380	−800	−672
U.S. direct investment abroad	*−1,654*	*−1,862*	*−581*	*−451*	*−236*	*−594*	*−463*
New foreign security issues	*−1,076*	*−1,269*	*−481*	*−518*	*−183*	*−87*	*−132*
Transactions in outstanding foreign securities	*−96*	*−6*	*−59*	*−68*	*32*	*89*	*99*
Redemptions and other U.S. long-term capital	*−55*	*−369*	*24*	*−77*	*−61*	*−255*	*−188*
Foreign long-term capital	*272*	*318*	*−1*	*204*	*68*	*47*	*12*
Total	−1,978	−2,380	−1,088	−932	−96	−264	569
Seasonal influences	—	—	200	87	−644	357	82
Advance debt repayments	681	326	25	34	241	26	54
Total	−1,297	−2,054	−863	−811	−499	119	705
B. Unrecorded Transactions	−1,111	−286	26	112	−277	−147	42
C. Short-Term Capital, n.i.e.							
U.S. private assets	−553	−696	61	−532	121	−346	−630
Prepayments for military equipment	470	359	20	−5	105	239	140
Other foreign nonliquid capital	37	76	−12	53	51	−16	5
Foreign liquid capital	342	156	11	69	78	−2	−52
Total	296	−105	80	−415	355	−125	−537
D. Liquid Liabilities to Foreign Commercial Banks	−129	438	386	75	−31	8	322
E. Total (B through D)	−944	47	492	−228	47	−264	−173
F. Reserves and Related Items							
Liquid liabilities to central banks and governments [3]	708	1,629	339	915	225	150	−481
U.S. convertible currency holdings (increase —)	17	−113	−33	6	−28	−58	−228
IMF position (increase —)	626	30	−46	2	59	15	131
Gold sales	890	461	111	116	196	38	46
Total	2,241	2,007	371	1,039	452	145	−532
Memorandum item: reduction in monetary reserve assets and increase in liquid liabilities, seasonally adjusted [4]	2,203	2,644	1,072	1,300	132	140	42

Source: U.S. Department of Commerce, *Survey of Current Business,* June 1964.
[1] No sign indicates credit; minus sign indicates debit.
[2] Preliminary.
[3] Changes in foreign official holdings of U.S. Government nonmarketable, medium-term, inconvertible securities (credit of $251 million for the fourth quarter of 1962 and $63 million for the first quarter of 1963 and debit of $10 million for the second quarter, $95 million for the third quarter, and $1 million for the fourth quarter of 1963, and $55 million for the first quarter of 1964) are included with liquid liabilities.
[4] Excluding the U.S. Government securities referred to in footnote 3.

about $900 million to about half this amount. One of the factors underlying this change was a much larger increase in world monetary gold holdings in 1963 than in 1962. Foreign monetary authorities were thus able to convert larger amounts of dollar reserves into gold through purchases from other sources, rather than from the U.S. Treasury. At least as important was the change in the distribution of balance of payments surpluses and deficits, a large share of the surplus accruing in 1963 (but not in 1962) to the primary producing countries, which keep a comparatively high proportion of their reserves in foreign exchange rather than in gold. Part of the accumulation of reserves in some European countries took the form of nonmarketable U.S. Government securities.

The outlook for the U.S. balance of payments early in 1964 appeared more favorable than it had been for many years. Exports were, of course, being supported by some transitory factors, and some rise in imports appeared likely with the acceleration of the rise in economic activity expected to result from the tax cut effective from March 1. Nevertheless, prospects for the trade balance appeared good, the U.S. competitive position having been strengthened by considerable rises in costs in many of the other industrial countries since 1959. Although economic activity was rising at a substantial rate, pressures on capacity were not in sight. Further economies could be expected from programs to reduce government expenditures abroad. Finally, the capital account was being increasingly supported by three years of sustained growth under conditions of monetary stability, as well as by increasing confidence in the U.S. dollar.

United Kingdom

In the United Kingdom, the current account was in surplus for the second successive year (Group A in Table 20). Between 1962 and 1963, exports rose slightly more than imports. Exports responded to the stimulus of the large increase in world trade and rose by 7 per cent between 1962 and 1963. This expansion coincided with an upturn in domestic demand, fostered by official measures taken in the second half of 1962 and early in 1963. The general upturn in activity, supported by an accumulation of inventories on a considerable scale in the closing months of 1963, caused imports to rise throughout the year. Indeed, imports rose at a faster pace than exports during much of 1963, even though prices and wages rose less in the United Kingdom than in most other industrial countries outside North America. As a result, the seasonally adjusted current account surplus, which had been running at an annual rate of close to $800 million in the first quarter of the year, dwindled to a small figure by the fourth quarter. The net export of long-term capital increased in 1963 to a level approaching that of the late 1950's, in contrast to 1961 and 1962, when special factors and conditions reduced the net outflow. In spite of this shift, the recorded current and long-term capital accounts were in broad balance in 1963, as they had been in 1962 (item C in Table 20). However, the balance of recorded long-term capital movements also deteriorated in the seasonally less favorable second half of the year, and the combined balance on current and capital accounts changed from a surplus in the first half to a deficit in the second half.

Short-term capital movements are hard to assess, but there is little evidence of any appreciable flows of funds through the exchanges after a period early in 1963, when sterling was under speculative pressure following the cessation of the negotiations between the United Kingdom and the European Economic Community. The covered margin between U.K. and U.S. Treasury bills was broadly neutral during 1963 apart from this period (see above, p. 57). Nevertheless, there was a large unrecorded debit in 1963, which may have been associated with increases in export credits, as well as with the fact that monetary and credit conditions in the United Kingdom were relatively easy at a time when there was a fairly general tightening in the credit situation in some other financial centers. In the last quarter of the year unrecorded transactions nearly always show a sizable debit balance, at a time when the deficit on other accounts is swollen by the seasonal payments on U.S. and Canadian loans. This pattern was repeated in 1963, so that the over-all balance of payments, as measured by Group F in Table 20, was in deficit in the last quarter. There was also an over-all deficit for the year as a whole, but its impact on reserves was mitigated by a build-up of foreign sterling reserves. Rising prices for a number of commodities, combined with a further large increase in the inflow of capital, enabled the over-

TABLE 20. UNITED KINGDOM: BALANCE OF PAYMENTS SUMMARY, 1962–FIRST QUARTER 1964[1]

(In millions of U.S. dollars)

	1962	1963	1963 First quarter	1963 Second quarter	1963 Third quarter	1963 Fourth quarter	1964[2] First quarter
A. Goods, Services, and Transfer Payments							
Exports f.o.b., seasonally adjusted	11,175	11,967	2,892	2,965	3,035	3,075	3,097
Imports f.o.b., seasonally adjusted	−11,365	−12,090	−2,836	−2,979	−3,108	−3,167	−3,396
Trade balance, seasonally adjusted	−190	−123	56	−14	−73	−92	−299
Services and transfer payments, seasonally adjusted	476	462	143	98	112	109	126
Total, seasonally adjusted	286	339	199	84	39	17	−173
Seasonal influences	—	—	19	106	−117	−8	−14
Total, unadjusted	286	339	218	190	−78	9	−187
B. Capital Movements, n.i.e.							
Official long-term	−294	−294	−28	−28	−70	−168	−78
Official liabilities to nonmonetary international institutions	72	44	6	—	−12	50	−5
Private long-term							
Investment abroad (net)	−725	−924	−232	−249	−227	−216	−272
Investment in U.K. (net)	770[3]	806	112	291	218	185	95
Total	−177	−368	−142	14	−91	−149	−260
C. Total (A plus B)	109	−29	76	204	−169	−140	−447
D. Errors and Omissions	240	−358	—	−139	−55	−164	249
E. Private Short-Term Capital Movements, n.i.e.							
Miscellaneous capital	} 322[3]	−93	−79	−17	11	−8	−48
Foreign currency liabilities (net)		−49	46	−58	−31	−6	98
Sterling holdings other than Group F							
Sterling area countries	238[3]	92	−3	81	157	−143	34
Other countries	−67[3]	−22	−288	53	146	67	−95
Total	493	−72	−324	59	283	−90	−11
F. Official Monetary Movements							
IMF position	−1,060	14	—	8	6	—	−1
European central bank assistance	—	—	250	−250	—	—	—
Sterling holdings of overseas central monetary institutions							
Sterling area countries	−115[3]	370	118	126	−31	157	115
Other countries	−182[3]	−73	−112	−109	−11	159	98
U.K. gold and currency reserves (increase —)							
Gold	−314	98	135	—	−59	22	25
Foreign currencies	829	50	−143	101	36	56	−28
Total	−842	459	248	−124	−59	394	209

Source: Central Statistical Office, *Economic Trends*.
[1] No sign indicates credit; minus sign indicates debit.
[2] Preliminary.
[3] Data are not fully comparable with those for later periods because of reclassifications. In particular, official sterling holdings in 1962 cover the holdings of all official institutions overseas.

seas sterling area not only to add to its sterling holdings on an appreciable scale, but also to increase its holdings of gold and non-sterling convertible currencies.

In the first quarter of 1964, the current account went into deficit, as a result of a further substantial rise in imports coinciding with little change in exports. The deficit on account of long-term capital transactions also accelerated. These adverse developments were not, however, reflected in reserves, which benefited from the favorable balance of payments of overseas sterling area countries with non-sterling countries and from an increase in commercial banks' net liabilities in foreign currencies; also, unrecorded transactions were more favorable than is usual in this quarter.

Sterling, after holding steady for almost a year, came under short-lived pressure in February 1964. On February 27, the bank rate was raised from 4 per cent to 5 per cent, mainly to help to moderate the pace of expansion, but also in the hope that it might lead to a more appropriate pattern of short-term rates. The U.K. authorities have stated that the rise in the bank rate was not intended to attract short-term funds across the exchanges.

Italy

The present balance of payments problem of Italy is of relatively recent origin. During the period 1958-62 (Chart 23), the Italian balance of payments generally showed surpluses; these were in large part attributable to a number of structural factors, which were discussed in the Annual Report for 1960 (p. 98). The slow rise in wages up to 1961, which helped both to encourage exports and to lessen the rate of growth of imports, was partly the result of a comparatively high level of unemployment—and underemployment—in agriculture. This, however, was progressively reduced as a result both of migrations to other countries and of Italy's own high rate of economic expansion. Gradually the rapid expansion internally, together with large-scale employment of Italian workers in other European countries, gave rise to upward pressures on incomes and prices. These in turn led to a weakening of the current account of the balance of payments (Group A in Table 21), particularly through a rise in imports. The process has now reached the point where structural influences are operating to worsen the payments position. Not only does the reduction in unemployment increase pressure for upward wage adjustments, but the rise in real income creates sharply rising demands for certain types of consumption, notably higher quality foodstuffs and consumer durables. For the former, Italian production and distribution are not yet rationalized; the latter used to a substantial degree to be exported.

A major deterioration of the current account balance set in during 1962 and continued in 1963 (Table 21) as the rise in money incomes and prices accelerated. The balance of payments problem was further compounded by large and increasing outflows of private capital (excluding net borrowing by the commercial banks, but including unrecorded transactions—see Group B in Table 21), attributable to several causes: political factors, uncertainty among investors caused by the nationalization of the assets of the electricity industry, and the imposition of a withholding tax on dividends (the latter two measures becoming effective from January 1, 1963). Between November 1962 and September 1963 the deficit on all these accounts was met by an inflow of funds

TABLE 21. ITALY: BALANCE OF PAYMENTS SUMMARY, 1962–FIRST QUARTER 1964 [1]

(In millions of U.S. dollars)

	1962	1963	1963 [2] First quarter	1963 [2] Second quarter	1963 [2] Third quarter	1963 [2] Fourth quarter	1964 [2] First quarter
A. Goods, Services, and Transfer Payments							
Exports f.o.b.[3]	4,582	4,969	1,179	1,240	1,259	1,291	1,333
Imports f.o.b.[3]	−5,459	−6,776	−1,473	−1,653	−1,809	−1,841	−1,811
Trade balance	−877	−1,807	−294	−413	−550	−550	−478
Transportation and merchandise insurance [3]	−100	−172	−18	−42	−63	−49	−18
Travel [3]	724	749	187	199	189	174	172
Workers' earnings [3]	287	299	68	99	94	38	78
Other services [3]	−34	−15	−2	−38	21	4	−27
Private transfers	347	321	73	82	61	105	66
Official transfers	−53	−32	−8	−8	−8	−8	−3
Total, seasonally adjusted	294	−657	6	−121	−256	−286	−210
Seasonal influences	—	—	−200	−97	280	17	−215
Total, unadjusted	294	−657	−194	−218	24	−269	−425
B. Capital Movements (excluding Groups D, E, and F) and Net Errors and Omissions							
Remittances of Italian banknotes	−766	−1,470	−525	−492	−160	−293	−262
Foreign investments in Italy	880						246
Italian investments abroad	−428	879	451	298	24	106	−29
Other and net errors and omissions	71						33
Total	−243	−591	−74	−194	−136	−187	−12
C. Total (A plus B)	51	−1,248	−268	−412	−112	−456	−437
D. Commercial Banks' Net Foreign Assets (increase —)	430	650	154	383	202	−89	−197
E. Advance Repayment of Foreign Debt	−179	—	—	—	—	—	—
F. Official Monetary Movements							
IMF position	40	−23	—	—	−15	−8	225
Gold and free exchange (increase —)	−22	384	115	8	−115	376	233
Other foreign assets of UIC and Bank of Italy (increase —)	−320	237	−1	21	40	177	176
Total	−302	598	114	29	−90	545	634

Source: Ufficio Italiano dei Cambi, *Movimento Valutario*, and Bank of Italy.
[1] Current items (Group A) are on a transactions basis; all other items are on a payments (exchange record) basis. No sign indicates credit; minus sign indicates debit.
[2] Preliminary.
[3] Seasonally adjusted.

borrowed by Italian commercial banks, mainly in the Euro-dollar market. After the third quarter of 1963, however, the banks were ordered not to increase their borrowings abroad, and were requested to reduce, where possible, their net foreign liabilities. Since then the reserves have declined markedly, while the authorities have also made use of other types of compensatory financing, including swap facilities and other inter-central-bank borrowing. In March 1964 the Italian authorities negotiated a total of about $1 billion of foreign credits and similar facilities, including $450 million of medium-term credits made available by the United States. Italy also drew $225 million within its gold tranche at the Fund. Part of the recent decline in reserves is attributable to repayment of foreign credits by the commercial banks, but preliminary balance of payments statistics for the first quarter of 1964 indicate that it is mainly the result of a continuation of a substantial current account deficit.

The deficit on current account (including all transfer payments) in 1963 exceeded $600 million, and the outflow of capital (Group B in Table 21) reached about the same total. Both were undoubtedly influenced by some temporary unfavorable factors, and the sum of the two cannot be regarded as a reasonable indication of the magnitude of the underlying balance of payments problem that was in evidence during 1963. Imports were higher than usual because of poor harvests in 1962 and 1963. (A more favorable harvest is in prospect for 1964.) The outflow of capital was also much larger than could normally be expected; in fact, given the restoration of confidence and monetary stability, Italy is likely once again to become a net importer of capital.

In addition to tightening bank credit, beginning in 1963, the Italian authorities have introduced since the autumn of that year a series of fiscal measures to slow down the rise in demand and prices. In September and October 1963, indirect taxes on certain luxury items were raised, measures were taken to encourage the expansion of exports, and rent control was imposed for two years. It was also decided to avoid any increases in government expenditure and to reduce the budget deficit. A special purchase tax was levied in February 1964 on motorcars and pleasure craft, gasoline taxes were increased, and strict hire-purchase restrictions were imposed on a wide variety of consumer durable goods. In an attempt to revive the capital market, stamp duties on stock exchange transactions were reduced, and the system of taxing dividends was amended. By these means, and in conjunction with a tight control over the supply of credit, the Italian authorities hope to prevent further deterioration in the current account of the balance of payments in 1964 and to stem the outflow of capital. The official forecast of the 1964 current deficit is that it will be of the same order of magnitude as last year.

France

After the depreciation of the French franc and the adoption of stabilization measures late in 1958, the balance of payments of France remained exceptionally strong for several years. It was only during the latter part of 1963 and early in 1964 that signs of an adjustment to a more balanced position became convincing. At that time weakening of the surplus position was associated with inflationary tendencies in the French economy, which became stronger in 1963 as the year progressed. For the year as a whole, the growth in total demand clearly exceeded that in output. As upward pressure on domestic prices intensified late in the year, the current account of the balance of payments including all transfer payments—Group A in Table 22—changed from surplus to deficit. The main factor was a sharp rise in imports from the non-franc area.

For 1963 as a whole, the current surplus with the non-franc area, as provisionally estimated, fell to about half the annual rate of the high and rather steady surpluses for the four preceding years, which averaged about $800 million. However, as in other recent years, the current surplus was accompanied by a large net inflow of private capital, which even rose slightly from 1962 to 1963. Allowing for the fact that most of the errors and omissions item (a relatively substantial credit in the provisional estimates for 1963) is probably appropriate to current account and private long-term capital transactions, the combined surplus on these accounts appears to have been of the order of $1 billion, or only about $200 million less than in 1962. On the other hand, the outflow of official

TABLE 22. FRANC AREA: BALANCE OF PAYMENTS SUMMARY, 1962 AND 1963[1]

(In millions of U.S. dollars)

	1962	1963	1963[2] First quarter	1963[2] Second quarter	1963[2] Third quarter	1963[2] Fourth quarter
A. Goods, Services, and Transfer Payments						
Exports f.o.b.	5,849	6,693	1,555	1,628	1,606	1,694
Imports f.o.b.	−5,364	−6,574	−1,524	−1,616	−1,508	−1,808
Trade balance	485	119	31	12	98	−114
Services	323	232	78	89	7	61
Transfer payments	20	89	−7	36	14	30
Total	828	440	102	137	119	−23
B. Private Long-Term Capital						
Foreign direct investment in France	251	205	46	37	38	64
Other foreign capital	214	244	61	74	60	34
French direct investment abroad	−49	−91	−30	−9	−16	−23
Other French capital	−14	143	36	53	26	24
Total	402	501	113	155	108	99
C. Official Long-Term Capital						
Advance debt redemption	−583	−281	—	−61	−220	—
Other official	−139	−148	−32	−36	−58	−23
Total	−722	−429	−32	−97	−278	−23
D. Total (A through C)	508	512	183	195	−51	53
Total, excluding advance debt redemption	*1,091*	*793*	*183*	*256*	*169*	*53*
E. Private Short-Term Nonmonetary Capital						
Operations pending settlement	42	−47	−60	19	23	−11
Other	−114	−76	−1	1	−35	−39
Total	−72	−123	−61	20	−12	−50
F. Total (D plus E)	436	389	122	215	−63	3
G. Net Transactions of Overseas Franc Area	150	138	50	23	9	50
H. Net Errors and Omissions	12	127	44	93	42	65
I. Commercial Bank Short-Term Capital[3]						
Liabilities	283	391	333	71	152	−14
Assets (increase —)	−195	−189	−189	−79	−121	50
Total	88	202	144	−8	31	36
J. Official Monetary Movements						
IMF position	−12	−12	—	3	−10	−5
Other liabilities	−13	−39	−10	5	−8	−18
Foreign exchange (increase —)	−195	−217	−228	−226	215	14
Monetary gold (increase —)	−466	−588	−122	−105	−216	−145
Total	−686	−856	−360	−323	−19	−154

Source: Data provided by the French authorities.

[1] Groups A through F cover settlements on account of transactions of Metropolitan France with the non-franc area, while Group G covers the net impact of all similar settlements on account of the rest of the franc area, including changes in its foreign exchange assets and liabilities vis-à-vis the non-franc area. Groups I and J 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. No sign indicates credit; minus sign indicates debit.

[2] Preliminary. The figures for the full year 1963 differ somewhat from the corresponding totals of the quarterly figures because certain adjustments are made to the annual figures but not to the quarterly data.

[3] Commercial bank long-term capital is included in private long-term capital (Group B).

(government) capital was substantially lower than in 1962 as advance debt repayments were reduced. As a result, the increase in French reserves ($856 million, including the IMF gold tranche position) was some $170 million higher than the year before.

In the first few months of 1964 the continuing excess demand was reflected in a further rapid rise in imports and in a moderate deficit on current account. Since the restrictive policies adopted by the French authorities are expected to bring about a slowing down of the rate of growth of imports later in the year, a small deficit—or even a close balance—of the current account is officially forecast for the whole of 1964. Any deficit, however, is expected to be more than offset by the continuing inflow of private capital and a reduced outflow of official capital. Official reserves increased by about $225-250 million during the first five months of 1964, and while this is a significant reduction from the increases in reserves recorded in the last few years, the balance of payments position of France remained strong.

Federal Republic of Germany

A major balance of payments surplus (as measured by Group F in Table 23) emerged in Germany in the course of 1963. Initially, the surplus arose from a massive inflow of private capital, mainly through purchases of German securities. These purchases were encouraged by relatively high yields and, probably, by the desire of certain foreign investors to seek a safe haven for flight funds. Later, a progressive improvement in the balance on current account (Group A in Table 23) was a contributory factor, in large part as a consequence of renewed inflationary pressures in a number of European countries. For example, exports to Italy, where inflationary pressures have been particularly strong, were one third higher in 1963 than in 1962, but imports from that country fell by 1 per cent. Similarly, exports to France rose by 18 per cent between 1962 and 1963, while imports rose by only 4 per cent. Compared with other recent years, German exports were generally favored by the less rapid growth of internal demand in Germany. This has moderated the upward movement of domestic prices and wages, and appears to have induced entrepreneurs in many industries to intensify foreign sales. At the same time, the better competitive position of German industry, particularly as regards delivery time, has caused some slowdown in the growth of imports. The small size of the increase in imports in 1963 was partly attributable to a better harvest in 1962 than in 1961. Expenditures abroad by German tourists rose very little in 1963, following very sharp increases in preceding years, while tourist expenditures in Germany increased. This trend can also be ascribed partly to divergent price trends in Germany and other tourist countries.

The balance of payments position of Germany appeared very strong early in 1964. Export orders pointed to a continuation of a high level of export shipments for some time. A relatively good harvest in 1963 was keeping imports of farm products from rising sharply, and industrial imports were rising considerably less than exports despite a resumption of faster domestic growth. The proposed introduction of a 25 per cent withholding tax on the income from German fixed-interest-bearing securities owned by nonresidents may reduce somewhat the attractiveness of foreign security purchases in Germany. Such action had been suggested to Germany by a number of countries which impose similar taxation on nonresidents. Similarly, measures taken in March by the Deutsche Bundesbank against short-term inflows may also help to reduce the capital inflow. These measures comprised increases up to their legal maximum in the minimum reserve requirements against foreigners' deposits, and prohibition of the payment of interest on time deposits by nonresidents. At the same time, the proposal to abolish the 2½ per cent tax for domestic and foreign bond issues as well as for foreign share issues may also contribute to increase capital exports. Furthermore, the proposed 25 per cent withholding tax for nonresidents is not intended to apply to income from foreign bonds issued in Germany. In the first four months of 1964 foreign bond issues were larger than total issues in 1963. The recent reintroduction of swap transactions by the Deutsche Bundesbank, whereby commercial banks hold U.S. Treasury bills to the same amount, is apparently intended to eliminate part of the domestic impact of the surplus. Looking further ahead, effective measures taken in other European countries to combat inflation and protect balances

TABLE 23. FEDERAL REPUBLIC OF GERMANY: BALANCE OF PAYMENTS SUMMARY, 1962–FIRST QUARTER 1964 [1]

(In millions of U.S. dollars)

	1962	1963	1963 First quarter	1963 Second quarter	1963 Third quarter	1963 Fourth quarter	1964 First quarter
A. Goods, Services, and Transfer Payments							
Exports f.o.b.	13,236	14,567	3,225	3,626	3,658	4,058	3,888
Imports c.i.f.	−12,263	−12,994	−3,021	−3,316	−3,325	−3,332	−3,272
Other merchandise	−227	−104	−34	−26	−33	−11	−59
Trade balance	746	1,469	170	284	300	715	557
Paid services to foreign troops	1,075	1,072	267	263	258	284	249
Other services	−1,092	−1,082	−191	−299	−377	−215	−234
Total goods and services	729	1,459	246	248	181	784	572
Transfer payments	−1,282	−1,239	−325	−327	−323	−264	−274
Total	−553	220	−79	−79	−142	520	298
B. Long-Term Capital							
Bonds	157	443	99	92	132	120	
Shares	40	154	36	80	35	3	108
Other private long-term capital	63	188	51	71	42	24	
Advance debt redemption	—	—	—	—	—	—	—
Other government long-term capital	−296	−295	−38	−70	−64	−123	−49
Repayments on post-EPU claims	36	36	3	3	27	3	3
Other Bundesbank assets (increase —)[2]	6	4	1	−5	7	1	2
Total	6	530	152	171	179	28	64
C. Total (A plus B)	−547	750	73	92	37	548	362
Total, excluding certain extraordinary transactions [3]	*−589*	*710*	*69*	*94*	*3*	*544*	*357*
D. Short-Term Capital (excluding Groups E and F) and Net Errors and Omissions							
Government	29	−79	29	73	143	−324	−93
Commercial bank credits (net)	−96	32	−97	−29	102	56	−153
Other	105	5	182	−11	11	−177	173
Net errors and omissions	231	−132	84	82	52	−350	212
Total	269	−174	198	115	308	−795	139
E. Commercial Banks' Liquid Foreign Assets (net)							
Foreign exchange (increase —)	67	−73	−223	−56	−62	268	−235
Foreigners' deposits	−8	217	−65	109	−61	234	−167
Total	59	144	−288	53	−123	502	−402
F. IMF Position and Net Reserves							
IMF position	120	−35	−2	—	−25	−8	−92
Bundesbank liabilities [4]	5	−29	19	−7	−25	−16	8
Foreign exchange (increase —)[5]	110	−491	70	−248	−164	−149	95
Monetary gold (increase —)	−16	−165	−70	−5	−8	−82	−110
Total	219	−720	17	−260	−222	−255	−99

Source: Deutsche Bundesbank, *Monthly Report,* May 1964.
[1] No sign indicates credit; minus sign indicates debit.
[2] Covers IBRD bonds and notes and repayments received on consolidated credits and other Bundesbank assets of limited usability.
[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 (see footnote 2). 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 (a credit for the second quarter of 1963 and a debit for the third quarter of 1963, each of $5 million).
[5] Foreign exchange covers freely usable foreign exchange and earmarked assets.

of payments could, of course, affect the German balance of payments position to an important degree.

Japan

The balance of payments of Japan has exhibited large swings in the postwar period, but has tended to be in surplus over the long run. Investment booms led to deficits in 1957 and 1961, giving rise to substantial adjustments in the domestic economy, which temporarily brought the steep rise of industrial production to a halt. After the 1957 balance of payments crisis, Japan experienced three years of rapid economic growth with only a moderate rise in prices and wages and its balance of payments was in substantial surplus. Since then, wages and prices have risen more rapidly. While industrial production again started to expand at a high rate after the slowing down associated with the 1961 crisis, the balance of payments problem arose again in the second half of 1963, only two years after the crisis of 1961. Moreover, whereas during the years 1958-60 and

1962 Japan had surpluses on current account, it has subsequently become dependent on an inflow of capital (Groups B and F in Table 24). Much of the recent inflow has been in the form of borrowing from foreign commercial banks, including import usance facilities.

In 1963 the rise in exports moderated, although remaining substantial, and barely kept pace with that in imports (Table 24). The current account (Group A in Table 24), which had been in surplus in the second half of 1962 (and showed a very small surplus for 1962 as a whole), turned into deficit in 1963. The deficit on current account was, however, considerably smaller than the inflow of capital (including the change in the net liabilities of the commercial banks). As a result, reserves were slightly higher at the end of the year than at the beginning, even though the

TABLE 24. JAPAN: BALANCE OF PAYMENTS SUMMARY, 1962 AND 1963

(In millions of U.S. dollars)

	1962	1963[2]	1963[2] First quarter	1963[2] Second quarter	1963[2] Third quarter	1963[2] Fourth quarter
A. Goods, Services, and Private Transfer Payments						
Exports f.o.b.	4,861	5,390	1,114	1,278	1,412	1,586
Imports f.o.b.	−4,459	−5,544	−1,229	−1,384	−1,408	−1,523
Trade balance	402	−154	−115	−106	4	63
Special government receipts[3]	377	356	85	91	90	90
Other services and private transfer payments	−743	−897	−201	−205	−230	−261
Total	36	−695	−231	−220	−136	−108
B. Private Long-Term Capital						
Direct investment	−19	−21	10	8	−4	−35
Other	167	513	82	231	93	107
Total	148	492	92	239	89	72
C. Central Government Transfer Payments and Nonmonetary Capital						
Reparations and loans extended	−81	−125	−40	−30	−28	−27
IBRD loans received (net)	50	32	11	12	5	4
Other[4]	−43	−32	−6	−8	−8	−10
Total	−74	−125	−35	−26	−31	−33
D. Total (A through C)	110	−328	−174	−7	−78	−69
E. Net Errors and Omissions	5	62	84	−36	46	−32
F. Private Short-Term Capital						
Nonmonetary sector	108	97	18	19	31	29
Commercial banks						
Liabilities	101	854	165	260	114	315
Assets (increase —)	−87	−438	60	−114	−110	−274
Total	122	513	243	165	35	70
G. Treasury and Bank of Japan Monetary Capital and Gold						
Liabilities[4]	101	−224	−133	−89	−1	−1
Payments agreements	16	14	2	6	2	4
Official reserves (increase —)	−354	−37	−22	−39	−4	28
Total	−237	−247	−153	−122	−3	31

Source: Data provided by the Japanese authorities.
[1] No sign indicates credit; minus sign indicates debit.
[2] Preliminary.
[3] Including sales to U.S. and UN forces under the special procurement program.
[4] Yen subscription, other than the amount immediately converted into dollars, to the International Development Association ($6.5 million for 1962) and the corresponding increase in liabilities are excluded from this table.

monetary authorities had repaid $225 million of foreign credits. The proposal of a U.S. interest equalization tax in July limited the possibilities of long-term borrowing in the U.S. market, but Japan has increasingly resorted to borrowing from U.S. banks, and had also placed a considerable amount of new issues in Europe (Germany, Switzerland, and the United Kingdom) by the end of 1964.

In the current upswing, the Japanese Government took measures earlier than on similar previous occasions to prevent the boom from becoming excessive and to protect the balance of payments. Indications in the first quarter of 1964 were that the deterioration in the current account balance had continued, mainly because of the increase in imports. There have, however, been signs of improvement in the trade balance as a result of a series of tight money measures introduced since the end of 1963. One factor which supported the Japanese balance of payments was that economic conditions appeared favorable in Japan's main export markets, such as the United States, in contrast to those which prevailed when the 1961 Japanese balance of payments crisis was developing.

Other Manufacturing Countries

The balances of payments of the other manufacturing countries in 1962 and 1963 are recorded in summary form in Table 25. It will be seen that there were generally only quite small changes in the balance of payments of these countries on current and long-term account excluding certain extraordinary transactions (Column 5 in Table 25), and also only rather small imbalances on these accounts in 1963. The main exception was Denmark, whose balance of payments improved markedly, largely as a result of the changes in its trade mentioned in the preceding chapter. There was a slowdown in the reserve accumulation of Austria, in part related to the developments in its trade also discussed in Chapter 7. An accumulation of reserves in Belgium by over $200 million in 1963, following little change in 1962, was roughly offset by a deterioration in the net foreign assets of the commercial banks. Similarly, a rise in the Netherlands reserves was largely attributable to an inflow of short-term capital, other transactions —after prepayments of $68 million on debts to foreign governments—being in approximate balance. The Swiss balance of payments continued to be in surplus, in spite of a continuation of a

TABLE 25. OTHER MANUFACTURING COUNTRIES IN CONTINENTAL EUROPE: BALANCE OF PAYMENTS SUMMARIES, 1962 AND 1963 [1]

(In millions of U.S. dollars)

		Goods, Services, and Private Transfers (1)	Official Transfers and Capital [2] (2)	Other Non-monetary Long-term Capital (3)	Extra-ordinary Trans-actions [3] (4)	Basic Balance (Col. 1+2+3 minus Col. 4) (5)	Other Non-monetary Short-term Capital and Errors and Omissions (6)	Net Commercial Bank Short-term Assets [4] (7)	Net Reserves [4, 5] (8)
Austria	1962	65	19	97	—	181	80	−4	−257
	1963	25	−5	89	—	109	71	−45	−135
Belgium-Luxembourg	1962	124	−84	16	−20	76	24	−112	32
	1963	−28	−14	24	—	−18	14	228	−224
Denmark	1962	−240	28	78	—	−134	52	59	23
	1963	15	28	87	—	130	107	−21	−216
Netherlands	1962	185	−113	−11	−26	87	−77	1	15
	1963	77	−63	−14	−68	68	183	−15	−168
Norway	1962	−168	−12	99	−15	−66	58	21	2
	1963	−186	32	195	−14	55	12	−2	−51
Sweden	1962	−13	−31	56	−20	32	71	8	−91
	1963	−38	−4	−53	—	−95	75	−23	43
Switzerland	1962	−336	8	−221	. . .	. . .	808	−49	−210
	1963	−400	. . .	−200	. . .	. . .	736	. . .	−136

Source: Based on data reported to the International Monetary Fund. For 1963, the data for some countries are provisional and are not comparable with those for 1962.
[1] No sign indicates credit; minus sign indicates debit.
[2] Excluding capital movements considered as reserve movements; see footnote 5.
[3] Included in column 2; mainly advance debt repayments, but include also all repayments on post-EPU debts.
[4] Increase (—).
[5] Reserve movements generally cover changes in official holdings of gold and foreign exchange assets, in short-term liabilities of the central monetary sector, and in IMF position. Repayments on post-EPU claims and debts are included with official transfers and capital.

current deficit and of a reported outflow of long-term capital, because of large inflows in respect of unrecorded transactions.

* * *

It is clearly not possible to attempt detailed balance of payments analyses for all the primary producing countries. In the following pages, therefore, the selection has been confined to one country from each continent (except Europe), with the preference given to countries in which there were marked changes from 1962 to 1963.

Argentina

Following two years of considerable difficulty, 1963 brought some relief to the balance of payments of Argentina notwithstanding a continuing and heavy budget deficit financed largely by recourse to the Central Bank, and price increases of 20-25 per cent (Table 26). The main factor underlying the improvement was a change from a trade deficit of $140 million in 1962 to a trade surplus of $384 million in 1963. This change arose in part from an increase in exports following a substantially larger increase from 1961 to 1962. At $1,365 million, exports were higher in 1963 than in any year since 1948 and about 30 per cent above the average for the preceding five years. The increase in exports from 1962 to 1963 was accounted for mainly by meat, sugar, wool, and fruits, and was partly attributable to higher prices, in particular for sugar and wool. The increase in the volume of meat exports was attributable to increasing overseas demand, which led to a diversion of supplies from the domestic market. Wheat exports were low as a result of a poor harvest.

About three fourths of the improvement in the trade balance arose, however, from a decline in imports, which were $375 million less than in 1962 and nearly $300 million below the average for the preceding five years. In part, this decline is to be regarded as a reaction to an excessively high level of imports of machinery and equipment in earlier years; these had responded to an investment boom which had been stimulated by large inflows of capital in 1960 and 1961, including some direct investment capital as well as suppliers' credits. In large part, however, the reduction in imports was attributable to the continuing effects of the depressed level of economic activity associated with political uncertainties which characterized 1962. Activity began to improve during the second quarter of 1963 and the recovery quickened after the elections in July; nevertheless,

TABLE 26. ARGENTINA: BALANCE OF PAYMENTS SUMMARY, 1959–63 [1]

(In millions of U.S. dollars)

	1959	1960	1961	1962	1963
A. Goods, Services, and Private Transfers					
Exports [2]	1,009	1,079	964	1,216	1,365
Imports [2]	−993	−1,249	−1,460	−1,356	−981
Trade balance	16	−170	−496	−140	384
Services and private transfers	−5	−35	−90	−134	−129 [3]
Total	11	−205	−586	−274	255
B. Capital movements					
Private, excluding banks	101	364	293	−52	−90
Central Government [3]	14	8	164	21	6
Commercial banks	−1	25	−14	45	−26
Net errors and omissions	−6	−17	9	−10	4
Total	108	380	452	4	−106
C. Reserve movements					
Official reserves (increase —)	−217	−306	201	306	−131
IMF position	40	48	31	−9	14
Other (mainly Central Bank liabilities)	58	83	−98	−27	−32
Total	−119	−175	134	270	−149

Source: Data provided by the Argentine authorities.
[1] No sign indicates credit; minus sign indicates debit.
[2] Exports mainly f.o.b.; imports mainly c. and f.
[3] Including Central Government transfer payments.

total output may have been about 5 per cent lower in 1963 than in 1962, partly owing to crop failures at the beginning of the year. In addition to the factors mentioned above, imports of oil fell from about $90 million in 1962 to less than $60 million in 1963, continuing the declining trend in recent years, attributable to rising domestic production which was sufficient to cover the country's needs; in 1958 imports of oil had amounted to about $250 million.

In both 1962 and 1963 there appears to have been a small net outward movement of private capital, contrasting with a substantial net inflow during the preceding three years. In 1962 there was a substantial inflow of funds in the form both of long-term capital and trade credits, which was offset by repayments of earlier credits and by capital withdrawals brought about by political instability. In 1963, on the other hand, the inflow of foreign capital was apparently reduced by the continuing uncertainties and the lower level of import demand. Capital withdrawals also appear to have abated during the year and after the elections there may have been some repatriation of funds. Contractual repayments against suppliers' credits, however, continued at a high rate, leading to a net outflow on private capital account, although arrangements were concluded with the main European creditor countries, the United States, and Japan for the refinancing of part of the credits maturing in 1963 and 1964, and other refinancing credits were negotiated with foreign commercial banks.

With a comparatively small change in net capital movements, the rise in the trade balance was largely reflected in an improvement in the over-all balance (Group C in Table 26), which changed from a deficit of $270 million in 1962 to a surplus of about $150 million in 1963. The reserves of the Central Bank, which had been very low at the beginning of 1963, were replenished in the course of the year and in December reached a level corresponding to a little more than three months' imports, although they were still below the Central Bank's foreign liabilities. During most of the year the exchange rate fluctuated within narrow limits; there was a temporary depreciation during the third quarter, but at the end of the year the rate for the U.S. dollar was about the same as it had been a year earlier.

Australia

The balance of payments of Australia was in surplus in 1963 for the third year in succession (Table 27); the increase in reserves, the largest

TABLE 27. AUSTRALIA: BALANCE OF PAYMENTS SUMMARY, 1960–63 [1]

(In millions of U.S. dollars)

	1960	1961	1962	1963
A. Goods, Services, and Transfer Payments				
Exports f.o.b.	1,992	2,351	2,370	2,796
(Exports of wool valued at 1960 prices)	(781)	(793)	(797)	(788)
(Exports of wool at actual prices)	(781)	(815)	(828)	(972)
Imports f.o.b.	−2,256	−2,004	−2,196	−2,332
Trade balance	−264	347	174	464
Services and transfers	−627	−566	−527	−628
Total	−891	−219	−353	−164
B. Private Capital (including errors and omissions)	494	529	458	661
C. Official Capital	39	21	35	−7
D. Total (A through C)	−358	331	140	490
E. Monetary Movements				
IMF position	−25	175	−176	−26
Official and banking reserves (increase —)	383	−506	36	−464
Total	358	−331	−140	−490

Source: Based on data from the Commonwealth Statistician.
[1] No sign indicates credit; minus sign indicates debit.

recorded during the postwar period, reached almost $500 million. The surplus resulted mainly from a substantial rise in exports, although an increased inflow of capital was a contributory factor.

The rise in exports was in a large part attributable to higher prices, although there was also a considerable increase in volume. The value of exports rose by 19 per cent from 1962 to 1963, while the export price index rose by 11 per cent. Exports of wool, the main export commodity, the volume of which continued to run at the high level of recent years, benefited from a price rise of almost 20 per cent; exports of wheat rose also appreciably, mainly as a result of a 44 per cent rise in volume coinciding with a 5 per cent decline in price. As in other recent years a substantial portion of wheat exports went to countries in the Sino-Soviet Area, particularly Mainland China.

The rising trend in exports in recent years has helped to support substantial growth in the Australian economy, which accelerated further in 1963. By the end of that year, gross national product in real terms appeared to be running at a rate possibly 5-6 per cent higher than in the final quarter of 1962. In spite of the substantial rise in export prices, a remarkable degree of domestic price stability was maintained throughout 1963.

The substantial surplus in Australia's balance of payments in 1963 assisted in the financing of the over-all balance of payments deficit of the United Kingdom, because only $18 million of the increase in Australian official reserves was in the form of gold holdings, most of the remainder being added to Australia's sterling balances.

Canada

The high degree of stability in Canada's over-all balance of payments (as measured by Group E in Table 28) that was re-established after the exchange crisis in the second quarter of 1962 was maintained during the first half of 1963. It was interrupted by outflows of capital following the proposal by the U.S. administration in July of an interest equalization tax, but uncertainties about the Canadian foreign exchange position were relieved by the large sale of wheat and flour to the Soviet Union arranged in September. The exchange rate depreciation culminating in the establishment of a new par value in May 1962 has undoubtedly strengthened the current account of the balance of payments (Group A in Table 28). Even though the broad array of import surcharges introduced at the time of the 1962 exchange crisis was abolished early in 1963, the current account deficit was reduced from 1962 to 1963 by over $300 million, to a little over $500 million, the lowest figure since 1954. During the period 1956-61, the current account deficit had ranged between $1,000 million and $1,500 million, and the recent reduction is in accordance with the Canadian Government's policy of lessening the country's dependence on an inflow of foreign capital and the accompanying net imports, under conditions of continuing slack in the economy.

The improvement in the balance of payments on current account coincided with a continued rise in production and income. It was supported by the large bulk sales of wheat to the Soviet Union and several other countries late in 1963, which continued in the first half of 1964, as well as by the lower limits to duty-free purchases abroad by Canadian travelers that were introduced in 1962. The latter, together with the exchange depreciation, helped to change the balance on account of foreign travel from deficit to surplus. The average rate of inflow of foreign long-term capital was almost as high in 1963 as in 1962, a reduction in direct investment being offset by a rise in new issues of Canadian securities in foreign markets, mainly New York. From the first to the second half of 1963, however, there was a substantial reduction in new issues and in the net inflow of long-term capital. This was caused in part by the U.S. proposal of an interest equalization tax, although a considerable decline would have been expected in any event after the extraordinary concentration of new Canadian issues during the first half of 1963, connected with the rebuilding of the depleted reserves after the crisis of 1962. The bill now pending before the U.S. Congress would authorize the President to exempt new Canadian issues (though not outstanding Canadian securities) from the proposed tax, while the Canadian Government in turn has indicated that it does not desire or intend to increase its foreign exchange reserves through the process of borrowing by Canadian residents in the U.S. capital market. The reduction in the net inflow of capital from the first to the second half of 1963 occurred at the same

TABLE 28. CANADA: BALANCE OF PAYMENTS SUMMARY, 1962 AND 1963[1]

(In millions of Canadian dollars)

	1962	1963[2]	1963[2] First quarter	1963[2] Second quarter	1963[2] Third quarter	1963[2] Fourth quarter
A. Goods, Services, and Transfer Payments						
Exports	6,364	7,064	1,482	1,772	1,801	2,009
Imports	−6,209	−6,580	−1,412	−1,700	−1,657	−1,811
Trade balance	155	484	70	72	144	198
Nonmonetary gold	165	166	45	41	38	42
Transportation	−90	−85	−14	−22	−33	−16
Travel	−50	13	−67	−26	113	−7
Investment income	−570	−614	−151	−137	−134	−192
Other services	−387	−391	−93	−101	−99	−98
Transfer payments	−71	−94	−28	−16	−15	−35
Total	−848	−521	−238	−189	14	−108
B. Long-Term Capital						
Direct investment in Canada	555	210	75	40	50	45
Canadian direct investment abroad	−125	−80	−25	−25	−15	−15
Transactions in Canadian securities						
Special issues sold to U.S. insurance companies	135	135	135	—	—	—
Other new issues	583	829	276	393	109	51
Other transactions and retirements	−373	−457	−87	−191	−68	−111
Transactions in foreign securities	−70	20	3	23	−4	−2
Advance debt repayments	100	—	—	—	—	—
Other loans by Canadian Government (net)	21	15	—	6	−8	17
Other	−154	−88	−4	−46	−30	−8
Total	672	584	373	200	34	−23
C. Total (A plus B)	−176	63	135	11	48	−131
D. Private Short-Term Capital (including net errors and omissions)	332	83	−69	100	−107	159
E. Monetary Movements						
IMF position	377	−86	—	—	−86	—
Special international financial assistance	4	—	—	—	—	—
Official gold and foreign exchange (increase —)	−537	−60	−66	−111	145	−28
Total	−156	−146	−66	−111	59	−28

Source: Based on data from the Dominion Bureau of Statistics.
[1] No sign indicates credit; minus sign indicates debit.
[2] Preliminary.

time as the normal seasonal improvement in the current account balance and the additional boost given by the sharp rise in exports to the Soviet Union, so that, after the reduction in the inflow of capital, the over-all balance of payments remained in approximate equilibrium for the remainder of the year.

India

In spite of some improvement in the balance of payments of India during 1963 (Table 29), its external payments position has continued to be under pressure, reliance on external assistance and import restrictions being heavy; and the level of foreign exchange reserves is low. These pressures have reflected primarily the large import demand arising from the development effort; moreover, until recently, exports showed only a small increase. In the past 18 months or so, defense requirements have placed an additional heavy burden on the economy. Nevertheless, this period has witnessed some abatement of the pressure on the payments position. There has been an increase in foreign exchange reserves from the low level to which they had fallen in 1962, and India has also repurchased some of the drawings made from the Fund in 1961 and 1962.

While severe import cuts and tighter restrictions on payments for services were adopted in the

TABLE 29. INDIA: BALANCE OF PAYMENTS SUMMARY, 1960–63[1]

(In millions of U.S. dollars)

	1960	1961	1962	1963[2]
A. Goods, Services, and Private Transfers				
Exports f.o.b.	1,315	1,389	1,412	1,625
Imports mainly c.i.f.	−2,260	−2,140	−2,288	−2,455
Trade balance	−945	−751	−876	−830
Services	63	−41	−71	−10
Private transfers[3]	68	57	49	74
Total	−814	−735	−898	−766
B. Private Capital and Net Errors and Omissions	88	−1	25	−65
C. Official Transfers and Capital				
Transfers[3]	81	35	123	140
Capital	552	667	608	708
Total	633	702	731	848
D. Total (A through C)	−93	−34	−142	17
E. Monetary Movements				
IMF position	−69	126	29	−20
Commercial banks	26	−25	—	6
Central institutions				
Other liabilities	12	−74	−4	13
Other assets (increase —)	124	7	117	−16
Total	93	34	142	−17

Source: Based on data from the Indian authorities.
[1] No sign indicates credit; minus sign indicates debit.
[2] Preliminary.
[3] Grants of U.S. surplus agricultural commodities through private agencies are included with official transfers.

middle of 1962, the principal factors behind the improvement in the payments position have been increases in exports and in receipts of foreign assistance. In the past two or three years, the authorities have made determined efforts to increase exports by a variety of promotional measures. After a decade of virtual stagnation, exports increased by about 15 per cent in 1963; the increase was particularly significant because it was not based on higher prices for exports and it was quite widespread among commodities.

In part because of the improvement in the external payments position, but also because of larger credit extension to both the public and private sectors, the tempo of domestic monetary expansion accelerated in the fiscal year ended March 1964. This, together with a slow growth of aggregate output, and particularly shortfalls in the output of foodgrains, led to considerable pressure on prices. Recently, the authorities have taken some credit control measures to restrain price increases. Also, the budget for the current fiscal year visualizes a deficit considerably smaller than in the last; to help to achieve this objective, new revenue measures have been adopted in addition to the large-scale tax effort of the previous year.

Nigeria

Nigeria's external payments position continued to be under heavy pressure during 1963. The loss of international assets in that year was higher than in any previous year except 1960, the year of independence. Total official and banking international assets, which had been equivalent to about 14 months' imports at the beginning of 1960, had declined to the equivalent of only about 5½ months' imports by the end of 1963, and the decline continued during the early months of 1964.

The large balance of payments deficits during 1960 and 1961 (see Table 30) were caused principally by sharply increased imports, which created record trade deficits during these two years. These were, however, also years of high net capital inflow, both official and private, which partially offset the large current deficits. In 1962 the balance of trade improved somewhat, in spite of lessened exports, because of a sharp decline in imports following tariff measures taken early in that year. At the same time, the net inflow of capital dropped sharply; insofar as private capital was concerned, this reflected at least in part a shift in commercial borrowing from foreign to domestic sources, in keeping with the Government's policy of fostering domestic credit. The inflow of official capital also slowed in 1962, because foreign assistance for projects included in earlier development efforts tapered off before financing was obtained for new projects under the Six-Year Development Plan which started during 1962.

In 1963, export earnings, which had remained fairly stable during the preceding four years, increased substantially, owing mainly to increased exports of groundnuts, palm products, and petroleum, but also to higher prices for some agricultural commodities. Since imports remained virtually unchanged, the trade deficit was reduced quite sharply. However, the net deficit on services account increased, principally as the result of increased transfers of direct investment income abroad and of reduced earnings on foreign assets as international reserves declined. The net inflow of foreign capital was even lower than in 1962, a somewhat increased net inflow of private capital (which, however, remained well below the high levels of 1959-61) coinciding with large official debt repayments.

During all this period, the Federal and Regional Governments have experienced large over-all budgetary deficits associated primarily with the financing of capital expenditures for development. These have been met mostly by drawing down external balances and assets held by these Governments and, more recently, by domestic bond issues, which have been largely taken up by the Central Bank. There has also been a substantial expansion of banking credit to the private sector, partly connected with the credit policy mentioned earlier. The domestic effects of these developments have, however, been largely offset so far by the balance of payments deficit, and prices have risen only moderately. Nigeria's external trade and payments have remained broadly free from restrictions during this period.

TABLE 30. NIGERIA: BALANCE OF PAYMENTS SUMMARY, 1960–63[1]

(In millions of U.S. dollars)

	1960	1961	1962	1963[2]
A. Goods, Services, and Private Transfers				
Exports f.o.b.	462	479	463	517
Imports c.i.f.	–586	–601	–557	–553
Trade balance	–124	–122	–94	–36
Services	–65	–40	–42	–57
Private transfers	–16	–18	–9	–13
Total	–205	–180	–145	–106
B. Private Capital and Net Errors and Omissions				
Private Capital	53	64	29	42
Net errors and omissions	12	30	12	–27
Total	65	94	41	15
C. Foreign Aid (net)				
Grants	11	7	13	22
Loans	23	25	12	–15
Total	34	32	25	7
D. Total (A through C)	–106	–54	–79	–84
E. Government Assets (increase —)				
Marketing boards	43	52	–1	–11
Local governments and semiofficial bodies[3]	40	8	41	16
Federal Government	7	3	2	49
Total	90	63	42	54
F. Monetary Movements (increase —)				
Commercial banks (net)	41	–24	20	–4
Central bank	–25	15	17	34
Total	16	–9	37	30

Source: Based on data from the Central Bank of Nigeria.
[1] No sign indicates credit; minus sign indicates debit.
[2] Preliminary.
[3] Principally municipalities and regional and local governments.

Chapter 9

Gold and Silver

Gold Production

WORLD production of gold, excluding the output of the U.S.S.R., Mainland China, and countries associated with them, increased in 1963 for the tenth consecutive year. The increase, of rather more than 4.6 per cent, brought the total to the largest annual figure ever reached, about 38.9 million ounces, worth (at $35 a fine ounce) approximately $1,360 million. This compares with $1,300 million in 1962, $1,215 million in 1961, and $1,178 million in 1960.

In the Republic of South Africa the gold mining industry again established new records in 1963, when production increased by more than 1.9 million ounces (about 7.5 per cent), to a total of 27.4 million ounces, equivalent in value to $961 million. This was the highest figure ever recorded for South Africa; it represented approximately 70.6 per cent of world production (Table 31).

Production also increased in Ghana, by the equivalent of $1.0 million, to $32.1 million. In Japan, Mexico, and Southern Rhodesia, production increased by smaller amounts, to totals equivalent to approximately $15.1 million, $8.3 million, and $19.8 million, respectively.

In Canada, which (if the U.S.S.R. is disregarded) is second only to South Africa as a gold producing country, output declined further, to 4.0 million ounces (US$139.0 million), from 4.2 million ounces (US$145.5 million) in 1962 and from 4.4 million ounces (US$155.5 million) in 1961. Peak output was achieved in Canada in 1941, when 5.4 million ounces (US$188.0 million) were mined. In the United States, the next largest producer, output declined in 1963 to approximately 1.5 million ounces ($53 million), after having remained constant at 1.6 million ounces ($55 million) in 1961 and 1962. For the United States the peak production year was 1940, when output reached 4.9 million ounces, equivalent to $170 million. Production also declined in Colombia, by the equivalent of $2.5 million, to $11.4 million; in Australia by $1.6 million, to $35.8 million; in India by $0.9 million, to $4.8 million; in Nicaragua by $0.7 million, to $7.1 million; and in Peru by $0.6

TABLE 31. GOLD: VALUE OF WORLD PRODUCTION, 1940, 1945, AND 1959–63 [1]

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

	1940	1945	1959	1960	1961	1962	1963
South Africa	492	428	702	748	803	892	961
Canada	186	95	157	162	155	145	139
United States	170	32	57	59	55	55	53
Australia	57	23	38	38	38	38	36
Ghana	31	19	32	31	29	31	32
Southern Rhodesia	29	20	20	20	20	19	20
Philippines	39	—	14	14	15	15	13
Japan	30	3	11	12	13	15	15
Colombia	22	18	14	15	14	14	11
Mexico	31	17	11	11	9	8	8
Congo (Leopoldville)	20	12	12	11	8	7	7
Other [2]	157	69	59	57	56	61	65
Total [2]	1,264	736	1,127	1,178	1,215	1,300	1,360

Source: International Monetary Fund, *International Financial Statistics.*
[1] Excluding the output of countries in the Sino-Soviet Area.
[2] These figures include estimates for data not available.

million, to $3.8 million. A fall in production in the Philippines, by the equivalent of $1.6 million, to $13.2 million, was due mainly to a strike lasting two months early in 1963 in the largest gold mine, and also to a shift in emphasis, by a major company, from gold to copper.

The number of tons of ore milled in South Africa in 1963 was about 3½ per cent higher than in 1962 and the average grade of ore per ton milled rose from 6.570 dwt. in 1962 to 6.861 dwt. in 1963. The combined working profits from gold, uranium, and other products rose from R 288.3 million ($403.6 million) in 1962 to a new record figure of R 313.0 million ($438.2 million); dividends paid by all producers of gold and uranium increased from R 104.7 million to R 117.0 million.

While gold production in South Africa has more than doubled over the past ten years and the profitability of the gold mining industry, as a whole, was greater in 1963 than ever before, the Transvaal and Orange Free State Chamber of Mines has indicated that in its judgment South African production will have nearly reached its peak in 1964 or 1965. Thereafter it may level off for a few years, and subsequently decline because of the closing down of the older and marginal mines, which cannot employ the new techniques used in conjunction with concentrated mining.

During the period under review, bad harvests forced the U.S.S.R. into the market as a buyer of wheat. These purchases, principally from Australia, Canada, France, the Federal Republic of Germany, and the United States, are understood to have led to the sale of gold in order to provide the foreign exchange to effect payment. For this reason Russian gold production, reserves, and sales have been a subject of considerable interest in the gold markets. It is estimated that in 1963 the U.S.S.R. sold gold approximating to $550 million, compared with sales of only $215 million in 1962. Recent estimates of Russian production have varied between $150 million and $400 million per annum and those of Russian gold reserves between $1,950 million and $7,000 million. In any event, it is felt that the drain on the gold reserves of the U.S.S.R. resulting from the wheat purchases will be significant, and there is some evidence of a desire by the Russian authorities to diversify their sales of gold. Banking facilities have been opened by them in Beirut. On the other hand, the Soviet authorities have announced a drive for increased gold output and a reduction in costs of production.

The gold mining industry as a whole shows increasing concern about declining production and increasing costs. The introduction of new mining techniques and discoveries of higher-grade ore have helped to maintain and even increase output in certain areas. However, a few governments have found it necessary to provide financial assistance to the industry, which in some cases has taken the form of direct subsidies. Reference is made to these below.

Gold Holdings

The stocks of gold held by the monetary authorities of the world are estimated to have increased in 1963 by about $855 million (Table 32 and Chart 24), which compares with increases of about $325 million in 1962, $600 million in 1961, $310 million in 1960, $750 million in 1959, and $225 million in 1951, in which year the smallest postwar increase was recorded. The holdings of the U.S.S.R., Mainland China, and the countries associated with them are not included in these figures, but those of the International Monetary Fund, the Bank for International Settlements, and the European

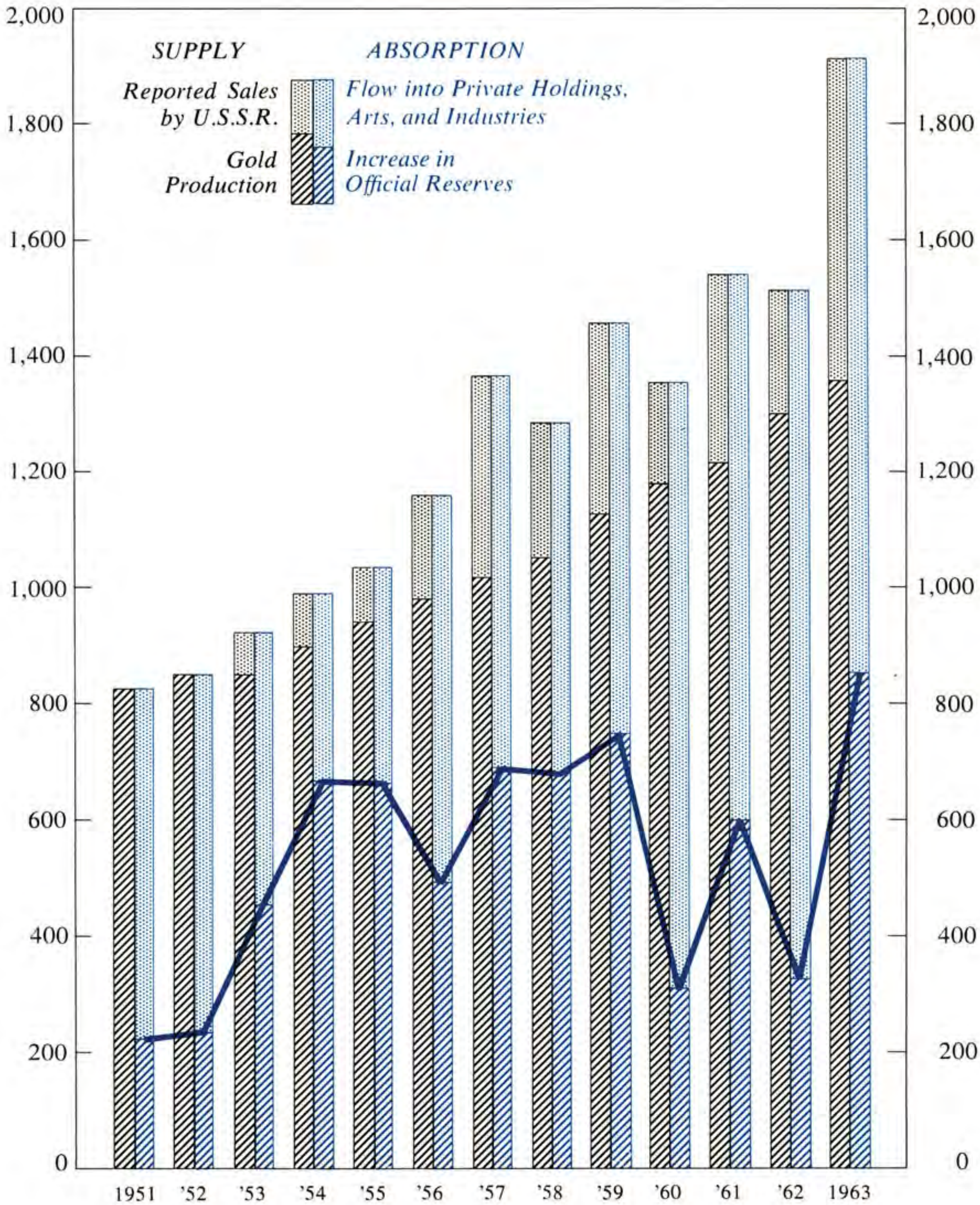
TABLE 32. WORLD GOLD RESERVES: SOURCES OF CHANGES, 1961–63

(In millions of U.S. dollars)

	1961	1962	1963
Production	1,215	1,300	1,360
Soviet sales	325	215	550
Total available	1,540	1,515	1,910
Consumption in industry and arts, and private hoarding	−940	−1,190	−1,055
Total added to world monetary gold stock [1]	600	325	855
IMF gold transactions			
Subscriptions	−72	−24	−46
Sales to countries	500	—	—
Repayments	−66	−94	−71
BIS and EPU/EF gold transactions	−135	165	238
Total added to countries' monetary gold stock [1, 2]	830	375	975

Sources: International Monetary Fund, *International Financial Statistics*, and Fund staff estimates.
[1] Excluding stocks held by countries in the Sino-Soviet Area.
[2] Totals do not equal the sums of the items because of rounding.

CHART 24. GOLD: ESTIMATED SUPPLY AND ABSORPTION, 1951–63
(*In millions of U.S. dollars*)



Fund have been taken into account. At the end of 1963, world monetary gold reserves, thus defined, amounted to approximately $42.3 billion. The important movements in the distribution of reserves during the past year are discussed in Chapter 7.

As Table 32 shows, the amount of gold newly available to the Western world in 1963 was of the order of $1,910 million. This suggests that the equivalent of some $1,055 million was absorbed by private holders, industries, and the arts in 1963—about $135 million less than in the previous year.

It has been estimated that over the postwar years approximately $15 billion of gold has been diverted from official holdings to other uses. This continuous drain has been ascribed to political and economic uncertainties. Current discussions of the problems associated with international liquidity emphasize the desirability of channeling gold as far as possible to monetary uses.

Gold Markets and Prices

New York

The Federal Reserve Bank of New York, as fiscal agent for the U.S. Treasury, stands ready to buy gold at a price of $34.9125 a fine ounce and to sell gold at $35.0875 a fine ounce for official monetary purposes.

In this capacity as fiscal agent, the Federal Reserve Bank of New York sold $391.7 million (net) of gold during 1963 to foreign countries and international institutions. In addition, the equivalent of $69 million was sold domestically for industrial, professional, and artistic uses. Thus, the total decrease in the U.S. gold stock during the calendar year 1963 amounted to some $461 million, compared with $889.9 million in 1962. In 1963, sales to foreign countries included the equivalent of $517.7 million to France, $130.0 million to Spain, and $82.1 million to Austria. Purchases of gold from foreign countries included the equivalent of $329.3 million from the United Kingdom (resulting mainly from the operations of the Gold Pool, discussed in a Supplementary Note, p. 131), $72.2 million from Brazil, and the equivalent of $24.7 million from the Philippines.

As a result of these and other operations in 1963, the amount of gold held under earmark by the Federal Reserve Banks for accounts of foreign central banks, governments, and international institutions rose by $253 million, to a total of $13.0 billion.

London

During the period May 1, 1963 to April 30, 1964, the dollar price of gold (converted at the buying price for dollars in London at the time of the daily fixing) fluctuated within the narrow range of about 5 5/16 cents between a maximum of $35.11 3/16 a fine ounce on August 30, 1963 and a minimum of $35.05 7/8 a fine ounce on March 19, 1964 (Chart 25). In 1962 the corresponding range was 13 1/2 cents, between $35.18 5/8 and $35.05 1/8 a fine ounce.

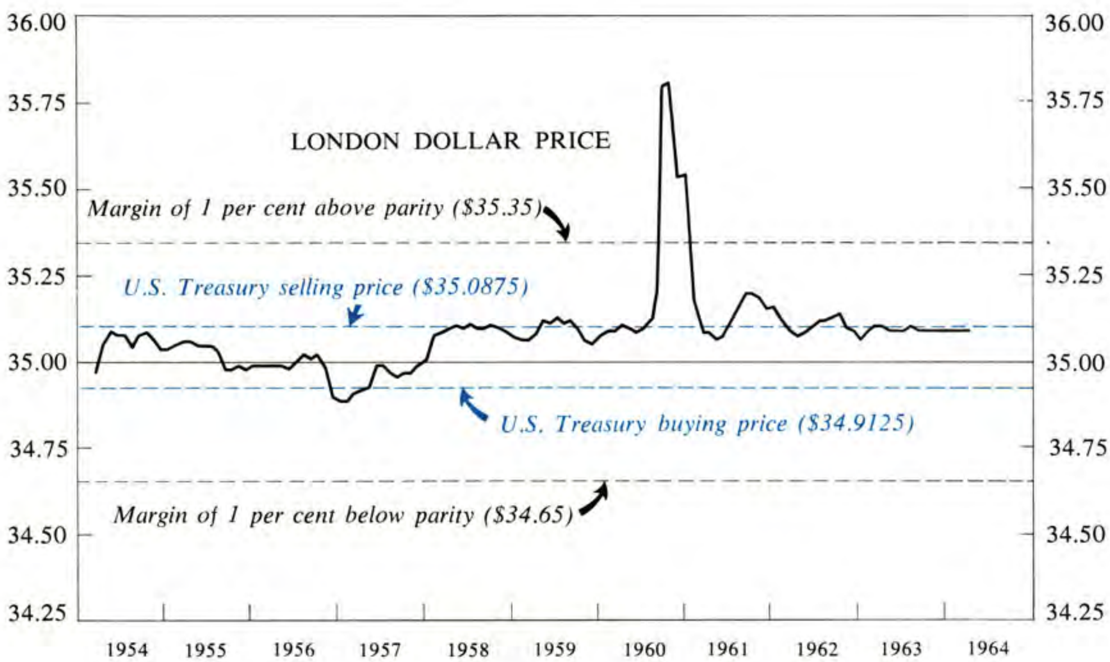
On May 1, 1963 the equivalent price at the "fixing" was $35.07 3/8 a fine ounce, and until mid-July market fluctuations remained within a margin of approximately 1 cent on either side of this figure. However, toward the end of July, announcements by the U.S. Government of measures designed to rectify the U.S. balance of payments caused uneasiness about the strength of the U.S. dollar. This was reflected in some speculative buying of gold, which pushed the price up to $35.10 3/8 a fine ounce by July 31. After some reaction from this price level, a recurrence of hoarding sent prices up to the peak for the year, $35.11 3/16 a fine ounce, on August 30. Early in September the first large-scale sales of gold by the U.S.S.R., somewhere in the region of $250 million, were made in Western Europe, mainly through Paris. The price immediately reacted, and despite reports of statements by the South African authorities to the effect that they might market their gold in other ways than through London, the price continued to ease, leveling off at about $35.06 11/16 a fine ounce on September 27, 1963.

Thereafter, further sales of gold by the U.S.S.R. to cover its wheat purchases helped to reduce the price to its lowest level for the year, $35.06 3/8 a fine ounce, on October 7, and throughout October the price fluctuated moderately. No real advance was noticeable until the end of the month, when large buying through Switzerland, reportedly to cover dealers' end-of-month positions, pushed the price up to $35.10 7/8 a fine ounce. The price eased again, however, in early November in quiet markets dominated by the sales and threat of sales by the U.S.S.R. The assassination of President Kennedy on November 22 led to substantial buying, the price rising to $35.09 5/16 a fine ounce on November 25, but the monetary authorities in New York, London, and Zürich maintained a firm control of the markets and confidence was quickly restored. On November 26, Wall Street regained all the losses incurred earlier and the Dow-Jones industrial index rose a record 32 points in a single day. Fortuitous assistance was afforded the authorities in controlling the gold markets at this time by the sale of some 25 tons of gold by the U.S.S.R. By the end of November the price had declined to about $35.07¾ a fine ounce.

lira, together with anxiety in Greece caused by the King's illness and the domestic political situation, caused demand to develop from both Milan and Athens. Nervousness associated with this buying caused a small increase in the London price, which reached $35.09⅞ a fine ounce on March 5. A resumption of selling by the U.S.S.R. depressed the price once again to $35.05⅞ a fine ounce on March 19, but the pre-Easter holiday demand resulting from the covering of short positions pushed the price up to $35.08⅛ on March 26. Intermittent sales of gold by the U.S.S.R. caused some fluctuations in the price during April, but at the end of the month it was slightly firmer at about $35.08⅜.

CHART 25. GOLD: PRICE IN LONDON MARKET, MONTHLY AVERAGES, MARCH 1954–APRIL 1964

(In U.S. dollars a fine ounce)



For the next three months the markets continued steady and there were only minimal fluctuations in the price, despite the change of government in Zanzibar, the unrest in Burundi, Rwanda, and Tanganyika, and a resurgence of domestic troubles in Cyprus. Early in March, however, rumors of a devaluation of the Italian

During the year, the sterling price of gold fluctuated between a minimum of 250s. 4½d. on July 9, 1963 and a maximum of 251s. recorded on February 25, 1964, the highest level reached in sterling terms since the Cuban crisis in October 1962. At the end of April 1964 gold was quoted in sterling terms at 250s. 7d.

During the calendar year 1963, the United Kingdom imported some 34.3 million ounces of gold bullion, equivalent to $1,200.5 million, compared with 34.1 million ounces ($1,192.9 million) in 1962 and 50.8 million ounces ($1,777.7 million) in 1961 (Table 33). Exports from the United Kingdom amounted to about 19 million ounces (the equivalent of $664.5 million), whereas in 1962 the total had been 29 million ounces ($1,013.8 million).

TABLE 33. UNITED KINGDOM: IMPORTS AND EXPORTS OF GOLD, 1962–63

(In millions of U.S. dollars)

	1962	1963
Imports from		
South Africa	664.7	816.1
U.S.S.R.	106.9	281.2
United States	336.0	42.0
Other countries	85.3	61.2
	1,192.9	1,200.5
Exports to		
Switzerland	509.7	275.5
France	135.0	98.6
Bahrein, Kuwait, Qatar, Trucial States	66.3	76.2
Lebanon	59.7	54.0
Italy	22.7	36.1
Other countries	220.4	124.1
	1,013.8	664.5
Net addition to gold stock in London	179.1	536.0

The figures in Table 33 are not indicative of the turnover of the metal in the London market, as they represent purely physical movements of gold during the year under review. The main supplier to the market was the Bank of England, as agent for South African production and for the Exchange Equalization Account. The importance of the operations of the Bank of England has been underlined by the working of the Gold Pool.

Other Developments

In markets where gold is bought and sold against local currencies (Table 34), the day-to-day movements of the U.S. dollar equivalent prices have always deviated from the London pattern because of the special characteristics of each market and the intermediary exchange rate fluctuations. Prices in local currencies in the period under review (May 1, 1963 to April 30, 1964) were relatively stable, although they continued to reflect political uncertainties and exchange pressures.

The main movement in the U.S. dollar equivalent price for bar gold in these markets was in Bombay, where dealings were restricted following the introduction by the Government of India of a variety of regulations, noted below, the immediate objective of which was to reduce smuggling, but which were also expected, in the long run, to help the authorities to mobilize the existing private hoards of gold. The regulations have had the effect of reducing the demand for gold. There is some evidence that the volume of smuggling of gold has declined, and the price of gold, which had been rising steadily in recent years, was markedly lower in 1963 and the early part of 1964 than it had been just before the adoption of the gold control measures.

TABLE 34. GOLD: PRICES IN VARIOUS WORLD MARKETS, END OF APRIL 1963 AND 1964

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

	Bar Gold		Sovereign		Napoleon	
	End of Apr. 1963	End of Apr. 1964	End of Apr. 1963	End of Apr. 1964	End of Apr. 1963	End of Apr. 1964
Beirut	35.00	35.32	40.64	41.55	42.99	45.26
Bombay	76.34 [1]	74.05 [2]	—	—	—	—
Brussels	35.20	35.16	41.43	41.08	—	—
Hong Kong	38.55	38.09	—	—	—	—
Milan	35.38	35.44	42.09	42.15	48.76	50.58
Paris	35.23	35.20	41.52	41.35	45.04	46.24

[1] Average for week ended May 10.
[2] Average for week ended April 24. This figure was obtained by conversion from quotations for 14-carat gold; transactions are limited to gold of that purity.

In the markets for gold coins, prices for the sovereign and the napoleon rose in general over the period, although at the end of April 1964 they were rather below the highest levels recorded during the year. In Milan this increase in price was due in part to increased political uncertainty and doubts as to the economic future, which early in March 1964 led to rumors of a devaluation of the lira. Early in April, stocks on the Milan exchange sank to their lowest point for four years, as selling revealed investors' lack of confidence in the economic situation. This uncertainty led to an increased demand and higher prices for gold coins.

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. In all, 119 transactions, amounting to about $1,083 million, have taken place since March 1952. The creation of the Gold Pool has had the effect of virtually eliminating the need for the service. Although there were two or three inquiries, no transactions were carried out during the fiscal year ended April 30, 1964.

Changes in National Policies Affecting Gold

In *Chile,* Congress enacted legislation to restrict dealings in gold to commercial and state banks. Regulations were adopted by the Central Bank's Executive Committee which limited trading in gold bars and coins to the Central Bank. A further provision gave the Central Bank the power to determine the conditions under which the government mint would produce gold coins. Previously, the mint had been required to mint all gold offered to it, which had led to an inflow of gold against a corresponding outflow of currency.

All purchasers of gold coins from official sources in *Greece* are required to state their identity and addresses under regulations issued by the Bank of Greece at the end of January 1964. This measure was introduced to curb the large-scale speculative purchases and an unjustified increase in the price for the gold sovereign.

In January 1963, the Government of *India* promulgated Gold Control Rules under the Defense of India Act, requiring declaration of all private nonornament holdings of gold above certain minima, bringing all transactions in primary gold under government control, requiring that all ornaments made in future, whether from existing ornaments or from gold in other forms, have a purity not exceeding 14 carats, and prohibiting the manufacture of gold articles other than ornaments unless authorized by general or special order.[1] Gold worth about Rs 230 million ($48 million) was declared to the authorities. In June 1963, the production of primary gold of more than 14 carats was prohibited and all existing stocks were required to be converted to that purity. In September 1963, self-employed goldsmiths were permitted to rework existing jewelry of more than 14 carats into jewelry of like purity; this was a measure of relief for independent goldsmiths deprived of work by the new policy. On November 26, 1963, the Finance Minister introduced a Gold Control Bill, which would give gold control greater weight and permanence by placing it on the statute books instead of its being administered under the Gold Control Rules as heretofore. The Bill would empower the authorities to call for declarations of ornament holdings in excess of prescribed ceilings; it is hoped that this would provide a disincentive to holding large amounts in this form. The Bill also requires all gold dealers to be registered, and not only those subject to sales tax. Special provision is made for religious institutions that receive gold as offerings and subsequently sell it.

In September 1963, the Republic of *Liberia* put into circulation its own gold coins. They have been minted by the Swiss Federal Mint and have a nominal value of $20, a gross weight of 18.65 grams, fineness of $^{900}/_{1000}$, and a diameter of 27 millimeters.

The *Uruguayan* central bank has decided to sell its holdings of gold coins and buy gold in bar

[1] *Annual Report, 1963,* pages 179-80.

form. The value of the coins held is estimated at about $60 million, and the operation may take some years to complete.

Gold Subsidy Programs

The gold subsidy programs of the Governments of Australia,[2] Canada,[3] and the Philippines,[4] discussed in previous Annual Reports, have continued in operation during the past year.

In April 1964, *Canada* consulted the Fund concerning the extension of its Emergency Gold Mining Assistance Act to the years 1964, 1965, 1966, and 1967. The new Canadian legislation contains provisions under which new lode gold mines commencing production after June 30, 1965 will be eligible for assistance only if the mine provides direct support to an existing gold mining community.

South Africa also consulted the Fund regarding the granting of assistance to certain marginal gold mines for one year through June 1964, mainly to meet the cost of pumping water from interconnected underground workings. In April 1964, the South African Government requested approval of this scheme for a further year, and also approval of further assistance for marginal gold mines, which unless assisted would be forced to abandon substantial tonnages of ore. This further assistance is to be made available in the form of unsecured loans granted by the State to cover working losses up to a maximum of 10 per cent of revenue, as well as for certain capital expenditure approved by the Government Mining Engineer, e.g., for shaft sinking, major development, and the purchase of items such as refrigeration or compressed air plants.

The United Kingdom consulted the Fund on behalf of *Southern Rhodesia* with regard to an Act approved by the Government of Southern Rhodesia on December 30, 1963, which provides for the granting of financial assistance to potentially economic gold mines in Southern Rhodesia during the period September 1, 1963 to August 31, 1968. These mines are those from which gold is being or will be mined at a loss, but from which gold may, at some future time, be mined at a profit. The Minister of the Treasury has discretion both as to the eligibility of mines and the amount of any proposed financial assistance.

The Fund deemed the revised arrangements adopted by Canada and the new arrangements adopted by South Africa and Southern Rhodesia to be consistent with the objectives of the Fund's statement of December 11, 1947 on gold subsidies.[5]

[2] *Annual Report, 1960,* page 144; *Annual Report, 1963,* page 181.

[3] *Annual Report, 1959,* pages 149-50; *Annual Report, 1961,* pages 125-26.

[4] *Annual Report, 1962,* page 164; *Annual Report, 1963,* page 181.

Silver

The wide interest in the price of silver and the activity of the last two years subsided after September 9, 1963, when the price of the metal rose to 129.3 cents, slightly above the price at which it becomes profitable to call upon the U.S. Treasury to redeem silver certificates.

In response to this increase in price, the U.S. authorities took action, and the Congress enacted a law repealing the Silver Purchase Acts of 1934, 1939, and 1946. The 1963 Act authorizes the Federal Reserve Banks to issue Federal Reserve notes in denominations of $1 and $2; this will enable Treasury silver certificates to be retired over a period of time. Following its enactment, purchases and sales of silver bullion in the United States were freed from legislative restriction for the first time for 30 years. The way was thus opened for trading in silver futures, which was resumed on the New York Commodity Exchange on June 12, 1963 for the first time since August 9, 1934. Under these new market conditions the highest price reached in 1963 was 131.35 cents an ounce on July 5, for delivery of silver in June 1964. The U.S. Treasury holds nearly 1,500 million ounces of silver, which will become available for coinage and other uses as Federal Reserve notes gradually replace silver certificates in the low denominations.

[5] *Annual Report, 1948,* pages 79-80; *Selected Decisions of the Executive Board* (Washington, Second Issue, September 1963), pages 14-15.

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SUPPLEMENTARY NOTES

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A. International Money and Security Markets

SINCE the acceptance of nonresident convertibility for the major international currencies at the end of 1958, there has been an extensive integration of the international market for short-term funds. This has been marked by a rather rapid re-emergence of the London money market as a true international center accepting large deposits in foreign currencies as well as sterling deposits. The relative freedom of this market from exchange restrictions contributes to its effectiveness as a center for short-term capital movements. Similar operations, although generally on a smaller scale, have developed in a number of other countries. Although some countries still maintain, and others have introduced, certain restrictions on movements of short-term capital, such movements are in fact difficult to control and, in practice, existing restrictions have not proved to be a major obstacle to the internationalization of money markets.

In contrast, the long-term security markets have tended to become, if anything, more isolated from each other during 1963, as a result of the policies described in Chapter 5. The New York market traditionally serves not only as a source of U.S. capital for borrowers from other countries but also as an outlet through which non-U.S. lenders may employ their resources internationally. A substantial proportion of many European, Canadian, and other foreign issues made on the New York market has in fact been subscribed by investors who are not U.S. residents; the continuing quotation of non-U.S. issues on this market gives fluidity to international investment. The relatively large scale of this market, and the substantial flow of U.S. funds to it, gives it a breadth which has enabled it to act as a world center for the settlement of long-term capital flows. The importance of the New York market has been enhanced in the postwar period by the failure of the London capital market—the only other large international capital market—to re-emerge as an international center to the same extent as the London market for short-term funds. This is a consequence of the continued restrictions on long-term capital transactions in the United Kingdom.

In the course of 1963, however, the New York capital market became a less active world center for international investment, because of the uncertainty created by the proposed interest equalization tax. This uncertainty has resulted in a marked, though in part temporary, decline in U.S. demand for issues by borrowers in the industrial countries and some narrowing of the market generally. In consequence, there is strengthened interest in the development of alternative markets, particularly in Europe. This interest has been reflected in the flotation of several foreign currency issues on the London market late in 1963 and early in 1964, and in the offer to European investors of several issues denominated in alternative currencies.

If a security carrying a reasonable yield is to be a satisfactory medium for investment, there must be a fairly broad market to ensure its salability. That is, it must be attractive to those buyers who deploy the essentially national flows of savings which provide stability in the major national markets. The demand for issues denominated in currencies other than that of the market on which they are traded is likely to be relatively small. The objection of certain countries (e.g., Switzerland) to the flotation in foreign markets of securities denominated in their currencies is an additional obstacle to large sales of foreign currency issues. The problems arising from differing levels of interest rates in a number of markets will need to be overcome, and the potential transfer of securities of any multiple currency issue from market to market might make its supply on any single market uncertain. Thus, a number of difficulties will need to be surmounted. At this stage, judgment should be reserved concerning the usefulness of these efforts to develop issues tailored predominantly to a purely international demand. But improvements in the basic institutional structure of national security markets may make a greater contribution to the evolution of European capital markets.

In several countries, including Belgium, Canada, France, and the United Kingdom, official bodies have recently examined the structure of financial markets. At present, security markets in continental Europe play a decidedly limited role in the financing of economic development, both internal and external. Self-financing by private businesses and direct borrowing on a short-term basis are more important than in North America and the United Kingdom; the issue of securities has been a residual source of funds. This is partly due to the relatively high level of profits in most European countries until recently and the conservative dividend policies followed by most European companies. These have tended to strengthen the traditions of self-financing and to restrict the supply of industrial long-term securities to the markets. At the same time, there is a relatively small demand by investors for long-term securities. As a consequence, the organized long-term financial markets tend to be thin. Trading in securities is carried out by a few institutions; the markets, indeed, are often dominated by the banks. Security prices fluctuate disproportionately to the volume of securities traded, and the variety of securities traded tends to be limited. Continental markets are also dominated by fixed-interest bond issues and government securities; indeed, in some countries, the security market is purely a bond market. Hence, the capital markets often tend to be unstable and somewhat unattractive both to investors and to borrowers.

The small demand for securities is partly explained by the fact that, until recently, personal savings were low. Until 1959, household savings rarely exceeded 5 per cent of disposable income, although since then the proportion has risen substantially. Hitherto, also, financial assets held by European households have been predominantly in the form of highly liquid assets (bank deposits or other short-term claims on financial institutions). In turn, this preference for claims on financial institutions rather than for obligations of private businesses is partly a product of the European tradition of publishing a minimum of information about the affairs of individual companies. As a result, private placements of securities with, and long-term industrial loans by, financial institutions are much more prevalent in continental Europe than in London or New York. (For example, such borrowings from banks by German nonfinancial enterprises over the last five years have been approximately 3½ times as large as the amounts obtained by them through the issue of securities on the market.) In turn, there are perhaps more individuals without access to sufficient knowledge who prefer to entrust their savings to financial institutions with reputations for prudent investment.

The European preference for relatively liquid claims on financial institutions also reflects a fear of attrition of immobilized assets fixed in money terms, arising from the experience which the last two generations of savers have had with the depreciating purchasing power of currencies. Given this dislike for long-term debt instruments, it is rather surprising that most industrial issues made publicly on European markets (with the exception of the Federal Republic of Germany and the Netherlands) consist of bonds rather than equities. Even so, the yields on bonds have generally been above the return on equities, and capital gains have not always compensated for the sometimes extremely low return on equities. From the private borrowers' point of view there are strong reasons for preferring to issue bonds rather than equities. First, there is a firm tradition of retaining close control of individual enterprises, which runs counter to a spreading of shareholdings in a number of concerns. Second, most European tax systems offer fiscal advantages to the issue of bonds rather than equities. Finally, the inflation of the last half century has created a preference for borrowing in fixed money terms, the real burden of which may well decline.

Throughout the postwar period, the most important borrowers on the European capital markets have been national governments or public enterprises. They have, of course, had priority in raising funds through the issue of securities; in some cases, the market has been largely restricted to their needs. In part, this reflects the important role of European governments as financial intermediaries in the savings-investment process. In many countries (e.g., France and Italy), the government collects savings by the acceptance of deposits from the public (either directly or through official financial entities) or by issuing short-term securities. At the same time, most of the governments in these countries are important lenders, not only to nationalized industries but also to privately owned businesses, through direct participations or loans or by financing through official financial institutions. In Sweden, the establishment in 1959 of a Supplementary National Pensions Fund has substantially increased the supply of long-term funds available for investment on the capital market and for lending to other credit institutions and to local authorities.

Regulations also serve to limit the flexibility of European capital markets. The issue of nongovernment securities is controlled rather tightly in most countries of continental Western Europe (with the notable exception of Belgium and the Federal Republic of Germany). The policy of governmental control over the new issues market has been aimed partly at facilitating the issue of government bonds but partly at implementing monetary policy. In the Netherlands, for example, the excess liquidity in the market in 1962 and 1963 was partly offset by the issue of government debt, but it also induced the authorities to relax restrictions on the issue of private securities. These policies have had the consequence of stabilizing long-term rates, albeit at a relatively low level. Switzerland has also recently eased its controls on capital issues for similar reasons. In France and some other countries, controls are used to influence the direction of investment, as well as to ration new issues of bonds so as to prevent overburdening the capital market. Government fiscal policy also often affects the demand for securities by imposing restraints on dividends, by changing the level of taxation on distributed dividends, or by granting fiscal exemptions on income from government securities. Such fiscal imposts lower the demand for private securities at a given price, or, alternatively, raise the costs of issue to the borrower. Both effects restrict the volume of private securities on the capital market.

The demand for nongovernment securities is also affected by restrictions imposed on institutional investors (e.g., insurance companies and pension funds). In New York and London, these investors are the mainstays of the capital markets; but in most continental markets, insurance companies and pension funds tend to be relatively small and their investment policies are much more closely controlled than in London and New York. The consequence is that (for example, in Germany) the institutional investors are an important source of direct credit rather than heavy purchasers of nongovernment securities.

Finally, the fact that continental capital markets are rather small tends to increase the costs of access to them. The thinness of the market makes it difficult and expensive to distribute a new issue. In some cases this cost is increased by relatively heavy taxes on capital issues or transfers. These other costs, expressed as an annual charge, are likely to be above 1 per cent per annum in many European countries and may even approach or exceed 2 per cent (e.g., in Belgium, France, and Italy). In the United States or the United Kingdom, they are not greatly in excess of ¼ per cent. This high level of costs tends to restrict the market and thereby to weaken the forces that might lead to their reduction. Any broadening of the markets should make it possible to increase participation in them and encourage more active competition among intermediaries. This should lead in turn to a lowering of costs and create incentives to a further enlargement of the markets.

However, a rapid growth of the markets is likely to depend on important institutional changes being effected, and on investment patterns changing, particularly those of private households. The European capital markets have played a relatively small role in post-1945 European economic development because the demand for such facilities has been low and little has been done to encourage the markets to develop. This situation is now changing, and the demand for finance from European capital markets is rising. This is partly because of changes in financial practices, partly because of a sharp rise in household savings, and partly because the volume of funds needed to finance expansion is rising, as is evidenced by an increase in the average size of new issues. Greater new issue activity will tend to build upon itself, especially by making the markets more attractive to both institutional and private investors. The change in monetary habits resulting from the long period of monetary stability in Europe will probably give rise to a change in investors' preferences, especially in the direction of less liquid monetary assets. For their part, borrowers in the market should be prepared to extend, to a greater extent than hitherto, the range of paper traded within the market, especially by issuing more equities. They will also need to meet the demands of investors for more information regarding company operations. Extended use of the markets and larger-sized issues should also tend to reduce the costs of issues. Markets could be further broadened by such institutional reforms as fiscal amendments which would make the issue and transfer of securities easier and cheaper and which would allow greater participation by institutional investors.

Such changes in the structure of capital markets will, of course, take time. In due course, however, they should enable the main European countries not only to organize the financing of their domestic capital formation more effectively but also to assume a role as net providers of private capital to the rest of the world.

B. Incomes Policies

RECENT developments have led to renewed interest in the broad range of measures commonly referred to as "incomes policies." These are measures specifically aimed at preventing money incomes from rising excessively in relation to the growth in real national output, and so influencing the process of price formation; they are intended to supplement the traditional instruments of monetary and fiscal policy. The new interest in them has been aroused in a number of different ways. In countries where nearly full employment has prevailed, it has been occasioned by a desire to mitigate upward pressures on wages and prices. In countries seeking to attain a higher rate of economic growth, it has stemmed from a wish to forestall a possible increase of such pressures as expansion got under way. In countries in actual or prospective deficit in their international transactions, balance of payments considerations have provided the immediate stimulus. The maintenance of price stability has been seen as a key requirement if economic growth is not to be jeopardized by a deterioration in the payments position in the course of expansion.

It is too early to judge the effectiveness of the measures in the field of incomes policy that have so far been tried, but it is generally agreed that they cannot be successful unless applied in the context of an appropriate mix of other policies aimed at preventing excessive demand pressures from developing. Their degree of success will vary from country to country with the institutional framework and with the support given by social groups to the objective of price stability, which to some extent depends on the recent experience of the countries concerned as well as on traditional attitudes. *Ceteris paribus,* they are likely to encounter the greatest obstacles in countries where strong domestic demand pressures originate in a booming export sector. On the other hand, they may encounter less opposition where it is apparent that rising costs would result in, or aggravate, a deficit in the balance of payments that would pose a threat to the maintenance of employment at a satisfactory level over the long run. It seems likely that, although incomes policies have clear limitations at this time, this additional instrument as it is further developed and becomes more effectively applied, can contribute, along with other policy instruments, to the reconciliation of the objectives of monetary stability, high levels of employment, and a satisfactory rate of economic growth, the attainment of which is a joint interest of all countries.

* * *

Present incomes policies should not be regarded as a movement toward the introduction of a comprehensive regulation of wages and prices, or dividend and profit controls, such as were applied in certain countries in Europe for varying periods soon after World War II. In general, recent policies have been directed (1) to securing the cooperation of entrepreneurs and trade unions in limiting inflationary pressures by appropriate wage and price decisions; (2) to informing all those concerned with such decisions about the issues involved, and to mobilizing the forces of public opinion against undue increases in wages, salaries, or profits; and (3) to establishing, or strengthening, specific checks and balances to reduce cost pressures in particular areas of the economy under full employment conditions. The action taken has ranged from efforts to encourage a favorable evolution in the existing institutions governing wage negotiations, to stricter enforcement of the law concerning labor disputes, price fixing, restrictive policies, and monopoly power or the adoption of new legislation.

An important role has been played by the publication of official reports on the state of the economy, including guidelines indicating the average scale of increases in income which the authorities judge to be consistent with their estimates of the growth of per capita productivity in the economy. The framework of ideas set forth in the *United States,* in the 1962 Economic Report of the President has served as a model for similar publications in some other countries. Although wage pressures have been moderate in the United States during the last three years, the guidelines given there and repeated in the 1963 and 1964 reports are officially regarded as being a helpful means of setting a standard of what may be regarded as a "fair" wage or price increase.

In the *United Kingdom,* the Government announced its intention in December 1961 to try to work out a policy with both sides of industry to keep increases in money incomes in line with the long-term growth in national production. The official guideline for wages, salaries, and other incomes, adopted early in 1962, called for increases not to exceed the 2-2½ per cent growth in average per capita productivity in recent years. This was subsequently raised to 3-3½ per cent as a corollary to the acceptance by the Government of a target of 4 per cent a year for the growth of the gross domestic product over the period to 1966.

Such a target had been regarded as feasible in the report in February 1963 of the National Economic Development Council (NEDC), which had been set up by the Government in 1962 to examine the practicability of achieving a faster rate of economic growth. The members of NEDC include the Chancellor of the Exchequer, other Government Ministers, prominent union leaders, industrialists, and independent persons. In its search for methods by which the U.K. growth rate could be sustained at the 4 per cent level, NEDC took an active interest in studying concomitant policies for money incomes and prices. Indeed, NEDC was the setting for a constructive interchange of views between influential trade unionists and industrialists concerning incomes questions during 1963 and the early part of 1964. The work of the Council and its Secretariat has inspired exploratory moves by both sides of industry toward the evolution of a system of wage negotiation more appropriate to a full employment economy than the existing, haphazardly developed processes of wage bargaining and machinery for coordinating the policies of the employers' associations on the one hand, and of the trade unions on the other. Proposals have been made for the unification of the three central organizations of industrialists and for measures to secure a greater coordination of their policies; a reorganization of the unions along industrial demarcation lines is under study by a Committee of the Trades Union Congress (TUC). The General Council of TUC presented a report advocating a wages policy at the annual Congress in September 1963. General agreement to such a policy was not, however, reached, and the committee studying changes in union structure has so far failed to reach an agreed solution.

NEDC also discussed the role of incomes policy in relation to profits, and the responsibilities of management for achieving the price and income objective. Difficulties were foreseen as a result of fluctuations in profits in the course of the trade cycle and the likelihood that profits would rise in relation to wages and salaries toward the end of 1963. Late in 1963, the Federation of British Industries set up a joint working party with representatives of other employers' organizations to consider certain proposals for restraining profits and prices which, if they proved practicable, might serve as the counterpart to a policy of wage restraint on the part of the trade unions. No firm conclusions have as yet been drawn from NEDC's intensive study of incomes policy questions between December 1963 and February 1964, and it is unlikely that further progress will be made in this respect before the General Election later in 1964.

In its attempt to establish a favorable institutional framework for an incomes policy, the Government also set up in 1962 a National Incomes Commission (NIC). This is a standing Royal Commission, with independent members drawn from various professions, to which the Government may refer any pay settlement for retrospective examination, or any current question concerning pay or conditions of service, the cost of which will be met by the Exchequer. A current pay claim may also be referred to the Commission by the parties concerned, but so far all references have been by the Government. NIC is also required to have regard to the Government's pledge to restrain any undue growth in aggregate profits that may result from restraint in earned income, and to report from time to time on the need, if any, for such action to be taken. The Commission is an advisory body without power to enforce its suggestions, but it can recommend that the Government undertake surveys, for example, of prices, profit margins, and dividends. In general terms, NIC has provided a forum for discussion of the issues involved in determining how far particular wage or price decisions may be in the national interest. It has been suggested that the wish to avoid the substantial work and publicity involved in an investigation by NIC exerts a considerable influence upon employers, making them unwilling to offer pay increases substantially in excess of the guideline.

At its establishment, NIC was widely criticized for its lack of powers and of expertise. Nevertheless, the publication of its first two reports in 1963 seemed to have had an influence in moderating wage settlements in subsequent months and in encouraging agreements covering more than one year. However, at the end of 1963 several important wage settlements exceeded the official guidelines, and the Government referred to NIC the agreements providing for increases in wage rates in the engineering and shipbuilding industries of more than 5 per cent. A recent report on university salaries has underlined the value of the Commission as a means of establishing the existence of an exceptional situation justifying increases above the national guideline, and thereby indicating the areas where exceptions to the general rule ought to be admitted.

In the *Federal Republic of Germany,* employers are relatively strongly organized and the trade unions, which were disbanded in 1933, have been reconstituted since World War II in a few very large unions, covering industries or related groups of industries. A growing interest in incomes policies is a recent development. It reflects the stronger bargaining power of the trade unions in a full employment situation, and the realization that the public does not favor reliance on restriction of over-all demand as the sole means of countering wage pressures. This interest has been reinforced by the context of slower growth in the gainfully employed population and stronger demands for reductions in working hours.

An initial attempt at official guidance in 1960 was rather unsuccessful, and no similar moves were attempted in 1961 or 1962. Renewed attempts to influence the rise in wages early in 1963 promised to be more successful in the more restrained demand situation then prevailing. The authorities sought to inform and mobilize public opinion, and to promote informal contacts between employers, trade unions, and the economic departments of the Government, in order to facilitate making decisions on money incomes which would be consistent with the long-term growth of the economy. Two Economic Reports, presented by the Federal Government to Parliament in February and December 1963, suggested guidelines of 3-3½ per cent and 5-5½ per cent as justifiable rates of increase in money wages in 1963 and 1964, respectively Early in 1964, a group of independent experts was appointed to prepare similar reports annually.

The Economic Reports were fairly well received by the public and may have helped to moderate the increase in wages and prices as compared with recent years. The upward tendency of wages eased during much of 1963. Wage bargains concluded in the spring, though above the guideline, provided for more moderate increases than those concluded earlier in the year, several of which resulted in increases of 8-9 per cent. The guideline for wages encouraged a unity of view among employers. The slower rise in wages undoubtedly reflected a greater resistance to wage claims, mainly attributable to the squeeze on profits. However, with economic activity now expanding more rapidly and with improved prospects for profit, there may be less resistance to wage pressures among entrepreneurs.

Since wage settlements in 1963 were generally concluded for periods of more than one year—as recommended by the authorities—no sharp upsurge of wage rates may be expected until late in 1964. When the agreements come up for renewal, the trade unions may press for substantial wage increases, against the background of the marked rise in profits and other incomes in recent months, upward wage movements in other countries, and increases in the cost of living (especially those resulting from government decisions to decontrol certain rents, to raise railway and postal charges, and to raise the prices of certain foodstuffs as part of the support to the agricultural sector). The authorities are seeking to limit price increases by strengthening anti-cartel legislation through a reform of the Law on Restrictive Policies, by the provision of better consumer information, and possibly by reducing tariffs.

In *France*, the preparation of the Fourth Development Plan led to much discussion over the sharing of "the fruits of expansion." The term "incomes policies" has come to signify planning and policies to secure a desired allocation of real income among various groups. However, the need for an incomes policy in the narrower sense suggested at the opening of this section is less generally accepted by employers or trade unionists in France than in the United Kingdom or Germany. There is also far less agreement on the relevant statistics. A pressing need for an accepted incomes policy in this sense stems particularly from the Government's widespread involvement in decisions on money incomes. In France, government policy exerts a strong influence upon the level of money incomes owing to the importance of the public and nationalized sectors, the role played by the Government in determining income in the large agricultural sector, and the relatively high share of total personal income comprised by social security payments and pensions. Moreover, the 1960 Act on the Orientation of Agriculture had accepted the achievement of "parity" between the average level of incomes in agriculture and in industry as an objective of government policy. This has led to widespread demands for "parity" of incomes in other sectors of the economy.

The critical question of comparative wage levels in the public and private sectors came to a head with a strike in the coal mines in the spring of 1963. In their report, the experts appointed to study the whole question of wages in the nationalized sector emphasized the need for a generally agreed policy on government-determined incomes and drew attention to some of the underlying problems of incomes policy. The settlement proposed in the report was that workers in nationalized undertakings should be guaranteed minimum wage increases each year, subject to the achievement of the objectives set for the sector in the Development Plan concerned. There should be an annual review, at which this minimum increase could be augmented by a variable addition depending on the general economic situation and the particular circumstances of each undertaking. The guaranteed minimum increase should be below the target increase set by the Plan, so as to leave scope for negotiation between management and unions.

The Government accepted the principle of an annual review as well as the experts' assessment of the extent to which earnings in the coal mines, public utilities, and railways had lagged behind those in the private sector. It agreed that this past lag should be made good in two stages, half by immediate wage increases, half at the beginning of 1964. The question of the increases currently needed to preserve parity was to be discussed at the annual review agreed to earlier. The Government also agreed, in the interests of greater flexibility, to publish guidelines showing the average rate of wage increase which it regards as permissible each year.

The second stage of the wage increases promised in the spring and the proposed annual review were, however, delayed by the Government when price stabilization was undertaken in September 1963. The stabilization measures were intended to limit wage pressures by keeping down the prices of key items in private consumption. A "wage pause" was imposed on the public sector, wages being permitted to rise by not more than 1 per cent a quarter. This decision was strongly opposed by the trade unions and resulted in strikes.

General questions of income distribution again came to the forefront with the presentation to the Social and Economic Council of a report showing that disparities in real wages had widened between 1956 and 1963. In February 1964, the chairman of a special committee representing labor, employers, and the Government recommended that the Government indicate permissible or desired rates of increase for different categories of income each year, and the measures it might propose to secure these increases. The Social and Economic Council would review these proposals, and a panel of independent experts would be charged with following their implementation. The Government is considering this recommendation. It was also recommended that future Development Plans should include indicative figures for the growth, in money terms, of the main categories of income. This proposal is being studied by the planning authorities.

In the *Netherlands,* wage rates are legally established for each worker by a system of differentials for skill and urban or rural location related to a national minimum rate. Until 1959, whenever wages were raised (whether to meet changes in the cost of living or to allocate the gains of rising national productivity), practically uniform increases were granted to all workers, in all sectors.

This system came under increasing attack from both sides of industry, and in 1959 a new policy was introduced under which collective bargaining took place within individual sectors, the growth of productivity in each sector serving as a guideline for the permissible wage increases there. If strictly applied, this scheme should have obviated the possibility of price increases due to wage increases. However, in order to permit some increases in wages, and therefore in prices, in sectors where the growth of productivity was slowest, while maintaining over-all price stability, it was the aim to secure price reductions in sectors where the growth of productivity was most rapid.

This arrangement (which at the end of 1961 was modified so as to give some weight to the expected increase in productivity throughout the economy) did not fulfill expectations. Entrepreneurs were disappointed that it did not leave room for changes in the market situation to influence wage developments in different industries. Large wage increases in some sectors where productivity was rising rapidly inevitably gave rise to wage claims elsewhere and to the tendency for wage increases on average to exceed the over-all growth of productivity. Because of increasing labor shortages, which were partly due to the greater number of Netherlands workers going to neighboring countries, individual employers were ready to pay "black wages"—i.e., wages above those negotiated under the productivity formula.

After prolonged negotiations between the Government and organized management and labor, a revised system of wage determination was introduced in January 1963. Seminannual surveys of the economy, prepared by the Central Planning Bureau and including an account of the balance of payments position, are to be discussed by the Social and Economic Council (in which one third of the members represent the unions, one third represent management, and one third are independent members appointed by the Crown). Discussions, which are to take place at least once a year between the Government and the Labor Foundation—the highest negotiating committee of management and labor—are to center round the report of the Social and Economic Council. The outcome of these discussions is to serve as a guideline for collective bargaining by industries. The Labor Foundation, and no longer the government-appointed Board of Mediators, now approves collective agreements. However, the Government may suspend collective agreements which it considers contrary to the general interest, or not in line with the outcome of the discussions with the Labor Foundation. It may also promulgate a "wage freeze" in order to reconsider the situation with the Labor Foundation. The Minister of Social Affairs can convey the powers of the Labor Foundation temporarily to the Board of Mediators, in case there exists a fundamental difference of view between the Government and the Labor Foundation and the latter is not willing to follow the Minister's views.

In October 1962, the Social and Economic Council stated that it would be economically justifiable to increase by 2.7 per cent the wages of those workers whose contracts were renewable in 1963. However, the extreme tightness of the labor market situation led to increasing payment of "black wages." At the end of October, agreement was reached in the Labor Foundation for wage rates to be increased by 5 per cent on January 1, 1964, and by a further 5 per cent as collective agreements for particular industries are renewed during the year. In addition, individual enterprises are to be permitted to raise official wage rates by 4 per cent, i.e., to legalize "black wages" already being paid. Recent estimates put the rise in total wage costs per worker in 1964 at 15 per cent, compared with 8 per cent in 1963 and 7½ per cent in 1962. The Government had no reason to avail itself of its powers, and backed the agreement, which had also been supported by the Social and Economic Council. As a temporary exception to the price policy, the wage increase of 5 per cent was allowed to be reflected in prices from January 1, 1964.

In *Austria,* the Price-Wage Commission, in which the Chambers of Commerce and Industry, of Agriculture, and of Labor, and the Federation of Trade Unions are represented, has scrutinized applications for price and wage increases since 1957. In October 1963, the Government created an Economic and Social Council within the framework of the Price-Wage Commission to advise the

Government on general economic policy. Among other tasks, this Council is required to provide the Government with reliable data regarding the economy and its prospective growth on which to base an incomes policy. In March 1964, the Council submitted to the Government a comprehensive stabilization program, which included an appeal for a cautious price and wage policy and measures to improve the supply situation, such as further liberalization of imports and temporary tariff reductions.

Among the other European countries, Norway and Denmark intervened more actively in 1963 and growing interest in incomes policies was expressed in Italy. In *Norway,* the Government succeeded in bringing together representatives of various groups in order to coordinate agreements on industrial wages and incomes in agriculture and fisheries. In *Denmark,* the tightening of fiscal policies in 1962 did not seem likely to halt the rise of prices, as many wage contracts fell due for renewal early in 1963. In March 1963 the Parliament enacted a set of laws prolonging for two years the existing labor market agreements and introducing a prohibition on increases in prices and profits; the latter was, however, abolished in October 1963. The strengthening of inflationary pressures in *Italy* prompted a suggestion by the Governor of the central bank that an incomes policy be considered, and the Prime Minister held a series of informal meetings with trade union leaders to explain the need for wage restraint. Institutional factors, and the almost universal application of sliding scales for wage increases, are not, however, conducive to the implementation of incomes policies in Italy.

C. Export Performance of Manufacturing Countries

THIS note compares the growth in each manufacturing country's exports in recent years with the average growth in the markets to which it exports. It is found that the slower than average growth in certain countries' exports from 1960 to 1961, and from 1961 to 1962, was associated with a smaller than average growth in their export markets. From 1962 to 1963, however, all the manufacturing countries faced a broadly similar rate of expansion in their export markets, although there was still wide variation in the actual growth of their exports. In what follows, an attempt is made to review the causes of the differences observed between the actual growth of a country's exports and the estimated growth of its markets, including changes in relative export prices.

Growth of Export Markets

For the purpose of this analysis the world has been divided into 23 markets, consisting of the 13 manufacturing countries, 9 groups of primary producing countries,[1] and the Sino-Soviet Area. The rate of growth in the market confronting each exporting country is taken to be the growth in each market (as defined below) weighted according to the share of the country's exports taken by each market in the preceding year. For the 13 markets in manufacturing countries, the growth in the market is taken to be the growth in exports to that country from manufacturing countries. For the 9 markets in primary producing countries, the growth in the market is taken to be the growth in exports to that area both from the manufacturing countries and from the Sino-Soviet Area (which is also an important supplier of manufactured goods to primary producing countries). Finally, the actual growth in each country's exports to the Sino-Soviet Area has been included as a factor in the average growth of its export markets.

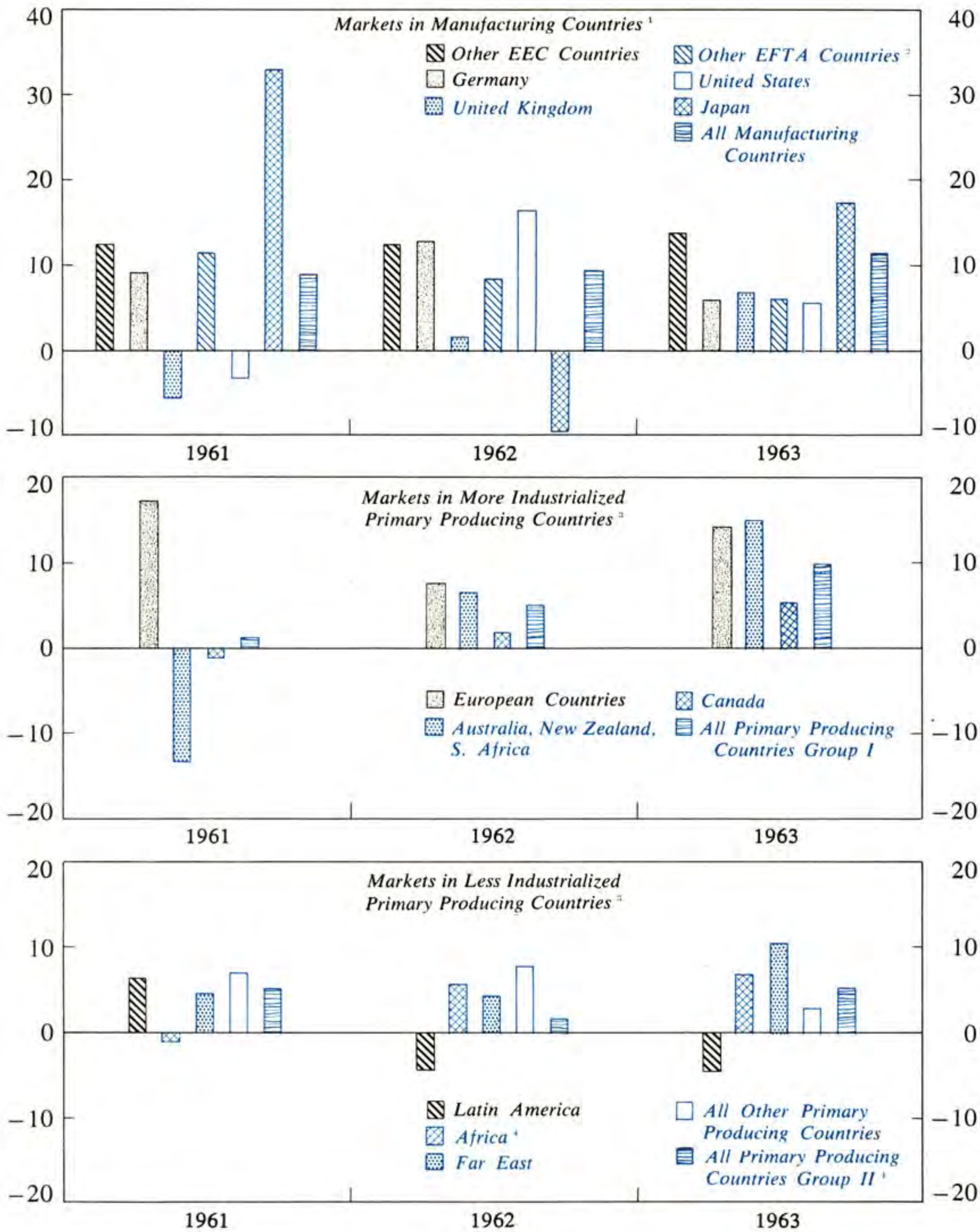
The rate of growth in the markets confronting manufacturing countries, measured in this way, tended to increase slightly over the last three years. The arithmetic average of the market growth for each of the 13 countries was a little over 6 per cent from 1960 to 1961, a little over 7 per cent from 1961 to 1962, and about 9 per cent from 1962 to 1963. At the same time, the dispersion of the rates of growth was considerably reduced. As Table 35 shows, from 1960 to 1961 only about half the countries experienced the roughly average growth of 6-8 per cent in their export markets; four countries (Denmark, Japan, Norway, and the United Kingdom) experienced a much smaller than average growth in their markets, and two countries (Austria and Switzerland) experienced a much larger than average growth. From 1961 to 1962, about two thirds of the countries experienced a growth of 8-10 per cent in their export markets, but two countries (the United States and France) experienced a much smaller growth in their markets, and two others (Norway and the United Kingdom) were somewhat below this range. From 1962 to 1963, by contrast, there were no marked divergencies from the main range, and every manufacturing country's export market expanded by 8-10 per cent.

There were two principal reasons why the growth of various manufacturing countries' export markets was more similar in 1962-63 than in the preceding periods. In the first place, the expansion of markets in primary producing countries differed less from the average growth of markets in manufacturing countries. As Chart 26 shows, from 1962 to 1963 the growth of markets in the more industrialized primary producing countries (Group I in Tables 13 and 14, p. 72) was commensurate with that in manufacturing countries,

[1] These include 5 of the 7 groups shown in Charts 26 and 27 (viz., Canada; Australia, New Zealand, and South Africa; European primary producing countries; less industrialized countries in Africa; Far East). The other 4 markets are subdivisions of the 2 others on the charts, viz., Venezuela, other Latin America, other oil producing countries, and other primary producing countries (excluding oil producing countries).

CHART 26. MANUFACTURING COUNTRIES: GROWTH OF EXPORT MARKETS, 1960–63

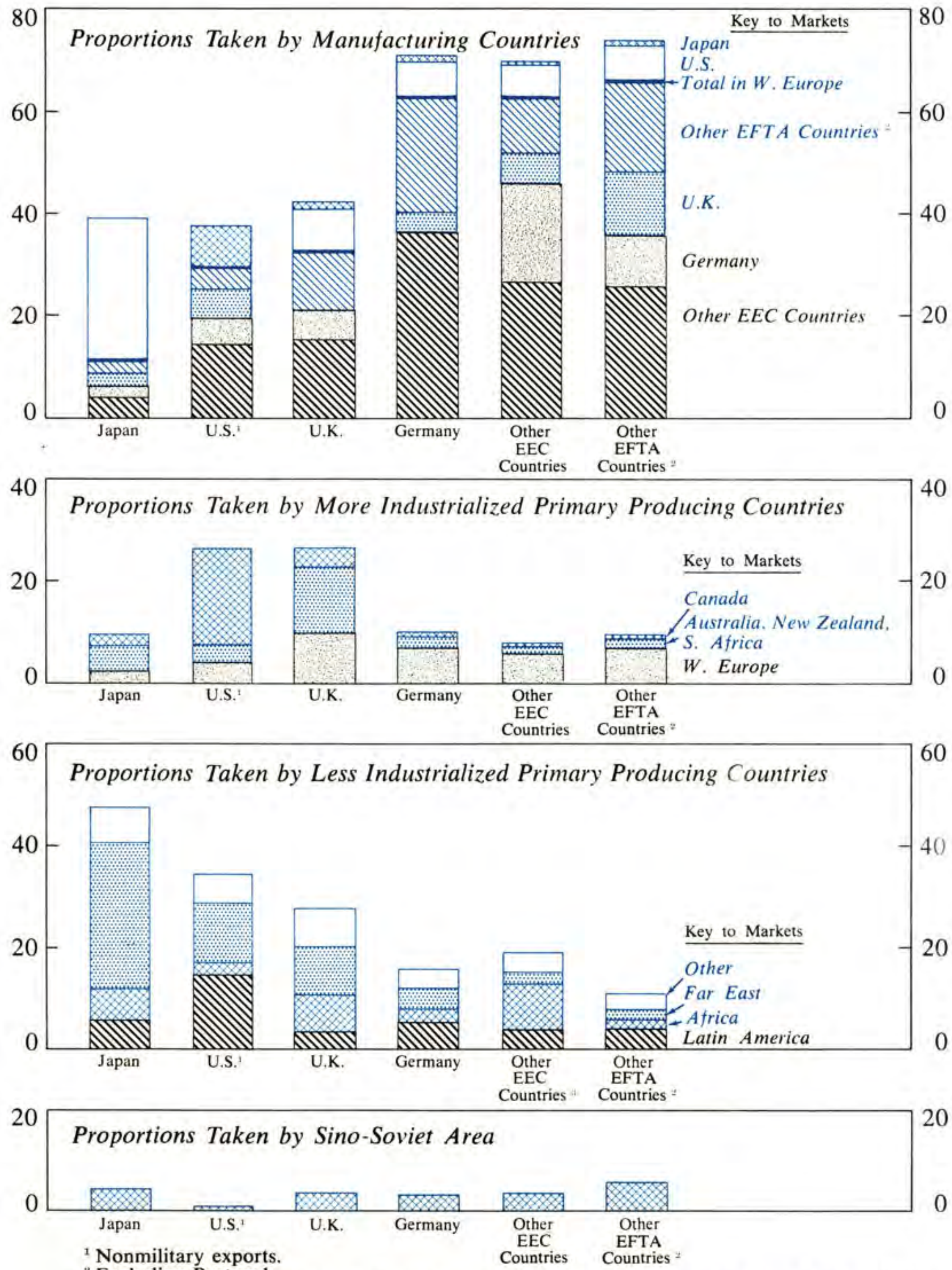
(*Percentage increase over previous year*)



[1] Growth measured by increase in total exports of manufacturing countries to markets shown.
[2] Excluding Portugal.
[3] Growth measured by increase in total exports of manufacturing countries and of Sino-Soviet Area to markets shown.
[4] The increase in 1962 shows the trend of exports excluding France's exports to Africa.

CHART 27. MANUFACTURING COUNTRIES: RELATIVE IMPORTANCE OF DIFFERENT EXPORT MARKETS FOR JAPAN, UNITED STATES, UNITED KINGDOM, GERMANY, OTHER EEC COUNTRIES, AND OTHER EFTA COUNTRIES

(In per cent of countries' total exports)



[1] Nonmilitary exports.
[2] Excluding Portugal.
[3] Exports to Africa accounted for 19 per cent of exports of France and about 4 per cent of those of the other four EEC countries.

whereas from 1961 to 1962 it had been only about half as large. Markets in less industrialized countries (Group II in Tables 13 and 14) expanded by 3-4 per cent, on average, from 1962 to 1963. There had been no increase from 1961 to 1962, owing to the sharp decline in French exports to Africa. From 1960 to 1961 exports to certain primary producing areas had expanded comparatively rapidly, but there had been almost no expansion of exports to the more industrialized primary producing countries because of a sharp decline in exports to Australia, New Zealand, and South Africa.

As a result of the development outlined in the last two paragraphs, from 1962 to 1963 the large differences in the dependence of particular countries on various markets (Chart 27) had comparatively little effect in causing differences between the rates of export growth which particular countries would have achieved if they had maintained their respective shares in each market.

The more favorable trend of markets in primary producing countries from 1962 to 1963 was of particular importance to the United States, the United Kingdom, and Japan. These markets account for about 60 per cent of their exports, compared with about 30 per cent of those of Germany, the other EEC countries, and other EFTA countries. Despite the more favorable trend of markets in less industrialized primary producing countries, however, Japan's export market expanded somewhat less from 1962 to 1963 than from 1961 to 1962. This was principally a reflection of the smaller expansion in the U.S. market, which accounts for 28 per cent of Japan's exports. The more industrialized primary producing countries are of special importance as markets for the United States and the United

TABLE 35. ACTUAL GROWTH IN EACH MANUFACTURING COUNTRY'S EXPORTS RELATED TO AVERAGE GROWTH IN ITS EXPORT MARKETS, 1961–63 [1]

(Percentage change from preceding year)

	1961		1962		1963	
	Market Growth	Actual Export Growth	Market Growth	Actual Export Growth	Market Growth	Actual Export Growth
Austria	10	7	10	5	10	5
Belgium-Luxembourg	7	4	9	10	9	12
Denmark	3	3	9	9	8	14
France	5	5	1 [2]	2	8	10
Germany	8	11	8	5	10	10
Italy	7	15	8	12	9	8
Japan	2	4	10	16	9	11
Netherlands	7	7	8	7	9	8
Norway	4	6	7	4	8	10
Sweden	6	7	8	7	8	10
Switzerland	11	9	8	10	10	9
United Kingdom	4	4	7	3	9	7
United States [3]	6	3	3	4	8	7

Sources: Based on data in International Monetary Fund and International Bank for Reconstruction and Development, *Direction of Trade* and in United Nations, *Monthly Bulletin of Statistics.*
[1] For methods of calculation, see text.
[2] See text above.
[3] Nonmilitary exports.

The second reason was that there was much less divergence in expansion between the markets in the manufacturing countries themselves (see Chart 26). There was, in fact, a marked expansion from 1962 to 1963 in all the main markets in manufacturing countries. This contrasted with their development from 1961 to 1962, when there was a sharp reduction in the market in Japan and little increase in that in the United Kingdom, and from 1960 to 1961, when there was a contraction of the markets in the United Kingdom and the United States and a disproportionate increase in the market in Japan.

Kingdom. A major factor underlying the faster growth in the export market of the United Kingdom than from 1961 to 1962 was the rapid expansion of the market in Australia, New Zealand, and South Africa. The faster expansion in the export market of the United States (by 8 per cent compared with only 3 per cent from 1961 to 1962) reflected not only the more favorable development in certain primary producing markets, but also the rapid expansion of trade with Japan, following the decline from 1961 to 1962, and the greater expansion in the United Kingdom. This last was also a major factor in the more nearly average growth of Norway's export market from 1962 to 1963 compared with the two preceding periods. The less than average growth in France's export market from 1961 to 1962 reflects the sharp decline in exports to former French territories in Africa, especially Algeria, which has been treated as a market factor peculiar to France.

Market Growth and Actual Exports

Comparison of the two columns for each year in Table 35 suggests that the smaller than average growth in their export markets was a factor in causing the lower than average actual expansion of the exports of Denmark, Japan, and the United Kingdom in 1961, but did not apparently underlie the comparatively slight actual expansion in the exports of Belgium-Luxembourg or the United States. Similarly, the slight growth in their export markets was apparently a factor in the lower than average expansion of the exports of France and the United States in 1962, but not in the comparatively low rate of expansion in the exports of Austria, Germany, Norway, and the United Kingdom in that year, or in the continued slow growth of Austrian exports in 1963.

Table 36 summarizes the relation between the estimated growth in various countries' markets and the actual growth in their exports in these three years. It distinguishes countries whose exports actually grew broadly in line with the estimated growth of their markets—i.e., those countries which on balance roughly maintained their shares in the 23 markets (16 cases)—from those which on balance succeeded in substantially increasing their shares (13 cases) or those which experienced a considerable decline in their shares (10 cases). It would be surprising if the actual growth in countries' exports did not often exceed, or fall below, the average growth in their export markets, for a wide variety of reasons. Nevertheless, such a comparison of the actual growth with the growth in exports which each country would have experienced in each period if it had maintained its shares of various markets, provides a much better indication of changes in the export performance of particular countries than the straight comparison of the actual rates of growth in their exports.

There are, of course, many reasons why certain countries may find it difficult to maintain their shares as markets expand while others are able to achieve a faster than average growth in particular markets. One obvious factor is the influence of differences in the composition of countries' exports. A country (such as the United States) whose exports comprise a relatively large proportion of basic foodstuffs, raw materials, and semimanufactures, the demand for which has been tending to rise less rapidly than that for more highly finished goods, may be at a consequent disadvantage in most years. On the other hand, its exports to manufacturing countries may tend to rise faster than average when agricultural conditions in Western Europe are unfavorable. (A more refined calculation of the growth of markets, distinguishing between broad commodity groupings, would be desirable, but unfortunately the statistical data for such a calculation are not available for several years after the developments occur.) Again, countries may find it difficult to maintain their shares in particular markets owing to the impact of changes in tariffs under regional arrangements, or to a weakening of special preferences which in the past led one country (such as the United Kingdom) to gain an abnormally large proportion of exports to particular areas. Furthermore, a country's exports may vary with the value of the goods it is providing under a foreign aid program or in the form of equipment for investment in the foreign branches and subsidiaries of its business enterprises, irrespective of the general growth in demand for exports in particular markets.

Thus it cannot be assumed that the actual growth in countries' exports would always correspond closely to the estimated growth in their export markets, even if there were no marked changes in their competitive strength. On the other hand, it is natural to suppose that marked changes in the competitive position of particular countries will be reflected in gains or losses of market shares. Changes in competitive power may take many forms. The wage cost factor has been discussed in Chapter 5. The competitive power of a country in export markets will generally tend to improve if labor costs per unit of output, which constitute the largest element in unit costs of manufactures, rise less than in competing countries. This may be reflected in a more favorable movement of export prices than in other countries. Even if all export prices were to remain unchanged, however, the slower rise in unit costs would lead to a more favorable development of profits in the export sector than in other countries, which in turn might tend to encourage greater efforts to promote export expansion. Similarly, a marked reduction in a severe pressure of demand on the home market, such as was brought about in Denmark in 1963, is likely to strengthen the country's competitive position on export markets, whether by encouraging a more favorable trend of its export prices or by increasing the quantities and range of goods offered, expediting delivery, or increasing the sales effort devoted to exports.

TABLE 36. SUMMARY OF THE COMPARISON BETWEEN THE ACTUAL GROWTH IN COUNTRIES' EXPORTS AND THE ESTIMATED GROWTH IN THEIR MARKETS, 1960–63

	1960-61	1961-62	1962-63
I. Actual export growth broadly in line with estimated market growth	Denmark France Netherlands Sweden United Kingdom	Belgium-Luxembourg Denmark France Netherlands Sweden United States	Germany Italy Netherlands Switzerland United States
II. Actual export growth considerably higher than estimated market growth, i.e., marked increase on balance in share of all markets	Germany Italy Japan Norway	Italy Japan Switzerland	Belgium-Luxembourg Denmark Japan France Norway Sweden
III. Actual export growth considerably below estimated market growth, i.e., marked decline on balance in share of all markets	Austria Belgium-Luxembourg Switzerland United States	Austria Germany Norway United Kingdom	Austria United Kingdom

Source: Derived from Table 35.

Export Performance and Relative Price Changes

Unfortunately, it is virtually impossible to devise any adequate indication of changes in the over-all competitive strength of different countries in export markets. In general, there would seem reason to expect marked changes in competitiveness of the kinds referred to in the preceding paragraph to be associated with significant changes in relative export prices. Entrepreneurs with an increased incentive to expand export sales may well be prepared to lower prices, or not to increase them when others do, in order to increase their share of the market. Entrepreneurs whose profit margins are being squeezed are more likely to raise prices. However, complications arise in practice. It is possible to conceive of the case where, because of the composition of its exports, the average unit value of a country's exports declines (or rises) relative to those of other countries merely because it is strongly influenced by depressed (or boom) conditions in the market for specific goods (for instance, steel or other commodities subject to marked price fluctuations). Again, average export unit values only include the effects of prices charged for goods sold, and may understate the actual increase in prices of goods offered to the extent that goods which could not be sold because their prices were uncompetitive are automatically excluded. It would be surprising, however, if this were a significant factor when there was no tendency for the price of goods sold to rise in relation to those of other exporting countries. In default of any other suitable indicator, there is some interest in comparing countries' export performance as revealed in Table 36 with the changes in their relative unit values for manufactured exports. These changes are presented in a comparable form in Table 37 for the nine countries for which such unit values are available.

This comparison indicates a fair degree of correspondence between countries' success in maintaining or expanding their shares of export markets, and the maintenance or improvement of their relative export prices as indicated by their unit value figures. However, losses of market shares are less clearly associated with increases in countries' export prices relative to those of their competitors. The position may be summarized as follows. The unit value comparison can be made in 13 of the 16 instances in which countries on balance approximately maintained their shares in the 23 markets. In 10 of these 13 instances there was less than 1 per cent change in the relation between the country's export unit value and the average for the other 8 manufacturing countries. The unit value comparison can be made in 8 of the 13 cases of countries which substantially increased their market shares. In 6 of these 8 cases, there was a reduction of more than 1 per cent in the ratio of the country's export unit value to the average for the other manufacturing countries. The unit value comparison can be made for 5 of the 10 instances in which countries experienced a considerable decline in their export shares. In 2 of these 5 cases, there was an increase of more than 1 per cent in the ratio of the country's export unit value to the average for other manufacturing countries.

The two instances in which countries substantially increased their market shares, apparently without an improvement in their export prices relative to the average for the other eight countries, were those of Germany in 1961 and France in 1963. In the former instance, which was actually associated with a marked relative rise in the unit value of German exports, the greater part of the increase in shares occurred in trade with the other EEC countries. There was also a marked increase in Germany's share of exports to the United Kingdom, Switzerland, and Austria, possibly connected with the high level of investment activity in those countries. In 1963, the faster growth in France's exports than in its estimated market seems to have occurred princi-

TABLE 37. SUMMARY OF THE CHANGES IN THE RELATION BETWEEN EACH COUNTRY'S EXPORT UNIT VALUE AND THE AVERAGE UNIT VALUE OF OTHER MANUFACTURING COUNTRIES' EXPORTS, 1961–63 [1]

(Percentage change over preceding 12 months)[2]

	1961		1962		1963		Second Half 1963 [3]	
I. Little change in relation (less than 1 per cent change)[4]	France	+	Belgium-Lux.	—	Germany	—	France	+
	Sweden		France		Netherlands	—	Germany	
	United Kingdom	+	Sweden	—	United States		Japan	
	United States	—	United Kingdom				Netherlands	
			United States					
II. Marked improvement (lowering of export unit value relative to the average for other countries)	Belgium-Lux.	—2	Italy	—4	Belgium-Lux.	—1	United States	—1
	Italy	—4	Japan	—4	Japan	—2		
	Japan	—4						
III. Marked worsening (rise of export unit value relative to the average for other countries)	Germany	2.5	Germany	4	France	1	Belgium-Lux.	1
	Netherlands	1	Netherlands	1	Italy	1	Italy	4
					United Kingdom	2	United Kingdom	3

Source: Based on unit value indices for manufactured goods published in United Nations, *Monthly Bulletin of Statistics.*
[1] Percentage change in ratio of each country's index of unit value of manufactured goods exports (in dollars) to the combined index for other manufacturing countries for which such data are available. No figures are available for Austria, Denmark, Norway, or Switzerland, or for Sweden in 1963.
[2] In order to allow for a time lag, the changes relate to years ended in June; i.e., the figures for 1963 show changes in ratio for the year ended June 1963 compared with the year ended June 1962.
[3] These figures show the change in the ratio for the second half of 1963 compared with that for the 12 months ended June 1963.
[4] Signs show direction of changes of more than 0.5 per cent; increase in export unit value relative to that of other countries + (reduction —).

pally in exports to Italy, Switzerland, and primary producing countries in Western Europe. It may have reflected an improvement in the relation of prices, delivery dates, etc., to those of Italian products, since Italy is France's closest competitor in these markets.

The three instances of countries experiencing a marked decline in their export shares without any marked increase in their relative export unit values were those of Belgium-Luxembourg and the United States in 1961 and the United Kingdom in 1962. The growth of Belgian exports in this instance was limited by strikes. The decline in the U.S. share appears to have been largely the counterpart of the increase in Germany's share of exports to certain markets referred to in the preceding paragraph. The decline in the United Kingdom's share in 1962 occurred entirely in trade with primary producing countries, while its share in exports to the 13 manufacturing countries actually increased. A major factor in the decline seems to have been the marked increase in U.S. aid to primary producing countries in Africa and Asia. There was also a marked decline in the United Kingdom's share of exports to Canada and to Australia, New Zealand, and South Africa. This seems, in part, to have reflected liberalization of imports from Japan. The improvement in U.S. export performance in 1962 compared with 1961, shown in Table 36, was strongly influenced by the increase in aid just referred to.

The three instances in which there was no marked change in countries' shares of markets although their export unit values rose by more than 1 per cent in relation to those of other manufacturing countries occurred in similar circumstances. They comprise the Netherlands in 1961 and 1962 and Italy in 1962. It may be suggested that in each of these cases the comparative level of export prices was initially very favorable and a moderate deterioration in export prices relative to those of other countries was therefore perhaps unlikely to have an immediate effect on market shares.

Of the four countries for which no unit value data are available, Austria's exports each year rose less than its estimated market. The decline in its share appears to have reflected the increasing difficulty in Austria's position outside the European Economic Community, in which its principal markets lie. The rise in Switzerland's share of markets in 1962 appears to have reflected an improvement in the relation of its prices vis-à-vis those of Germany, following the appreciation of the deutsche mark. Changes in Norway's share in markets are particularly liable to be influenced by the comparatively narrow range of its major exports. As mentioned, the marked increase in Denmark's share in markets in 1963 appears to have been strongly influenced by steps taken to restrain the pressure of internal demand.

The preceding discussion of the recent development of manufacturing countries' exports represents no more than an initial attempt to compare the actual growth of various countries' exports with the average growth of their markets, and to see whether changes in their performance, as measured by this criterion, were associated with the changes in the relation of their export prices to those of other countries. It is not, of course, in any sense a comprehensive explanation of the development of these countries' exports. In order to understand this fully it would be necessary to undertake a far more thorough study of the diverse factors involved, which have been discussed briefly in the earlier part of this note.

D. The Gold Pool

THE Gold Pool has been described as a kind of gentlemen's agreement which has been evolved on an experimental basis after consultation between certain European central banks and the Federal Reserve Bank of New York. The arrangement, which remains flexible and informal, has the underlying objective of avoiding unnecessary fluctuations in the price of gold in the free market, such as might undermine the stability of the exchanges. Knowledge that the monetary authorities are working together in this way helps to maintain confidence in the existing international monetary structure.

The origin of the Gold Pool goes back to the crisis in the gold markets in the autumn of 1960, when the price of gold was forced up to about \$40 a fine ounce. This crisis was resolved by large-scale selling by the Bank of England, with the backing of the U.S. monetary authorities. The concern of the monetary authorities at the events in October 1960 led to discussions between the representatives of the European central banks and of the Federal Reserve Bank of New York at the time of the regular Board meetings of the Bank for International Settlements in Basle. It was recognized that as central banks can buy gold from the U.S. Treasury at \$35.0875 a fine ounce, there was no financial reason why any central bank should pay more for the metal in London than this price, plus an allowance for the cost of shipment from New York to London.

In the early part of 1961, conditions in the gold markets were easy, but by the end of August increasing demand had pushed the price up to about \$35.20 a fine ounce. At this price, which was slightly above that at which gold could be bought in New York and shipped to London, none of the important continental central banks was a buyer in London. In October 1961, the U.S. monetary authorities proposed to those of the United Kingdom and the European continent an informal arrangement to share the burden of intervention in the London market to keep price fluctuations within a reasonable range. This proposal was accepted and the central banks of Belgium, France, the Federal Republic of Germany, Italy, the Netherlands, Switzerland, and the United Kingdom agreed, in case of need, to cooperate with the Federal Reserve Bank of New York in a sales consortium for the purpose of stabilizing the gold market. The Bank of England was appointed operating agent, with authority to draw on the pool of gold contributed according to agreed quotas, the United States taking a 50 per cent share in the arrangement. In November 1961, the arrangement was given a trial run and then put back into suspense. Thereafter, the trend in the market changed and purchases became possible; the gold used in November was accordingly repaid to those concerned by the end of February 1962.

At the beginning of 1962, the price was tending downward, and it appeared that on balance gold might be offered in the market. This situation gave rise to a second proposal from the United States, that there should be coordinated buying. After some experimentation in February 1962, this arrangement was confirmed in April. Separate purchases of gold by the individual members of the pool were obviated by the Bank of England's buying, on behalf of the group, any gold available at or below the U.S. selling price, its purchases being distributed among the interested participants from time to time.

By the late spring of 1962, total purchases on behalf of the pool had reached \$80 million; but before this was distributed demand increased, as a result of the break in U.S. stock market prices and the speculation against the Canadian dollar. The pool's gains were then used by the Bank of England in its efforts to stabilize the market. As the demand continued, the consortium's sales agreement was reactivated, and by September gold equivalent to nearly \$50 million had been sold, despite the stabilizing effects of President Kennedy's Telstar broadcast on July 23. In October 1962, the Cuban crisis led to a short-lived but enormously increased demand for gold in London; however, sales by the U.S.S.R. offset this demand, and the price did not rise above $35.20 a fine ounce. By the end of October, the pool had made net sales of well under $100 million; but by the end of the calendar year, the Bank of England was able to reacquire this amount of gold, and the participants in the pool recovered their earlier contributions. The sales consortium was again put into suspense, and it is believed not to have been reactivated; it remains, however, ready for use in case of need.

In 1963, industrial demand continued to increase, and private buying persisted from some quarters. However, increased production, the liquidation of positions taken up at the time of the Cuban crisis, and sales by the U.S.S.R. in connection with its wheat purchases made conditions in the market much more favorable. No contributions had to be made to the pool during the year, and some $600 million of gold was shared out to the participating central banks.

The Gold Pool operates, therefore, in two parts —as a selling consortium which is not in operation all the time, and as a buying syndicate which represents coordinated rather than independent action.

APPENDICES

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Appendix I. Executive Board Decisions

A. Quota Increases: Gold Subscriptions

In connection with any quota increases granted in accordance with the Fund's decision on "Compensatory Financing of Export Fluctuations" and any quota increases granted as the result of requests received before the decision referred to, it is decided:

(a) to recommend to the Board of Governors, where a member represents, for reasons which it shall submit to the Fund, that its reserves should not be reduced by an immediate 25 per cent gold payment, that such member shall be permitted in accordance with an appropriate resolution to have its quota increased in five annual installments, with the right to accelerate the payment of such installments;

(b) to give sympathetic consideration to a request for an exchange transaction up to 25 per cent of the increase by any member which wishes to have the full increase in its quota take effect immediately or to expedite the full increase in its quota if it is paying under the installment schedule. This facility will be available where: (i) the member would encounter undue payments difficulties through the reduction in its reserves by the payment of the 25 per cent gold subscription or of the outstanding balance; and (ii) the request is made within two years after the date of the consent to the increase or, in the case of an increase in installments, within two years after the payment of the first installment; and (iii) the member requesting such an exchange transaction beyond the gold tranche represents that it will make a repurchase corresponding to any drawing in equal annual installments, to commence one year after the drawing and to be completed not later than three years after the drawing.

Decision No. 1529–(63/33)

June 14, 1963

B. Gold Collateral Transactions

Where the Fund decides in exceptional circumstances to enter into a gold collateral transaction with a member because this would promote the purposes of the Fund and give the member the opportunity, in consultation with the Fund, to adopt policies, during the period referred to in (a) below, that would be consistent with the policies and practices of the Fund on the use of its resources:

(a) the period for repurchase of the Fund's holdings of the member's currency resulting from the transaction, to the extent that they are not otherwise reduced, shall normally not exceed six months after the transfer of exchange by the Fund;

(b) the repurchase shall be made with gold or convertible currencies acceptable to the Fund in accordance with its Decision of July 20, 1962;[1]

(c) the provisions of the pledge agreement shall be on the lines of those set forth in the draft letter annexed. . . .

Decision No. 1543–(63/39)

July 1, 1963

Annex

DRAFT LETTER TO MEMBER ENTERING INTO A GOLD COLLATERAL TRANSACTION

Dear Sir:

On ________________, the Fund decided to enter into an exchange transaction with ____________________ in an amount equivalent to US$______ secured by the pledge of gold as collateral, [and granted the necessary waiver under Article V, Section 4,] subject to the conditions set forth in this letter. The amount of ______, equivalent to US$______ and ______, equivalent to US$______, will be transferred to your account(s) after the steps set forth in Section B below have been taken.

Section A

1. The collateral for the transaction shall consist of gold bars containing fine gold having a value not less than $______ calculated on the basis of US$35 per troy ounce of fine gold. The fine gold content will be determined to the satisfaction of the Fund and at your expense.

2. The gold bars will be transferred by you by way of pledge at a gold depository selected by you from among the Fund's gold depositories (Federal Reserve Bank of New York, New York; the Bank of England, London; Banque de France, Paris; the Reserve Bank of India, Nagpur, India). You will irrevocably instruct the depository in accordance with the attached exhibit that the gold is to be transferred to, earmarked, and held in a special account in the name of and for the sole account of the International Monetary Fund, that the special account shall be at the sole order of the Fund, and that the depository shall accept and act upon any and all instructions of the Fund with respect to part or all of the gold in the special account. The Fund will arrange with the depository for the establishment of the special account. The depository will not be informed that the gold is held under pledge to the Fund.

3. You will represent to the Fund that the gold is free from any claims, liens or encumbrances in favor of any other party and subject to paragraph 9 below will remain free therefrom during the pledge. You will further represent to the Fund that under your law the gold may be freely pledged and disposed of as provided in this letter.

4. The gold will continue to be owned by you. Accordingly, the Fund will enter the gold on its books in your name, and will not show the gold in its books or accounts as owned by the Fund.

5. Not later than the repurchase date, namely the close of business six months after the value date for transfer of the exchange by the Fund to your account(s), you will repurchase the Fund's holdings of your currency resulting from the transaction, to the extent that such holdings are not otherwise reduced, with gold in the special account if you so request or with other gold or convertible currencies acceptable to the Fund in accordance with the Fund's Decision of July 20, 1962.

[1] *Annual Report, 1962,* pages 36-41 and 245; *Selected Decisions of the Executive Directors* (Washington, Second Issue, September 1963), pages 33-39.

6. On any reduction at any time of the Fund's holdings of your currency resulting from the transaction otherwise than by repurchase with gold in the special account, the Fund will, on your request, release to you or to your order at the depository gold from the special account in an amount not exceeding the equivalent of the reduction, provided that the amount of gold remaining in the special account shall not be less than the equivalent of the outstanding balance of the transaction.

7. To the extent that the Fund's holdings of your currency resulting from the transaction have not been reduced by the close of business on the repurchase date, the Fund will give you notice of the balance due and payable by way of repurchase in respect of the transaction, and you will complete such repurchase with gold in the special account if you so request or other gold or convertible currencies acceptable to the Fund in accordance with the Fund's Decision of July 20, 1962 not later than the close of business thirty days after the repurchase date. In the absence of such repurchase by the close of business thirty days after the repurchase date, repurchase will be effected with gold in the special account on the instructions of the Fund and without the need for further notice or request to you.

8. Where repurchase is effected with gold in the special account pursuant to paragraph 5 or 7, the gold in the special account will be transferred, on the instructions of the Fund, to the ordinary gold account of the Fund at the depository, which gold shall then be deemed to have been transferred by you to the Fund and shall thereupon be owned by the Fund free from any claim, including any right of redemption. Any surplus balance of gold beyond the full amount of the repurchase will be returned to you but any balance less than one bar will be held under earmark for you pursuant to Rule I-1 of the Fund's Rules and Regulations.

9. At any time before the repurchase date or the close of business thirty days after the repurchase date, you may, after consulting the Fund, arrange for the sale of the gold in the special account, and the Fund will be prepared to give appropriate instructions to facilitate the sale, provided that on or before the close of business thirty days after the repurchase date the Fund's holdings of your currency resulting from the transaction will be repurchased with gold or convertible currencies acceptable to the Fund in accordance with the Fund's Decision of July 20, 1962, and provided further that the gold will not be released from pledge before such repurchase is effected.

10. All charges and costs connected with or resulting from the transfer to the special account (including without limitation transportation, earmarking, and holding), release, and redelivery, as well as converting the gold into good delivery bars if deemed necessary by the Fund under paragraph 1 above or if the gold is transferred to the Fund's ordinary gold account by way of repurchase will be borne by you.

Section B

The transfer of currencies pursuant to the transaction agreed by the Fund will be made by the Fund after the Fund has received from you:

(i) acceptance of all of the conditions of this letter; and
(ii) a copy of the instructions referred to in Section A 2 above; and
(iii) the representations referred to in Section A 3 above;

and, in addition, has received from the depository:

(iv) confirmation that the depository has established the special account, earmarked the gold, and will act in accordance with Section A 2 above; and
(v) information satisfactory to the Fund as to the fine gold content of the bars.

Very truly yours,

INTERNATIONAL MONETARY FUND

By:

C. General Arrangements to Borrow: Association of Switzerland

The understandings set forth in the letter which the Swiss Ambassador to the United States proposes to send to the Managing Director (EBD/64/73, Attachment I) are acceptable to the Fund and the Managing Director is authorized to send the letter attached to EBD/64/73 (Attachment II).[2]

Decision No. 1712-(64/29)
June 8, 1964

LETTER OF SWISS AMBASSADOR

Washington, D.C.
June 11, 1964

Sir:

I have the honor to refer to Mr. Jacobsson's letter of December 14, 1961 to the President of the Swiss Confederation and to conversations between representatives of the Swiss Confederation and the International Monetary Fund (hereinafter referred to as "the Fund") concerning the way in which the Swiss Confederation could be associated with the Fund's General Arrangements to Borrow, and thus contribute to the objectives of those Arrangements. The General Arrangements to Borrow (hereinafter referred to as "the General Arrangements") are those set forth in Decision No. 1289-(62/1) of January 5, 1962, of the Fund's Executive Directors, as amended by Decision No. 1362-(62/32) of July 9, 1962 and Decision No. 1415-(62/47) adopted on September 19, 1962.[3]

In the light of the views that have been exchanged, the Swiss Federal Council, on behalf of the Swiss Confederation, is prepared to be associated with the General Arrangements as follows:

(1) The Swiss Confederation is prepared to make resources available to participants in the General Arrangements in accordance with this letter and in amounts not exceeding an outstanding total equivalent to 865,000,000 Swiss francs.

(2) The Swiss Confederation will be prepared to consider the conclusion of agreements (hereinafter referred to as "implementing agreements") with any of the participants in the General Arrangements if requested by such participants. The implementing agreements will prescribe the terms and conditions in accordance with which the Swiss Confederation will make resources available to the participant or the Swiss Confederation and the participant will make resources available to each other, which shall be on the basis of reciprocal terms if required. Immediately on the conclusion of an implementing agreement, or of any amendment of an implementing agreement, the Swiss Confederation will provide the Managing Director with a copy thereof.

[2] The Attachments referred to in this Decision were drafts of letters to be exchanged between the Swiss Ambassador and the Managing Director. The texts of the letters that were exchanged on June 11, 1964 follow this Decision.

[3] For the Decision of January 5, 1962, see *Annual Report, 1962*, pages 234-45; for the Decision as amended, see *Selected Decisions of the Executive Directors* (Washington, Second Issue, September 1963), pages 55-65.

(3) Whenever the Managing Director of the Fund initiates the procedure and makes a proposal for calls pursuant to Paragraphs 6 and 7 of the General Arrangements for the benefit of a participant that has entered into or enters into an implementing agreement, he may propose to the Swiss Confederation, after consultation with the Swiss Confederation, that it shall make a specified amount of resources available to the participant, which amount shall be in accordance with the implementing agreement with that participant. If the proposal for calls becomes effective under Paragraph 7 of the General Arrangements, the Swiss Confederation will make the specified amount of resources available to the said participant in accordance with this letter and with the terms and conditions of the implementing agreement. If, however, the Swiss Confederation gives notice to the Managing Director that in its opinion, based on its present and prospective balance of payments and reserve position, it should not make resources available in accordance with this proposal, or should make available a smaller amount than that proposed, the Swiss Confederation will not be obliged to make any such resources available or more resources than it represents to the Managing Director that it should make available.

(4) If the Swiss Confederation makes resources available to a participant otherwise than in accordance with the procedure of paragraph (3), the Swiss Confederation, after consultation with the Managing Director, may deem such resources to be or to have been made available pursuant to this letter, provided that at the date of such deeming Switzerland has entered into an implementing agreement with that participant, that at the date of such deeming a proposal for calls for the benefit of that participant is in effect under Paragraph 7 of the General Arrangements and provided that the terms and conditions for repayment to Switzerland accord or are made to accord with paragraph (5).

(5) The effect of the terms and conditions for the timing of repayment of resources made available by Switzerland pursuant to this letter will correspond, to the maximum extent practicable, with the repayment provisions of Paragraph 11 of the General Arrangements.

(6) The Fund may, at the request of a party to an implementing agreement, make any determination, or use its good offices, to facilitate the operation of an implementing agreement, subject, however, to paragraph (9).

(7) Whenever the Swiss Confederation makes resources available pursuant to paragraph (3) or deems resources to be or to have been made available pursuant to paragraph (4), the Swiss Confederation will inform the Managing Director of the amount in terms of Swiss francs thus made available. The Swiss Confederation will inform the Managing Director of the amount in terms of Swiss francs of the repayment of any resources made available pursuant to paragraph (3) or (4).

(8) The Swiss Confederation and the Fund will provide each other with the general information necessary to facilitate the operation of this letter and implementing agreements.

(9) The Fund does not accept any responsibility or liability, whether as guarantor or otherwise, in connection with this letter or with respect to the performance of the terms and conditions of an implementing agreement.

(10) This letter will remain effective for four years from October 24, 1962, provided that the Swiss Confederation may rescind this letter, with immediate effect, within one month after an amendment of the General Arrangements becomes effective pursuant to Paragraph 15 of the General Arrangements. This letter may be amended or rescinded at any time if the Swiss Confederation and the Fund shall so agree.

(11) Any question of interpretation or application of these understandings will be settled to the mutual satisfaction of the Swiss Confederation and the Fund.

(12) For the purposes of this letter, references to participants shall be deemed to include the official institution of a participant with which an implementing agreement is made, even though such institution is not a "participating institution" under the General Arrangements.

(13) All communications by or to the Swiss Confederation pursuant to this letter shall be made by or to the Swiss National Bank.

I propose that, if this letter is approved by the International Monetary Fund, this letter and your reply constitute an agreement between the Swiss Federal Council and the International Monetary Fund, which shall enter into force on the date of your reply. I hereby declare that the Swiss Confederation has taken all steps necessary to implement the exchange of letters.

Accept, Sir, the assurances of my highest consideration.

The Ambassador of Switzerland:

/s/

ALFRED ZEHNDER

The Managing Director
International Monetary Fund
19th and H Streets, N.W.
Washington, D.C. 20431

REPLY OF THE MANAGING DIRECTOR

Washington, D.C.

June 11, 1964

Sir:

I am pleased to acknowledge receipt of your letter of June 11, 1964.

I have been authorized to inform you that the understandings set forth in your letter are accepted by the International Monetary Fund. Accordingly, your letter and this reply constitute an agreement between the International Monetary Fund and the Swiss Federal Council, which will enter into force on the date of this reply.

Accept, Sir, the assurances of my highest consideration.

Very truly yours,

/s/

PIERRE-PAUL SCHWEITZER

Managing Director

His Excellency
Alfred Zehnder
Ambassador of Switzerland
2900 Cathedral Avenue, N.W.
Washington, D.C. 20008

D. Exchange Transactions Prior to the Establishment of Initial Par Value: Membership Resolutions

The following paragraph shall be adopted in future membership resolutions submitted to the Board of Governors:

> 6. *Exchange Transactions with the Fund:* [Member] may not engage in exchange transactions with the Fund until both (a) the par value of its currency has been agreed in accordance with paragraph 5 above and put into operation and (b) its subscription has been paid in full; provided, however, that at any time before the requirements under (a) and (b) have been met, the Executive Directors are authorized to permit exchange transactions with [member] under such conditions and in such amounts as may be prescribed by the Executive Directors.

Decision No. 1686–(64/22)

April 22, 1964

On June 1, 1964, the Board of Governors agreed that this provision should also apply to existing membership resolutions relating to Algeria, Burundi, Cameroon, the Central African Republic, Chad, Congo (Brazzaville), Congo (Leopoldville), Dahomey, Gabon, Guinea, Ivory Coast, Kenya, Korea, Laos, the Malagasy Republic, Mali, Mauritania, Nepal, Niger, Rwanda, Senegal, Sierra Leone, Tanganyika, Togo, Trinidad and Tobago, Tunisia, Uganda, Upper Volta, and Viet-Nam.

E. Exchange Transactions Prior to the Establishment of Initial Par Value

(a) Where the Fund prescribes the conditions and amount of an exchange transaction by a member before the establishment of an initial par value, the member will be required to complete the payment of its subscription on the basis of a provisional rate of exchange for its currency proposed by the member and agreed by the Fund.

(b) In deciding whether to permit exchange transactions before the establishment of an initial par value, the Fund, in accordance with the last sentence of Article I, will be guided by the purposes of the Articles; the Fund will encourage members to follow policies leading to the establishment of realistic exchange rates and to the adoption at the earliest feasible date of effective par values, and will take into account the efforts that are being made to achieve this objective. However, the Fund will give the overwhelming benefit of any doubt to requests for exchange transactions within the gold tranche and members can expect that requests for drawings will be met where they are made in accordance with paragraph 5 of E.B. Decision No. 1477–(63/8),[4] adopted February 27, 1963.

Decision No. 1687–(64/22)

April 22, 1964

[4] *Annual Report, 1963,* pages 196-99; *Selected Decisions of the Executive Directors* (Washington, Second Issue, September 1963), pages 40-43.

Appendix II. EXECUTIVE DIRECTORS AND VOTING POWER

as of April 30, 1964

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Per Cent of Total
APPOINTED				
William B. Dale *John S. Hooker*	United States	41,500	41,500	23.12
Sir Eric Roll *J. A. Kirbyshire*	United Kingdom	19,750	19,750	11.00
Jean de Largentaye *Jacques Waïtzenegger*	France	8,125	8,125	4.53
Ulrich Beelitz *Walter Habermeier*	Federal Republic of Germany	8,125	8,125	4.53
J. J. Anjaria *S. L. N. Simha*	India	6,250	6,250	3.48
ELECTED				
Louis Kandé (Senegal) *Semyano Kiingi (Uganda)*	Burundi	362		
	Cameroon	400		
	Central African Republic	325		
	Chad	325		
	Congo (Brazzaville)	325		
	Congo (Leopoldville)	700		
	Dahomey	325		
	Gabon	325		
	Guinea	400		
	Ivory Coast	400		
	Liberia	362		
	Malagasy Republic	400		
	Mali	380		
	Mauritania	325		
	Niger	325		
	Nigeria	750		
	Rwanda	362		
	Senegal	500		
	Sierra Leone	362		
	Tanganyika	500		
	Togo	362		
	Trinidad and Tobago	450		
	Uganda	500		
	Upper Volta	325	9,790	5.45
Ahmed Zaki Saad (United Arab Republic) *Albert Mansour (United Arab Republic)*	Afghanistan	475		
	Ethiopia	400		
	Iran	950		
	Iraq	400		
	Jordan	346		
	Kuwait	750		
	Lebanon	317		
	Pakistan	1,750		
	Philippines	1,000		
	Saudi Arabia	800		
	Sudan	400		
	Syrian Arab Republic	500		
	United Arab Republic	1,450	9,538	5.31

Appendix II (*continued*). EXECUTIVE DIRECTORS AND VOTING POWER

as of April 30, 1964

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes [1]	Per Cent of Total
J. M. Garland (Australia)	Australia	4,250		
Roy Daniel (Australia)	New Zealand	1,500		
	South Africa	1,750		
	Viet-Nam	475	7,975	4.44
Gengo Suzuki (Japan)	Burma	550		
William Tennekoon (Ceylon)	Ceylon	700		
	Japan	5,250		
	Nepal	325		
	Thailand	700	7,525	4.19
Pieter Lieftinck (Netherlands)	Cyprus	362		
H. M. H. A. van der Valk (Netherlands)	Israel	750		
	Netherlands	4,375		
	Yugoslavia	1,450	6,937	3.87
André van Campenhout (Belgium)	Austria	1,000		
Maurice Toussaint (Belgium)	Belgium	3,625		
	Korea	437		
	Luxembourg	390		
	Turkey	1,110	6,562	3.66
A. F. W. Plumptre (Canada)	Canada	5,750		
L. Denis Hudon (Canada)	Ireland	700	6,450	3.59
Sergio Siglienti (Italy)	Greece	850		
Costa P. Caranicas (Greece)	Italy	2,950		
	Portugal	850		
	Spain	1,750	6,400	3.57
Guillermo Walter Klein (Argentina)	Argentina	3,050		
Luis Escobar (Chile)	Bolivia	475		
	Chile	1,250		
	Ecuador	450		
	Paraguay	362		
	Uruguay	550	6,137	3.42
Maurício C. Bicalho (Brazil)	Brazil	3,050		
Antonio de Abreu Coutinho (Brazil)	Colombia	1,250		
	Dominican Republic	500		
	Haiti	362		
	Panama	255		
	Peru	625	6,042	3.37

Appendix II (*concluded*). EXECUTIVE DIRECTORS AND VOTING POWER

as of April 30, 1964

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes [1]	Per Cent of Total
Práxedes Reina Hermosillo (Mexico)	Costa Rica	400		
Carlos Sansón (Nicaragua)	El Salvador	450		
	Guatemala	400		
	Honduras	400		
	Mexico	2,050		
	Nicaragua	362		
	Venezuela	1,750	5,812	3.24
Beue Tann (China)	China	5,750	5,750	3.20
I-Shuan Sun (China)				
Karl Skjaeveland (Norway)	Denmark	1,550		
Lennart Olofsson (Sweden)	Finland	820		
	Iceland	362		
	Norway	1,250		
	Sweden	1,750	5,732	3.19
Sumanang (Indonesia)	Ghana	600		
Amon Nikoi (Ghana)	Indonesia	1,900		
	Laos	325		
	Libya	400		
	Malaysia	625		
	Morocco	775		
	Tunisia	454	5,079	2.83
			179,479 [2]	100.00 [3]

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

[2] This total does not include the votes of Algeria, Jamaica, and Somalia, which were eligible to participate in the 1963 Interim Election of a 19th Executive Director but abstained from voting. Neither does it include the votes of Kenya, which joined the Fund after this election.

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

Appendix III. Changes in Membership of Executive Board

Changes in the membership of the Executive Board between May 1, 1963 and April 30, 1964 were as follows:

Louis Plum (Belgium) served as Temporary Alternate Executive Director to André van Campenhout (Belgium), May 3 and 15, 1963.

Jean Malaplate (France) served as Temporary Alternate Executive Director to Jean de Largentaye (France), May 5 to 17, 1963 and April 1, 1964.

Alan G. H. Wright (United Kingdom) served as Temporary Alternate Executive Director to D. B. Pitblado (United Kingdom), May 5 and June 24 to 28, 1963, and to Sir Eric Roll (United Kingdom), November 22, 1963.

Abderrahman Tazi (Morocco) served as Temporary Alternate Executive Director to Sumanang (Indonesia), June 26 to July 3, 1963.

H. van Blankenstein (Netherlands) served as Temporary Alternate Executive Director to Pieter Lieftinck (Netherlands), June 26 to 28, 1963.

Julián Sáenz Hinojosa (Mexico) served as Temporary Alternate Executive Director to Práxedes Reina Hermosillo (Mexico), July 24, 1963 and February 19 to 28, 1964.

D. W. Wilson (Canada) served as Temporary Alternate Executive Director to A. F. W. Plumptre (Canada), August 7 to 14, 1963.

W. van Vliet (Canada) served as Temporary Alternate Executive Director to A. F. W. Plumptre (Canada), August 16, 1963.

Raymond H. Bonham Carter (United Kingdom) resigned as Alternate Executive Director to D. B. Pitblado (United Kingdom), effective August 31, 1963.

J. A. Kirbyshire (United Kingdom) was appointed Alternate Executive Director to D. B. Pitblado (United Kingdom), effective September 1, 1963, and to Sir Eric Roll (United Kingdom), effective September 18, 1963.

D. B. Pitblado (United Kingdom) resigned as Executive Director for the United Kingdom, effective September 17, 1963.

Sir Eric Roll (United Kingdom) was appointed Executive Director by the United Kingdom, effective September 18, 1963.

Louis Kandé (Senegal) was elected Executive Director by Burundi, Cameroon, the Central African Republic, Chad, Congo (Brazzaville), Congo (Leopoldville), Dahomey, Gabon, Guinea, Ivory Coast, Liberia, the Malagasy Republic, Mali, Mauritania, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, Tanganyika, Togo, Trinidad and Tobago, Uganda, and Upper Volta, effective October 3, 1963.

Semyano Kiingi (Uganda) was appointed Alternate Executive Director to Louis Kandé (Senegal), effective November 1, 1963.

Javier Urrutia (Chile) resigned as Alternate Executive Director to Guillermo Walter Klein (Argentina), effective November 15, 1963.

Luis Escobar (Chile) was appointed Alternate Executive Director to Guillermo Walter Klein (Argentina), effective November 16, 1963.

M. Kumashiro (Japan) served as Temporary Alternate Executive Director to Gengo Suzuki (Japan), November 22, 1963.

Joaquín Gutiérrez Cano (Spain) served as Temporary Alternate Executive Director to Sergio Siglienti (Italy), December 13, 1963.

F. C. Pryor (Australia) resigned as Alternate Executive Director to J. M. Garland (Australia), effective January 9, 1964.

Roy Daniel (Australia) was appointed Alternate Executive Director to J. M. Garland (Australia), effective January 10, 1964.

Jorge Mejía-Palacio (Colombia) served as Temporary Alternate Executive Director to Maurício C. Bicalho (Brazil), January 20, 1964.

D. R. Taylor (Canada) served as Temporary Alternate Executive Director to A. F. W. Plumptre (Canada), January 20, 1964.

Jan Grooters (Netherlands) served as Temporary Alternate Executive Director to Pieter Lieftinck (Netherlands), February 28 to March 6, 1964.

David C. Keys (United Kingdom) served as Temporary Alternate Executive Director to Sir Eric Roll (United Kingdom), March 25 and April 8, 1964.

Wilhelm Hanemann (Federal Republic of Germany) resigned as Executive Director for the Federal Republic of Germany, effective March 31, 1964.

Ulrich Beelitz (Federal Republic of Germany) was appointed Executive Director by the Federal Republic of Germany, effective April 1, 1964.

Walter Habermeier (Federal Republic of Germany), formerly Alternate Executive Director to Wilhelm Hanemann (Federal Republic of Germany), was appointed Alternate Executive Director to Ulrich Beelitz (Federal Republic of Germany), effective April 1, 1964.

Albino Cabral Pessoa (Portugal) served as Temporary Alternate Executive Director to Sergio Siglienti (Italy), April 1, 1964.

Appendix IV. Administrative Budget

Letter of Transmittal

July 2, 1964

My dear Mr. Chairman:

The administrative budget of the Fund approved by the Executive Board for the Fiscal Year ending April 30, 1965 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/
P.-P. Schweitzer
Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

Appendix IV (*concluded*)

ADMINISTRATIVE BUDGET AS APPROVED BY THE EXECUTIVE BOARD FOR THE FISCAL YEAR ENDING APRIL 30, 1965, COMPARED WITH ACTUAL EXPENDITURES FOR 1962-63 AND 1963-64

Category of Expenditure	Budget F.Y. 1964-65	F.Y. 1963-64 Budget	F.Y. 1963-64 Actual Expenditures	Actual Expenditures F.Y. 1962-63
I. BOARD OF GOVERNORS	$ 674,000	$ 377,000	$ 367,657	$ 312,278
II. OFFICE OF EXECUTIVE DIRECTORS				
Salaries	$ 988,000	$ 968,000	$ 956,715	$ 863,075
Other compensations and benefits	205,000	203,000	195,669	170,081
Travel	269,000	215,000	180,363	184,409
Total	$ 1,462,000	$ 1,386,000	$ 1,332,747	$1,217,565
III. STAFF				
Salaries	$ 5,672,000	$ 4,835,000	$ 4,770,520	$4,223,564
Other compensations and benefits	1,899,000	1,841,000	1,768,625	1,560,424
Travel	1,375,000	1,335,000	1,199,041	1,036,870
Total	$ 8,946,000	$ 8,011,000	$ 7,738,186	$6,820,858
IV. SPECIAL SERVICES TO MEMBER COUNTRIES	$ 682,000	—	—	—
V. OTHER ADMINISTRATIVE EXPENSES				
Communications	$ 314,000	$ 305,000	$ 297,165	$ 254,110
Office occupancy expenses	513,000	484,000	473,713	299,659
Books and printing	254,000	250,000	177,954	158,467
Supplies and equipment	216,000	220,000	202,796	176,435
Miscellaneous	259,000	297,000	285,905	161,639
Total	$ 1,556,000	$ 1,556,000	$ 1,437,533	$1,050,310
TOTAL	$13,320,000	$11,330,000	$10,876,123	$9,401,011

Appendix V. 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, 1962	Year Ended Apr. 30, 1963	Year Ended Apr. 30, 1964
INCOME [1]			
Service charges			
Received in gold	$ 4,676,273	$ 2,774,861	$ 2,504,482
Received in members' currencies	6,539,719	125,000	625,000
Total	$11,215,992	$ 2,899,861	$ 3,129,482
Charges on Fund's holdings of members' currencies and securities in excess of quotas			
Received in gold	$15,914,728	$19,940,415	$25,301,646
Received in members' currencies	5,444,359	4,533,900	6,068,948
Outstanding			129,161 [2]
Total	$21,359,087	$24,474,315	$31,499,755
Other operational income	$ 530,636	$ 3,669,065	$ 1,721,254
Miscellaneous income	1,053	1,176	1,581
TOTAL INCOME	$33,106,768	$31,044,417	$36,352,072
TOTAL ADMINISTRATIVE EXPENDITURE	$ 8,149,977	$ 9,401,011	$10,876,123

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

1962	$22,779,476
1963	25,094,232
1964	27,485,414

[2] Pending completion of negotiations for a settlement of accounts with Cuba upon its withdrawal from the Fund.

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

Letter of Transmittal

July 2, 1964

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, 1964, 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, El Salvador, India, and Sweden nominated auditors to serve on this Committee. They respectively nominated Mr. Juan Samuel Quinteros, Superintendent of Banks and Comptroller of the Currency for El Salvador; Mr. A. K. Mukherji, Additional Deputy Comptroller and Auditor General of India; and Mr. Karl Janne Walck, Head of Division at the National Accounting and Audit Bureau of Sweden. The Auditors thus nominated were confirmed by the Executive Directors.

It will be noted that, in the period under review, ordinary income amounted to $36,352,072 and expenditure amounted to $13,120,523, resulting in a net income of $23,231,549, which has been transferred provisionally to General Reserve pending Board of Governors' action. In addition, income of $27,485,414 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/
P.-P. Schweitzer
Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

Memorandum by the Audit Committee

June 23, 1964

To the Managing Director
and the Executive Directors
International Monetary Fund

The report of the Audit Committee, dated June 23, 1964, 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, 1964, 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, 1964, of the Statements of Income and Expenditure and of Reserves for the fiscal year then ended and of the schedules related to such financial statements. We have obtained from the officers and staff of the Fund all such information and representations as we have required in the conduct of our audit.

As a result of our examination, we report that, in our opinion, such Balance Sheet and related Statements of Income and Expenditure, together with the notes appearing thereon, present fairly the financial position of the International Monetary Fund as at April 30, 1964, 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/ A. K. Mukherji, Chairman (India)

/s/ Juan Samuel Quinteros (El Salvador)

/s/ Karl Janne Walck (Sweden)

Exhibit A

BALANCE

as at April

Values expressed in U.S. dollars on the

ASSETS

GOLD ACCOUNT			
Gold with depositories (See Note 2)		$ 2,334,021,167	
(*66,686,319.064 fine ounces at $35 per ounce*)			
Investments (See Note 3)			
$818,587,000 U.S. Government securities maturing within 12 months, at cost	$799,982,369		
Funds awaiting investment	9,142	799,991,511	$ 3,134,012,678
CURRENCIES AND SECURITIES WITH DEPOSITORIES			
Members			
Currencies		$ 2,670,604,501	
Securities		9,025,037,373	
(*nonnegotiable, noninterest-bearing demand obligations, payable at face value by members in their currencies*)			
		$11,695,641,874	
Withdrawing member's currency		62,499,827	11,758,141,701
SUBSCRIPTIONS TO CAPITAL—RECEIVABLE			
Balances not due			992,482,532
OTHER ASSETS (See Note 4)			17,603,511
(*receivables, accruals, prepayments, and sundry cash*)			
TOTAL ASSETS			$15,902,240,422

NOTES:

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

Argentine peso	83.0000	Colombian peso	9.00000	Peruvian sol	26.8150
Peso boliviano	11.8750	Indonesian rupiah	315.000	Tunisian dinar	238.000
Brazilian cruzeiro	470.000	Korean won	125.000	Vietnamese piastre	35.0000
Chilean escudo	2.00000	Paraguayan guaraní	122.000	Yugoslav dinar	750.000

2. Excludes 11,690.596 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. The assets and liabilities of the Staff Retirement Fund are not included in this Balance Sheet.
5. A stand-by charge has, under certain circumstances, to be credited against the service charge for a drawing under the stand-by arrangement; the maximum amount on April 30, 1964 is $2,258,938. A portion of the stand-by charge is refundable to a member if the arrangement is canceled; the maximum amount on April 30, 1964 is $934,204.

Exhibit A

SHEET

30, 1964

basis of established parities (See Note 1)

CAPITAL, RESERVES, AND LIABILITIES

CAPITAL		
Authorized subscriptions of members		$15,614,750,000
WITHDRAWING MEMBER'S SUBSCRIPTION		50,000,000
RESERVES (Exhibit C)		
Special reserve	$117,524,012	
General reserve	116,518,698	234,042,710
PROVISION FOR POTENTIAL REFUNDS OF STAND-BY CHARGES (See Note 5)		2,258,938
OTHER LIABILITIES (See Note 4) (*accruals, etc.*)		1,188,774
TOTAL CAPITAL, RESERVES, AND LIABILITIES		$15,902,240,422

/s/ Y. C. KOO
Treasurer

/s/ P.-P. SCHWEITZER
Managing Director

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

Exhibit B

Statement of Income and Expenditure

for the year ended April 30, 1964

Income

Operational charges		$ 4,850,736	
Charges on balances in excess of quotas		31,499,755	
Other income		1,581	
Total Income (See Note 1)			$36,352,072

Expenditure

Board of Governors		$ 367,657	
Office of Executive Directors			
Salaries	$956,715		
Other compensations and benefits	195,669		
Travel	180,363	1,332,747	
Staff			
Salaries	$4,770,520		
Other compensations and benefits	1,768,625		
Travel	1,199,041	7,738,186	
Other administrative expenses			
Communications	$297,165		
Office occupancy expenses	473,713		
Books and printing (See Note 2)	177,954		
Supplies and equipment	202,796		
Miscellaneous (See Note 3)	285,905	1,437,533	
Total Administrative Expenditure		$10,876,123	
Other expenditure			
Fixed property costs	$2,182,015		
Contribution to The Per Jacobsson Foundation	62,500		
Gold handling and conversion costs	219		
Exchange adjustments	cr. 334	2,244,400	
Total Expenditure			13,120,523
Net Income (Transferred provisionally to General Reserve pending Board of Governors' action) (Exhibit C)			$23,231,549

Notes:
1. Excludes income from investments amounting to $27,485,414, transferred to Special Reserve (Exhibit C).
2. After deduction of $61,187 for sales of Fund's publications.
3. After deduction of $109,158 for food service sales.

Exhibit C

Statement of Reserves
for the year ended April 30, 1964

Special Reserve (See Note)		
Balance, April 30, 1963	$90,038,598	
Add Income from investments in U.S. Government securities for year	27,485,414	
Balance, April 30, 1964		$117,524,012
General Reserve		
Balance, April 30, 1963	$93,287,149	
Add Net income for year (Exhibit B), transferred provisionally pending Board of Governors' action	23,231,549	
Balance, April 30, 1964		116,518,698
Total Reserves (carried to Balance Sheet)		$234,042,710

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

Staff Retirement Fund

Memorandum by the Audit Committee

June 23, 1964

To the Managing Director
and the Executive Directors
International Monetary Fund

The report of the Audit Committee, dated June 23, 1964, 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, 1964, 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, 1964. In the course of the examination, the Committee referred to the Articles of the Staff Retirement Plan and to the decisions of the Pension, Administration and Investment Committees created under the Plan. The Audit Committee made what it considered an adequate test check of the various classes of transactions, taking into account the audit coverage 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, 1964 as custodian for the International Monetary Fund Staff Retirement Fund. The holdings of the various classes of investments and the limiting percentages prescribed by the Pension Committee for this purpose are indicated in the statement below. The Pension Committee decided in its meeting 63/1 on January 15, 1963 that the limiting percentages are to be determined not with reference to the book value of the investments as in the past but with reference to "original investment" defined as book value adjusted to exclude the effect of realized gains and losses. The actual percentages on the basis of book value of investments as well as on the basis of "original investment" are indicated below:

	Authorized Percentage	*Actual Percentages on the Basis of Book Value*	*Actual Percentages on the Basis of "Original Investment"*	*Book Value*	*"Original Investment"*
Bonds:					
U.S. Government	Minimum 30	35.87	37.91	$ 4,775,206	$ 4,947,230
International Bank for Reconstruction and Development	Maximum 20	11.97	12.69	1,593,891	1,655,945
Corporate (other than convertible)	Maximum 25	15.37	15.87	2,045,581	2,071,348
Corporate (convertible)	Maximum 5	—	—	—	—
Corporate stocks	Maximum 35	36.79	33.53	4,898,037	4,375,429
		100.00	100.00	$13,312,715	$13,049,952

It is observed that decisions regarding the buying and selling of investments had been made by the Investment Committee after giving due consideration to the advice of the Investment Consultant.

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, 1964, we report that, in our opinion, the Balance Sheet, the Statement of Source and Application of Funds, and the related Schedules in respect 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, 1964 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/ A. K. Mukherji, Chairman (India)

/s/ Juan Samuel Quinteros (El Salvador)

/s/ Karl Janne Walck (Sweden)

Appendix VI (*concluded*)

Exhibit I

STAFF RETIREMENT FUND

BALANCE SHEET
as at April 30, 1964

ASSETS

CASH AT BANKS			$ 7,843
INVESTMENTS			
Bonds, at amortized value			
United States Government (*market value, $4,706,286*)	$4,775,206		
International Bank for Reconstruction and Development (*market value, $1,602,668*)	1,593,891		
Corporate (*market value, $1,889,799*)	2,045,581	$8,414,678	
Corporate stocks (common), at cost (*market value $7,389,435*)		4,898,036	13,312,714
ACCRUED INTEREST ON BONDS			139,299
ACCRUED CONTRIBUTIONS FROM PARTICIPANTS AND EMPLOYER			49,589
TOTAL ASSETS			$13,509,445

LIABILITIES AND RESERVES

PARTICIPANTS' ACCOUNT	$ 2,970,900
ACCUMULATION ACCOUNT	9,137,987
RETIREMENT RESERVE ACCOUNT	1,137,796
RESERVE AGAINST INVESTMENTS	262,762
TOTAL LIABILITIES AND RESERVES	$13,509,445

/s/ Y. C. KOO
Treasurer

/s/ P.-P. SCHWEITZER
Managing Director

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

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