FOR RELEASE
September 6, 1966

1966 ANNUAL REPORT

INTERNATIONAL MONETARY FUND

ANNUAL REPORT
1966

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INTERNATIONAL MONETARY FUND

ANNUAL REPORT

OF THE

EXECUTIVE DIRECTORS FOR THE

FISCAL YEAR ENDED APRIL 30, 1966

WASHINGTON, D. C.

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CONTENTS

PART II. REVIEW OF THE YEAR

SUPPLEMENTARY NOTES

APPENDICES

LIST OF TABLES AND CHARTS

Data for these charts will be found as follows:

Chart No.	Table No.	Page	Chart No.	Table No.	Page
1	56	136	13	68	144
2	57	137	14	69	145
3	58	138-39	15	70	146
4	59	138-39	16	71	146
5	60	140	17	72	147
6	61	141	18	73	148
7	62	141	19	74	148
8	63	142	20	75	149
9	64	142	21	76	150
10	65	143	22	77	150
11	66	143	23	78	150
12	67	144	24	79	151
			25	80	151

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[1] Anwar Ali, Director (on leave).

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LETTER OF TRANSMITTAL
TO THE BOARD OF GOVERNORS

July 11, 1966

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, 1966.

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 year 1965 was characterized by substantial although somewhat uneven growth in the world economy. For the first time in many years the rise in industrial output in the United States and Canada was markedly higher than in the other industrial countries, where, in the first half of the year, economic progress was generally rather slow. However, after mid-year economic activity accelerated both in the United States and in the European area, and there was an upturn in the economy of Japan late in the year, following a year of recessionary conditions. By the end of 1965 it was evident that the forces of economic expansion had gained strength and had become more broadly based.

The experience of the primary producing countries was more mixed. The income of these countries, and especially of the less developed countries, is greatly influenced by their export earnings. A widespread decline in prices of primary products from 1964 to 1965 caused a moderate slowing down in the rise in the value of exports of the primary producing countries. In the second half of 1965, however, commodity markets strengthened, and as high and rising levels of demand continued to prevail in the industrial countries, the export earnings of the primary producing countries again began to rise more rapidly.

Economic expansion in the United States has reached its sixth year. While this expansion has been fostered by the fiscal and monetary policies followed by the authorities, the increased expenditures in connection with the conflict in Viet-Nam have contributed to it and the recent rate of advance is probably in excess of what could be sustained over a long period. In Canada, where domestic economic expansion has been even sharper than in the United States, the Government announced on March 29 a comprehensive program to reduce excessive pressures of demand; this program contained various measures designed to bring about some postponement of private investment and to dampen down personal consumption. In both countries unemployment fell sharply during 1965, with scarcities of skilled labor emerging.

In continental Europe, Germany was the main center of expansion but showed some signs of a moderate slowdown toward the end of the year. In several other countries, including France and Italy, output was rising only slowly until the second half of the year. In the United Kingdom the growth in output was slower than in 1964, and production in Japan barely rose until late in 1965. These conditions are in large part attributable to two factors. First, most of these countries have for several years enjoyed high levels of employment. This means that a further substantial rise in output is largely dependent on gains in productivity, and at the same time the problem of maintaining price stability has become more difficult and has therefore often been given a higher priority than before among the objectives of economic policy. Second, balance of payments deficits—which have tended to vary inversely with a country's degree of success in reconciling full employment with cost and price stability—have in some cases led to policies directly limiting economic growth.

On the whole, the pursuit by the major industrial countries, within attainable limits, of policies of economic expansion has not only satisfied objectives of domestic economic policy, at which they were primarily aimed, but also contributed toward maintaining world prosperity.

The further economic expansion achieved by the United States and Canada during the past year has created a situation in which, for the first time in the postwar period, virtually all the industrial countries simultaneously enjoy high levels of employment. While this in itself must give cause for great satisfaction, it increases the risk of excess demand pressures and accentuates the problem of maintaining price stability in the industrial countries. The substantial cost and price stability that has prevailed in the United States over a number of years has undoubtedly contributed to avoidance of price rises elsewhere in export industries — a sector benefiting from larger than average production gains—and hence to containing price increases over a wider area. Moreover, in continental Europe such rises in prices and costs as have taken place over the last several years, whatever their drawbacks from the point of view of price stability, have often helped to moderate or wipe out surplus positions in international payments. In the new situation of pressure on resources in the United States as well as in other industrial countries, it appears to be less likely that differential price movements among the industrial countries will help in the adjustment of international payments positions. At the same time, containment of cost and price pressures for domestic reasons has become a problem common to all the industrial countries.

International Payments

Developments in international payments during 1965 were greatly influenced by the diverse changes in economic activity in the industrial countries and in the underlying demand pressures, as well as by major shifts in the pattern of international capital movements, which upon the whole tended to reduce changes in official reserves. Thus, although the rate of expansion in the United States was higher than in the other industrial countries, the impact of this factor on the U.S. balance of payments on current account was more than offset by a reduction in the net outflow of private capital. The latter was brought about by the official programs for limiting the outflow of capital and a progressive tightening of monetary and credit conditions, including a rise in interest rates. The over-all deficit was lower than in any year since it became a problem.

In Germany, the over-all deficit in the balance of payments remained moderate because of a large inflow of capital, even though the current account ran into substantial deficit under the impact of boom conditions in the domestic economy. Also, while the relatively slow growth of output in France and Italy, coinciding with strong demand in other European countries, led to a sharp rise in the current account surpluses of these two countries, their over-all surpluses rose less because of counterbalancing changes in capital movements. There was an exceptionally large outflow of capital from Italy, including a strengthening of the net foreign assets position of the commercial banks encouraged by the monetary authorities. A growing outflow of short-term funds from France provided a partial offset to the continued substantial inflow of long-term capital. There was also a large outflow of capital from Japan, accompanied by an improvement in its current account. In contrast to the experience of most of the other major industrial countries, the United Kingdom's balance of payments, which had been severely adverse in 1964, improved both on current and capital account, under the influence of the strong demand for exports and the direct measures taken to strengthen the external position.

Among the primary producing countries, the most interesting development was that, in contrast to recent years, the more developed of these countries [1] experienced a less favorable over-all balance of payments than did the less developed countries in general. The aggregate surplus of the less developed countries still rose moderately from 1964 to 1965, but the payments position of the more developed countries deteriorated sharply from surplus to deficit. The less developed countries as a group were less affected by the recession in prices of primary products than were the more developed exporters of such products.

In the aggregate, payments imbalances were moderate in 1965, and in particular the two reserve centers reduced their deficits. Nevertheless,

[1] Australia, Finland, Greece, Iceland, Ireland, New Zealand, Portugal, South Africa, Spain, Turkey, and Yugoslavia.

strains on the international monetary system persisted. A record amount of gold hoarding occurred. The official dollar holdings of a number of European countries declined, partly by conversion through gold purchases from the United States. At the same time, official dollar reserves of nonindustrial countries increased substantially, so that there was little change in the aggregate official dollar holdings of all countries. The increase in world reserves during 1965 ($1.33 billion) was only about half the annual average for the last decade, despite reserve creation of about $1.2 billion as a result of Fund transactions.

The reduction in aggregate imbalances during 1965 was brought about in part by the U.S. program to restrain the outflow of capital and by similar U.K. measures. The less developed countries have largely been insulated from the effects of these measures, which have, as a side effect, helped to broaden international capital markets outside the two reserve centers, a development that must in itself be welcomed. At the same time, the measures taken by the two reserve centers to reduce the outflow of capital have had some adverse effect on the payments positions of several countries. Many countries have been affected by the increases in interest rates that have taken place in capital markets everywhere. It is difficult to distinguish the effects of these and other causes, but in combination they have made it much more difficult for many countries to attract foreign capital, and have intensified the balance of payments problems of a number of countries dependent on an inflow of private capital to assist their economic growth. While less harmful than measures that would attempt to achieve balance of payments adjustment through deflation, restraints on the international transfer of capital may lead to a misallocation of resources and a reduction in global economic growth. It is to be hoped, therefore, that member countries will find it possible to allow capital to move more freely from country to country by appropriate measures, including the reduction or elimination not only of the restraints recently introduced by the two reserve centers but also those which a number of countries have been practicing over a long period.

Another factor significantly reducing payments imbalances during the last year was the rapid adjustment of the less developed primary producing countries to a moderate slowdown in the increase in their foreign exchange receipts on both current and capital account. This adjustment was brought about mainly by limiting the growth of their imports to considerably less than the increase in their exports, in spite of reserve accumulations during 1963 and 1964. Indeed, the volume of the imports of the less developed countries was only marginally higher in the second half of 1965 than a year earlier. This restraint reflected, in part, greater prudence on the part of certain countries in managing their affairs, but also the fact that the reserves of some countries had declined to a point regarded as the tolerable minimum. The slowdown in the rise of the imports of certain less developed countries has had an undesirable short-run effect on their output.

The flow of long-term financial resources to the less developed countries has, in the aggregate, tended to stagnate in recent years. This is the more disturbing because this flow has failed to grow in a period in which the industrial countries have achieved a continued and substantial rise in gross national product. Recently the proportion of the aggregate gross national product of the industrial countries devoted to the net flow of aid and long-term capital to the less developed countries has fallen to less than two thirds of 1 per cent. The progress made toward easing the terms on which these resources are provided has also been somewhat limited.

An adequate flow of economic aid and private capital to the developing countries depends, of course, on the maintenance of a strong international monetary system that can provide a solid basis for a growing world economy, which is a matter of the most direct concern to the Fund. Participation, to an appropriate extent, in the supply of financial resources to the less developed countries should have a high priority in all countries with a relatively high per capita income and should, as far as possible, be shielded from any action needed from time to time to deal with balance of payments problems.

Reserve Currencies

The fact that the two reserve centers continued to have large balance of payments deficits has had certain unfortunate effects on confidence. Moreover, as experience in 1965 shows, the continuance of these deficits does not any longer necessarily bring about a growth of reserves under present monetary arrangements. Indeed, during the postwar period, sterling balances have shown no upward trend and it cannot therefore be said that the U.K. balance of payments has added to international reserves of currencies. (Of course, U.K. drawings on the Fund in 1964 and 1965 have for the time being added to other countries' reserves in the form of reserve positions in the Fund.) In 1965 it became apparent that deficits in the U.S. balance of payments do not, in present circumstances, necessarily produce an increase in world reserves either. At the same time, the continuing deficits in both reserve currency countries make it more difficult to reach agreement on constructive solutions to ensure adequate reserve growth to satisfy future needs.

For these and other reasons it is clearly of crucial importance that the two reserve centers continue to address themselves, by appropriate measures, to the elimination of the deficits in their balances of payments. A year ago the United Kingdom assigned first priority in its economic policy to the achievement of balance in its international payments, and it is evident that such priority in its attention to this problem is still needed. While the immediate prospects of the U.S. balance of payments are clouded by the uncertainties created by the conflict in Viet-Nam, it is apparent that the United States has now reached a degree of utilization of resources that makes it possible for that country to assign a higher priority than in the past many years to the objective of international equilibrium without undue sacrifice of domestic policy objectives. At the same time, conflicts between domestic and international policy objectives have much lessened in the major surplus countries over the past several years. Given the present strength of the forces of expansion in the industrial countries as a group, the contribution which a moderation of domestic demand in the United States could make toward a reduction of its payments imbalances could not be expected at this time to have harmful effects on the world economy, but rather have beneficial ones from the standpoint of international price stability.

The Fund in 1965

Resources

By the end of February of this year the countries holding two thirds of total quotas had consented to the quota increases approved by the Fund's Board of Governors in March 1965, providing for a general increase of 25 per cent in member's quotas, together with larger increases for 16 countries. These increases became effective for the countries that had consented and paid their additional subscriptions by that date. Since then, many other countries have consented to the quota increases approved for them and have paid their additional subscriptions. When all consents are received and the additional subscriptions are paid, total quotas in the Fund are expected to rise from about $16 billion to about $21 billion. By June 30, 1966, they amounted to nearly $20.2 billion.

During the past year the General Arrangements to Borrow, which had become effective in 1962, were renewed for a period of four years from October 1966. These arrangements proved of considerable value in supplementing the Fund's own resources in connection with the two recent drawings by the United Kingdom.

Transactions

The Fund's transactions in the financial year that ended on April 30 were the largest in its history. Total drawings reached $2.8 billion, about $500 million higher than those in 1961/62, the previous record. Drawings by the United Kingdom included one of $1.4 billion in May 1965 for the support of sterling, following the earlier drawing of $1 billion in December 1964. In the second drawing, the Fund again availed itself of the General Arrangements to Borrow, and acquired needed currencies by the sale of gold. In combination, the two transactions represent the largest support the Fund has ever given to a member country.

Gross drawings by the United States totaled $550 million, but because of the use of U.S. dollars in drawings by other countries, mainly the U.K. drawing in May 1965, net drawings amounted to only $228 million and the U.S. position with the Fund remained well within the gold tranche. When the United States began to make use of the Fund's resources, in 1964, its drawings were technical, in the sense that they were designed to provide currencies that were sold to other countries against dollars and used by these countries in turn to make repurchases from the Fund. During the past year, drawings for this purpose continued, and the United States also made a drawing, not related to other countries' repurchases, equivalent to $300 million.

All the drawings on the Fund during the past year, other than those by the United Kingdom and the United States, were made by primary producing countries. Gross drawings by these countries were higher than in any financial year except 1961/62, but their net drawings remained moderate because of substantial repurchases. The year also saw a rise not only in the number of primary producing countries making use of the Fund but also in the number of stand-by arrangements approved. Stand-by arrangements normally involve the formulation of specific programs of corrective policies and provide for continuing consultation between the Fund and the member countries concerned about the implementation and reassessment of such policies. In this connection, as in its other contacts with member countries, the Fund continues to address itself to the problem of reconciling balance of payments equilibrium with sustained economic growth.

International Liquidity

A major preoccupation of the Fund during the past year has been consideration of the problems of international liquidity. A survey of the year's progress in this connection, and of the position reached in regard to it, is contained in Chapter 2 of this Report.

Relations with Primary Producing Countries

In its transactions and consultations with primary producing countries, the Fund continues to be concerned with the level of their external indebtedness, which often adds a considerable burden to their balance of payments. This problem was discussed in last year's Annual Report. For many years, the World Bank has provided valuable analyses of the debt servicing problems arising from the public long-term debt of primary producing countries, and during the past year the Fund and Bank have cooperated closely in an effort to improve the documentation on the debt position of these countries, including private debts and any short-term and medium-term obligations. In Fund consultations increasing attention is also being given to the assessment of countries' foreign short-term and medium-term debt, and to measures which prevent its accumulation without the knowledge of the authorities of the country concerned. In this way the Fund hopes to assist its members more effectively within its field of operations.

Although there are signs that the primary producing countries are beginning to adjust their balances of payments more quickly to adverse developments, many of them continue to rely on expedients such as the use of import and exchange controls rather than on more fundamental correctives to balance their international transactions. In particular, the attainment of the long-term goal of combining adequate and sustained growth with external balance can be severely frustrated if currencies are overvalued. These and some other problems of economic policy facing the primary producing countries are more fully considered in Chapter 3.

Compensatory Financing of Export Fluctuations

Fluctuations in the export earnings of the primary producing countries continue as a potential threat to the development efforts of many of these countries. In 1963 the Fund established its Compensatory Financing facility which, within the field of its operations, was designed to assist countries in meeting this problem. Downward fluctuations in the export receipts of the primary producing countries have been less numerous and milder than was expected at the time of the creation of the Compensatory Financing arrangements to be the normal pattern. It would, however, be imprudent to assume that this situation will hold for years to come. The Fund is engaged in a re-examination of its Compensatory Financing facility, giving weight both to the suggestions made at last year's Annual Meeting and to the Resolution on the subject passed by the United Nations Conference on Trade and Development.

Chapter 2

International Liquidity and Reserve Creation

Introduction

DURING the year, official international discussion on the problem of deliberate reserve creation has continued actively in the Fund and elsewhere. In the previous year, there had been a wide-ranging exploration of a variety of possible techniques of reserve creation. This exploratory process had been undertaken both in the Fund and by a study group of officials of the ten countries participating in the General Arrangements to Borrow, with the active participation of staff members of the Fund and of other international organizations. The Report of the Study Group on Creation of Reserve Assets, which was published in August 1965, reviewed and analyzed a number of methods whereby reserve assets could be created by a group of countries and through the Fund, respectively, together with some schemes whereby one type of reserve asset could be substituted for another.

At the 1965 Annual Meeting of the Fund, many Governors addressed themselves to the question of international liquidity and indicated their views on whether action was, or was not, urgent, the form that any action should take, and in particular the nature of the arrangements and the link with the Fund which they considered appropriate for such arrangements. The Managing Director indicated his intention that the staff would undertake intensive studies of the main aspects of international liquidity and that he would present the results of these studies to the Executive Directors as a basis for their consideration. In the course of the meeting, the Ministers and Governors of the countries who are participants in the General Arrangements to Borrow (the "Group of Ten") issued a communiqué dated September 28, 1965, in which their Deputies were instructed to "determine and report to Ministers what basis of agreement can be reached on improvements needed in the international monetary system, including arrangements for the future creation of reserve assets, as and when needed, so as to permit adequate provision for the reserve needs of the world economy," and to report to Ministers in the spring of 1966.[1]

In contrast to the exploratory character of the studies that went on in 1964/65, the discussions this year have aimed at finding the basis for agreement among governments on contingency plans for deliberate reserve creation when it is decided that a need for such action exists. The Deputies of the Group of Ten have been meeting in frequent session, with the active participation of representatives of the Managing Director of the Fund, and of the Bank for International Settlements and the OECD, to negotiate, as far as possible, a basis of agreement on essential points among the Group of Ten, with a view to proceeding to a second stage of a broader consideration of the questions that affect the world economy as a whole. Studies prepared by the Fund staff on several important issues affecting the question of international reserve creation have served as a basis of discussion for both the Executive Directors and the Deputies. During this stage, the Executive Directors have concentrated on a discussion of the main economic issues involved. These discussions in a forum in which representatives of countries at all stages of development could express their views have done much to clarify the issues, and to foster a convergence of views between member countries regarding the scope of the problems involved and which solutions are deserving of more serious consideration. Against this background, the Managing Director has formulated certain proposals with respect to reserve creation through the Fund which are referred to again below.

[1] For the text of the communiqué, see *Summary Proceedings, Annual Meeting, 1965,* pages 279–81.

Before proceeding to a description of these concrete proposals, certain of the major issues on which interest has centered, and which have been carried forward considerably during the process of last year's discussions, are set forth below. The discussion of the Executive Directors during this year has been concentrated mainly on questions in the area of deliberate reserve creation, and these are the matters primarily discussed in this chapter. Certain other major issues concerning the international monetary system in general and international liquidity in particular have been dealt with in previous Annual Reports, and elsewhere in this Report.

Need for Reserves

To some extent, the question as to the most appropriate method of providing a supplement to world reserve growth as and when needed can be considered separately from the questions of whether the present level of reserves, their composition, and their rate of growth are satisfactory, when the need for supplementation could arise, how large a supplement would then be required, or even how the need for such a supplement would be assessed. It is evident, nevertheless, that the answers given to these questions are bound to affect the nature of the machinery envisaged for the creation of additional reserves and the urgency with which the task of planning such machinery is approached. The Fund has, therefore, been giving much thought to the problem of how to measure the need for reserves. The broad criteria by which this need should be judged have been considered to some extent in the Annual Reports for 1964 and 1965, but over the past year attention has concentrated on the problem of how to distill quantitative estimates from these criteria—a problem that has proved very difficult.

It is generally agreed that the growth of world reserves should reflect an international judgment as to the needs of the world economy, rather than emerge as a by-product of certain other facts such as the need for balance of payments assistance on the part of particular countries (e.g., countries drawing from the Fund), the actual balance of payments deficits of reserve center countries, or the decisions of particular countries with respect to the composition of their reserves (e.g., a decision to hold foreign exchange rather than gold in reserves).

It is also agreed that decisions to create supplementary international reserves should be based on an appraisal of their probable effects on the interests of all countries. In the main, reserve changes of this type will exercise their effects through the impact which they have on the policies of governments. As was indicated in the 1964 Annual Report (p. 26), increases in reserves will tend to encourage more expansionary internal financial policies and more liberal policies with respect to capital exports and aid, and will reduce the probability that countries will devalue their currencies. Reserve increases will also tend to put more of the burden of adjustment on countries that are at a given time in surplus and less on countries that are in deficit. It follows that reserve increases are likely to be advantageous whenever, in their absence, countries would feel that they had insufficient time to correct balance of payments difficulties, so that there would be widespread resort to balance of payments restrictions on imports, on capital exports, and on aid, or a tendency for situations of insufficient demand to predominate over situations of excess demand.

The last-mentioned criterion has perhaps become less important since full employment has become a widely accepted policy objective, which countries are not likely to disregard over any long period for balance of payments reasons. Similarly, countries have become increasingly disinclined to yield to inflationary pressures emanating from their balance of payments surpluses. In these circumstances, any shortage of international liquidity is more likely to manifest itself, at least initially, in the form of intensification of restrictions on trade and capital movements, or in increased pressure on exchange rates, than in that of generalized deflationary symptoms in the world economy. Often, of course, restrictions are a reflection of the inability of countries in deficit to apply in time other corrective policies; and in arriving at an international judgment on the need for reserve creation a balance would have to be struck between the advantage of relieving payments stress and removing restrictions, and the danger of financing deficits on an excessive scale.

While criteria such as those described above may be generally acceptable, it is difficult to apply them objectively to a quantitative assessment of the need for international reserves. This is largely because they involve a number of judgments on which reasonable men may disagree (for example, as to whether demand is insufficient or excessive, as to whether too much or too little time is available for balance of payments adjustment, or as to the appropriateness of the distribution of the burden of adjustment between surplus and deficit countries). Moreover, the situations on which judgment must be passed may, at least in the short run, affect different countries differently. For example, a rise in international reserves may at a certain time make it more difficult for some countries to maintain financial stability, while the same rise may enable other countries to maintain full employment without resort to restrictions on external transactions.

Economic conditions are unlikely to respond quickly to changes in international reserves unless such changes are very large. This suggests that deliberate creation of reserves should probably not aim at offsetting such short-term fluctuations in world demand as still occur but rather be directed toward the trend need for reserves. This latter consideration is reflected in the suggestion, contained in a number of proposals for reserve creation, that the main decisions on the amount of reserve creation could be taken for a period of some three to five years at a time.

Stock of Reserves and Its Rate of Growth

In discussing the need for reserves it is useful to consider both the stock of reserves and its rate of growth. Countries appraise their stock of reserves against the need to finance deficits in their balance of payments over the period required for the restoration of equilibrium. At the same time, the rate of growth of reserves is important in relation to countries' balance of payments policies. While the achievement of balance in international transactions is widely accepted as a major objective of economic policy in many countries, this objective is interpreted in practice as the avoidance of deficits rather than the avoidance of surpluses. Such countries operate their economic policies with a safety margin designed to bring it about that their balance of payments is in moderate surplus over the long run.

In some cases, countries' reserves have been so high that they could tolerate reserve losses over extended periods without feeling constrained to adopt defensive or contractionary policies. If world reserves are high in relation to needs, the world can for a time make do with a low rate of reserve growth, or even with some decreases in reserves; countries may also be prepared to manage with reserves that are low in relation to need if the rate of reserve growth is high.

The economic significance both of reserve stocks and of reserve growth depends on their distribution among countries. If the distribution of the stock is very uneven in relation to need, as it was at the end of World War II, even a relatively high level of global reserves may be insufficient to serve the world's needs. In general, any improvement in the distribution of reserves is likely to have much the same effect on the world economy as an increase in total reserves. Thus the reduction over the postwar period in the reserves of the United States, and to some extent in those of certain other countries with initially high reserves, has increased the ability of the stock of reserves to meet global needs. The effect of any deliberate increase in global reserves will similarly depend in part on its initial distribution by country. The greater the proportion of the initial distribution of reserves that accrues to countries that are likely to utilize them quickly, the greater the initial impact on the world economy.

The effect of an increase in reserves of a given size is likely to be greater to the extent that it has a direct impact on the domestic money supply or enters directly into the national income stream, and insofar as it is expected to be regular and recurrent so that it affects countries' expectations of future reserve growth. It is likely to be less to the extent that it is associated with an increase in liquid reserve liabilities.

Given the complex relationships discussed above, it is evident that at most only tentative conclusions with respect to the future need for reserves can be drawn from the experience of the past. However, it is difficult to conceive of a way of arriving at a quantitative assessment of reserve needs which would not take historical experience as a starting point. The problem is to select a suitable period. As was shown in *International Reserves and Liquidity,* a study by the staff of the International Monetary Fund published in 1958, the conditions governing the need for reserves have changed so radically on several occasions since World War I that little guidance can be derived from an analysis of any period before World War II. The same applies to the highly disturbed immediate postwar years and the two years most sharply affected by the Korean conflict. The period studied has therefore been confined to 1952-65. There is of course no past period for which the experience can be extrapolated uncritically as a guide to the future.

Judging by the general economic conditions in this period, the state of reserves was then on balance not unsatisfactory. The period was marked by increasing liberalization of trade and payments, and by a remarkable expansion in international transactions. Employment was high, growth rapid.

A controversial issue in connection with this period is that of the relationship between domestic inflationary pressures and the supply of international reserves. Situations of strong pressures on costs and prices in some industrial countries have coincided with underutilization of resources and relative price stability in other areas. In countries that have at the same time experienced balance of payments surpluses and inflationary pressures, the tendency has been to attribute the latter to the former, and to interpret their coincidence as an indication that international liquidity is excessive. It must be recognized, however, that demand in the world may be excessive even when global reserves are not, and that owing to cost-push factors prices and costs may rise excessively even when demand is no more than sufficient to maintain employment at a level otherwise desirable.

Evolution of Stock of Reserves

World reserves, here defined as the reserves of countries other than the Soviet countries and Mainland China, may be estimated at close to $49 billion at the end of 1951, and at about $70 billion at the end of 1965 (Table 1). They rose at an annual rate of 2.6 per cent during the period, but since world trade increased at an annual rate of about 6 per cent, reserves as a per cent of annual imports fell from 67 per cent in 1951 to 43 per cent in 1965 (Table 2).

Much of the fall in the proportion of reserves to imports is explained by the decline in U.S. reserves from very high levels at the beginning of the period. For all other countries taken together, this proportion is much more stable; it showed no tendency to rise or fall over the period, but fluc-

TABLE 1. WORLD RESERVES: GROWTH, 1951–65

	Reserves at end of		Increase 1951-65	Percentage Increase Per Annum
	1951	1965		
	Billion U.S. dollars			
Gold	33.9	41.9	8.0	1.5
Reserve positions in IMF	1.7	5.4	3.7	8.6
Currencies	13.7	22.9	9.2	3.7
Of which				
Claims on United States [1]	*4.2*	*14.8*	*10.6*	*9.4*
Claims on United Kingdom [2]	*8.2*	*6.7*	*−1.5*	*−1.5*
Other	*1.3*	*1.4*	*0.1*	*0.5*
Total [3]	49.3	70.2	20.9	2.6

[1] 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.

[2] Covers liabilities to foreign central monetary authorities, including inter-central-bank assistance.

[3] Excluding Soviet countries and Mainland China.

TABLE 2. COUNTRIES' RESERVES AS PERCENTAGE OF IMPORTS, 1951–65[1]

	Reserves as Percentage of Imports														
	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
A. Developed Countries															
The Ten	73	77	79	80	72	66	62	70	63	60	60	55	51	47	43
United States	204	211	198	206	183	169	170	154	126	117	117	97	91	82	67
United Kingdom	22	20	29	32	22	21	21	30	25	29	27	26	23	15	19
Other	30	34	39	42	43	38	33	46	45	47	49	47	44	43	41
Belgium	44	46	47	43	43	37	33	50	38	38	43	38	38	37	36
Canada	46	44	40	46	40	33	31	36	33	32	37	40	39	38	35
France	14	16	21	28	42	24	10	19	34	36	50	54	56	57	61
Germany	13	25	47	56	52	64	69	78	56	70	65	57	59	54	42
Italy	36	30	32	38	43	39	37	68	91	69	73	63	44	39	60
Japan	—	54	37	39	44	39	19	35	40	43	29	36	31	25	26
Netherlands	22	42	52	45	40	30	25	42	37	41	38	36	35	33	32
Sweden	29	29	35	31	26	24	21	22	20	18	25	26	22	25	22
Other Developed	46	46	59	55	46	45	44	48	50	44	47	50	52	48	41
Australia	47	52	93	61	39	49	68	55	60	21	56	54	68	59	42
Austria	16	23	60	65	42	43	46	63	61	51	57	70	73	71	62
Denmark	12	15	17	12	19	11	13	17	20	16	15	12	22	25	21
Finland	31	17	27	32	28	20	20	36	33	26	25	20	24	26	18
Greece	22	27	47	55	53	44	37	30	40	34	37	41	36	32	22
Iceland	18	16	24	25	18	17	19	19	12	14	32	36	31	34	39
Ireland	58	66	66	72	57	55	57	55	55	51	47	47	47	46	39
New Zealand	36	24	50	35	22	27	18	23	33	24	15	23	16	17	9
Norway	19	19	17	15	16	16	15	20	21	21	19	18	19	20	22
Portugal	179	174	200	203	183	170	149	162	170	145	105	138	128	125	113
South Africa	29	31	24	33	26	26	18	18	31	16	25	42	41	30	21
Spain	—	23	25	33	36	20	12	8	26	76	82	67	59	67	47
Switzerland	120	138	150	141	124	107	97	121	107	104	102	95	95	87	88
Turkey	53	36	39	43	42	55	68	91	31	43	38	30	26	27	24
Yugoslavia	6	8	8	10	10	15	11	11	5	2	4	8	9	6	8
Total Developed Countries	68	71	75	75	67	62	59	66	60	57	57	54	51	47	43
B. Less Developed Countries															
Major Oil Exporters	60	64	67	55	64	80	75	64	52	49	50	51	76	66	64
Iran	81	112	111	84	69	67	59	44	37	30	30	42	47	30	27
Iraq	80	75	94	114	108	111	77	94	91	66	53	53	92	60	50
Kuwait	—	—	—	—	—	—	—	—	—	30	34	34	34	34	39
Libya	—	—	—	—	—	—	—	56	67	51	58	47	51	59	77
Saudi Arabia	—	—	—	—	—	—	—	—	69	79	92	87	161	149	184
Venezuela	50	52	53	47	51	76	78	66	46	51	53	53	78	72	59
Countries with Initial High Reserves	118	95	128	135	126	94	60	56	55	41	34	30	27	21	22
Ceylon	67	46	34	58	69	69	54	49	34	25	25	24	24	12	24
Ghana	209	204	198	258	216	194	160	190	137	107	48	63	35	38	28
India	108	106	154	144	133	85	42	39	41	29	29	22	24	18	21
Pakistan	98	41	79	78	103	76	59	54	86	48	43	38	35	24	21
Sudan	198	105	122	122	109	148	62	52	80	91	64	57	35	26	30
United Arab Republic	143	114	136	152	117	94	85	64	47	40	29	30	24	23	22
Other Less Developed	41	44	52	44	42	44	35	37	47	44	41	38	33	39	42
Argentina	35	36	67	54	39	34	22	10	28	42	26	8	28	14	20
Bolivia	35	27	32	16	9	1	7	9	11	10	10	4	10	23	30
Brazil	26	26	46	30	38	50	32	34	27	24	32	26	21	29	63
Chile	18	20	20	16	23	23	12	15	31	20	12	13	13	15	23
Colombia	33	40	37	38	20	20	30	40	52	34	27	18	21	21	29
Costa Rica	16	24	26	21	24	14	13	21	15	12	6	12	13	14	11
Dominican Republic	36	31	29	39	32	32	35	32	31	26	11	14	23	19	43
Ecuador	52	64	53	33	31	31	36	36	44	35	36	44	40	31	24
El Salvador	70	65	61	52	42	37	37	37	38	27	22	21	29	28	28
Guatemala	51	58	53	47	53	51	51	33	33	39	41	35	34	30	31
Honduras	40	35	37	41	32	27	20	13	17	18	17	16	13	20	19
Jamaica	—	—	38	39	33	29	29	40	37	32	36	33	40	34	33
Mexico	36	35	31	26	50	48	41	35	45	37	36	37	44	39	34
Nicaragua	25	32	33	21	20	10	14	10	18	17	19	18	29	28	14
Panama	66	62	63	58	48	43	25	44	35	27	18	18	18	8	14
Peru	24	22	19	25	19	19	9	8	19	20	24	22	24	28	24
Uruguay	86	135	191	122	103	102	77	136	109	86	101	92	111	96	126
Israel	2	—	2	10	16	16	13	24	29	42	47	66	77	66	77
Jordan	59	50	50	61	47	60	52	48	40	38	44	45	41	55	89
Lebanon	31	31	39	44	40	38	40	51	48	44	48	58	53	59	58
Syrian Arab Republic	14	22	35	28	27	35	37	24	28	21	16	18	16	17	18
Burma	111	115	119	61	53	61	31	58	63	50	55	76	80	79	72
China, Republic of	56	39	43	28	43	54	63	54	53	39	42	38	63	69	54
Korea	19	39	32	44	28	26	26	39	48	46	66	40	24	34	32
Malaysia	66	78	80	99	97	92	85	93	117	112	118	114	111	109	103
Philippines	46	51	49	39	26	28	10	15	16	19	8	11	16	14	21
Thailand	133	115	93	91	90	87	79	79	75	82	94	96	94	99	97
Viet-Nam	—	—	—	—	48	61	48	69	76	90	69	58	61	47	36
Ethiopia	—	—	—	—	—	—	—	—	—	—	—	64	45	50	51
Morocco	—	—	—	—	—	—	—	32	43	50	41	40	25	12	22
Nigeria	—	—	—	—	—	—	—	—	99	74	59	56	43	36	33
Tunisia	—	—	—	—	—	—	—	31	56	45	35	29	28	13	16
Total Less Developed Countries	64	60	72	66	64	61	47	46	50	44	41	39	43	40	42
Grand Total	67	69	74	73	66	62	57	62	58	55	54	51	50	46	43
Grand Total (excluding United States)	39	40	48	48	44	41	36	44	44	43	44	43	43	40	39

[1] Gold and foreign exchange holdings plus reserve position in IMF at end of year, related to imports during the year. Figures for 1965 are preliminary and include Fund staff estimates.

tuated around a constant level in response to the short-term cyclical movements of world trade. There was also a marked tendency to converge toward a level of 40-50 per cent for various countries and groups of countries (see Chart 1). The reserves of the developing countries as a percentage of annual imports fell from a level of more than 60 per cent in the early 1950's to 40 per cent recently, but this reflected for the most part the drawing down of exceptionally high reserves by a rather small group of countries. When countries whose reserves initially were abnormally high are excluded, the reserve ratio of the developing countries has shown substantially the same performance in terms of level and stability as the developed countries, though it may be noted that the oil exporting countries have tended to hold rather higher reserves in relationship to their imports.

Table 2 shows that reserves of developed countries have generally remained within a range of 30-60 per cent of imports over long periods. Many have stayed consistently within this range, while some which have moved out of the range have tended to move back into it. Aside from the United States, the main exceptions to the general tendency for developed countries' reserves to lie within the 30-60 per cent range are the United Kingdom and the Scandinavian countries, whose reserves have been persistently smaller in relation to imports, and Portugal and Switzerland, which have maintained substantially higher proportions.

The average rate of reserve growth over the years 1952-65 amounted to \$1.45 billion per annum between 1952 and 1958 and \$1.8 billion per annum between 1958 and 1965. These figures, which suggest a tendency for reserve increases to rise as the scale of international transactions grows, were strongly affected by the redistribution of reserves to which reference was made earlier. During the 1952-58 period, the United States lost on average about \$250 million a year in gold, and during the 1958-65 period about \$1.0 billion a year. The reserves for all other countries thus increased on average by about \$1.7 billion a year in the earlier period and by \$2.8 billion a year in the later period.

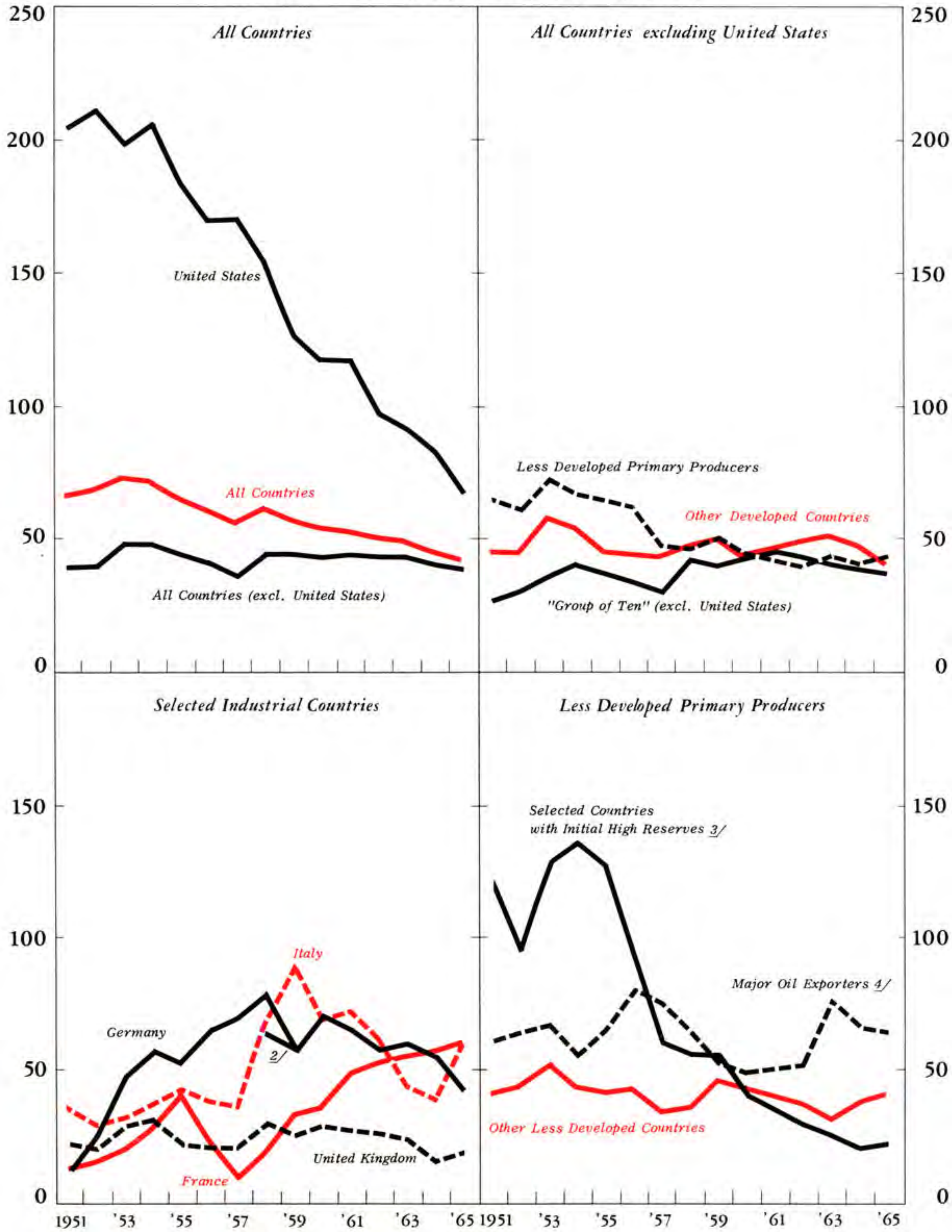
Significance of Preceding Data for Future Reserve Needs

In recent years, monetary gold holdings have increased by some \$600 million a year, or less than 1 per cent of the aggregate reserves of all countries. Reserves have actually increased more —primarily because many countries have, until recently, been willing to take a substantial proportion of their reserve increases in the form of dollars. In future, however, it is not expected that accumulations of foreign exchange will make so large a contribution to the growth in aggregate reserves, because certain countries will take less of their reserve increases in the form of reserve currencies. Moreover, the United States will wish to raise its holdings of reserve assets in some relation to any increase in its liquid liabilities.

Long-run plans for reserves will, therefore, have to make allowance for a cessation of the decline in U.S. reserves and indeed for an increase in them. A somewhat similar allowance will have to be made for the fact that some less developed countries have now exhausted the high reserves that they accumulated during World War II or in the early postwar years. It should be noted, on the other hand, that, in the early 1950's, the absorption of reserves by a number of industrial countries reflected in part their desire to reconstitute a satisfactory level of reserves in relation to trade, and that in recent years some of these countries have experienced accumulations of reserves which have been to some extent unwelcome because of their inflationary effects. The cessation of these special factors does not necessarily mean that the world supply of reserves will have to grow from now on in proportion to world trade in order to avoid unfavorable international repercussions. Although it would appear, from studies made in the Fund, that over the past dozen years the upward trend in payments imbalances has been broadly of the same order of magnitude as that in international trade, considerably more study would be required before it could be assumed that such a relationship would prevail in the future.

It is not impossible that improvements to be

CHART 1. RESERVES AS PERCENTAGE OF IMPORTS, 1951–65[1]



[1] Gold and foreign exchange holdings plus reserve position in the Fund at end of year, related to imports during the year.
[2] Excluding claims on EPU, which were not included in reserves from 1959 onward.
[3] Ceylon, Ghana, India, Pakistan, the Sudan, and the United Arab Republic.
[4] Iran, Iraq, Kuwait, Libya, Saudi Arabia, and Venezuela.

made in the international adjustment process may be such as to permit a reduction in the general level of reserves required in relation to trade and, therefore, to permit, for a time, a relatively low rate of growth in the need for reserves. Discussions to this end have been recently taking place within the framework of the OECD; and the Fund itself, in its relations with member countries, continues to promote such improvements wherever possible. Appropriate enlargements and extensions of bilateral swap arrangements can also reduce reserve requirements insofar as these arrangements add to confidence in currency stability and thus deter speculative movements.

The recent extension in the use of controls and restraints over capital movements may also tend to reduce deficits and, in a mechanical sense, the need for reserves. From a broader point of view, however, to substitute restriction of capital exports for their offsetting by reserve movements is not necessarily a gain.

Doubtless some economy in the use of reserves over the period 1952-64 resulted from the increased reliance on forms of liquidity other than reserves in the financing of deficits, in particular greater use of Fund credit tranches. It is quite possible that further economies might be achieved in the need for reserves over future years also, if a similar expansion were to take place—relative to trade—in the amount of resources put at the disposal of the Fund for the purpose of providing conditional liquidity. Since the use of liquidity in this form is associated with the adoption of acceptable balance of payments policies by the drawing members, any more intensive use of this form of liquidity would be likely to carry with it as an additional consequence some improvement in the adjustment process, at least as far as the deficit countries are concerned.

While increases in conditional liquidity in the form of Fund drawing facilities could provide a partial substitute for reserve growth, such expansion as has been effected in quotas so far has been undertaken to fill the need for conditional liquidity as such, rather than provide for any substitution of the kind described.

The preceding analysis suggests that the rate of growth in reserves should be related to the long-term trend in payments imbalances, taking into account the results of any improvement in the adjustment process. If gold accruals are no greater than in recent years, and on the assumptions about the accumulation of reserve currencies made above, it would appear that, at an appropriate time, deliberate reserve creation would have to play an important role in attaining this rate of growth of reserves, and thus to avoid generalized and severe balance of payments tensions in the world economy, with the attendant risks discussed earlier.

Distribution of Reserves

One of the most important issues arising in connection with reserve creation, and one on which there has been encouraging progress toward a convergence of views, is that of the distribution by countries of the newly created reserves. Certain of the possible criteria of distribution have been excluded almost from the outset of the discussion. For example, it would have been possible to envisage deliberate reserve creation as the counterpart of additional credit extended to countries in balance of payments difficulty, which in a sense could be said to need them most. These credits would have had to be extended on a conditional basis in order to prevent undue relaxation of pressures to adjust in these countries. This technique of reserve distribution would, however, have been difficult to reconcile with the concept of creating reserves in amounts determined for a period ahead according to the criteria of global need.

Another possibility would have been to use part or all of the newly created reserves to provide resources for additional development financing, it being understood that decisions with regard to the amount of reserves to be created should be taken on criteria independent of the need for development aid. This solution, which was proposed, inter alia, by a group of experts reporting to the Board of the UNCTAD, has, however, failed to find general support because of a feeling that reserve creation should not become a mechanism for the deliberate transfer of real resources from one set of countries to another, and that it should be kept materially separate from development aid.

There appears to be rather general agreement that the initial distribution of newly created reserves among countries receiving them would have to be dependent on some measure of the relative economic size of countries, such as Fund quotas. The need for reserve growth is shared by all countries, whatever their stage of industrialization or development. While the scarcity of resources of all kinds in many less developed countries causes them to maintain a level of reserves lower than would otherwise be desirable, the fluctuating nature of their trade in many cases makes them more dependent on the use of reserves and other forms of compensatory financing than are most industrial countries. As has been indicated in the preceding section of this chapter, the proportion of reserves to imports maintained by developing countries, though it has declined substantially compared with the early postwar years, is not now markedly lower than that of industrial countries, whose reserves have also declined in relation to trade. Moreover, in many of the developing countries, as indeed in the United States also, it has been influenced by the fact that in the early postwar years these reserves stood at a relatively high level. These exceptional reserves have now almost universally disappeared and it is to be expected that most of the less developed countries will find it necessary to add to their reserves as their transactions expand. The expansion of developing countries' reserves in the past three years lends support to this view.

In the light of such considerations as these, it is generally accepted that, if and when it is decided to proceed to the deliberate creation of reserves, all members of the Fund should have the opportunity to participate in their distribution.

Though all countries share in the need to expand reserves over time, it does not follow that, taking good years with bad, countries would necessarily wish to accumulate the precise share in reserve creation that would be assigned to them according to any distributive formula based on some concept of average need. It is probably inevitable, therefore, that some countries will tend on the whole to spend a part of reserve additions that accrue to them while others will tend to accumulate more than their allocated share.

Form of Newly Created Reserves

In considering the various interrelated aspects of the process of deliberate reserve creation, attention tends naturally to be focused on the form of the reserves to be created, though this is not by any means the most important question at issue. Discussions over the past year have not yielded any fundamentally new ideas in this regard. As was indicated in last year's Annual Report, the principal choice still lies between the creation of additional drawing facilities of a quasi-automatic nature in the International Monetary Fund and creation of a reserve in asset form—usually designated as a "reserve unit"—through an exchange of claims between a reserve-creating institution and the countries to which the newly created reserves are initially distributed.

There is a technical difference between the two forms in the manner in which reserves are transferred. Countries would use reserves in the form of automatic drawing rights in the same way as they now use existing drawing facilities in the Fund, i.e., by purchasing foreign currency from the Fund in exchange for their own. By so doing, they would *pro tanto* use up their automatic drawing rights and create an equivalent addition to the drawing rights of the countries whose currencies were purchased. Drawing rights are thus effectively transferred from the drawing country to the drawee country; the currencies purchased are used directly, or after conversion, for the settlement of international transactions. Reserves created in the form of reserve units would be utilized by a direct transfer of the units from one country to another, which would provide in exchange its own or some other currency, which could then be used for the settlement of international transactions.

Beyond this technical difference, drawing rights and units respectively tend to be associated with some more substantive differences which are not inherent in the nature of these two forms but rather in the institutional framework in which these forms are expected to materialize. The most important of these differences are discussed in the following sections.

Method of Use of Deliberately Created Reserves

It is not contemplated under any of the schemes considered that newly created reserves should be held or used except by monetary authorities, who would transfer them between themselves in exchange for other means of international payment or to pay off a liability. In order to ensure that any holder of these assets will always have the possibility of transferring them, the acceptability of the asset will have to be assured. The asset should possess attractive features, such as protection from loss arising out of changes in par values of currencies and an appropriate rate of interest. There will also, however, be a need for obligations on the part of participants to receive the reserves in exchange either for their own or for some other currency. On the other hand, if transfers are to be kept orderly, potential transferees will have to be protected in some way against having to hold too large a proportion of their reserves in a form which cannot be used for direct intervention in foreign exchange markets. In the case of reserve positions in the Fund (either in the form of gold tranche positions, or of loans to the Fund, or under any extension of automatic drawing rights that might be decided upon as a form of deliberate reserve creation) these safeguards are provided in two ways. In the first place, countries drawing on the Fund, thereby transferring their Fund positions to other countries, are required to represent that they have a balance of payments need. In the second place, by a practice which has grown up, countries consult with the Managing Director of the Fund as regards the particular currencies which they will draw—and hence the particular countries to which they will transfer their reserve positions—and the Managing Director advises them in such a way as, so far as possible, to avoid transfers to countries that are themselves in a difficult balance of payments position, and subject to this to bring about an equitable distribution of reserve positions in the Fund.

In the discussions that have taken place regarding the creation of new reserve assets, there is broad agreement that countries should refrain from transferring these new reserve assets at times when they are in a strong balance of payments position, merely for the purpose of changing the composition of their reserves. There is, however, a difference of view as to the need for guidance in the transfer of assets between countries. One view is that guidance such as is given by the Fund's policies on currencies to be drawn should also apply to any newly created assets. The other view is that there should not be any form of guidance, however general, as to the countries to which transfers should be made, and that other ways of protecting the transferee should be found. One of these ways is by setting up quantitative limits on the amounts of newly created reserves that the countries would be obliged to hold. Another is to provide that transfers of newly created types of reserves should be made only in some proportion to transfers of gold or of gold and foreign exchange. Both of these devices have, to some extent, a counterpart in the mechanism of the Fund. Fund quotas and commitments to extend credit to the Fund up to agreed amounts constitute quantitative limits on the obligation to accept transfers of Fund positions; and the repurchase provisions of the Fund Agreement are based on the general concept of an equal use of Fund resources and of the country's gold and foreign exchange reserves. These safeguards, however, have not thus far been felt sufficient to dispense with the need for some degree of guidance in the transfer of Fund reserve positions.

The Managing Director's Proposals

In order to focus the discussion on reserve creation through the Fund, the Managing Director, at the instance of several Executive Directors, has put forward for consideration by the Executive Directors a statement on how reserves could be created in the Fund or in close association with the Fund.

The Executive Directors have held preliminary discussions on these proposals, in particular to clarify various aspects of them, but have thus far not attempted to reach any conclusions as to their desirability, either in themselves or in comparison with other proposals. The Executive Directors intend to continue discussions on these proposals.

The Managing Director's proposals were guided by certain general considerations which have always been prominent in the Fund's approach to questions of international liquidity. The first of these considerations is the connection between conditional liquidity and unconditional liquidity. As the Fund indicated in its 1965 Annual Report (p. 15), "ideally, countries' needs for additional liquidity could be met by adequate increases in conditional liquidity." There can be no question about the value of conditional liquidity in the sense that it makes reserves available to countries in accordance with need on the basis of the steps they take to achieve needed adjustment in their payments position. At the same time, for a variety of reasons, countries wish to have growing amounts of reserves at their disposal in the form of unconditional liquidity. An expanding world economy will most likely require increases in both of these types of liquidity in an appropriate mixture. The Fund already has the task of providing the bulk of the conditional liquidity needed in the world, and quinquennial reviews of quotas provide one opportunity to adapt these facilities to the needs of members.

The second consideration is that reserve creation derives its significance from the fact that it contributes to the attainment of certain objectives to which countries attach importance: high employment and growth, internal and external stability, and freedom of international transactions. Difficult decisions lie ahead as to the amount of liquidity to be created that may be expected to be most conducive toward the achievement of these objectives. It is clear, however, that the decisions taken in this respect will not ensure the attainment of these policy aims unless at the same time countries are convinced of the need to follow policies to that end.

The task that faces the Fund in this respect is not a new one for it. The Fund was established to provide a code of behavior in the field of international financial relations and to be both a forum for international discussions on these matters and an instrument for consultation with countries on their performance in these respects.

Since there is still a considerable divergence of views on the most desirable form to be used in deliberate reserve creation, the statement of the Managing Director described two schemes—one based on the extension of quasi-automatic drawing rights of the gold tranche type in the Fund, and the other one on the issuance of reserve units by a Fund affiliate, membership in which would be open to all Fund members. The two schemes were intended to be broadly similar in their effects, although certain differences between them may be noted. In the longer run the second scheme, operating through Fund units, might prove somewhat more flexible and for that reason more suited to meet the need for a reserve asset in which countries might ultimately be holding a substantial part of their total reserves. On the other hand, the first of the two schemes, which provides for the expansion of drawing facilities in the Fund of a gold tranche character, could be implemented without amendment of the Articles of Agreement and employs techniques which are already well tried in the Fund's own experience. The two schemes could of course operate concurrently.

The Managing Director's proposals are based on the principle that reserve creation is the concern of all member countries, and provide that all should participate, with due safeguards, both in the distribution of newly created reserves and in the decisions which lead to their creation, and that such creation should take place either through the Fund or through an affiliate of the Fund.

Both schemes involve the creation of reserves actually or potentially for all Fund members. Whenever decisions to create reserves are taken, members would be entitled to participate in the distribution approximately in proportion to quotas, provided that they accepted the corresponding additional financial obligations discussed below.

Under either scheme the reserves created would be used in the first instance, in effect, to cancel out *pro tanto* any outstanding net indebtedness of the members concerned resulting from previous use of conditional facilities in the Fund, thus providing those members for the time being with conditional rather than unconditional liquidity.

In order to enhance the reserve character of the drawing rights to be created, these drawing rights would be envisaged as "floating," in contrast to presently existing gold tranche drawing facilities in the Fund, which have to be entirely used up before the country in question can use its conditional drawing facilities in the credit tranches. Countries would be able to save the new automatic drawing facilities in the same way as they could save units or other types of reserves to be used, if so desired, after having had resort to the Fund's conditional facilities.

Countries would be assured of the usability of the reserves but they would be expected to use them only to meet a payments need. The drawing rights scheme envisages indirect transferability by way of purchase of currencies from the Fund, while the reserve unit scheme assumes direct transferability between countries. In both plans, however, these transfers would be subject to an element of guidance, in the first plan through the policy of the Fund on the Selection of Currencies to Be Drawn and in the second either through general rules to be agreed or through guidance to be applied in particular cases by the Fund affiliate. Both plans aim at avoiding the necessity for countries in balance of payments difficulty having to accept transfers from other countries, and at bringing about a general proportionality between holdings of the new reserves and other forms of reserves. In the drawing rights scheme, the repurchase provisions of the Fund Agreement would apply, but the member would not, as at present for gold tranche drawings, be expected to represent to the Fund that it intends to repurchase within a three- to five-year period. In the reserve unit scheme, the reconstitution of holdings of the new reserve units after use would be left to the functioning of the transfer mechanism.

Under both schemes, all members benefiting from the distribution of additional reserves would have corresponding obligations to accept transfers of such reserves, whether directly or through the Fund. These obligations would, however, be limited. In the reserve unit scheme, the limits would be set at, say, three times the cumulative amount of reserves issued to each country, or lower in certain circumstances. In the drawing rights scheme, they would be set by lines of credit in its own currency which each recipient of reserves under the scheme would have to provide to the Fund. Insofar as a member's line of credit were drawn upon by the Fund, the member would acquire a liquid claim against the Fund which would be a reserve asset of the same general type as a gold tranche position.

The amount of the line of credit to be given by each member could be set equal to the cumulative amount of the special reserve facility allocated to it. In that event, the maximum reserve position in the Fund that any member might be obliged to hold as a consequence of this scheme would be equal to twice the amounts allocated to it. The obligation to provide financing, i.e., to receive transfers, in connection with this scheme could be kept somewhat lower because it is envisaged that the resources to meet normal Fund drawings and drawings on the new facility would be pooled.

Any member's net position vis-à-vis the Fund (or its affiliate) arising from operations under either scheme would be covered by a gold value maintenance guarantee and would carry interest.

In both schemes the creation of additional reserves would be the subject of international decision at intervals of, say, five years, with certain limited possibilities of variation from year to year. It is suggested that decisions would be taken by the Executive Directors of the Fund or by the appropriate organ of its affiliate, and that reserves would be created under these decisions when a sufficient proportion of members able to provide resources to support the reserve creation had agreed to do so.

The Executive Directors are aware that alternative provisions could be formulated as to a number of the features described above. Such alternatives will be considered in further discussions of these proposals.

Chapter 3

Some Problems of Developing Countries

THIS chapter, based on the Fund's experience with the problems of developing countries, discusses two aspects of these problems with which it has been directly concerned. The first section of the chapter outlines the considerations which are most relevant to a program of stabilization, and some of the measures that have been found of service to such a program. The second deals with the contribution that central banks in developing countries can make to the maintenance of stability and the techniques by which these banks' influence can most successfully be exerted.

Stabilization Problems

The immediate symptom of the need for a stabilization program is frequently the appearance of balance of payments difficulties. The necessary policy response, of course, differs according to the source and duration of the difficulties. In formulating a stabilization program, a judgment has to be made about the nature of these difficulties and at the same time consideration has to be given to the effective policy instruments available to the authorities.

Where the difficulties are of a moderate character, the measures needed are likely to concern the aggregate use of resources rather than their allocation within the economy. On the other hand, if excessive demand has persisted for some time, especially as a result of delay in adopting corrective action, and has created or aggravated imbalances between different sectors of the economy, the measures required to restore external balance must be more fundamental and wide-ranging. The speed of recovery of the balance of payments in these cases depends largely on the ability of the economy to shift resources into desired channels, on conditions in the world market for the country's products, and on the availability of long-term foreign assistance.

A large number of stand-by arrangements approved by the Fund have been concluded to cope with balance of payments problems of a moderate character. Sometimes the factors leading to such problems have been outside the control of the authorities. There may be an actual or a prospective decline in export prices, a decline in the volume of exports owing to marketing difficulties abroad, a setback to export production because of political uncertainties at home or natural calamities, a decline or delay in foreign aid, or relatively heavy foreign debt repayments falling due within a short period. In a considerable number of instances, also, the foreign exchange reserves held by the countries concerned have been considered to be too low to absorb pressures on the payments position arising from seasonal variations in export earnings. Frequently the problems have arisen from temporary surges of domestic expenditures straining the balance of payments. The purpose of several other stand-by arrangements has been to facilitate the elimination of multiple rates or the liberalization of trade and payments.

In such circumstances, Fund resources have been made available to the member in the form of a stand-by arrangement to meet balance of payments problems, provided, of course, the member has had a program which was judged to be capable of ensuring that the disequilibrium should be temporary. The principal objective of such programs has been the establishment of balance between aggregate supply and demand. The maintenance of this balance has required action to control expenditures within the broad sectors of the economy and sometimes within important segments of each sector. In seeking to ensure an over-all balance, a universal objective has been to eschew methods which lead to or increase reliance upon restrictions on trade and payments, and the discriminatory application of such restrictions.

Frequently, however, the problems with which the member has been confronted have been more deep-seated: the pressures on the balance of payments have been associated with distortions resulting from persistent inflation. Excessive credit expansion to finance private investment or consumption, or to meet wage demands, has at times been an important factor in generating inflation. However, unduly large fiscal deficits financed by bank credit have been by far the more common cause. These deficits have arisen for a variety of reasons. Some are caused by attempts to raise the level of consumption in the economy by giving subsidies on consumer goods. Others arise from increasing operating losses of public enterprises, while still others come from attempts to speed up investment expenditures at the same time as consumption expenditures have been rising. On occasion, the simultaneous occurrence of droughts and other natural disasters, political disturbances, and adverse movements in the terms of trade has further weakened the country's fiscal position by reducing revenues and increasing expenditures.

In some countries the pace and nature of economic development efforts have generated serious pressures on the balance of payments. Attempts to bring about large and rapid transfers of resources between productive sectors and occupational groups have on occasion been associated with considerable increases in prices. In other countries the balance of payments difficulties have been, at least in part, directly attributable to a concentration on investment in industries with a high import content but with little export potential in the near future, while agriculture and the traditional export sector have received inadequate attention. In the face of stagnant, or an inadequate rise in, exchange earnings and a low level of reserves, these countries have found it difficult to satisfy the import requirements of even well-established industries.

When severe balance of payments pressures have persisted for a number of years, the economy has been left with very meager foreign exchange reserves and often a large volume of commercial arrears or other short-term foreign liabilities. At the same time, the structure of prices and costs has suffered serious distortions as a result of continuing inflation, overvaluation of the currency, restrictions on imports, and the policies of the authorities to isolate certain prices from the general upward movement through subsidies and direct price controls.

The objective of the programs that have been supported by the Fund in inflationary situations has been not only to control inflation and to arrest the decline in foreign reserves and the build-up of debt service obligations, but also to facilitate the channeling of resources in such a manner as will sustain the improvement in the payments position and lay the foundation for sound growth. An essential step has been to examine whether the exchange rate needs to be adjusted to correct disparities between domestic and foreign prices, and to determine the policies to be pursued which would be consistent with financial stability and any rate adjustment.

While the maintenance or eventual restoration of internal and external stability has been the objective of the programs, they have not always envisaged an unchanged price level or the establishment of a balance of payments equilibrium during the period of the stand-by arrangement. Some programs have been based on an upward adjustment in general prices resulting from exchange rate depreciation and other measures aimed at correcting price distortions. Because most domestic prices tend to be inflexible downward, relative price adjustments have usually entailed a general rise in the price level. Once the necessary adjustments have been carried through, however, the objective must be to maintain relative price stability, and by so doing to encourage domestic savings.

As to the balance of payments, programs have generally assumed that there would be an immediate lessening of pressures on imports and other payments as aggregate demand was controlled and as inventories built up during the inflationary phase were dishoarded. Moreover, because of an expected revival of confidence in the currency, the programs have envisaged a return of domestic capital that had sought refuge abroad and an increased flow of public and private foreign capital. In some programs, on the other hand, where the necessary foreign financing was made available, a large increase in imports has been planned, to slow down inflation. It has been recognized that a durable improvement in the balance of payments to which these factors would contribute depends largely on an adequate increase in export and other foreign exchange earnings. Policies designed to achieve this end can succeed only if an environment of reasonable price stability is restored and maintained.

Major policy instruments

Fiscal and Credit Policies

When devising a program to achieve financial stability, the chief emphasis has necessarily to be placed on controlling the expansion of aggregate demand, as it is not possible in the short run to make substantial adjustments in the level of supply. Since excess demand conditions are caused in many countries by fiscal deficits financed unduly by central bank credit, a principal task has been to bring the public sector's deficit under control within limits compatible with the over-all objective of maintaining or restoring economic stability. To this end, fiscal operations have been reviewed to assess the possibilities of augmenting budgetary resources, of reducing the growth of current expenditures, and of strengthening the financial position of the public enterprises. Generally, it has been necessary to place emphasis on measures which would achieve prompt results.

Measures designed to increase tax revenue have therefore been introduced for the most part in areas where this could be done quickly and where the taxes were most easily collected. Most commonly, the taxes introduced or raised have been those on foreign trade. Elsewhere they have been indirect taxes, particularly on commodities considered to be less essential. Direct taxation has been used less frequently, largely because it has been difficult to get quick and effective results. Nevertheless, a number of programs have included plans for a widening of the tax base, a stricter enforcement of existing income taxes, the collection of tax arrears, and a general improvement in the machinery of tax collection. These reforms are considered important because improvement, even if slow, is essential for the longer-run growth of the economy.

Measures to restrain the growth of government expenditures have been important features of many programs. Some have set specific limits to current or capital expenditures, or both. Particular emphasis has been placed on reducing the growth of the current expenditures of the national government. In countries where the spending plans of state and local governments are an important component of the public finances, attention has been directed to these also. Some programs have included minimum targets for the generation of savings in the public sector (i.e., surpluses of revenues over current expenditures) such as would suffice, in combination with the external financial assistance prospectively available and with the amount which the government could safely borrow from domestic sources, to finance the planned public investment expenditures.

In several countries the most effective measure taken to improve the budgetary position has been to strengthen the cash flows of state-owned enterprises, by adjusting the prices of their goods or services or reducing their costs, thus lessening their dependence on budgetary support. Some of these programs have substantially increased the charges of public utilities and have improved efficiency by better management control and work rules, and by discontinuing certain uneconomic operations.

To improve the fiscal situation the authorities need up-to-date information. For this purpose, it has usually been impossible to depend on budgetary data because of the time lag in the reporting of transactions in the government sector and its agencies. A further difficulty is that comprehensive fiscal data may not be obtainable even with a time lag, owing to the activities of autonomous agencies and the exclusion from the budget of some accounts even within the fiscal sector as narrowly defined. Fortunately, however, the cash flows associated with these transactions are reflected in the government's position vis-à-vis the banking system, and monetary accounts are available in almost all countries on a comprehensive basis and with only a short time lag. It has therefore been found operationally useful to establish tests of fiscal performance by reference to movements in the net position of the public sector's bank accounts.

This procedure also provides a basis for more comprehensive financial programing. The needs of the other sectors for credit—given certain assumptions regarding output, prices, and inventories—are dovetailed with the results expected to be achieved by the public sector. If the sum of the resulting claims on the banking system is considered to be inconsistent with the maintenance or restoration of a reasonable degree of stability, additional measures to restrain the over-all demand for credit have to be adopted.

For this purpose, quantitative monetary limitations have usually appeared to be the most practicable. Control of demand has been exercised mainly through the establishment of ceilings on the expansion of the domestic assets of the central bank during the period of the program. If budget deficits have been the primary element in excessive monetary expansion, a separate ceiling may be placed on the extension of credit to the government. These measures have been supplemented where appropriate by provisions relating to other types of central bank assets and by the imposition or maintenance of legal reserve ratio requirements on deposit money banks. It is generally desirable to support these quantitative measures by appropriate changes in interest rates, even though the capital markets in many countries are not sufficiently developed to permit any extensive use of open market operations, and even though high rates of inflation increase the difficulty of achieving an effective interest rate policy.

Exchange Rate Policies

In countries where there has been prolonged inflation, action on the exchange rate has been a major policy instrument. The adjustment of the rate has often been associated with the removal or a substantial liberalization of restrictions on trade and payments. Where a multiple rate system has existed, unification of the rates at a realistic level has similarly facilitated the strengthening of the balance of payments position while avoiding resort to restrictive devices.

Rate adjustments have often been accompanied by changes in export or import taxes. The imposition or raising of export taxes on certain primary commodities, the supply of which is inelastic in the short run, has been designed to absorb part of the windfall profits brought about by the rate adjustment while leaving the producers adequate incentives to exploit the possibilities of expansion. This type of tax has been particularly useful in countries where the existing tax system is unable to respond promptly to the increased incomes of producers in the agricultural and mining sectors. Again, a liberalization of quantitative restrictions, or the removal of penalty rates applying to certain imports as a result of the unification of multiple rates, has been facilitated by an increase in import duties or the imposition of import surcharges. On the other hand, some countries have instituted temporary import subsidies on certain items of general consumption, in order to minimize the impact of the devaluation on the cost of living. The distorting effects of such subsidies on the production and consumption of the commodities concerned, and the burden on the budget, have, however, made these far less common.

In many instances, the immediate political and administrative difficulties of adjusting a highly restrictive or complex exchange system have been considered so great that only a partial or selective adjustment of the exchange system has initially been made. Such adjustments have taken various forms. When the exchange rate has been devalued only partially, subsidies have been given to provide added incentives to some exports, and purchases of imports and other payments have been limited by maintaining restrictions. Elsewhere the existing rate of exchange has been maintained for certain transactions, and the rate for other transactions has been devalued, either directly or indirectly, through exchange taxes and subsidies; or a parallel exchange market, with a free or devalued rate, has been established. Alternatively, a complex multiple rate system has been simplified to a few rates through the elimination of the more appreciated rates. Several countries have been able later to make the further adjustments necessary to establish a single realistic rate of exchange.

The achievement of this objective has not always involved the immediate establishment of a fixed rate, and a number of programs have included a fluctuating exchange rate as a temporary device. The movements in prices and wages following upon the adoption of measures designed to eliminate distortions in the economy have been difficult to estimate. It has, therefore, not been possible to determine an appropriate level for the exchange rate in advance. These difficulties have been even greater where a combination of restrictions and multiple rates has existed, since this has made it virtually impossible to ascertain what exchange rate has actually been in effect. Moreover, there has been uncertainty as to the effectiveness of the immediate measures to bring inflation under control. A fluctuating rate established in these conditions has carried with it the understanding that the rate would be allowed to move in accordance with market forces, and that the authorities should intervene only to maintain orderly market conditions.

Exchange rate flexibility through periodic adjustments has also been an essential part of programs which have been concerned not with the immediate restoration of stability but rather with a deceleration of domestic inflation. Without an adjustment of the rate, domestic price increases are likely to affect exports adversely and shift demand into imports. Some countries, with assistance from the Fund, have therefore included criteria to enable governments to ascertain that official support has not made the exchange rate diverge significantly from the basic market trends. For this purpose, the minimum level at which the net foreign exchange position of the central bank or the banking system is to be maintained during the period of the program has been specified, thus setting limits within which the authorities would intervene in the market to smooth out fluctuations. On this basis it has been understood that the exchange rate should be adjusted from time to time to follow the basic trend in the market. In some programs, movements in the exchange rate have been more directly linked to movements in a domestic price index, with the understanding that periodically the exchange rate is to be adjusted to the increase in prices.

Price and Income Policies

Specific provisions have been included in some programs to adjust prices to realistic levels, mainly in public enterprises. Also there has been provision for the immediate elimination or the gradual removal of price controls where these were hampering production and distorting the allocation of resources.

Wage policies have been of particular concern in some programs because the adequacy of the exchange rate adjustment and the effectiveness of monetary and fiscal measures designed to combat inflation are directly dependent upon wage movements. However, the ability of the authorities to influence the movement in the general level of wages differs widely, depending upon the institutional framework and the nature of the cooperation between the government and the labor unions. Consequently, there have been rather considerable variations in the form of wage policies. In some instances where the stabilization measures included a devaluation and a widespread upward adjustment of relative prices, the program has provided for an initial increase of wages for the public sector to be followed by a period without change. As to the private sector, in countries where the government exercises an effective wage policy through a role as arbitrator, the wage policy to be followed has been indicated. Even where the authorities have little direct role with respect to wage negotiations, the programs have frequently included a wage policy to be implemented by moral suasion. Where there has been doubt as to the effectiveness of the measures to restrain cost increases, the temporary acceptance of a flexible exchange rate policy has been part of the program.

Some comments on implementation

The programs adopted to tide over temporary or minor difficulties in the balance of payments or to support changes in the exchange or restrictive systems have, in general, served their limited purpose. Action in these instances has been mainly concerned with over-all financial programing to maintain internal stability while the corrective measures were taking effect. Where action was taken promptly, there has been little disturbance to domestic cost-price relations, and countries have generally succeeded in stabilizing their economies and in improving the prospects for long-term growth. An important indirect advantage has been the experience gained by the authorities of the countries in formulating and administering over-all financial controls, and, where longer-run development policies have existed, in implementing such policies within the framework of these controls.

Where the problem has been one of prolonged and severe inflation, the experience with the programs has been varied. In some countries the governments have been able to implement them fully with good results; in others, the results have fallen short of expectations because the programs have not been carried out with sufficient determination or have failed to foresee economic or political difficulties.

Sound leadership and public support are prerequisites for successful stabilization efforts. The persistence of inflation over a prolonged period derives, to a large extent, from a failure to resolve by other means the conflicting claims of different social groups, each aiming at a larger share of the national income. In such a situation, not only do the distortions of the price-cost structure deepen with the passage of time but also the antagonisms become more intransigent, magnifying the difficulty of implementing a stabilization program. Thus the success of programs in this situation depends largely on the broad acceptance of the objectives by the main social, political, and economic forces in the nation.

Equally important, in very difficult situations, is the continuity of action over a period of years. A program may be carried through for one year, but evolving political and social pressures or unexpected economic difficulties may lead to an eventual slackening of the efforts or a reversal of policies. These considerations underscore the obstacles which the authorities face when they feel forced to adopt a gradual attack on inflation which is planned to extend over several years.

The implementation of major policy changes with the necessary vigor and speed also calls for efficient and stable administrative machinery. The most complex administrative problems have arisen in the fiscal field in fulfilling the revenue targets and controlling expenditure commitments. Difficulties have also been experienced in collecting the share of the Treasury in the profits of the public enterprises or obtaining repayment of budgetary loans. Further, when budget receipts have not materialized as planned, many governments have not been able to bring about a corresponding reduction in expenditures.

Perhaps the most important area in which action has been less than initially proposed or planned concerns the adjustment of the exchange rate. Usually the maintenance of the external value of the currency has been a major political issue, either as a matter of national prestige or as a symbol of an illusory monetary stability. Moreover, many governments have tended to underestimate the economic benefits of an appropriate exchange rate policy. Some of the immediate effects of a devaluation, such as an increase in the cost of living, with its repercussions on personal incomes, have tended to weigh heavily on their judgment compared with the longer-run gains arising from appropriate incentives to guide the allocation of resources.

In situations where domestic prices were seriously out of line with foreign prices, action taken in the exchange rate field has sometimes proved to be inadequate. Exports did not receive the stimulus needed to sustain an adequate level of activity; restrictions on imports remained severe, thus perpetuating distortions; and expectations about a further change in the rate affected the movement of capital adversely. In an inflationary situation it is no doubt difficult to determine the extent of the necessary adjustment. Moreover, the increase in prices and costs as a result of a devaluation and other measures must be allowed for in determining the extent of devaluation itself. Some countries have not realized how large an adjustment was needed, and the effect of a devaluation has been largely offset by the secondary price increases usually connected with a change in the exchange rate. Moreover, where credit policy has not been sufficiently restrictive, or where the wage line has not been held, the advantage gained by the exchange rate change has been dissipated.

Experience has also shown that in a number of countries inadequate action in restraining the growth of consumption has been an important factor in the failure to realize more satisfactory results from stabilization efforts. Public sector current expenditure in many developing countries has been high relative to revenue, owing inter alia to the provision of extensive social and welfare facilities, subsidies to essential consumer goods or public utilities, or the employment of redundant personnel. The retrenchment of consumption has often proved to be difficult, particularly when some of the expenditures have tended to increase with the growth of population and urbanization.

Major weaknesses have also developed in some programs in the area of incomes policy—particularly in reconciling the claims of various groups to enlarge their relative shares of the national product. Despite the best intentions of the authorities, the broad acceptance of a coherent incomes policy has frequently not been achieved, particularly if there was an initial wage-price spiral due to promised increases in wages beyond the capacity of the economy to sustain.

Other problems which stabilization programs have sometimes failed to overcome have stemmed from the misdirection of investments in the public sector, either to noneconomic ends or into fields in which the country is at a substantial disadvantage. Sometimes, too, expectations about long-term development assistance from foreign sources have not been fulfilled, whether because of domestic difficulties in formulating a plan or in providing the necessary internal resources, or because in the event the aid has been less or received later than anticipated. In a number of instances, lack of long-term assistance has led to excessive use of short-term financing, which in the end has added to balance of payments difficulties. Control over suppliers' and other short-term and medium-term foreign credits has often proved weak in both debtor and creditor countries.

The Fund has been fully aware of the difficulties that member countries encounter in stabilizing their economies after a prolonged period of inflation but has concluded that the Fund's purposes would be better served by supporting members' efforts, even though success in overcoming the difficulties was not always certain, in order to encourage progress toward stability. By providing its resources in the form of stand-by arrangements, the Fund has enabled countries to initiate the process of correcting maladjustments and attaining sound and sustained growth. A number of countries have succeeded in this within a reasonable period, particularly when there has been an adequate exchange rate adjustment and a substantial improvement in the internal financial situation. Past experience indicates that, where bottlenecks in important sectors of the economy exist, stabilization measures should be accompanied by an investment policy designed to remove these bottlenecks in order to foster a quick expansion of output, which could also contribute to a strengthening of the balance of payments. The implementation of such an investment policy requires the timely provision of long-term resources from abroad in suitable form. The Fund has been prepared to provide its own resources in the expectation that countries enabled to adopt appropriate stabilization policies would be more successful in attracting such long-term resources.

Role of a Central Bank

Since its inception, the Fund has been intimately associated with the establishment, reorganization, and operation of central banks in developing countries. As early as 1946, the Government of Ecuador requested the Fund to provide an expert mission to advise on monetary and banking reforms. Since then, the Fund has received many requests for technical assistance in the establishment or reorganization of central banks in developing countries. These requests became particularly numerous following the achievement of independence by a number of African countries. By 1964, the prospect that this phase of the Fund's work would become active led to the establishment of a Central Banking Service, to provide advice on problems arising in connection with the establishment of new central banks, and through which experts could be made available to assist newer central banking institutions in various specialized fields. The experience that the Fund has gained suggests certain observations on the proper role of a central bank in a developing economy, the instruments of monetary policy that it may use to fulfill this role, and the constitutional provisions that are most likely to make its policies effective.

The first and simplest observation to be made is that each country is unique, and that it would be impossible to establish a "standardized" central bank in any country with a standard set of legal provisions. Similarly, while the constitutions of existing central banks are usually examined carefully when the laws for new banks are being drafted, it has never been found possible for any country to adopt, without amendment, institutional arrangements that have proved appropriate in another country.

It is generally accepted that monetary policy ought to play a part in fostering economic growth. In the search for rapid development, it is sometimes thought that expansionary credit policies can markedly accelerate the pace of development. In the developed countries, the expansion of output that can be obtained by resort to an easy credit policy is rather limited; in the less developed countries, the corresponding limits are even narrower. In general, the developing countries have relatively low incomes and consequently a limited capacity for savings. They have also a relatively undiversified and inelastic productive system that responds only slowly to demands created by an active credit policy. In these circumstances, the monetary authorities are constantly reminded of the line between inflation and loss of international reserves on the one side and a slow rate of growth on the other, particularly in economies where a considerable part of consumption is provided through imports, and where increases in consumption tend to be promptly reflected in the balance of payments position.

Within these circumscribed limits, monetary policy is highly important in these countries. While the low levels of income make it impossible for savings to be high, the fraction of the community's saving that takes the form of increases in money balances is usually larger in a poor than in a wealthy country. The readiness of the public to increase its holdings of money makes resources available to the monetary system, on the basis of which credit can be extended to the government, the business sector, and other borrowers. As long as the growth in the volume and the composition of the stock of money created by the monetary system are compatible with the desires of the community to hold larger money balances, the financial and economic conditions in the country will remain stable. If, however, the monetary system extends credit more generously to public or private borrowers and the growth of money exceeds this limit, their purchases of goods and services will be stimulated. This in turn will encourage a rise in output if capacity is available; but if domestic demand is already commensurate with the economy's supply capabilities, a further increase will lead only to a rise in prices or a disproportionate increase in imports. It may also be noted that a readier availability of credit and a higher degree of internal liquidity may tend to discourage borrowing abroad and encourage the outflow of funds. The role of the central bank may be viewed against this background as ensuring that the rate of monetary expansion is neither too low nor too high for the maintenance of internal and external stability.

Such an increase in money will be associated with an increase in the assets of the monetary system on which the financing of development may be based. However, there are some pressing claims on credit so created if development is to be soundly based. A growing economy requires larger international reserves, and a part of the increasing central bank credit will be absorbed in this way, for, even if the government holds the country's international reserves, the central bank is usually called on to finance these holdings. The financing of these reserves—together with the provision of working capital in the form of inventories of raw materials, work in progress, and stocks for sale—is likely to absorb much of the additional bank credit that can safely be created by the banking system in a developing country.

Provided that these limits are observed, monetary policy implemented by a central bank can make an important contribution to the long-run development of an economy. While most aspects of monetary policy may be considered as being of a relatively short-term nature, the flexible pursuit of policies designed to maintain monetary stability over successive short-term periods can contribute to a general economic atmosphere that is conducive to progress. If this atmosphere is maintained, a central bank can provide leadership in the development, and improvement in the operations, of other financial institutions.

In developing countries that have a fairly extensive banking system, one of the prime responsibilities of the central bank can be to convince the other banks of its willingness to cooperate with them and of the essentiality of their cooperating with it. If this extensive banking system is indigenous to the country, one of the main roles of the central bank may be to provide guidance for its improvement. If the system consists essentially of a group of branches of foreign banks predominantly interested in the financing of foreign trade, the central bank may seek to encourage them to direct their attention more toward domestic investment opportunities, or may consider it desirable to foster the growth of other financial institutions, such as development banks. In other developing countries, where the banking systems are only in an early stage of development, one of the main problems facing a central bank may be to foster the growth of an efficient private banking system as well as other financial institutions.

Instruments of Monetary Policy

There are a number of monetary policy instruments that a central bank may use to meet the problems outlined above. Many of these instruments may be adapted both to foster monetary stability and to encourage the flow of credit to the financing of specific desirable investments. In general, it may be suggested that the first of these objectives should usually have precedence, but the directional effects and possibilities of individual policy decisions should not be disregarded.

In many developing countries, the desire of the community to borrow is heavy and may be rather insensitive to changes in interest rates, unless these are pushed to heights that might be regarded as exorbitant. If the country is undergoing an inflation, the rate of interest, if it is to be effective, may have to be higher still. Interest rates may therefore exert a weaker influence in some of these economies, and greater weight must be given to more direct action on credit than in some of the more developed countries. Nevertheless, the general level of interest rates and the differentials between rates for different uses of credit still exert an influence, of which advantage should be taken when framing policies. In particular, while the effect of interest rates on domestic borrowing and lending desires may be relatively weak, they may exert a stronger influence on the inflow and uses made of foreign capital.

In countries where the banks are accustomed to borrow from the central bank, the total volume of bank assets may be influenced by directly controlling the total amount of central bank rediscounts. (Open market operations, such as are used in some industrial countries, are not practicable in most primary producing countries in the absence of an adequate securities market.) Given a strong demand for credit, the central bank can influence the banks by quantitative controls over its credit to them, and this type of rediscount policy may be one of the most effective instruments for implementing monetary policy.

Rediscount policy may also be used to influence the flow of credit toward desirable uses. If the central bank gives favorable treatment, or limits its rediscounts, to the refinancing of certain types of bank loan, the banks will be encouraged to lend for these purposes. Rediscounting policies that distinguish between different types of transaction may thus encourage those types of activity that the authorities wish to foster. In order to serve a useful purpose, however, they must be carefully devised and efficiently administered.

Many less developed countries have also resorted to methods of monetary control which do not involve changes in bank assets. The most direct method is the imposition by the monetary authority of ceilings on the credit which commercial banks may grant to the public. Such ceilings may be imposed either in absolute amounts or by the use of formulas such as limits on increases over the amounts recorded for past periods. The method of ceilings is undoubtedly effective and well suited for selective controls, but its wide application is open to two risks: arbitrariness in selection where the authorities have free discretion, or rigidity where the ceilings are tied firmly to past performance.

In many countries the technique of variable reserve requirements has proved the most effective. Changes in the required ratio may be used as an instrument of monetary policy, since increases in the required reserves will act as a restraint on bank lending and decreases will serve to encourage the expansion of bank credit. However, in some countries the liquidity ratios remain rather stable and in some their main purpose appears to be to channel credit toward certain users—such as government, public enterprises, and agricultural producers—by recognizing their debt instruments as liquid assets.

When a monetary system has been allowed to get out of control, firm measures are required to restore financial stability. The reduction of a government's deficit may take time, and, in the interim, even the declining deficit will continue to provide expansionary pressures. A marked reduction in central bank credit to the banks may impose severe strains on individual institutions whose accounts are already under pressure as a result of the stabilization program. Under these circumstances, a general raising of reserve requirements may be the most effective means of putting contractionary pressure on the monetary system. Alternatively, high marginal reserve requirements, i.e., high minimum reserve ratios applied against increases in deposits, as distinct from the absolute level of such deposits, may be an appropriate method of applying effective pressure without imposing a strain on the system. These instruments —ceilings on credit and variable reserve ratios— have proved to be particularly effective in dealing with crisis or near-crisis situations. They may, however, also be applicable after an effective monetary stabilization program has been carried through. Such a program may result in a restoration of confidence, resulting in a return of capital from abroad and an inflow of new foreign investment, which will rebuild reserves. If these flows are large they may have an expansionary impact on the economy.

Relations with the Government

One of the thorniest problems that have arisen in practically every discussion of the statutes for new central banks, or of the revision of existing laws, has been that of the relation between a central bank and its government. It is generally agreed that, as the government has a responsibility for encouraging the development of its country's resources and for seeking the highest attainable level of employment and rising real incomes, it must also be accountable for monetary policy. At the same time, there is broad agreement that a central bank should possess a sufficient degree of independence to enable it to win and maintain public confidence in the nation's monetary system and to give objective advice to the government. This problem has been a matter of concern in the older industrialized countries as well as in the newly independent countries, and provisions defining the relations between central banks and their governments differ widely. The Fund's experience suggests that this is one of the aspects of central banking legislation where great weight must be given to national needs and traditions. It is important, however, that close consultations between the central bank and the government be ensured, so that the bank may be able to make its views known on general economic policy questions well before any decisions are made. It is easier to prevent action being taken that would impair a country's monetary position than it is to reverse such action.

Foreign Reserves

The mobilization and management of a country's international reserves is a traditional duty of the central bank. In part, the allocation of this duty to the central bank arises from the tradition calling for a gold reserve to guarantee the convertibility of the national currency. Hence, to ensure public confidence in the note issue it is sometimes required that the central bank maintain a high proportion of its assets in gold and foreign exchange. This provision has often been included at the request of the bank itself, to shield it from pressures for excessive monetary expansion. It is not, however, clear that it is in the best interests of a developing country to immobilize an important part of its foreign reserves. For one thing, this reduces the reserves available for meeting balance of payments difficulties. Moreover, by limiting the monetary liabilities of the central bank, a statutory reserve requirement introduces an absolute ceiling to the money supply which may hamper rather than strengthen the central bank's efforts to deal with emergency situations. Generally, the authorities should leave a certain degree of flexibility to the central bank to determine the appropriate level of its foreign assets as one element, even though a very important element, in the spectrum of monetary policy objectives.

Commercial Banking by Central Banks

The desirability of a central bank performing commercial banking functions is a subject about which there has been much argument. While many long-established central banks originated as commercial banks, they have practically all striven voluntarily to divest themselves of their commercial banking activities, and by the end of the 1930's it was widely accepted that this was a proper attitude for a central bank. Yet many of the central banks established since World War II have commercial banking departments.

It has been contended that commercial banking operations give a central bank opportunities to correct gaps and distortions in the credit system. For example, there is often a shortage of banking facilities, especially in the more remote and less populated regions of developing countries. Commercial banks often concentrate on short-term financial operations in the main centers, to the neglect of the credit needs of other areas. The central bank may seek to alleviate these problems by engaging in commercial banking. In addition, it is sometimes maintained that commercial banking operations enable the central bank to obtain first-hand knowledge of economic conditions.

Yet it should be recognized that commercial operations by a central bank may retard the development of a sound banking system and make the implementation of monetary policy more difficult. Commercial banks can grow only if businesses and individuals are willing to hold deposits with them. In a community with relatively few banks, the largest or most respected of them is likely to be the most attractive to depositors. As long as the central bank accepts deposits from nonfinancial institutions, therefore, it may serve to discourage the growth of deposits in other banks. Much more important is that the conduct of commercial business by the central bank is likely to antagonize existing banks, despite any assurances that a central bank may give that its commercial banking department will not compete "unfairly." The existence of such a department may lead to a conflict of interest between the central bank's responsibilities for supervising the monetary system and its desire to engage in profitable lending operations. Moreover, if a central bank ventures into less attractive fields in order to overcome an apparent shortage of credit in these areas, it may find itself with a relatively illiquid portfolio that will hamper its flexibility. This problem has been encountered in a number of countries in recent years, and there have been several instances—most recently in Brazil—where, in recognition of these considerations, the commercial banking and central banking functions have been assigned to separate institutions. Where these functions continue to be combined, it appears desirable that the arguments for separating them should be given further consideration.

Chapter 4

The Fund in 1965/66

THIS chapter reviews briefly the main features of the Fund's work in the past fiscal year. Further details, and statistical tables, are given in Supplementary Note A on pages 123-34.

During the past year, the Fund completed 20 years of work. On December 27, 1945, the Articles of Agreement were brought into force by the signature of representatives of 29 countries, whose quotas amounted to the requisite 65 per cent of those annexed to the Articles. The inaugural meeting of the Governors convened at Savannah, Georgia, on March 9, 1946, and the first meeting of the Executive Directors in Washington on May 6, 1946.

Membership

Two countries became members of the Fund during the year 1965/66: Malawi, on July 19, 1965, with a quota of $11.25 million, and Zambia, on September 23, 1965, with a quota of $50 million. Indonesia withdrew from the Fund on August 17, 1965. On April 30, 1966, the number of members was 103 and the aggregate of their quotas, as a result of the general increase in quotas and special increases for certain members, described below and enumerated in Table 49 (p. 125), was $19.4 billion.

The Board of Governors approved terms and conditions for the admission to membership of Singapore, with a quota of $30 million. Applications for membership have also been received from Malta and from British Guiana, which, on its attainment of independence on May 26, 1966, became known as Guyana.

Executive Directors

A list of the Executive Directors and Alternate Executive Directors and their voting power on April 30, 1966 is given in Appendix I, and changes in membership of the Executive Board during 1965/66 are shown in Appendix II.

Increases in Fund Resources

The general 25 per cent increase in quotas for all members and special increases for 16 members recommended in the Executive Directors' Report of February 26, 1965, entitled "Increases in Quotas of Members—Fourth Quinquennial Review," was approved by the Board of Governors in Resolutions Nos. 20-6 and 20-7 adopted on March 31, 1965.[1] With effect from February 23, 1966, the Fund determined that members having not less than two thirds of the total quotas in effect on February 26, 1965 had consented to increases in their quotas, in accordance with these Resolutions. Consequently, the increases in the quotas of those members that had consented and had paid their additional subscriptions on or before February 23, 1966 became effective on that date. The increases of members that have consented since that date became effective upon payment by the member concerned of 25 per cent of the amount of the increase in gold and the remainder in the member's own currency. The Executive Directors extended the period for consents by members under these Resolutions to July 31, 1966.

By April 30, 1966, 78 members, having 73.2 per cent of the total quotas on February 28, 1965, had consented to increases in their quotas under these Resolutions. Among these, 17 elected to have their increases in five annual installments. Several other members are awaiting the completion of legislative or other governmental action before giving consent. Three members have indicated that they do not intend to take up the in-

[1] See *Annual Report, 1965*, pages 31-34 and 124-32.

crease, and the consent of one has been withdrawn.

Before the increase in quota to which a member consents becomes effective, the additional gold and currency subscriptions must be paid. By April 30, 1966, such payments had been made by 67 members, including 9 that had elected to have their increases in installments. When all the expected increases in quotas have taken effect, the total of quotas will be $20.9 billion. A list of changes effected in Fund quotas during the fiscal year, including increases for certain members under the Compensatory Financing Decision,[2] is given in Table 49, page 125.

The Executive Directors decided on March 9, 1966 that the Fourth Quinquennial Review of Quotas, undertaken in 1964 as required by Article III, Section 2, of the Fund Agreement, had been completed.

The Executive Directors' Report of February 26, 1965 provided that a member consenting to a quota increase under the First Resolution might request a drawing for an amount not exceeding 25 per cent of the increase in its quota. For drawings within the gold tranche, the established gold tranche policy and procedure would be applied. For drawings beyond the gold tranche, this facility would be available where the member represented that it would encounter undue payments difficulties by the payment of its gold subscription. This representation must be made within six months after the date of the member's consent to the increase in its quota, or after February 23, 1966, whichever is the later. By April 30, 1966, 18 members had availed themselves of this facility; total purchases amounted to $217.8 million (Table 50, p. 126).

The Report also described two arrangements adopted by the Fund to mitigate the secondary impact of the additional gold subscriptions, i.e., the gold purchases which might be made by members in connection with their subscriptions from those members whose currencies are used as reserve currencies.

Under the first arrangement the Fund may suggest that certain drawings up to the equivalent of $150 million be made in currencies which the Fund would then replenish by the sale of gold under Article VII, Section 2(ii), of the Fund Agreement up to the amount of the drawings. In accordance with this arrangement, the Fund has sold gold totaling the equivalent of $147 million to Germany for replenishment of the Fund's holdings of deutsche mark by an equivalent amount in connection with the purchases of deutsche mark equivalent to $122.5 million by the United Kingdom, $9.5 million by Pakistan, $7.5 million by the United Arab Republic, and $7.5 million by Yugoslavia; and it has sold gold equivalent to $937,500 to Belgium for replenishment of the Fund's holdings of Belgian francs by an equivalent amount in connection with the purchase of Belgian francs equivalent to $937,500 by Burundi.

The other arrangement was adopted to provide a further alleviation of the impact of gold purchases made from the reserve currency members in connection with quota increases under the two Resolutions. Under this arrangement, the Fund may make general deposits of gold totaling not more than the equivalent of $350 million with its depositories in the United States and the United Kingdom, viz., approximately $250 million in the United States and $100 million in the United Kingdom. By April 30, 1966 the Fund had made general deposits of gold equivalent to $181 million in the United States and $39.7 million in the United Kingdom.

The Executive Directors, on October 15, 1965, approved a four-year renewal of the Fund's General Arrangements to Borrow, which enables the Fund to supplement its resources by borrowing up to $6 billion in the currencies of 10 of its industrialized members (Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States).[3] These arrangements first went into effect on October 24, 1962, for a four-year term. There has been no change since the last Annual Report

[2] *Selected Decisions of the Executive Directors and Selected Documents* (third issue, Washington, January 1965, hereafter cited as *Selected Decisions*), pages 40-43.

[3] Executive Board Decision 1289-(62/1), adopted January 5, 1962 (*Selected Decisions*, pp. 56-66).

in the sums borrowed under the General Arrangements; these are set out in Table 52, page 128. The renewal will date from October 1966 and will be reviewed in the light of further experience prior to October 1968.

Fund Transactions

Purchases and Stand-By Arrangements

The past fiscal year was the most active in the Fund's history. Financial assistance was extended to more members than in any previous year. Sales of currency reached a new record, totaling the equivalent of $2,817.3 million (Table 50) and the stand-by arrangements agreed during the year amounted to the equivalent of $575.4 million (Table 51, p. 127). The Fund extended financial assistance, either through direct purchase transactions or in the form of stand-by arrangements, to the United Kingdom, the United States, and 35 nonindustrial countries. The United Kingdom and the United States accounted for over 73 per cent of total purchases. All the stand-by arrangements agreed during the year were with nonindustrial countries. Of the members receiving financial assistance, 14 were in the Western Hemisphere, 10 in Africa, 7 in Asia and the Middle East, 5 in Europe, and 1 in Oceania.

The largest purchase during the fiscal year was made by the United Kingdom late in May 1965; it comprised 11 currencies, totaling the equivalent of $1,400 million. In connection with this drawing, the Fund purchased 10 members' currencies with gold for a total equivalent to $400 million, borrowed the equivalent of $525 million in 8 currencies under the provisions of the General Arrangements to Borrow, and provided the equivalent of $475 million from its own holdings.[4] Switzerland, in response to a call from the Fund under Switzerland's agreement with the Fund,[5] made available to the United Kingdom Swiss francs equivalent to $40 million. As noted above, the United Kingdom also drew the equivalent of $122.5 million from the Fund in connection with the increase in its quota.

The second largest purchase, made by the United States late in July 1965, consisted of 5 currencies, totaling the equivalent of $300 million. This was the first drawing by the United States of currencies which were not intended to facilitate repurchases by other members of the Fund. Since February 1964 the Fund's holdings of U.S. dollars have been above 75 per cent of the U.S. quota, which (as explained in earlier Reports[6]) has precluded the Fund from accepting U.S. dollars in repurchases from members. From time to time, therefore, the United States has purchased other currencies from the Fund and made them available for U.S. dollars at par to members who keep their international reserves mainly in U.S. dollars and who have had to make repurchases from the Fund. During the year ended April 30, 1966, the United States purchased Canadian dollars equivalent to $250 million for this purpose. Altogether the United States has purchased currencies from the Fund for this purpose equivalent to $850 million. By April 30, 1966, 24 members had availed themselves of the facility offered, and had purchased currencies totaling the equivalent of $847 million. The use of these currencies by these members in repurchases had the effect of restoring the Fund's holdings of the currencies sold to the United States for this purpose. Meanwhile, other members have continued to purchase U.S. dollars from the Fund, and these purchases, together with other movements of U.S. dollars, reduced the United States' outstanding balance of drawings to $564 million on April 30, 1966.

Purchases by Ireland and New Zealand constituted the first use by these members of the Fund's resources. The Fund agreed to a drawing by Ireland equivalent to $22.5 million in January 1966, to support the country's reserve position in a period of balance of payments difficulties. New Zealand purchased currencies equivalent to $62 million in November 1965 to help to finance a current account deficit in its balance of payments and to provide support for the Government's policy of import liberalization.

[4] See *Annual Report, 1965,* Tables 50 and 51, page 108.
[5] See *Annual Report, 1964,* pages 138-40.
[6] See *Annual Report, 1964,* page 11.

The purchase of the equivalent of $11.25 million by the Sudan in June 1965 was made under the Fund's Decision on Compensatory Financing. The Sudan was the third member to draw under this decision; the other two purchases were made by Brazil for the equivalent of $60 million in June 1963 and the United Arab Republic for the equivalent of $16 million in October 1963.

For members in need of financial assistance from the Fund, the stand-by arrangement has continued to be a valuable instrument. During the year, currencies amounting to $327 million were purchased by 16 members under stand-by arrangements. Details of the arrangements in force during the year are given in Table 51, page 127. These arrangements were all for a period of one year, except that for Turkey, which was for 11 months. Stand-by arrangements were approved for the first time for Panama and Rwanda.

Repurchases

During 1965/66 total repurchases amounted to the equivalent of $406 million (Table 53, p. 128). Of the 29 members that made repurchases, 12 were in the Western Hemisphere, 7 in Africa, 8 in Asia and the Middle East, and 2 in Europe. Most repurchases were made on dates when repayments became due in accordance with schedules to which members had committed themselves, either at the time of their purchases from the Fund or later. In a number of instances the repurchase was preceded or immediately followed by a purchase from the Fund of a corresponding amount. Improvements in the monetary reserves position of several members enabled them to make repurchases before the expiration of the period for which their drawings had been made available.

On the other hand, 9 members experienced balance of payments difficulties and were unable to meet their repurchase commitments to the Fund when they fell due. For 7 of these members, the Executive Board agreed to new repurchase schedules permitting repurchases not later than 5 years from the date of purchase. The commitments of 6 members were related to purchases made under stand-by arrangements with undertakings to repurchase within 3 years from the date of purchase, and that of one member related to a repurchase commitment under an agreed schedule. Two members were permitted to postpone payment of their repurchase obligations incurred under Article V, Section 7(*b*), of the Articles of Agreement as at April 30, 1965, to coincide with scheduled repurchases. In addition, for one member that had not repurchased within 3 years of the date of purchase, the Fund agreed, in compliance with Executive Board Decision No. 102–(52/11),[7] to a repurchase schedule providing for repurchase within the subsequent 2 years.

The currencies to be used in the discharge of repurchase obligations arising under Article V, Section 7(*b*), are determined on the basis of provisions contained in the Articles of Agreement. 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.[8] Relatively small drawings and drawings for payment of the gold subscription of quota increases are normally executed in the currency in which the drawing country customarily holds most of its reserves.

Purchases and repurchases during the fiscal year are classified by currency in Table 54 (p. 130), in which the drawings by the United Kingdom and the United States are shown separately. The Fund's holdings of pounds sterling on April 30, 1966 were equivalent to 176.2 per cent of the U.K. quota; and those of U.S. dollars to 85.9 per cent of the U.S. quota. 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 to 3 per cent on April 30, 1966. During the year there was a net use equivalent to $20 million of Australian dollars, $94 million of Belgian francs, $112 million of Canadian dollars, $25 million of Danish kroner, $140

[7] Adopted February 13, 1952 (*Selected Decisions,* pp. 21-24).
[8] Executive Board Decision No. 1371–(62/36); *Selected Decisions,* pages 33-39.

million of French francs, $64.5 million of deutsche mark, $333 million of Italian lire, $15 million of Japanese yen, $4.5 million of Mexican pesos, $81 million of Netherlands guilders, $29 million of Spanish pesetas, and $37 million of Swedish kronor.

Relations with World Bank

The Fund and the World Bank, which have a special relationship, have been seeking during the year to increase the extent of their cooperation. In one area, that relating to the coordination of aid, representatives of the Fund participated in a general meeting held under the auspices of the Bank during the Annual Meetings of the Boards of Governors in September and in meetings of consultative groups and consortia which have been convened to consider aid coordination for individual countries. Staff contacts, already close and continuous, are being extended to missions as well as at headquarters, to avoid the possibility of duplication of work within the institutions and on the part of the member governments in their dealings with the Fund and the Bank, and to ensure that member countries are receiving advice which is broadly based and consistent.

During the past year, also, the Fund and Bank have cooperated closely in an effort, with which the OECD has also been associated, to improve the documentation on the debt position of the primary producing countries, including private debts and any short-term and medium-term obligations.

Technical Cooperation

During the year the Fund has continued to serve its members by assigning staff officers to a number of countries for periods ranging from a few weeks to more than one year. As in previous years many of these assignments were in response to members' requests for technical advice on a variety of problems. Missions of several persons and individual staff officers have advised member countries on the formulation and implementation of monetary, exchange, and fiscal policies, the preparation of central banking legislation, the organization of central banks, and the development of financial statistics. Fund representatives are also sent to member countries to assist in implementing programs related to stand-by arrangements approved by the Fund for the members concerned. In the fiscal year 1965/66 staff officers were made available on longer-term assignments to 16 members.

In another area of service to member countries, the Fund has continued to expand its programs of technical assistance under which experts from outside the staff are engaged by the Fund to serve as advisors or executive officers in the countries requesting assistance. In the last year the Central Banking Service has provided 22 experts for assignment to the central banks of 15 members, many of them filling senior executive posts, including those of Governor and General Manager. Similarly, the Fiscal Affairs Department has provided 5 experts to 5 members to advise on fiscal policies, tax administration, and budgetary problems. In addition the Fund has continued to provide 6 experts to the Democratic Republic of Congo.

The success of these technical assistance programs is dependent largely on the availability of suitable experts for employment by the Fund. The older and more experienced central banks and Treasuries have helped generously by releasing highly qualified and often quite senior officers for assignment by the Fund. This is much appreciated. In a few instances it has been possible for the Fund to use experts for more than one assignment. Within the limits of availability the Fund will endeavor to meet the requirements of all its members. Nevertheless, it is evident that the need for trained personnel will continue to be greater than the supply.

The IMF Institute

During its second year of existence, the IMF Institute, which was established in May 1964 to centralize and expand the Fund's training activities, developed its programs considerably.

In 1965, the Institute organized two courses on Financial Analysis and Policy: the first one, which began on March 15 for a 20-week period, was conducted in English and was attended by 20 officials from central banks and Finance Ministries of member countries. The second course, which occupied 10 weeks beginning on October 15, was given in French to 18 participants, most of whom came from French-speaking African countries. These courses drew extensively on the experience gained by the Fund in its contacts with member countries. During September and October 1965, the Institute also held a 6-week course in English on balance of payments methodology.

In January and February 1966, the Institute organized a special course on the Fund's policies and activities, conducted in English, to which a number of selected governments were invited to send one high-level official each. Twelve countries accepted the invitation. During the first half of 1966, the Institute provided its first courses in balance of payments methodology in French and in Spanish. The latter course was held in San Salvador, at the request of the Central American Monetary Council. The regular course in English on Financial Analysis and Policy was repeated during 20 weeks beginning March 14, 1966. Twenty-seven participants, broadly representative of all areas of the world, attended this course.

During the first two years of its existence, the IMF Institute, while organizing a variety of courses, was also seeking the best ways to describe to selected officials from member countries the Fund's organization and activities, as well as the basic principles of economic analysis and policy formation which underlie the Fund's work. Considerable progress has been made in this direction.

The major task of the IMF Institute has been to prepare and present, in English and in French, the regular courses on Financial Analysis and Policy. These courses have been, and will continue to be, the backbone of the Institute's activities. It is intended to extend in the future the duration of these courses, especially the one in French. The Institute has also organized, in cooperation with the Fund's Balance of Payments Division, special courses in English, French, and Spanish on balance of payments methodology. It is planned to extend the duration of these courses from 6 to 8 weeks. Plans are under way to organize, for the first time, a course on public finance, which will be given in the spring of 1967 with the help of the Fund's Fiscal Affairs Department.

During March and April 1966, the Institute moved into new offices and acquired expanded living quarters for its participants. This additional space will make it possible not only to increase the length of the courses, when necessary, but also to receive more than one group of participants at a time.

As now scheduled, the program for 1966-67 will comprise four courses. There will be two courses on Financial Analysis and Policy, the first to be conducted in French from September 6 to December 21, 1966, and the second in English from March 6 to July 21, 1967. A course, in English, will be given on balance of payments methodology from January 4 to February 24, 1967. The course on public finance will be conducted in English from May 15 to July 7, 1967.

Part II

REVIEW OF THE YEAR

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Chapter 5

World Trade, Payments, and Reserves

World Trade

Cyclical Pattern of World Trade

THE growth of international trade, which had been very rapid in 1963 and early 1964, slackened during 1964 and continued to lose momentum in the early months of 1965. In the second half of 1965, however, trade expanded with renewed vigor, sparked by the upswing of demand in most of the countries in the European Economic Community (EEC) and by the continued growth of the U.S., Canadian, and German markets.

This cyclical pattern is clearly indicated in Table 3. From the first half of 1964 to the first half of 1965, the value of world exports grew by 7 per cent. This was the lowest growth rate (between corresponding half years) since the first halves of 1962 and 1963 (when it was 6 per cent), and only half the peak rate of growth achieved between the first halves of 1963 and 1964. But the downward trend that began in the second half of 1964 appeared to be reversed in 1965: world exports in the second half of 1965 were about 9 per cent higher than in the corresponding period of 1964.

The cycle can be observed in the data for each country group included in Table 3 (industrial countries and two groups of primary producing countries), even though, in any one period, the rates of growth of exports from each area were quite disparate. The export growth of the more developed primary producing countries was subject to much wider fluctuations than was that of either the industrial or the less developed countries. From the first half of 1963 to the first half of 1964, exports of the more developed primary producing countries increased by 20 per cent; their exports in the first half of 1965, however, showed no increase over the first half of 1964.

Table 3 also shows percentage changes in export unit values; the growth in exports in constant prices is approximately indicated by the figures in part A in the table less the corresponding figures in part B. It can be seen that, for both groups of primary producing countries

TABLE 3. GROWTH IN TOTAL VALUE AND IN UNIT VALUE OF EXPORTS FROM MAJOR AREAS, 1963-65

(In percentage changes from same period of preceding year)

	1963	1964		1965	
	Second half	First half	Second half	First half	Second half
			A. Total export value		
World [1]	12	14	10	7	9
Industrial countries [2]	13	15	12	9	11
Primary producing countries					
More developed [3]	17	20	6	0	7
Less developed [4]	7	11	8	5	6
			B. Export unit value		
World [1]	3	3	2	1	1
Industrial countries	1	1	2	2	1
Primary producing countries					
More developed [5]	9	8	1	—4	0
Less developed	4	3	2	1	—1
Excluding petroleum exporters	5	5	3	1	... [6]

Sources: International Monetary Fund, *International Financial Statistics,* and United Nations, *Monthly Bulletin of Statistics,* April 1966.

[1] Excludes Soviet countries, Mainland China, Cuba, and Indonesia.

[2] Canada, EEC, EFTA (except Portugal), Japan, and United States.

[3] Other developed countries in Western Europe (Finland, Greece, Iceland, Ireland, Portugal, Spain, Turkey, and Yugoslavia), Australia, New Zealand, and South Africa.

[4] All other countries except the Soviet countries, Mainland China, Cuba, and Indonesia.

[5] Excludes the trade of Iceland, Turkey, and Yugoslavia, for which no data were available. These three countries accounted for 12 per cent of the exports of the more developed primary producing countries in the base year 1958.

[6] Insufficient data.

(especially the more developed countries), the decline in growth of export values from the year ended June 1964 to the year ended June 1965 is associated with a parallel weakening in prices, so that their export growth fluctuated less in volume than in value. Even in terms of volume, however, the exports of the more developed primary producing countries grew only half as fast in the year ended June 1965 as they had a year earlier. Changes in the terms of trade are discussed in Chapter 7.

In the industrial countries, the growth in unit value of exports was quite different, showing some acceleration in the year ended June 1965. The fluctuation in growth of industrial countries' exports is, if anything, more marked in terms of volume than in terms of value.

Table 4 shows the growth in imports of the same groups of countries over the same period as Table 3. The import data suggest that the slowing down and acceleration of the growth of trade during 1964-65 were strongly influenced by de-

Table 4. Growth in Value of Imports into Major Areas, 1963-65

(In percentage changes from same period of preceding year)

	1963	1964		1965	
	Second half	First half	Second half	First half	Second half
World [1]	10	14	10	7	9
Industrial countries [2]	13	16	10	6	12
Primary producing countries					
More developed countries [3]	15	17	16	17	12
Less developed countries [4]	2	8	10	6	2

Sources: See Table 3.

[1] Excludes Soviet countries, Mainland China, Cuba, and Indonesia.

[2] Canada, EEC, EFTA (except Portugal), Japan, and United States.

[3] Other developed countries in Western Europe (Finland, Greece, Iceland, Ireland, Portugal, Spain, Turkey, and Yugoslavia), Australia, New Zealand, and South Africa.

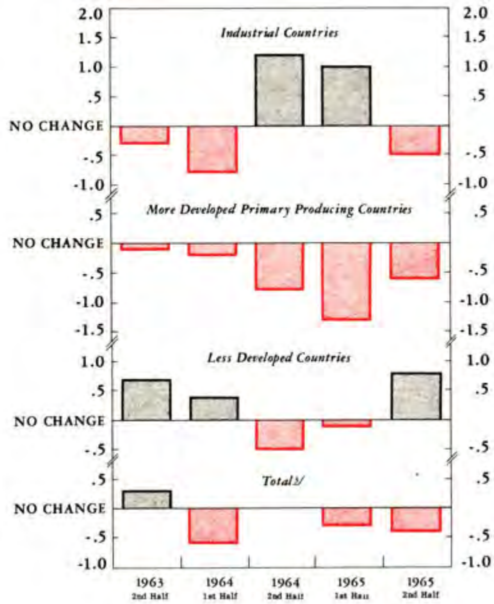
[4] All other countries except the Soviet countries, Mainland China, Cuba, and Indonesia.

mand in the industrial countries. The imports of the latter countries were only 6 per cent higher in the first half of 1965 than in the corresponding period of 1964, and in general the growth of their imports fluctuated more widely than that of their exports. The more developed primary producing countries maintained a very high rate of import growth through the first half of 1965, in spite of the leveling out of their export earnings in the year ended June 1965. During this period the imports of the less developed countries were also growing strongly, in response to the boom in their export earnings in 1963-64. Both these developments helped to sustain the export growth of the industrial countries. From the second half of 1964 to the second half of 1965, the growth of industrial countries' imports accelerated sharply. Their exports grew more slowly, however, as the less developed primary producing countries (and to a lesser extent the more developed ones) adjusted their import expansion to the deceleration in their export earnings during the previous year.

Chart 2 shows changes in the trade balances of the major areas. In the two half-yearly periods ended June 1964, the industrial countries experienced a rapid expansion of demand, which, coinciding with buoyant prices for primary products, was reflected in a deterioration in their collective trade balance; this deterioration was matched principally by an improvement in the trade balance of the less developed primary producing countries. The slowdown in economic activity in

Chart 2. Trends in Trade Balances of Major Areas, 1962-65 [1]

(Change from same period of preceding year, in billions of U.S. dollars)[2]



[1] Based on customs data. Exports f.o.b. minus imports c.i.f.

[2] Plus (or minus) sign indicates a decrease (or increase) in trade deficit or an increase (or decrease) in trade surplus.

[3] The totals may represent a combination of at least three factors: (a) changes in the balance of the trade of Soviet countries and Mainland China with the rest of the world; (b) changes in expenditures on insurance and freight (an increase in such expenditure would appear as a minus change in the chart); (c) changes in "errors and omissions."

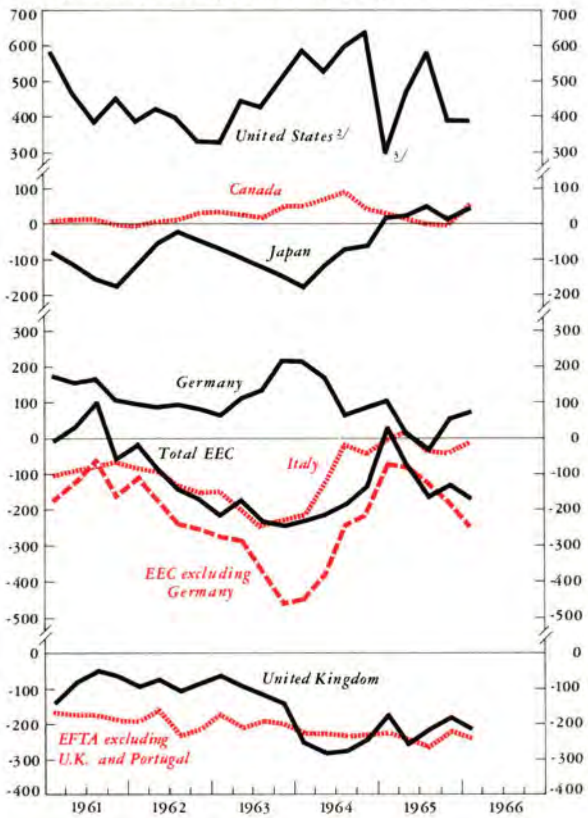
the industrial countries during the second half of 1964 and the first half of 1965, in combination with a weakening of primary product prices, caused the industrial countries' balance of trade with the rest of the world to improve markedly. These gains were matched mainly by losses among the more developed primary producing countries. While the trade balance of the less developed countries also deteriorated in the second half of 1964 (compared with the preceding year), there was little further weakening in the following period; seemingly, the less developed countries, as a group, were adjusting to events in industrial countries by early in 1965. Later in the year the trade balance of the less developed countries improved greatly; the prior trend of improvement in the industrial countries was reversed; and the balance of the more developed primary producing countries' trade again deteriorated, although by a smaller amount than in the two previous periods.

Among the industrial countries, trends in exports, imports, and trade balances were rather disparate. As can be seen in Chart 3, Japan and the countries in the EEC other than Germany accounted for most of the improvement in the trade balance of the industrial countries in the year ended June 1965. The trade balances of Germany and of the United Kingdom deteriorated during this period. The small decline in the industrial countries' trade balance in the second half of 1965, compared with the second half of 1964, seems to be accounted for by Germany, the United States, and Canada. The balances of Japan and of the EEC countries excluding Germany continued to improve, although there is evidence of a downturn in the balances of most EEC countries from the first to the second half of 1965.

The trends in exports and imports underlying Chart 3 are presented in Chart 4. In this chart the acceleration of industrial countries' import growth suggested by Table 4 can be illustrated in more detail. The seasonally adjusted series are not corrected for the U.S. dockworkers' strike, which distorted trade from the fourth quarter of 1964 through the early months of 1965. The acceleration in import growth in the course of 1965 appears primarily in the series for the United States and for EEC countries other than Germany. The rapid growth of Germany's imports, which helped to sustain the growth of trade throughout 1964 and early 1965, was maintained virtually throughout 1965 (although the decline

CHART 3. SEASONALLY ADJUSTED TRADE BALANCES OF SELECTED INDUSTRIAL COUNTRIES, 1961–FIRST QUARTER 1966 [1]

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



[1] Based on customs data. For United States and Canada, 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] U.S. dockers' strike.

in growth of imports in the early months of 1966 may indicate a change in trend). The imports of the countries in the European Free Trade Association (EFTA), excluding the United Kingdom, also grew at a virtually constant rate throughout 1964-65. The imports of Japan and the United Kingdom showed little increase during 1965.

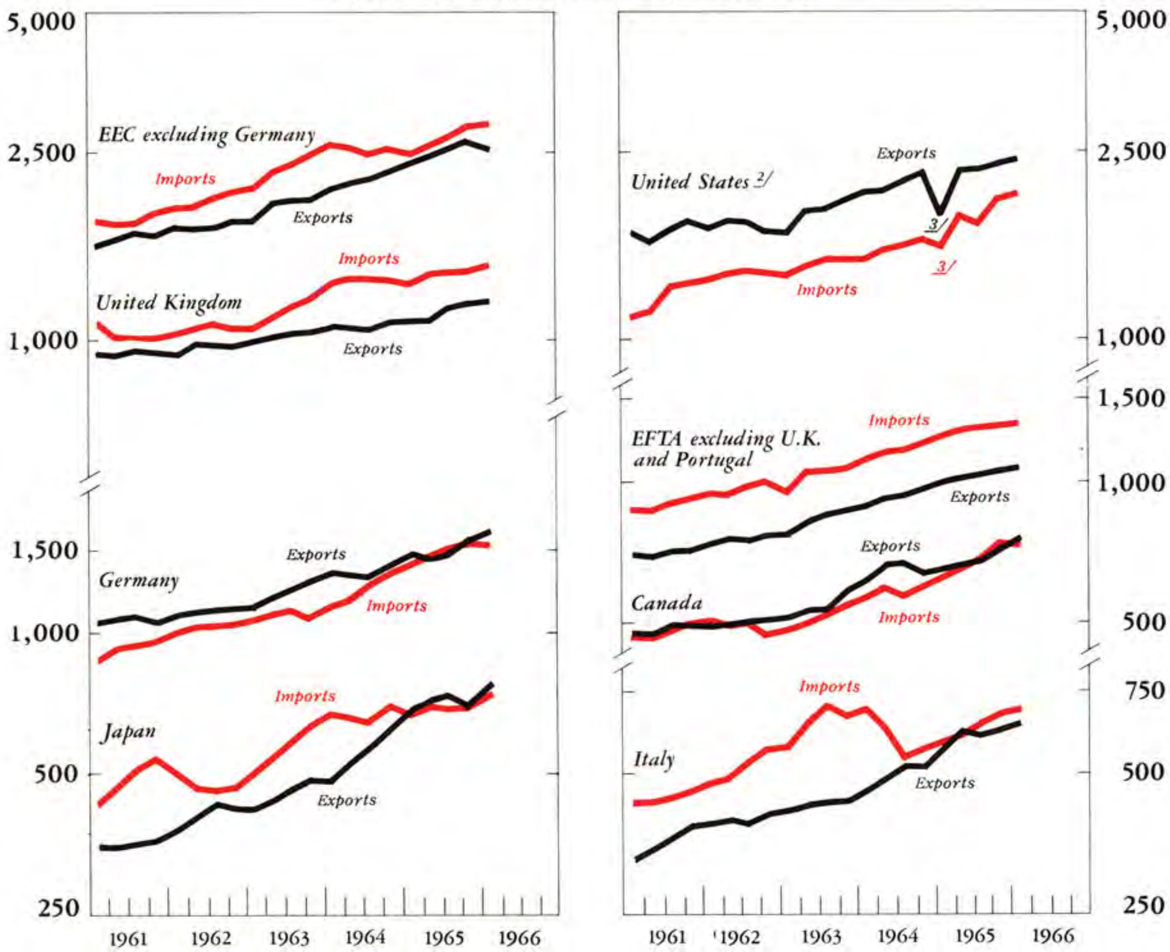
Direction of Trade in 1964-65

Annual trends in the growth of trade among major areas are indicated in Tables 5 and 6. Almost all the series show a slowing down in the growth of trade from 1964 to 1965, and in most cases the peak growth achieved since 1962 was in 1964.

In 1965 the value of trade among industrial countries increased by about 11 per cent. By comparison, the trade of the industrial countries with the world as a whole increased by about 10 per cent, and the growth of world trade was only 8 per cent. The value of exports of the more developed primary producing countries to the industrial countries fell slightly, while trade in the opposite direction increased by about 15 per cent. Trade between the less developed primary producing countries and the industrial countries grew at about the same rate in each direction in 1965; this rate was somewhat less than that at which world trade in general increased, and much less than the rate of growth of the industrial countries' trade among themselves. Exports of both groups of primary producing countries to the Soviet countries and Mainland China grew

CHART 4. SEASONALLY ADJUSTED EXPORTS AND IMPORTS OF INDUSTRIAL COUNTRIES, 1961–FIRST QUARTER 1966[1]

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



[1]Based on customs data. For United States and Canada, 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] U.S. dockers' strike.

very rapidly in 1965, whereas industrial countries' exports to this area increased very little over the 1964 total (which was 30 per cent greater than that in 1963). The acceleration of the less developed primary producing countries' trade with the Soviet countries and Mainland China, over the period 1962-65, seems especially noteworthy.

Table 6 presents further details of the growth of the trade among selected industrial countries and between these countries and other major areas. Exports of the more developed primary producing countries to most of the industrial countries or areas selected declined somewhat from 1964 to 1965, and the increases in such exports to the United States and "other EFTA" countries were small, relative to the growth of these countries' imports from all sources. On the other hand, the growth of the exports of each of the selected industrial countries to these more developed countries was more rapid than that of their exports to the world as a whole.

The growth of trade between the industrial countries and the less developed countries was much less even. With the United States, Canada, and the United Kingdom, trade grew rather slowly or not at all. But between the less developed countries and the EEC, EFTA (excluding the United Kingdom), and Japan, exports in each direction grew at least as fast as world trade generally. The U.S. and Canadian shares of world ex-

TABLE 5. GROWTH IN VALUE OF EXPORTS FROM MAJOR AREAS, BY MAJOR AREAS OF DESTINATION, 1962-65

(In percentage changes from preceding year)

Exports From	Year	Industrial Countries	Primary Producing Countries: More developed	Primary Producing Countries: Less developed	Soviet Countries, etc.[1]	World
Industrial countries[2]	1962	8	6	−2	5	5
	1963	10	13	5	5	9
	1964	13	16	9	30	13
	1965[3]	11	15	7	2	10
Primary producing countries						
More developed	1962	4	3	5	−4	4
	1963	10	15	3	32	11
	1964	12	20	13	15	13
	1965[3]	−1	7	9	22	3
Less developed	1962	6	11	1	4	5
	1963	10	16	5	−6	8
	1964[3]	9	9	8	17	9
	1965[3]	6	10	5	23	6
World[4]	1962	7	6	−1	3	5
	1963	10	14	5	6	9
	1964[3]	12	15	9	24	12
	1965[3]	9	14	7	10	8

Sources: International Monetary Fund and International Bank for Reconstruction and Development, *Direction of Trade;* International Monetary Fund, *International Financial Statistics,* and staff estimates.

[1] Soviet countries, Mainland China, and Cuba.
[2] Excluding military exports from the United States.
[3] Preliminary estimates.
[4] Excluding Soviet countries, Mainland China, and Cuba.

TABLE 6. GROWTH IN VALUE OF EXPORTS FROM SELECTED COUNTRIES AND AREAS, BY DESTINATION, 1965

(In percentage changes from 1964)

Exports From	Exports to: Industrial Countries: United States	Canada	Japan	United Kingdom	Other EFTA Countries	EEC Countries	Total	Primary Producing Countries: More developed	Less developed	Soviet Countries, etc.[1]	World
Industrial countries											
United States[2,3]	—	15	1	1	1	2	6	10	0	−59	3
Canada	13	—	−5	−2	12	12	9	7	0	−32	5
Japan	35	29	—	4	28	33	31	32	22	14	27
United Kingdom	21	7	−12	—	6	2	7	10	5	19	7
Other EFTA countries	15	29	−16	3	15	8	9	14	11	8	10
EEC countries	20	29	−13	4	10	13	12	20	10	21	13
Total[3]	20	16	−3	2	10	10	11	15	7	2	10
Primary producing countries[4]											
More developed	6	−3	−4	−4	4	−1	−1	7	9	22	3
Less developed	5	1	9	−1	10	8	6	10	5	23	6
World, excluding Soviet countries, etc.[1,4]	14	14	2	0	10	9	9	14	7	10	8

Sources: See Table 5.
[1] Soviet countries, Mainland China, and Cuba.
[2] Excludes military exports.
[3] The recorded value of U.S. exports in 1965 to individual countries includes trade in certain nonmilitary items which, for security reasons, had not been reported in U.S. sources prior to January 1965. Staff estimates of this trade, for each country or area in the table, except the "World," have been deducted from the 1965 export figures before computation of the growth rates. For the world market, comparable data, including all nonmilitary exports, were available (this growth rate, together with the estimated rates, implies no marked change in nonmilitary special categories, as defined in 1964).
[4] Preliminary estimates.

ports to the less developed countries fell markedly, while the corresponding shares of the EEC, EFTA (excluding the United Kingdom), and Japan rose. Conversely, apart from industrial markets in North America, the less developed countries broadly maintained their share of world exports to industrial countries.

Export Growth and Market Growth

Table 7 compares the growth of each industrial country's exports in each of the last two years with the average growth in the market for its exports. The latter is equivalent to the growth of exports that each industrial country would have achieved if it had maintained its share of all industrial countries' exports to each of 23 market areas. The difference between a country's "market growth" and its actual export growth approximates the percentage change in its average export share.

From 1964 to 1965, Japan, Italy, and Belgium-Luxembourg increased their shares of foreign markets, and the United Kingdom, Canada, the United States, Sweden, and the Netherlands failed to maintain their shares. Japan and Italy had also increased their shares in 1964, but by not so much as in 1965. The United Kingdom's share fell less in 1965 than it did in 1964, and between the second halves of the two years its share was almost maintained. The reduction in the United Kingdom's share in 1965 was distributed rather evenly among the major market areas (in contrast to rather more concentrated losses in 1963-64), although U.K. exports to the EEC countries, Australia, New Zealand, and South Africa continued to be particularly weak. The growth of exports from the United States in 1965 (3 per cent) was much the lowest of any industrial country, but the growth of the market for U.S. exports was also relatively low. Thus the decline in its export share was less than that which might be inferred from a comparison of its actual export growth with the export growth of all industrial countries (Table 6). Even so, the growth of exports from the United States in 1965 relative to the growth in the market for its exports compares unfavorably with 1964 (when the U.S. share increased by about 2 per cent) and with 1963 and 1962. France did not appreciably increase its export share in 1965 as a whole, in spite of the relative ease in domestic demand prevailing there; however, from the second half of 1964 to the corresponding period of 1965, France's share increased by 5 per cent. Although Germany maintained its export share on the average for all markets, its share of the markets in most of the industrial countries fell.

The marked differences in export performance of the industrial countries were associated with the widely divergent trends in domestic demand (summarized in Chapter 6). In some countries

TABLE 7. INDUSTRIAL COUNTRIES: GROWTH OF EACH COUNTRY'S EXPORTS RELATED TO AVERAGE GROWTH IN ITS EXPORT MARKETS, 1964 AND 1965 [1]

(In percentage changes from preceding year or same period of preceding year)

	1964		1965		1965 Second Half	
	Market growth	Export growth	Market growth	Export growth	Market growth	Export growth
Countries which increased their average shares of markets from 1964 to 1965						
Japan	14	23	13	27	11	20
Italy	14	17	12	20	12	17
Belgium-Luxembourg	15	15	12	15	13	17
Countries which broadly maintained their average shares of markets from 1964 to 1965						
Austria	10	9	12	11	12	11
Denmark	14	11	11	10	10	7
France	11	11	11	12	11	16
Germany	13	11	10	11	11	12
Norway	16	20	11	12	11	13
Switzerland	12	10	12	12	13	13
Countries which failed to maintain their average shares of markets from 1964 to 1965						
Netherlands	15	17	12	10	13	10
Sweden	15	15	10	8	9	7
United States [2]	12	14	6–8 [3]	3	8–10 [3]	4
Canada	19	19	10	5	14	8
United Kingdom	12	4	13	7	12	11

Source: Based on data in International Monetary Fund and International Bank for Reconstruction and Development, *Direction of Trade*. Some of the export data for the United Kingdom are taken from the Board of Trade, *Overseas Trade Accounts of the United Kingdom*.

[1] For the purpose of this analysis the world has been divided into 23 markets, consisting of 14 industrial countries, 8 groups of primary producing countries, and the Soviet countries and Mainland China. The rate of growth in the market confronting each exporting country is taken to be the growth in each market weighted according to the share of the country's exports taken by each market in the preceding year. Except for the Soviet countries and Mainland China, the growth in each market is taken to be the growth in exports of all industrial countries to that market area. For each exporting country, the growth of the market in the Soviet countries and Mainland China is equated with that country's actual export growth to that market.

[2] Nonmilitary exports.

[3] The growth of the market for U.S. exports in 1964-65 is especially difficult to estimate as a result of a reclassification of certain U.S. exports from "special categories" to exports allocated by country of destination.

these trends were reflected in marked changes in price competitiveness. Table 8 shows percentage changes in the ratio of each industrial country's index of export unit values to the average unit value of other industrial countries' exports. The countries whose share of exports increased substantially—Japan, Italy, and Belgium-Luxembourg — all improved their competitive position by this criterion between the first three quarters of 1964 and the corresponding period of 1965. Of the countries for which a decline in price competitiveness is recorded in Table 8, the United States had by far the most substantial deterioration — about 2 per cent; moreover, a similar result is obtained if unit value ratios are calculated on the basis of manufactured exports alone. (Calculations for 1961-62, 1962-63, and 1963-64 show moderate improvements in U.S. price competitiveness, whether manufactured exports or total exports are used.) The relative export unit value of the United Kingdom appeared to remain unchanged in 1965, as it did in 1964. In relation to manufactured exports alone, U.K. price competitiveness deteriorated somewhat in each of these years.

TABLE 8. INDUSTRIAL COUNTRIES: CHANGES IN THE RELATION BETWEEN EACH COUNTRY'S EXPORT UNIT VALUE AND THE AVERAGE UNIT VALUE OF OTHER COUNTRIES' EXPORTS, 1964 AND 1965

(In percentage changes from preceding year [1])

	1964		1965 [2]	
Relative improvement	Japan	−2.5	Japan	−3.0
	Canada	−0.5	Belgium-Luxembourg	−3.0
	United States	−0.5	Italy	−2.5
	Germany	−0.5	Denmark	−1.5
	Italy	−0.5	France	−1.5
Little change [3]	Austria		Austria	
	United Kingdom		Canada	
			Norway	
			United Kingdom	
Relative deterioration	Belgium-Luxembourg	0.5	Germany	0.5
	Denmark	1.5	Switzerland	0.5
	Sweden	1.5	Netherlands	0.5
	Netherlands	1.5	Sweden	1.0
	France	2.0	United States	2.0
	Switzerland	2.0		
	Norway	2.5		

Source: Based on unit value indices published in United Nations, *Monthly Bulletin of Statistics.*

[1] Percentage change in the ratio of each country's index of unit value of total exports (in dollars) to the combined index for industrial countries. Figures greater than 0.5 rounded to the nearest ½ per cent.

[2] January-September.

[3] Less than ½ per cent.

International Private Capital Movements

The pattern of international capital movements, and of international financing on international security markets, altered greatly during 1965. The capital outflow from the United States was sharply diminished during the year, largely as a result of the U.S. voluntary balance of payments program. One of the most interesting developments was a decrease in the second half of 1965 in the transfers of direct investment funds to Europe, concurrently with an actual increase in investment by U.S. businesses, made possible by increased financing from European capital markets. Part of this finance took the form of security flotations in Europe, accounting for a part of the increase in international issues which is discussed in Chapter 6. The net export of private capital on short-term as well as long-term account from the main industrial countries to the less developed primary producing countries appears to have been lower in 1965 than in 1964, but, taking into account also errors and omissions (which are believed to include important amounts of unrecorded capital transfers), the net balance of payments position of the latter countries on capital account improved slightly.

The broad pattern of international capital movements in recent years is indicated in Table 9. These transfers have been, and continue to be, the source of a number of difficulties for the smooth working of the international adjustment process.

Historically, most private long-term capital movements have taken the form of a flow of funds from a more highly developed country, presumably with a lower current marginal efficiency of investment, to a less highly developed, capital-scarce country, with a presumably greater current marginal efficiency of investment. In recent years, the United States, and to a lesser extent the United Kingdom, have been the most important net sources of long-term investment funds. However, the less developed primary producing countries have not been the most important recipients of these resources. As a group their net receipts of long-term capital have been matched in rough orders of magnitude by the receipts of the industrial European countries (other than the United Kingdom), by those of Canada and Japan, and by those of the more developed primary producing countries. That is, the capital-scarce nations seem to have received only a little more than one fourth of the flow of long-term funds in recent years. The flows between the major industrial countries have not only been large, but in some important cases they have been disequilibrating, in the sense that they provided additional sources of reserve accumulation for countries with large balance of payments surpluses.

TABLE 9. BALANCES ON PRIVATE CAPITAL ACCOUNT, ANNUAL AVERAGES, 1961-64 [1]

(In millions of U.S. dollars)

	Long-Term Capital	Short-Term Capital [2]	Errors and Omissions	Total
Industrial countries				
Main capital exporters				
United States	—3,670	—740	—950	—5,360
United Kingdom	—200	—180	20	—360
Total	—3,870	—920	—930	—5,720
Other European countries	940	415	1,120	2,475
Canada and Japan	790	600	20	1,410
Total	—2,140	95	210	—1,835
Primary producing countries				
More developed	765	20	125	910
Less developed	1,145	40	—385	800
Total	1,910	60	—260	1,710
Discrepancy	—230	155	—50	—125

[1] Includes reinvested earnings where data are available.
[2] Includes liquid liabilities to foreign private creditors (including commercial banks).

The pattern of private long-term capital movements in 1965 was similar to that of recent years. But, largely as a result of the reactions of U.S. banks and other financial institutions to the guidelines for their foreign lending activities announced in March, the direction of U.S. net short-term capital flows changed to an inflow for the year as a whole (Table 29, p. 94). This had a counterpart in marked changes in flows of capital in a number of other countries.

In 1965, there was a large increase in the outflow of capital from Italy, Japan's net capital account changed from an inflow to an outflow, and the inflow into France and the Netherlands was much reduced (Table 10). On the other hand, inflows into Germany and Canada increased markedly. On balance, the flow to continental Europe was drastically reduced.

In large part, these changes resulted from the reversal of the direction of short-term capital movements between the United States and Europe during the first three quarters of 1965, and of changes in the volume of U.S. direct investment financing. Although total U.S. direct investment was larger in 1965 as a whole than it was in 1964 (Table 11), transfers in the second half of the year were lower than they had been in the same period of the previous year. Transfers of direct investment funds to Europe slowed down, but there was a sharp rise in investments in Canada, prompted by the buoyant state of the Canadian economy. Canadian direct investment abroad changed very little from 1964 to 1965 (see Table 31, p. 96).

After allowing for the liquidation by the U.K. Exchange Equalization Account of about $500 million of U.S. corporate securities, and for the sale of $203 million of securities by domestic affiliates of foreign subsidiaries of U.S. firms,[1] portfolio transactions in U.S. and foreign securities resulted in an outflow of capital in 1965 from the United States. Part of this outflow represented the switching by nonresidents out of U.S. domestic securities into higher-yielding U.S. securities issued on foreign markets. The decline in long-term bank lending abroad accounted for a more important element of improvement in the U.S. capital account. Altogether the outflow of U.S. long-term capital other than direct investment and net portfolio security transactions declined by more than $1 billion. While the voluntary balance of payments program was a powerful influence leading to this improvement, the restraints on domestic credit expansion also made a positive contribution.

[1] The U.S. balance of payments data record the sale of securities by such affiliates as sales by U.S. firms. To the extent that the proceeds of these issues were transferred to the subsidiaries (approximately $80 million in 1965) they are recorded as direct investment; to the extent that they are held for subsequent transfer to the subsidiaries (approximately $120 million in 1965) they are recorded as short-term capital outflows. However, when these latter amounts are eventually transferred they will constitute an addition to the outflow on direct investment account.

TABLE 10. SELECTED INDUSTRIAL COUNTRIES: BALANCES ON PRIVATE CAPITAL ACCOUNT, 1964 AND 1965 [1]

(In millions of U.S. dollars)

			1964	1965			
	1964	1965	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter
Main capital exporting countries	−6,001	−3,596	−3,396	−748	−1,046	−190	−1,612
United States	*−5,599*	*−3,845*	*−2,517*	*−763*	*−849*	*−232*	*−2,001*
United Kingdom	*−402*	*249*	*−879*	*15*	*−197*	*42*	*389*
Selected industrial European countries [2]	1,408	352	717	−308	397	4	257
Belgium	*224*	*118*	*72*	*−46*	*104*	*26*	*34*
France	*549*	*169*	*200*	*96*	*23*	*66*	*−16*
Germany	*559*	*1,212*	*380*	*−86*	*469*	*594*	*235*
Italy	*−367*	*−1,212*	*7*	*−260*	*−311*	*−636*	*−5*
Netherlands	*443*	*65*	*58*	*−12*	*112*	*−44*	*9*
Canada and Japan	1,147	503	165	427	147	−186	115
Canada	*689*	*1,186*	*322*	*296*	*335*	*202*	*353*
Japan	*458*	*−683*	*−157*	*131*	*−188*	*−388*	*−238*
Total	−3,446	−2,729	−2,492	−629	−502	−370	−1,240

Sources: International Monetary Fund, *Balance of Payments Yearbooks,* and data supplied by national authorities.
[1] Private long-term and short-term monetary and nonmonetary sector capital, and errors and omissions.
[2] Includes some foreign private investment in domestic government securities.

The reversal of the direction of U.S. net short-term capital flows was primarily the product of two influences. In the second and third quarters of the year, the repatriation of short-term assets was the predominant factor. A large part of this flow evidently reflected the repatriation of Euro-dollar assets held with Canadian banks and relent by them to non-Canadian debtors. During the year, there were also marked changes in private foreign holdings of short-term dollar assets. In the last quarter of 1964 there had been a large increase in these holdings, mainly as a counterpart to the withdrawal of sterling balances from London. In the first half of 1965, these dollar

TABLE 11. UNITED STATES: DISTRIBUTION OF DIRECT INVESTMENT, 1963–FIRST QUARTER 1966

(In millions of U.S. dollars)

				1964	1965				1966
	1963	1964	1965	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
Western Europe	924	1,368	1,432 [1]	390	545	413	127	347	230
Canada	365	239	895	202	241	146	185	323	210
Other Western Hemisphere	236	268	260	102	73	90	−21	118	45
Japan	68	78	21	14	16	−8	8	5	7
Australia, New Zealand, and South Africa	108	136	171	44	63	80	22	6	45
Other [2]	275	327	592	163	210	215	98	69	29
Total	1,976	2,416	3,371	915	1,148	936	419	868	566

Source: U.S. Department of Commerce, *Survey of Current Business,* June 1966.
[1] Including $80 million borrowed in Europe by U.S. companies and transferred to their European subsidiaries.
[2] Africa, Asia, and Eastern Europe.

holdings rose only marginally. In the third quarter of 1965, they rose markedly. This increase reflected the rise in Canadian and U.K. assets offsetting the increases in their Euro-dollar liabilities, particularly to Italy. In the last quarter, outflows from the United States, some of which were associated with the return of short-term funds to London, exceeded inflows. For the year as a whole, foreign private and commercial banks' holdings of short-term dollar claims on the United States increased by a little more than $400 million, compared with a rise of $1.8 billion in 1964. The deceleration of the upward trend of these short-term capital movements may probably be explained in part by the marked reduction in the U.S. short-term capital outflow noted above. Because the placement of foreign funds in the United States is influenced by foreign borrowings of dollars, the relative decline in the latter seems partly to have offset the effect of the rise in the covered U.S. short-term interest rate relative to interest rates in other markets (U.K. interest rates even declined).

The other major capital exporter, the United Kingdom, also changed its stance during 1965. The outflow of U.K. funds reached a peak during the sterling crisis late in 1964. Thereafter, short-term capital returned on a small scale in the first quarter of 1965 and, after an outflow in the second quarter, the inflow was resumed in the second half of the year. Private U.K. long-term investment was cut back after the second quarter of 1965, largely as a result of government restrictions imposed during the year, although there was some bunching of oil company investments in the third quarter.

Partly as a consequence of the measures taken by the Government and the Bundesbank to restrain inflation, the high level of demand on the German capital market could not be accommodated by the banking system. At the same time, there was a large increase in the flow of international capital to Germany, particularly in the latter half of 1965. So far as long-term capital was concerned, however, this was mainly due to private direct investments. The net capital inflow in 1965 was near to $1.2 billion, of which nearly 50 per cent was errors and omissions, trade credit being a major element; in the third quarter of the year these transfers even reached an annual rate of $2.4 billion.

On the other hand, there was a reduction in the inflow of long-term private capital to France and an outflow of short-term funds from France, resulting, as noted above, in a substantially reduced inflow on private capital account. In 1964 there had been a net inflow of $500 million.

The Italian balance on private capital account changed more than that of any other European country. Italy looks forward to a fairly steady inflow of long-term capital in the long run. Yet, in the third quarter of 1965, net private capital exports exceeded an annual rate of $2.5 billion. Medium-term export credits were an important part of the outflow during the year, but it was dominated by an accumulation of short-term assets (chiefly in the Euro-dollar market) by Italian banks. This latter movement was encouraged by the Italian authorities for reasons outlined in Chapter 6.

A part of the repatriation of U.S. short-term capital represented a running-off of credits previously extended to Japan. In part, this was associated with the less rapid expansion of the Japanese economy and the consequent slowing down of the rise in imports into Japan. At the same time, Japan provided increased short-term financing to purchasers of its exports.

For the less developed primary producing countries as a whole, foreign long-term private capital receipts, according to the statistics of these countries, were much the same as in 1964 and above their 1962 and 1963 levels. The net loss was offset by an apparent reduction in the net outflow of short-term capital from these countries. The comparisons of annual receipts are dominated by changes in the flow of capital from the United States; in 1965 this flow (on short-term as well as long-term account) was approximately $500 million smaller than in 1964, but almost $700 million greater than in 1963. The aggregate flow from European countries was approximately the same as in 1964.

Balance of Payments Developments

Current Account and "Basic" Balances

For most countries the changes from 1964 to 1965 in the net position on current account (defined here as the balance on account of goods and services and private transfer payments) were, as is usual, explained by changes in trade balances. The most notable developments were as follows:

(1) A sharp decline (of $1.6 billion) in the current surplus of the United States, to $6.0 billion, a level which was still much higher than in most previous years except 1964. The large fall in the trade surplus was mitigated somewhat by an improvement on services account, as a sharp rise in income received on investments more than offset higher payments on account of travel and other services.

(2) A return to current balance in the United Kingdom, from a deficit of $0.7 billion in 1964. In each of the three years prior to 1964, there had been surpluses on current account. For each quarter of 1965, the current balance was more favorable than in the corresponding quarter of 1964, and there was also a substantial improvement from the first half to the second half of the year.

(3) A rise of about $0.9 billion in the current surplus of the EEC countries, with increased surpluses occurring in each country except Germany. The $1.6 billion deterioration in the current account position of Germany was matched by the increase in Italy's surplus alone.

(4) A change of $1.4 billion, from a current account deficit to a record surplus of $1.0 billion, in Japan. Most of the 1965 surplus was earned in the second half of the year, which is seasonally more favorable than the first half.

(5) A rise of about $0.7 billion in the current account deficit of Canada; the deterioration continued through most of the year.

(6) A rise of about $1.3 billion in the current account deficit of the primary producing countries as a group, owing to a deterioration of the position of the more developed primary producers. The less developed countries as a group seem to have recorded a slight improvement. Although seasonality makes interpretation of the figures for the primary producing countries difficult, there was little indication of an easing of their collective position as the year progressed.

The major factors underlying the changes in current account positions as shown in Chart 5 were associated with the developments in trade discussed above, and thus to a considerable degree with the variation from country to country in the degree of economic expansion and pressure of domestic demand. Among the major countries, the largest improvements on current account occurred in the two countries, Italy and Japan, which experienced the most pronounced slack in their domestic economies. The improvement in the current account position of France was also associated with mildly recessionary tendencies in its domestic economy. In contrast, the United States and Canada, in which expansionary forces were particularly strong, each experienced a considerable worsening of its current account, and there was a similar development in Germany. The reduction in the current deficit of the United Kingdom was associated in part with the temporary surcharge on imports.

The EEC countries as a group again exhibited considerable strength. From the first to the second half of 1964, there was a sharp rise in the area's current surplus, and this improvement was approximately maintained in both halves of 1965 (Table 12). The influence of seasonal factors in the figures cannot be assessed precisely but they are more favorable in the second half than in the first half of the year, suggesting that, on a seasonally adjusted basis, the current surplus reached its peak in the first half of 1965. The improved position of the EEC countries other than Germany is to a considerable extent the counterpart of the German deficit, but collectively the EEC countries were in a position of strength throughout 1965.

Changes in flows of government capital and aid and private long-term capital were generally much less spectacular than those in current transactions. This can be seen from Chart 5, which

TABLE 12. EEC COUNTRIES: BALANCE OF PAYMENTS SUMMARIES, 1964 AND 1965 [1]

(In millions of U.S. dollars)

	Year		Goods, Services, and Private Transfers (1)	Official Transfers and Capital [2] (2)	Other Non-monetary Long-Term Capital (3)	Extraordinary Transactions [3] (4)	Basic Balance (Cols. 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)
Belgium-Luxembourg	First half	1964	−46	8	34	—	−4	22	2	−20
	Second half	1964	92	−26	134	—	200	−6	38	−232
	Total		46	−18	168	—	196	16	40	−252
	First half	1965	160	−104	78	—	134	−32	12	−114
	Second half	1965	40	−52	56	—	44	2	2	−48
	Total		200	−156	134	—	178	−30	14	−162
France [6]	First half	1964	56	−77	250	—	229	27	48	−428
	Second half	1964	93	−67	277	—	303	−24	−29	−387
	Total		149	−144	527	—	532	3	19	−815
	First half	1965	341	−68	216	—	489	13	−110	−532
	Second half	1965	310	−313	145	−179	321	49	−144	−176
	Total		651	−381	361	−179	810	62	−254	−708
Germany	First half	1964	865	−690	−39	8	128	501	−450	−187
	Second half	1964	30	−582	191	32	−393	−66	463	−36
	Total		895	−1,272	152	40	−265	435	13	−223
	First half	1965	−204	−602	219	4	−591	674	−525	438
	Second half	1965	−489	−392	259	−92	−530	88	478	56
	Total		−693	−994	478	−88	−1,121	762	−47	494
Italy	First half	1964	−407	−80	220	—	−267	57	−344	554
	Second half	1964	1,061	61	182	—	1,304	−320	−98	−886
	Total		654	−19	402	—	1,037	−263	−442	−332
	First half	1965	817	−7	2	—	812	−299	−272	−241
	Second half	1965	1,488	12	−62	—	1,438	−355	−362	−721
	Total		2,305	5	−60	—	2,250	−654	−634	−962
Netherlands	First half	1964	−378	−20	3	1	−396	97	208	90
	Second half	1964	199	−5	118	1	311	45	−20	−337
	Total		−179	−25	121	2	−85	142	188	−247
	First half	1965	−87	−30	16	1	−102	−35	123	13
	Second half	1965	126	−2	−13	1	110	−172	146	−85
	Total		39	−32	3	2	8	−207	269	−72
Grand Total [6]	First half	1964	90	−859	468	9	−310	704	−536	9
	Second half	1964	1,475	−619	902	33	1,725	−371	354	−1,878
	Total		1,565	−1,478	1,370	42	1,415	333	−182	−1,869
	First half	1965	1,027	−811	531	5	742	321	−772	−436
	Second half	1965	1,475	−747	385	−270	1,383	−388	120	−974
	Total		2,502	−1,558	916	−265	2,125	−67	−652	−1,410

Source: Based on data reported to the International Monetary Fund. For 1965, data for some countries are provisional and are not entirely comparable with 1964.

[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 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 are included with official transfers and capital.
[6] Excluding transactions with overseas franc area, on which data are not available. The net balance of the transactions excluded is equivalent to "Transactions of the Overseas Franc Area settled through Metropolitan France," which represented credits of $124 million in the first half of 1964, $137 million in the second half of 1964, $140 million in the first half of 1965, and $129 million in the second half of 1965.

compares the so-called basic balances (i.e., balances on account of current transactions, government aid, and government and private long-term capital transactions, excluding advance repayment of government debt) with balances on current account for major countries and areas. The figures suggest that little progress toward a more balanced pattern of international transactions in these categories was achieved in 1965. In particular, there was a substantial increase in the basic deficit of the United States and a further increase in the basic surplus of the EEC countries as a group. For the latter, the net outflow on account of government capital, long-term capital, and government aid (about $300 million in 1965) remained relatively small—outflows of government capital and aid being largely offset by inflows of private long-term capital. Canada turned from a basic surplus in 1964 to a deficit in 1965; while Japan turned from a basic deficit to a surplus. There was a quite sharp reduction in the basic deficit of the United Kingdom, partly the result of reduced capital outflows. However, despite a considerable improvement in Switzerland, the aggregate basic balances for the remaining EFTA countries (other than Portugal) moved further into deficit (see Table 13).

whole, fluctuations in flows of short-term capital are usually much more moderate, and changes in the basic balances for the primary producing countries from 1964 to 1965 are of considerable interest. The hope that the measures of restraint on capital outflows introduced by both the United States and the United Kingdom would not seriously affect the capital receipts of the less developed countries was realized in practice. Table 14

TABLE 13. OTHER INDUSTRIAL COUNTRIES IN CONTINENTAL EUROPE: BALANCE OF PAYMENTS SUMMARIES, 1964 AND 1965 [1]

(In millions of U.S. dollars)

	Year	Goods, Services, and Private Transfers	Official Transfers and Capital [2]	Other Non-monetary Long-Term Capital	Basic Balance	Other Non-monetary Short-Term Capital and Errors and Omissions	Net Commercial Bank Short-Term Assets [3]	Net Reserves [3,4]
Austria	1964	−1	35	37	71	9	2	−82
	1965	−53	−12	−28	−93	49	45	−1
Denmark	1964	−189	14	181	6	109	52	−167
	1965	−177	5	135	−37	51	−73	59
Norway	1964	−67	15	157	105	−37	−17	−51
	1965	−88	−1	184	95	30	−39	−86
Sweden	1964	20	−12	26	34	158	7	−199
	1965	−258	−24	74	−208	221	−11	−2
Switzerland	1964	−411	35	−80 [5]	−456	769 [5]	...	−313 [6]
	1965	−130	24	−83 [5]	−189	−40 [5]	...	229 [6]
Total	1964	−648	87	321	−240	1,008	44	−812
	1965	−706	−8	282	−432	311	−78	199

Source: Based on data reported to the International Monetary Fund. For 1965, the data for some countries are provisional and are not entirely comparable with those for 1964.

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

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

[3] Increase (−).

[4] 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.

[5] Covers only issues and redemptions of foreign bonds in Switzerland and long-term bank credits. Other private long-term capital is included indistinguishably in errors and omissions.

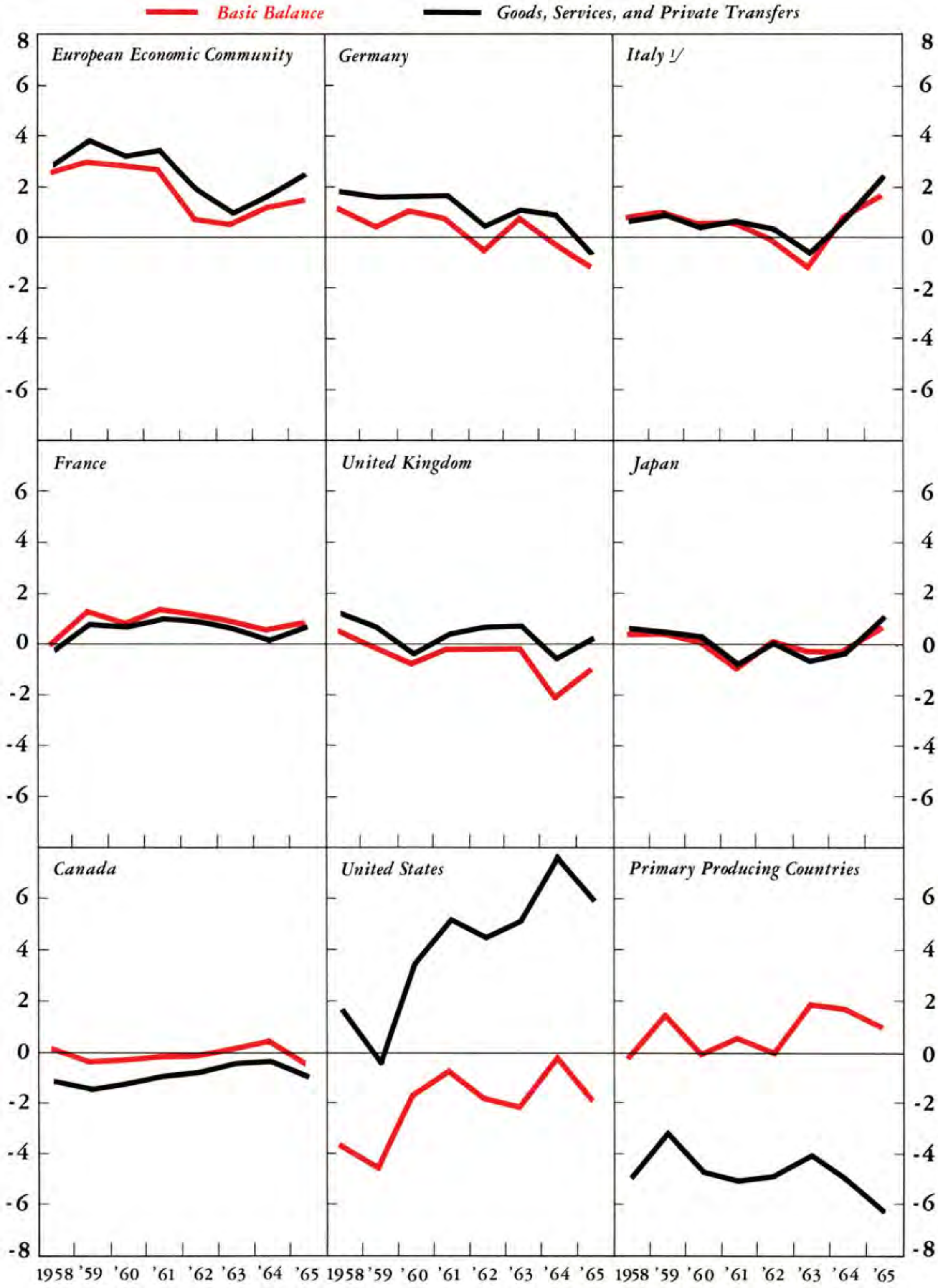
[6] Including changes in net commercial bank short-term assets.

The "basic" balances, as here defined, are in the nature of things only a very rough measure of the underlying trends in countries' balances of payments. This is particularly true in a year like 1965, in which shifts in movements of short-term capital not only were very large but may also have reflected, in part, a trend factor and, in any case, do not appear to have included any appreciable element of volatile or speculative movements of funds likely to be reversed.

For the primary producing countries as a shows that, for these countries, receipts of government capital and aid on the one hand and of private long-term capital on the other were not significantly different in 1965 from the previous year. As a result, the basic balance of the less developed countries as a group improved in line with the current balance. However, for the more developed primary producing countries as a group an enlarged long-term capital inflow failed to match the marked deterioration in the current balance.

CHART 5. SELECTED AREAS AND COUNTRIES: BALANCES OF PAYMENTS, 1958-65

(In billions of U.S. dollars)



[1] Basic balance includes errors and omissions and small amounts of nonmonetary sector short-term capital.

Over-All Surpluses and Deficits

A characteristic of balance of payments developments in 1965 was that changes in the movements of short-term capital were generally in an equilibrating direction, thereby tending to minimize changes in official reserves. As a result, there was a tendency for over-all imbalances in international transactions to be reduced from 1964 to 1965, in spite of some rise in imbalances on account of current and long-term capital transactions.

Table 15 provides estimates of over-all surpluses or deficits for all countries for which balance of payments statistics are available, based on a broadly symmetrical definition. A surplus or deficit is defined as the balance of all transactions other than "official settlements" (here interpreted as covering changes in official gold and foreign exchange assets, in net IMF positions, and, where available, in liabilities to foreign monetary authorities and advance repayments of foreign debt by governments). The over-all deficit or surplus is thus equal to the basic balance plus unrecorded transactions and all movements of short-term capital, excluding those that constitute official settlements. Table 15 is based on quarterly movements in central reserve assets. For the reserve currency countries, changes in monetary liabilities are also taken into account, but for most other countries these data are available only on an annual basis. As a result, the over-all balances shown in Tables 12, 13, and 14, which are based on the more complete annual data, may differ slightly from those shown in Table 15.

For the United States the deficit shown in Table 15 was virtually unchanged at $1.5 billion, but when allowance is made for certain special transactions discussed in Chapter 8, there appears to have been a reduction in its over-all deficit.

As measured in Table 15, the U.K. deficit was reduced in 1965 by some $1.5 billion, to $0.4 billion; net short-term capital inflows were a good deal larger than in 1964 and reinforced the improvement in the U.K. basic balance. For the EEC countries as a group, changes in short-term capital movements more than offset the rise in their basic surplus; the over-all surplus of the area, as defined in Table 15, fell by a few hundred million dollars to $1.5 billion.

The transactions of the EEC countries individually, and of the EEC area as a whole, are summarized in Table 12.

The collective over-all surplus of the EFTA countries other than the United Kingdom and Portugal was reduced from $0.6 billion to $0.2 billion. However, the changes in Switzerland's reserves during 1965 used in Table 15 reflect the addition of some $400 million as a result of year-end operations by Swiss banks. A similar movement in 1964 added some $150 million and one in 1963 some $300 million to reserves. In the absence of these seasonal movements, the combined over-all balance in 1965 for the EFTA countries other than the United Kingdom would have been close to zero, compared with a surplus close to $1 billion in 1964 (see Table 13).

Canada and Japan experienced small over-all surpluses; in both these countries, changes in short-term capital movements were in an equilibrating direction. In Canada, a large inflow of short-term capital in 1965, compared with a small outflow in 1964, offset most of the substantial deterioration in the "basic" balance, so that the over-all balance remained in surplus, although at a lower level. In Japan, most of the sharp improvement in the basic balance was offset by a change from a substantial inflow to a substantial outflow of short-term capital, so that the improvement in the over-all position was relatively modest.

The primary producing countries collectively also experienced a reduction in their over-all surplus in 1965. Here net short-term capital outflows and negative errors and omissions produced a lower aggregate over-all surplus than the basic surplus.

Table 14, which summarizes the preliminary balance of payments reports by these countries, supplemented by some staff estimates, suggests that the net outflow of short-term capital (including errors and omissions) was a little lower in 1965 than in 1964. The more developed primary producing countries again experienced an inflow in this respect, while there was once more an outflow from the less developed countries, although both inflow and outflow were smaller than in the previous year.

The comparison of annual figures for over-all surpluses and deficits to some extent masks some interesting developments during both 1964 and 1965. At the beginning of 1964, the over-all positions both of the United States and of the EEC countries was quite sharply reduced. However, in the second half of 1965, an appreciable deficit for the United States reappeared (especially in the fourth quarter) and the surplus of the EEC countries again tended to rise. The over-all deficit of the United Kingdom, which in each of the first three quarters of 1965 had remained disturbingly high, was replaced by a surplus in the fourth quarter. These movements within the year

TABLE 14. PRIMARY PRODUCING COUNTRIES: BALANCE OF PAYMENTS SUMMARIES, 1964 AND 1965 [1]

(In millions of U.S. dollars)

	Exports f.o.b. (1)	Imports f.o.b. [2] (2)	Trade Balance [3] (Cols. 1 + 2) (3)	Services and Private Transfer Payments (4)	Goods, Services, and Private Transfer Payments (Cols. 3 + 4) (5)	Central Government Capital and Aid (6)	Private Long-Term Capital (7)	Basic Balance (Cols. 5 through 7) (8)	Other Short-Term Capital (including Commercial Banks) and Net Errors and Omissions (9)	Total [4] (Cols. 8 + 9) (10)
A. More developed primary producers										
1964	11,925	—14,139	—2,214	973	—1,241	286	1,035	80	426	506
1965	12,316	—16,204	—3,888	1,246	—2,642	351	1,387	—904	219	—685
B. Less developed primary producers										
1964	23,636	—23,150	486	—4,419	—3,933	3,754	1,595	1,416	—936	480
1965	25,195	—24,290	905	—4,716	—3,811	4,004	1,476	1,669	—258	1,411
Latin America										
1964	*9,987*	*—8,397*	*1,590*	*—2,281*	*—691*	*567*	*809*	*685*	*—268*	*417*
1965	*10,380*	*—8,629*	*1,751*	*—2,180*	*—429*	*818*	*420*	*809*	*140*	*949*
Asia										
1964	*5,864*	*—8,004*	*—2,140*	*—43*	*—2,183*	*2,332*	*328*	*477*	*—420*	*57*
1965	*6,207*	*—8,369*	*—2,162*	*—40*	*—2,202*	*2,248*	*189*	*235*	*—208*	*27*
Middle East										
1964	*4,060*	*—3,475*	*585*	*—1,009*	*—424*	*479*	*163*	*218*	*—198*	*20*
1965	*4,508*	*—3,683*	*825*	*—1,211*	*—386*	*418*	*410*	*442*	*—94*	*348*
Africa										
1964	*3,725*	*—3,274*	*451*	*—1,086*	*—635*	*376*	*295*	*36*	*—50*	*—14*
1965	*4,100*	*—3,609*	*491*	*—1,285*	*—794*	*520*	*457*	*183*	*—96*	*87*
C. Total										
1964	35,561	—37,289	—1,728	—3,446	—5,174	4,040	2,630	1,496	—510	986
1965	37,511	—40,494	—2,983	—3,470	—6,453	4,355	2,863	765	—39	726

Source: Based on data reported to the International Monetary Fund. For 1965 data for many countries are provisional and in some instances involve estimates by the Fund staff. Table 28, pages 84-85, shows individual country details.

[1] No sign indicates credit; minus sign indicates debit.
[2] For a number of countries, c.i.f.
[3] As recorded in the official balances of payments of countries for which such data are available. The figures may differ somewhat from recorded exports and imports based on customs returns (which are the primary sources for the figures in Tables 3-8 and Table 27) because of various coverage, timing, and valuation adjustments made in conformity with balance of payments concepts.
[4] Represents net official reserve movements, including changes in reserve position in the Fund. No sign indicates over-all surplus; minus sign indicates over-all deficit.

countries collectively were close to balance. In the second half of the year, however, the U.S. deficit rose sharply, the EEC surplus strengthened, and a large net outflow of short-term capital greatly increased the U.K. deficit. Early in 1965, action initiated by the two reserve currency countries began to take effect. In the first half of the year the United States had a small over-all surplus and the United Kingdom a considerably reduced deficit, while the over-all surplus for the EEC were in part influenced by seasonal and random factors.

The quarterly movements in payments imbalances are illustrated in Chart 6, which shows for the period 1958 through the first quarter of 1966 the aggregate over-all deficit of all countries in deficit, and similar data for the industrial and primary producing countries separately. It is apparent that payments imbalances were generally

TABLE 15. OVER-ALL BALANCES OF INTERNATIONAL PAYMENTS, 1964 AND 1965[1]
(In millions of U.S. dollars)

	1964			1965		
	First half	Second half	Year	First half	Second half[2]	Year[2]
Industrial Countries						
United States	–141	–1,323	–1,464	80	–1,603	–1,523
United Kingdom	–260	–1,603	–1,863	–375	17	–358
EEC countries	–93	1,980	1,887	337	1,154	1,491
Belgium	*–4*	*242*	*238*	*72*	*40*	*112*
France	*376*	*447*	*823*	*428*	*370*	*798*
Germany	*207*	*24*	*231*	*–429*	*–24*	*–453*
Italy	*–579*	*927*	*348*	*277*	*691*	*968*
Netherlands	*–93*	*340*	*247*	*–11*	*77*	*66*
Austria	–8	97	89	–34	27	–7
Denmark	44	131	175	–138	77	–61
Norway	14	19	33	35	55	90
Sweden	54	151	205	76	–68	8
Switzerland	–122	248	126	–114	278	164
Canada	24	313	337	–67	212	145
Japan	–171	132	–39	5	127	132
Total, industrial countries	–659	145	–514	–195	276	81
Primary Producing Countries						
Australia	133	–66	67	–263	–94	–357
Finland	33	42	75	–83	–7	–90
Greece	2	–13	–11	–17	–14	–31
Iceland	1	9	10	3	7	10
Ireland	26	14	40	–46	10	–36
New Zealand	103	–81	22	46	–146	–100
Portugal	22	90	112	–21	76	55
South Africa	–23	–40	–63	–201	78	–123
Spain	117	266	383	–69	–47	–116
Turkey	–47	10	–37	2	10	12
Yugoslavia	–23	30	7	7	–13	–6
Subtotal, more developed	344	261	605	–642	–140	–782
Latin American republics	141	163	304	142	402	544
Argentina	*–5*	*–67*	*–72*	*–10*	*137*	*127*
Brazil	*–73*	*151*	*78*	*133*	*198*	*331*
Mexico	*34*	*77*	*111*	*–93*	*47*	*–46*
Venezuela	*39*	*55*	*94*	*–10*	*–4*	*–14*
Other	*146*	*–53*	*93*	*122*	*24*	*146*
Middle East	102	–51	51	365	–19	346
Other Asia	121	–149	–28	–111	183	72
Other Africa	–40	–47	–87	111	36	147
Subtotal, less developed	324	–84	240	507	602	1,109
Total, primary producing countries	668	177	845	–135	462	327
Excess of Surpluses	9	322	331	–330	738	408
1. Due to increase in world monetary gold	640	110	750	–35	285	250
2. Due to identifiable asymmetries[3]	–70	–82	–152	—	–23	–23
3. Due to errors and omissions	–561	294[4]	–267[4]	–295[4,5]	476[5]	181[5]
Memorandum Items						
United States and Canada	*–117*	*–1,010*	*–1,127*	*13*	*–1,391*	*–1,378*
Industrial countries in continental Europe	*–111*	*2,626*	*2,515*	*162*	*1,523*	*1,685*

[1] Adjusted for advance debt repayments. Over-all balances are measured here by changes in official gold and foreign exchange assets, in net IMF positions, in liabilities resulting from "swap" transactions with the United States, and, where data are available, in other liabilities to foreign monetary authorities. For explanation of differences between data in this table and in the three preceding tables see text. No sign indicates surplus; minus sign indicates deficit.

[2] Preliminary.

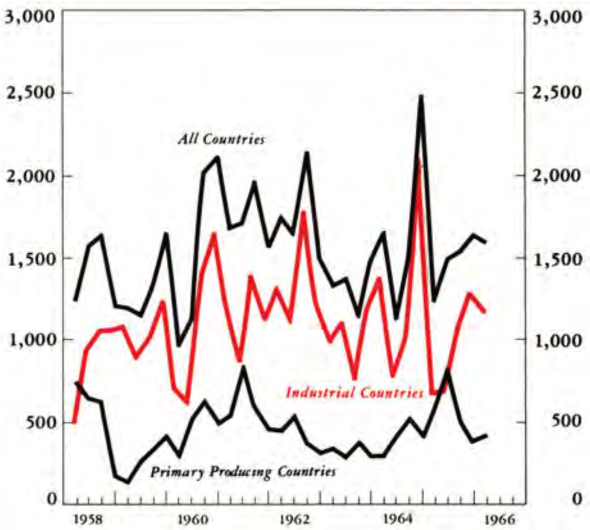
[3] Covers omissions from the table of one side of certain transactions, e.g., contra-entries necessary when Swiss franc proceeds of Roosa Bonds held by the Swiss Government are utilized by the United States in purchases of U.S. dollars from the Swiss National Bank, because both the bonds and the franc liabilities are included "above-the-line" in the Swiss figures.

[4] Affected by changes in U.K. liabilities resulting from central bank non-dollar swap assistance to the United Kingdom unmatched by changes in claims of those countries that do not include the swap sterling in their reserves.

[5] Affected by the sale of some $500 million of U.S. corporate securities by the U.K. Government, which is treated entirely "above-the-line" in the U.K. figures but partly "below-the-line" in the U.S. figures as an increase in liquid liabilities.

CHART 6. ALL COUNTRIES IN BALANCE OF PAYMENTS DEFICIT, AGGREGATE DEFICIT, 1958–FIRST QUARTER 1966

(In millions of U.S. dollars)



quite low during 1965 compared with other years in the period examined.

Reserve Developments

A particularly striking development in international transactions during 1965 was the unusual pattern of changes in reserves. The increase in world reserves was only about half the annual average for the preceding decade, as a result of the interplay of a number of factors working in opposite directions. The major cause was that large withdrawals of dollar balances by one group of countries more than offset accumulations by others.

Tables 16 and 17 give details of reserves at the end of each year from 1962 to 1965 and of changes in reserves during 1964 and 1965 by half

TABLE 16. COUNTRIES' OFFICIAL RESERVES, INCLUDING RESERVE POSITIONS IN THE IMF, END OF CALENDAR YEARS, 1962-65 [1]

(In billions of U.S. dollars)

	1962	1963	1964	1965
Holders				
Industrial countries	48.93	50.55	52.30	53.14
United States	*17.22*	*16.84*	*16.67*	*15.45*
United Kingdom	*3.31*	*3.15*	*2.32*	*3.00*
Other [2]	*28.40*	*30.56*	*33.31*	*34.69*
Primary producing countries	14.13	15.96	16.60	17.09
More developed [3]	*5.34*	*6.17*	*6.71*	*5.98*
Less developed	*8.79*	*9.79*	*9.89*	*11.11*
Total	63.06	66.51	68.90	70.23
Composition				
Gold	39.27	40.23	40.89	41.94
IMF positions—gold tranche	3.80	3.94	3.75	4.45
—lending under GAB [4]	—	—	0.41	0.93
Claims on United States [5]	12.55	13.92	14.94	14.82
Claims on United Kingdom [6]	6.22	6.53	7.05	6.75
Identifiable asymmetries [7]	—	—	−0.08	−0.62
Other [8]	1.22	1.89	1.94	1.96

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

[1] Excluding Soviet countries and Mainland China.

[2] Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, Netherlands, Norway, Sweden, Switzerland.

[3] Other Western Europe, Australia, New Zealand, and South Africa. Includes also Luxembourg, unpublished gold reserves of Greece, and an estimate of gold to be distributed by the Tripartite Commission for the Restitution of Monetary Gold.

[4] Sums borrowed by Fund under General Arrangements to Borrow.

[5] 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.

[6] Covers liabilities to foreign central monetary authorities, including inter-central-bank assistance.

[7] Covers assets arising from Swiss assistance to the United Kingdom, held by the Swiss Confederation ($0.08 billion in December 1964 and $0.12 billion in December 1965), and sales by the United Kingdom of U.S. corporate securities ($0.5 billion in December 1965).

[8] Including claims on countries other than the United Kingdom and the United States (including Euro-dollar claims), currency deposits with the Bank for International Settlements, and net errors and omissions.

years. The changes in world reserves during 1965 were as follows:

	Amount in million U. S. dollars
United States	−1,222
United Kingdom	+688
Other Group of Ten countries	+1,222
Other industrial	+152
Subtotal	+840
More developed primary producing countries	−735
Subtotal	+105
Less developed primary producing countries (preliminary)	+1,225
Total	+1,330

The main sources of the increases in reserves during the year were (1) reserve creation through Fund transactions, reflected in increases in Fund reserve positions of $1,220 million and Fund net gold sales of $310 million, (2) an increase in world monetary gold holdings of $250 million, and (3) a rather large reserve accumulation in the less developed primary producing countries, mainly in the form of foreign exchange. The U.S. balance of payments deficit did not, as has been usual, contribute to an increase in world reserves because on balance it was not financed by an increase in foreign dollar holdings.

The industrial and more developed primary producing countries collectively achieved only a very small accumulation of reserves, so that the total increase in world reserves exceeded only slightly that of the less developed countries. For the latter countries, the increase in reserves exceeded somewhat their aggregate over-all surplus (Table 15), the difference representing their net use of Fund resources.

The use of Fund resources by the United Kingdom in 1965, amounting to about $1,390 million, net of Fund sales of sterling, substantially exceed-

TABLE 17. INDUSTRIAL AND MORE DEVELOPED PRIMARY PRODUCING COUNTRIES: CHANGES IN RESERVES, BY AREAS, SEMIANNUALLY, 1964 AND 1965 [1]

(In millions of U.S. dollars)

	Group of Ten									
	United States (1)	United Kingdom (2)	European Economic Community (3)	Other [2] (4)	Total (5)	Other Europe (6)	Australia, New Zealand, and South Africa (7)	Total (8)	Total (excl. United States and United Kingdom) (9)	Estimated Change in Col. 9 in Absence of Special Assistance to United Kingdom (10)
1964										
First half										
Foreign exchange	—30	92	—330	—256	—524	159	227	—138	—200	—200
Gold	27	—45	340	115	437	—146	—12	279	297	297
Reserve position in IMF	—249	2	61	40	—146	36	—	—110	137	137
Total	—252	49	71	—101	—233	49	215	31	234	234
Second half										
Foreign exchange	250	—86	831	197	1,192	587	—162	1,617	1,453	1,200
Gold	—152	—303	550	116	211	201	—25	387	842	600
Reserve position in IMF	—17	—491	513	233	238	53	—	291	799	250
Total	81	—880	1,894	546	1,641	841	—187	2,295	3,094	2,050
1965										
First half										
Foreign exchange	114	386	—1,756	—305	—1,561	—888	—248	—2,697	—3,197	—2,950
Gold	—1,163	90	1,291	99	317	351	—195	473	1,546	1,150
Reserve position in IMF	139	—	653	223	1,015	59	25	1,099	960	160
Total	—910	476	188	17	—229	—478	—418	—1,125	—691	—1,640
Second half										
Foreign exchange	231	173	47	185	636	104	—177	563	159	159
Gold	—242	39	320	63	180	335	51	566	769	769
Reserve position in IMF	—304	—	379	22	97	—	—21	76	380	380
Total	—315	212	746	270	913	439	—147	1,205	1,308	1,308

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

[1] The sum of the half-yearly figures may differ slightly from annual figures that can be derived from Tables 16 and 18, because the area totals shown in the latter include some unpublished data.

[2] Canada, Japan, and Sweden.

ed the U.K. over-all deficit in 1965, and enabled the United Kingdom to strengthen its reserves by \$689 million. During the year the U.K. Government sold about \$500 million of securities in the United States, but the proceeds were not added to reserves until 1966. In February 1966, a total of \$885 million from such sales, including some in 1966, was so added.

During 1965 there were some quite marked changes in countries' reserve holdings, by type (Table 18). With the exception only of the United States, every industrial country added some gold to its reserves. These increases in gold holdings were almost invariably associated with reductions in foreign exchange holdings. For several countries, this change in the pattern of reserve holdings was the result of a conscious policy of buying gold out of foreign currency holdings, while for others it was the result of electing to settle normal balance of payments deficits in foreign exchange or of accepting gold in settlement of surpluses. Special gold sales by the Fund, totaling \$400 million in connection with the U.K. drawing in May 1965, also contributed significantly to the increase in gold holdings of some of the industrial countries.

The reserve currency countries each experienced a decline in the ratio of gold to total

TABLE 18. COUNTRIES' OFFICIAL RESERVE HOLDINGS, BY TYPE, END OF 1964 AND 1965 [1]

(Value in millions of U.S. dollars)

	1964					1965				
	Gold	Foreign exchange	IMF position	Total	Gold as per cent of total	Gold	Foreign exchange	IMF position	Total	Gold as per cent of total
Industrial countries										
United States	15,471	432	769	16,672	93	14,065	781	604	15,450	91
United Kingdom	2,136	179	—	2,315	92	2,265	739	—	3,004	75
EEC countries	13,222	6,604	2,144	21,970	60	14,834	4,897	3,176	22,907	65
Belgium	*1,451*	*540*	*201*	*2,192*	66	*1,558*	*437*	*309*	*2,304*	68
France	*3,729*	*1,376*	*619*	*5,724*	65	*4,706*	*753*	*884*	*6,343*	74
Germany	*4,248*	*2,721*	*913*	*7,882*	54	*4,410*	*1,943*	*1,076*	*7,429*	59
Italy	*2,107*	*1,571*	*146*	*3,824*	55	*2,404*	*1,462*	*549*	*4,415*	54
Netherlands	*1,688*	*396*	*265*	*2,349*	72	*1,756*	*302*	*358*	*2,416*	73
Austria	600	645	72	1,317	46	700	539	72	1,311	53
Denmark	92	521	33	646	14	97	431	58	586	17
Norway	31	331	25	387	8	31	420	25	476	7
Sweden	189	688	88	965	20	202	627	143	972	21
Switzerland	2,725	398	—	3,123	87	3,042	206	—	3,248	94
Canada	1,026	1,658	198	2,882	36	1,151	1,523	353	3,027	38
Japan	304	1,495	220	2,019	15	328	1,569	255	2,152	15
Total	35,795	12,950	3,549	52,295	68	36,715	11,730	4,688	53,135	69
More developed primary producing countries										
Australia	226	1,621	100	1,947	12	231	1,209	135	1,575	15
Ireland	19	416	11	446	4	21	378	11	410	5
Portugal	523	416	15	954	55	576	418	15	1,009	57
South Africa	574	89	38	701	82	425	115	38	578	74
Spain	616	791	107	1,514	41	810	458	141	1,409	57
Other [2]	342	742	65	1,149	30	352	607	35	994	35
Total	2,300	4,075	336	6,710	34	2,415	3,185	375	5,975	40
Less developed primary producing countries										
Brazil	92	276	—	368	25	63	625	—	688	9
Mexico	169	369	45	583	29	158	321	55	534	30
Venezuela	401	393	38	832	48	401	379	38	818	49
Other Latin America	473	647	29	1,149	41	433	910	23	1,366	32
Israel	56	477	13	546	10	56	575	13	644	9
Saudi Arabia	78	493	14	585	13	73	627	18	718	10
Other Middle East	641	470	20	1,131	57	661	528	36	1,225	54
India	247	251	—	498	50	281	318	—	599	47
Other Asia	383	2,354	55	2,792	14	389	2,422	57	2,868	14
Other Africa	100	1,095	57	1,252	8	135	1,215	74	1,424	9
Total	2,790	6,825	270	9,885	28	2,805	7,995	314	11,115	25
Grand Total	40,885	23,850	4,155	68,890	59	41,935	22,910	5,377	70,225	60

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

[1] Excluding the Soviet countries and Mainland China. Totals may not add because of rounding and because some area totals include unpublished data.

[2] Finland, Greece, Iceland, New Zealand, Turkey, and Yugoslavia.

official reserve holdings. However, the foreign exchange holdings of the United States and the United Kingdom at the end of 1965 were swelled by mutual holdings of each other's currency as a result of inter-central-bank assistance to the United Kingdom. In the EEC countries as a group, gold holdings as a proportion of total official reserves rose from 60 to 65 per cent (64 per cent if the special IMF gold sales are excluded). The average, which covers figures ranging from 54 per cent to 74 per cent (Table 18), increased largely as a result of a marked addition to France's gold holdings. Among the remaining industrial countries, the relative changes in gold holdings were not especially significant, although for Switzerland the gold ratio rose from 87 per cent to 94 per cent, owing mainly to larger than usual year-end operations in December 1965.

Among the more developed primary producing countries, South Africa reduced its gold reserves, and accruals of gold by most of the remaining countries, with the exception of Spain, were relatively marginal. In many of these countries, the ratio of gold to total reserves rose more because sizable balance of payments deficits were settled out of foreign exchange holdings than because of a conscious policy of gold accumulation. The less developed countries as a group secured barely any increase in their gold holdings. However, these countries' foreign exchange holdings rose by 17 per cent, so that there was a fall in the proportion of their official reserves held in gold.

Chapter 6

Developments in the Main Industrial Countries

IN the international financial markets there were fewer strains in 1965 than had been experienced in the preceding year. There were no problems comparable to those that found expression in the strong pressure on the lira and on sterling during 1964. In large part, the international financial scene was dominated by a more rapid expansion of activity in the United States than had appeared to be likely, and by the effects of the measures taken in several countries to lessen the balance of payments disequilibria or inflationary pressures which had been evident in 1963 and 1964. Several countries that at the end of 1964 were concerned with fighting inflationary pressures were able during the past year to curtail the excess demand and relax their policies of restraint. On the other hand, certain countries that hàd enjoyed relative stability during 1964 developed symptoms which suggested that strong pressures of demand began to face supply inelasticities.

The money stock and the volume of bank credit expanded in all the main industrial countries during 1965, at rates similar to those prevailing over the last few years. The demand for credit, however, appears to have risen fairly rapidly, concurrently with the rising pressures on available capacity in the more industrialized parts of the world, and there was apparently a tendency toward more restraining monetary policies in most of these countries.

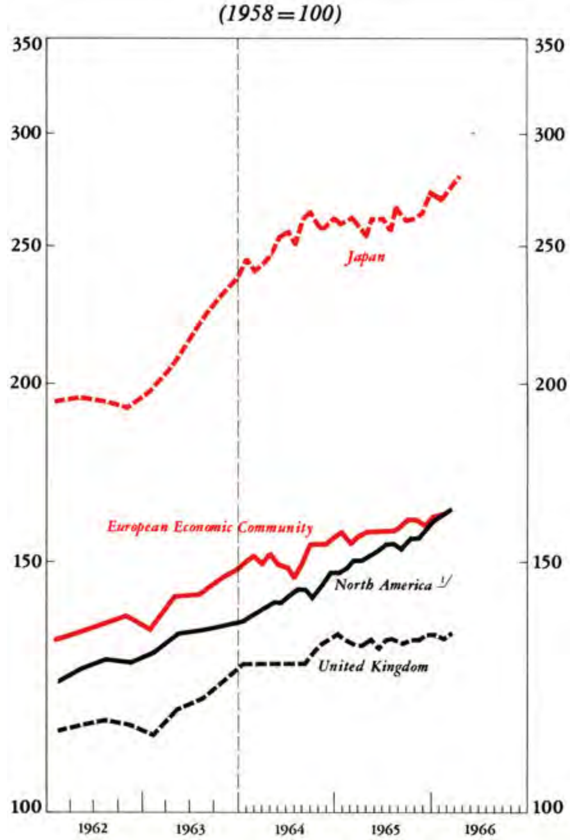
The capital markets in the industrial countries were generally very active during 1965 and the first part of 1966. Continued prosperity in Europe and expanded activity in North America fostered the need for finance, while high incomes encouraged a keen demand for securities. Even so, interest rates rose sharply in several countries. The volume of international security issues increased more than in 1964, and the market for these securities tended to become more internationalized.

Production

In contrast to the experience of recent years, output in 1965 expanded more rapidly in North America than in continental Europe (Chart 7). This difference in rates of growth reflected a continuation of expansion in the United States and Canada at slightly higher rates than in 1964, while the advance in Europe slowed down. Japan experienced a marked slowing of its rate of expansion until late in the year, and in the United Kingdom measures to moderate the excess expansion in 1964 were partly effective.

CHART 7. SELECTED AREAS AND COUNTRIES: INDUSTRIAL PRODUCTION, SEASONALLY ADJUSTED, 1962–APRIL 1966

(1958=100)



[1] United States and Canada.

Economic activity in the United States expanded rapidly in the second half of the year, under the stimulus of buoyant consumption and investment demand and increasing military outlays (Table 19). For the year as a whole, the rise in the gross national product at constant prices was slightly greater than that in 1964 and than the average increase during the last five years. This continued growth is the longest uninterrupted advance in the United States since World War II. It has served to ease one of the important economic and social problems of the United States: by December the unemployment rate had fallen almost to 4 per cent (an interim target established by the Administration in 1961 when the rate was 7 per cent). In the early months of 1966, it fell below 4 per cent. However, the achievement of this social target served to create scarcities of some types of labor, thereby limiting the capacity for further expansion. Also, despite a large and steadily rising volume of capital spending, excess physical capacity seems to be declining. A number of industries—notably nonferrous metals, rubber, textiles, and machinery—have reported shortages. By the end of the Fund's fiscal year, although price increases could not be said to have reached serious proportions, the problem of incipient inflation was receiving more attention, and the problem of overall unemployment was causing less concern.

TABLE 19. GROSS NATIONAL PRODUCT AT CONSTANT PRICES, QUARTERLY, 1963-65

(Percentage increases or decreases from preceding quarter, seasonally adjusted)

	Canada	Italy [1]	United Kingdom [1]	United States
1963				
I	1.7	0.1	0.2	0.8
II	1.2	2.3	3.7	0.9
III	1.3	1.2	0.1	1.2
IV	2.0	1.1	3.9	1.4
1964				
I	2.1	0.6	0.4	1.1
II	1.7	−0.5	0.5	1.0
III	0.5	−0.8	0.5	1.0
IV	0.8	1.4	2.2	0.6
1965				
I	3.0	0.6	0.8	2.2
II	1.3	1.9	−0.9	1.0
III	2.0	1.3	0.5	1.6
IV	1.0	1.1	0.9	1.9

[1] Gross domestic product.

In the United Kingdom, the first quarter of 1965 marked the end of a two-year period of relatively rapid expansion. Output, seasonally adjusted, declined in the second quarter of 1965, and the recovery in the second half of the year did little more than make good this decline; unemployment, after a fall in the first quarter, remained more or less unchanged during the rest of the year. In the last quarter, 1.5 per cent of the labor force was unemployed. These movements were, in part, reactions to the restraining policies followed by the Government in order to correct the balance of payments maladjustments that had been largely induced by the expansion during 1963 and 1964. The balance of payments improved markedly during 1965, although it still provides inadequate leeway for any important relaxations of policy.

In the European Economic Community as a whole, there was little expansion of output early in the year but more rapid progress later. In France and Italy, the restraints on expansion resulting from the financial policies imposed in 1963 and 1964 were eased during the year. As external demand continued to be active, output in these countries recovered and showed a fairly strong advance. In Germany, demand and output continued to rise; however, labor shortages and a nearly full utilization of capacity limited the expansion of output to a lower rate than that achieved in earlier years.

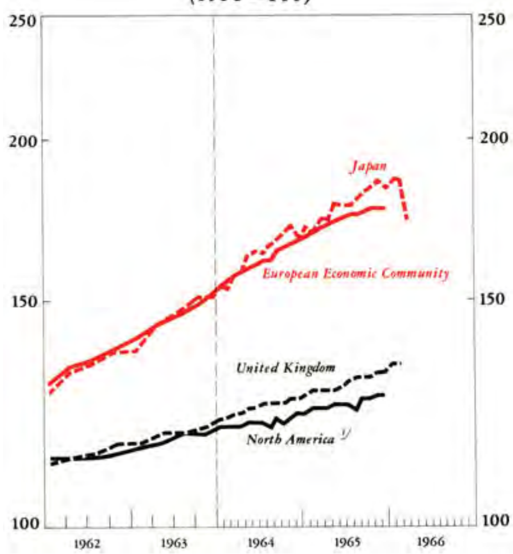
In Japan, the trend of industrial production was, if anything, downward until the third quarter, when output began to expand gradually.

Costs and Prices

In the United States, the pace of wage advances accelerated slightly in 1965 (Chart 8), yet labor costs per unit of output in manufacturing (Chart 9) remained virtually unchanged. Since the beginning of the current economic expansion, unit costs have declined by 3 per cent, as productivity has advanced somewhat faster than wage rates. However, a number of recent labor contracts have involved immediate increases in hourly labor costs (including the effects of benefits other than higher wages) somewhat in excess of the "guideposts" outlined in the 1962 *Annual Report of the Council of Economic Advisers.* Indeed, a few of these contracts have provided for increased payments over the next few years which are markedly above the limits outlined in these "guideposts."

CHART 8. SELECTED AREAS AND COUNTRIES: WAGE RATES, 1962–APRIL 1966

(1958=100)



[1] United States and Canada.

In the United Kingdom, wage increases were larger than in previous years and higher than the increases in productivity. As a result of these wage increases, combined with a decline in the rate of growth of productivity consequent on the less rapid expansion in total output, labor costs per unit of output rose sharply, particularly in the first part of the year. In Germany, wages increased fairly rapidly in 1965, leading to an increase of about 5 per cent in average labor costs for all output (including services as well as manufacturing), compared with 2.5 per cent in 1964 and 3 per cent in 1963. In Italy, the pace of wage increases moderated. Wage rates also continued to advance in Belgium and the Netherlands, even though output was increasing less rapidly. In Japan, the rate of wage increase declined during the year, but less markedly than output, so that the declining trend of Japanese wage costs that had prevailed since early in 1963 was reversed.

CHART 9. SELECTED COUNTRIES: WAGE COST PER UNIT OF OUTPUT IN MANUFACTURING, 1962–FIRST QUARTER 1966

(1958=100)

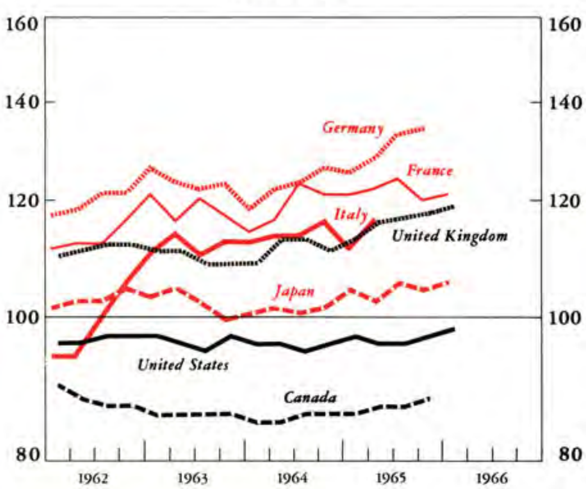
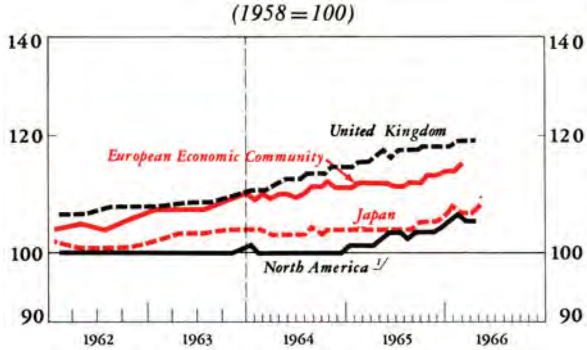


CHART 10. SELECTED AREAS AND COUNTRIES: WHOLESALE PRICES, 1962–MAY 1966

(1958=100)

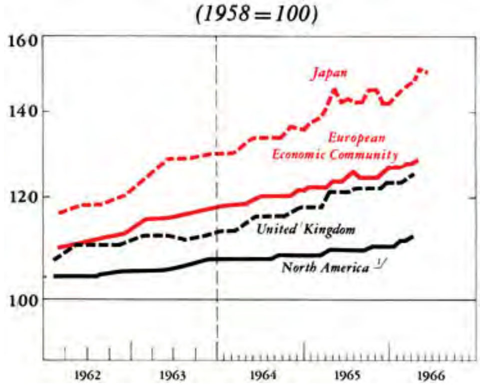


[1] United States and Canada.

The pace of price increases in the United States and Canada accelerated, but the rise in prices there was still less than in Europe (Chart 10). The U.S. wholesale price index for industrial commodities—i.e., all except farm products and processed food—was 1.7 per cent higher at the end of 1965 than a year earlier. While this was not a very striking increase, it contrasted with the virtually flat trend of recent years. The movement of U.S. consumer prices during 1965 was substantially affected by the spurt in food prices, on the one hand, and by the reduction of federal excise taxes (some of which were raised again early in 1966), on the other. The consumer price index, which had risen by only about 1.2 per cent annually for the past several years, increased by 2.0 per cent during the year (Chart 11). In the United Kingdom, the increases in labor costs per unit of output have not exercised their full effect on prices; part of the increase in the cost of living during 1965 was due to higher indirect taxes. In continental Europe, the increases in wholesale prices were less sharp than those in the cost of living indices. In the United States, Canada, and Japan, export prices (Chart 12) trended slightly downward during 1965, in

CHART 11. SELECTED AREAS AND COUNTRIES: COST OF LIVING, 1962–MAY 1966

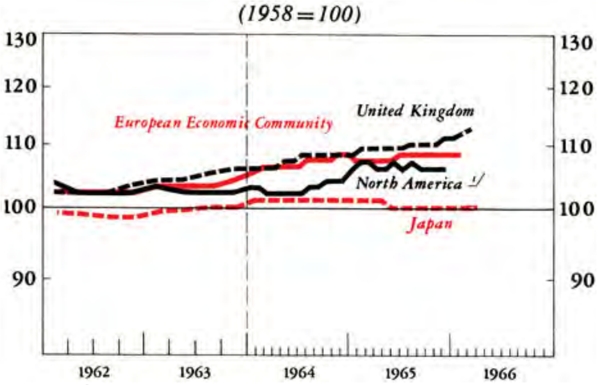
(1958=100)



[1] United States and Canada.

CHART 12. SELECTED AREAS AND COUNTRIES: EXPORT PRICES, 1962–MARCH 1966

(1958=100)



[1] United States and Canada.

contrast to the increases in wholesale prices in these countries.

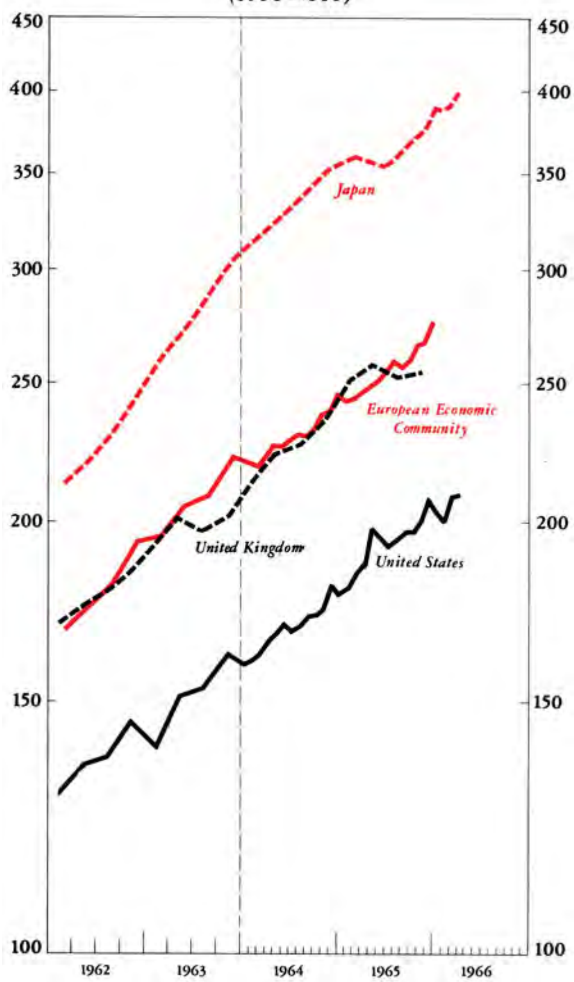
Credit and Interest Rates

For some time, bank credit has been expanding in the United States and in Europe at roughly comparable rates (Charts 13 and 14). These nearly parallel trends continued during 1965 despite signs of a slight deceleration in continental Europe. In the United Kingdom, the pace of advance was sharply stemmed.

The strength of demand for credit, interacting with the monetary policies followed by most coun-

CHART 13. MONETARY SYSTEM CREDIT TO THE PRIVATE SECTOR, 1962–APRIL 1966

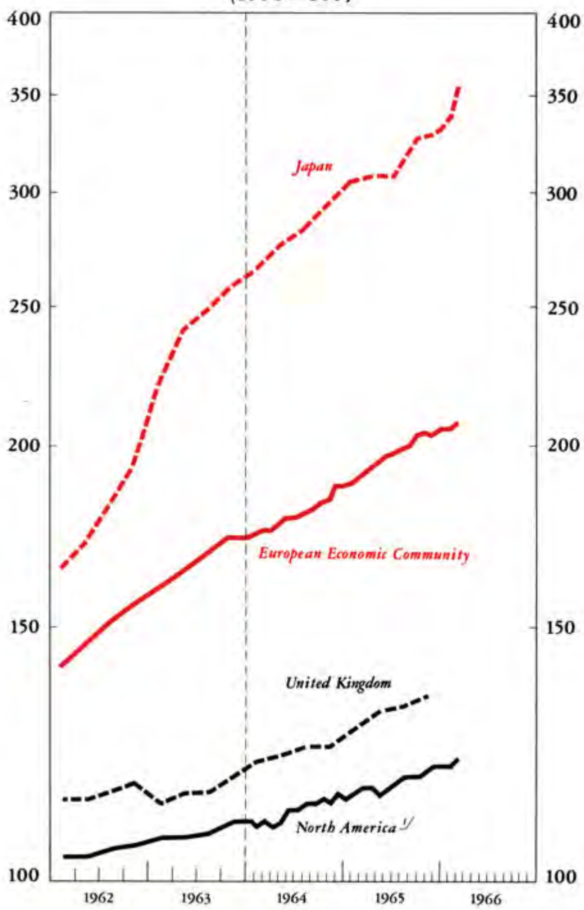
(1958=100)



tries to restrain it, contributed to a continuance of the upward drift in interest rates that has been in progress over the last decade (Charts 15 and 16). These increases were sharpest in some of those countries where rates had been relatively low at the end of 1964. Rates in the United States, in particular, moved upward quite markedly. Since January 1966, the yield on Treasury bills has been at a height that was only touched briefly during the crisis late in 1929; that on medium-term government bonds has been higher than at any time since shortly after World War I. In Germany, the yield on government securities passed out of the 6 per cent and into the 7 per cent range during the year. By April 1966 the yield approached 8 per cent. In these circumstances it was agreed that the states and municipalities and the Federal Railways and Post Office would refrain temporarily from issuing securities. On the other hand, in Italy and Japan, a relative easing of monetary policies, as the difficulties of 1963 and 1964 were overcome, served to bring interest rates down from their very high levels in 1964. Rates in the United Kingdom also declined from those reached during the crisis at the end of 1964. As a conse-

CHART 14. MONEY, SEASONALLY ADJUSTED, 1962–MARCH 1966

(1958=100)



[1] United States and Canada.

CHART 15. SELECTED COUNTRIES: LONG-TERM GOVERNMENT BOND YIELDS, 1962–MAY 1966

(In per cent per annum)

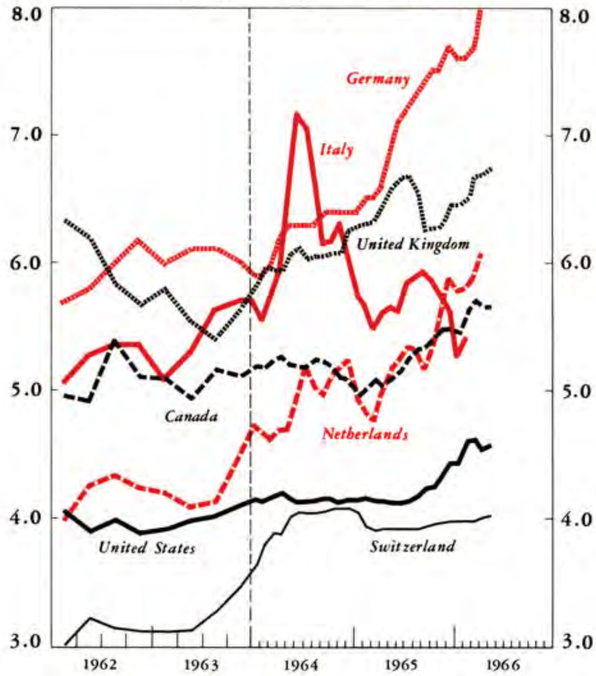
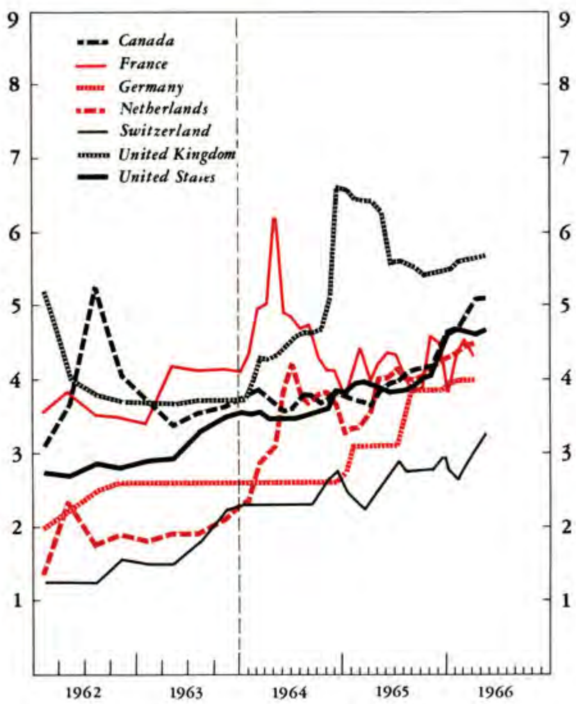


CHART 16. SELECTED COUNTRIES: SHORT-TERM INTEREST RATES, 1962–MAY 1966

(In per cent)

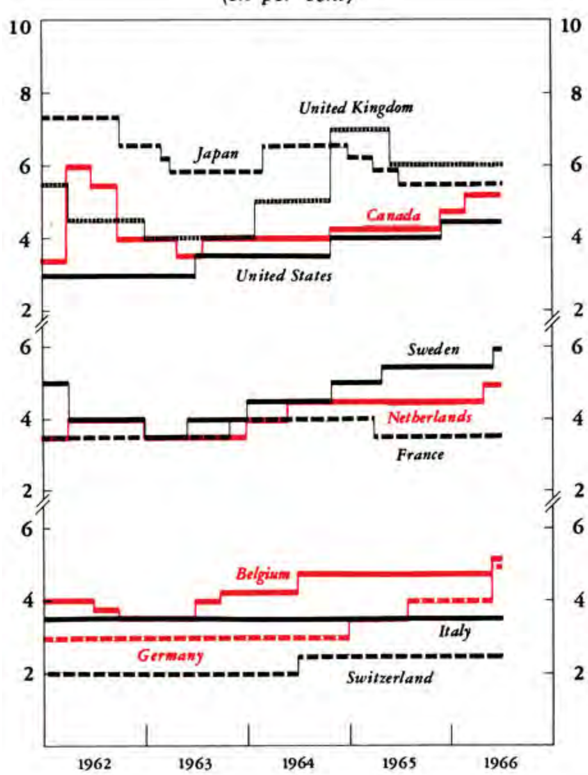


quence of the upward drift of some interest rates that had been low, and of declines in some that had been high, the international differentials of interest narrowed in 1965, in contrast to their tendency to widen during the previous year.

In 1964, all the changes in central bank discount rates had been increases (Chart 17), motivated to a large degree by desires to protect external positions. In 1965, Japan and the United Kingdom lowered their discount rates, as pressures on the balance of payments eased; most of the other changes during the year (Table 20) were directed to influencing domestic economic conditions.

CHART 17. DISCOUNT RATES, 1962–JUNE 1966

(In per cent)



Money and Debt Management Policies

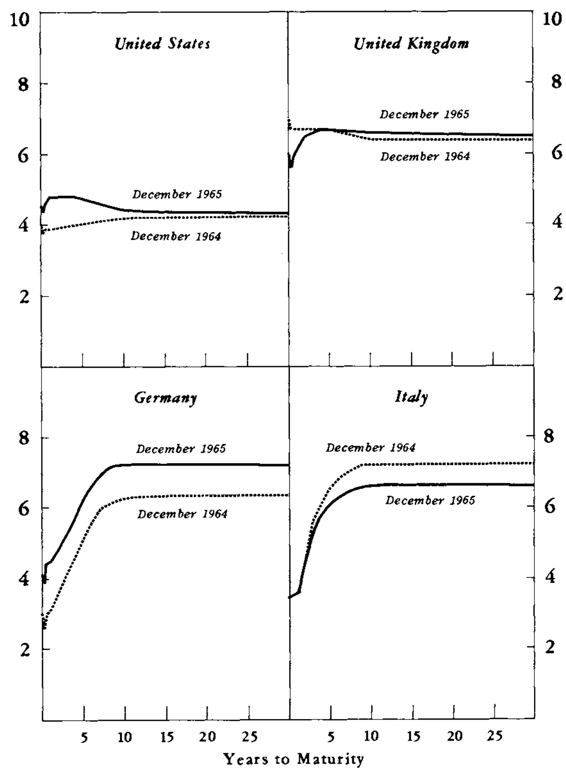
The increase in the money stock and outstanding bank credit in the United States occurred in the face of rather restrictive monetary policies. There was an accelerated shift in the composition of bank deposits from demand to time and savings deposits as a result of the increases in November 1964 in the maximum rates of interest payable on the latter. This somewhat reduced the need for more rapid reserve accumulation by the member banks. The increase in member bank reserves (somewhat larger than in 1964) that nevertheless took place was partly accounted for by an increase in borrowings from the Federal Reserve System. From March onward, the banks' borrowings from the Federal Reserve were larger than their excess reserves. As a consequence of the high demand for credit and the restraining monetary policies, interest rates rose rather steadily throughout the year, so that, by October, the Treasury bill rate was above the discount rate.

TABLE 20. SELECTED COUNTRIES: CHANGES IN DISCOUNT RATES, 1965 AND FIRST HALF 1966

	Date	Increase or Decrease (—) Percentage Points	New Rate
Belgium	June 2, 1966	0.50	5.25
Canada	Dec. 6, 1965	0.50	4.75
	Mar. 14, 1966	0.50	5.25
France	Apr. 9, 1965	—0.50	3.50
Germany	Jan. 22, 1965	0.50	3.50
	Aug. 13, 1965	0.50	4.00
	May 27, 1966	1.00	5.00
Japan	Jan. 9, 1965	—0.365	6.205
	Apr. 3, 1965	—0.365	5.840
	June 26, 1965	—0.365	5.475
Netherlands	May 2, 1966	0.50	5.00
Sweden	Apr. 9, 1965	0.50	5.50
	June 10, 1966	0.50	6.00
United Kingdom	June 3, 1965	—1.00	6.00
United States	Dec. 6, 1965	0.50	4.50

With effect from December 6, the discount rates of the New York and Chicago Reserve Banks were raised from 4.0 per cent to 4.5 per cent (the highest rate for the New York bank since February 1930). The other Reserve Banks brought their rates into line within a few days. By early in January 1966, the Treasury bill rate was again higher than the discount rate. The Federal Reserve Board also increased the maximum interest rate payable on time deposits and certificates of deposit. The intention was to bring these rates into line with money market rates without putting such pressure on other personal savings institutions as would have led to a rise in construction mortgage rates. To maintain the desired growth of bank reserves in 1965, the Federal Reserve System purchased more government securities in open market operations than during 1964. These purchases were the main element in an expansion of $4 billion in Federal Reserve credit, which was more than sufficient to offset the effect on bank reserves of increased gold sales and the continued expansion of holdings of currency by the general public. The ratio of short-term issues to the total debt held by the Federal Reserve System increased, as its net purchases were concentrated on Treasury bills. While the yields on all government securities rose during the year, the increases were most marked at the short end of the market (Chart 18). In the early months of 1966 the authorities continued their restraining policies.

CHART 18. TERM STRUCTURE OF INTEREST RATES
(In per cent)



The Federal Reserve System sold a small amount of securities in the first quarter, the gold stock declined slightly, and, despite increased bank borrowing, the excess reserves of the member banks declined.

In Canada, as in the United States, the developing economic situation led to a need for greater monetary restraint. On December 6—simultaneously with the U.S. discount rate increase—the Bank of Canada raised its rate from 4.25 per cent to 4.75 per cent. The strong demand continued after the turn of the year, but the marked upward movement of U.S. interest rates made it possible for the Bank of Canada to impose further restraint by again raising its discount rate, to 5.25 per cent from March 14, 1966.

In the United Kingdom, the authorities were actively engaged during the year in further revising and strengthening the measures designed to restore domestic and external equilibrium. On April 29, 1965, the Bank of England called for special deposits of 1 per cent from the London clearing banks and ½ per cent from the Scottish banks. On May 5 the Bank of England advised the banks not to increase their advances to the private sector by more than an annual rate of 5 per cent in the year to March 1966. The banks were also asked to apply restraint to the granting of acceptance facilities and the purchase of commercial bills. On June 3, the bank rate was lowered to 6 per cent from the 7 per cent level that had been set in November 1964, on the understanding, expressed by the Chancellor of the Exchequer, that the reduction was not to be taken as representing a relaxation of credit restrictions. On July 27, the Bank requested the banks to scrutinize credit even more carefully than before where it appeared that the purpose might be to facilitate payment for imports. Largely as a consequence of these measures, the rate of increase in advances by the London clearing banks, seasonally adjusted, changed from an average of £22 million a month in January-April to nil for the rest of the year. Because of the pattern of interest rates, the authorities were able to sell only a moderate amount of government debt to the economy, apart from the banks. The latter, therefore, remained liquid throughout most of the year; the liquidity ratio of the London clearing banks was somewhat higher at the end of 1965 (32.1 per cent) than a year earlier (30.6 per cent).

In France, the discount rate was reduced from 4 per cent to 3½ per cent on April 9, and on

June 24 the authorities took further steps to ease credit. The limitation of the increase in commercial bank loans to not more than 10 per cent a year, which had existed since September 1963, was lifted from July. Hire-purchase regulations were also relaxed: institutions specializing in financing installment sales were allowed to increase their credits, and the maximum duration for medium-term credits eligible for rediscounting at the Bank of France was raised from five years to seven years. (However, rediscounting facilities were available only for credits having at the most three years to run to maturity.) In the condition of relative ease which had developed by the end of the year, interest rates were tending to fall, after having risen slightly in earlier months. In December, the Minister of Finance announced that, owing to the improvement in the Treasury situation, the minimum proportion of their liabilities which the banks are required to cover by Treasury bonds would be reduced from 7.5 per cent to 5 per cent.

Italy adopted a combination of monetary and debt management policies intended to foster growth in output. To stimulate construction activity, credit facilities previously available for investment in agriculture and industry were extended to the building industry. Steps were also taken to reduce interest costs to purchasers of houses. A generally expansive monetary policy resulted in a 14 per cent increase in the stock of money during the year, compared with an 8 per cent rise in 1964. As a result of the measures taken by the authorities, long-term interest rates, which had risen sharply in 1964, declined in 1965. To take advantage of this decline and of the generally favorable conditions, the Government shifted its financing from heavy reliance on borrowing from the Bank of Italy to primary reliance on long-term bond issues. The result was that while in 1964 almost half the government deficit was covered by borrowing from the Bank, in 1965 the Government made small net repayments to the Bank and covered over half of its increased deficit in the long-term market.

Largely as a result of the external surplus, the credit institutions' liquidity was eased in 1965. To prevent the monetary expansion from getting out of hand, and to keep Italian interest rates in line with those prevailing in other markets, the authorities encouraged the banks to make large investments in foreign short-term markets, particularly in Euro-dollars, by entering into repurchase arrangements with them for funds invested. The banks' investments markedly eased the strain on these markets resulting from the withdrawal of U.S. and Canadian funds and the strong demand from German borrowers. Toward the end of the year the authorities' policies were modified in the direction of lower interest rates. The repurchase arrangements were also intended to assist the commercial banks to reduce their net foreign indebtedness and were withdrawn for those banks having net foreign asset positions.

In Germany, faced with persistent demands for credit and continued upward pressure on wages and prices, the Bundesbank considered it necessary to increase its discount rate twice during the year: from 3 per cent to 3½ per cent on January 22, and from 3½ per cent to 4 per cent on August 13. On May 27, 1966, the discount rate was raised again, to 5 per cent. The rate for advances on securities was increased in 1965 by the same amounts as the discount rate, but in May 1966 it was raised by 1¼ per cent, to 6¼ per cent. Since the beginning of 1965, the Bundesbank's selling rates for money market paper have been adjusted upward by amounts ranging from 2⅜ per cent to 2⅝ per cent. During the year, the demands made by public authorities on the capital market were exceptionally high. At the same time, the tight liquidity positions of the banks prevented them from participating in the market as actively as they had been accustomed to do. Long-term rates increased sharply. The granting of permits for new issues was suspended by the Government from July 28 until measures designed to reduce and coordinate public-sector borrowing had been introduced. These demands for finance and associated high rates induced an inflow from other countries of Euro-dollars, other short-term capital, and some long-term funds. The pressure on the capital market continued in the early part of 1966, with results discussed on page 73. However, the Federal Government has indicated that, under its budget for 1966, repayments on loans would exceed new borrowing.

In most of the other Western European countries financial policies continued to be directed toward a containment of demand. In the Netherlands the quantitative restrictions on bank lending were continued. Even so, the money supply increased by 11 per cent, compared with 8 per cent in 1964. For this there were two main causes: the improvement in the balance of payments, and the fact that the central government financed its rising requirements largely by sales of short-term Treasury bills. Interest rates, on balance, moved upward, and there were further rises early in 1966. Bank rate was raised by ½ per cent to 5 per cent on May 2, 1966. In Sweden, restrictive measures were tightened in April 1965, when the Riksbank increased its discount rate from 5 to 5½ per cent; such measures were continued into 1966, and the discount rate was raised by a further ½ per cent on June 10. In Switzerland, despite the general maintenance of restraining monetary policies, the National Bank reversed in July the swap of Sw F 473 million for dollars and sterling made with the commercial banks in January 1965 in order to foster lower interest rates and stem the inflow of foreign exchange. On the other hand, the National Bank of Belgium eased some monetary restrictions in mid-July 1965. It rescinded the 1 per cent cash reserve requirement introduced in August 1964 and suspended its recommendation to the banks that they limit to 20 per cent the increase in their credits to the private sector over the two years 1964-65. However, the banks were requested to maintain cautious lending policies.

In Japan, monetary policy during 1965 was directed toward the revival of economic activity. The Bank of Japan reduced its basic discount rate three times, from 6.57 per cent at the end of 1964 to 5.48 per cent on June 26, 1965. In mid-July reserve requirements for certain types and sizes of deposits were lowered. During the year, also, the Bank of Japan purchased securities and provided loan funds to semiofficial institutions. Although bank liquidity has been relatively ample, bank credit expanded at a slower pace during 1965 than in 1964.

Fiscal and Other Economic Policies

Fiscal policy was used, if anything, a little more widely to maintain balance between domestic demand and supply in 1965 than in earlier years. Quite appropriately, domestic considerations in this field have tended to be given more weight than those arising from balance of payments problems.

Through 1965, fiscal measures in the United States were, on the whole, motivated by a desire to foster longer-term growth rather than by short-term cyclical considerations. The first stages of a program of excise tax reductions became effective in June. Other legislation provided for hospital care for elderly citizens and an increase of at least 7 per cent in all social security payments. To help offset the increase in payments, social security taxes were increased in January 1966 and are to rise gradually until 1987. On August 10, 1965, the President signed into law a $7.5 billion housing bill with a rent subsidy provision for low-income families. The bill extended for four years urban renewal, public housing, and other measures. An anti-poverty program was also launched. The Federal Government's cash deficit of $4.5 billion for the calendar year was slightly less than in the preceding year ($5.2 billion).

The budget presented in January 1966 involved a shift in the direction of fiscal policy, from encouraging economic growth to restraining the incipient inflationary pressures which appeared to be emerging, partly as a consequence of the Viet-Nam conflict. As a first fiscal step to restrain demand, some of the reductions in excise taxes that went into effect in January 1966 were rescinded, and the further reductions scheduled for the future were deferred. These changes, together with the effect of rising incomes on tax revenues and with economies in government operations, are expected to result in a federal government consolidated cash surplus of $0.5 billion in 1966/67. This compares with an expected deficit of $6.9

million for the fiscal year 1965/66, and an actual deficit of $2.7 billion for fiscal 1964/65.

The Canadian economic situation, and the fiscal policies adopted to meet it, also altered during the year. Early in 1965 the Government considered an expansionary policy to be appropriate, and personal income taxes were reduced. Later in the year, rather excessive demand pressures emerged, and the March 1966 budget rescinded most of the 1965 income tax reductions. It also required corporations to make compulsory loans to the Government—in effect, additions to the corporation tax, to be offset by effective tax reductions in later years.

In the United Kingdom, new fiscal measures were introduced during 1965 in the continuing effort to stabilize the economy. Hire-purchase controls were tightened early in June. On July 27, the Chancellor of the Exchequer announced a further series of economic measures. In the public sector, the rate of increase in expenditure on capital projects was reduced, and instructions were given for purchases of equipment and stores by government departments, local authorities, and nationalized industries to be deferred as far as possible. Economies in defense spending resulted in its reduction by about 5 per cent. Government legislation was introduced to license the starting dates of privately sponsored office buildings and similar construction projects valued at £100,000 or more.

The Budget for 1966/67 proposes to achieve a sharp reduction in the over-all deficit, despite an increase of about 10 per cent in government expenditure (including grants and loans to local authorities and public corporations). The reduction expected in the deficit is due mainly to the imposition of an employment tax on service industries, combined with a subsidy to manufacturing industries.

When the French Parliament was presented in September with budget proposals for 1966, they were based on an expected surplus of some F 3.91 billion in 1965. The new budget included features designed to stimulate saving. Beginning in 1966, investors may choose to pay a flat rate of 25 per cent on interest from bonds instead of paying income tax on it. The withholding tax on dividends has been abolished and shareholders now receive a tax credit amounting to 50 per cent of dividends. The schemes to encourage the public to maintain longer-term savings accounts have been made more comprehensive. In order not to distort the distribution of savings, interest earned on savings deposits (except the first F 15,000 deposited with savings banks) and other fixed-interest-bearing assets (e.g., Treasury bonds), hitherto exempt from taxes, has been subjected to the same taxation as industrial bonds.

The Italian authorities introduced several measures during the year to help to stimulate activity in lagging sectors. The budget estimates for 1966 provide for an increase in the deficit over that of 1965, which in turn was higher than in 1964. In September, a long-term credit program for low-rent housing was inaugurated, and subsidies were provided for house purchases. In October, restrictions on the hire purchase of many consumer durables were abolished.

The German authorities, after curtailing or postponing some requests for increased expenditure and increasing fiscal revenue by raising the tax on spirits and sparkling wines, and by raising railroad charges, expect to achieve a better balance on the budget for the next fiscal year.

Ordinary budget expenditure in Belgium is expected to be 10 per cent higher in 1966 than in 1965. New tax measures are proposed to narrow the gap between revenue and expenditure. The 1966 extraordinary budget proposals included help to depressed areas and increased credits for infrastructural projects.

The Swiss budget for 1966 is on the whole less contractionary than that for 1965; it is expected to produce an over-all surplus of Sw F 35 million, compared with one of Sw F 488 million in 1965. The anti-inflationary measures adopted in 1964 have remained in force with only slight modifications.

Fiscal policy was used fairly actively to assist the recovery of the Japanese economy, the deficit being larger in 1965 than in 1964. In July, the Government expanded its program to stimulate the economy. The measures introduced included

(1) the release for public works expenditure of the 10 per cent reserve in the original budget for the fiscal year ended March 1966; (2) further expenditures amounting to about ¥ 210 billion in the current fiscal year on the projects in the Treasury investment and loan program; (3) the reduction of interest rates on loans for medium-sized and small businesses by government financial institutions. In August, various measures for expanding exports were announced. In December, a supplementary budget was approved which provided for financing the shortfall in tax revenues by the issue of domestic government bonds for the first time since World War II.

Money and Securities Markets

Conditions in domestic money markets in 1965 were dominated by the forces discussed in previous sections of this chapter. They reflected the high level of economic activity, and also the monetary, credit, and interest rate policies applied to meet national problems. The balances of payments on capital account described in Chapter 5 involved large transfers of short-term funds on the Euro-dollar and similar international money markets. Data on commercial banks' operations in foreign currencies vis-à-vis nonresidents—i.e., the Euro-currency market—are available only for ten countries which report to the Bank for International Settlements; these data are presented in Table 21. This table throws into relief the important change in the position of the Italian banks during the year, particularly the expansion in their Euro-currency assets in the second half of 1965. This more than compensated for the decline in Canadian participation in the market caused by the fact that the Canadian commercial banks were importantly affected by the Canadian and U.S. guidelines, particularly during the first nine months of 1965 (see below, Chapter 8, p. 96). The Canadian commercial banks reduced their foreign currency assets vis-à-vis nonresidents (particularly those in Europe) by $820 million between the end of December 1964 and March 1966, and reduced their foreign currency liabilities (largely to the United States) by $540 million over the same period; the banks' net position vis-à-vis nonresidents thus deteriorated by nearly $300 million. The deterioration in net positions—i.e., the increase in effective borrowing in the market—of the reporting banks was greatest for Belgium, Canada, and the Netherlands.

Long-term security markets were also very active during 1965. Record amounts were raised by the issue of company securities in Canada, the United Kingdom, and the United States, although, in all three, equity issues were lower in 1965 than in 1964. New issues were also high, if not at record levels, in the other industrial countries.

TABLE 21. SELECTED COUNTRIES: COMMERCIAL BANKS' FOREIGN CURRENCY LIABILITIES TO, AND CLAIMS ON, NONRESIDENTS, AT END OF PERIOD, SEPTEMBER 1963–MARCH 1966 [1]

(In millions of U.S. dollars)

	1963	1964		1965		1966
	Sept.	Mar.	Dec.	Mar.	Dec.	Mar.
Liabilities						
Belgium	640	750	940	970	1,160	1,330
Canada	—	—	2,610	2,400	2,400	2,070
France [2]	1,280	1,200	1,370	1,280	1,600	1,520
Germany	370	330	520	290	440	330
Italy	2,290	1,820	1,890	1,790	2,150	1,720
Japan	2,190	2,440	2,730	2,870	2,910	2,910
Netherlands	360	360	510	510	740	860
Sweden	120	130	160	200	220	240
Switzerland [3]	—	—	1,920	1,790	2,060	1,850
United Kingdom	3,610	3,540	4,900	5,110	5,800	6,060
Total	12,210 [4]	12,090 [4]	17,550	17,210	19,480	18,890
Assets						
Belgium	490	520	680	730	850	1,010
Canada	—	—	3,380	2,960	2,780	2,560
France [2]	1,330	1,270	1,520	1,480	1,860	1,900
Germany	740	850	760	820	790	720
Italy	1,350	1,080	1,190	1,060	2,040	1,840
Japan	1,890	2,080	2,610	2,690	3,000	2,940
Netherlands	710	550	680	720	820	860
Sweden	250	320	340	290	420	380
Switzerland [3]	—	—	2,740	2,780	3,210	3,080
United Kingdom	3,460	3,340	4,330	4,130	5,340	5,730
Total	12,380 [4]	12,470 [4]	18,230	17,660	21,110	21,020
Net positions						
Belgium	−150	−230	−260	−240	−310	−320
Canada	—	—	770	560	380	490
France [2]	50	70	150	200	260	380
Germany	370	520	240	530	350	390
Italy	−940	−740	−700	−730	−110	120
Japan	−300	−360	−120	−180	90	30
Netherlands	350	190	170	210	80	0
Sweden	130	190	180	90	200	140
Switzerland [3]	—	—	820	990	1,150	1,230
United Kingdom	−150	−200	−570	−980	−460	−330
Total	−640	−560	680	450	1,630	2,130

Source: Bank for International Settlements, *Annual Reports*.

[1] Deutsche mark, French francs, Italian lire, Netherlands guilders, pounds sterling, and U.S. dollars.

[2] Positions vis-à-vis banks only.

[3] Including Euro-currency assets of the Bank for International Settlements.

[4] Over-all estimates by the Bank for International Settlements.

Not only did the international securities market expand during the year (Table 22) but its structure changed. A part of this change is not reflected in statistics of international capital movements.[1] Prior to the effective date of the U.S. Interest Equalization Tax (August 1963), New York was the prime market for the issuance of securities by borrowers wishing to raise funds outside their national capital markets.[2] By 1965, European subsidiaries of U.S. companies were the largest national group making new issues on the European markets (Table 23), and this financing had become an integral part of the total operations of these companies. Mainly in compliance with the U.S. voluntary balance of payments program, transfers of direct investment funds to Europe sharply decelerated during the year, although for 1965 as a whole they aggregated slightly more even than the large total for 1964. Complete data on the transactions by U.S. direct investment enterprises in Europe are not available. It is possible, however, to make some rough estimates from the available data, on the basis of past experience and of the plans of these companies made by the end of 1965. These estimates, presented in Table 24, suggest that investment by U.S.-controlled enterprises in Europe was more than 15 per cent larger in 1965 than in 1964, the necessary additional funds having been obtained primarily from bond issues on European markets. Transfers to Europe rose in the last quarter of 1965, as subsidiaries were accumulating liquid funds for the financing of still further enlarged investments in 1966 [3] and in response to pressures on foreign direct investment companies in the United Kingdom and other European countries to finance part of their total expenditure from nonresident sources. The tightening of credit in the United States also encouraged corporations to seek financing in Europe, so as to release part of their available domestic funds for domestic investment. This made them willing to turn to the European security markets, even though the interest rates and other features of new issues abroad were considerably more costly than those of issues in the United States. At the same time, issues by European borrowers themselves outside their national markets continued to grow. Up to 1963, European issues ranked after those of Canada on the New York foreign issue market

TABLE 22. NEW FOREIGN ISSUES BY MARKETS OF ISSUE, 1963–FIRST QUARTER 1966

(In millions of U.S. dollars)

	1963	1964	1965	1965 1st quarter	1965 2nd quarter	1965 3rd quarter	1965 4th quarter	1966 1st quarter
United States	1,443	1,155	1,451	341	419	363	328	519
Canada	—	—	23	23	—	—	—	19
Europe								
National markets	319	333	210	9	63	82	56	99
Belgium	*14*	—	*12*	—	—	*2*	*10*	—
Germany [1]	*40*	*132*	—	—	—	—	—	—
France	*12*	*31*	*25*	—	—	*25*	—	—
Italy	*24*	—	*24*	—	—	—	*24*	*68*
Luxembourg	—	—	*6*	—	*5*	*1*	—	—
Netherlands	*3*	*15*	*29*	—	*22*	*7*	—	—
Switzerland	*142*	*82*	*77*	*9*	*27*	*19*	*22*	*31*
United Kingdom	*65*	*73*	*37*	—	*9*	*28*	—	—
Other	*19*	—	—	—	—	—	—	—
Euro-issue markets [1]	169	629	1,116	274	179	139	523	450
Total Europe	488	962	1,326	283	243	221	579	549
Grand Total	1,931	2,117	2,800	647	662	584	907	1,087

Sources: IMF and OECD staff estimates, and U.S. Department of Commerce.

[1] "Euro-issues" are defined as those denominated in currencies other than that of the market of flotation, including dollar issues floated in New York for sale to nonresidents only. For 1964, foreign deutsche mark issues yielding less than 6 per cent per annum are treated as Euro-issues; from 1965, all foreign deutsche mark issues are treated as Euro-issues.

TABLE 23. EUROPE: NEW FOREIGN ISSUES, 1963–FIRST QUARTER 1966

(In millions of U.S. dollars)

	1963	1964	1965	1965 1st quarter	1965 2nd quarter	1965 3rd quarter	1965 4th quarter	1966 1st quarter
European countries and institutions	348	643	696	186	166	114	230	263
Scandinavian countries	*83*	*334*	*237*	*90*	*61*	*15*	*71*	*42*
EEC countries	*147*	*89*	*228*	*38*	*31*	*70*	*89*	*157*
Other European countries	*42*	*70*	*104*	*20*	*39*	*9*	*36*	*20*
European institutions	*76*	*150*	*127*	*38*	*35*	*20*	*34*	*44*
Japan	59	199	35	35	—	—	—	—
U.S. companies	—	—	372	—	28	44	299	222
Other countries	81	98	148	—	34	48	66	40
Sterling area	*56*	*55*	*120*	—	*34*	*48*	*38*	*40*
Other	*25*	*43*	*28*	—	—	—	*28*	—
International institutions	—	23	76	62	14	—	—	24
Total	488	963	1,326	283	243	206	594	549

Sources: IMF and OECD staff estimates.

[1] When a foreign-owned subsidiary (but not the parent company) raises money for investment in the subsidiary's country of domicile, neither the borrowing nor the lending appears in the balance of payments accounts.

[2] See *Annual Report, 1965,* page 51.

[3] Plans for plant and equipment outlays in Europe look to an expenditure of over $3,500 million in 1966 (U.S. Department of Commerce, *Survey of Current Business,* Washington, D.C., March 1966, p. 7).

Table 24. European Affiliates of U.S. Companies: Uses and Sources of Funds, 1962-65

(In millions of U.S. dollars)

	1962	1963	1964	1965
Expenditures on plant and equipment	1,674	1,903	2,142	2,520
Increase in other assets [1]	885	1,709	2,260	2,583
Total	2,599	3,612	4,402	5,103
Funds from United States	867	924	1,342	1,378 [2]
Undistributed earnings	292	513	410	325
Depreciation and depletion	750	875	1,050	1,250
Borrowing abroad	650	1,300	1,600	2,150
Bond issues	—	—	—	*372*
Other [3]	*650*	*1,300*	*1,600*	*1,778*

Sources: IMF staff estimates based on Table 23, and U.S. Department of Commerce, *Survey of Current Business,* August 1964, October 1964, September 1965, November 1965, and March 1966.

[1] Including purchases of equity in existing businesses.
[2] Excluding $80 million borrowed in Europe by U.S. companies for transfer to their European subsidiaries.
[3] To some extent a residual.

Table 26. New Foreign Issues by Currency, 1963–First Quarter, 1966

(In millions of U.S. dollars)

	1963	1964	1965	1966 First quarter
Issues in				
Currency of market issue	1,762	1,488	1,684	637
Other currency	121	619	1,116	401
Of which				
U.S. dollars	*107*	*580*	*1,043*	*381*
Swiss francs	*14*	—	—	—
Sterling and deutsche mark	—	*39*	*73*	*20*
Units of account	48	10	—	49
Total	1,931	2,117	2,800	1,087

Sources: IMF and OECD staff estimates.

Table 25. United States: New Foreign Issues, 1963–First Quarter 1966

(In millions of U.S. dollars)

	1963	1964	1965	1965 First quarter	1965 Second quarter	1965 Third quarter	1965 Fourth quarter	1966 First quarter
Canada	734	725	738	100	240	214	184	465
Western Europe	351	51	180	20	45	88	27	—
Latin America	56	258	59	5	18	6	30	15
Japan	202	—	63	—	43	—	20	—
International institutions	—	5	200	181	—	19	—	—
Other	100	117	211	35	73	36	67	39
Total	1,443	1,155	1,451	341	419	363	328	519

Sources: U.S. Department of Commerce, and IMF staff estimates. These data refer to the total issues (including those regarded as Euro-dollar issues in Table 22) and not to those amounts of the issues sold to U.S. residents as recorded in U.S. balance of payments statistics.

(Table 25). However, the reduced accessibility of the U.S. market to such issues, as a consequence of the Interest Equalization Tax and official discouragement, has caused European borrowers to turn to other markets. In 1965, international issues by these borrowers on European markets alone were more than twice as large as in 1963.

In one respect, the market for these issues tended to become more internationalized in 1965. Almost all the increase in international issues was accounted for by the rise of so-called Euro-issues (Table 26). As late as 1963, the international securities market was dominated by issues denominated in the currency of the market in which they were floated. By 1965, two fifths of the total issues were denominated in a currency other than that of the market in which bonds were sold, and frequently this currency differed from that of the borrower. These issues were at first arranged by European financial institutions. However, the market has now become dominated by U.S. dollar issues, frequently handled by institutions based in New York. In some respects, the U.S. dollar has become an international capital currency, as well as a reserve currency. From the nineteenth century on, many international issues have been denominated in reserve currencies and other currencies different from those of the borrowers, but in practically every case the currency involved was that of the market on which the issues were sold. In 1965, by contrast, the dollar issues and the Euro-mark issues were sold elsewhere than in the United States or Germany. It might be noted that an earlier attempt to internationalize this market by the issue of securities denominated in "units of account" seems to have had little success.

This increase in international transactions has taken place despite restrictions on, and informal discouragement of, foreign security issues in the United States, and despite further restrictions on the outflow of capital from the United Kingdom, with little offsetting liberalization in other countries. National markets have adjusted with remarkable flexibility to the new situation, although some European countries—among them the Nordic countries like Finland—that had been borrowing regularly on European markets found increasing difficulty in raising funds in 1965, partly as a result of competition from U.S. borrowers. Another consequence of these developments has been further upward pressure on interest rates. While the Euro-currency markets are still largely insulated from national currency markets, the growing ability and willingness of lenders to acquire foreign issues, albeit frequently denominated in U.S. dollars, has provided alternative opportunities for borrowers, and has thereby served to bring the various national capital markets into closer contact. This has provided a somewhat informal integration of the international capital market over a period when there have been disappointingly few steps taken toward a more formal integration of European capital markets.

Chapter 7

Developments in Countries Exporting Primary Products

Commodity Prices

THE disparity in movement between the prices of agricultural products and those of minerals and metals has been a conspicuous feature in the most recent experience of major commodity price fluctuations, which set in with the upsurge in agricultural prices early in 1963. The price index for minerals and metals did not begin to rise significantly until the first quarter of 1964. The indices for agricultural products had then leveled off, and during the rest of that year and the early part of 1965 they moved rapidly downward (see Chart 19). By mid-1965, when the decline in agricultural prices flattened out, quotations for several nonferrous metals had reached levels not experienced since the Korean conflict, and their index continued to rise vigorously into 1966. However, although a number of countries derive a significant proportion of their export earnings from the extraction and primary processing of minerals and metals, only four or five are heavily dependent on such earnings. If petroleum is excluded, as in Chart 19, the prices for the products of extractive industries do not weigh heavily in the over-all index, as these products, even at the higher unit values realized in 1965, probably account for only some 20 per cent of the total value of world trade in primary products; in consequence, the over-all commodity index reflects primarily changes in agricultural prices.

Agricultural Products

For agricultural prices, the recession which followed the 1963 boom appeared to have worked itself out by the middle of 1965, and there was a tendency toward greater firmness at the turn of the year. For a number of commodities, stocks and exportable supplies from the 1964/65 crops had been sufficiently large to continue to exert a depressing influence on prices, and, during the first half of 1965, prices for several major foodstuffs were still rapidly depreciating. The substantial extent of such reductions for cocoa, African coffees of the robusta type, and both rice and sugar traded in "free" markets may be seen in

CHART 19. PRIMARY PRODUCING COUNTRIES: PRICES OF COMMODITIES EXPORTED (EXCLUDING PETROLEUM), 1962–FIRST QUARTER 1966

(1961 = 100)

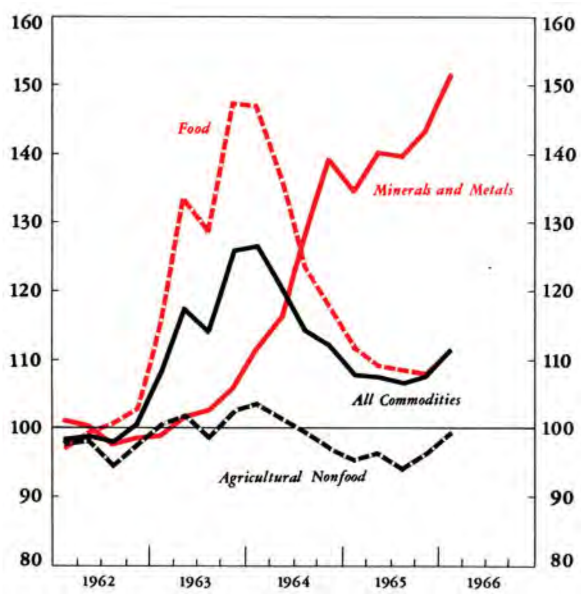
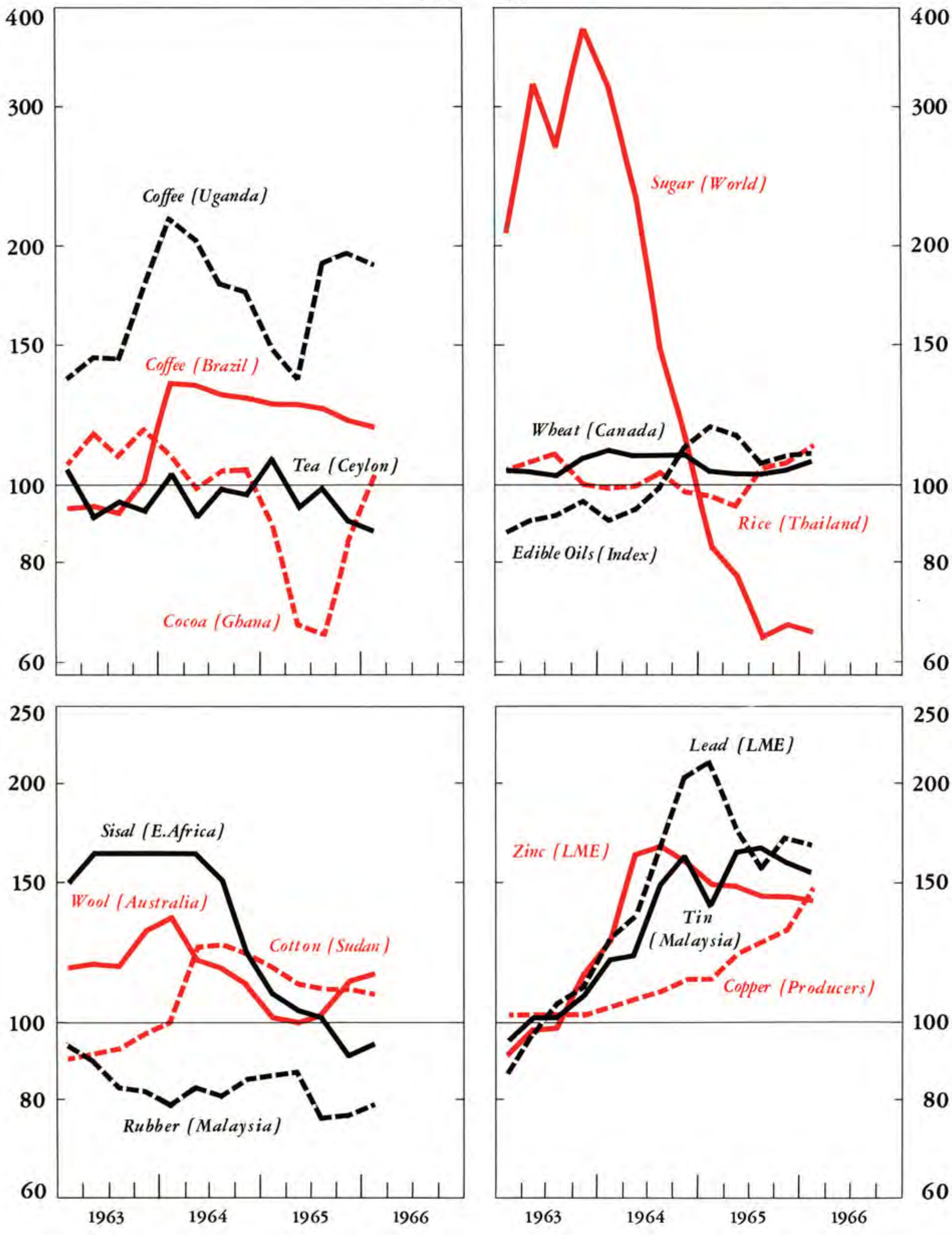


Chart 20. In contrast, firm or improving prices were recorded for the larger volumes of rice and sugar which move under bilateral and multilateral contracts, and for other coffees, tea, and edible oils. The effects of a strong supply situation were also conspicuous for wheat, and export prices lost during the first quarter of the year all their 1964 gains. Prices for other major temperate products (cereals, meat, and dairy products) remained comparatively high. Quotations for agricultural

CHART 20. SELECTED PRIMARY PRODUCTS: AVERAGE PRICES IN 1963–FIRST QUARTER 1966

(1961 = 100)



raw materials generally steadied during the first half of 1965, wool, long-staple cotton, and sisal being important exceptions.

Wool prices recovered after mid-1965, and the decline in long-staple cotton prices was arrested at what was still a relatively high level, as a result of stockbuilding in producing countries. The sisal market has continued to weaken, being oversupplied. Growing substitution by synthetic products more than offset whatever effects the political tensions in several of the major producing areas in the Far East might have had on the rubber market. In contrast, however, similar tensions strengthened quotations for jute and burlap during the last quarter of the year.

Among foodstuffs, the second half of 1965 also brought sharp recoveries for cocoa and robusta coffee; more generally, the price situation stabilized or improved for many commodities, tropical and temperate, as supply and demand prospects for the 1965/66 marketing season became clearer. Special factors on the demand side, which were principally reflected in wheat prices, included larger contracts with the Soviet countries and Mainland China, stock replenishment in some industrial countries, the political situation in a number of rice producing countries, and the critical food shortage in India. It is possible that, on the supply side, the cocoa market may be influenced in the course of 1966 by concerted international action. Within the framework of the International Coffee Agreement, the coffee market was beginning toward the end of 1965 to be affected by increases in shipments from Brazil, as that country filled more of its quota than it had done in previous seasons. (In 1964 a short crop had restricted the supplies available for export.)

Prices for food products, which make up about half of the trade in primary products if petroleum is excluded, have fluctuated more violently during the recent cycle than those of agricultural raw materials. The index shown for food in Chart 19 does not include the important and relatively stable U.S. import price for sugar, but the degree of fluctuation is still large if allowance is made for this omission. While the course of manufacturing activity in industrial countries may have had some bearing on the prices of a few agricultural raw materials, notably those of textile fibers, no such link is likely to exist with the movements in food prices, whose response to moderate changes in activity in industrial importing areas is negligible. For agricultural raw materials, the smaller fluctuations in prices in 1963-65 are explained mainly by the resistance of consumers to large price increases through substitution or stock adjustment and, to a lesser extent, by the management of supply.

The results of these years demonstrate the inherent instability of commodity market prices more clearly than those of any other part of the postwar period. The principal causes were apparently the susceptibility of supply to changes in natural conditions, combined with overadjustment in both output and import demand to temporary imbalance. Thus the downturn was brought about by larger world crops in the 1964/65 season, partly in response to the higher prices of 1963-64 and partly in the course of natural recovery. These influences were sometimes complemented by an appreciable slackening of demand due to the inventory position, or, where the competition of substitutes was important, in reaction to higher prices. The price levels ruling at the beginning of 1966 retained a moderate part of the gains made during the upswing, but these gains were generally smaller for those raw materials with ready substitutes.

Minerals and Metals

Sharply increased expenditures on nonferrous metals in 1964-65, in marked contrast to the stable or declining import trends which prevailed in all industrial countries except Japan during the early 1960's, caused a situation of relative scarcity to emerge for these raw materials, and consequently a strong pressure on prices. The stimulus given to demand by the faster rate of growth of world industrial activity since 1963 was supplemented by a widespread tendency to build up precautionary inventories in importing countries, in anticipation of supply interruptions, further price increases, or a worsening of the international political situation.

The supply of nonferrous metals was short because the level of prices in previous years had been considered unsatisfactory by producers, and had led to the modification of plans for expansion. These curtailments were in some instances arranged through a formal international agreement (tin) or by less formal collaboration between major producers (copper, zinc), and their effects were still being felt during 1965. For some metals, losses of output owing to recurring industrial disturbances were also a contributory factor.

The coincidence of restrictions on output with the emergence of markets of unforeseen strength in 1964 thus raised prices more than was anticipated by producers. The dangers of a too violent upward price fluctuation were recognized by some of them (although the fact that the prices for all major metals rose together did narrow the scope for economic substitution), and agreement was reached in certain instances on price administration as had earlier been done on the management of supply. Exporters of zinc undertook trading operations on the commodity exchanges, and those of copper offered to regular users fixed prices at lower levels than were being realized on the exchanges. Lead and tin continued, however, to be traded without intervention, and with some variation in prices; the buffer stock held under the international agreement for tin had been inoperative since 1963. Exceptionally, in the United States, the actual or threatened use of nonferrous metal stockpiles, together with action on trade controls, pegged the prices for most such metals. These various price control efforts led to a marked divergence between pegged prices and open market values, whose fluctuations during the first half of 1965 account for the behavior of the index shown in Chart 19. There was apparently some growth in the relatively small volume of copper which moves in the open market.

Copper provides the most striking example of the unusually volatile situation which developed in most nonferrous metal markets. Although world output advanced to record levels in 1964 and 1965, the market appeared to be increasingly seriously undersupplied. By the beginning of the second quarter of 1966, the prices quoted by producers outside the United States had more than doubled since 1963, and quotations in the open market, though quite unsteady, exceeded all producers' prices by a substantial margin.

Although extractive industries are not atomistic, as are agricultural industries, the experience of 1963-65 demonstrates that the possibility of destabilizing interactions between responses to supply and demand, which characterizes agricultural commodity cycles, also exists for minerals and metals. The risk of overadjustment to the current boom for these raw materials cannot therefore be excluded. While the restraint exercised in some price policies should encourage continuing growth in the use of these metals, especially if this is taken as an indication that the industries concerned or their governments will continue to cooperate in administering prices, it may be significant that for the first time in the 1960's world consumption of lead, zinc, and copper showed little or no gain last year over the previous year.

Trade

In assessing the significance of the recent fluctuations in commodity prices for the earnings of countries exporting primary products, it is important to bear in mind the substantial difference which may arise, at any rate in the short run, between the unit values of exports and quotations on commodity exchanges. The possibility of such a difference arises most clearly, of course, in connection with products such as sugar, rice, and a number of minerals and metals, for which the bulk of the output is traded under bilateral or multilateral contracts, so that the open market may be comparatively unimportant. Such contractual trade provides an important reason for the greater stability exhibited by unit value indices than by market prices. Moreover, the exports of primary producing countries include certain goods, e.g., some manufactures or items in border trade, whose prices are more stable than those covered by indices of primary product prices. More generally, however, disparities in movements between market prices and unit values are accounted for in large measure by the fact that, for most primary commodities, trade flows are not constant through the year. The bulk of some producing countries' sales for export may for various reasons be concentrated within short periods, so that their receipts may not reflect more than marginally whatever price movements may occur, as a result of changes in international demand and supply, during the periods between sales.

Terms of Trade

These considerations are less relevant to the more developed primary producing countries, exporting mainly temperate agricultural products (see Table 27), for which the marketing system is such that export unit values and market prices move closely together. These countries suffered serious fluctuations in export unit values in the course of 1963-65, and their terms of trade moved accordingly, the unit value of their imports showing much less change. Export unit values were much more stable for the less developed primary producing countries taken as a whole; by mid-1964 they had steadied at a level some 5-6 per cent above values in 1962, and, with minor fluctuations, remained there through 1965. Meanwhile the unit values of these countries' imports had risen by some 4 per cent, so that the less developed countries in general emerged from the recent commodity price cycle with an improvement in their terms of trade of 1-2 per cent.

This over-all result, however, masks rather dissimilar patterns from area to area. The terms of trade of Latin America countries as a group, after improving sharply in 1963-64, stayed at a level some 16 per cent above that of 1962, if petroleum is excluded from exports. (If petroleum is included, the mild secular decline in its unit value reduces the gain in terms of trade to 11 per cent.) This favorable development at a time of general recession in agricultural prices can be accounted for by the upswing for metals and minerals—on which Chile and Bolivia are heavily dependent, and which provide a significant proportion of the earnings of other countries—and by the support of coffee prices through the international agreement. In contrast, the terms of trade of African countries, which followed quite closely the price cycle for tropical foods, showed little or no gain over 1962 by the end of 1965; and the same pattern was exhibited by a number of Asian, principally non-sterling, countries. The terms of trade of the sterling area countries of Asia, while also showing only a small improvement over 1962 at the end of 1965, moved quite differently in the interval, depending as they do on a number of disparate commodities (tea, jute, copra, rubber, and tin) whose prices fluctuated in reverse to the general cycle.

Value of Exports

The growth of the value of exports in 1965 followed a very different pattern in the less developed primary producing countries from that in the more developed countries. The latter's exports, after two years of high growth (11 per cent from 1962 to 1963 and 13 per cent from 1963 to 1964), increased by only 3 per cent in 1965 (Table 5, page 45). Virtually the whole of this increase was concentrated in the second half of the year (Table 3, page 41). The rate of growth in the less developed countries fell off by much less. Preliminary figures suggest increases of 8 per cent from 1962 to 1963, 9 per cent from 1963 to 1964, and 6 per cent from 1964 to 1965, and growth appears to have been fairly steady throughout 1965. From country to country, however, there were rather more variations among the less developed than among the more developed countries.

For the less developed countries as a group, practically all the increase in exports in 1965 appears to have resulted from increases in volume. In Asia, however—mainly because of the reverse cycle observed in the terms of trade of sterling area countries—more of the rise in earnings was accounted for by increased unit values than by volume. For the more developed primary producers, for Latin America, and particularly for Africa, the increase in volume more than offset the decline in unit values.

TABLE 27. PRIMARY PRODUCING COUNTRIES: TRADE, 1964 AND 1965

(Value in millions of U.S. dollars)

	Exports f.o.b.				Imports c.i.f.			
			Percentage change from previous year				Percentage change from previous year	
	1964	1965	1964	1965	1964	1965	1964	1965
Countries exporting mainly								
Coffee								
Brazil	1,433	1,595	2	11	1,263	1,096	−15	−16
Colombia	537	539	20	—	586	454	16	−23
Others	675	703	13	4	665	748 [1]	17	12
Total	2,645	2,837	8	7	2,514	2,298	−2	−9
Mixed tropical foodstuffs								
Ceylon	394	409	9	4	415	310	33	−25
China, Republic of	433	450	30	4	428	556	18	30
Nigeria	601	752	13	25	711	771	22	8
Philippines	742	767	2	3	868	894	26	3
Thailand	593	624	27	5	680	725	11	7
Others	2,329	2,260 [1]	7	−3	2,838	2,987 [1]	11	5
Total	5,092	5,261	11	3	5,940	6,241	16	5
Fibers and rubber								
Malaysia	909	1,014	3	12	824	852	—	3
Pakistan	426	528	2	24	998	1,043	12	5
United Arab Republic	539	605	3	12	953	875	4	−8
Others	846	829 [1]	−1	−2	1,000	880 [1]	4	−12
Total	2,720	2,976	2	9	3,775	3,650	5	−3
Mixed and mainly temperate agricultural products								
Argentina	1,410	1,493	3	6	1,077	1,198	10	11
Australia	3,038	2,978	9	−2	3,313	3,761	19	14
Ireland	623	627	13	1	974	1,041	14	7
New Zealand	1,074	1,007	18	−6	961	1,052	6	9
Spain	954	945	30	−1	2,245	3,009	15	34
Total	7,099	7,050	12	−1	8,570	10,061	15	17
Other mixed agricultural products								
Greece	309	328	7	6	885	1,134	10	28
Mexico	1,054	1,146	7	9	1,493	1,560	20	4
Peru	666	669	23	—	571	719	−1	26
Turkey	411	459	12	12	542	577	−22	6
Others	1,412	1,519 [1]	19	8	2,364	2,578	11	9
Total	3,852	4,091	14	6	5,855	6,568	8	12
Mixed minerals and agricultural products								
Morocco	432	430	12	—	459	454	3	−1
South Africa	1,490	1,486	4	—	2,350	2,696	27	15
Others	337	390	17	16	686	743	−13	8
Total	2,259	2,306	7	2	3,495	3,893	13	11
Metals and minerals								
Chile	624	682	16	9	607	604	9	—
Zambia	470	527	30	12	247	337	44	36
Others	663	724 [1]	16	9	631	744 [1]	13	18
Total	1,757	1,933	19	10	1,485	1,685	15	13
Petroleum								
Kuwait	1,218	1,243	10	2	322	350 [1]	−1	9
Iran	1,254	1,303	34	4	673	860	29	28
Saudi Arabia	1,180	1,388	12	18	394	400 [1]	23	2
Venezuela	2,742	2,783	4	1	1,269	1,375	34	8
Others	3,229	3,430 [1]	14	6	2,433	2,499 [1]	9	3
Total	9,623	10,147	13	5	5,091	5,484	17	8
Other major exporters								
Finland	1,291	1,427	12	11	1,505	1,646	25	9
Hong Kong	1,012	1,143	16	13	1,496	1,569	15	5
India	1,701	1,688	3	−1	2,803	2,905	13	4
Singapore	903	981	−20	9	1,136	1,244	−19	9
Yugoslavia	893	1,092	13	22	1,321	1,288	25	−2
Total	5,800	6,331	4	9	8,261	8,652	11	5
All other primary producing countries	3,013 [1]	3,418 [1]	12	13	4,391 [1]	4,688 [1]	6	7
Grand Total	43,860	46,350	10	6	49,480	53,220	11	8

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

[1] Data are partly estimated.

Imports

A similar difference in pattern between the more developed and the less developed countries occurred in 1965 in relation to imports. As a result partly of movements in the terms of trade, the importing power of the exports of the more developed countries rose from its 1964 level by less than 1 per cent. Their imports, however, rose by almost 16 per cent, and this growth was rather faster during the first half of the year than in the second half (Table 4, page 42). Since the importing power of their exports was falling particularly sharply in the first six months, their trade deficit was larger then than in the second half of the year.

In contrast, preliminary figures indicate that the less developed countries' imports rose by only some 4 per cent, whereas the importing power of their exports increased by over 5 per cent. However, just as for the more advanced group, the less developed countries' imports grew rather faster during the first half of the year than during the second half. As a result, the trade balance of all primary producers taken together improved considerably after mid-year, although the improvement was concentrated in the less developed countries.

A geographical analysis, based on preliminary figures, shows that the pattern of import growth for the less developed countries was dominated in 1965 by the situation in Latin America, where the importing power of exports rose by some 4 per cent while total imports increased by less than 2½ per cent, and in the Middle East, where these two rates of increase were of over 6 per cent and under 3 per cent, respectively. In Asia, the growth of imports appears to have matched the rise in importing power (both increased by some 5 per cent); only for Africa did the increase in total imports (9 per cent) exceed that in importing power (6½ per cent).

Trade Balances

Within these areas, however, the balances of trade for individual countries differed widely, as will be seen from Table 27. These balances were influenced not only by differing market conditions for the countries' principal exports and by these countries' own role within those markets, but also —mostly on the import side—by domestic developments. The most conspicuous improvements in trade balances emerged in the countries exporting either coffee or fibers and rubber. It should, however, be noted that in the second of these groups the sizable advance of Malaysian exports was due much more to the booming market for tin than to any growth in its principal export, rubber. Pakistan benefited from shortfalls in other cotton producing countries in order to increase its earnings markedly in a market not characterized by strength. The improved trade balance of the United Arab Republic is explained by an increase in its receipts from long-staple cotton exports on a strong market early in the year, and by the severity of restrictions on imports.

Among the countries exporting coffee, the continued decline in Brazil's imports, due in part to the exchange reforms introduced under the stabilization program of 1964, contributed to a sizable improvement in its trade balance. So did the sharp downturn in the imports of Colombia, owing principally to the very tight restrictions maintained until the exchange reform late in the year. Earnings from coffee exports declined for most major producers from 1964 to 1965. In Brazil, however, in contrast to other countries, this was much more than made up by a sharp rise in other exports, including manufactures, so that its exports as a whole grew more strongly than those of the other coffee exporting countries. This was a reversal of the situation in the previous year. In Yugoslavia the devaluation of the exchange rate both stimulated exports and reduced imports conspicuously. In Nigeria the important factor was the contribution of surging oil exports, offsetting weakening prices for some agricultural exports.

Developments in Ghana, India, Korea, and Peru are discussed in Chapter 8.

The countries relying on metals and minerals did not experience as much improvement in their trade balances as might have been expected, as imports rose sharply everywhere except in Chile, where the measures of stabilization undertaken in the course of the year were reflected in reduced import demand. Preliminary figures suggest that it was still mainly strong import demand in Iran and Venezuela that reduced the surpluses in their balance of trade, as receipts from petroleum exports remained close to their level in 1964.

The effect of domestic conditions was most prominent in countries exporting temperate agricultural products—that is, in the more developed primary producers. Their export receipts, like those of many of the less developed countries producing tropical foodstuffs, showed either declines or only small gains in 1965. In contrast, however, to many tropical producers, whose imports rather rapidly adjusted to this situation, imports in many of the more developed countries continued to boom during most of 1965, under conditions of excess demand. A large trade deficit resulted.

Balance of Payments

In 1965 the balance of trade was again the key to the balance of payments of the primary producing countries. Table 28 shows that the deterioration in 1965 of the trade balance for the whole group resulted from a slowdown in the rate of growth of exports not wholly matched on the import side. In this general result, however, some improvement in the balance of trade of the less developed countries was overshadowed by a deterioration in that of the more developed ones. The $1.2 billion swing into deficit in the latter countries' aggregate over-all balance was more than accounted for by an increase of nearly $1.7 billion in their trade deficit (the difference being made up, in roughly equal parts, by increased receipts from services and transfers and by larger capital inflows). In contrast, the less developed countries' trade balance appears, on preliminary figures, to have improved by some $0.4 billion in 1965, and their over-all surplus by $0.9 billion. The difference between these figures stemmed from a favorable change in short-term capital and unrecorded transactions, which, together with some increase in net inflows of government capital and aid, more than offset the decline in recorded inflows of private long-term capital and the increase in net payments on services and transfers.

The rise in the less developed countries' over-all surplus during 1965 was hardly less spectacular than the downswing into deficit for the more developed countries, even though the latter were in general more affected by the decline in primary product prices. The more developed countries as a group used $0.7 billion in reserves, but the less developed countries added some $1.2 billion to theirs (virtually all in foreign exchange), in contrast to a negligible change in 1964. Broadly speaking, the much more comfortable reserve position of many of the more developed countries allows them more time to ride out a deterioration in their payments position. The experience of the less developed countries showed greater variations from country to country, but, as was suggested in Chapter 5, their more precarious reserve position and the rising level of their foreign debt obligations may have prompted them to take measures of adjustment more rapidly. The results were the more striking since a reduction in the rate of growth of exports may easily result in a deficit where an economy has become geared to rising receipts; and it may be that in some instances there was an element of overadjustment. In other countries, however, the improvement in the external position may have been related to measures designed to correct the external effects of domestic imbalance, rather than an adjustment to lower export receipts. Such measures may have brought about not only a fall in the rate of growth of imports but also an interruption of capital flight and perhaps a reflux. This may explain some part of the swing of $0.7 million in "other short-term capital and errors and omissions," which is an important element in the improvement of the less developed countries' over-all position in 1965. In contrast, preliminary and still incomplete reports from the less developed countries indicate that their receipts of foreign long-term private capital, although they remained above their 1962 and 1963 levels, declined from their 1964 peak. This decline appears particularly pronounced if the special capital receipts, accruing to a number of

TABLE 28. PRIMARY PRODUCING COUNTRIES: BALANCE OF PAYMENTS SUMMARIES, 1964 AND 1965 [1]

(In millions of U.S. dollars)

	1964									
	Exports f.o.b. (1)	Imports f.o.b. [3] (2)	Trade Balance (Cols. 1 + 2) (3)	Services and Private Transfer Payments (4)	Goods, Services, and Private Transfer Payments (Cols. 3 + 4) (5)	Central Government Capital and Aid (6)	Private Long-Term Capital (7)	Basic Balance (Cols. 5 through 7) (8)	Other Short-Term Capital and Net Errors and Omissions (9)	Total [4] (Cols. 8 + 9) (10)
A. More Developed Primary Producers										
Australia	2,999	—2,829	170	—546	—376	—116	...	...	555 [6]	63
Finland	1,292	—1,510 [5]	—218	43	—175	68	81	—26	72	46
Greece	308	—882 [5]	—574	362	—212	80	120	—12	2	—10
Iceland	111	—120	—9	1	—8	—1	14	5	3	8
Ireland	595	—948 [5]	—353	254	—99	—5	103	—1	42	41
New Zealand	1,093	—908	185	—183	2	—8	...	...	28 [6]	22
Portugal	636	—818 [5]	—182	198	16	61	38	115	2	117
South Africa	2,547	—2,226	321	—426	—105	25	—52	—132	66	—66
Spain	1,004	—2,081 [5]	—1,077	1,105	28	—20	267	275	99	374
Turkey	433	—475	—42	—45	—87	97	30	40	6	46
Yugoslavia	907	—1,342 [5]	—435	210	—225	105	—	—120	—15	—135
Total, Group A	11,925	—14,139	—2,214	973	—1,241	286	1,035	80	426	506
B. Less Developed Primary Producers										
Latin America										
Argentina	1,411	—1,078 [5]	333	—299	34	70	—27	77	—28	49
Bolivia	100	—98	2	—21	—19	32	11	24	—8	16
Brazil	1,430	—1,086	344	—283	61	192	33	286	—92	194
Chile	591	—623 [5]	—32	—106	—138	94	63	19	1	20
Colombia	636	—575	61	—192	—131	28	153	50	—69	—19
Costa Rica	113	—125	—12	—14	—26	7	22	3	—10	—7
Dominican Republic	180	—191	—11	—47	—58	22	—	—36	23	—13
Ecuador	161	—140	21	—48	—27	15	7	—5	9	4
El Salvador	176	—192 [5]	—16	—11	—27	7	14	—6	17	11
Guatemala	159	—185	—26	—26	—52	—	20	—32	34	2
Haiti	38	—37	1	—10	—9	3	3	—3	1	—2
Honduras	95	—95	—	—17	—17	11	8	2	2	4
Jamaica	223	—248	—25	—8	—33	9	4	—20	25	5
Mexico	1,071	—1,499 [5]	—428	10	—418	6	499	87	—35	52
Nicaragua	124	—110	14	—28	—14	1	18	5	3	8
Panama	84	—170	—86	63	—23	6	8	—9	9	—
Paraguay	45	—44	1	—11	—10	6	7	3	1	4
Peru	685	—513	172	—157	15	74	14	103	—78	25
Uruguay	184	—169	15	—24	—9	3	—7	—13	—8	—21
Venezuela	2,481	—1,219	1,262	—1,052	210	—19	—41	150	—65	85
Subtotal, Latin America	9,987	—8,397	1,590	—2,281	—691	567	809	685	—268	417
Asia										
Burma	227	—233	—6	—33	—39	26	1	—12	9	—3
Ceylon	371	—412	—41	—9	—50	53	—	3	—4	—1
China, Republic of	433	—400	33	—15	18	23	15	56	47	103
India	1,720	—2,920 [5]	—1,200	30	—1,170	1,320	—	—	—125 [6]	25
Korea	119	—365	—246	79	—167	157	12	2	—5	—3
Malaysia	1,100	—1,003	97	—158	—61	18	111	68	—115	—47
Pakistan	502	—887	—385	—107	—492	478	49	35	—93	—58
Philippines	757	—780	—23	92	69	13	34	116	—120	—4
Thailand	585	—679 [5]	—94	41	—53	42	66	55	29	84
Viet-Nam	50	—325 [5]	—275	37	—238	202	—	—36	—3	—39
Subtotal, Asia	5,864	—8,004	—2,140	—43	—2,183	2,332	328	477	—420	57
Middle East										
Iran	1,130	—661 [5]	469	—515	—46	—19	26	—39	—12	—51
Iraq	840	—409 [5]	431	—375	56	29	—39	46	—92	—46
Israel	350	—731 [5]	—381	163	—218	83	174	39	—21	18
Jordan	24	—138 [5]	—114	51	—63	90	1	28	—14	14
Saudi Arabia	1,016	—374	642	—503	139	41	—11	169	—74	95
Syrian Arab Rep.	176	—235 [5]	—59	53	—6	—12	19	1	—5	—4
United Arab Rep.	524	—927 [5]	—403	117	—286	267	—7	—26	20	—6
Subtotal, Middle East	4,060	—3,475	585	—1,009	—424	479	163	218	—198	20
Africa										
Ethiopia	105	—109	—4	—15	—19	12	12	5	6	11
Ghana	321	—319	2	—93	—91	48	17	—26	—9	—35
Ivory Coast	303	—261 [5]	42	—53	—11	15	19	23	—26	—3
Libya	620	—295 [5]	325	—341	—16	14	49	47	4	51
Morocco	434	—437	—3	—37	—40	77	—9	28	—80	—52
Nigeria	591	—687 [5]	—96	—172	—268	84	174	—10	45	35
Rhodesia	403	—309	94	—103	—9	—11	18	—2	9	7
Sierra Leone	88	—88	—	—28	—28	12	19	3	14	17
Somalia	33	—56	—23	—9	—32	24	4	—4	—5	—9
Sudan	201	—252 [5]	—51	—39	—90	32	2	—56	7	—49
Tunisia	137	—240	—103	—20	—123	85	19	—19	10	—9
Zambia	489	—221	268	—176	92	—16	—29	47	—25	22
Subtotal, Africa	3,725	—3,274	451	—1,086	—635	376	295	36	—50	—14
Total, Group B	23,636	—23,150	486	—4,419	—3,933	3,754	1,595	1,416	—936	480
C. Total Primary Producers	35,561	—37,289	—1,728	—3,446	—5,174	4,040	2,630	1,496	—510	986

Source: Based on data reported to the International Monetary Fund.

[1] No sign indicates credit; minus sign indicates debit. [2] Preliminary and including Fund staff estimates. [3] F.o.b. unless otherwise noted.

Footnotes continued on page 85.

TABLE 28 *(concluded)*. PRIMARY PRODUCING COUNTRIES: BALANCE OF PAYMENTS SUMMARIES, 1964 AND 1965 [1]

(In millions of U.S. dollars)

	1965 [2]									
	Exports f.o.b. (1)	Imports f.o.b. [3] (2)	Trade Balance (Cols. 1 + 2) (3)	Services and Private Transfer Payments (4)	Goods, Services, and Private Transfer Payments (Cols. 3 + 4) (5)	Central Government Capital and Aid (6)	Private Long-Term Capital (7)	Basic Balance (Cols. 5 through 7) (8)	Other Short-Term Capital and Net Errors and Omissions (9)	Total [4] (Cols. 8 + 9) (10)
A. More Developed Primary Producers										
Australia	2,932	—3,302	—370	—636	—1,006	—43	...	...	693 [6]	—356
Finland	1,427	—1,651 [5]	—224	37	—187	—2	34	—155	82	—73
Greece	331	—1,031 [5]	—700	423	—277	42	171	—64	31	—33
Iceland	129	—126	3	1	4	—	5	9	—3	6
Ireland	630	—1,040 [5]	—410	270	—140	—	70	—70	30	—40
New Zealand	1,064	—996	68	—201	—133	43	...	...	—10 [6]	—100
Portugal	626	—933 [5]	—307	291	—16	29	27	40	12	52
South Africa	2,587	—2,540	47	—479	—432	99	84	—249	94	—155
Spain	995	—2,760 [5]	—1,765	1,300	—465	...	350 [7]	—115	11	—104
Turkey	474	—505	—31	11	—20	91	18	89	—20	69
Yugoslavia	1,121	—1,320 [5]	—199	229	30	42	—	72	—23	49
Total, Group A	12,316	—16,204	—3,888	1,246	—2,642	351	1,387	—904	219	—685
B. Less Developed Primary Producers										
Latin America										
Argentina	1,488	—1,195 [5]	293	—111	182	83	—5	260	—85	175
Bolivia	116	—122	—6	—25	—31	34	2	5	7	12
Brazil	1,560	—970	590	—430	160	277	75	512	134	646
Chile	680	—620 [5]	60	—110	—50	110	20	80	—35	45
Colombia	570	—445	125	—135	—10	22	40	52	—17	35
Costa Rica	112	—159	—47	—19	—66	35	30	—1	3	2
Dominican Republic	120	—90	30	—40	—10	20	—	10	—10	—
Ecuador	174	—155	19	—48	—29	14	12	—3	—10	—13
El Salvador	189	—201 [5]	—12	—15	—27	27	12	12	—12	—
Guatemala	190	—210	—20	—30	—50	—	20	—30	30	—
Haiti	38	—43	—5	—11	—16	6	1	—9	7	—2
Honduras	129	—112	17	—17	—	4	10	14	—8	6
Jamaica	220	—259	—39	6	—33	9	15	—9	9	—
Mexico	1,159	—1,577 [5]	—418	54	—364	21	117	—226	189	—37
Nicaragua	149	—137	12	—34	—22	5	14	—3	23	20
Panama	86	—189	—103	77	—26	11	3	—12	9	—3
Paraguay	60	—51	9	—13	—4	7	4	7	—1	6
Peru	687	—646	41	—167	—126	63	25	—38	53	15
Uruguay	196	—130	66	—8	58	4	57	119	—86	33
Venezuela	2,457	—1,318	1,139	—1,104	35	66	—32	69	—60	9
Subtotal, Latin America	10,380	—8,629	1,751	—2,180	—429	818	420	809	140	949
Asia										
Burma	239	—221	18	—48	—30	—5	—	—35	8	—27
Ceylon	401	—403	—2	—1	—3	36	—1	32	3	35
China, Republic of	451	—530	—79	—14	—93	50	22	—21	30	9
India	1,678	—2,932 [5]	—1,254	—111	—1,365	1,158	40	—167	64	—103
Korea	176	—420	—244	115	—129	116	40	27	—22	5
Malaysia	1,226	—1,045	181	—165	16	55	91	162	—133	29
Pakistan	600	—930	—330	—120	—450	400	—	—50	—25	—75
Philippines	783	—808	—25	141	116	97	—43	170	—136	34
Thailand	612	—723 [5]	—111	70	—41	80	40	79	4	83
Viet-Nam	41	—357 [5]	—316	93	—223	261	—	38	—1	37
Subtotal, Asia	6,207	—8,369	—2,162	—40	—2,202	2,248	189	235	—208	27
Middle East										
Iran	1,233	—847 [5]	386	—557	—171	—16	331	144	—82	62
Iraq	884	—428 [5]	456	—390	66	9	—40	35	—33	2
Israel	403	—733 [5]	—330	128	—202	155	128	81	10	91
Jordan	28	—155 [5]	—127	58	—69	80	1	12	51	63
Saudi Arabia	1,200	—460	740	—600	140	40	—10	170	—40	130
Syrian Arab Rep.	170	—210 [5]	—40	40	—	—	10	10	—10	—
United Arab Rep.	590	—850 [5]	—260	110	—150	150	—10	—10	10	—
Subtotal, Middle East	4,508	—3,683	825	—1,211	—386	418	410	442	—94	348
Africa										
Ethiopia	117	—132	—15	—16	—31	31	14	14	2	16
Ghana	321	—437	—116	—112	—228	84	89	—55	14	—41
Ivory Coast	285	—255 [5]	30	—64	—34	13	19	—2	5	3
Libya	800	—320 [5]	480	—420	60	—	30	90	—20	70
Morocco	436	—417	19	—53	—34	114	2	82	—30	52
Nigeria	738	—744 [5]	—6	—186	—192	95	171	74	—60	14
Rhodesia	440	—370	70	—110	—40	10	30	—	—	—
Sierra Leone	80	—100	—20	—30	—50	20	20	—10	10	—
Somalia	40	—60	—20	—10	—30	25	5	—	—	—
Sudan	209	—213 [5]	—4	—38	—42	25	7	—10	—13	—23
Tunisia	124	—261	—137	—46	—183	103	80	—	—4	—4
Zambia	510	—300	210	—200	10	—	—10	—	—	—
Subtotal, Africa	4,100	—3,609	491	—1,285	—794	520	457	183	—96	87
Total, Group B	25,195	—24,290	905	—4,716	—3,811	4,004	1,476	1,669	—258	1,411
C. Total Primary Producers	37,511	—40,494	—2,983	—3,470	—6,453	4,355	2,863	765	—39	726

For Footnotes 1-3, see page 84.

[4] Represents net official reserve movements, including changes in reserve position in the Fund. No sign indicates an over-all surplus; minus sign indicates an over-all deficit. [5] C.i.f. [6] Including private long-term capital, an estimate for which is included in the area totals for columns (7) and (8). [7] Including government capital, an estimate for which is included in the area total for column (6).

oil producing countries in 1965 from the renegotiation of contracts, are excluded.

More Developed Countries

Except for two countries, the over-all balance of all more developed primary producers worsened from 1964 to 1965; in most countries it swung from surplus into deficit (Group A in Table 28). This was in striking contrast to the improvement which these countries, again with two exceptions, recorded from 1963 to 1964. But from 1963 to 1964 the two exceptions (Australia and South Africa) dominated the outcome for the group as a whole, while from 1964 to 1965 the improvement in Turkey and Yugoslavia did little to modify that outcome. In Turkey it was mostly connected with services and private transfer payments. The improvement in Yugoslavia's position was conspicuous not only because its trade deficit was halved, primarily as a result of the devaluation of the dinar in July 1965, which raised the value of other currencies by 67 per cent, but also because the inflow of capital was reduced, in contrast to the experience of many of the other countries.

The year's outcome for the group as a whole was dominated by Australia, New Zealand, South Africa, and Spain. In these countries exports either failed to improve or fell, and imports continued to soar for the greater part of the year. In the first three of these countries, net payments on services and private transfers contributed to the worsening of the current account, while inflows of capital both on government and private long-term account were an important offset to this. (The different experience of Spain is described in Chapter 8.)

The experience of the other countries in Group A was rather more varied. For most of them, however, exports did show some increase in 1965, and in this respect they differed from the four countries just discussed. But, again, the increase in their imports substantially outstripped that of exports, except in Iceland, Turkey, and, of course, Yugoslavia, so that, with these exceptions, their trade surpluses shrank or their trade deficits widened considerably from 1964 to 1965. A sizable increase in receipts from tourism and in remittances from workers abroad provided an important offset to this for the Mediterranean countries. The role of capital movements, and their distribution between government and private account, varied from country to country. On the whole, however, such movements were of the same order of magnitude and direction as in 1964, and generally acted as an offset to the deterioration in the current account. The experience of Finland was, however, conspicuously different in this respect; its swing from 1964 to 1965 of almost $120 million into over-all deficit was due primarily to its inability to borrow as much abroad in 1965 as in 1964, and hardly at all to the slight increase in its current account deficit.

Less Developed Countries

Looking at the geographical divisions of Group B in Table 28, it is apparent that the most conspicuous change from 1964 to 1965 in the over-all balances of the less developed countries was the $0.5 billion increase in the surplus recorded for Latin America. This seems to have resulted, in equal parts, from a decrease in the deficit on current account and an increase in the surplus on capital account. As to the latter, it may be seen from the preliminary figures set out in the table, which include some estimates by the Fund staff, that most of the net movement can be ascribed to a swing in the residual item (consisting of the outflow of private short-term capital and transactions unrecorded elsewhere). The increased inflow on government account was more than offset by a fall in inflows of private long-term capital—which is in striking contrast to developments in 1964. Similarly favorable, though less pronounced, swings occurred in the residual item for the Middle Eastern and Asian countries; only for those African countries covered in Table 28 did the total net outflow on this item increase. An increase of $0.3 billion was recorded in the over-all surplus of those Middle Eastern countries for which balance of payments statistics are available. This stemmed largely from an increased private capital inflow resulting from the renegotiation of some oil contracts, as the current account balance showed almost no change, and inflows of official capital some decline, in comparison with 1964. The slight decrease in the over-all surplus of the Asian group, to a position of near balance, reflects developments on current account (specifically on the trade balance); the favorable swing in the residual item was matched by a decline in recorded capital inflows, both official and private. In the African countries a small improvement in the trade balance was more than offset by an increase in net payments on services and private transfers and the swing into over-all surplus was the result of a conspicuous increase in capital inflows.

This broad picture is, however, the result of rather disparate movements in individual countries, and of different factors within each country. In Latin America, the improvement in the trade balance was by no means general; the increase of imports combined with almost unchanged exports experienced by Costa Rica, Peru, and Venezuela was as conspicuous as the reverse combination in Brazil, Chile, and Uruguay. In the Dominican Republic a severe curtailment of imports more than made up for the fall in exports. A decrease in net payments on services and private transfers, sometimes associated with a decrease in imports, contributed to the current account improvement in many countries, with the conspicuous exception of Brazil. The balance on capital account improved rather generally; in the majority of countries net receipts of government capital and aid were also greater. The inflow of private long-term capital appears at first sight to have fallen off substantially in many countries in 1965. However, when using preliminary figures, it is usually necessary to examine at the same time the residual item covering short-term capital and unrecorded transactions, where the largest decreases in private long-term capital inflows are found in 1965 to have been offset to some extent. The swing into surplus on this residual item may, for instance in Brazil, be related to a decrease in the rate of capital flight, and some reflux.

Exports showed substantial increases from 1964 to 1965 in most of the Middle Eastern countries covered in Table 28, and the trade balances rather generally improved, with Iran as a notable exception. For this country, however, special receipts arising out of the renegotiation of contracts with foreign oil companies turned an over-all deficit into a sizable surplus in spite of the outcome on current account. In contrast, only the severe restriction of imports into the United Arab Republic enabled that country to maintain over-all balance in the face of a very large drop in the inflow on account of official capital and aid.

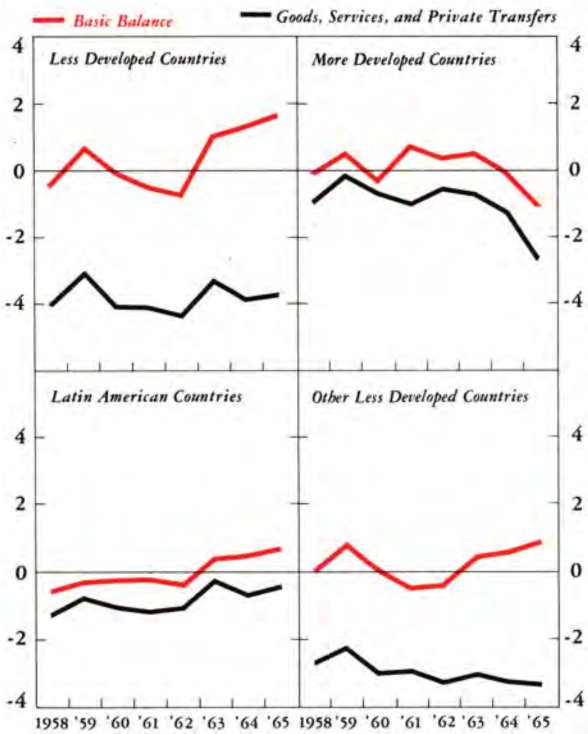
The small increase in the trade deficit of the Asian countries, as a group, was the result of unchanging or declining exports combined with increasing imports in some countries (particularly China, India, and Viet-Nam) not being fully offset by the improvement in other countries (notably Malaysia and Pakistan). A decline in the current account deficit in Korea, and an increased surplus on this account in the Philippines, were due entirely to higher net receipts on services and transfer payments. No generalization is possible about the countries' capital accounts. However, in Burma a net outflow on account of official capital, replacing an inflow, was almost entirely responsible for the increased over-all deficit, while in China, the Philippines, and Thailand larger inflows on official account more than offset the decline in private inflows (including those implicit in the residual item).

The moderate improvement recorded in the trade balance of the group of African countries covered in Table 28 is, as elsewhere, the result of much variation from country to country. Strikingly enough, one of the largest quantitative improvements in this balance was recorded in a country whose exports were unchanged from 1964 to 1965, namely Morocco. Exports failed to rise in Ghana while imports soared. Here, and also in Zambia, an increased inflow of capital was an important offset to the deterioration in the current account. In Ivory Coast exports fell by more than imports, but this setback was more than made up on transactions as yet unidentifiable. An upsurge in exports from Libya and Nigeria was combined with only a moderate increase in imports.

Data for the primary producing countries over a number of years, as a whole and in certain subgroups, are shown in Chart 21, where balances on account of goods, services, and private transfers are compared with balances on basic account. For the two main groups of primary producers, Chart 22 compares 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 years 1958-65.

CHART 21. PRIMARY PRODUCING COUNTRIES: BALANCES OF PAYMENTS, 1958-65

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

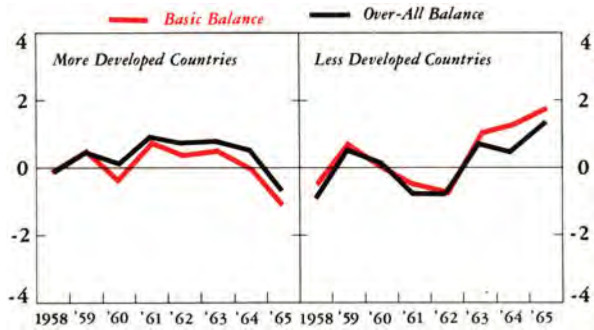


In contrast to the experience of the less developed countries, the outcome of the basic balance for the more developed countries has since 1961 been determined by the current account, as the level of capital inflow has shown no definite tendency to rise. In the less developed countries, and particularly in areas other than Latin America, rising capital inflows have made possible the gradual accumulation of larger reserves. In Latin America similar improvements in the net foreign position have been more closely related to the current account.

Chart 22 shows that, while the movements in the basic balance and in the over-all balance have in general been similar, there has been in each year since 1960 an inflow on account of short-term capital and unrecorded transactions for the more developed countries and an outflow for the less developed countries. The size of these flows widened substantially in 1964, but in 1965 appears to have reverted to that of earlier years.

CHART 22. PRIMARY PRODUCING COUNTRIES: BASIC AND OVER-ALL BALANCES, 1958-65

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



Domestic Developments

It has been suggested in the preceding section that in 1965, as in earlier years, the state of the domestic economy was at least as important an influence on the external position of many primary producing countries as the changes which occurred in export earnings. In the domestic situation the joint or separate operation of three factors can usually be pinpointed, with consequent implications for policy: on the demand side, the fiscal position of the public sector and the growth of credit to the private sector; and on the supply side, the level of agricultural production.

In 1965 agricultural output played a particularly significant role in determining the degree of imbalance between the generation of incomes and the supply of goods and services. In some countries chronic shortages suggested the need for policies to stimulate agriculture, in addition to whatever short-run measures were necessary, in the absence of adequate imports, to restrain demand. In other countries, where shortages were of a temporary character, such short-run measures might have been sufficient, but they were not always taken. It is true that, up to a point, the efficacy of such measures is limited in the less developed countries because of the high proportion of income spent on food. However, their application is made all the more important because effective domestic mechanisms to stabilize food prices in the short run are absent and because such stabilization can be wrought through imports only to a limited extent, given the level of reserves. An increase in food prices (such as results from the pronounced cycles to which output is subject in many less developed countries) can be readily translated into a permanent, step-like increase in the cost of living. This is particularly likely to occur where a history of inflation has made the whole cost structure (while rigid in a downward direction) very sensitive to what would otherwise be only temporary increases in the cost of living.

Broadly speaking, however, domestic imbalances in 1965 could again be traced to two leading causes on the demand side: in the more developed primary producers to the expansion of credit to the private sector, and in the less developed countries to budget deficits.

More Developed Countries

In the majority of the more developed countries output continued to grow during most of 1965 at high rates, close to those prevailing in other recent years. But such growth was rather generally associated with increasing internal strains and symptoms of excess demand; the rapid expansion of nonagricultural sectors under relatively easy credit conditions coincided almost everywhere with weakness in the agricultural sector, ranging from chronic difficulties in Mediterranean countries to severe drought in Australia and South Africa. These strains were for the most part quickly reflected in the deterioration of the trade balance discussed above. Surges of imports combined with unchanging exports did contribute to price stability, particularly in Australia, New Zealand, and South Africa. However, it was felt in a number of countries that a situation of excess demand could not continue unchecked without eventually reducing reserves, in a few instances already low, to an inadequate level. Accordingly, corrective measures, mainly more restrictive credit policies, were widely taken in the second half of the year, and there was evidence of some weakening in the expansionary forces and the rate of growth toward the end of the year, notably in Australia and South Africa. The trade balance began to show some improvement, particularly on the import side. In New Zealand, however, corrective action was slow to be taken, although when the expansion of recent years began there was already full employment of resources and low international reserves. Here, and also to some extent in South Africa, where an inflow of short-term capital had partly offset the effect of tighter credit, the reimposition or tightening of import controls contributed to the improvement in the trade balance, while the underlying domestic situation continued in some imbalance.

One of the more encouraging aspects of the New Zealand expansion, as it affects long-term export growth, has been the sharp increase in farm investment. In a number of other countries, however, notably Greece, Portugal, and South Africa, an attempt was made to coordinate measures to stimulate investment in the agricultural sector with restrictive credit policies for the rest of the economy and in particular for the importing sector. The recovery of agricultural output in Portugal is the key to the sharp improvement in growth rates which this country, alone among the more developed primary producers, showed in 1965.

Although the trade balance has responded quite readily to variations in domestic conditions in Iceland, Ireland, and the Mediterranean countries, the rapid growth of incomes in these countries in recent years has resulted in pronounced changes in the pattern of demand, which in certain sectors (for instance, housing construction) have strained resources for which imports cannot be substituted. The price level has thus reflected domestic imbalance to a greater extent in these countries than in Australia, New Zealand, and South Africa. Furthermore, while there remains widespread underemployment in the rural areas of Spain, Greece, and Portugal, and a high rate of unemployment in Finland and Ireland, emigration had begun by 1965 to cause a shortage of skilled labor and, consequently, an upward pressure on costs in all these countries, as wages responded to the higher levels prevailing in other European countries.

The measures taken during 1965 to contain excess demand in these countries did succeed, in varying degrees, in slowing down the rate of increase in the price level. Exceptionally, the cost of living in Yugoslavia increased sharply toward the end of the year, as the price structure adjusted to the higher cost of imports resulting from a substantial devaluation. There remains for many of these countries a longer-term problem of achieving simultaneously a diversification of output and a strengthening of the agricultural sector. The attempt, mentioned above, to prevent the tighter credit in 1965 from discouraging agricultural investment is a step toward its solution in some countries.

Less Developed Countries

It appears that, in a majority of the less developed countries, output may have expanded somewhat more slowly in 1965 than in the previous year. However, preliminary information suggests that the rates of growth, and the domestic conditions within which such growth was achieved, varied considerably from country to country. In some—for instance, Peru and the United Arab Republic—the maintenance or resumption of a high growth rate was achieved against a background of worsening domestic balance, combined with a weakening of the external position. In others, where a process of readjustment was under way (as in Colombia and Morocco) the rate of growth suffered in consequence, though after a period of consolidation a basis for balanced growth should have been restored.

Most Central American countries continued in 1965 to achieve very favorable rates of growth in an atmosphere of price stability. In contrast, the rate of development in many African countries did not show much advance. In some, this was the consequence of a serious shortage of resources, while in others, particularly Ghana and Mali, continuing price inflation and balance of payments difficulties have depressed the rate of growth of output and investment. There have been conspicuous exceptions among the countries benefiting from petroleum exports. Even in Libya, however, the extraordinary rise in incomes following the upsurge in oil exports has resulted in such pronounced changes in the pattern of demand that the rapid expansion of imports has not prevented substantial price increases. In the majority of Asian primary producing countries, the rate of growth appears to have fallen off appreciably, but Korea and Thailand stand out as exceptions.

During 1965 a recovery in agricultural output was at least in part responsible for the improvement in the trade balance, affecting both imports and exports, of a number of less developed countries, particularly in the Middle East. In a number of Latin American countries, however—notably Chile and Colombia—food supplies have continued to expand only sluggishly, and in some African and Asian countries the production of export crops was adversely affected by both temporary and structural factors. Conditions in India became particularly alarming: during the second half of the year the worst drought in several decades caused a drop of more than 15 per cent in the already inadequate output of foodgrains; there were widespread power shortages; and the existing inflationary gap was further widened.

The economic problems of primary producing countries can be persistent, and sometimes intractable, unless full and balanced use is made of the relatively few effective instruments of direction and control at the disposal of the authorities. During 1965 the management of credit to the private sector appears on the whole to have improved. In a number of countries, however, a tight monetary policy reflected a worsening fiscal situation, squeezing credit to the private sector. In a few others, the stagnation or decline in the private sector's demand for credit was evidence of a level of public investment which, by providing only inadequate services to the rest of the economy, failed to create the conditions necessary to stimulate private investment (though such a low level of public investment was associated with mounting current expenditures).

The public finances remained in a precarious condition in a majority of less developed countries. The reasons for fiscal weakness were more often than not to be found on the side of current expenditures, while the remedy applied was all too frequently a cut in investment expenditures. Expenditures for defense increased substantially during 1965 in several countries. In addition, the financing which the central government or central bank has had to provide to states, local authorities, and public enterprises, whose budgets are often not subject to central control, continued to be a major weakness in a number of fiscal systems, particularly those of Latin American countries and of India. In Argentina, the deficit of the railways, which worsened again in 1965, can be singled out among the foremost fiscal problems.

The rapidly increasing level of current expenditures which results from an inflationary situation (and which contributes to its aggravation) has again proved to be troublesome. It is often difficult to control increases in the public sector's wage bill; in this respect, however, the application of wage restraint in Brazil during 1965 is noteworthy as a key element in the strengthening of that country's fiscal position (though it was doubtless made easier by the substantial readjustments granted in the previous year). In a number of other countries, the attempt to reduce inflationary pressures (and in particular to restrain wage demands) by holding down the cost of living continued to involve a rapidly rising degree of subsidization for both food and services. In the United Arab Republic more realistic pricing policies were introduced at the end of the year.

Elsewhere, a number of marketing boards and similar entities incurred substantial losses (usually covered by transfers from the central government or by loans from the central bank) either by maintaining prices to growers as the export price for their crops declined (as in Ghana for a large part of the year), or by covering the cost of the stockbuilding necessary to maintain the export price (as in Brazil and Ivory Coast). The management of a similar situation in the Colombian coffee sector improved markedly in the course of the year.

On the side of revenues, the government, states, and other public entities in many primary product exporting countries have become heavily dependent on the fiscal receipts from international trade. Under such circumstances the effect of a fluctuation in export earnings (both directly and through its effect on imports and so on customs duties) can seldom readily be offset by alternative fiscal policies. This close link between the fiscal and payments positions was again widely demonstrated by events in 1965, particularly in the Sudan (where both continued to deteriorate together) and in Afghanistan and Korea (where increased exports and imports were a major factor in fiscal improvement). In Colombia, a substantial improvement in the fiscal situation is expected for 1966, to which the relaxation of import restrictions late in 1965 should contribute markedly. In a number of countries the government is also dependent on foreign aid for an important part of its budget support, and this may sometimes be a factor in fiscal imbalance. Thus, in Jordan the emergence in 1965 of a cash deficit in the budget was related to a sharp decline in foreign aid.

A further difficulty created by too great a reliance on international trade for revenue is that changes in the constitution of imports may react adversely on the fiscal position. Where, as in a number of less developed countries, imports of consumer goods are being replaced by domestically manufactured substitutes so that imports comprise to an increasing extent capital goods and raw materials, the tariff structure becomes an increasingly inadequate means of taxing consumer expenditures. The introduction of some new sales and excise taxes in Pakistan during 1965 represents an important step toward broadening the tax base in response to such a change.

Finally, in countries for which the link is close between the payments and fiscal positions, fluctuations in export earnings may be particularly damaging to sustained development, through important secondary effects, unless some compensatory action can be taken. While the best course of adjustment will, of course, be found to vary according to the circumstances of individual countries, it is usually desirable, in the interests of steady growth, for the public sector to moderate the impact of a fluctuation in export earnings on the rest of the economy by maintaining a reasonable and consistent level of expenditures in the face of the related fluctuation in revenues from trade. If such a course is not to jeopardize the balance between the generation of incomes and the supply of goods and services available to the economy, some variation in the level of international reserves and use of short-term credit is, however, called for. Thus, an upswing in export earnings, and consequently in revenues, should not be entirely absorbed by a change in public sector investment plans leading to an increase in imports but should result in some reserve accumulation or restoration of lines of credit. In the event of a decline in export earnings, primary producing countries would then have access to the use of more adequate reserves and credit facilities to moderate the effect on the flow of imports and the growth of incomes. It is gratifying to observe that this sort of adjustment was rather widely at work during the 1963-65 commodity price cycle.

Chapter 8

Balances of Payments of Selected Countries

THIS chapter reviews balance of payments developments in a number of individual countries, to supplement the analysis of the broader trends in world payments in Chapter 5. The countries selected for examination are generally those whose balance of payments either had a significant impact on world payments because of the size of their surpluses or deficits or exhibited interesting changes during the last year. Some of the countries (specifically Ghana and India) have been selected primarily because they illustrate, in acute form, problems encountered by a wide range of countries. In general the analysis is confined to 1964, 1965, and the early part of 1966, but in a few countries where a broader perspective is needed to appreciate the significance of recent developments it covers also some earlier years.

United States

Developments in the balance of payments of the United States during 1965 (Table 29) were the product of divergent trends. On the one hand, the surplus on account of current transactions (defined as in Group A) was reduced under the impact of the economic expansion, which was more rapid in the United States than in the other industrial countries. On the other hand, an improvement on capital account was brought about by the measures introduced to restrain the outflow of capital, but also, increasingly, by the tightening of monetary conditions associated with the boom in the economy. For the year as a whole the favorable factors prevailed. However, it is more than usually difficult to express the balance of payments of the United States during 1965 in a single figure for an over-all balance. A special problem is created by the liquidation by the U.K. Government of about $500 million of corporate securities held by the U.K. Exchange Equalization Account as secondary reserves. These transactions are shown in U.S. statistics as adding to the deficit "above-the-line," the corresponding accumulation of liquid liabilities being included as financing "below-the-line," on both the liquidity basis and the official settlements basis. When allowance is made for this special factor (as seems appropriate, at least in the estimates on the official settlements basis), there was a reduction in the over-all deficit from 1964 to 1965, whichever measure of the deficit is chosen. Moreover, the deficit was considerably lower in 1965 than in 1963, independent of the basis of measurement. The reduction in the deficit on the liquidity basis was particularly large (see Table 30).

During the first three quarters of the year the cumulative deficit was very small on the official settlements basis (see Group H) and there was even a slight surplus when allowance is made for a liquidation of securities by the U.K. Exchange Equalization Account, precise data for which are not available by quarters. A worsening occurred in the fourth quarter because short-term capital movements (Groups E and F), which had resulted in an inflow during the first three quarters of the year, turned adverse. This shift in movements of short-term capital apparently reflected both larger than usual year-end operations by foreign commercial banks and some movement of funds to London influenced by the strengthening of sterling in the fourth quarter. The deficit on account of current and long-term transactions (Group C) remained at a much reduced level after the first quarter of the year.

Behind the moderate changes in the over-all balance there were several important shifts in the U.S. balance of payments in 1965. The trade surplus was reduced from $6.7 billion to $4.8 billion, under the influence of higher rates of expansion in the United States than in the other

TABLE 29. UNITED STATES: BALANCE OF PAYMENTS SUMMARY, SEASONALLY ADJUSTED, 1964–FIRST QUARTER 1966 [1]

(In millions of U.S. dollars)

			1965				1966 [2]
	1964	1965	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
A. Goods, Services, and Transfers (excluding aid)							
Exports f.o.b.	25,297	26,276	5,625	6,798	6,826	7,027	7,121
Imports f.o.b.	–18,621	–21,488	–4,656	–5,481	–5,595	–5,756	–6,003
Export surplus	6,676	4,788	969	1,317	1,231	1,271	1,118
Net military expenditures	–2,087	–2,037	–464	–472	–546	–555	–643
Investment income	3,988	4,255	1,188	1,212	1,059	796	1,097
Other services, remittances, and pensions (excluding aid and military transfers)	–966	–1,043	–308	–296	–217	–222	–303
Total	7,611	5,963	1,385	1,761	1,527	1,290	1,269
B. Aid and Nonmonetary Sectors' Selected Capital							
Advance repayments on U.S. Government loans	123	221	10	5	183	23	3
Other government capital and grants	–3,683	–3,596	–812	–954	–926	–904	–958
Direct investment abroad	–2,416	–3,371	–1,212	–859	–569	–731	–630
Portfolio investment abroad	–1,961	–1,080	–664	101	–363	–154	–244
Foreign direct and portfolio investment in United States	109	–167	285	–309	–235	92	241
Total	–7,828	–7,993	–2,393	–2,016	–1,910	–1,674	–1,588
C. Total (A plus B)	–217	–2,030	–1,008	–255	–383	–384	–319
D. Unrecorded Transactions	–1,011	–429	—	–109	–240	–80	–228
E. Short-Term Capital, n.i.e.							
U.S. private assets	–2,146	761	271	412	105	–27	–14
Foreign nonliquid capital	478	246	63	193	6	–16	–31
Foreign liquid capital	100	34	39	56	15	–76	79
Total	–1,568	1,041	373	661	126	–119	34
F. Liquid Liabilities to Foreign Commercial Banks	1,454	116	17	–59	733	–575	268
G. Total (D through F)	–1,125	728	390	493	619	–774	74
H. Total (C plus G)	–1,342	–1,302	–618	238	236	–1,158	–245
I. "Official Settlements"							
Liabilities to central banks and governments							
Nonliquid liabilities	98	97	–23	–15	–22	157	29
Liquid liabilities	1,073	–17	–201	–291	–255	730	–208
IMF accounts	266	165	68	–207	330	–26	–125
U.S. convertible currency holdings (increase —)	–220	–349	–58	–56	–413	178	222
Gold sales (purchases —)	125	1,406	832	331	124	119	327
Total	1,342	1,302	618	–238	–236	1,158	245
J. Main Categories, without seasonal adjustment							
Export surplus	6,676	4,788	1,018	1,544	844	1,382	1,133
Services and transfers (excluding aid)	935	1,175	544	354	–172	449	279
Aid and nonmonetary sectors' selected capital	–7,828	–7,993	–2,289	–2,289	–1,580	–1,835	–1,477
Subtotal	–217	–2,030	–727	–391	–908	–4	–65
Unrecorded transactions	–1,011	–429	238	38	–347	–358	10
Short-term capital, n.i.e.	–1,568	1,041	366	613	286	–224	27
Liquid liabilities to foreign commercial banks	1,454	116	164	–206	697	–539	408
Subtotal	–1,125	728	768	445	636	–1,121	445
"Official Settlements"	1,342	1,302	–41	–54	272	1,125	–380
Memorandum item: change (increase —) in monetary reserves assets net of liquid liabilities							
Seasonally adjusted	2,798	1,355	697	–226	534	350	563
Without seasonal adjustment	2,798	1,355	185	–189	1,006	353	78

Source: U.S. Department of Commerce, *Survey of Current Business,* June 1966.

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

[2] Preliminary.

industrial countries. Imports were 16 per cent higher than in 1964; exports increased only 4 per cent for the year, although in the second half they were a little over 6 per cent greater than in the same period of 1964. In the first quarter of the year exports were adversely affected by a prolonged dock strike, but they made some recovery in the remainder of the year. The seasonally adjusted trade surplus rose slightly from the first half of the year to the second half, despite steadily climbing imports. The reduction in the current account surplus (Group A) from 1964 to 1965 was mitigated by an improvement of a few hundred million dollars on services account, as a sharp rise in income on investments more than offset higher payments on account of travel and other services; the surplus fell from \$7.6 billion to \$6.0 billion between the two years.

TABLE 30. UNITED STATES: DEFICIT IN BALANCE OF PAYMENTS ON VARIOUS BASES, 1960-65

(In millions of U.S. dollars)

	1960	1961	1962	1963	1964	1965
Liquidity basis	−3,881	−2,370	−2,203	−2,670	−2,798	−1,355
"Official settlements" basis	−3,402	−1,347	−2,706	−2,044	−1,342	−1,302
Basis of Table 15 [1]	−3,455	−2,043	−3,387	−2,370	−1,464	−1,523
Table 15, adjusted for U.K. liquidation of securities [2]	−3,455	−2,043	−3,387	−2,370	−1,464	−1,023

Source: U.S. Department of Commerce, *Survey of Current Business,* June 1966.

[1] In addition to "official settlements," advance debt repayments are included below-the-line.

[2] The liquidation of securities by the U.K. Government is not shown separately in Table 29 because precise figures for these transactions are not yet available.

This deterioration in the current balance by $1.6 billion was offset by a reduction in the net outflow on account of private capital and errors and omissions, while there was no appreciable change in government grants and capital transactions. Changes in movements of private capital into and out of the United States have been reviewed in Chapter 6. They may be summarized as follows:

(1) During the first half of 1965, U.S. direct investment abroad rose sharply. The outflow of $2 billion was about twice as large as during the first half of 1964. In the second half of 1965, the outflow of direct investment capital, though substantially reduced as the program of voluntary restraint became increasingly effective, remained at about the level attained in the second half of 1964. From 1964 to 1965 as a whole, there was an increase of $955 million. However, U.S. companies borrowed about $200 million in the second half of the year in European markets for investment in their foreign affiliates.

(2) There was a reduction by $1.1 billion in the net outflow of other U.S. long-term capital (including aid), reflecting for the most part a diminution of long-term bank lending. Total outflow of U.S. long-term capital thus declined by a little over $100 million (or by about $300 million if allowance is made for the borrowing for future investment referred to above).

(3) There was an unfavorable change totaling $276 million in the movements of long-term foreign capital, reflecting largely the sales of about $500 million of corporate securities by the U.K. Exchange Equalization Account, less the borrowing in European markets of about $200 million by U.S. corporations.

(4) The inflow of liquid funds held by foreign commercial banks was reduced by about $1.3 billion to about $0.1 billion. This change may, in part, represent a side effect of the program to restrain the outflow of capital.

In the first quarter of 1966, although the trade surplus fell off slightly, the current surplus, after seasonal adjustment, was much the same as in the preceding quarter. However, a disturbing factor was the continued rising trend in imports; at $6.0 billion, imports for the first quarter were about 12 per cent higher than the quarterly average for 1965. There was some decline in the net outflow of long-term capital and aid, mainly owing to lower U.S. direct investment abroad. Short-term capital movements were not especially significant, although liquid liabilities to foreign commercial banks increased. The seasonally adjusted over-all deficit on an "official settlements" basis was $245 million.

Canada

Although over all the Canadian balance of payments remained strong in 1965, the balance on current account deteriorated during the year under the impact of boom conditions in the domestic economy, which were even more vigorous than those in the United States. The increase in imports continued to be large, while that of exports slowed down, partly because of a large decline in shipments of wheat under special bulk contracts with foreign governments. On a year-to-year basis, imports were about 15 per cent greater than in 1964, following a similar rise from 1963 to 1964. Exports were only about 6 per cent higher than in 1964; the total exclusive of wheat, however, rose by 9 per cent. With comparatively little change in the services items, the total current account deficit appears to have widened from about $0.4 billion in 1964 to almost $1.1 billion in 1965 (Table 31, Group A).

There was a fall of some $220 million in the net inflow of long-term capital in 1965, despite some increase in foreign direct investment in Canada. That increase was roughly offset by a steady attrition in foreign holdings of outstanding Canadian securities. The volume of Canadian new issues sold abroad, however, remained virtually unchanged—partly because of the postponement of a considerable volume of such issues in the United States from late 1965 to 1966 under the influence of "moral suasion" by both the Canadian and the U.S. authorities.

The balance of combined current account and long-term capital transactions (Group C) swung from a surplus of nearly $400 million in 1964 into a deficit of somewhat larger size in 1965. The 1965 deficit, however, was more than covered by a net inflow of short-term capital, much of which represented a return of Canadian banking funds from Europe in excess of a net outflow of such funds to the United States. Reserves increased by $146 million in 1965, compared with $336 million in 1964. The 1965 reserve gain might well have matched or approached that of 1964 had it not been for the postponement of security issues mentioned above.

In March 1966, the Canadian Government announced a series of measures aimed at damping

TABLE 31. CANADA: BALANCE OF PAYMENTS SUMMARY, 1964 AND 1965 [1]

(In millions of U.S. dollars)

			1965			
	1964	1965	First quarter	Second quarter	Third quarter	Fourth quarter
A. Goods, Services, and Transfer Payments						
Exports	7,622	8,081	1,688	2,025	2,092	2,276
Imports	—6,975	—7,989	—1,727	—2,051	—1,949	—2,262
Trade balance	647	92	—39	—26	143	14
Nonmonetary gold	134	126	32	31	32	31
Transportation	—37	—73	—8	—23	—22	—20
Travel	—46	—45	—82	—56	125	—32
Investment income	—614	—677	—158	—156	—147	—216
Other services	—401	—394	—96	—98	—96	—104
Transfer payments	—83	—80	—19	—12	—26	—23
Total	—400	—1,051	—370	—340	9	—350
B. Long-Term Capital						
Direct investment in Canada	236	362	65	111	93	93
Canadian direct investment abroad	—130	—106	—32	—5	—46	—23
Transactions in Canadian securities						
New issues	1,039	1,043	253	283	276	231
Retirements and other transactions	—350	—508	—135	—225	—43	—105
Transactions in foreign securities	—58	—68	—32	—5	—20	—11
Columbia River Treaty (net)	50	30	—	—	—	30
Other loans by Canadian Government (net)	—1	—5	5	2	1	—13
Other	3	—181	—10	—79	—61	—31
Total	789	567	114	82	200	171
C. Total (A plus B)	389	—484	—256	—258	209	—179
D. Short-Term Capital (including net errors and omissions)	—53	630	190	259	—	181
E. Total (C plus D)	336	146	—66	1	209	2
F. Monetary Movements						
IMF position	—256	—156	—43	—86	—76	49
Official gold and foreign exchange (increase —)	—80	10	109	85	—133	—51
Total	—336	—146	66	—1	—209	—2

Source: Based on data published by the Dominion Bureau of Statistics.

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

the boom conditions in the domestic economy and at containing the rise in the current account deficit.

As an outgrowth of the understanding with the United States in connection with Canada's exemption from the U.S. Interest Equalization Tax, the Canadian Government has indicated that it expects Canada to draw on its official exchange reserves as well as to borrow in the United States to cover its current account deficit in the balance of payments in 1966, and has expressed its intention of purchasing Canadian securities in the U.S. market if necessary to ensure that the net flow of capital funds to Canada is not in excess of the amount required to meet the needs of the current account balance and to keep Canada's reserves within an appropriate range.

United Kingdom

In 1964 the balance of payments of the United Kingdom showed a heavy deficit, which reached its maximum during the second half of the year. Results in 1965 were substantially better than in 1964, and the deficit on the combined current and long-term capital accounts, which had been $2.2 billion in 1964, was reduced to less than half that amount in 1965 (Table 32, Group C). As movements of short-term capital were on balance more favorable than in 1964, the deficit as measured by official monetary movements (Group F) was reduced even more, to $358 million. In 1965, the United Kingdom again availed itself of the option to defer loan service on the U.S. and Canadian postwar loans, amounting to $174 million.

Favored by a continued rapid growth of the United Kingdom's main overseas markets, particularly the United States, and perhaps also by a somewhat lower pressure of demand in certain domestic sectors, British exports grew more rapidly in 1965 than in 1964 and were, over the year as a whole, 7 per cent higher (of which roughly 2 per cent was accounted for by price increases). The rise in exports was heavily concentrated in sales to the United States, which rose by 23 per cent above those in 1964, while at the other end of the range exports to the European Economic Community were almost unchanged. Imports for the year as a whole, as well as their time pattern during the year, were affected, inter alia, by the import surcharge, which was reduced from 15 per cent to 10 per cent at the end of April 1965. This reduction, which had been announced in February, caused imports in the first quarter to be held back, but led to larger imports in the second quarter. For the four quarters taken together, imports rose by about 1 per cent (both in value and volume), following an increase of 14 per cent (10 per cent in volume) from 1963 to 1964.

Owing largely to these swings in imports, the marked improvement in the current balance of payments in the first quarter was followed by a temporary setback in the second quarter (Group A). But a limited reduction in the current account deficit was achieved in the third quarter, seasonally adjusted, and a small surplus emerged in the last three months of the year.

The net outflow of long-term capital was also erratic, with a sharp and unexpected increase in the third quarter (largely due to an unforeseen bunching of net oil investments).

Uncertainties and occasional periods of speculation against the pound in 1965 were reflected in movements of private short-term capital, which were adverse in the first half of the year. The last period of speculation in the exchange markets lasted from June to early August. Starting early in September, there was a continuous influx of private short-term capital, facilitating some repayment of the short-term assistance which the authorities had used during the earlier periods of speculation. In this period, drawings under these support arrangements raised the level of outstanding debt to $890 million (at the end of August). For the year as a whole there was a net inflow of short-term capital, as in 1964.

British reserves were replenished by a drawing on the Fund of $1.4 billion in May 1965, following the earlier drawing of $1 billion in December 1964, both of which involved the use by the Fund of the General Arrangements to Borrow. In addition, $885 million was added to reserves in February 1966, representing the proceeds of U.S. corporate securities sold by the Exchange Equali-

TABLE 32. UNITED KINGDOM: BALANCE OF PAYMENTS SUMMARY, 1964–FIRST QUARTER 1966 [1]

(In millions of U.S. dollars)

			1965				1966
	1964	1965	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
A. Goods, Services, and Transfer Payments							
Exports, seasonally adjusted	12,519	13,381	3,265	3,220	3,394	3,502	3,534
Imports, seasonally adjusted	—14,017	—14,123	—3,374	—3,550	—3,601	—3,598	—3,749
Trade balance, seasonally adjusted	—1,498	—742	—109	—330	—207	—96	—215
Services and transfer payments, seasonally adjusted	361	361	59	134	50	118	106
Total, seasonally adjusted	—1,137	—381	—50	—196	—157	22	—109
Seasonal influences	—	—	—56	182	—173	47	36
Total, unadjusted	—1,137	—381	—106	—14	—330	69	—73
Memorandum item: Goods, Services, and Private Transfers, unadjusted	*—681*	*106*	*51*	*103*	*—212*	*164*	*81*
B. Long-Term Capital Movements, n.i.e.							
Official long-term	—325	—226	—40	—33	—70	—83	—67
Private long-term							
Investment abroad (net)	—1,117	—874	—274	—199	—196	—205	—243
Investment in U.K. (net)	426	490	129	140	8	213	106
Total	—1,016	—610	—185	—92	—258	—75	—204
C. Total (A plus B)	—2,153	—991	—291	—106	—588	—6	—277
Memorandum item:							
Loan service, due to U.S. and Canada, but not paid	*—174*	*—174*	—	—	—	*—174*	—
Total (A plus B including loan service)	*—2,327*	*—1,165*	*—291*	*—106*	*—588*	*—180*	*—277*
D. Errors and Omissions	62	294	—3	134	12	151	216
E. Short-Term Capital Movements, n.i.e.							
Miscellaneous capital	151	379	28	42	207	102	—23
Foreign currency liabilities (net) of banks	409	—182	314	—269	—151	—76	—148
Sterling liabilities (net) other than Group G							
Sterling area countries	—176	176	—17	—25	123	95	140
Other	—157	—34	—162	—20	39	109	—
Total	227	339	163	—272	218	230	—31
F. Total (C through E)	—1,864	—358	—131	—244	—358	375	—92
G. Official Monetary Movements							
IMF position	1,005	1,391	—17	1,410	2	—4	—18
Gold deposit liability to IMF	—	8	—	—	8	—	25
Central bank assistance	525	—53	414	—580	389	—276	— [2]
Swiss loan	78	39	—	39	—	—	— [2]
Sterling liabilities (net) to overseas central monetary institutions							
Sterling area countries	59	—440	—218	—109	—199	86	109
Other countries	—145	102	—34	—54	121	69	—341 [2]
Transfer of securities from dollar portfolios to reserves	—	—	—	—	—	—	885
U.K. gold and currency reserves (increase —)							
Gold	347	—129	25	—115	87	—126	230
Foreign currencies	—5	—560	—39	—347	—50	—124	—798
Total	1,864	358	131	244	358	—375	92
Memorandum item:							
Waiver of loan service, due to U.S. and Canada	*174*	*174*	—	—	—	*174*	—
Total (Group F) including waiver	*2,038*	*532*	*131*	*244*	*358*	*—201*	*92*

Source: U.K. Balance of Payments article in *Economic Trends* for June 1966.

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

[2] Central bank assistance is included in sterling liabilities to overseas central monetary institutions of non-sterling area countries.

zation Account. Although a net deficit in the overseas sterling area added to the pressures arising from the British balance of payments, U.K. reserves were considerably strengthened in the course of 1965 and the early part of 1966.

In the first quarter of 1966 the current balance again reverted to a deficit, because of a sharp rise in imports and a greater net outflow of private long-term capital, which at $137 million was rather higher than in previous quarters and which probably reflected in part an expectation of further restraint on the outflow of private long-term capital. Errors and omissions showed an unusually large credit figure; revisions may eventually lower the recorded deficit of $277 million on the current and long-term capital accounts. There was an over-all deficit of $92 million (Group F), which was financed by some unusually large transactions under "Official Monetary Movements." An increase in gold and foreign currency holdings of $568 million was more than explained by the transfer of the proceeds ($885 million) of the sales of securities from the dollar portfolio. Complete details of foreign central bank operations were not released, but the outstanding swaps with the Federal Reserve Board were repaid by the end of February and a number of central bank transactions in March together balanced out. Over the quarter, partly reflecting these operations, sterling liabilities to monetary authorities in non-sterling countries fell by $341 million.

Germany

The balance of payments of Germany was in over-all deficit in 1965 in contrast to the situation

TABLE 33. FEDERAL REPUBLIC OF GERMANY: BALANCE OF PAYMENTS SUMMARY, 1964–FIRST QUARTER 1966 [1]

(In millions of U.S. dollars)

	1964	1965 [2]	1965 [2] First quarter	1965 [2] Second quarter	1965 [2] Third quarter	1965 [2] Fourth quarter	1966 [2] First quarter
A. Goods, Services, and Transfer Payments							
Exports f.o.b.	16,218	17,896	4,342	4,343	4,308	4,903	4,739
Imports c.i.f.	—14,614	—17,474	—4,034	—4,331	—4,391	—4,718	—4,528
Other merchandise	—242	—193	—62	—64	—60	—7	—50
Trade balance	1,362	229	246	—52	—143	178	161
Paid services to foreign troops	1,055	1,038	231	252	266	289	270
Other services	—1,061	—1,366	—203	—409	—449	—305	—303
Total goods and services	1,356	—99	274	—209	—326	162	128
Transfer payments	—1,236	—1,454	—337	—444	—340	—333	—379
Total	120	—1,553	—63	—653	—666	—171	—251
B. Long-Term Capital							
Bonds	—121	—72	—88	15	28	—27	—30
Shares	41	2	—41	—	—6	49	—47
Other private long-term capital	191	567	232	116	106	113	196
Other government long-term capital	—316	—327	—46	—85	—89	—107	—86
Repayments on post-EPU claims	34	26	1	1	23	1	—
Other Bundesbank assets (increase —) [3]	6	—135	2	—	—117	—20	49
Total	—165	61	60	47	—55	9	82
C. Total (A plus B)	—45	—1,492	—3	—606	—721	—162	—169
Total, excluding certain extraordinary transactions [4]	*—85*	*—1,383*	*—6*	*—607*	*—627*	*—143*	*—218*
D. Short-Term Capital, n.i.e. (including net errors and omissions)							
Government short-term capital	—181	283	35	—12	155	105	—21
Commercial bank short-term credits (net)	39	—72	—266	—36	138	92	—173
Other short-term capital	43	209	68	6	76	59	105
Net errors and omissions	392	553	260	340	132	—179	210
Total	293	973	97	298	501	77	121
E. Commercial Bank Liquid Capital (net) [5]							
Foreign exchange (increase —)	—118	—87	—178	29	112	—50	—22
Foreigners' deposits (decrease —)	92	112	—73	—1	8	178	—152
Total	—26	25	—251	28	120	128	—174
F. Total (C through E)	222	—494	—157	—280	—100	43	—222
G. Memorandum item: Increase or decrease (—) in swap engagements between Bundesbank and commercial banks [5]	*89*	*—89*	*152*	*—80*	*—144*	*—17*	—
H. Official Settlements [5]							
Reserve position in the Fund	—360	—164	32	—179	—2	—15	—24
Bundesbank liabilities	5	41	16	—8	12	21	43
Foreign exchange (increase —) [6]	537	779	104	602	102	—29	195
Monetary gold (increase —)	—404	—162	5	—135	—12	—20	8
Total	—222	494	157	280	100	—43	222

Source: Deutsche Bundesbank, *Monthly Report,* April 1966.

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

[2] Preliminary.

[3] Covers IBRD bonds and notes and repayments received on consolidated credits and other Bundesbank assets of limited usability.

[4] 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 (none in period covered), (b) repayments on post-EPU claims, and (c) other Bundesbank assets, i.e., IBRD bonds and notes, repayments received on consolidated credits, and other Bundesbank assets of limited usability. 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.

[5] U.S. dollars put at the disposal of the commercial banks by the Bundesbank through swap arrangements are included in the commercial banks' foreign exchange in Group E and excluded from the Bundesbank foreign exchange in Group H. The entries in the memorandum item (Group G) show changes in the outstanding amounts of these swaps. An increase (no sign) results in a rise in the commercial banks' holdings and a decline in the Bundesbank's holdings of U.S. dollars on account of swaps; a decrease (minus sign) results in a decline in the commercial banks' holdings and a rise in the Bundesbank's holdings of such dollars.

[6] Covers freely usable foreign exchange and earmarked assets.

prevailing in the rest of the EEC countries. On the current account there was a deficit of \$1.6 billion, compared with a surplus of \$0.1 billion in 1964 (Table 33, Group A). Notwithstanding the strong pressure of domestic demand in Germany and the rather weak demand conditions in some neighboring countries, the value of exports continued to grow strongly, in line with demand in foreign markets, but imports rose by nearly 20 per cent and the trade surplus (with imports measured c.i.f.) amounted only to \$0.2 billion, compared with \$1.4 billion in 1964. Other factors contributing to the deterioration of the current account were the increased deficit on account of investment income (owing largely to the increased remittances of profits by U.S.-owned enterprises in Germany, partly in response to measures introduced by the U.S. Government in February), tourism, and transfer payments. The rise in net outward transfer payments was attributable especially to the increases in foreign workers' remittances and in indemnification payments. Although the final installment under the agreement with Israel was paid in 1965, a noticeable decline in indemnification payments to foreign countries cannot be expected for a few more years. In the last quarter of 1965, by which time demand conditions in Germany had begun to ease and a gradual revival of activity had begun in France as well as in Italy, the current account of the balance of payments improved considerably more than seasonally.

The substantial deficit on current account was financed only to a limited extent by a decline in the reserves, since there was a considerable inflow of foreign capital. In contrast to the net outflow of long-term funds in 1964, there was some net inflow in 1965 (Group B), despite a continued net outflow on account of transactions in securities and increased capital exports by public authorities. This stemmed from an accelerated rise in foreign direct investment in Germany—mainly the reinvestment of profits and conversions of short-term loans (granted previously by foreign parent companies to their subsidiaries in Germany) into capital resources and long-term credits. There was also a substantially enlarged inflow of short-term capital and an increase in the positive errors and omissions items (Group D). This presumably reflects, in large measure, a greater utilization of foreign suppliers' credits, associated with the accelerated growth in imports. In addition, parts of this inflow of short-term capital represent a revival of borrowing abroad by German enterprises and a reduction in the Federal Government's foreign assets.

Germany's over-all deficit (Group F) was less than \$500 million, most of it accumulated in the first half of the year. Foreign exchange holdings were reduced, not only because all reserve losses were taken in this form but also because transactions with the Fund resulted in conversions of deutsche mark, and the proportion of German foreign exchange holdings to total reserves declined to its lowest level during the postwar period. Aside from gold sales to Germany by the Fund of \$132 million, gold reserves increased by only \$30 million.

In the first quarter of 1966 there was a current account deficit of some \$250 million, quite substantially larger than that of the first quarter of 1965 and well above that of the fourth quarter of 1965. However, it was below the quarterly average for that year. The pattern of capital flows did not change the picture significantly. A net outflow of short-term funds from credit institutions was largely offset by errors and omissions. Since, at the same time, there was a small surplus on long-term capital account, the resulting over-all deficit was of much the same magnitude as the current deficit.

France

The current account surplus of metropolitan France vis-à-vis countries outside the franc area, which had fallen abruptly in 1964, rose again in 1965, to more than \$500 million (Table 34, Group A). This was mainly a reflection of the improvement in the trade balance, following an exceptional deficit in 1964, and resulted from the effects of the stabilization policies, which slowed down the growth of imports while exports continued to rise quite rapidly, in line with foreign

TABLE 34. METROPOLITAN FRANCE: BALANCE OF PAYMENTS SUMMARY, 1964 AND 1965 [1]

(In millions of U.S. dollars)

	1964	1965 [2]	1965 [2] First quarter	1965 [2] Second quarter	1965 [2] Third quarter	1965 [2] Fourth quarter
A. Goods, Services, and Transfer Payments						
Exports f.o.b.	7,625	8,596	2,062	2,109	2,157	2,268
Imports f.o.b.	−7,714	−8,208	−2,000	−2,038	−1,894	−2,276
Trade balance	−89	388	62	71	263	−8
Services	105	89	49	93	−94	41
Transfer payments	71	42	−2	13	13	18
Total	87	519	109	177	182	51
B. Private Long-Term Capital						
Foreign direct investment in France	327	334	111	75	60	88
Other foreign capital	276	202	50	61	36	55
French direct investment abroad	−162	−233	−74	−42	−39	−78
Other French capital	86	58	17	18	3	20
Total	527	361	104	112	60	85
C. Official Long-Term Capital						
Advance debt redemption	—	−179	—	—	−179	—
Other official	−82	−70	−10	−3	−27	−30
Total	−82	−249	−10	−3	−206	−30
D. Total (A through C)	532	631	203	286	36	106
Total, excluding advance debt redemption	*532*	*810*	*203*	*286*	*215*	*106*
E. Private Short-Term Nonmonetary Capital	−57	−90	−41	−12	−26	−11
F. Total (D plus E)	475	541	162	274	10	95
G. Net Errors and Omissions						
Operations pending settlements	61	−7	−5	−9	−12	19
Other net errors and omissions	−1	159	33	47	13	66
Total	60	152	28	38	1	85
H. Net Transactions of Overseas Franc Area	261	269	92	48	47	82
I. Commercial Bank Short-Term Capital						
Liabilities	249	273	−26	−2	185	116
Assets (increase −)	−230	−527	31	−113	−154	−291
Total	19	−254	5	−115	31	−175
J. Total (F through I)	815	708	287	245	89	87
K. Official Monetary Movements [3]						
IMF position	−169	−265	−23	−160	−64	−18
Other liabilities	−1	−79	−51	−17	−22	11
Foreign exchange (increase −)	−91	613	255	168	120	70
Monetary gold (increase −)	−554	−977	−468	−236	−123	−150
Total	−815	−708	−287	−245	−89	−87

Source: Data provided by the French authorities.

[1] Groups A through G cover settlements of Metropolitan France with the non-franc area, while Group H covers the transactions of the rest of the franc area with the non-franc area settled through Metropolitan France. Groups I and K 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 quarterly figures for 1965 have been adjusted by the Fund staff to agree with the annual total by distributing any differences between the quarterly and annual figures evenly among the four quarters. Differences arise because certain adjustments are made by the French authorities to the annual figures but not to the quarterly figures.

[3] Central government short-term capital is included in official monetary movements (Group K).

demand. The trade surplus, however, tended to decline in the final months of 1965, when the growth of imports accelerated as more rapid expansion of domestic production was resumed.

The net inflow of private long-term capital tended to decline during 1965 from the high level reached in the latter part of 1964. The inflow of foreign long-term capital was lower than in 1964, though still larger than in 1963; while the outflow of French long-term capital for direct investment abroad was much larger than in any recent year. The combined surplus on current and long-term capital account, excluding an advance debt repayment by the Government, amounted to some \$800 million (Group D). This, together with the net transactions of the overseas franc area with the non-franc area, which again added some \$270 million to French reserves, produced an aggregate surplus of nearly \$1,100 million, some \$300 million higher than in 1964. Nevertheless, French reserves, including the net IMF position, rose somewhat less than in that year, increasing by about \$700 million. The somewhat smaller accumulation of reserves was in part the consequence of the French Government's advance debt repayment of \$179 million at mid-year, when the current account surplus was rising sharply; there had been no such advance repayment in 1964, when the increase in reserves was due predominantly to the inflow of capital. Another important factor in 1965 was a marked outflow of short-term capital (both monetary and nonmonetary), in part stimulated by U.S. measures to restrain capital outflows from the United States and in part by an easing of French capital controls and the low interest rates in the French money market. While the increase in reserves in France was lower than in 1964, the addition to its gold holdings rose from \$554 million in 1964 to \$977 million in 1965, and French official foreign exchange holdings, which had risen moderately in 1964, fell by more than \$600 million in 1965.

Italy

The current account surplus of \$2.2 billion recorded by Italy in 1965 was more than double that of any previous year on record (Table 35, Group A). Although there was a change from a small inflow to an outflow of about \$650 million on account of nonmonetary capital (Group B), there was a sharp rise in the over-all surplus (Group E). On an official settlements basis, the over-all surplus increased from \$330 million in 1964 to \$960 million in 1965. Moreover, the improvement in the net foreign position of the commercial banks accelerated from 1964 to 1965, and the increase in the total net foreign position of the monetary sector reached \$1.6 billion (Group C).

Most of the current account improvement resulted from trade, although net receipts through other current account items, in particular travel, rose from about \$1.2 billion to \$1.6 billion. For the year as a whole, exports increased by over 20 per cent to \$7.1 billion, while imports (valued f.o.b.) fell slightly.

Capital transactions in the Italian balance of payments are difficult to interpret because of inflation of the figures for foreign investment by investment for Italian account financed through foreign intermediaries by means of Italian lira notes. In 1964, recorded foreign investments were \$500 million higher than the amount of the notes remitted back to Italy, suggesting a genuine flow of foreign capital for investment in Italy of at least that amount; Italian investments abroad were only about \$100 million. In 1965, foreign investments in Italy were small and probably fell short of Italian investments abroad; in addition, there appeared to be an increase in the already quite large outflow of short-term funds. In both years, the outflow of short-term capital was presumably mainly associated with the improvement in the trade balance, which tended to produce an excess of export credits extended over import credits received.

In spite of the surplus of \$1.6 billion on account of current transactions and nonmonetary sector capital (Group C), the rise in Italian gold and foreign exchange reserves was quite limited. First, the commercial banks, encouraged by the monetary authorities, increased their net foreign assets by \$634 million. Second, \$402 million of the surplus was absorbed by Italian participation in Fund transactions. Third, second-line reserves (other net claims, in Group F) increased by \$375 million. Altogether, ordinary gold and for-

TABLE 35. ITALY: BALANCE OF PAYMENTS SUMMARY, 1964 AND 1965 [1]

(In millions of U.S. dollars)

	1964	1965 [2]	1965 [2] First quarter	1965 [2] Second quarter	1965 [2] Third quarter	1965 [2] Fourth quarter
A. Goods, Services, and Transfer Payments						
Exports f.o.b.	5,863	7,095	1,653	1,763	1,777	1,902
Imports f.o.b.	−6,508	−6,429	−1,568	−1,574	−1,583	−1,704
Trade balance	−645	666	85	189	194	198
Travel (net)	827	1,062	115	246	491	210
Other services (net)	126	169	13	5	108	43
Transfer payments (net)	311	351	60	93	93	105
Total	619	2,248	273	533	886	556
B. Capital Movements (excluding Groups D and F) and Net Errors and Omissions						
Remittances of Italian banknotes[3]	−577	−314	−133	−50	−42	−89
Foreign investments in Italy[3]	1,088	388	115	136	56	81
Italian investment abroad	−109	−135	−60	−5	−41	−29
Other private capital and net errors and omissions	−263	−654	−129	−171	−108	−246
Government capital	15	61	2	—	45	14
Total	154	−654	−205	−90	−90	−269
C. Total (A plus B)	773	1,594	68	443	796	287
D. Commercial Banks' Capital						
Liabilities	−287	400	−107	−24	19	512
Assets	−155	−1,034	55	−196	−519	−374
Total	−442	−634	−52	−220	−500	138
E. Total (C plus D)	331	960	16	223	296	425
F. Official Monetary Movements						
IMF position	80	−402	−32	−164	−200	−6
Short-term liabilities	−144	8	37	−18	−30	19
Foreign exchange (increase −)	−734	106	182	163	2	−241
Other net claims (increase −)	230	−376	−216	86	−62	−184
Monetary gold (increase −)	237	−296	13	−290	−6	−13
Total	−331	−960	−16	−223	−296	−425

Sources: Ufficio Italiano dei Cambi (UIC), *Movimento Valutario,* and Bank of Italy.

[1] No sign indicates credit; minus sign indicates debit. Some data in Group B are on a payments (exchange record) basis.

[2] Preliminary.

[3] Part of "Foreign investments in Italy" is believed to be financed from the proceeds of Italian banknotes remitted abroad and subsequently repatriated; to that extent foreign investment in Italy may be overstated.

eign exchange reserves rose by less than $200 million. While gold holdings increased by $296 million during 1965, they remained at about the level reached at the end of 1963, when total reserves were about $1 billion lower than at the end of 1965.

Japan

During 1965 Japan experienced once again one of the rather dramatic adjustments of its current account position which have become characteristic of its postwar balance of payments (Table 36). The current account swung from a deficit of about $0.4 billion in 1964 to a surplus of about $1.0 billion (Group A), as policies of financial restraint to strengthen the balance of payments adopted in 1964 had led to recessionary conditions in the domestic economy while demand in Japan's foreign markets expanded rapidly. Measures to reactivate the economy taken during 1965 brought about an improvement in the last quarter of the year, but imports did not revive during 1965. On the other hand, the rise in exports

TABLE 36. JAPAN: BALANCE OF PAYMENTS SUMMARY, 1964 AND 1965 [1]
(In millions of U.S. dollars)

	1964	1965 [2]	1965 [2] First quarter	1965 [2] Second quarter	1965 [2] Third quarter	1965 [2] Fourth quarter
A. Goods, Services, and Private Transfer Payments						
Exports f.o.b.	6,703	8,333	1,812	2,066	2,198	2,257
Imports f.o.b.	—6,328	—6,432	—1,625	—1,665	—1,546	—1,596
Trade balance	375	1,901	187	401	652	661
Government special receipts [3]	329	345	71	82	85	107
Other services and private transfer payments	—1,102	—1,221	—274	—321	—284	—342
Total	—398	1,025	—16	162	453	426
B. Private Long-Term Capital						
Direct investment	52	—32	6	—32	5	—11
Other	91	—250	11	—56	—112	—95
Total	143	—282	17	—88	—107	—104
C. Central Government Transfer Payments and Nonmonetary Capital						
Reparations and loans extended	—108	—182	—33	—35	—64	—50
IBRD loans received (net)	1	10	2	3	1	4
Other [4]	—2	—43	—28	—5	—6	—4
Total	—109	—215	—59	—37	—69	—50
D. Total (A through C)	—364	528	—58	37	277	272
E. Net Errors and Omissions	11	—51	29	—13	3	—70
F. Private Short-Term Capital						
Nonmonetary sector	233	—62	—9	37	—52	—38
Commercial banks						
Liabilities	669	85	144	14	—87	14
Assets (increase —)	—598	—373	—50	—138	—145	—40
Total	304	—350	85	—87	—284	—64
G. Total (D through F)	—49	127	56	—63	—4	138
H. Treasury and Bank of Japan Monetary Capital and Gold						
IMF position	—40	—35	—2	—63	30	—
Liabilities [4]	2	7	2	13	—9	1
Payments agreement assets	8	—1	—5	3	2	—1
Official reserves (increase —)	79	—98	—51	110	—19	—138
Total	49	—127	—56	63	4	—138

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] Liabilities for the yen portions of subscriptions to the International Development Association ($6 million for 1964) are included in Group C rather than in Group H.

slowed down in the closing months of the year, in part under the influence of a shipping strike. For 1965, as a whole, exports rose 24 per cent above 1964, whereas imports rose only 1.6 per cent.

The improvement in the current account position did not lead to a significant strengthening of the over-all balance of payments (Group G), because it was for the most part offset by an opposite change in capital movements. In 1964, as in other recent years, Japan had been a net importer of capital, but in 1965 there was an outflow of capital on both long-term and short-term account, totaling about $0.8 billion. In part this outflow represented a continuation of the consolidation of the net foreign position of the commercial banks which had begun in 1964 and was encouraged by the monetary authorities, but the change in the trade balance combined with the lowering of interest rates in Japan compared with those in foreign money markets also tended to bring about a net outflow of funds.

Australia

The deterioration in Australia's over-all balance of payments by some $400 million from 1964 to 1965 (Table 37, Group D) was linked to sharply rising imports as well as to a drop in some export prices from their high level in 1963/64. The rise in imports by 17 per cent in 1965 was partly due to special factors such as heavy imports of defense equipment, of civil aircraft, and of copper and alloys because of a strike against the country's largest copper mining company. But in the main it reflected high levels of incomes and activity in the economy, supported

TABLE 37. AUSTRALIA: BALANCE OF PAYMENTS SUMMARY, 1964–FIRST QUARTER 1966 [1]

(In millions of U.S. dollars)

			1965 [2]				1966 [2]
	1964	1965 [2]	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
A. Goods, Services, and Transfer Payments							
Exports f.o.b.	2,999	2,934	720	746	720	748	719
Wool (at current prices)	*1,004*	*876*	*246*	*208*	*175*	*247*	*241*
Wool (at 1958 prices)	*790*	*799*	*231*	*199*	*161*	*208*	*199*
Wheat (at current prices)	*408*	*414*	*101*	*132*	*110*	*71*	*74*
Wheat (at 1958 prices)	*385*	*441*	*105*	*143*	*119*	*74*	*74*
Imports f.o.b.	–2,829	–3,299	–764	–811	–899	–825	–737
Investment income[3]	–376	–335	–73	–83	–90	–89	–65
Other services and transfers	–255	–377	–96	–107	–88	–86	–92
Total	–461	–1,077	–213	–255	–357	–252	–175
B. Private Capital (including errors and omissions)							
Marketing authorities	20	–94	–41	–38	–8	–7	35
Other	535	745	97	217	217	214	194
Total	555	651	56	179	209	207	229
C. Official Capital	–31	71	–5	–22	26	72	–35
D. Total (A through C)	63	–355	–162	–98	–122	27	19
E. Monetary Movements							
IMF position	—	–34	–12	–12	—	–10	–25
Official and banking reserves (increase —)							
Monetary gold	–18	–5	–3	–1	–1	—	8
Other	–45	394	177	111	123	–17	–2
Total	–63	355	162	98	122	–27	–19

Source: Based on data from the Commonwealth Statistician.
[1] No sign indicates credit; minus sign indicates debit.
[2] Preliminary.
[3] Includes royalties and copyrights.

by four years of external surpluses; demand was especially strong for fixed investment, and there was a large accumulation of inventories. The damping effect of the balance of payments deficit and of measures taken by the authorities to moderate the expansion began to be apparent toward the end of 1965.

Export earnings were slightly lower in 1965 than in 1964, being adversely affected by lower prices for wool and other products and the effects of a prolonged drought which began to reduce agricultural production in some areas. To a large extent, these losses were offset by increasing exports of minerals and manufactured goods. Large deposits of minerals, particularly iron ore and bauxite, have been discovered in recent years, and from now on their exploitation will quicken the gradual shift in Australia's export pattern away from farm products. The capital inflow to Australia remained strong in 1965; indeed there are indications of a further increase in direct foreign investment attracted by the new mining ventures.

In the first quarter of 1966 there was a considerable improvement in the current account. Imports at $737 million were 4 per cent lower than in the corresponding quarter of 1965 and 11 per cent lower than the quarterly average for 1965. The net inflow of private capital (including errors and omissions) rose further above the already high level of 1965, so that despite a net outflow of official capital there was a modest over-all surplus.

Ghana

The external position of Ghana since 1959 has been marked by persistent deficits on the current account of the balance of payments (Table 38, Group A) and by a sharp decline in reserves. The deficit on current account, $228 million in 1965, was higher than in any previous year; in the seven years 1959-65 such deficits aggregated about $800 million. Official net reserves and foreign exchange holdings of commercial banks and official and semiofficial bodies (Group E) fell by some $450 million during this period, and at the end of 1965 amounted to $14 million. At the same time, the Government's foreign debt increased from a very small amount at the end of

1959 to almost $700 million at the end of 1965, consisting for the most part of suppliers' credits.

The principal cause of the deterioration in the balance of payments has been an increase in imports resulting from large development expenditures and high consumer demand. The increase in imports was marked in 1960, and again in 1961, when the Government introduced a number of restrictions on current and capital payments, aimed at arresting the deterioration in the balance of payments. The import control regime was changed from one of predominantly open general licenses to one administered almost entirely through individual licensing. After declining in growth in expenditure has far outstripped the rise in receipts. In recent years the budgetary deficit has been financed largely by resort to the central bank; previously, the Government had drawn down external assets.

By the end of 1965, Ghana had undertaken 222 separate commitments for loans and credits from 22 foreign countries in respect of specific projects involving a total expenditure of some $870 million. Most of the contracts call for repayment in five to eight years. Scheduled capital repayments and interest on suppliers' credits in 1966 represent about 23 per cent of exports expected during this year.

TABLE 38. GHANA: BALANCE OF PAYMENTS SUMMARY, 1958-65 [1]

(In millions of U.S. dollars)

	1958	1959	1960	1961	1962	1963	1964	1965 [2]
A. Goods, Services, and Transfer Payments								
Exports f.o.b. [3]	301	317	335	333	320	308	322	321
Imports f.o.b.	—219	—300	—349	—386	—311	—338	—319	—437
Trade balance	82	17	—14	—53	9	—30	3	—116
Services and transfer payments	—48	—43	—94	—93	—86	—99	—94	—112
Total	34	—26	—108	—146	—77	—129	—91	—228
B. Private Capital and Net Errors and Omissions	—26	24	—14	—30	35	7	17	89
C. Central Government Miscellaneous Capital (excluding Group E)								
Loans and commercial credits received (net)	—5	—11	34	4	35	33	44	50
Other	—	—	—2	—	—5	5	4	34
Total	—5	—11	32	4	30	38	48	84
D. Total (A through C)	3	—13	—90	—172	—12	—84	—26	—55
E. Monetary Movements								
IMF position								
Sterling assets (increase —)	—	—4	—	—	14	—	—	—11
Commercial banks (net)	—10	10	12	10	14	10	—6	14
Cocoa Marketing Board and other official entities	—9	40	20	79	—6	31	9	2
Central government	—4	2	48	92	2	8	—4	1
Central bank and currency reserves	20	—35	10	—9	—12	35	27	49
Total	—3	13	90	172	12	84	26	55

Source: Data provided by the Ghanaian authorities.
[1] No sign indicates credit; minus sign indicates debit.
[2] Preliminary.
[3] Including nonmonetary gold.

1962, imports rose again in 1963 and jumped sharply upward in 1965, when there were extraordinary imports of capital goods (including aircraft and ships) as well as of consumer goods. While imports were increasing, export receipts remained relatively stable. Although the output of cocoa (which accounts for about two thirds of exports) rose substantially, receipts increased very little, owing to the decline in the world price of cocoa.

The upward pressure on imports has stemmed primarily from the public sector, where the

After a change of government in February 1966, the Ghanaian authorities worked out a program designed to reduce the budgetary deficit, arrest the deterioration in the balance of payments, and rehabilitate the economy. In support of this program, the Fund approved a stand-by arrangement for $36.4 million for Ghana in May 1966. Negotiations have also been started to work out possible solutions to Ghana's debt problems. At the invitation of the U.K. Government, representatives of 13 creditor countries met representatives of Ghana in London on June 1 and 2,

1966. Representatives of the Fund and of the IBRD participated in these meetings. A communiqué issued at the conclusion stated that Ghana found itself unable to meet all its debt obligations and sought immediate relief by a temporary suspension of all payments under suppliers' credits. Ghana proposed a further meeting with creditor countries in August or September to negotiate a rearrangement of these debt repayments. In the meantime, the Ghanaian Government has decided not to enter into any new suppliers' credits.

India

India's balance of payments position was under pressure throughout 1965 (Table 39), and the difficulties have continued into 1966, necessitating sizable use of Fund resources despite a severe tightening of restrictions.

As the year 1965 opened, exchange reserves had already been reduced to a low level by increased payments for food imports occasioned by the shortfall in domestic production and by delays in the repatriation of export proceeds. In March, a stand-by arrangement for $200 million was approved by the Fund.

The authorities took steps designed to slow down the monetary expansion, including raising the Bank Rate to 6 per cent, adopting a substantially less expansionary Union Government budget for the fiscal year beginning April 1, 1965, and imposing a 10 per cent surcharge on all but the most essential imports. In August, a supplementary budget was adopted, including additional domestic taxation and a simplification and rationalization of the import tariff, which also had the effect of increasing further the duties on most imports. However, the tempo of monetary expansion has in fact continued unabated, in part because of unexpected adverse developments affecting the Union Government's budgetary position and of deficits in State government budgets.

Exports failed to increase in 1965. However, this was the result of a change, toward the end of 1965, in the system of recording exports, which has resulted in a lower export figure for 1965 than would otherwise have appeared (and which has contributed to some extent to the positive errors and omissions item in the table). On the other hand, debt service payments continued to increase. In the latter part of 1965, exchange reserves increased steadily because of the disappearance of the earlier delays in repatriating export proceeds, some inflow of banking capital, and the tight import restrictions—which, however, soon began to affect domestic industrial production adversely. Moreover, by the end of the year, the basic payments position was further seriously aggravated by a pause in the inflow of external assistance and by a domestic drought of unprecedented severity, which sharply increased requirements of imported foodgrains. In order to help meet the balance of payments impact of the drought, a drawing of $187.5 million from the Fund was made in March 1966. Reflecting this, and remittances received under the National Defence Remittance Scheme, foreign exchange reserves increased substantially further in the first

TABLE 39. INDIA: BALANCE OF PAYMENTS SUMMARY, 1962-65 [1]

(In millions of U.S. dollars)

	1962	1963	1964	1965 [2]
A. Goods, Services, and Private Transfers				
Exports f.o.b.	1,412	1,623	1,717	1,678
Imports, mainly c.i.f.	—2,288	—2,493	—2,915	—2,932
Trade balance	—876	—830	—1,198	—1,254
Services	—69	—20	—32	—163
Private transfers	47	72	58	52
Total	—898	—818	—1,172	—1,365
B. Private Capital and Net Errors and Omissions	18	—52	—125	96
C. Official Transfers and Capital				
Transfers	123	151	261	105
Capital	594	805	974	1,162
Total	717	956	1,235	1,267
D. Total (A through C)	—163	86	—62	—2
E. Monetary Movements				
IMF position	29	—20	—44	134
Commercial banks	—	24	—	8
Central institutions				
Other liabilities	—8	13	1	—14
Other assets (increase —)	116	—16	18	—17
Government assets (increase —)	26	—87	87	—109
Total	163	—86	62	2

Source: Data provided by 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.

five months of 1966. The Remittance Scheme, which operated from November 1965 to May 1966, afforded a more depreciated exchange rate to certain inward remittances by providing for the issuance of transferable certificates against which import licenses up to 60 per cent of the value of the remittance could be issued.

In the most far-reaching policy change of recent years, designed to effect a basic improvement in the balance of payments position, India devalued the rupee by 36.5 per cent early in June 1966. Simultaneously, export promotion arrangements in the form of import entitlement schemes and tax credits were abolished. In order to avoid a deterioration in export prices, export duties were imposed on about a dozen commodities, including tea and jute goods. Import duties, which had been increased sharply in 1965, were reduced somewhat, but the net effect was to increase the landed costs of imports substantially. The authorities also expressed the hope that, with sufficient assistance forthcoming from friendly nations or institutions abroad, it would be possible to liberalize imports soon, so as to meet in a substantial measure the needs of the economy for raw materials, spare parts, etc.

Korea

After deteriorating markedly in 1962 and 1963, Korea's external payments situation improved in 1964, and further progress was made in 1965 (Table 40). The improvement was related to a devaluation in 1964 and the adoption of a fluctuating exchange rate system with the support of a stand-by arrangement approved by the Fund in 1965. The decline in the current account deficit (Group A) from 1964 to 1965 was larger than the reduction in the inflow of capital and net official aid. As a result, the over-all balance (Group D) improved by about $9 million, to a surplus of $5 million in 1965.

A rise of 45 per cent in exports, following increases averaging 43 per cent in 1962-64, was a major factor in the improvement of the balance of payments. The composition of exports continued to change from primary products to manufactures: exports of manufactured goods accounted for as much as 61 per cent of the total in 1965, compared with 21 per cent in 1962. Imports, which had decreased substantially in 1964, expanded by 15 per cent from 1964 to 1965, as an increase of 18 per cent in manufacturing production stimulated import demand. Net foreign official aid-financed imports continued to decline; their ratio to total imports fell from 72 per cent in 1960 to 40 per cent in 1964 and 28 per cent in 1965.

TABLE 40. KOREA: BALANCE OF PAYMENTS SUMMARY, 1960-65 [1]

(In millions of U.S. dollars)

	1960	1961	1962	1963	1964	1965 [2]
A. Goods, Services, and Private Transfers						
Exports f.o.b.	33	41	55	87	120	176
Imports f.o.b.	—305	—283	—390	—497	—365	—420
Trade balance	—272	—242	—335	—410	—245	—244
Receipts on account of foreign military forces	63	80	85	58	64	74
Other services and private transfers	—33	—11	—5	1	14	40
Total	—242	—173	—255	—351	—167	—130
B. Private Capital and Net Errors and Omissions	1	—4	—6	61	6	19
C. Official Transfers and Capital						
Transfers	256	207	200	207	141	135
Capital	—13	17	11	34	16	—19
Total	243	224	211	241	157	116
D. Total (A through C)	2	47	—50	—49	—4	5
E. Monetary Movements						
Liabilities	5	3	16	10	4	14
Assets (increase —)	—7	—50	34	39	—	—19
Total	—2	—47	50	49	4	—5

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

In the first three months of 1966 the favorable external payments situation continued; exports were nearly twice as large as in the corresponding period of 1965, and international reserves increased by $12 million to $158 million at the end of March 1966.

Peru

In the years since the 1959 stabilization program, the Peruvian balance of payments has generally been in comfortable over-all surplus, supported by a sharply rising trend in exports (Table 41). At the same time the economy has achieved a fairly high rate of economic growth in an environment of monetary stability. Until 1964, per capita income at constant prices rose on the average by some 3 per cent a year, and consumer prices at a yearly average of no more than 6 per cent.

mand was no longer contained, and there was an abrupt worsening of the trade balance as the rate of increase of consumer prices accelerated further to 15 per cent. Imports rose by 26 per cent from 1964 to 1965 and a balance of payments deficit was recorded for the first time since 1958.

The key to recent changes in the Peruvian balance of payments is to be found in shifts of the balance of trade, propelled by alternating in-

TABLE 41. PERU: BALANCE OF PAYMENTS SUMMARY, 1958-65 [1]

(In millions of U.S. dollars)

	1958	1959	1960	1961	1962	1963	1964	1965 [2]
A. Goods, Services, and Transfer Payments								
Exports f.o.b.	292	323	444	510	556	555	685	687
Imports f.o.b.	-345	-281	-341	-429	-478	-518	-518	-654
Trade balance	-53	42	103	81	78	37	167	33
Services (net)	-84	-92	-116	-120	-133	-138	-168	-174
Transfers (net)	15	10	21	27	18	19	15	15
Total	-122	-40	8	-12	-37	-82	14	-126
B. Private Capital (net) and Net Errors and Omissions	102	58	30	55	29	64	-38	23
C. Official Capital (net)	8	-6	-9	-8	21	50	59	76
D. Total (A through C)	-12	12	29	35	13	32	35	-27
E. Monetary Movements								
IMF position	—	-1	-1	-1	-1	-1	—	—
Central bank net foreign exchange assets (increase —)	4	-8	-18	-28	-6	-8	-15	-15
Monetary gold (increase —)	9	-9	-14	-5	—	-10	-10	—
Banco de la Nación net foreign exchange liabilities	—	—	—	—	—	—	—	38
Commercial banks' and specialized banks' net foreign assets and gold (increase —)	-1	6	4	-1	-6	-13	-10	4
	12	-12	-29	-35	-13	-32	-35	27

Source: Data provided by the Central Reserve Bank of Peru.
[1] No sign indicates credit; minus sign indicates debit.
[2] Preliminary.

In the course of 1964, however, signs of strain began to appear in the economy, which resulted in a weakening of the balance of payments in 1965. A large volume of bank credit, required to finance deficits incurred by the Central Government, combined with an export boom to supply a greatly increased volume of liquidity to the system. The Peruvian economy is an open one, but the resulting expansion in demand did not immediately work itself out in rising imports and a consequent deterioration of the balance of payments—a result to which an adjustment in the customs tariff contributed. Instead, the rise in domestic prices accelerated to 11 per cent. In 1965 the domestic monetary imbalance became more acute as a sharp advance in bank credit to private borrowers was added to continued bank financing of the government sector. Import de-

creases in the production of exportables and of import demand. Peruvian exports are rather more diversified than those of many other developing countries. Nevertheless, the rise in export receipts, while strong enough over the years to have provided one of the dominant factors underlying Peruvian economic growth, has more recently been unsteady. On the other hand, the incidence of domestic policies has been such that imports have adjusted to export receipts only after a certain lag. In 1964, after stagnating for a year, exports spurted ahead while imports were restrained. In 1965 there was again a virtual stagnation of exports while imports soared. Fluctuations in the production of fish and fishmeal were the major cause of the variations in exports. An extraordinarily large increase in output of these products in 1964 raised exports of them to a record height, offsetting by far the decline in exports of the traditional agricultural products (cotton and sugar). Together with an increase in the production of copper, it accounted for the strong upsurge in total exports in that year. In 1965 the scarcity of anchovies, the raw material for Peruvian fishmeal, caused a decline in the production and export volume of fish and fishmeal, which was the principal cause of the failure of exports to continue to grow.

A steady increase in the net capital inflow, especially of official capital, has accompanied Peruvian economic development for many years. This allowed balance of payments surpluses to be recorded up to 1964 despite fluctuations in the trade balance. Even in 1964 and 1965, when the movement of private capital became much less favorable, official capital continued to come in at a substantial rate. In 1965, however, the ordinary inflow of capital (official and private) fell short of the current deficit by $27 million. This shortfall was more than financed by a three-year loan of $40 million obtained from a group of U.S. commercial banks by the Banco de la Nación, the Government's fiscal agent, and the foreign reserves of the Central Reserve Bank increased further. At the end of 1965, they were $175 million, representing a little over three months' imports at the 1965 rate.

Spain

An important change occurred between 1964 and 1965 in the balance of payments of Spain (Table 42). Since the stabilization program of 1959, which included a devaluation, Spain has experienced continuous balance of payments surpluses, and has accumulated almost $1.5 billion in reserves. In 1965, however, its international transactions turned for the first time into deficit, and official reserves (as measured by changes in its IMF accounts, monetary gold, and foreign exchange assets) declined by $110 million. The main factors of strength in the balance of payments during the period 1959-65 were a rapid rise in income from tourism and remittances by Spanish migrant workers, combined with an inflow of private capital.

TABLE 42. SPAIN: BALANCE OF PAYMENTS SUMMARY, 1961-65 [1]

(In millions of U.S. dollars)

	1961	1962	1963	1964	1965 [2]
A. Goods, Services, and Transfer Payments					
Exports f.o.b.	759	802	786	1,004	1,019
Imports c.i.f.	−1,053	−1,455	−1,812	−2,081	−2,778
Trade balance	−294	−653	−1,026	−1,077	−1,759
Travel	331	466	611	852	1,027
Other services	20	4	−38	−70	−114
Transfer payments	163	171	270	327	361
Total	220	−12	−183	32	−485
B. Nonmonetary Capital and Net Errors and Omissions	183	131	160	243	302
	−75	28	74	67	47
Total	108	159	234	310	349
C. Total (A plus B)	328	147	51	342	−136
D. Monetary Movements					
IMF position	−50	−15	−17	−53	−34
Monetary gold (increase —)	−139	−130	−127	−42	−194
Foreign exchange assets (increase —)	−182	−14	45	−260	338
Commercial banks (net)	22	19	38	32	26
Other net liabilities	21	−7	10	−19	
Total	−328	−147	−51	−342	136

Source: Based on data from the Spanish authorities.
[1] No sign indicates credit; minus sign indicates debit.
[2] Preliminary.

In 1965, for the first time, net income from tourism exceeded the income from merchandise exports. Exports in 1965 rose only slightly, despite the fact that the modernization of the economy that has taken place in recent years has led to an increase in the share of manufactured products in total exports. Imports, on the other hand, stimulated by the rapid growth of the economy and the gradual liberalization of international transactions, practically quadrupled between 1959 and 1965, to an estimated $2.8 billion (f.o.b.). The rate of growth of imports became particularly pronounced in 1965 as excess demand pressure in the economy developed and the current account of the balance of payments ran into a substantial deficit. While the net loss of reserves was limited by a continuation of the inflow of capital to a little over $100 million, the composition of reserves changed. Gold holdings increased by about $200 million, while foreign exchange holdings fell by about $340 million, of which $34 million is attributable to conversion of pesetas made available for Fund transactions and has a counterpart in an increase in Spain's reserve position with the IMF.

The reserve losses continued in the early months of 1966, and in January the Spanish Government announced a series of measures to combat the rising pressures of demand in the economy, including a reduction in government expenditures, the imposition of certain luxury taxes, and a tightening of bank credit. In May the balance of payments was almost balanced, showing only a slight deficit ($1.4 million).

Chapter 9

Gold

Gold Production

FOR the twelfth successive year world output of gold, excluding the production of the Soviet countries and Mainland China, increased in 1965. The increase, which amounted to about 3.1 per cent, carried total production once again to the highest figure ever reached, namely, about 41.4 million ounces, worth (at $35 a fine ounce) approximately $1,450 million (Table 43). The growth of production in South Africa and the United States more than covered the increase. The South African gold mining industry once again established new records, its production having increased by some 1.4 million ounces (about 4.8 per cent) to a total of 30.5 million ounces, equivalent in value to $1,069.4 million. Output in South Africa constituted nearly 74 per cent of world production.

The number of tons of ore milled in South Africa in 1965 was approximately 0.6 per cent greater than in 1964 and the average grade of ore per ton milled rose from 7.185 dwt. in 1964 to 7.518 dwt. in 1965. Combined working profits from gold, uranium, and other products declined slightly from R 332.6 million ($465.6 million) in 1964 to R 332.2 million ($465.1 million) in 1965.

The announcement in Johannesburg of the official launching of the Elsburg Gold Mining Company brought to three the number of new gold mines being developed in South Africa. The other two are Kinross and Kloof, which are progressing toward the production stage. The new Elsburg mine aims at reaching a throughput of 50,000 tons of ore a month by mid-1969.

TABLE 43. GOLD: VALUE OF WORLD PRODUCTION, 1940, 1945, AND 1961-65[1]
(In millions of U.S. dollars at US$35 a fine ounce)

	1940	1945	1961	1962	1963	1964	1965
South Africa	492	428	803	892	961	1,020	1,069
Canada	186	95	155	145	139	133	126
United States	170	32	55	55	51	51	59
Australia	57	23	38	38	36	34	31
Ghana	31	19	29	31	32	30	26
Rhodesia	29	20	20	19	20	20	19
Japan	30	3	13	15	15	16	18
Philippines	39	—	15	15	13	15	15
Colombia	22	18	14	14	11	13	12
Congo, Dem. Rep. of	20	12	8	7	8	8	7
Mexico	31	17	9	8	8	7	8
Other[2]	157	69	56	61	62	59	60
Total[2]	1,264	736	1,215	1,300	1,356	1,406	1,450

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

The value of production also increased in the United States, by $7.5 million to $58.9 million (the highest level since 1958), and in Japan, by $2.0 million to $18.1 million. The increase in the United States is attributed to a rise in production in Utah and Nevada. The former was due to an increased yield from gold-bearing copper ore and to the achievement of a full 12 months' production (in 1964 the mines were closed for 2 months through a labor dispute). The increase in Nevada was due almost entirely to production from the new Carlin mine.

Gold production in Mexico and the Philippines remained virtually unchanged in 1965 at about $7.6 million and $14.9 million, respectively. Production declined elsewhere, the output in Australia dropping by the equivalent of $3.1 million to $30.6 million, in Canada by $7.4 million to $125.6 million, in Colombia by $1.2 million to $11.6 million, in Ghana by $3.9 million to $26.4 million, in India by $0.6 million to $4.6 million, in Nicaragua by $1.3 million to $5.6 million, and in Rhodesia by approximately $1.0 million to about $19.0 million. The causes of these declines in production are various. In some countries the industry has been disrupted by unsettled political conditions and in others there has been a shortage of labor, but in general the gold mining industry remains concerned about the increasing costs of production and the fixed price for gold, $35 a fine ounce.

There has been little news from Bolivia of the development of the gold reserves in northeastern La Paz during the past year, although it was reported that five foreign companies were seeking concessions from the Bolivian Government. One of the reasons for the relatively slow development of the area has been its inaccessibility. With a view to opening up the area, a new road, expected to be completed in 1966, is being cut through the mountains to link the gold producing area of Tipuana with La Paz.

The U.S.S.R. again sold gold in 1965, to a value estimated at $550 million, in order to provide foreign exchange to cover imports, mostly of grain. This figure compares with estimates of $450 million in 1964, $550 million in 1963, and $215 million in 1962.

There have been further reports of gold discoveries in the Soviet Union, the most interesting being the location of alluvial gold deposits in quartz veins in Uzbekistan. A treatment plant is understood to be planned for the area, which will be mined by opencast techniques. Following this discovery, prospecting has apparently been greatly extended in the Kyzyl-Kum Desert and other deposits have been reported by a member of the Russian State Committee for Geology as being most promising. There are also reports that a rich primary deposit has been discovered by Soviet geologists in the upper reaches of the Irtysh River in Kazakhstan, that the construction of an ore dressing plant is planned, and that the projected new mine is expected to be the largest in Kazakhstan.

The arrangements under which some member countries have granted assistance to their gold mining industries are mentioned below.

Gold Holdings

The monetary authorities of the world are estimated to have added only about $250 million to their stocks of gold in 1965 (Table 44 and Chart 23). This compares with additions of about $750 million in 1964, $840 million in 1963, $330 million in 1962, and $600 million in 1961, and is the second smallest increase since World War II, exceeding only the increase of $225 million in 1951. The holdings of the Soviet countries and Mainland China have not been included in these figures, but they do include those of the Bank for International Settlements, the European Fund, and the International Monetary Fund, which sold some $310 million net of gold to members in 1965. World reserves of gold, thus defined, amounted to the equivalent of approximately $43.3 billion. The important movements in the

TABLE 44. WORLD GOLD RESERVES: SOURCES OF CHANGES, 1963-65

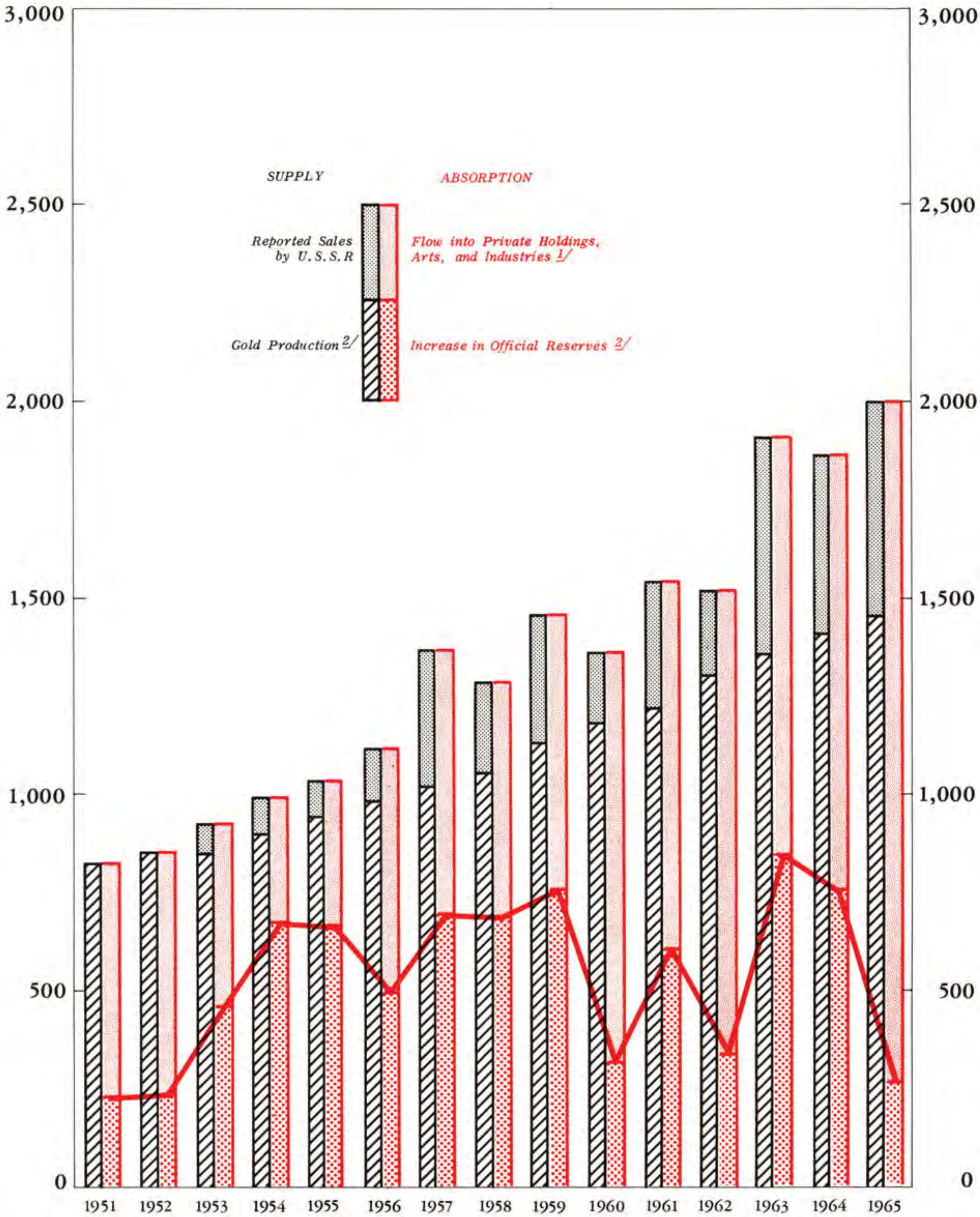
(In millions of U.S. dollars)

	1963	1964	1965
Production	1,356	1,406	1,450
Sales by U.S.S.R.	550	450	550
Total available	1,906	1,856	2,000
Purchase by Mainland China	—	—	—150
Consumption in industry and arts, and private hoarding	—1,066	—1,106	—1,600
Total added to world monetary gold stock[1]	840	750	250
IMF gold transactions			
Subscriptions	—45	—71	—61
Sales to countries	—	250	400
Repayments	—49	—20	—12
Charges	—24	—27	—16
BIS and EF gold transactions	238	—225	487
Total added to countries' monetary gold stock[1, 2]	960	660	1,045

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

CHART 23. ESTIMATED SUPPLIES AND ABSORPTION OF GOLD, 1951-65

(In millions of U.S. dollars)



[1] Including purchases by Mainland China in 1965 amounting to the equivalent of $150 million.
[2] Excluding the Soviet countries and Mainland China.

distribution of reserves during 1965 are discussed in Chapter 5.

The value of the newly available gold in the Western world in 1965 was of the order of $2,000 million. Mainland China is reported to have bought an estimated $150 million of gold in the London market and absorption by private holders, industry, and the arts appears, in 1965, to have been in the region of $1,600 million, some $500 million more than in 1964 and the highest figure recorded. Since 1951 gold to the value of nearly $12 billion has gone into private hoards or has been used by industry and the arts. It is probable that the use of gold in industry has been increasing. The fluctuations in the volume of hoarding from year to year appear to have reflected to some extent variations in confidence in the stability of the major currencies. In 1965 the escalation of the conflict in Viet-Nam, war between India and Pakistan, border disputes between Mainland China and India, and domestic political uncertainties in several countries all contributed to a periodic intensification of the demand for gold, which on occasions temporarily exceeded available market supplies of the metal. Reference is made below to the influence of the events of 1965/66 on the price of gold.

Gold Markets and Prices

New York

The U.S. Treasury, through the Federal Reserve Bank of New York as its fiscal agent, stands ready to buy gold at the price of $34.9125 a fine ounce and to sell gold for official monetary purposes at $35.0875 a fine ounce. During 1965 it released the equivalent of $1,546.7 million (net) to foreign countries and international institutions. In addition, the equivalent of $117.9 million was sold domestically for industrial, professional, and artistic uses. The total decrease in the U.S. gold stock was thus $1,664.6 million in 1965 (Table 45), which compares with $125.2 million in 1964, $460.7 million in 1963, and $889.9 million in 1962. Purchases of gold from foreign countries during the year under review included the equivalent of $149.7 million from the United Kingdom; this will have included any distribution from the Gold Pool, in which the United States has a 50 per cent share. The operations of the Gold Pool were described in the Fund's Annual Report for 1964 (p. 131). Sales of gold included the equivalent of $884.2 million to France and amounts required by other Fund members to pay 25 per cent of the increases in their quotas in gold. The United States transferred gold to the value of $258.8 million to the International Monetary Fund in respect of the gold portion (25 per cent) of the increase of its quota in the Fund.

TABLE 45. U.S. GOLD TRANSACTIONS, 1963-65

(In millions of U.S. dollars)

	1963	1964	1965
Purchases from			
Brazil	72.2	54.2	25.2
Italy	—	200.0	—
United Kingdom	329.3	617.7	149.7
Other countries	36.7	35.0	38.4
Total	438.2	906.9	213.3
Sales to			
Austria	82.1	55.4	100.0
Belgium	—	40.1	82.7
France	517.7	405.1	884.2
Germany	—	225.0[1]	—
Italy	—	—	80.0
Netherlands	—	60.0	35.0
Spain	130.0	32.0	180.0
Switzerland	—	81.0	50.0
Turkey	—	—	36.8
Other countries	100.1	44.5	52.5
Industrial, professional, artistic	69.0	89.0	117.9
Total	898.9	1,032.1	1,619.1
Transfer to International Monetary Fund	—	—	258.8
Total	898.9	1,032.1	1,877.9
Net decrease in stocks	460.7	125.2	1,664.6

[1] Two hundred million dollars of these sales formed part of the transaction initiated by the purchase from Italy shown.

The amount of gold held under earmark by the Federal Reserve Banks for account of foreign governments, central banks, and international institutions increased in 1965 by the equivalent of $197.7 million despite some repatriation of the metal by France.

London

Over the period May 1, 1965 to April 30, 1966, the price of gold quoted in U.S. dollars, converted from sterling at the buying price for dollars in London at the time of the daily fixing, fluctuated within a range of 10⅝ cents—between a minimum of $35.08¾ a fine ounce on June 15, 1965, and a maximum of $35.19⅜ a fine ounce on August 6, 1965 (Chart 24). Over the same period in 1964/65 the corresponding range was 11$\frac{1}{16}$ cents—between 35.06\frac{11}{16}$ and $35.17¾ a fine ounce.

creased steadily, reflecting the relative weakness of the exchange rate. Until mid-July, however, the U.S. dollar price remained within very narrow margins while the sterling figure ranged between 250s. 9¼d. and 251s. 6¾d.; activity was relatively light. There was then a general escalation of buying due to a combination of factors—the further appearance of Mainland China in the market as a buyer, political unrest in Greece, the deteriorating military situation in Viet-Nam, and the disturbed condition of the exchange markets. Toward the end of July the British Chancellor of the Ex-

CHART 24. GOLD: PRICE IN LONDON MARKET, MONTHLY AVERAGES, MARCH 1954–APRIL 1966

(In U.S. dollars a fine ounce)

On May 3, 1965 the equivalent price at the "fixing" was slightly above 35.10\frac{11}{16}$ a fine ounce. Despite moderate demand for gold from the continent of Europe in the ensuing week, the price eased slightly toward mid-month. Renewed buying, attributed to Mainland China, pushed up the price to about 35.11\frac{11}{16}$ a fine ounce by May 20. Thereafter the market turned quiet and the price fell to just under $35.10 a fine ounce by the end of the month. In sterling terms the price in-

chequer announced certain austerity measures and the President of the United States made a widely publicized policy speech on Viet-Nam. In the face of all these influences the U.S. dollar price of gold reached nearly $35.17¼ a fine ounce by July 31.

The same price trend continued into August and the dollar price rose to $35.19⅜ a fine ounce on August 6. On the same day the sterling price was 252s. 3d. a fine ounce. These were the highest prices in both dollars and sterling terms to be recorded during the 12-month period. On August 11 news was released of Russian purchases of wheat from Canada; sales of gold by the U.S.S.R. for this purpose brought about a fall in the price to \$35.10$\frac{9}{16}$ and 251s. 6¾d. a fine ounce by August 23.

Demand continued heavy in August after hostilities broke out between India and Pakistan. The pound sterling came under some pressure at this time, but after the announcement on September 9 of further international support for the pound the price for gold in sterling terms dropped, reaching a level of 250s. 11¾d. by September 15. The gold market was less active toward the end of the month when the ceasefire between India and Pakistan was proclaimed and tension was eased on the Chinese-Indian border. At the end of September, under the influence of renewed buying by speculators, the price rose once again to nearly \$35.17 a fine ounce, but this activity was shortlived. The price was also influenced by more sales of gold by the U.S.S.R. in the early days of October, declining to under \$35.09 a fine ounce by October 20. Thereafter, the prices in London moved within relatively narrow limits until the third week in December, when it appeared that the authorities did not meet in full the demand for end-of-year operations, thus permitting the dollar price to rise to a level just in excess of \$35.16 a fine ounce. With the re-entry into the market of the U.S.S.R. as a seller, the price declined to \$35.12½ a fine ounce at the year end.

Demand for gold was heavy at times in January 1966 and available supplies from producers were reported to be less than normal and insufficient to satisfy market demand. Mainland China was again reported as a buyer in mid-January, and by the end of the month prices had risen to about \$35.17½ and 250s. 10¾d. a fine ounce. During February and March persistent demand kept prices fairly high; the sterling price, in particular, was affected by the announcement on February 28 of the British General Election fixed for March 31, which created renewed uncertainty for sterling in the exchange markets. However, the results of the election, giving a substantial working majority to the Government, caused the markets to settle down and the prices in both U.S. dollars and sterling declined gradually. On April 29 they reached \$35.13⅛ and 251s. 6d. a fine ounce.

The central bank Gold Pool, operated by the Bank of England, appears to have had a somewhat active year, and for perhaps the first seven or eight months of 1965 was a seller of gold on balance to the market to meet demand in excess of supplies and to stabilize the price. Continued activity in August and October, however, enabled the Pool to recoup its earlier losses, and by the end of October all the gold subscribed earlier in the year by members had been repaid. By the end of 1965 the net position of the Pool was somewhat better than it had been at the beginning of the calendar year.

During 1965 the United Kingdom imported some 39.4 million ounces of gold bullion, equivalent to \$1,378.3 million, compared with 40.9 million ounces (\$1,429.8 million) in 1964, 34.3 million ounces (\$1,200.5 million) in 1963, and 34.1 million ounces (\$1,192.9 million) in 1962. Of the imports in 1965, the equivalent of \$1,209.6 million (\$1,106.0 million in 1964) came from South Africa; for the second year this figure exceeded production there. The equivalent of \$112.6 million was imported from the U.S.S.R., much less than the amount of \$268.6 million imported in 1964. In 1963 the equivalent of \$816.1 million was imported from South Africa and the equivalent of \$281.2 million from the U.S.S.R. In 1962 the figures were \$664.7 million and \$106.9 million, respectively.

Exports of gold from London amounted to 76.5 million ounces, equivalent to \$2,678.1 million, compared with 17.6 million ounces (\$615.8 million) in 1964. In 1965 the equivalent of \$2,163.2 million was shipped to Europe, of which \$1,512.8 million went to France and \$425.4 million to Switzerland. In 1964 total exports to Europe had been equivalent to only \$389.0 million, of which \$94.1 million went to France and \$149.6 million to Switzerland. Other exports in 1965 were the equivalent of \$225.9 million to the Far East

($19.0 million in 1964), $218.2 million to the Middle East ($171.6 million in 1964), $52.4 million to South America ($33.3 million in 1964), $10.5 million to the United States and Canada ($1.2 million in 1964), and $6.5 million to Eastern European countries ($1.6 million in 1964).

Other Developments

In markets where gold is bought and sold against local currencies (Table 46) the day-to-day movements of the U.S. dollar equivalent prices have varied from the London pattern because of the special characteristics of each market and the fluctuations in the intermediary rate of exchange.

Prices for bar gold and gold coins in local currencies in the period May 1, 1965 to April 30, 1966 followed a generally firm trend, reflecting the tenor of the London market for most of the year; in most centers, fluctuations were confined within a relatively narrow margin.

In Bombay prices fell sharply in May but recovered in the following month to reach a level of $93.50 a fine ounce on June 25, the highest price since August 1962. Prices declined somewhat thereafter until the outbreak of hostilities between India and Pakistan in early September provided an added stimulus to hoarding tendencies on the subcontinent. A firm trend persisted through the remaining months of 1965, although there was a temporary decline in November in reaction to the Indian Government's 15-year Gold Bond Scheme. As mentioned later, this scheme was introduced with the objective of generating additional resources for development and defense and it was hoped that the terms of the issue would discourage gold hoarding and smuggling. The market's reaction was at first hesitant and the firm trend reappeared, prices continuing to rise steadily to $103.85 a fine ounce on April 11, 1966; on April 30, 1966, the price was $101.61 a fine ounce.

In other markets, bar gold and gold coin prices have also been firm throughout the year, reflecting a surge of private demand caused by the political and monetary uncertainties which influenced the London market during this period. Price fluctuations have been relatively modest, no doubt reflecting the stability of the London market and the influence of the Gold Pool.

TABLE 46. GOLD: PRICES IN VARIOUS WORLD MARKETS, END OF APRIL 1965 AND 1966

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

	Bar Gold		Sovereign		Napoleon	
	End of Apr. 1965	End of Apr. 1966	End of Apr. 1965	End of Apr. 1966	End of Apr. 1965	End of Apr. 1966
Beirut	35.28	35.27	42.33	42.03	46.37	48.18
Bombay	84.26 [1]	101.61 [1]	—	—	—	—
Brussels	35.35	35.30	41.83	41.95	48.17	50.14
Hong Kong	39.88	40.28	—	—	—	—
Milan	35.45	35.45	42.15	42.01	51.45	51.05
Paris	35.27	35.22	42.02	42.38	48.18	49.84

[1] This figure has been obtained by conversion from quotations for 14-carat gold; transactions are limited to gold of that purity.

Changes in National Policies Affecting Gold

Greece. In order to supplement controls on foreign exchange transactions, and thus help to safeguard the country's official gold and foreign exchange reserves, the Greek authorities regulated the free gold coin market on December 22, 1965. From that date sales of gold coins (mainly sovereigns) from the stocks of the Bank of Greece could be made only through officially licensed stockbrokers. Persons wishing to buy gold coins are required to submit an application to a certified broker, who may sell any amount of coins against declarations giving the purchaser's name, profession, and address. Persons wishing to resell sovereigns can do so only to the Bank of Greece.

As a result of these measures the Bank of Greece is reported to have recovered, in four months, some 4.8 million sovereigns out of the 10 million sold in 1965. The Bank of Greece estimates that there are still approximately 35 million sovereigns in private hands in Greece.

India. The Government of India announced on October 19, 1965 certain measures designed to provide additional resources for development and defense. These included the issue of National Defence Gold Bonds, subscriptions for which would be in gold (to be assayed in terms of gold 0.995 fine) with repayments in gold of the same fineness after 15 years. Interest is to be paid at Rs 2 a year for each 10 grams of gold. Certain tax concessions were granted in respect of these bonds.

Indonesia, which had withdrawn from the Fund in August 1965, announced the nationalization of the gold and silver mines on November 2, 1965. Gold production in Indonesia is not large, but the falling off of production in recent years has been attributed to the absence of efficient planning and managerial ability and to a reluctance to invest new capital in the industry rather than to the exhaustion of reserves or worked-out mines.

United Kingdom. On April 27, 1966, the United Kingdom banned the use of gold for the manufacture of medals, medallions (including imitation coins), tablets, and other pieces in pictorial relief or bearing inscriptions; with certain exceptions, the import of such items and of gold coins was prohibited. The new Exchange Control (Gold Coins, Exemption) Order, 1966, also placed further restrictions on the buying, selling, and holding of gold coins. No resident is now allowed to hold more than four gold coins minted after 1837 without special exchange control permission. Sales also require permission unless made at the current London market price through an authorized dealer. Exceptions to the ban on the sale or use of gold for the manufacture of medals, etc., may be allowed for medals for export and for use as academic and sporting awards.

Gold Subsidy Programs

The gold subsidy programs of Australia,[1] Canada,[2] the Philippines,[3] and Rhodesia[4] discussed in previous Annual Reports have continued in operation during the past year.

South Africa consulted the Fund with regard to the extension for a period of one year from June 30, 1965 of its present governmental assistance to marginal gold mines.[5] The Fund deemed this extension of South Africa's governmental assistance arrangements to be consistent with the Fund's statement of December 11, 1947 on gold subsidies.[6]

Gold Transactions Service

Since the inauguration of the Fund's gold transactions service in March 1952, the central banks of 26 member countries and 5 international organizations have purchased or sold gold through the facilities provided by the Fund. In all, 120 transactions, amounting to some $1,093 million, have taken place since March 1952. There were none in the fiscal year 1965/66.

[1] *Annual Report, 1960,* page 144; *1963,* page 181; *1965,* page 103.
[2] *Annual Report, 1959,* pages 149-50; *1961,* pages 125-26; *1964,* page 109.
[3] *Ibid.,* page 109.
[4] *Annual Report, 1964,* page 109.
[5] *Ibid.,* page 109.
[6] *Selected Decisions,* pages 14-15.

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SUPPLEMENTARY NOTES

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A. Activities of the Fund

THIS note supplements the information given in Chapter 4 about the activities of the Fund during the past year and provides some statistics of its operations since its inception.

Par Values

Initial par values were established by agreement between the Fund and three members during the fiscal year, as shown in Table 47.

TABLE 47. INITIAL PAR VALUES ESTABLISHED, FISCAL YEAR ENDED APRIL 30, 1966

Member	Currency Unit	Effective Date	Units of Member's Currency per U.S. Dollar
Rwanda	Franc	April 7, 1966	100.000
Sierra Leone	Leone	August 6, 1965	0.714286
Zambia	Pound	March 7, 1966	0.357143

A number of changes in par values were proposed by members and agreed by the Fund during the year. The Government of Ghana notified the Fund that, with effect from July 19, 1965, it proposed to introduce a new monetary unit to be called the "cedi," which would replace the Ghana pound as the legal unit of currency. The Fund concurred in the proposal to establish a par value for the cedi at ₵ 0.857143 = US$1. The Fund also concurred in the proposals of the Government of Yugoslavia for a change in the par value of the Yugoslav dinar from Din 300 = US$1 to Din 1,250 = US$1, with effect from July 26, 1965, and of the Government of the Philippines for a change in the par value of the Philippine peso from ₱ 2.00 = US$1 to ₱ 3.90 = US$1 from November 8, 1965. Subsequently, the Government of Yugoslavia notified the Fund that, with effect from January 1, 1966, a new monetary unit, also called the dinar, would be introduced to become the legal unit of currency and proposed a par value for the new dinar equivalent to 100 former dinars. The Fund concurred in this proposal for a par value for the new dinar at the rate of Din 12.50 = US$1. The Fund also concurred in the par values proposed by the United Kingdom in connection with the introduction of new monetary units for the following nonmetropolitan territories in respect of which it has accepted the Fund Agreement: the South Arabian dinar, introduced on April 1, 1965 by the Federation of South Arabia to replace the East African shilling; the East Caribbean dollar, introduced on October 6, 1965 by the Governments of Antigua, Barbados, Dominica, Montserrat, St. Christopher-Nevis-Anguilla, St. Lucia, and St. Vincent to replace the West Indian dollar; the Bahrain dinar, introduced on October 16, 1965 by the Government of Bahrain to replace Indian rupee notes and coin; and the Guyana dollar, introduced on November 15, 1965 by the Government of British Guiana to replace the West Indian dollar.

Article VIII Countries

Australia accepted the obligations of Article VIII, Sections 2, 3, and 4, of the Fund Agreement, with effect from July 1, 1965. The 27 members which have rendered their currencies convertible under the Articles of Agreement are listed in Table 48.

Quotas

Table 49 lists the increases in quotas of Fund members during the past fiscal year. It shows separately the increases stemming from the General Adjustment of Quotas described in Chapter 4 and those approved under the Fund's Compensatory

TABLE 48. COUNTRIES THAT HAVE ACCEPTED ARTICLE VIII

Member	Effective Date of Acceptance
Australia	July 1, 1965
Austria	August 1, 1962
Belgium	February 15, 1961
Canada	March 25, 1952
Costa Rica	February 1, 1965
Dominican Republic	August 1, 1953
El Salvador	November 6, 1946
France	February 15, 1961
Germany	February 15, 1961
Guatemala	January 27, 1947
Haiti	December 22, 1953
Honduras	July 1, 1950
Ireland	February 15, 1961
Italy	February 15, 1961
Jamaica	February 22, 1963
Japan	April 1, 1964
Kuwait	April 5, 1963
Luxembourg	February 15, 1961
Mexico	November 12, 1946
Netherlands	February 15, 1961
Nicaragua	July 20, 1964
Panama	November 26, 1946
Peru	February 15, 1961
Saudi Arabia	March 22, 1961
Sweden	February 15, 1961
United Kingdom	February 15, 1961
United States	December 10, 1946

Financing Decision.[1] This Decision provided that the Fund would give sympathetic consideration to requests for the adjustment of quotas from countries exporting primary products, particularly countries with relatively small quotas, to make them more adequate in the light of fluctuations in export proceeds and other relevant criteria. The increase of quota shown for Malaysia under this heading represents the second installment of three by which the country's quota is being increased.

Paragraph 1(a) of the First Resolution of the Board of Governors on the Increases in Quotas—Fourth Quinquennial Review [2] proposed increases of 25 per cent in the quotas in effect on February 26, 1965, or in the maximum quotas to which members could consent under Resolutions adopted by or submitted to the Board of Governors before that date. In the case of 7 members—Iraq, Jamaica, Jordan, Liberia, Morocco, Nicaragua, and Tunisia—for which special quota increases under the Compensatory Financing Decision were approved after February 26, 1965, the Governors decided that the quotas so approved could serve as the basis for the 25 per cent general increase.

In addition to the increases listed in Table 49 the following members have consented to the increase in their quotas specified in the table annexed to the Executive Directors' Report [3] but had not completed the payment of the additional subscription by the end of the fiscal year: Guinea, Norway, Tanzania, Cameroon, the Central African Republic, Chad, Congo (Brazzaville), the Democratic Republic of Congo, Dahomey, Gabon, Nigeria, Upper Volta. Except for the first three of these, each member has opted for an increase in five annual installments.

Fund Transactions

Table 50 lists the purchases of currencies from the Fund and Table 51 the stand-by arrangements in force during the year.

Any drawing or stand-by arrangement that would increase the Fund's holdings of a member's currency by more than 25 per cent of its quota within any 12-month period (except to the extent that the Fund's holdings of the member's currency are less than 75 per cent of its quota) requires a waiver under Article V, Section 4, of the Articles of Agreement. During the fiscal year, waivers for this purpose were required for all the stand-by arrangements, except the one for Turkey. All purchases, not under stand-by arrangements, made during the year also required a waiver, except the gold tranche purchases by the United States and Guatemala, the purchase by Argentina, and purchases made by Burundi, Colombia, Cyprus, Ghana, Haiti, India, the Syrian Arab Republic, the United Arab Republic, and Yugoslavia in connection with the increases in their quotas.

[1] Executive Board Decision No. 1477–(63/8), adopted February 27, 1963 (*Selected Decisions,* pp. 40–43).

[2] Board of Governors' Resolution No. 20–6, adopted March 31, 1965 (*Annual Report, 1965,* pp. 130–31).

[3] *Annual Report, 1965,* page 129.

TABLE 49. INCREASES IN QUOTAS, FISCAL YEAR ENDED APRIL 30, 1966
(In millions of U.S. dollars)

Member	Quota on May 1, 1965	Under Compensatory Financing Decision		Under General Adjustment		Quota on April 30, 1966
		New quota	Effective date	New quota	Effective date	
Afghanistan	22.50			29.00	Feb. 23, 1966	29.00
Algeria	60.00			63.00[1]	Apr. 27, 1966	63.00
Australia	400.00			500.00	Feb. 23, 1966	500.00
Austria	75.00			175.00	Mar. 25, 1966	175.00
Bolivia	22.50			29.00	Mar. 16, 1966	29.00
Brazil	280.00			350.00	Mar. 14, 1966	350.00
Burundi	11.25			15.00	Mar. 15, 1966	15.00
Ceylon	62.00			78.00	Mar. 25, 1966	78.00
Colombia	100.00			125.00	Mar. 25, 1966	125.00
Cyprus	11.25			15.00	Apr. 15, 1966	15.00
Denmark	130.00			163.00	Mar. 25, 1966	163.00
Dominican Republic	25.00			26.40[1]	Mar. 29, 1966	26.40
Ecuador	20.00			25.00	Apr. 1, 1966	25.00
El Salvador	20.00			25.00	Feb. 23, 1966	25.00
Ethiopia	15.00			19.00	Mar. 25, 1966	19.00
Finland	57.00			125.00	Mar. 21, 1966	125.00
Ghana	55.00			69.00	Apr. 21, 1966	69.00
Greece	60.00			100.00	Apr. 13, 1966	100.00
Guatemala	15.00	20.00	June 25, 1965	25.00	Mar. 15, 1966	25.00
Haiti	11.25			15.00	Mar. 24, 1966	15.00
Honduras	15.00			19.00	Mar. 25, 1966	19.00
Iceland	11.25			15.00	Mar. 17, 1966	15.00
India	600.00			750.00	Mar. 12, 1966	750.00
Iran	70.00			125.00	Mar. 10, 1966	125.00
Iraq	55.00	64.00	July 19, 1965	80.00	Mar. 24, 1966	80.00
Ireland	45.00			80.00	Mar. 25, 1966	80.00
Israel	50.00			90.00	Mar. 23, 1966	90.00
Italy	500.00			625.00	Mar. 24, 1966	625.00
Ivory Coast	15.00			15.80[1]	Mar. 25, 1966	15.80
Jamaica	20.00	24.00	Jan. 3, 1966	30.00	Mar. 25, 1966	30.00
Japan	500.00			725.00	Mar. 25, 1966	725.00
Jordan	11.25	12.25	July 2, 1965	13.00[1]	Mar. 23, 1966	13.00
Kenya	25.00			32.00	Mar. 25, 1966	32.00
Korea	18.75			24.00	Feb. 28, 1966	24.00
Liberia	11.25	16.00	Dec. 27, 1965	20.00	Mar. 25, 1966	20.00
Libya	15.00			19.00	Mar. 22, 1966	19.00
Malagasy Republic	15.00			19.00	Apr. 12, 1966	19.00
Malaysia	58.33	84.17[2]	Apr. 29, 1966	63.33[1]	Mar. 24, 1966	84.17
Mali	13.00			17.00	Apr. 26, 1966	17.00
Mauritania	7.50			8.00[1]	Apr. 22, 1966	8.00
Mexico	180.00			270.00	Mar. 9, 1966	270.00
Morocco	52.50	72.00	Sept. 7, 1965	75.60[1]	Apr. 15, 1966	75.60
Nepal	7.50			10.00	Mar. 25, 1966	10.00
New Zealand	125.00			157.00	Mar. 23, 1966	157.00
Nicaragua	11.25	15.00	Jan. 24, 1966	19.00	Mar. 24, 1966	19.00
Pakistan	150.00			188.00	Apr. 19, 1966	188.00
Paraguay	11.25			15.00	Feb. 23, 1966	15.00
Peru	37.50			47.00	Apr. 4, 1966	47.00
Portugal	60.00			75.00	Mar. 17, 1966	75.00
Rwanda	11.25			12.00[1]	Apr. 15, 1966	12.00
Saudi Arabia	55.00	72.00	June 24, 1965	90.00	Mar. 17, 1966	90.00
Sierra Leone	11.25			15.00	Mar. 25, 1966	15.00
Somalia	11.25			15.00	Apr. 13, 1966	15.00
South Africa	150.00			200.00	Mar. 18, 1966	200.00
Spain	150.00			250.00	Mar. 25, 1966	250.00
Sudan	45.00			57.00	Mar. 16, 1966	57.00
Sweden	150.00			225.00	Mar. 24, 1966	225.00
Syrian Arab Republic	25.00	30.00	Feb. 14, 1966	38.00	Mar. 21, 1966	38.00
Thailand	45.00	76.00	May 4, 1965	95.00	Mar. 25, 1966	95.00
Trinidad and Tobago	20.00			25.00	Mar. 28, 1966	25.00
Tunisia	22.50	28.00	Mar. 21, 1966			28.00
Uganda	25.00			32.00	Mar. 30, 1966	32.00
United Arab Republic	120.00			150.00	Apr. 5, 1966	150.00
United Kingdom	1,950.00			2,440.00	Mar. 23, 1966	2,440.00
United States	4,125.00			5,160.00	Feb. 23, 1966	5,160.00
Venezuela	150.00			250.00	Mar. 24, 1966	250.00
Viet-Nam	22.50			23.80[1]	Mar. 23, 1966	23.80
Yugoslavia	120.00			150.00	Mar. 23, 1966	150.00

[1] Represents payment of first of five annual installments.
[2] Represents payment of second of three annual installments.

TABLE 50. PURCHASES OF CURRENCIES FROM THE FUND, FISCAL YEAR ENDED APRIL 30, 1966

(In millions of U.S. dollars)

Member Purchasing	Under Stand-By Arrangements	In Connection with Quota Increases Under First Resolution	Other	Total
Afghanistan	5.06			5.06
Argentina			30.00	30.00
Brazil	25.00			25.00
Burundi		0.94		0.94
Ceylon	22.50	4.00		26.50
Chile	34.00			34.00
Colombia	13.50	6.25		19.75
Costa Rica	7.00			7.00
Cyprus		0.94		0.94
Ecuador	8.00	1.25		9.25
Ghana		3.50		3.50
Guatemala			5.00	5.00
Haiti	1.95	0.50		2.45
Honduras	2.50			2.50
India	75.00	37.50	187.50	300.00
Ireland			22.50	22.50
Liberia	3.00	1.00	1.19	5.19
Mali		1.00		1.00
New Zealand		8.00	62.00	70.00
Pakistan	37.50	9.50		47.00
Rwanda	3.00			3.00
Somalia	3.60	0.94		4.54
Sudan		3.00	11.25	14.25
Syrian Arab Republic		2.00	1.25	3.25
Tunisia	5.80		1.38	7.18
United Arab Republic		7.50		7.50
United Kingdom		122.50	1,400.00	1,522.50
United States			550.00	550.00
Yugoslavia	80.00	7.50		87.50
Total	327.41	217.81	2,272.07[1]	2,817.29[1]

[1] Total does not equal sum of items because of rounding.

Stand-By Arrangements

Some particulars follow of the stand-by arrangements approved during the year.

In June 1965 the Fund approved a stand-by arrangement for *Afghanistan* which authorizes purchases equivalent to $6.75 million. It is intended to support a stabilization program adopted by the Afghan authorities for the purpose of restoring internal and external equilibrium. Drawings under the arrangement totaled $5.1 million by April 30, 1966.

A stand-by arrangement for *Ceylon,* approved in June 1965, authorizes drawings equivalent to $30 million. It is intended to support the corrective policies which are being adopted by the Ceylonese authorities in the fiscal and monetary fields. Under the arrangement, $22.5 million had been drawn by April 30.

A stand-by arrangement for *Colombia,* which became effective in January 1966, authorizes drawings equivalent to $36.5 million and is intended to provide support for the efforts of the Colombian authorities to restore monetary stability and improve the country's balance of payments position. Under this arrangement, $13.5 million had been drawn by April 30.

A stand-by arrangement for *El Salvador,* approved in October 1965, authorizes purchases equivalent to $20 million. The arrangement will provide a secondary line of foreign exchange reserves against unforeseen balance of payments contingencies. No drawing under this arrangement was made during the fiscal year.

A stand-by arrangement for *Guatemala,* which became effective in January 1966, authorizes drawings equivalent to $15 million. It is intended to provide a secondary line of foreign reserves which may be used, as needed, to finance balance of payments difficulties. No drawing under this arrangement was made during the fiscal year.

A stand-by arrangement for *Morocco,* approved in September 1965, authorizes drawings of $45 million. The arrangement will provide support to restore and maintain internal and external financial stability without seriously disrupting imports or economic growth. Nothing was drawn under this arrangement during the fiscal year.

A stand-by arrangement for *Panama,* the first for this member, was approved in July 1965. It authorizes drawings up to $7 million to support a program designed to strengthen the country's financial position. No drawing under this arrangement was made during the fiscal year.

The stand-by arrangement for *Rwanda,* approved in April 1966, was also the first for the member. It authorizes drawings up to $5 million in conjunction with the establishment of an initial par value for the Rwanda franc and the introduction of a comprehensive set of stabilization measures. The equivalent of $3 million was drawn under the arrangement during the fiscal year.

The stand-by arrangement for *Yugoslavia,* approved in July 1965, authorizes purchases of currencies equivalent to $80 million; the full amount available under the arrangement has been drawn. The arrangement is in support of a reform of the country's economic organization and foreign exchange system.

Stand-by arrangements approved during the year for Bolivia, Brazil, Burundi, Chile, Costa Rica, Ecuador, Haiti, Honduras, Korea, Liberia, Peru, the Philippines, Somalia, Tunisia, and Tur-

TABLE 51. FUND STAND-BY ARRANGEMENTS FOR MEMBERS, FISCAL YEAR ENDED APRIL 30, 1966
(In millions of U.S. dollars)

Member	Date of Inception	Date of Expiration	Amount	New or Renewed in 1965/66	Amount Available April 30, 1966
Afghanistan	June 17, 1965	June 16, 1966	6.75	6.75	1.69
Bolivia	Sept. 1, 1964	Aug. 31, 1965	12.00	—	—
	Sept. 1, 1965	Aug. 31, 1966	14.00	14.00	14.00
Brazil	Jan. 13, 1965	Jan. 12, 1966	125.00	—	—
	Feb. 1, 1966	Jan. 31, 1967	125.00	125.00	125.00
Burundi	Jan. 26, 1965	Jan. 25, 1966	4.00	—	—
	Mar. 28, 1966	Mar. 27, 1967	5.00	5.00	5.00
Ceylon	June 15, 1965	June 14, 1966	30.00	30.00	7.50
Chile	Jan. 6, 1965	Jan. 5, 1966	36.00	—	—
	Mar. 1, 1966	Feb. 28, 1967	40.00	40.00	30.00
Colombia	Jan. 1, 1966	Dec. 31, 1966	36.50	36.50	23.00
Costa Rica	Feb. 1, 1965	Jan. 31, 1966	10.00	—	—
	Mar. 1, 1966	Feb. 28, 1967	10.00	10.00	8.00
Dominican Republic	Aug. 1, 1964	July 31, 1965	25.00	—	—
Ecuador	July 1, 1964	June 30, 1965	13.00	—	—
	July 1, 1965	June 30, 1966	12.00	12.00	4.00
El Salvador	Oct. 15, 1965	Oct. 14, 1966	20.00	20.00	20.00
Guatemala	Jan. 1, 1966	Dec. 31, 1966	15.00	15.00	15.00
Haiti	Oct. 1, 1964	Sept. 30, 1965	4.00	—	—
	Oct. 1, 1965	Sept. 30, 1966	4.00	4.00	2.05
Honduras	Aug. 5, 1964	Aug. 4, 1965	7.50	—	—
	Jan. 1, 1966	Dec. 31, 1966	10.00	10.00	7.50
India	Mar. 22, 1965	Mar. 21, 1966	200.00	—	—
Korea	Mar. 22, 1965	Mar. 21, 1966	9.30	—	—
	Mar. 22, 1966	Mar. 21, 1967	12.00	12.00	12.00
Liberia	June 1, 1964	May 31, 1965	4.40	—	—
	June 1, 1965	May 31, 1966	4.00	4.00	1.00
Mali	July 1, 1964	June 30, 1965	9.90	—	—
Morocco	Sept. 23, 1965	Sept. 22, 1966	45.00	45.00	45.00
Pakistan	Mar. 16, 1965	Mar. 15, 1966	37.50	—	—
Panama	July 26, 1965	July 25, 1966	7.00	7.00	7.00
Paraguay	Nov. 23, 1964	Nov. 22, 1965	5.00	—	—
Peru	Apr. 8, 1965	Apr. 7, 1966[1]	30.00	—	—
	Mar. 31, 1966	Mar. 30, 1967	37.50	37.50	37.50
Philippines	Apr. 12, 1965	Apr. 11, 1966	40.40	—	—
	Apr. 12, 1966	Apr. 11, 1967	26.70	26.70	26.70
Rwanda	Apr. 15, 1966	Apr. 14, 1967	5.00	5.00	2.00
Somalia	Jan. 19, 1965	Jan. 18, 1966	5.60	—	—
	Jan. 19, 1966	Jan. 18, 1967	2.80	2.80	2.80
Tunisia	Oct. 1, 1964	Sept. 30, 1965	14.25	—	—
	Nov. 12, 1965	Nov. 11, 1966	5.60	5.60	2.80
Turkey	Feb. 1, 1965	Dec. 31, 1965	21.50	—	—
	Feb. 1, 1966	Dec. 31, 1966	21.50	21.50	21.50
United Arab Republic	May 23, 1964	May 22, 1965	40.00	—	—
United Kingdom	Aug. 8, 1964	Aug. 7, 1965	1,000.00	—	—
United States	July 22, 1964	July 21, 1965	500.00	—	—
Yugoslavia	July 26, 1965	July 25, 1966	80.00	80.00	—
Total				575.35	421.04

[1] Canceled on March 30, 1966.

key were in continuation of the financial support the Fund had accorded to them under stand-by arrangements in the preceding year. Those for Ecuador, Liberia, the Philippines, Somalia, and Tunisia were for smaller amounts, those for Bolivia, Burundi, Chile, Honduras, Korea, and Peru were for larger amounts, and those for Brazil, Costa Rica, Haiti, and Turkey were for similar amounts.

General Arrangements to Borrow

The position of the participants in the General Arrangements to Borrow at May 31, 1965 was detailed in the *Annual Report, 1965*. There was no further change during the fiscal year in this position, which is set out in Table 52.

TABLE 52. POSITION OF PARTICIPANTS IN GENERAL ARRANGEMENTS TO BORROW

(In millions of U.S. dollars)

Participant	Maximum Amounts of Credit Arrange-ments	Amounts Borrowed by Fund: Dec. 1964	Amounts Borrowed by Fund: May 1965	Balance Available April 30, 1966 Under Credit Arrange-ments
Belgium	150	30.0	37.5	82.5
Canada	200	15.0	35.0	150.0
France	550	100.0	140.0	310.0
Deutsche Bundesbank	1,000	180.0	167.5	652.5
Italy	550	5.0	65.0	480.0
Japan	250	20.0	25.0	205.0
Netherlands	200	40.0	37.5	122.5
Sveriges Riksbank	100	15.0	17.5	67.5
United Kingdom	1,000	—	—	1,000.0
United States	2,000	—	—	2,000.0
Total	6,000	405.0	525.0	5,070.0

Charges paid by the Fund in accordance with paragraph 9(a) of the General Arrangements to Borrow amounted to $2.6 million, and interest paid by the Fund in accordance with paragraph 9(b) amounted to a total of $13.4 million. Both charges and interest were paid in gold.

Repurchases

Table 53 gives details of the repurchases of currencies from the Fund during the fiscal year, supplementing the summary description in Chapter 4. Table 54 similarly amplifies the reference made in that chapter to the currencies in which drawings and repurchases were made during the year.

TABLE 53. REPURCHASES OF CURRENCIES FROM THE FUND, FISCAL YEAR ENDED APRIL 30, 1966

(In millions of U.S. dollars)

Member Repurchasing	Amount
Afghanistan	1.13
Argentina	52.00
Bolivia	2.50
Brazil	58.95
Burundi	2.00
Ceylon	11.25
Chile	41.50
Colombia	28.00
Costa Rica	2.50
Ecuador	2.00
Ghana	5.60
Haiti	2.75
Honduras	2.50
India	75.00
Iran	3.46
Jordan	0.03
Malaysia	—[1]
Morocco	5.91
Nicaragua	—[1]
Paraguay	0.36
Philippines	10.50
Somalia	0.02
Sudan	2.50
Syrian Arab Republic	7.30
Tunisia	0.24
Turkey	21.50
United Arab Republic	34.50
Uruguay	2.00
Yugoslavia	30.00
Total	406.00

[1] Less than $5,000.

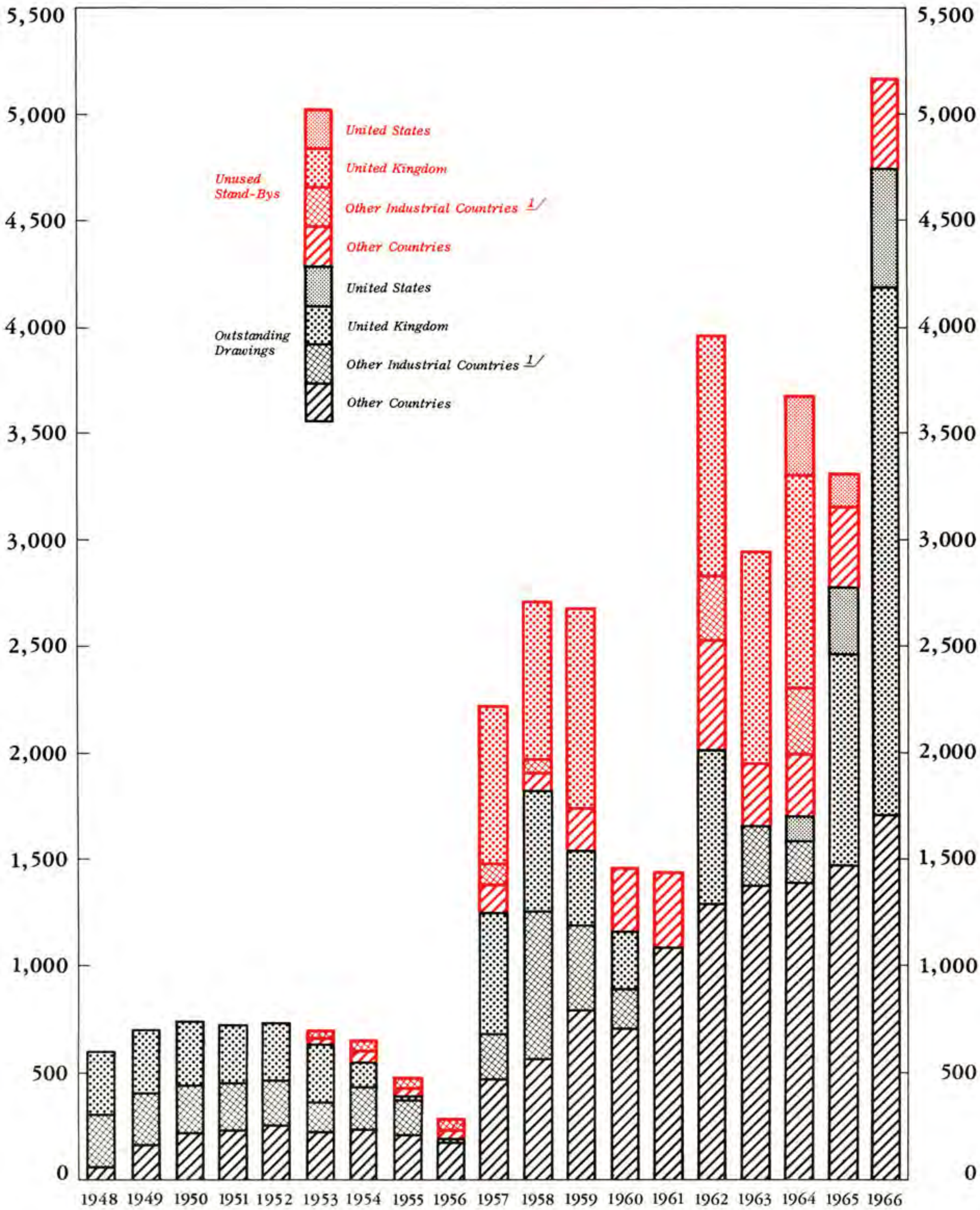
Summary of Transactions, 1948-66

From the inception of Fund operations, 61 members have purchased currencies from the Fund, and 3 members have had stand-by arrangements without drawing under them. Total sales by the Fund were equivalent to $12.2 billion. All Fund transactions are summarized in Table 55. Drawings outstanding at April 30 of each year, together with the amounts available (but not used) under stand-by arrangements on the same date, are shown in Chart 25.

The drawings made by 53 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, 1966, the total amount of members' purchases still outstanding was equiva-

CHART 25. OUTSTANDING BALANCES OF DRAWINGS FROM THE FUND AND UNUSED STAND-BY ARRANGEMENTS, ON APRIL 30, 1948-66

(In millions of U.S. dollars)



[1] Belgium, Canada, Denmark, France, Italy, Japan, Netherlands, and Norway.

lent to $4.75 billion. 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	2,817.3	29
13 to 18 months	1,235.1	21
19 to 24 months	121.6	15
25 to 30 months	51.6	9
31 to 36 months	194.0	12
37 to 42 months	85.5	6
43 to 48 months	99.0	6
49 to 54 months	38.0	4
55 to 60 months	106.6	5

Fund Charges

Currently, 27 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 totaled $65.7 million, compared with $35.9 million during the preceding year. Since the beginning of the Fund's operations, 50 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 of 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 in April 1966 and extended. The decision will be reviewed by the Executive Board annually. The schedule is reproduced in each issue of *International Financial Statistics.* Service charges on drawings totaled $14.1 million during the year under review, compared with $9.5 million in 1964/65. Charges collected on stand-by arrangements, after deductions 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' cur-

TABLE 54. DRAWINGS AND REPURCHASES BY CURRENCY, FISCAL YEAR ENDED APRIL 30, 1966

(In millions of U.S. dollars)

	Drawings				Repurchases		
Currency	United Kingdom	United States	Other Countries	Total	Under Article V, Sec. 7(*b*)[1]	Other	Total
Gold	—	—	—	—	9.9	3.3	13.2
Austrian schillings	—	—	—	—	0.1	—	0.1
Australian dollars	—	—	20.0	20.0	—	—	—
Belgian francs	82.5	40.0	38.2	160.7	0.2	0.1	0.3
Canadian dollars	107.5	250.0	91.0	448.5	—[2]	273.7	273.7
Danish kroner	30.0	—	—	30.0	—	—	—
French francs	242.5	40.0	108.2	390.7	6.6	9.0	15.6
Deutsche mark	435.0	—	111.1	546.1	9.7	24.9	34.6
Italian lire	182.5	180.0	93.9	456.4	—[2]	25.5	25.6[3]
Japanese yen	77.5	—	27.5	105.0	—[2]	42.4	42.4
Mexican pesos	—	—	4.5	4.5	—[2]	—	—[2]
Netherlands guilders	87.5	25.0	39.3	151.8	0.3	0.1	0.4
Saudi Arabian riyals	—	—	—	—	—[2]	—[2]	—[2]
Spanish pesetas[4]	40.0	—	4.5	44.5	—	—	—
Swedish kronor	37.5	15.0	15.0	67.5	—[2]	—[2]	—[2]
Pounds sterling	—	—	69.4	69.4	—[2]	—	—[2]
U.S. dollars	200.0	—	122.3	322.3	—	—	—
Total	1,522.5	550.0	744.8[3]	2,817.3[3]	26.9[3]	379.1[3]	406.0[3]

[1] Including discharges in respect of previous years.
[2] Less than $50,000.
[3] Total does not equal sum of items because of rounding.
[4] The peseta cannot be accepted for repurchases because Spain has not yet accepted the obligations of Article VIII, Sections 2, 3, and 4.

rencies that recreated or increased the member's gold tranche, totaled $0.9 million during the year ended April 30, 1966. 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 $0.4 million, compared with $2.1 million in 1964/65.

TABLE 55. SUMMARY OF FUND TRANSACTIONS, FISCAL YEARS ENDED APRIL 30, 1948-66

(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
1965	1,897.44	516.15	516.97
1966	2,817.29	421.04	406.00
Total [1]	12,186.07		6,208.68 [2]

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

[2] Including $281.61 million repurchased in excess of drawings. Of this amount, $257.51 million represents repurchases that reduced the Fund's holdings of members' currencies below the amounts originally paid on subscription account, and $24.10 million represents repurchases of members' currencies paid as charges. Repurchases do not include sales of currencies equivalent to $1,459.90 million and adjustments of $50.45 million due primarily to settlement of accounts with members that have withdrawn from the Fund, making a total of $1,510.35 million having the effect of repayment.

Consultations with Members

Member countries that are availing themselves of the transitional arrangements in accordance with Article XIV, Section 2, of the Fund Agreement are required by that Article to consult with the Fund annually on the retention of their exchange restrictions. During the fiscal year 1965/66 such consultations were completed with 44 countries; with others the procedures had been initiated but had not been completed by the end of the fiscal year. These consultations have continued to provide opportunities for the examination of the economic and financial problems of the members and of their efforts to reduce and simplify exchange restrictions. Several of the consultations under Article XIV have been combined with discussions of new financial programs or have included reviews of such programs already being implemented.

Consultations were also held with 19 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 [4] 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 discussions include exchanges of views on monetary and financial developments and enable the Fund to further the objective of securing the fullest possible degree of consultation and collaboration on international monetary problems.

Relations with Other International Organizations

The Fund's continuing cooperation with other international organizations with which it has common interests is maintained by its representation at meetings of those organizations and by their attendance at the joint Annual Meetings of the Fund and Bank Boards of Governors and by reciprocal staff collaboration at the working level.

Fund representatives attended the 20th Session of the United Nations General Assembly, the 39th and 40th Sessions of the Economic and Social Council (ECOSOC) and meetings of its Economic Commission for Asia and the Far East and Economic Commission for Europe. Staff members also attended the first session of the

[4] *Selected Decisions,* pages 81-83.

Governing Council of the newly created UN Development Program and the first session of the Committee of Experts on Development Planning held in New York, as well as the Inter-Regional Seminar on Planning the External Sector held in Ankara. The Fund was also represented at the 13th session of the Food and Agriculture Organization Conference in Rome and the 164th session of the Governing Body of the International Labor Organization in Geneva.

The Managing Director addressed the 40th Session of ECOSOC on the occasion of his presentation of the Fund's Annual Report. He also attended the 20th Anniversary Commemorative Meeting of the United Nations in San Francisco, meetings of the UN Administrative Committee on Coordination (ACC) in New York and London, the first session of the Interagency Consultative Board of the UN Development Program in New York, the Annual General Meeting of the Bank for International Settlements (BIS) in Basle, and the Ministerial Meeting of the Organization for Economic Cooperation and Development (OECD) in Paris, and delivered two lectures at the Latin American Center for Monetary Studies in Mexico City. Other Fund representatives attended periodic meetings of the BIS during the year and meetings of the Preparatory Committee of the ACC.

Fund representatives also attended the 23rd session of the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade (GATT) in March-April 1966, and meetings of other GATT bodies, including those of the Committee on Trade and Development and other groups concerned with the expansion of the trade of the less developed countries. The CONTRACTING PARTIES consult the Fund in connection with their consideration of import restrictions maintained by contracting parties for balance of payments reasons, as well as in other connections involving balance of payments or exchange matters. During the fiscal year, the Fund was consulted by the CONTRACTING PARTIES in connection with their consultations with Brazil, Finland, India, Israel, New Zealand, Spain, Tunisia, the United Arab Republic, the United Kingdom, Uruguay, and Yugoslavia. Background material relating to consulting countries, and decisions which the Fund reaches as a result of its consultations with members under Article XIV, are provided to the GATT. Fund representatives cooperate with the GATT Committee conducting consultations.

Representatives of the Fund attended the second and third sessions of the UN Trade and Development Board, the permanent organ of the UN Conference on Trade and Development (UNCTAD). The Fund was also represented at numerous meetings of the regular committees and of special groups of UNCTAD, held both in Geneva and in New York. Of particular interest has been the work of the Committee on Invisibles and Financing Related to Trade and of the Group of Experts on International Monetary Issues, based on resolutions of the First UNCTAD Conference concerning the responsibilities of the Fund. In order to maintain a closer relationship with the international institutions that deal with problems of concern to the Fund and that maintain staffs or hold meetings in Geneva—notably the UNCTAD and the GATT—the Fund assigned a representative to Geneva in October 1965.

Under the arrangements for cooperation with the OECD, the Fund has continued to be represented in the various committees in its field of interest, in particular Working Party 3 of the OECD Economic Policy Committee, which has intensified its work on the balance of payments adjustment process. Fund representatives have also participated in meetings of the Study Group on Capital Markets, recently established by the OECD Committee on Invisible Transactions, and in meetings of the Working Party on Financial Aspects of Development Assistance of the Development Assistance Committee.

In Latin America, Fund representatives attended the 9th meeting of the Central American Economic Cooperation Committee of the UN Economic Commission for Latin America in Guatemala City, the 7th Annual Meeting of the Board of Governors of the Inter-American Development Bank in Mexico City, and, in Buenos

Aires, the 4th Annual Meetings at the Expert and Ministerial Levels of the Organization of American States Inter-American Economic and Social Council and the 7th meeting of the Inter-American Committee on the Alliance for Progress (CIAP) that preceded them. As in the previous year, Fund staff, at the invitation of the Chairman of the CIAP, participated informally in an advisory capacity in a series of meetings dealing with country reviews and attended periodically informal interagency meetings arranged by the CIAP Secretariat to discuss procedures for the country reviews and other matters of mutual interest.

In Africa, a Fund staff member participated in a seminar on "Current Problems and Training Needs in Tax Administration," held by the UN Economic Commission for Africa (ECA) in Addis Ababa, and a staff member attended the Sub-Regional Meeting on Economic Cooperation convened by the ECA in North Africa at Tangier.

Staff

At the end of the fiscal year, the Fund staff numbered 750, including 36 on temporary appointments. This total represents a net increase of 76 over the total at the beginning of the year. During the year, 164 new staff members were appointed from 43 member countries. Nationals of 69 countries are now on the staff.

Publications

The Fund's regular program of publications was continued in 1965/66: *Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1965* (Twentieth Annual Report), with shortened versions in French, German, and Spanish; *Balance of Payments Yearbook,* Volume 17, 1960-64; *International Financial News Survey,* weekly; *International Financial Statistics,* monthly, and *Supplement to 1965/66 Issues; Schedule of Par Values,* 40th and 41st issues; *Sixteenth Annual Report on Exchange Restrictions; Staff Papers,* Volume XII, Nos. 2 and 3, and Volume XIII, No. 1; and *Summary Proceedings of the Twentieth Annual Meeting of the Board of Governors.*

In conjunction with the World Bank, the Fund published *Direction of Trade,* monthly, and *Finance and Development,* quarterly (English, French, and Spanish editions).

Other publications of the Fund in 1965/66 were a second edition of the pamphlet *Introduction to the Fund,* and a new pamphlet *Maintenance of the Gold Value of the Fund's Assets.* The first of these is available in English, French, and Spanish; a German version is in preparation. The second pamphlet is available in English; French and Spanish translations are being prepared.

All the above are available without charge except for the *Balance of Payments Yearbook, International Financial Statistics* (and *Supplement*), *Staff Papers,* and *Direction of Trade,* which are available by subscription. For general subscribers the subscriptions to the four publications amount to $33.50 a year; university libraries, faculties, and students may obtain them at a special rate of $10 a year for all four, or $3 a year for any one of them.

Administrative Finance

During the financial year, the Fund's operating income, equivalent to $81,316,600, exceeded its total expenditure by $44,545,482. This amount was transferred provisionally to the General Reserve pending action by the Board of Governors. The General Reserve now totals about $186,356,950.

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 $33,907,383 for the financial year; it was credited to a

Special Reserve, which showed a balance of $182,181,830 on April 30, 1966.

The administrative budget approved by the Executive Directors for the period May 1, 1966–April 30, 1967 is presented in Appendix III. Comparative income and expenditures figures for the fiscal years ended 1964, 1965, and 1966 are given in Appendix IV.

The Executive Directors requested the Governments of Nigeria, the Philippines, and the United Kingdom to nominate members of the Audit Committee for 1966. The following nominations were made and confirmed: Mr. G.M. Okufi, Senior Auditor, Federal Audit Department, Nigeria; Mr. Julian D. Mercado, Executive Assistant to the Deputy Governor, Central Bank of the Philippines; Mr. Ronald W. Tizard, Deputy Director of Audit, Exchequer and Audit Department, United Kingdom. The report of the Committee is submitted separately. Appendix V gives the Auditors' Certificate, together with the audited Balance Sheet as at April 30, 1966 and the audited Statement of Income and Expenditure for the financial year.

B. Data for Charts

The following tables set out the data on which the charts in the preceding chapters have been drawn. The data are mainly taken from *International Financial Statistics,* but they have been supplemented in a few instances by figures supplied by other international organizations, by national statistics, and by Fund staff estimates.

Chart 1

TABLE 56. RESERVES AS PERCENTAGE OF IMPORTS, 1951-65

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
All countries															
All countries	67	69	74	73	66	62	57	62	58	55	54	51	50	46	43
United States	204	211	198	206	183	169	170	154	126	117	117	97	91	82	67
All countries (excl. United States)	39	40	48	48	44	41	36	44	44	43	44	43	43	40	39
All countries (excl. United States)															
"Group of Ten" (excl. United States)	27	30	36	40	37	34	30	42	40	43	45	43	40	38	37
Other developed countries	46	46	59	55	46	45	44	48	50	44	47	50	52	48	41
Less developed primary producing countries	64	60	72	66	64	61	47	46	50	44	41	39	43	40	42
Selected industrial countries															
France	14	16	21	28	42	24	10	19	34	36	50	54	56	57	61
Germany	13	25	47	56	52	64	69	78	56	70	65	57	59	54	42
Italy	36	30	32	38	43	39	37	68	91	69	73	63	44	39	60
United Kingdom	22	20	29	32	22	21	21	30	25	29	27	26	23	15	19
Less developed primary producing countries															
Selected countries with initial high reserves	118	95	128	135	126	94	60	56	55	41	34	30	27	21	22
Major oil exporters	60	64	67	55	64	80	75	64	52	49	50	51	76	66	64
Other less developed countries	41	44	52	44	42	44	35	37	47	44	41	38	33	39	42

Chart 2

TABLE 57. TRENDS IN TRADE BALANCES OF MAJOR AREAS, 1962-65

(Change from same period of preceding year, in billions of U.S. dollars)

	1963	1964		1965	
	Second half	First half	Second half	First half	Second half
Industrial countries	−0.3	−0.8	1.2	1.0	−0.5
More developed primary producing countries	−0.1	−0.2	−0.8	−1.3	−0.6
Less developed countries	0.7	0.4	−0.5	−0.1	0.8
Total	0.3	−0.6	0.0	−0.3	−0.4

Chart 3

TABLE 58. SEASONALLY ADJUSTED TRADE BALANCES OF

(Monthly averages in

	1961				1962				19	
	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter
EEC	−6	31	98	−61	−19	−87	−146	−173	−217	−174
EEC, excluding Germany	−179	−123	−69	−166	−116	−175	−242	−255	−280	−287
EFTA, excluding United Kingdom and Portugal	−171	−179	−179	−194	−196	−169	−235	−219	−177	−213
Canada	7	12	12	−4	−13	3	3	33	36	29
Germany	173	154	167	105	97	88	96	82	63	113
Italy	−103	−91	−81	−69	−88	−96	−135	−154	−152	−206
Japan	−81	−119	−154	−177	−116	−57	−25	−50	−70	−99
United Kingdom	−140	−84	−56	−66	−93	−78	−108	−85	−62	−94
United States	580	462	383	449	388	425	398	331	329	444

Chart 4

TABLE 59. SEASONALLY ADJUSTED EXPORTS AND IMPORTS

(Monthly averages in

	1961				1962				19	
	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter
Total EEC										
Exports	2,623	2,693	2,763	2,722	2,842	2,826	2,861	2,910	2,893	3,153
Imports	2,619	2,673	2,676	2,773	2,861	2,907	3,007	3,084	3,109	3,327
EEC, excluding Germany										
Exports	1,581	1,624	1,690	1,672	1,749	1,724	1,747	1,791	1,782	1,953
Imports	1,756	1,755	1,756	1,832	1,865	1,893	1,989	2,047	2,061	2,240
EFTA, excluding United Kingdom and Portugal										
Exports	696	687	716	713	739	756	742	763	763	820
Imports	867	866	895	907	935	925	977	982	940	1,033
Canada										
Exports	472	474	488	494	487	491	496	501	511	527
Imports	465	462	476	498	500	488	493	468	475	498
Germany										
Exports	1,042	1,069	1,073	1,050	1,093	1,102	1,114	1,119	1,111	1,200
Imports	863	918	920	941	996	1,014	1,018	1,037	1,048	1,087
Italy										
Exports	327	341	362	384	389	392	389	404	409	427
Imports	430	432	443	453	477	488	524	558	561	633
Japan										
Exports	349	347	354	360	379	406	431	418	421	440
Imports	430	466	507	537	495	463	456	465	493	539
United Kingdom										
Exports	936	929	945	938	929	974	969	966	987	1,014
Imports	1,076	1,013	1,001	1,004	1,022	1,052	1,077	1,051	1,049	1,108
United States										
Exports	1,698	1,603	1,669	1,742	1,717	1,798	1,786	1,702	1,688	1,863
Imports	1,118	1,141	1,286	1,293	1,329	1,373	1,388	1,371	1,359	1,419

Chart 3

SELECTED INDUSTRIAL COUNTRIES, 1961–FIRST QUARTER 1966
millions of U.S. dollars)

	63		1964				1965				1966
	Third quarter	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
EEC	−239	−249	−235	−213	−184	−132	27	−76	−167	−131	−169
EEC, ex. Germany	−374	−469	−452	−382	−247	−215	−74	−82	−134	−183	−246
EFTA ex. UK., Portugal	−194	−198	−228	−224	−236	−235	−229	−249	−265	−228	−240
Canada	14	46	48	65	89	38	33	9	0	−13	49
Germany	136	220	217	170	63	83	102	6	−33	52	77
Italy	−252	−231	−222	−138	−24	−48	−3	13	−35	−43	−24
Japan	−121	−144	−180	−119	−76	−63	15	20	44	8	43
U.K.	−119	−146	−254	−280	−278	−248	−176	−258	−213	−188	−215
U.S.	427	510	587	528	594	634	297	467	577	389	389

Chart 4

OF INDUSTRIAL COUNTRIES, 1961–FIRST QUARTER 1966
millions of U.S. dollars)

	63		1964				1965				1966
	Third quarter	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
Total EEC Exp.	3,209	3,257	3,452	3,476	3,509	3,704	3,855	3,910	3,998	4,198	4,195
Imp.	3,448	3,506	3,687	3,689	3,693	3,836	3,828	3,986	4,165	4,329	4,364
ECC, ex. Germany Exp.	1,970	1,968	2,107	2,155	2,195	2,296	2,381	2,462	2,527	2,632	2,584
Imp.	2,344	2,437	2,559	2,537	2,442	2,511	2,455	2,544	2,661	2,815	2,830
EFTA, ex. U.K., Portugal Exp.	844	860	879	920	923	969	999	1,011	1,024	1,056	1,079
Imp.	1,038	1,058	1,107	1,144	1,159	1,204	1,228	1,260	1,289	1,284	1,319
Canada Exp.	530	583	608	652	667	631	646	652	671	724	778
Imp.	511	540	559	589	562	593	613	642	671	731	729
Germany Exp.	1,239	1,289	1,345	1,321	1,314	1,408	1,474	1,448	1,471	1,566	1,611
Imp.	1,104	1,069	1,128	1,152	1,251	1,325	1,373	1,442	1,504	1,514	1,534
Italy Exp.	431	433	456	489	512	512	568	606	598	616	646
Imp.	683	663	679	627	536	560	571	593	633	659	670
Japan Exp.	464	486	483	537	564	621	680	717	728	694	790
Imp.	584	630	661	656	641	684	664	697	684	686	747
U.K. Exp.	1,043	1,043	1,060	1,057	1,054	1,091	1,107	1,102	1,160	1,190	1,205
Imp.	1,162	1,189	1,314	1,337	1,333	1,339	1,282	1,360	1,373	1,378	1,420
U.S. Exp.	1,899	1,980	2,058	2,061	2,160	2,263	1,856	2,290	2,304	2,369	2,393
Imp.	1,472	1,470	1,471	1,533	1,566	1,629	1,559	1,823	1,727	1,980	2,004

Chart 5

TABLE 60. SELECTED AREAS AND COUNTRIES: BALANCES OF PAYMENTS, 1958-65

(In millions of U.S. dollars)

	EEC Countries								
	France	Germany	Italy	Total	Canada	Japan	United Kingdom	United States	Primary Producing Countries
1958									
GSPT [1]	–290	1,790	580	2,880	–1,110	500	1,120	1,670	–4,930
BB [2]	–50	1,050	770	2,550	60	350	410	–3,660	–310
1959									
GSPT	730	1,590	890	3,790	–1,490	430	540	–440	–3,170
BB	1,260	380	950	2,990	–320	390	–140	–4,670	1,460
1960									
GSPT	610	1,670	370	3,180	–1,220	220	–450	3,390	–4,770
BB	750	1,040	430	2,830	–330	80	–880	–1,750	–100
1961									
GSPT	960	1,590	550	3,420	–920	–880	320	5,120	–5,100
BB	1,320	620	550	2,720	–190	–990	–230	–770	450
1962									
GSPT	840	420	330	1,900	–800	40	590	4,410	–4,930
BB	1,110	–520	–90	710	–180	100	—	–1,890	–100
1963									
GSPT	510	1,080	–670	970	–460	–690	660	5,080	–4,020
BB	880	770	–1,240	520	30	–320	–160	–2,170	1,800
1964									
GSPT	150	900	650	1,570	–340	–400	–680	7,610	–5,170
BB	530	–270	770	1,150	340	–360	–2,150	–220	1,500
1965									
GSPT	650	–690	2,310	2,490	–1,000	1,030	130	5,960	–6,450
BB	810	–1,120	1,590	1,470	–510	520	–990	–2,030	760

[1] Goods, services, and private transfers.
[2] Basic balance.

Chart 6

TABLE 61. ALL COUNTRIES IN BALANCE OF PAYMENTS DEFICIT, AGGREGATE DEFICIT 1958–FIRST QUARTER 1966

(In millions of U.S. dollars)

	Industrial Countries	Primary Producing Countries	Total
1958			
I	−490	−740	−1,230
II	−920	−640	−1,560
III	−1,040	−620	−1,660
IV	−1,040	−160	−1,200
1959			
I	−1,060	−130	−1,190
II	−870	−260	−1,130
III	−1,000	−320	−1,320
IV	−1,230	−420	−1,650
1960			
I	−680	−280	−960
II	−610	−510	−1,120
III	−1,390	−640	−2,030
IV	−1,630	−490	−2,120
1961			
I	−1,130	−540	−1,670
II	−860	−850	−1,710
III	−1,370	−600	−1,970
IV	−1,100	−450	−1,550
1962			
I	−1,300	−450	−1,750
II	−1,100	−550	−1,650
III	−1,780	−370	−2,150
IV	−1,190	−310	−1,500
1963			
I	−980	−330	−1,310
II	−1,090	−280	−1,370
III	−750	−380	−1,130
IV	−1,180	−290	−1,470
1964			
I	−1,380	−290	−1,670
II	−780	−420	−1,200
III	−1,030	−510	−1,540
IV	−2,100	−390	−2,490
1965			
I	−650	−570	−1,220
II	−660	−820	−1,480
III	−1,040	−490	−1,530
IV	−1,270	−370	−1,640
1966			
I	−1,160	−430	−1,590

Chart 7

TABLE 62. SELECTED AREAS AND COUNTRIES: INDUSTRIAL PRODUCTION, SEASONALLY ADJUSTED, 1962–APRIL 1966

(1958 = 100)

	European Economic Community	North America	Japan	United Kingdom
1962				
I	132	123	194	114
II	133	126	195	115
III	135	128	194	116
IV	137	127	192	115
1963				
I	134	129	197	113
II	141	133	206	118
III	141	134	220	120
IV	146	135	231	124
1964				
Jan.	148	136	234	127
Feb.	150	137	244	127
Mar.	151	138	240	127
Apr.	149	139	242	127
May	152	140	246	127
June	149	140	253	127
July	148	142	255	127
Aug.	146	143	250	127
Sept.	150	143	260	127
Oct.	154	141	263	129
Nov.	154	144	257	131
Dec.	154	147	257	132
1965				
Jan.	156	147	262	133
Feb.	157	148	259	132
Mar.	154	150	261	131
Apr.	156	150	258	131
May	157	151	253	132
June	157	152	261	130
July	157	154	261	132
Aug.	157	154	255	132
Sept.	158	153	265	131
Oct.	160	154	260	132
Nov.	160	155	261	132
Dec.	159	158	264	133
1966				
Jan.	161	160	273	133
Feb.	162	162	270	132
Mar.	. . .	163	275	133
Apr.	. . .	. . .	279	. . .

Chart 8

TABLE 63. SELECTED AREAS AND COUNTRIES: WAGE RATES, 1962–APRIL 1966

(1958 = 100)

	European Economic Community	North America	Japan	United Kingdom
1962				
I	129	113	127	112
II	133	113	132	113
III	135	113	134	114
IV	138	114	137	116
1963				
I	140	115	137	116
II	144	116	144	118
III	146	118	147	118
IV	149	118	151	119
1964				
Jan.	152	119	151	121
Feb.	154	119	154	121
Mar.	156	119	153	122
Apr.	157	119	157	122
May	158	120	158	123
June	159	120	163	123
July	160	120	164	124
Aug.	161	119	163	124
Sept.	161	121	166	124
Oct.	164	120	167	124
Nov.	165	121	169	125
Dec.	166	122	172	125
1965				
Jan.	167	122	168	126
Feb.	168	123	171	127
Mar.	169	123	169	127
Apr.	171	123	174	127
May	172	124	173	127
June	173	124	179	128
July	174	124	178	129
Aug.	175	123	178	130
Sept.	175	125	180	130
Oct.	176	125	182	130
Nov.	177	126	184	131
Dec.	177	126	186	131
1966				
Jan.	177	...	183	133
Feb.	...	...	186	133
Mar.	...	...	186	...
Apr.	...	...	174	...

Chart 9

TABLE 64. SELECTED COUNTRIES: WAGE COST PER UNIT OF OUTPUT IN MANUFACTURING, 1962–FIRST QUARTER 1966

(1958 = 100)

	Canada	France	Germany	Italy	Japan	United Kingdom	United States
1962							
I	90	112	118	95	102	110	96
II	88	113	119	95	103	111	96
III	87	113	122	100	103	112	97
IV	87	117	122	106	105	112	97
1963							
I	86	122	127	111	104	111	97
II	86	117	124	115	105	111	96
III	86	121	123	111	103	109	95
IV	86	118	124	113	100	109	97
1964							
I	85	115	119	113	101	109	96
II	85	117	123	114	102	113	96
III	86	124	124	114	101	113	95
IV	86	122	127	117	102	111	96
1965							
I	86	122	126	112	105	113	97
II	87	123	129	117	103	116	96
III	87	125	134	...	106	112	96
IV	88	121	135	...	105	117	97
1966							
1	...	122	...	...	106	119	98

Chart 10

TABLE 65. SELECTED AREAS AND COUNTRIES: WHOLESALE PRICES, 1962–MAY 1966

(1958 = 100)

	European Economic Community	North America	Japan	United Kingdom
1962				
I	104	100	102	106
II	105	100	101	106
III	104	100	101	107
IV	106	100	101	107
1963				
I	107	100	102	107
II	107	100	103	108
III	107	100	103	108
IV	109	100	104	109
1964				
Jan.	110	101	104	110
Feb.	109	100	104	110
Mar.	110	100	104	110
Apr.	109	100	103	111
May	110	100	103	112
June	110	100	103	112
July	109	100	103	112
Aug.	110	100	103	113
Sept.	111	100	104	113
Oct.	111	100	103	113
Nov.	112	100	104	114
Dec.	111	100	104	114
1965				
Jan.	111	101	104	114
Feb.	111	101	104	115
Mar.	112	101	104	115
Apr.	112	101	104	116
May	112	102	104	117
June	112	103	104	116
July	111	103	104	117
Aug.	111	102	104	117
Sept.	112	103	104	117
Oct.	112	103	105	118
Nov.	113	103	105	118
Dec.	113	104	105	118
1966				
Jan.	114	105	106	118
Feb.	114	106	108	119
Mar.	115	105	107	119
Apr.	...	105	107	119
May	...	...	108	...

Chart 11

TABLE 66. SELECTED AREAS AND COUNTRIES: COST OF LIVING, 1962–MAY 1966

(1958 = 100)

	European Economic Community	North America	Japan	United Kingdom
1962				
I	109	104	116	107
II	110	104	118	110
III	111	104	118	110
IV	112	105	120	110
1963				
I	115	105	124	112
II	115	105	128	112
III	116	106	128	111
IV	117	107	129	112
1964				
Jan.	118	107	129	113
Feb.	118	107	129	113
Mar.	118	107	130	113
Apr.	118	107	132	114
May	119	107	133	115
June	120	107	133	116
July	120	107	133	116
Aug.	120	107	133	116
Sept.	120	108	133	116
Oct.	120	108	136	116
Nov.	121	108	135	117
Dec.	121	108	135	118
1965				
Jan.	122	108	137	118
Feb.	122	108	138	118
Mar.	122	108	140	118
Apr.	123	109	145	121
May	123	109	142	121
June	124	109	143	121
July	125	109	142	121
Aug	124	109	142	122
Sept.	124	109	145	122
Oct.	124	110	145	122
Nov.	125	110	142	122
Dec.	126	110	142	123
1966				
Jan.	126	110	144	123
Feb.	127	111	146	123
Mar.	127	111	147	124
Apr.	128	112	151	125
May	...	...	150	...

Chart 12

TABLE 67. SELECTED AREAS AND COUNTRIES: EXPORT PRICES, 1962–MARCH 1966

(1958 = 100)

	European Economic Community	North America	Japan	United Kingdom
1962				
I	102	104	98	102
II	102	102	98	102
III	102	102	97	102
IV	102	102	97	103
1963				
I	103	103	99	104
II	103	102	99	104
III	103	102	100	105
IV	104	102	100	106
1964				
Jan.	105	103	101	106
Feb.	106	103	101	106
Mar.	106	102	101	106
Apr.	106	102	101	106
May	106	102	101	107
June	106	102	101	107
July	107	102	101	108
Aug.	107	103	101	108
Sept.	107	103	101	108
Oct.	107	104	101	108
Nov.	108	104	101	108
Dec.	108	104	101	108
1965				
Jan.	107	106	101	108
Feb.	107	107	101	109
Mar.	107	107	101	109
Apr.	107	106	101	109
May	107	106	100	109
June	108	107	100	109
July	108	106	100	109
Aug.	108	107	100	110
Sept.	108	106	100	110
Oct.	108	106	100	110
Nov.	108	106	100	110
Dec.	108	106	100	111
1966				
Jan.	...	...	100	111
Feb.	...	...	100	112
Mar.	...	...	100	113

Chart 13

TABLE 68. MONETARY SYSTEM CREDIT TO THE PRIVATE SECTOR, 1962–APRIL 1966

(1958 = 100)

	European Economic Community	Japan	United Kingdom	United States
1962				
I	168	212	170	129
II	174	219	175	135
III	180	230	179	137
IV	193	244	185	145
1963				
I	195	260	193	139
II	204	271	201	151
III	208	288	197	153
IV	221	305	202	162
1964				
Jan.	219			159
Feb.	218	315	213	160
Mar.	221			162
Apr.	225			165
May	225	326	223	167
June	227			170
July	230			168
Aug.	229	339	226	169
Sept.	232			172
Oct.	237			172
Nov.	238	353	235	174
Dec.	245			181
1965				
Jan.	242			178
Feb.	243		251	180
Mar.	245	359		184
Apr.	248			186
May	250		257	198
June	254	354		195
July	258	357		192
Aug.	256	361	252	194
Sept.	259	369		197
Oct.	264	372		197
Nov.	266	377	254	200
Dec.	275	388		208
1966				
Jan.	...	387	...	203
Feb.	...	390	...	200
Mar.	...	398	...	208
Apr.	...	...	...	209

Chart 14

TABLE 69. MONEY, SEASONALLY ADJUSTED, 1962–MARCH 1966

(1958 = 100)

	European Economic Community	North America	Japan	United Kingdom
1962				
I	141	104	165	114
II	146	104	172	114
III	151	105	182	115
IV	156	106	194	117
1963				
I	160	107	221	113
II	164	107	241	115
III	169	108	249	115
IV	173	110	259	118
1964				
Jan.	173	110		
Feb.	174	109	266	121
Mar.	175	110		
Apr.	175	109		
May	177	110	277	122
June	179	112		
July	179	112		
Aug.	180	113	284	124
Sept.	181	113		
Oct.	183	114		
Nov.	184	113	296	124
Dec.	188	115		
1965				
Jan.	188	114		
Feb.	189	115		128
Mar.	191	116	306	
Apr.	193	116		
May	195	115		131
June	197	116	309	
July	198	117	309	
Aug.	199	118	315	132
Sept.	200	118	321	
Oct.	204	118	328	
Nov.	205	119	329	134
Dec.	204	120	330	
1966				
Jan.	207	120	333	...
Feb.	207	120	338	...
Mar.	208	122	335	...

Chart 15

TABLE 70. SELECTED COUNTRIES: LONG-TERM GOVERNMENT BOND YIELDS, 1962–MAY 1966

(In per cent)

	Canada	Germany	Italy	Netherlands	Switzerland	United Kingdom	United States
1962							
I	4.95	5.7	5.06	3.99	3.02	6.33	4.06
II	4.91	5.8	5.27	4.27	3.22	6.18	3.89
III	5.40	6.0	5.36	4.34	3.15	5.82	3.98
IV	5.11	6.2	5.35	4.24	3.12	5.66	3.88
1963							
I	5.08	6.0	5.08	4.15	3.12	5.80	3.91
II	4.93	6.1	5.31	4.11	3.13	5.54	3.98
III	5.15	6.1	5.62	4.14	3.27	5.39	4.01
IV	5.11	6.0	5.70	4.50	3.47	5.62	4.10
1964							
Jan.	5.18	5.9	5.70	4.72	3.64	5.83	4.15
Feb.	5.18	5.9	5.56	4.66	3.80	5.96	4.14
Mar.	5.24	6.0	5.75	4.62	3.89	5.95	4.18
Apr.	5.27	6.2	5.95	4.69	3.88	5.95	4.20
May	5.20	6.3	6.53	4.69	4.02	6.06	4.16
June	5.19	6.3	7.18	4.90	4.05	6.11	4.13
July	5.19	6.3	7.04	5.19	4.04	6.03	4.13
Aug.	5.24	6.3	6.65	5.03	4.05	6.04	4.14
Sept.	5.23	6.4	6.14	4.98	4.05	6.04	4.16
Oct.	5.19	6.4	6.17	5.11	4.08	6.07	4.16
Nov.	5.10	6.4	6.31	5.20	4.08	6.07	4.12
Dec.	5.09	6.4	6.10	5.25	4.08	6.25	4.14
1965							
Jan.	4.98	6.4	5.73	4.95	4.04	6.28	4.14
Feb.	5.03	6.5	5.67	4.84	3.94	6.30	4.16
Mar.	5.10	6.5	5.45	4.77	3.91	6.32	4.15
Apr.	5.04	6.6	5.61	4.98	3.92	6.44	4.15
May	5.09	6.9	5.66	5.18	3.92	6.57	4.14
June	5.16	7.1	5.62	5.24	3.92	6.65	4.14
July	5.26	7.2	5.83	5.35	3.92	6.67	4.15
Aug.	5.32	7.3	5.88	5.32	3.92	6.54	4.19
Sept.	5.33	7.4	5.93	5.17	3.93	6.24	4.25
Oct.	5.41	7.5	5.86	5.32	3.96	6.26	4.27
Nov.	5.48	7.5	5.75	5.56	3.97	6.31	4.34
Dec.	5.48	7.7	5.62	5.89	3.98	6.44	4.43
1966							
Jan.	5.46	7.6	5.26	5.80	3.98	6.44	4.43
Feb.	5.62	7.6	5.42	5.81	3.98	6.50	4.61
Mar.	5.69	7.7	...	5.90	3.98	6.66	4.63
Apr.	5.66	...	...	...	4.01	6.69	4.55
May	5.66	...	...	...	4.02	6.75	4.57

Chart 16

TABLE 71. SELECTED COUNTRIES: SHORT-TERM INTEREST RATES, 1962–MAY 1966

(In per cent)

	Canada	France	Germany	Netherlands	Switzerland	United Kingdom	United States
1962							
Mar.	3.10	3.57	2.00	1.38	1.25	5.21	2.74
June	3.64	3.83	2.25	2.30	1.25	4.00	2.72
Sept.	5.22	3.53	2.50	1.77	1.25	3.79	2.86
Dec.	4.05	3.51	2.62	1.93	1.56	3.71	2.80
1963							
I	3.71	3.42	2.62	1.83	1.50	3.51	2.91
II	3.38	4.20	2.62	1.91	1.50	3.69	2.94
III	3.56	4.16	2.62	1.91	1.79	3.72	3.28
IV	3.64	4.15	2.62	2.10	2.21	3.72	3.50
1964							
Jan.	3.76	4.13	2.62	2.31	2.25	3.72	3.53
Feb.	3.81	4.33	2.62	2.33	2.25	3.92	3.53
Mar.	3.88	4.98	2.62	2.88	2.25	4.30	3.55
Apr.	3.75	5.03	2.62	3.00	2.25	4.30	3.48
May	3.66	6.18	2.62	3.10	2.25	4.35	3.48
June	3.56	4.91	2.62	3.81	2.25	4.44	3.48
July	3.60	4.83	2.62	4.26	2.25	4.57	3.48
Aug.	3.80	4.70	2.62	3.74	2.25	4.65	3.51
Sept.	3.79	4.74	2.62	3.70	2.25	4.65	3.53
Oct.	3.69	4.30	2.62	3.80	2.50	4.69	3.58
Nov.	3.73	4.13	2.62	3.84	2.69	5.11	3.62
Dec.	3.85	4.16	2.62	3.68	2.75	6.62	3.86
1965							
Jan.	3.78	3.77	2.77	3.29	2.47	6.60	3.83
Feb.	3.72	4.11	3.12	3.34	2.38	6.48	3.93
Mar.	3.71	4.45	3.12	3.39	2.22	6.45	3.94
Apr.	3.66	4.00	3.12	3.54	2.38	6.45	3.93
May	3.84	4.22	3.12	4.05	2.53	6.31	3.90
June	3.95	4.36	3.12	4.08	2.72	5.59	3.81
July	3.99	4.34	3.12	4.13	2.88	5.60	3.83
Aug.	4.08	4.01	3.57	4.07	2.75	5.56	3.84
Sept.	4.11	3.86	3.88	4.00	2.75	5.51	3.91
Oct.	4.14	3.88	3.88	4.07	2.75	5.42	4.03
Nov.	4.16	4.62	3.88	4.16	2.78	5.45	4.08
Dec.	4.45	4.48	3.88	4.29	2.95	5.48	4.36
1966							
Jan.	4.61	3.83	3.98	4.32	2.78	5.50	4.60
Feb.	4.68	4.34	4.00	4.34	2.63	5.58	4.67
Mar.	4.87	4.55	4.00	4.48	2.84	5.61	4.63
Apr.	5.09	4.34	4.00	4.50	3.06	5.62	4.61
May	5.10	...	...	...	3.25	5.65	4.64

Chart 17

TABLE 72. DISCOUNT RATES, 1962–JUNE 1966

(In per cent)

	Belgium	Canada	France	Germany	Italy	Japan	Netherlands	Sweden	Switzerland	United Kingdom	United States
1962											
Mar.	4.00	3.37	3.50	3.00	3.50	7.30	3.50	5.00	2.00	5.50	3.00
June		6.00					4.00	4.00		4.50	
Sept.	3.75	5.50									
Dec.	3.50	4.00				6.57					
1963											
Jan.							3.50	3.50		4.00	
Feb.											
Mar.						6.21					
Apr.						5.84					
May		3.50									
June								4.00			
July	4.00										3.50
Aug.		4.00									
Sept.											
Oct.	4.25										
Nov.			4.00								
Dec.											
1964											
Jan.							4.00	4.50			
Feb.										5.00	
Mar.						6.57					
Apr.											
May											
June							4.50				
July	4.75								2.50		
Aug.											
Sept.											
Oct.											
Nov.		4.25						5.00		7.00	4.00
Dec.											
1965											
Jan.				3.50		6.21					
Feb.											
Mar.											
Apr.			3.50			5.84					
May								5.50			
June										6.00	
July						5.48					
Aug.				4.00							
Sept.											
Oct.											
Nov.											
Dec.		4.75									4.50
1966											
Jan.											
Feb.											
Mar.		5.25									
Apr.											
May							5.00				
June	5.25	5.25	3.50	5.00	3.50	5.48	5.00	6.00	2.50	6.00	4.50

Chart 18

TABLE 73. TERM STRUCTURE OF INTEREST RATES

	Period to Maturity and Rate Per Cent
United States	
Dec. 1964	Discount rate—4.0; 3 months—3.8; 6 months—3.9; 1 year—3.9; 3 to 5 years—4.0; 10 years—4.2
Dec. 1965	Discount rate—4.5; 3 months—4.4; 6 months—4.6; 1 year—4.8; 3 to 5 years—4.8; 10 years—4.4
United Kingdom	
Dec. 1964	Discount rate—7.0; 3 months—6.7; 5 years—6.7; 10 years—6.4; 20 years or longer—6.4
Dec. 1965	Discount rate—6.0; 3 months—5.6; 4 years—6.7; 10 years—6.6; 20 years or longer—6.5
Germany	
Dec. 1964	Discount rate—3.0; 3 months—2.6; 6 months—3.0; 1 year—3.1; 2 years—3.6; 10 years—6.3
Dec. 1965	Discount rate—4.0; 3 months—3.9; 6 months—4.4; 1 year—4.5; 2 years—4.8; 10 years—7.2
Italy	
Dec. 1964	Discount rate—3.5; 1 year—3.6; 2 to 5 years—5.6; 6 to 10 years—7.2; 20 years or longer—7.2
Dec. 1965	Discount rate—3.5; 1 year—3.6; 2 to 5 years—5.4; 6 to 10 years—6.6; 20 years or longer—6.6

Chart 19

TABLE 74. PRIMARY PRODUCING COUNTRIES: PRICES OF COMMODITIES EXPORTED (EXCLUDING PETROLEUM), 1962–FIRST QUARTER 1966

(1961 = 100)

	All Commodities	Food	Agricultural Nonfood	Minerals and Metals
1962				
I	98.1	97.5	98.0	101.3
II	98.9	99.1	98.2	100.5
III	98.0	100.6	94.5	97.9
IV	100.3	102.8	97.5	98.7
1963				
I	107.9	115.5	100.4	99.0
II	117.8	133.6	101.7	101.7
III	114.1	128.8	98.3	102.6
IV	125.6	147.9	102.2	105.9
1964				
I	126.4	147.4	103.4	111.7
II	120.6	136.6	101.0	116.5
III	114.8	123.7	99.4	128.1
IV	112.4	118.1	97.1	139.6
1965				
I	108.1	112.3	95.2	134.5
II	107.7	109.4	96.2	140.3
III	106.6	108.9	94.0	139.9
IV	107.5	108.2	96.2	143.7
1966				
I	111.3	111.6	99.4	151.7

Chart 20

TABLE 75. SELECTED PRIMARY PRODUCTS: AVERAGE PRICES, 1963–FIRST QUARTER 1966
(1961 = 100)

	Coffee (Brazil)	Coffee (Uganda)	Cocoa (Ghana)	Tea (Ceylon)
1963				
I	93.03	136.73	105.73	104.18
II	93.31	144.69	116.30	90.91
III	91.92	144.69	107.93	95.64
IV	100.81	178.55	116.74	92.91
1964				
I	134.13	216.68	107.49	103.09
II	133.57	204.28	98.68	91.27
III	129.97	179.52	103.08	99.27
IV	128.58	175.41	103.52	97.27
1965				
I	126.35	148.81	88.99	108.73
II	125.80	137.38	66.96	93.09
III	124.97	191.60	64.32	99.64
IV	120.52	196.59	83.70	90.18
1966				
I	118.57	189.92	101.76	87.27

	Sugar (World)	Edible Oils (Index)	Wheat (Canada)	Rice (Thailand)
1963				
I	207.22	87.68	104.84	104.01
II	319.93	90.10	104.50	106.42
III	267.01	91.93	103.11	108.50
IV	374.23	95.09	108.30	99.52
1964				
I	313.40	90.62	110.73	98.23
II	233.68	93.08	109.69	99.36
III	148.80	99.23	109.69	102.57
IV	113.40	111.01	109.69	97.91
1965				
I	83.51	118.44	104.50	96.63
II	76.98	115.76	103.11	93.90
III	63.92	106.15	103.11	104.33
IV	66.67	108.17	104.50	105.94
1966				
I	66.67	108.72	107.26	110.11

	Rubber (Malaysia)	Sisal (East Africa)	Cotton (Sudan)	Wool (Australia)
1963				
I	93.04	150.04	89.29	115.84
II	89.74	164.44	90.02	117.62
III	82.78	164.44	91.73	116.44
IV	81.32	164.44	95.86	128.71
1964				
I	78.75	164.44	99.03	134.26
II	82.05	164.44	122.87	118.81
III	80.59	151.11	124.09	115.84
IV	84.62	122.67	121.41	110.30
1965				
I	85.71	108.44	116.06	101.00
II	86.08	103.11	110.46	99.21
III	75.46	101.33	108.52	102.18
IV	76.19	90.67	108.52	111.49
1966				
I	78.75	93.33	107.56	114.05

	Lead (LME)[1]	Tin (Malaysia)	Zinc (LME)[1]	Copper (Producers)
1963				
I	86.25	95.45	90.72	101.74
II	96.25	100.91	96.90	101.74
III	105.00	100.91	97.94	101.74
IV	111.25	108.18	114.43	101.74
1964				
I	127.50	120.00	126.80	103.47
II	136.25	121.82	160.82	105.90
III	166.25	148.18	165.97	108.33
IV	205.00	162.73	159.79	112.85
1965				
I	213.75	140.00	149.48	112.85
II	176.25	164.55	148.45	120.83
III	157.50	165.45	142.26	125.00
IV	171.25	158.18	142.26	129.51
1966				
I	167.50	154.72	141.20	145.83

[1] London Metal Exchange.

Chart 21

TABLE 76. PRIMARY PRODUCING COUNTRIES: BALANCES OF PAYMENTS, 1958–65

(In millions of U.S. dollars)

	More Developed	Less Developed: Latin America	Less Developed: Other	Less Developed: Total
1958				
Goods, services, and private transfers	—920	—1,280	—2,730	—4,010
Basic balance	10	—460	140	—320
1959				
Goods, services, and private transfers	—130	—790	—2,250	—3,040
Basic balance	620	—130	970	840
1960				
Goods, services, and private transfers	—690	—1,070	—3,010	—4,080
Basic balance	—190	—100	190	90
1961				
Goods, services, and private transfers	—1,010	—1,180	—2,910	—4,090
Basic balance	830	—10	—370	—380
1962				
Goods, services, and private transfers	—540	—1,100	—3,290	—4,390
Basic balance	500	—290	—310	—600
1963				
Goods, services, and private transfers	—710	—260	—3,050	—3,310
Basic balance	650	550	600	1,150
1964				
Goods, services, and private transfers	—1,240	—690	—3,240	—3,930
Basic balance	80	680	740	1,420
1965				
Goods, services, and private transfers	—2,640	—430	—3,370	—3,800
Basic balance	—900	810	860	1,670

Chart 22

TABLE 77. PRIMARY PRODUCING COUNTRIES: BASIC AND OVER-ALL BALANCES, 1958–65

(In millions of U.S. dollars)

	More Developed	Less Developed	Total
1958			
Basic balance	10	–320	–310
Over-all balance	–150	–830	–980
1959			
Basic balance	620	840	1,460
Over-all balance	440	540	980
1960			
Basic balance	–190	90	–100
Over-all balance	70	110	180
1961			
Basic balance	830	–380	450
Over-all balance	860	–760	100
1962			
Basic balance	500	–600	–100
Over-all balance	710	–760	–50
1963			
Basic balance	650	1,150	1,800
Over-all balance	760	740	1,500
1964			
Basic balance	80	1,420	1,500
Over-all balance	500	480	980
1965			
Basic balance	–900	1,670	770
Over-all balance	–690	1,410	720

Chart 23

TABLE 78. ESTIMATED SUPPLIES AND ABSORPTION OF GOLD, 1951–65

(In millions of U.S. dollars)

	Supply: Gold production	Supply: Reported sales by U.S.S.R.	Supply: Total	Absorption: Increase in official reserves	Absorption: Flow into private holdings, arts, and industries	Absorption: Total
1951	826	—	826	225	601	826
1952	850	—	850	230	620	850
1953	848	75	923	455	468	923
1954	897	95	992	670	322	992
1955	941	95	1,036	665	371	1,036
1956	980	180	1,160	490	670	1,160
1957	1,019	350	1,369	690	679	1,369
1958	1,051	235	1,286	680	606	1,286
1959	1,127	330	1,457	750	707	1,457
1960	1,178	175	1,353	310	1,043	1,353
1961	1,215	325	1,540	600	940	1,540
1962	1,300	215	1,515	330	1,185	1,515
1963	1,356	550	1,906	840	1,066	1,906
1964	1,406	450	1,856	750	1,106	1,856
1965	1,450	550	2,000	250	1,750	2,000

Chart 24

TABLE 79. GOLD: PRICE IN LONDON MARKET, MONTHLY AVERAGES, MARCH 1954–APRIL 1966

(In U.S. dollars a fine ounce)

	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966
Jan.	...	35.04	34.99	34.89	35.01	35.07	35.08½	35.56	35.16	35.06	35.08	35.13	35.14
Feb.	...	35.05	34.99	34.89	35.08	35.06	35.09	35.17	35.12	35.08	35.08	35.14	35.17
Mar.	34.97	35.06	34.99	34.91	35.09	35.06	35.09	35.08	35.09	35.10	35.08	35.16	35.15
Apr.	35.05	35.06	34.99	34.92	35.10	35.08	35.11	35.08	35.07½	35.10	35.08	35.14	35.13
May	35.09	35.05	34.99	34.93	35.11	35.12	35.10	35.06	35.08	35.08	35.08	35.10	
June	35.08	35.05	34.98	34.99	35.10	35.11½	35.09	35.07	35.10	35.08	35.08	35.10	
July	35.08	35.05	35.00	34.99	35.11	35.13	35.10	35.12	35.12	35.08	35.08	35.12	
Aug.	35.05	35.03	35.02	34.97	35.10	35.11½	35.13	35.16	35.12	35.10	35.08	35.15	
Sept.	35.08	34.98	35.01	34.96	35.10	35.12	35.22	35.19	35.13	35.08	35.09	35.14	
Oct.	35.09	34.98	35.02	34.97	35.11	35.10	35.81	35.19	35.14	35.08	35.11	35.11	
Nov.	35.07	34.99	34.98	34.97	35.10	35.06	35.82	35.18	35.09	35.08	35.10	35.11	
Dec.	35.04	34.98	34.90	34.99	35.09	35.05	35.53	35.15	35.08	35.08	35.12	35.13	

Chart 25

TABLE 80. OUTSTANDING BALANCES OF DRAWINGS FROM THE FUND AND UNUSED STAND-BY ARRANGEMENTS, ON APRIL 30, 1948–66

(In millions of U.S. dollars)

	Outstanding Drawings				Unused Stand-Bys			
	United States	United Kingdom	Other industrial countries	Other countries	United States	United Kingdom	Other industrial countries	Other countries
1948	—	300.0	241.8	64.3	—	—	—	—
1949	—	300.0	241.7	166.3	—	—	—	—
1950	—	300.0	220.2	222.4	—	—	—	—
1951	—	272.0	220.2	236.8	—	—	—	—
1952	—	272.0	210.4	257.1	—	—	—	—
1953	—	272.0	135.2	228.6	—	—	50.0	3.0
1954	—	114.4	197.6	240.9	—	—	50.0	40.0
1955	—	2.4	167.4	210.3	—	—	50.0	40.0
1956	—	2.4	—	175.0	—	—	50.0	47.5
1957	—	563.8	210.0	473.5	—	738.5	102.5	127.9
1958	—	563.8	590.3	668.5	—	738.5	66.3	79.5
1959	—	347.6	393.8	799.0	—	938.5	—	194.3
1960	—	269.9	181.3	711.5	—	—	—	291.9
1961	—	—	—	1,092.9	—	—	—	338.6
1962	—	715.8	—	1,299.4	—	1,130.0	305.0	507.9
1963	—	—	275.6	1,382.8	—	1,000.0	—	287.8
1964	123.3	—	183.9	1,398.9	375.0	1,000.0	305.0	290.1
1965	323.0	987.3	—	1,479.0	150.0	—	—	366.1
1966	564.1	2,469.3	—	1,715.3	—	—	—	421.0

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APPENDICES

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Appendix I. EXECUTIVE DIRECTORS AND VOTING POWER on April 30, 1966

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes [1]	Per Cent of Total
APPOINTED				
William B. Dale *John S. Hooker*	United States	51,850	51,850	23.82
J. M. Stevens *Douglas W. G. Wass*	United Kingdom	24,650	24,650	11.33
René Larre *Gérard M. Teyssier*	France	8,125	8,125	3.73
Ulrich Beelitz *Horst Ungerer*	Germany	8,125	8,125	3.73
J. J. Anjaria *Arun K. Ghosh*	India	7,750	7,750	3.56
ELECTED				
Ahmed Zaki Saad	Afghanistan	540		
(United Arab Republic)	Ethiopia	440		
Albert Mansour	Iran	1,500		
(United Arab Republic)	Iraq	1,050		
	Jordan	380		
	Kuwait	750		
	Lebanon	317		
	Pakistan	2,130		
	Philippines	1,000		
	Saudi Arabia	1,150		
	Somalia	400		
	Syrian Arab Republic	630		
	United Arab Republic	1,750	12,037	5.53
Sergio Siglienti (Italy)	Greece	1,250		
Costa P. Caranicas (Greece)	Italy	6,500		
	Portugal	1,000		
	Spain	2,750	11,500	5.28
Gengo Suzuki (Japan)	Burma	550		
Eiji Ozaki (Japan)	Ceylon	1,030		
	Japan	7,500		
	Nepal	350		
	Thailand	1,200	10,630	4.88
M. W. O'Donnell (Australia)	Australia	5,250		
A. M. de Villiers (South Africa)	New Zealand	1,820		
	South Africa	2,250		
	Viet-Nam	488	9,808	4.51
Enrique Tejera-Paris (Venezuela)	Costa Rica	450		
Jorge González del Valle	El Salvador	500		
(Guatemala)	Guatemala	500		
	Honduras	440		
	Mexico	2,950		
	Nicaragua	440		
	Venezuela	2,750	8,030	3.69

Appendix I *(continued)*. EXECUTIVE DIRECTORS AND VOTING POWER on April 30, 1966

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes [1]	Per Cent of Total
Pieter Lieftinck (Netherlands)	Cyprus	400		
H. M. H. A. van der Valk	Israel	1,150		
(Netherlands)	Netherlands	4,375		
	Yugoslavia	1,750	7,675	3.53
André van Campenhout (Belgium)	Austria	2,000		
Herman Biron (Belgium)	Belgium	3,625		
	Korea	490		
	Luxembourg	400		
	Turkey	1,110	7,625	3.50
Kurt Eklöf (Sweden)	Denmark	1,880		
Otto Schelin (Denmark)	Finland	1,500		
	Iceland	400		
	Norway	1,250		
	Sweden	2,500	7,530	3.46
S. J. Handfield-Jones (Canada)	Canada	5,750		
Patrick M. Reid (Canada)	Ireland	1,050		
	Jamaica	550	7,350	3.38
Maurício C. Bicalho (Brazil)	Brazil	3,750		
Vacant	Colombia	1,500		
	Dominican Republic	514		
	Haiti	400		
	Panama	362		
	Peru	720	7,246	3.33
Semyano Kiingi (Uganda)	Burundi	400		
Paul L. Faber (Guinea)	Congo, Democratic Republic of	700		
	Guinea	400		
	Kenya	570		
	Liberia	450		
	Mali	420		
	Nigeria	750		
	Sierra Leone	400		
	Sudan	820		
	Tanzania	500		
	Trinidad and Tobago	500		
	Uganda	570	6,480	2.98
Luis Escobar (Chile)	Argentina	3,050		
Enrique Domenech (Argentina)	Bolivia	540		
	Chile	1,250		
	Ecuador	500		
	Paraguay	400		
	Uruguay	550	6,290	2.89

APPENDIX I (*concluded*). EXECUTIVE DIRECTORS AND VOTING POWER

on April 30, 1966

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes [1]	Per Cent of Total
Beue Tann (China)	China	5,750	5,750	2.64
C. L. Chow (China)				
Louis Kandé (Senegal)	Cameroon	400		
Antoine W. Yaméogo	Central African Republic	325		
(Upper Volta)	Chad	325		
	Congo (Brazzaville)	325		
	Dahomey	325		
	Gabon	325		
	Ivory Coast	408		
	Malagasy Republic	440		
	Mauritania	330		
	Niger	325		
	Rwanda	370		
	Senegal	500		
	Togo	362		
	Upper Volta	325	5,085	2.34
Amon Nikoi (Ghana)	Algeria	880		
Vacant	Ghana	940		
	Laos	325		
	Libya	440		
	Morocco	1,006		
	Tunisia	530	4,121	1.89
			217,657 [2]	100.00

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

[2] This total does not include the votes of Malaysia, which was eligible to participate in the 1964 Regular Election of Executive Directors but abstained from voting. Neither does it include the votes of Malawi and Zambia, which joined the Fund after this election.

Appendix II. CHANGES IN MEMBERSHIP OF EXECUTIVE BOARD

Changes in the membership of the Executive Board between May 1, 1965 and April 30, 1966 were as follows:

S. J. Handfield-Jones (Canada), formerly Alternate Executive Director to A. F. W. Plumptre (Canada), was elected Executive Director by Canada, Ireland, and Jamaica, effective May 1, 1965.

Chedly Ayari (Tunisia) served as Temporary Alternate Executive Director to Sumanang (Indonesia), May 12, 1965.

Sumanang (Indonesia) resigned as Executive Director for Algeria, Ghana, Indonesia, Laos, Libya, Morocco, and Tunisia, effective May 31, 1965.

John A. Kirbyshire (United Kingdom) resigned as Alternate Executive Director to J. M. Stevens (United Kingdom), effective June 2, 1965.

Douglas W. G. Wass (United Kingdom) was appointed Alternate Executive Director to J. M. Stevens (United Kingdom), effective June 3, 1965.

Louis Plum (Belgium) served as Temporary Alternate Executive Director to André van Campenhout (Belgium), June 14 and 17 (p.m.) and November 19, 1965.

Rufino Gil (Costa Rica) served as Temporary Alternate Executive Director to Enrique Tejera-Paris (Venezuela), June 14 and November 10, 1965 and March 23 and April 27, 1966.

Amon Nikoi (Ghana), formerly Alternate Executive Director to Sumanang (Indonesia), was elected Executive Director by Algeria, Ghana, Indonesia, Laos, Libya, Morocco, and Tunisia, effective June 15 1965.

Chalong Pungtrakul (Thailand) resigned as Alternate Executive Director to Gengo Suzuki (Japan), effective June 30, 1965.

David C. Keys (United Kingdom) served as Temporary Alternate Executive Director to J. M. Stevens (United Kingdom), June 30 and December 3 (p.m.), 1965.

Eiji Ozaki (Japan) was appointed Alternate Executive Director to Gengo Suzuki (Japan), effective July 1, 1965.

Patrick M. Reid (Canada) was appointed Alternate Executive Director to S. J. Handfield-Jones (Canada), effective July 1, 1965.

Edgardo Sogno Rata del Vallino (Italy) served as Temporary Alternate Executive Director to Sergio Siglienti (Italy), July 23, 1965.

Jean Malaplate (France) served as Temporary Alternate Executive Director to René Larre (France), July 28 to August 6, 1965 and April 6, 1966.

W. Y. Hui (China) served as Temporary Alternate Executive Director to Beue Tann (China), August 6 to September 20, 1965.

I-Shuan Sun (China) resigned as Alternate Executive Director to Beue Tann (China), effective October 4, 1965.

C. L. Chow (China) was appointed Alternate Executive Director to Beue Tann (China), effective October 5, 1965.

Abderrahman Tazi (Morocco) served as Temporary Alternate Executive Director to Amon Nikoi (Ghana), October 15 to 29, 1965 and March 30, 1966.

Walter Habermeier (Germany) resigned as Alternate Executive Director to Ulrich Beelitz (Germany), effective October 31, 1965.

Horst Ungerer (Germany) was appointed Alternate Executive Director to Ulrich Beelitz (Germany), effective November 1, 1965.

W. Kenneth Griffiths (Canada) served as Temporary Alternate Executive Director to S. J. Handfield-Jones (Canada), November 19, 1965.

Maurice Toussaint (Belgium) resigned as Alternate Executive Director to André van Campenhout (Belgium), effective November 23, 1965.

Herman Biron (Belgium) was appointed Alternate Executive Director to André van Campenhout (Belgium), effective November 24, 1965.

Helga Steeg (Germany) served as Temporary Alternate Executive Director to Ulrich Beelitz (Germany), December 3, 1965.

Chalong Pungtrakul (Thailand) served as Temporary Alternate Executive Director to Gengo Suzuki (Japan), January 14 and 26 and February 28 to March 7, 1966.

J. M. Garland (Australia) resigned as Executive Director for Australia, New Zealand, South Africa, and Viet-Nam, effective January 17, 1966.

M. W. O'Donnell (Australia) was elected Executive Director by Australia, New Zealand, South Africa, and Viet-Nam, effective January 18, 1966.

Roy Daniel (Australia), formerly Alternate Executive Director to J. M. Garland (Australia), was appointed Alternate Executive Director to M. W. O'Donnell (Australia), effective January 18, 1966, and resigned, effective February 1, 1966.

A. M. de Villiers (South Africa) was appointed Alternate Executive Director to M. W. O'Donnell (Australia), effective February 2, 1966. Previously, he had served as Temporary Alternate Executive Director to Mr. O'Donnell, January 26 to 31, 1966.

G. Malcolm Gill (United Kingdom) served as Temporary Alternate Executive Director to J. M. Stevens (United Kingdom), February 4, March 25, and April 6, 1966.

Carlos Pérez de la Cova (Venezuela) served as Temporary Alternate Executive Director to Enrique Tejera-Paris (Venezuela), February 15 to 18, 1966.

Albino Cabral Pessoa (Portugal) served as Temporary Alternate Executive Director to Sergio Siglienti (Italy), February 23, 1966.

Marcelo Raffaelli (Brazil) served as Temporary Alternate Executive Director to Maurício C. Bicalho (Brazil), March 7 to 9 and April 22, 1966.

Manuel San Miguel (Argentina) served as Temporary Alternate Executive Director to Luis Escobar (Chile), March 11 to 30, 1966.

Juan Haus-Solís (Bolivia) served as Temporary Alternate Executive Director to Luis Escobar (Chile), April 13, 1966.

Antonio de Abreu Coutinho (Brazil) resigned as Alternate Executive Director to Maurício C. Bicalho (Brazil), effective April 18, 1966.

Appendix III. Administrative Budget

Letter of Transmittal

July 11, 1966

My dear Mr. Chairman:

The administrative budget of the Fund approved by the Executive Board for the Fiscal Year ending April 30, 1967 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

ADMINISTRATIVE BUDGET AS APPROVED BY THE EXECUTIVE BOARD FOR THE FISCAL YEAR ENDING APRIL 30, 1967, COMPARED WITH ACTUAL EXPENDITURES FOR THE FISCAL YEARS 1964-65 AND 1965-66

Category of Expenditure	Budget F.Y. 1966-67	F.Y. 1965-66		Actual Expenditures F.Y. 1964-65
		Budget	Actual Expenditures	
I. BOARD OF GOVERNORS	$ 595,000	$ 505,000	$ 473,432	$ 864,824
II. EXECUTIVE DIRECTORS				
Salaries	1,099,000	1,055,000	1,047,582	1,002,451
Other compensations and benefits	287,000	249,000	231,314	189,568
Travel	318,000	266,000	239,570	227,422
Total	$ 1,704,000	$ 1,570,000	$ 1,518,466	$ 1,419,441
III. STAFF				
Salaries	7,664,000	6,640,000	6,628,564	5,648,798
Other compensations and benefits	2,602,000	2,228,000	2,203,858	1,901,081
Travel	1,900,000	1,655,000	1,566,808	1,279,519
Total	$12,166,000	$10,523,000	$10,399,230	$ 8,829,398
IV. SPECIAL SERVICES TO MEMBER COUNTRIES	$ 1,555,000	$ 775,000	$ 682,281	$ 352,445
V. OTHER ADMINISTRATIVE EXPENSES				
Communications	405,000	377,000	376,910	304,250
Office occupancy expenses	431,000	645,000	554,748	531,789
Books and printing	410,000	320,000	312,694	247,930
Supplies and equipment	432,000	430,000	410,872	223,862
Miscellaneous	402,000	315,000	306,954	237,535
Total	$ 2,080,000	$ 2,087,000	$ 1,962,178	$ 1,545,366
TOTAL	$18,100,000	$15,460,000	$15,035,587	$13,011,474

Appendix IV. Comparative Statement of Income and Expenditure

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

	Year Ended Apr. 30, 1964	Year Ended Apr. 30, 1965	Year Ended Apr. 30, 1966
INCOME [1]			
Service charges			
Received in gold	$ 2,504,482	$ 1,197,187	$ 2,111,437
Received in members' currencies	625,000	8,290,000	11,975,000
Total	$ 3,129,482	$ 9,487,187	$14,086,437
Charges on Fund's holdings of members' currencies and securities in excess of quotas			
Received in gold	$25,448,196	$26,167,091	$25,539,937
Received in members' currencies	6,051,559	9,738,818	40,201,750
Total	$31,499,755	$35,905,909	$65,741,687
Other operational income	$ 1,721,254	$ 2,353,709	$ 1,484,572
Miscellaneous income	1,581	2,257	3,904
TOTAL INCOME	$36,352,072	$47,749,062	$81,316,600
EXPENDITURE			
Administrative	$10,876,123	$13,011,474	$15,035,587
Operational	115 Cr.	4,557,523	16,074,373
Fixed property	2,182,015	4,635,295	5,661,158
Contribution to The Per Jacobsson Foundation	62,500	—	—
TOTAL EXPENDITURE	$13,120,523	$22,204,292	$36,771,118

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

1964	$27,485,414
1965	30,750,435
1966	33,907,383

Appendix V. FINANCIAL STATEMENTS OF INTERNATIONAL MONETARY FUND AND STAFF RETIREMENT FUND

Letter of Transmittal

July 11, 1966

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, 1966, 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, Nigeria, the Philippines, and the United Kingdom nominated auditors to serve on this Committee. They respectively nominated Mr. G. M. Okufi, Senior Auditor, Federal Audit Department, Nigeria; Mr. J. D. Mercado, Executive Assistant to the Deputy Governor, Central Bank of the Philippines; and Mr. R. W. Tizard, Deputy Director of Audit, Exchequer and Audit Department, United Kingdom. The Auditors thus nominated were confirmed by the Executive Directors.

It will be noted that, in the period under review, ordinary income amounted to $81,316,600 and expenditure amounted to $36,771,118, resulting in a net income of $44,545,482, which has been transferred provisionally to General Reserve pending Board of Governors' action. In addition, income of $33,907,383 from the Fund's investment program has been transferred to the 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 21, 1966

To the Managing Director
and the Executive Directors
International Monetary Fund

The report of the Audit Committee, dated June 21, 1966, 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, 1966, includes the following paragraphs relating to the scope of the audit conducted, and the audit certificate given:

SCOPE OF THE AUDIT

The Audit Committee, in the conduct of its audit, took cognizance of the requirements of Section 20(b) of the By-Laws that the audit 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 resolutions of the Board of Governors, the minutes of the Executive Board and the General Administrative Orders of the Fund. The Committee applied such tests to the accounting and other financial records as it considered necessary to provide a thorough review of the adequacy of the system of accounting and internal control operated by the Fund. In determining its program of test examination, due regard was paid to the work performed by the Internal Auditor, as reported by him to the Committee, and to the standard of his work performance as surveyed by the Committee.

AUDIT CERTIFICATE

We have made an independent examination of the Balance Sheet of the International Monetary Fund as at April 30, 1966, 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 the result of our examination, we report that, in our opinion, such Balance Sheet and related Statement of Income and Expenditure, together with the notes appearing thereon, present fairly the financial position of the International Monetary Fund as at April 30, 1966, and the results of its operations for the fiscal year then ended, and have been prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of previous fiscal years.

AUDIT COMMITTEE:

/s/ R. W. Tizard, Chairman (United Kingdom)

/s/ G. M. Okufi (Nigeria)

/s/ J. D. Mercado (Philippines)

Appendix V *(continued)*

Exhibit A

BALANCE

as at April

Values expressed in U.S. dollars on the

ASSETS

GOLD ACCOUNT			
Gold with depositories (See Note 2)			
(73,987,683.778 fine ounces at $35 per ounce)			
Bars	$2,368,869,727		
General deposits	220,699,205	$2,589,568,932	
Investments (See Note 3)			
$826,712,000 U.S. Government securities maturing within 12 months, at cost	$799,979,933		
Funds awaiting investment	11,578	799,991,511	$ 3,389,560,443
CURRENCIES AND SECURITIES			
With depositories			
Currencies		$ 3,118,219,548	
Securities *(nonnegotiable, noninterest-bearing demand obligations, payable at face value by members in their currencies)*		13,233,508,515	16,351,728,063
SUBSCRIPTIONS TO CAPITAL—RECEIVABLE			
Balances not due			875,721,807
SUBSCRIPTIONS DUE FROM MEMBERS IN RESPECT OF AUTHORIZED INCREASES IN QUOTAS (Contra)			12,680,000
WITHDRAWING MEMBERS' CURRENCIES (See Note 4)			
Cuba		$ 7,499,896	
Indonesia		63,446,067	70,945,963
OTHER ASSETS (See Note 5) *(receivables, accruals, prepayments, and sundry cash)*			33,883,281
TOTAL ASSETS			$20,734,519,557

NOTES:

1. With the exception of the following currencies which, for bookkeeping purposes, are computed at the following provisional rates per U.S. dollar:

Algerian dinar	4.93706	Guinean franc	247.000	Nepalese rupee	7.61900
Argentine peso	188.000	Ivory Coast, CFA franc	246.853	Paraguayan guaraní	122.000
Bolivian peso	11.8750	Kenya, EA shilling	7.14286	Peruvian sol	26.8150
Brazilian cruzeiro	2,200.00	Korean won	255.000	Tanzania, EA shilling	7.14286
Chad, CFA franc	246.853	Malagasy franc	246.853	Uganda, EA shilling	7.14286
Chilean escudo	3.46000	Mali franc	246.853	Upper Volta, CFA franc	246.853
Colombian peso	9.00000	Mauritania, CFA franc	246.853	Vietnamese piastre	35.0000

2. Excludes 68,940.512 fine ounces earmarked for members and a former member.

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. Redeemable in gold, or convertible currencies acceptable to the Fund, in installments not later than July 1, 1968 in respect of Cuba, and not later than August 17, 1970 in respect of Indonesia.

5. The assets and liabilities of the Staff Retirement Fund are not included in this Balance Sheet.

6. A stand-by charge has, under certain circumstances, to be credited against the service charge for a drawing under the stand-by arrangement; the maximum amount on April 30, 1966 is $928,845. A portion of the stand-by charge is refundable to a member if the arrangement is canceled; the maximum amount on April 30, 1966 is $634,458.

SHEET

30, 1966

basis of established parities (See Note 1)

CAPITAL, RESERVES, AND LIABILITIES

CAPITAL		
Authorized subscriptions of members		$19,411,266,667
RESERVES (Exhibit C)		
Special reserve	$182,181,830	
General reserve	186,356,950	368,538,780
SUBSCRIPTION PAYMENTS IN RESPECT OF INCREASES IN QUOTAS CONSENTED TO BUT NOT YET EFFECTIVE		
Partial payments made	$ 6,620,000	
Payments due (Contra)	12,680,000	19,300,000
INDEBTEDNESS TO PARTICIPANTS UNDER GENERAL ARRANGEMENTS TO BORROW		930,000,000
PROVISION FOR POTENTIAL REFUNDS OF STAND-BY CHARGES (See Note 6)		928,845
OTHER LIABILITIES (See Note 5) *(accruals, payables, and deferred credits)*		4,485,265
TOTAL CAPITAL, RESERVES, AND LIABILITIES		$20,734,519,557

/s/ OSCAR L. ALTMAN
Treasurer

/s/ P.-P. SCHWEITZER
Managing Director

Exhibit B

Statement of Income and Expenditure

for the year ended April 30, 1966

Income

Operational charges		$15,564,009	
Charges on balances in excess of quotas		65,741,687	
Other income		10,904	
Total Income (See Note 1)			$81,316,600

Expenditure

Administrative expenditure			
Board of Governors		$ 473,432	
Office of Executive Directors			
Salaries	$1,047,582		
Other compensations and benefits	231,314		
Travel	239,570	1,518,466	
Staff			
Salaries	$6,628,564		
Other compensations and benefits	2,203,858		
Travel	1,566,808	10,399,230	
Special services to member countries		682,281	
Other administrative expenses			
Communications	$376,910		
Office occupancy expenses	554,748		
Books and printing (See Note 2)	312,694		
Supplies and equipment	410,872		
Miscellaneous (See Note 3)	306,954	1,962,178	
Total administrative expenditure		$15,035,587	
Operational expenditure			
Transfer charges on amounts borrowed under General Arrangements to Borrow	$ 2,625,000		
Interest on indebtedness under General Arrangements to Borrow	13,446,875		
Gold handling costs	2,847		
Exchange adjustments	349 cr.		
Total operational expenditure		16,074,373	
Fixed property expenditure		5,661,158	
Total Expenditure			36,771,118
Net Income (Transferred provisionally to General Reserve pending Board of Governors' action) (Exhibit C)			$44,545,482

Notes:

1. Excludes income from investments amounting to $33,907,383, transferred to Special Reserve (Exhibit C).
2. After deduction of $62,326 for sales of Fund's publications.
3. After deduction of $135,545 for food service sales.

Exhibit C

Statement of Reserves

for the year ended April 30, 1966

SPECIAL RESERVE (See Note)		
Balance, April 30, 1965	$148,274,447	
Add		
Income from investments in U.S. Government securities for year	33,907,383	
Balance, April 30, 1966		$182,181,830
GENERAL RESERVE		
Balance, April 30, 1965	$141,811,468	
Add		
Net income for year (Exhibit B), transferred provisionally pending Board of Governors' action	44,545,482	
Balance, April 30, 1966		186,356,950
TOTAL RESERVES (per Balance Sheet)		$368,538,780

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

Staff Retirement Fund

Memorandum by the Audit Committee

June 21, 1966

To the Managing Director
and the Executive Directors
International Monetary Fund

The report of the Audit Committee, dated June 21, 1966, 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, 1966, includes the following paragraphs relating to the scope of the audit conducted, the audit certificate given and the investments held with respect to the Staff Retirement Fund:

Scope of the Audit

The Audit Committee has examined the separate accounts and financial statements relating to the Staff Retirement Fund for the fiscal year ended April 30, 1966. 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.

Audit Certificate

As the result of our examination, we report that in our opinion the accompanying Balance Sheet, Statement of Source and Application of Funds, and the related Schedules 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, 1966 and the results of its operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of previous fiscal years.

Investments

The Pension Committee made no changes in the General Rules on Investment during the fiscal year 1966. The Audit Committee received confirmation directly from the depository of the investments that it held, as at April 30, 1966, as custodian for the Staff Retirement Fund of the International Monetary Fund. The Audit Committee also confirmed that the holdings of the various classes of investment were within the limiting percentages stated in original investment values prescribed by the Pension Committee, as follows:

	Percentage Authorized	*Percentage Held*
Bonds		
U.S. Government	Minimum 30	34.52
International Bank for Reconstruction and Development and Inter-American Development Bank	Maximum 20	14.40
Corporate (other than convertible)	Maximum 25	16.83
Corporate (convertible)	Maximum 5	—
Total bonds		65.75
Corporate stocks	Maximum 40	34.25
Total portfolio		100.00

AUDIT COMMITTEE:

/s/ R. W. Tizard, Chairman (United Kingdom)

/s/ G. M. Okufi (Nigeria)

/s/ J. D. Mercado (Philippines)

Exhibit I

STAFF RETIREMENT FUND

BALANCE SHEET
as at April 30, 1966

ASSETS

CASH AT BANKS			$ 84,631
INVESTMENTS			
Bonds, at amortized value			
United States Government (*market value, $5,301,000*)	$5,710,321		
International Bank for Reconstruction and Development (*market value, $2,262,880*)	2,397,072		
Corporate (*market value, $2,502,970*)	2,866,864	$10,974,257	
Corporate stocks (common), at cost (*market value, $9,873,582*)		6,977,675	17,951,932
ACCRUED INTEREST ON BONDS			124,119
ACCRUED CONTRIBUTIONS FROM PARTICIPANTS AND EMPLOYER			11,576
TOTAL ASSETS			$18,172,258

LIABILITIES AND RESERVES

ACCOUNTS PAYABLE	$ 4,673
PARTICIPANTS' ACCOUNT	3,777,564
ACCUMULATION ACCOUNT	11,164,815
RETIREMENT RESERVE ACCOUNT	2,465,408
RESERVE AGAINST INVESTMENTS	759,798
TOTAL LIABILITIES AND RESERVES	$18,172,258

/s/ OSCAR L. ALTMAN
Treasurer

/s/ P.-P. SCHWEITZER
Managing Director

INDEX

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INDEX

Numbers refer to pages. An asterisk (*) denotes a table, a dagger (†) denotes a chart.