



1 9 6 7  
ANNUAL  
REPORT

---

INTERNATIONAL MONETARY FUND

**ANNUAL REPORT**  
**1967**

*This page intentionally left blank*

# **INTERNATIONAL MONETARY FUND**

## **ANNUAL REPORT OF THE EXECUTIVE DIRECTORS FOR THE FISCAL YEAR ENDED APRIL 30, 1967**

**WASHINGTON, D. C.**

*This page intentionally left blank*

## CONTENTS

<i>Chap.</i>		<i>Page</i>
	Letter of Transmittal .....	xv
 <b><i>PART I. THE WORLD ECONOMY AND THE FUND</i></b>		
1.	GENERAL ECONOMIC SURVEY .....	3
	Introduction .....	3
	Trends and Policies in the Major Countries .....	4
	International Payments and Reserves .....	6
	International Payments Adjustment in 1967 .....	8
	International Liquidity .....	9
2.	DEVELOPMENTS IN WORLD RESERVES .....	11
	Components of Reserve Growth .....	12
	Determinants of Reserve Growth .....	17
	Reserves and Credits .....	19
	Policies of Reserve Composition .....	22
3.	INTERNATIONAL PRIVATE CAPITAL MOVEMENTS AND CAPITAL MARKETS .....	26
	Pressures on National Capital Markets .....	26
	The Pattern of Private International Capital Movements .....	29
	Long-Term Private Capital .....	30
	Direct Investment .....	30
	Other Long-Term Capital .....	32
	Short-Term Capital .....	34
	The Structure of Capital Markets .....	35
	Conclusion .....	38
4.	FOREIGN EXCHANGE POLICIES IN LESS DEVELOPED COUNTRIES .....	39
	Payments Problems and Policy Responses .....	39
	Effects of Restrictions on Allocation of Resources .....	42
	Experience with Exchange Reform .....	43
	Benefits of an Appropriate Exchange Rate .....	45
	Foreign Demand and Wider Access to Markets .....	47
5.	THE FUND IN 1966/67 .....	48
	Fund Transactions .....	48
	Fund Resources .....	50
	International Liquidity .....	51
	Consultations and Technical Assistance .....	51

**PART II. REVIEW OF THE YEAR**

<i>Chap.</i>	<i>Page</i>
6. DEVELOPMENTS IN THE INDUSTRIAL COUNTRIES .....	55
Output and Demand .....	56
Prices and Wages .....	58
Fiscal Policy .....	60
Monetary Policy .....	62
Money and Securities Markets .....	64
Interest Rates .....	66
Restraints on International Capital Movements .....	69
7. WORLD TRADE, PAYMENTS, AND RESERVES .....	71
Main Trends in World Trade .....	71
Balance of Payments Developments .....	76
Over-All Payments Balances .....	76
Current Accounts and Basic Balances of Industrial Countries .....	81
Changes in Trade Balances of Industrial Countries .....	84
International Private Capital Movements .....	87
Short-Term and Banking Capital .....	87
Long-Term Capital Transactions .....	90
Changes in International Reserves .....	91
8. DEVELOPMENTS IN PRIMARY PRODUCING COUNTRIES .....	93
Commodity Prices and Exports .....	93
Balance of Payments .....	97
Progress in Less Developed Countries .....	101
Exports and Growth .....	101
Growth of Output in 1966 .....	106
Financial Developments and Prices .....	107
Stabilization Efforts .....	108
Progress in More Developed Countries .....	112
9. GOLD .....	114
Gold Production .....	114
Gold Holdings .....	116
Private Absorption .....	118
Gold Movements, Markets, and Prices .....	120
New York .....	120
London .....	121
Paris .....	122
Developments in Other Markets .....	123
Changes in National Policies Affecting Gold .....	124
Gold Subsidy Programs .....	124
Gold Transactions Service .....	125

**SUPPLEMENTARY NOTES**

A. ACTIVITIES OF THE FUND .....	129
Membership .....	129
Executive Directors .....	129
Article VIII .....	129

<i>Chap.</i>	<i>Page</i>
Par Values .....	129
Quotas .....	130
Compensatory Financing of Export Fluctuations .....	131
Fund Transactions .....	132
Purchases .....	132
Stand-By Arrangements .....	132
Waivers .....	135
Repurchases .....	135
Currency Composition of Drawings and Repurchases .....	136
Summary of Transactions, 1948-67 .....	136
Fund Charges .....	136
Consultations with Members .....	139
Technical Cooperation .....	139
The IMF Institute .....	140
Relations with Other International Organizations .....	141
Staff .....	143
Administrative Finance .....	143
Publications .....	143
<b>B. BALANCE OF PAYMENTS STATEMENTS .....</b>	<b>145</b>

### **APPENDICES**

<i>No.</i>	
I. Executive Board Decision .....	159
Compensatory Financing of Export Fluctuations:	
Amendment of 1963 Decision .....	159
II. Executive Directors and Voting Power .....	162
III. Changes in Membership of Executive Board .....	165
IV. Administrative Budget .....	171
V. Comparative Statement of Income and Expenditure .....	173
VI. Financial Statements .....	174
International Monetary Fund .....	175
Staff Retirement Fund .....	180
Index .....	185

### **LIST OF TABLES AND CHARTS**

<i>Table</i>	
1. Changes in Industrial Production, 1964—First Quarter 1967 .....	4
2. Changes in Value of International Trade, 1964—First Quarter 1967 .....	4
3. Countries' Official Reserves, 1960-66 .....	12
4. Official Gold Transactions, 1966 .....	14
5. Official Holdings of Foreign Exchange, 1963-66 .....	15
6. Net Sterling Balances, September 1963—March 1967 .....	16
7. Reserve Positions in the Fund: Sources of Changes, 1961—June 1967 .....	16
8. Germany and Italy: Changes in Official Foreign Exchange Holdings and in Swap Commitments to Banks, 1964-66 .....	18

<i>Table</i>	<i>Page</i>
9. Patterns of Countries' Official Gold Holdings, 1959-66 .....	23
10. Gold and Foreign Exchange Rankings, End of 1966 .....	23
11. Selected Countries: Government Expenditures Plus Private Investment, 1963-65 .....	26
12. Selected Countries: Total Investment Expenditures and Other Government Ex- penditures on Goods and Services as Percentage of GNP, 1962-65 Averages .....	27
13. Selected Countries: New Issues of Securities by Companies and Government Sector, 1963-66 .....	28
14. Net International Private Capital Movements, 1960-66 .....	29
15. Net International Private Long-Term Capital Movements, 1960-66 .....	31
16. New Foreign Security Issues by Market of Issue, 1963-66 .....	32
17. Europe: New Foreign Security Issues, 1963-66 .....	33
18. United States: New Foreign Security Issues, 1963-66 .....	33
19. European Affiliates of U.S. Companies: Uses and Sources of Funds, 1962-66	33
20. Net International Private Short-Term Capital Movements, 1960-66 .....	34
21. Net Errors and Omissions and Unallocated Private Capital Movements, 1960-66 .....	34
22. Selected Countries: Acquisitions of Financial Assets by Nonfinancial Sectors	36
23. Selected Countries: Size of the Consolidated Financial Sector .....	37
24. Selected Countries: Gross National Product at Constant Prices, Quarterly, 1964-First Quarter 1967 .....	57
25. Selected Countries: Central Government Realized Cash Surpluses or Deficits, 1963-66 .....	61
26. Selected Countries: Changes in Discount Rates, 1966 and First Half 1967 ..	62
27. Selected Countries: Business Net Financing Requirements, 1963-66 .....	65
28. Growth in Value of Exports from Major Areas, 1965-66 .....	72
29. Industrial Countries and More Developed Primary Producing Countries: Growth of Industrial Production and Growth in Value of Imports, 1965-66	72
30. Growth in Value of Exports from Major Areas, by Major Areas of Destina- tion, 1962-66 .....	74
31. Shares in World Exports, by Major Areas, 1961 and 1965 .....	75
32. Export Unit Values of Industrial and Primary Producing Countries, 1964-66	75
33. Major Countries and Areas: Summary of Over-All Balances of Payments, 1965-66 .....	78
34. Industrial Countries: Summary of Current, Capital, and Over-All Balances, 1965 and 1966 .....	79
35. Industrial Countries: Summary of Current, Capital, and Over-All Balances, First Half 1965-Second Half 1966 .....	79
36. More Developed Primary Producing Countries: Summary of Current, Capital, and Over-All Balances, 1965 and 1966 .....	80
37. Industrial Countries: Balances on Trade, Other Current Transactions, and Current Account, 1965 and 1966 .....	82
38. Industrial Countries: Growth of Industrial Output and Growth of Imports Relative to Growth of Industrial Output, 1964-65, 1965-66, and Second Half 1965-Second Half 1966 .....	84
39. Industrial Countries: Growth of Output, Imports, Export Markets, and Ex- ports, 1965-66 and Second Half 1965 to Second Half 1966 .....	85
40. Net International Private Capital Movements, 1960-66 .....	88

<i>Table</i>	<i>Page</i>
41. Selected Countries: Commercial Banks' Foreign Currency Liabilities to, and Claims on, Nonresidents, 1964-66 .....	88
42. Changes in Claims on Foreigners Reported by Banks in the United States, 1964-66 .....	89
43. Distribution of U.S. Direct Investment Abroad, 1964-66 .....	90
44. Export Prices (Unit Values) for Agricultural Products, 1962-66 .....	96
45. Primary Producing Countries: Exports, 1953-66 .....	96
46. Less Developed Primary Producing Countries: Relative Changes in Exports and Imports, and Absolute Trade Balances, 1960-66 .....	98
47. More Developed Primary Producing Countries: Changes in Exports and Imports, and Trade Balances, 1960-66 .....	99
48. Selected Less Developed Countries: Changes in Certain Elements of the Balance of Payments, 1965-66 .....	100
49. Less Developed Primary Producing Countries: Annual Growth of Population and Real Domestic Product, by Regional Groupings, 1960-65 .....	101
50. Less Developed Primary Producing Countries: Relative Changes in Exports of Goods and Services, Capital Inflows, Total Receipts, and Imports of Goods and Services, 1960-65 .....	102
51. Less Developed Primary Producing Countries Which Received Large Net Inflows of Long-Term Capital in 1960 or 1965 .....	103
52. Less Developed Primary Producing Countries: Growth of Exports and Imports by Major Commodity Groupings, 1961-65 .....	104
53. Less Developed Primary Producing Countries: Relative Importance of Trade in Major Commodity Groupings, 1961 and 1965 .....	105
54. Gold: Value of World Production, 1940, 1945, and 1962-66 .....	114
55. Gold: Available New Supplies and Use, 1964-66 .....	116
56. Gold: New Supplies and Use, 1956-66 .....	119
57. United States: Gold Transactions, 1964-66 .....	121
58. United Kingdom: Imports and Exports of Gold, 1962-66 .....	123
59. Gold: Prices in Various World Markets, End of April, 1966 and 1967 .....	124
60. Countries That Have Accepted Article VIII, June 30, 1967 .....	129
61. Initial Par Values Established, Fiscal Year Ended April 30, 1967 .....	130
62. Increases in Quotas, Fiscal Year Ended April 30, 1967 .....	130
63. Purchases of Currencies from the Fund, Fiscal Year Ended April 30, 1967 ..	133
64. Fund Stand-By Arrangements for Members, Fiscal Year Ended April 30, 1967	134
65. Repurchases of Currencies from the Fund, Fiscal Year Ended April 30, 1967	136
66. Drawings and Repurchases by Currency, Fiscal Year Ended April 30, 1967 .	137
67. Summary of Fund Transactions, Fiscal Years Ended April 30, 1948-67 .....	139
68. Belgium-Luxembourg: Balance of Payments Summary, 1965-First Quarter 1967 .....	145
69. Canada: Balance of Payments Summary, 1965-First Quarter 1967 .....	146
70. Metropolitan France: Balance of Payments Summary, 1965-66 .....	147
71. Federal Republic of Germany: Balance of Payments Summary, 1965-First Quarter 1967 .....	148
72. Italy: Balance of Payments Summary, 1965-First Quarter 1967 .....	149
73. Japan: Balance of Payments Summary, 1965-First Quarter 1967 .....	150
74. Netherlands: Balance of Payments Summary, 1965-First Quarter 1967 .....	151
75. United Kingdom: Balance of Payments Summary, 1965-First Quarter 1967 ..	152

<i>Table</i>	<i>Page</i>
76. United States: Balance of Payments Summary, Seasonally Adjusted, 1965– First Quarter 1967 .....	153
77. Primary Producing Countries: Balance of Payments Summaries, 1965 and 1966 .....	154-55

*Chart*

1. Changes in Countries' Reserve Assets, 1960–66 .....	11
2. Gold as Percentage of Reserves, 1948–66 .....	13
3. Selected Countries: Reserve Movements, End of Year, 1956–66 .....	25
4. Selected Countries: Long-Term Government Bond Yields, 1963–May 1967 ..	27
5. Selected Countries: Short-Term Interest Rates, 1963–May 1967 .....	28
6. Selected Areas and Countries: Industrial Production, Seasonally Adjusted, 1963–April 1967 .....	56
7. EEC Countries: Industrial Production, Seasonally Adjusted, 1963–April 1967 .....	57
8. Selected Areas and Countries: Cost of Living, 1963–May 1967 .....	58
9. Selected Areas and Countries: Wholesale Prices, 1963–May 1967 .....	58
10. Selected Areas and Countries: Wage Rates, 1963–April 1967 .....	59
11. Selected Countries: Wage Cost per Unit of Output in Manufacturing, 1963– First Quarter 1967 .....	59
12. Selected Areas and Countries: Export Prices, 1963–April 1967 .....	60
13. Discount Rates, 1963–June 1967 .....	62
14. United Kingdom: Short-Term Interest Differentials, 1963–June 1967 .....	67
15. Term Structure of Interest Rates .....	68
16. Selected Countries: Industrial Bond Yields, 1962–May 1967 .....	68
17. Developed Areas and Countries: Seasonally Adjusted Industrial Production and Value of Imports, 1963–First Quarter 1967 .....	71
18. Industrial Countries: Seasonably Adjusted Exports and Imports, 1963–First Quarter 1967 .....	76
19. Developed Areas and Countries: Current, Capital, and Over-All Balances, 1962–66 .....	77
20. Primary Producing Countries: Over-All Balances of Payments, 1964–66 ...	81
21. Selected Industrial Areas and Countries: Current and Basic Balances of Pay- ments, 1959–66 .....	83
22. Less Developed Primary Producing Countries: Value of Exports in Current Prices, Import Purchasing Power of Exports at 1958 Prices, and Value of Imports at 1958 Prices, 1955–First Quarter 1967 .....	94
23. Primary Producing Countries: Prices of Commodities Exported (Excluding Petroleum), 1962–First Quarter 1967 .....	94
24. Selected Primary Products: Average Prices, 1963–First Quarter 1967 .....	95
25. Gold: Estimated New Supplies and Absorption, 1951–66 .....	117
26. Gold: Price in London Market, Monthly Averages, March 1954–June 1967..	122
27. Outstanding Balances of Drawings from the Fund and Unused Stand-by Ar- rangements, on April 30, 1948–67 .....	138

The following symbols have been used throughout this Report:

- . . . indicate that data are not available;
- indicates that the figure is zero or less than half the final digit shown, or that the item does not exist;
- is used between years or months (e.g., 1962–64 or January–June) to indicate a total of the years or months inclusive of the beginning and ending years or months;
- / is used between years (e.g., 1964/65) to indicate a fiscal year or a crop year.

Minor discrepancies in total shown in the tables and in percentages are due to rounding.

*This page intentionally left blank*

# INTERNATIONAL MONETARY FUND

Pierre-Paul Schweitzer

Managing Director and Chairman of the Executive Board

Frank A. Southard, Jr.

Deputy Managing Director

## Executive Directors

William B. Dale  
Sir John Stevens  
Ernst vom Hofe  
René Larre  
B. K. Madan  
Ahmed Zaki Saad  
Sergio Siglienti  
Hideo Suzuki  
S. J. Handfield-Jones  
J. O. Stone  
Pieter Lieftinck  
André van Campenhout  
Jorge González del Valle  
Torben Friis  
Alexandre Kafka  
Paul L. Faber  
Adolfo C. Diz  
Beue Tann  
Amon Nikoi  
Antoine W. Yaméogo

## Alternate Executive Directors

John S. Hooker  
Douglas W. G. Wass  
Horst Ungerer  
Gérard M. Teyssier  
Arun K. Banerji  
Albert Mansour  
Costa P. Caranicas  
Eiji Ozaki  
Patrick M. Reid  
A. M. de Villiers  
H. M. H. A. van der Valk  
Herman Biron  
Alfredo Phillips O.  
Jorma Aranko  
Paulo H. Pereira Lira  
Leonard A. Williams  
Yamandú S. Patrón  
C. L. Chow  
Muhamad Barmawie Alwie  
Léon M. Rajaobelina

## Senior Officers

The General Counsel  
The Economic Counsellor  
Administration Department  
African Department  
Asian Department  
Central Banking Service  
European Department  
Exchange and Trade Relations Department  
Fiscal Affairs Department  
IMF Institute  
Legal Department  
Middle Eastern Department  
Research and Statistics Department  
Secretary's Department  
Treasurer's Department  
Western Hemisphere Department  
Office in Europe (Paris)  
Office in Geneva  
  
Chief Editor

Joseph Gold  
J. J. Polak  
Phillip Thorson, Director  
Mamoudou Touré, Director  
D. S. Savkar, Director  
J. V. Mládek, Director  
L. A. Whittome, Director  
Ernest Sturc, Director  
Richard Goode, Director  
F. A. G. Keesing, Director  
Joseph Gold, Director  
John W. Gunter, Acting Director <sup>1</sup>  
J. J. Polak, Director  
W. Lawrence Hebbard, Secretary  
Oscar L. Altman, Treasurer  
Jorge Del Canto, Director  
Jean-Paul Sallé, Director  
Edgar Jones, Director  
  
Roger V. Anderson

July 26, 1967

<sup>1</sup> Anwar Ali, Director (on leave)

*This page intentionally left blank*

LETTER OF TRANSMITTAL  
TO THE BOARD OF GOVERNORS

July 26, 1967

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, 1967.

Yours sincerely,

/s/

PIERRE-PAUL SCHWEITZER

*Chairman of the Executive Board*

Chairman of the Board of Governors  
International Monetary Fund

*This page intentionally left blank*

**Part I**  
**THE WORLD ECONOMY AND THE FUND**

*This page intentionally left blank*

## Chapter 1

# General Economic Survey

### *Introduction*

THE year 1966 was one of adjustment for the world economy—an adjustment that has yet to run its course. For the year as a whole compared to 1965, industrial production and international trade on a world-wide basis again expanded substantially. However, in the course of 1966 the expansion exhibited a marked deceleration. The major cause of this lay in three developments that affected many industrial countries, though with differing importance among them: limitations on further output growth imposed by capacity shortages, some weakening in the underlying forces of expansion, and measures of financial restraint taken early in 1966 to alleviate inflationary pressures. The slowdown in the tempo of economic activity in major industrial countries during the latter part of 1966 continued in the first half of 1967, and was accompanied by a shift of national economic policies toward expansion. Weakening of demand conditions in the industrial world has served to ease inflationary strains; at the same time, it has had adverse effects on commodity prices and exports in many of the primary producing countries. (Key indicators of recent changes in world economic activity are provided in Tables 1 and 2.)

In dealing with the inflationary pressures that developed in late 1965 and early 1966, most industrial countries either delayed fiscal action or employed it only moderately and placed a special emphasis on monetary policy. The timing and particular combination of policies had a marked impact on the balance of payments of individual countries, but they made only a limited, and essentially temporary, contribution to the reduction of international payments disequilibrium and intensified the strains in money and capital markets. The major financial markets experienced acute shortages of loanable funds, and interest rates rose to their highest levels since the 1920's. Alongside this pressure on "commercial" liqui-

dity in 1966, official liquidity in the form of external monetary reserves<sup>1</sup> again showed a slower pace of increase. Moreover, this increase in world reserves was itself drawn from special and reversible sources.

During the last quarter of 1966 and the first several months of 1967, the tensions in money and securities markets were eased progressively as a result of concerted action by the monetary authorities of several leading nations. This action was facilitated by the abatement of demands for investible funds that accompanied the slowdown in economic activity, and the levels of interest rates in North America and Western Europe fell sharply. In the second quarter of 1967, however, long-term interest rates again rose in the United States, Canada, and a few European countries, notwithstanding the sluggishness of private investment. This development was particularly marked in the United States, where corporations issued a large volume of bonds in order to rebuild their liquidity positions.

The period from the beginning of 1966 to the first part of 1967 thus encompassed a substantial change in the international economic environment. This created challenges and problems for many individual governments, as well as for the international community at large. In view of the fact that the recent economic slowdown has been widespread and pronounced, it is of great importance for the industrial countries—for the benefit of the primary producing countries, as well as for themselves—to achieve an early resumption of economic growth while avoiding undesirable pressure on prices by keeping over-all spending within the limits of available productive capacity. At the same time, in certain major countries more attention will need to be paid to conflicts between

---

<sup>1</sup> As presented in *International Financial Statistics*, these consist of gold, reserve positions in the Fund, and foreign exchange. For a discussion of the problem of drawing distinctions between freely usable reserves and conditional credit facilities, see Chapter 2, page 11.

TABLE 1. CHANGES IN INDUSTRIAL PRODUCTION, 1964-FIRST QUARTER 1967

(Percentage changes from preceding year or quarter; quarterly figures seasonally adjusted and expressed as annual rates)

	Industrial Countries <sup>1</sup>	France, Italy, Japan	United States, Canada, Germany, United Kingdom	Other Industrial Countries
1964	8	10	7	9
1965	7	4	7	5
1966	7	11	7	4
1965				
III	7	10	7	6
IV	6	3	7	3
1966				
I	11	10	12	5
II	7	13	5	2
III	6	16	3	3
IV	3	12	—	4
1967				
I	-1	10	-4	1

Source: International Monetary Fund, *International Financial Statistics*; Organization for Economic Cooperation and Development (OECD), *Main Economic Indicators*; and staff estimates.

<sup>1</sup> For country coverage, see footnote 1, page 55.

domestic and external objectives. Such conflicts, after easing during 1965, now appear to have become more acute, perhaps largely as a consequence of the early delays or inadequacies of fiscal adjustment.

### Trends and Policies in the Major Countries

At the end of 1965 the forces of expansion in the world economy were vigorous and broadly based. For the first time in the postwar period, all

the industrial countries were either enjoying virtually full employment or (in the cases of France, Italy, and Japan) were again in the expansionary phase of the business cycle following a period of recessionary conditions. Commodity markets had strengthened in the second half of 1965 and, with the prevalence of high and rising levels of demand in the industrial countries, the export earnings of the primary producing countries were increasing rapidly.

In almost all the industrial countries, both private investment and public sector expenditures were advancing strongly during the latter part of 1965 and early 1966. This conjuncture of demand forces tended to exert growing pressures on the capacity of domestic resources and hence on financial markets and the level of interest rates. Containment of cost and price increases was a common problem among the industrial countries.

In a number of these countries effectiveness of the policy adjustments to deal with this situation, and to bring about a reduction in external payments disequilibrium, was limited by three practical circumstances: the difficulties inherent in economic forecasting, the insufficient flexibility in the application of fiscal policy, and the substantial inability of incomes policies to cope with conditions of excess demand. The net result was a tendency for measures of financial restraint to be applied belatedly and to take the form primarily of a more severe tightening in monetary policy than would otherwise have been called for. From a domestic standpoint, these measures failed to prevent the late 1965-early 1966 inflationary up-

TABLE 2. CHANGES IN VALUE OF INTERNATIONAL TRADE, 1964-FIRST QUARTER 1967

(Percentage changes from preceding year or six months; <sup>1</sup> latter figures seasonally adjusted and expressed as annual rates)

	Imports				Exports			
	Industrial countries <sup>2</sup>	France, Italy, Japan	United States, Canada, Germany, United Kingdom	Other industrial countries	World <sup>2</sup>	Industrial countries <sup>2</sup>	Primary producing countries	
							More developed <sup>2</sup>	Less developed <sup>2</sup>
1964	12	10	12	15	12	13	12	9
1965	9	2	12	8	9	10	4	6
1966	11	16	10	8	9	10	10	7
Six months ended:								
March 1965	6	1	8	6	11	12	6	10
September 1965	13	8	17	10	9	9	7	9
March 1966	13	15	14	10	11	12	6	7
September 1966	8	15	6	6	8	8	18	5
March 1967	7	17	4	6	7	10	5	-1

Source: International Monetary Fund, *International Financial Statistics*; OECD, *Main Economic Indicators*; and staff estimates.

<sup>1</sup> Changes are shown on a six months' basis in order to avoid erratic fluctuations in quarterly trade caused, for example, by the U.S. maritime strike in the first quarter of 1965 and the British seamen's strike in the second quarter of 1966.

<sup>2</sup> For country coverage, see footnote 1, page 55.

surge; at the time they were put into effect (beginning variously in the first several months of 1966), prices were rising at exceptional rates but output expansion and demand pressures were already tending to subside. Further, the heavy use of monetary instruments had disproportionate effects on particular sectors of the domestic economy. From a balance of payments standpoint as well, the restraining measures applied in 1966 were not very successful. They failed to prevent marked differences among major countries in output growth and pressure on resources, and these differences led to an impact on the external current account that in some cases was quite unwelcome to the national authorities. Also, the measures were of restricted usefulness in inducing equilibrating international capital flows because of the common pursuit of monetary restraint by a number of major countries irrespective of the strength or weakness of their external payments positions. As discussed below, the developments and policies of 1965-66 made, in some respects, the problem of international payments adjustment in 1967 more difficult.

Major examples of the delayed application of financial restraint are afforded by the United States and Canada. In these countries, the rates of 1965-66 output growth were large but the remarkable pattern of several years' price stability was broken. In both countries the authorities were concerned during most of 1965 about the maintenance of a satisfactory momentum in the domestic economy, and fiscal policies were set on an expansionary course for the second half of the year. The increase in expenditures related to the hostilities in Viet-Nam, announced at the end of July 1965, added to the strength of expansion in the United States, and indirectly in Canada, and had a mounting economic impact that proved difficult to gauge in advance. Aggregate demand in these countries expanded at exceptionally high, unsustainable rates from the second quarter of 1965 to the first quarter of 1966, outrunning the economies' productive capabilities and generating a process of rising prices and wages. The heightened intensity of pressure on domestic resources did not become fully apparent until early 1966.

In Germany, the Netherlands, and other industrial countries of Europe, as well as in the United States and Canada, the rise of aggregate demand

during the second half of 1965 and the early months of 1966 brought such a high level of capacity utilization as to impose a restraint on the further expansion of output. Moreover, because of the intensification of inflationary pressures, the authorities in these countries took progressively more severe measures, largely of a monetary nature, to moderate demand expansion.

The situation in the United Kingdom differed in significant respects. Economic growth in the late 1965-early 1966 period was relatively slow, although the pressure on domestic resources was intense. Also, the application of severe financial restraint came later—in July 1966—than in the other major countries and was induced by external payments crisis. Finally, the program that was formulated to deal with the sterling crisis and with the associated inflationary difficulties relied mainly on fiscal and incomes-policy measures, rather than on monetary measures.

Among the industrial countries, only France, Italy, and Japan still had a significant margin of unutilized economic capacity at the beginning of 1966 and, therefore, continued to pursue policies of expansion throughout the year. Fiscal policy was used to stimulate aggregate demand and, particularly in Japan and Italy, monetary policy was also kept rather easy.

During most of 1966, therefore, monetary restrictiveness was the dominant feature of national economic policy in the majority of the industrial countries. By mid-summer, when the wave of financial restraint was at its peak, conditions in the money and capital markets of a few major countries, especially the United States and Germany, had become quite unsettling.

The industrial economies, already tending to slow down, responded quickly to the policies of restraint. In light of the ensuing developments, the whole period from mid-1966 to mid-1967 must be viewed as one of general economic deceleration in the industrial countries with the exception, most notably, of Japan and also of Italy. During the second half of 1966 industrial output leveled off in the United States and Canada and declined markedly in Germany and the United Kingdom. In these countries, with the exception of the United Kingdom, the weakening of the economic situation that developed in the latter half of 1966 extended into early 1967; the

principal area of weakness in all of them was private investment.

For perspective, it should be recalled that the period from mid-1965 to mid-1966 was one of exceptionally strong expansion, and of increasing strains on resources, in the industrial world. Because the intensity of demand pressures in individual countries was incompatible with the maintenance of reasonable price stability and balance of payments equilibrium, a lessening of these pressures was in itself to be welcomed. However, such an economic adjustment necessarily carried with it the risk that slackening in the previously overstrained economies might become too prolonged and too sharp, and thus also subject other economies to adverse effects extending beyond the limited reduction of international demand pressure that would be appropriate. In the first part of 1967, with the adjustment having proceeded for about a year, total output was rising little, if at all, in such leading economies as the United States, Germany, the United Kingdom, and Canada, and a crucial question was whether these countries would achieve a revival of economic expansion on a satisfactory scale during the latter part of 1967. In the United States and the United Kingdom, the authorities have the delicate task of fostering this revival while carefully limiting any adverse impact on the external payments position.

Resumption of more normal rates of growth in the industrial countries was being actively encouraged by national economic policies in the first part of 1967. The outstanding feature of these policies has been a widespread retreat from the tight monetary policies and high interest rates of 1966. While such a reversal has been desirable, there is an appropriate limit to the process. A clear lesson of the 1966 experience is that, in the period ahead, industrial countries should make greater use of fiscal measures in seeking an effective combination of policies to meet their domestic and external objectives.

An early pickup in the activity of the major industrial countries would clearly be of great benefit to the primary producing countries. The income of the latter is strongly influenced by the strength of demand for their exports in the industrial world. The weakening of demand expansion in the industrial countries during 1966 and early

1967 led to a decline in the high rate of increase in world trade and, in particular, checked the recovery in export growth of the primary producing countries that had been apparent from the second half of 1965. For many of the less developed countries especially, the worsening of their external economic environment, as reflected in slower export-volume growth and declining commodity prices, has added to internal economic difficulties. Such difficulties have stemmed in large part from pressures of demand on domestic resources, including those arising from the necessity of altering the pattern of resource utilization to meet the problem of increasing food shortages and to diversify the economies.

#### *International Payments and Reserves*

The sharp changes in economic conditions and policies in the industrial countries during 1966 had substantial effects on their external payments positions. The United Kingdom, which sustained a sudden worsening of its balance of payments around the middle of the year, took firm hold of its acute payments problem during the summer of 1966 and achieved a clear improvement in the situation during ensuing months. Furthermore, there was some reduction in the strong surplus positions of France and Italy. In the European Economic Community as a whole and in the United States, however, balance of payments developments during 1966 cannot be said to have represented progress toward lessening the disequilibrium in the international system.

Although the U.S. balance of payments deficit, as measured on an official settlements basis, was eliminated in 1966, the underlying changes from 1965 on current account and capital account were not indicative of fundamental improvement. The current account surplus fell to its lowest level since 1960, primarily as a result of rapid economic growth and high demand pressures; larger military expenditures connected with the hostilities in Viet-Nam were an important specific factor in this deterioration. On the other hand, tightening of monetary and credit conditions had a pronounced impact on the capital account. The major element was a massive inflow of banking funds, on a scale large enough in the third quarter of 1966 to produce a surplus on an official settlements basis for the year as a whole of about

\$200 million. During the next two quarters this inflow of funds—attributable to temporarily stringent financial conditions and to the sterling crisis—was reduced somewhat and then reversed.

The heavy inflow of short-term funds to the United States during 1966 had an impact on many countries, and interest rates in the Euro-dollar market rose to their highest level since the market became active in the late 1950's. However, the international repercussions of that inflow were partly mitigated by the fact that countries such as Italy and Japan did not resist a withdrawal of funds as a counterpart to their surpluses on other accounts. In most other major countries such movements of funds tended to be discouraged by the maintenance of high interest rates. The substantial over-all payments surplus of the European Economic Community increased somewhat further in 1966, notwithstanding the large capital outflow from Italy. Within the European Economic Community, Germany in particular relied heavily on monetary policy to contain domestic inflationary pressures; this induced substantial inflows of capital at a time when funds were also being pulled into the United States.

One result of these developments was that a notable part of the strain from the inflow of short-term funds to the United States was borne by the United Kingdom. At the same time, in the first half of 1966, the earlier improvement in the United Kingdom's basic payments position was interrupted, both by the persistence of inflationary pressures, particularly on the side of wage increases, and, in the second quarter, by the seamen's strike. The renewed pressure on sterling in the summer of 1966, exacerbated by intense speculation, was countered by major new measures, including higher indirect taxation, further credit tightening, and imposition of strict controls over increases in money incomes and prices.

Among countries exporting primary products, the more developed ones realized a modest over-all payments surplus in 1966, in contrast to a deficit of almost \$800 million in 1965. For nearly all of the countries in this group, the structure of the balance of payments consists of a current account deficit and a net capital inflow. In 1966 the improvement in the over-all payments position of the more developed primary producers as a group centered in the current account; the net

capital inflow was only slightly higher than in 1965 and 1964.

This situation points up the crucial dependence of the more developed primary producing countries—from the standpoint of economic growth and of balance of payments equilibrium—upon a high and expanding inflow of capital. Particularly for those countries in the middle stages of development, the inflow of foreign capital has been made more difficult in recent years. The traditional large exporters of long-term capital, the United States and the United Kingdom, have sharply reduced their capital exports to these countries, and U.S. and U.K. companies have sought to finance part of their foreign direct investments by raising funds locally or in competition with others—including the more developed primary producing countries—on the international capital markets. The extremely high interest rates that prevailed during 1966 were in part a reflection of these changes, as was also the difficulty experienced by many borrowers in raising funds.

The less developed group of primary producing countries together had a balance of payments surplus of about \$450 million in 1966, but this was less than half as large as the 1965 surplus. Moreover, within this group there was a diversity of experience. Improvements in payments positions in 1966 were limited mainly to some oil exporting countries and to a few countries in the Far East where external receipts expanded in connection with the hostilities in Viet-Nam. Among other less developed countries, reserve gains tended to be smaller than in 1965 or to be replaced by reserve losses.

The evolution of the payments situation in the less developed countries during 1966 included certain disquieting features. First, the total exports of countries dependent mainly on agricultural products increased only moderately from 1965 to 1966; with allowance for higher import prices, there was scarcely any increase in the import purchasing power of this large group of countries. Second, the slowing down or cessation of reserve accumulation by most of these countries during 1966, coupled with the general weakening of their current account positions in the second half of the year, may have foreshadowed lower import growth during 1967. Third, the net

flow of long-term financial resources<sup>2</sup> to the less developed countries declined slightly from 1965 to 1966. Official grants and loans from the industrial countries rose somewhat, whereas the private capital inflow showed a considerable decrease. In view of the fact that the over-all flow of financial resources to the less developed countries in recent years—particularly the official flow—has not kept pace with the growth in output of the industrial countries, an observation made in last year's Annual Report is still pertinent: "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."<sup>3</sup>

In the aggregate, payments imbalances covered by official settlements in 1966 were somewhat smaller than in the previous year and substantially less than in 1964. However, the change reflected the sharp, probably temporary, reduction from 1965 to 1966 in the U.S. deficit (on an official settlements basis). The rise in world reserves during 1966 amounted to \$1.4 billion, which, like the rise of \$1.7 billion in 1965, was below the earlier postwar trend. Since the end of 1964 reserve developments have become more complex, and hence more difficult to interpret. They are analyzed, in historical perspective, in Chapter 2.

#### *International Payments Adjustment in 1967*

The rapid shifts in economic activity and policies in the industrial countries since the middle of 1965 have had a clear impact on the current environment for international payments adjustment. In early 1967 the evolving pattern of domestic developments in the industrial economies was exerting to some extent an equilibrating tendency on current accounts. However, the impact on capital accounts could, in a number of cases, be disturbing in the absence of countermeasures.

In the United Kingdom the substantial easing of demand pressure since the measures of July 1966 has led to strong improvement in the trade

balance. The outflow of long-term private capital is being held down by both statutory controls and voluntary measures, and an inflow of short-term capital should be attainable provided that credit is kept relatively tight and there is continuing confidence in sterling. The U.K. authorities are expecting the over-all balance in 1967 to show a marked improvement over 1966, and have signified their intention of repaying their 1964 drawings from the Fund on or ahead of schedule (December 1967).<sup>4</sup> All the outstanding short-term credits from foreign central banks have been paid, with a remaining \$500 million of securities available for addition to the reserves.

The United Kingdom will need to continue to strengthen its international competitiveness, particularly after the appreciable increases of unit costs that occurred in 1965 and the first half of 1966. To this end, maintenance of an incomes policy more effective than that of its competitors is necessary as the expansion of the economy resumes. Beyond this, it is clearly essential for the United Kingdom to continue to ensure that adequate resources are made available for the needed balance of payments improvement, so that the absorption of any undue slack in the economy proceeds in such a way as not to impinge on the growth of exports.

The main industrialized countries in which domestic activity has been relatively strong—Japan, Italy, and (to a lesser extent) France—are for the most part well placed to meet declines in their trade balances. In all these countries the current balance was strengthened in the previous stage by conditions of cyclical slack in their own economies. Particularly for France and Italy, which also have relatively high reserves, a continuance of expansionary policies would seem to be appropriate from a domestic as well as an international standpoint.

Currently, the two major sources of possible strains in world payments are the re-emergence of a German surplus and continuation of the U.S. deficit. Germany's recent swing into a strong current account position is closely related to the slackening and stagnation in the domestic economy; the trade balance has shown a large and rapid response to this change. Although the

<sup>2</sup> This consists of official grants and of official and private capital with a maturity of more than one year, as defined by the Development Assistance Committee of the OECD.

<sup>3</sup> *Annual Report, 1966, page 5.*

<sup>4</sup> On May 25, 1967, the United Kingdom made a partial repayment, equivalent to \$405 million. (See Chapter 5, page 49.)

emergence of the current surplus has thus reflected the onset of cyclical forces, the existence of a current surplus of large magnitude makes the restoration of normal domestic growth in Germany especially desirable and facilitates the task of achieving it. Furthermore, the large current surplus increases the desirability of capital outflows to offset it at least in part—as the cyclical current surpluses of Italy and Japan have been offset in recent years. So far this year, the flexible new German fiscal arrangements introduced in the investment budget have involved some immediate expansionary effect, and a general easing of monetary policy has been fostered by the Bundesbank through a series of measures to improve bank liquidity. It is particularly appropriate that Germany, as a country with both a weak domestic demand situation and a strong external position, has taken the lead among major countries in reducing the discount rate of the central bank.

In the United States a basic problem confronting the authorities in 1967 is the conflict posed between domestic and external policy objectives. The domestic objective of restoring the economy's growth rate to its noninflationary potential (estimated at 4 per cent per annum by U.S. officials) is not only important for the United States; in the current situation of widespread economic slowdown among the industrial countries, it also is in the interest of the entire world. However, measures to achieve this objective are in themselves likely to run counter to an improvement in the balance on current account, particularly if U.S. growth in the period ahead exceeds that of its major trading partners. In view of the persistent problem of reducing and eliminating the U.S. balance of payments deficit, these considerations underline the importance of appropriate adjustment policies on the part of deficit and surplus countries alike. There is, *inter alia*, a need for the U.S. authorities to ensure that any extension of the recent trend toward monetary easing is pursued with the utmost caution; in particular, the United States should in present circumstances follow, not lead, any further decline of interest rates in other major countries. A significant contribution to international adjustment could also be made by those major countries—principally Germany, France, and Italy—which are in relatively

strong reserve positions and do not at present face a conflict between domestic and external objectives.

In short, the pursuit of these policies is essential at this juncture to strengthen the international economic system in two major respects—to assure that the world economy will resume its upward trend and to hold down the payments deficit of the United States. At the same time, the manner in which this deficit is financed is assuming increasing importance.

To finance balance of payments deficits in their official settlements, countries have recourse to the use of reserve assets and of negotiated credits, particularly those available through the Fund. In the international monetary system as it has evolved, this is true as well of the United States except to the extent that other countries retain additions to their reserves in the form of U.S. liabilities. Also, like other countries, the United States—notwithstanding the difficulty of its payments position at present—must consider a situation of balance of payments deficit as temporary and subject to correction without undue delay. The function of reserves and other financing facilities is to assist countries to make such correction without destructive effects on their own or on other economies. Despite reserve losses over a period of years, the sources of financing available to the United States, in the form of gold and its credit facilities in the Fund and elsewhere, remain substantial.

More generally, the proper balance between arrangements to finance deficits in international payments and measures aiming at restoring payments equilibrium is the central core of the work of the Fund. This balance is essential to the achievement of the Fund's purposes, and it is increasingly realized that this range of matters is closely related to questions in the area of international liquidity.

#### *International Liquidity*

During the past year the Fund has continued to give active consideration to problems related to international liquidity and possible reform of the international monetary system. At the 1966 Annual Meeting of the Board of Governors, the Managing Director expressed the understanding that Governors supported a procedure under

which there could be a direct exchange of views on international liquidity in a series of joint, informal sessions of Executive Directors and the Deputies of the Group of Ten,<sup>5</sup> who in recent years had been conducting parallel studies of this question.

In pursuance of this understanding, four such Joint Meetings were organized and took place in

---

<sup>5</sup> Deputies of the Ministers and Central Bank Governors of the participants in the General Arrangements to Borrow.

Washington in November 1966 and April 1967, in London in January 1967, and finally in Paris in June 1967. As a result of these Joint Meetings, there evolved the general structure of an Outline of a scheme for deliberate reserve creation in the form of drawing rights which would be operated in, or in close association with, the Fund.

It is expected that an Outline Plan will be attached to a Resolution to be submitted to Governors at the forthcoming Annual Meeting in Rio de Janeiro.

## Chapter 2

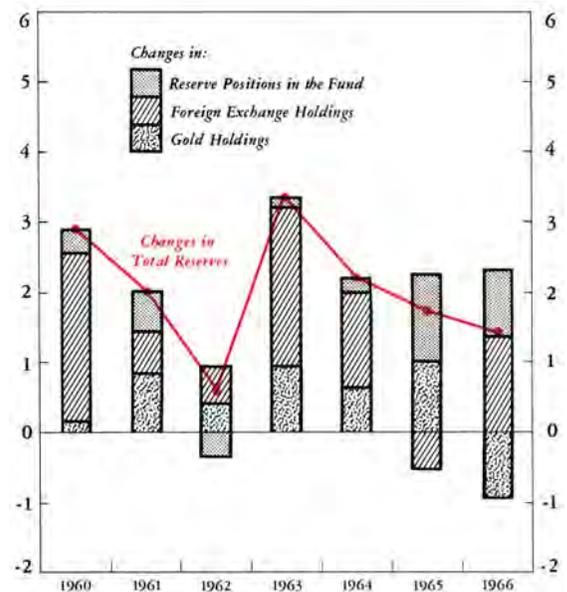
# Developments in World Reserves

THE course of world monetary reserves since about the end of 1964 has been characterized by a number of important new features. Significant changes have occurred in the pace of reserve growth, in the asset composition of that growth and in its determinants, and in the extent of associated repayment liabilities. These developments, which are in part interconnected, have been accompanied by certain general shifts in countries' reserve policies relating both to accumulation and to composition of reserves. In previous Annual Reports the Fund has devoted extensive discussion to the role of reserves in the functioning of the international monetary system, to the related role of conditional credit facilities, and to the many issues that arise in connection with the problem of the appropriate size and form of reserves. It is not intended to discuss these matters again in this Report. The aim of the present chapter is to trace the major developments in reserve holding that have taken place in the recent period, with stress on the qualitative as well as quantitative aspects.

The discussion is focused on reserves in the sense that has secured widespread acceptance in recent years, i.e., assets and facilities that are freely usable by monetary authorities for the purpose of meeting balance of payments deficits. Under present conditions, these assets comprise holdings by monetary authorities of gold and foreign exchange in convertible currencies, together with reserve positions in the Fund in the form of gold tranche positions and lending to the Fund. It should of course be emphasized that distinctions between freely usable reserves and other potential media of international liquidity in the form of conditional credit facilities may not always be hard and fast. The classification is perhaps particularly difficult in the case of unactivated central banking swap facilities. In some cases, these facilities may share certain characteristics of reserves in relation to unconditionality and usability, though the financial situation of the partner coun-

try or countries may be a limiting factor in this context; at the same time, the normally brief term of these credits may itself limit their assured availability for the financing of payments deficits. These considerations, as well as the absence of comprehensive information, make it appropriate to exclude these facilities from reserves data, and to consider them, together with the extensive conditional credit facilities available in the Fund itself, as supplements to reserves.

CHART 1. CHANGES IN COUNTRIES' RESERVE ASSETS, 1960-66  
(In billions of U.S. dollars)



A slackening in the pace of increase in world reserves on this definition<sup>1</sup> continued in 1966. The course and constituents of reserve growth since 1960 are shown in Chart 1 and in Table 3. In this perspective, 1964 may be regarded as broadly representative of reserve growth on the earlier pattern; since then, reserve developments have diverged from this pattern in important ways.

<sup>1</sup> "World" reserves exclude throughout the holdings of Soviet countries and Mainland China.

Thus, in both subsequent years, reserves in their traditional forms, of gold and foreign exchange, moved erratically and for the most part in a downward direction. In 1964 reserves still increased simultaneously in both these forms. The increase in total reserves was the equivalent of \$2.2 billion, or 3.3 per cent, coinciding exactly with the average annual percentage increase from 1960 through 1964. In 1965, the increase decelerated to \$1.7 billion, and in 1966 it slowed further to \$1.4 billion, or 2.0 per cent. Moreover, about two thirds of this increase was attributable to the transfer into reserves in early 1966 of the proceeds of what had been a second line of reserves held by the British Government in U.S. securities. Special financing transactions of

the United Kingdom had since late 1964 been a major source of world reserve growth. In the 12 months to the end of March 1967, which were virtually free of any net impact from these influences, total world reserves rose by \$0.7 billion, to \$70.2 billion. Reserves of industrial countries showed a fractional decline.

### Components of Reserve Growth

The recent deceleration in reserve growth has been accompanied by a marked change in the main constituents of that growth, as well as by a continued expansion in the amount and scope of

TABLE 3. COUNTRIES' OFFICIAL RESERVES, 1960-66<sup>1</sup>

(In millions of U.S. dollars)

	Net Changes in Reserves <sup>2</sup>							Totals, End of 1966				Total Reserves as Percentage of Imports <sup>3</sup>
	1960	1961	1962	1963	1964	1965	1966	Gold	Foreign exchange	Reserve position in IMF	Total	
<b>Industrial Countries</b>												
United States	-2,145	-606	-1,533	-377	-171	-1,222	-569	13,235	1,321	326	14,881	53.7
United Kingdom	918	-401	-10	-161	-831	688	96	1,940	1,159	—	3,100	18.6
Total reserve centers	-1,227	-1,007	-1,543	-538	-1,002	-534	-473	15,175	2,480	326	17,981	40.5
France	536	1,093	684	859	816	619	390	5,238	507	988	6,733	56.9
Germany	2,242	131	-207	694	232	-453	599	4,292	2,479	1,257	8,028	44.5
Italy <sup>4</sup>	195	548	269	-449	205	976	111	2,414	1,612	885	4,911	57.3
Belgium-Luxembourg and Netherlands	622	402	-72	343	499	179	48	3,261	733	783	4,777	31.4
Switzerland	261	434	113	203	46	124	80	2,841	483	—	3,324	84.3
Other Industrial Europe <sup>5</sup>	54	328	276	369	502	33	131	1,030	2,077	377	3,484	28.3
Total Industrial Europe	3,910	2,940	1,060	2,020	2,300	1,480	1,370	19,075	7,895	4,289	31,260	44.7
Canada	-40	287	271	56	278	146	-334	1,046	1,199	448	2,693	27.0
Japan	502	-283	356	36	-39	133	-33	329	1,469	321	2,119	22.3
Total industrial countries	3,140	1,940	145	1,570	1,540	1,225	530	35,625	13,040	5,385	54,055	40.4
<b>Other Developed Countries</b>												
Other European countries <sup>6</sup>	369	322	312	279	521	-178	-79	1,788	1,602	245	3,635	32.9
Australia, New Zealand, South Africa	-588	504	328	573	25	-568	243	861	1,367	220	2,448	33.7
Total other developed countries	-220	825	640	855	545	-745	165	2,650	2,970	465	6,085	33.3
<b>Less Developed Countries</b>												
Middle East oil producers <sup>7</sup>	-49	55	42	409	30	248	260	439	1,312	77	1,825	64.9
Other Middle East	40	43	234	95	86	183	-7	354	965	29	1,348	45.0
Far East <sup>8</sup>	154	39	67	207	171	249	495	228	2,376	84	2,687	54.9
Other Asia	-135	-302	-102	68	-215	37	-31	422	658	17	1,098	19.4
Latin America, North <sup>9</sup>	-154	-88	29	374	145	16	-37	554	1,032	156	1,741	37.6
Other Latin America	69	-166	-493	107	-14	417	-81	429	921	37	1,388	23.8
Africa <sup>10</sup>	39	-312	-5	-276	-81	67	33	68	987	83	1,139	23.5
Total less developed countries	-30	-725	-195	935	125	1,235	680	2,630	8,250	481	11,360	28.1 <sup>11</sup>
Grand Total	2,895	2,035	595	3,360	2,210	1,710	1,380	40,905	24,260	6,331	71,495	37.3

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

<sup>1</sup> Excluding Soviet countries and Mainland China. Totals may not add because of rounding and because some area totals include unpublished data.

<sup>2</sup> Including reserve position in the Fund. No sign indicates increase; minus sign indicates decrease.

<sup>3</sup> Reserves at end of 1966 as percentage of imports c.i.f. during the year.

<sup>4</sup> Including swap claims and nonmarketable U.S. Government securities.

<sup>5</sup> Austria, Denmark, Norway, Sweden.

<sup>6</sup> Finland, Greece, Iceland, Ireland, Portugal, Spain, Turkey, Yugoslavia.

<sup>7</sup> Iran, Iraq, Kuwait, Libya, Saudi Arabia.

<sup>8</sup> Republic of China, Korea, Malaysia, Philippines, Thailand, Viet-Nam.

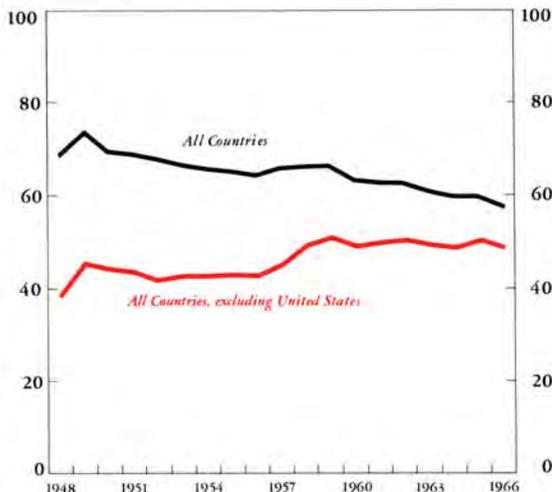
<sup>9</sup> Central America, Dominican Republic, Jamaica, Mexico, Panama, Venezuela.

<sup>10</sup> Excluding Libya and the United Arab Republic.

<sup>11</sup> Percentages for country groups are based on the imports for countries to which reserve statistics refer; the percentage for the total relates, however, to the total imports of all less developed countries and, primarily because dependent territories have no separate monetary reserves, this percentage lies below the weighted average of the subgroups listed.

official swap facilities. The most important constituent in the stock of world reserves continues to be gold, accounting for some 57 per cent of the total at the end of 1966. This ratio has been falling for many years (Chart 2). Gold ratios in the reserve portfolios of individual countries have not fallen correspondingly; the fall in the average ratio of gold in world reserves has been associated with the reduced weight of the United States, with its particularly high gold ratio, in the world reserve total.

CHART 2. GOLD AS PERCENTAGE OF RESERVES, 1948-66  
(In per cent)



Between 1948 and 1964, the intake of gold into national monetary reserves averaged about 1.4 per cent of the gold reserve stock; since the end of 1964 this intake has ceased. At the end of 1966, gold holdings of national monetary authorities were at virtually the same level, the equivalent of \$40.9 billion, as two years earlier. The total including holdings of international institutions was up by only \$0.2 billion, to \$43.2 billion, and fell during 1966 itself. Gold then flowed out of official stocks for the first calendar year since the aftermath of World War I, to the extent of an estimated \$40 million (see Chart 25, p. 117). Private demand for hoarding, jewelry manufacture, and industrial use proper was somewhat below the 1965 peak, but output outside the Soviet countries and Mainland China barely rose, while total new availabilities fell sharply with the

cessation of the previously large sales of Russian gold in Western markets. Countries' own gold stocks dropped by \$945 million, as gold subscriptions to the Fund for increased quotas absorbed a net \$764 million (Table 4). The countries with the largest gold stock, whose central banks provide the resources for the gold pool, lost gold through this channel in 1966; two member countries, France and Italy, nonetheless showed an increase in total gold holdings during the year, of \$532 million and \$10 million, respectively, as a result of purchases from the U.S. Treasury. Other countries generally gained gold in such market transactions and net purchases from domestic producers and consumers (a composite residual category shown in the final column of Table 4) as were undertaken by their monetary authorities.

Holdings of foreign exchange at the end of 1966, at the equivalent of \$24.3 billion, made up 34 per cent of total reserves. In the last three years growth in this component of reserves has shown signs of coming to a halt, if allowance is made for the effect of special transactions. From the late 1930's until about the end of 1964, foreign exchange constituted the most rapidly growing form of world reserves in absolute amount, and usually also in percentage terms. After the end of World War II, virtually the whole increase was in claims on the United States, including toward the end of the period a relatively small issue of nonmarketable U.S. bonds denominated in foreign currencies. In 1951 holdings of dollars in official reserves, at \$4.2 billion, were still only about half the size of official holdings of sterling. Throughout the postwar period, these sterling holdings have remained broadly stable; by 1962 official dollar holdings had been carried to about twice the level of official sterling holdings. Official reserves held in other currencies, notably French francs, have remained at a far lower order of magnitude.

In the past two years, official holdings of foreign exchange have moved rather erratically, partly in connection with drawings on central banking credits; these transactions have somewhat blurred the distinction between the different currency components, and have also involved significant shifts in foreign exchange holdings between countries. In 1965, total foreign exchange holdings fell by \$0.5 billion (Table 5). This was the

net result of diverse movements, including a reduction of \$2.6 billion by industrial and other developed countries other than the United States and the United Kingdom, an increase of \$1.2 billion by less developed countries, and an increase of \$0.9 billion in the foreign exchange holdings of the two main reserve centers themselves, for the most part in the currency of the other. In 1966 total foreign exchange holdings resumed their rise, to the extent of \$1.4 billion; this resulted from a further rise in the holdings of reserve centers, by about the same order of magni-

tude as in 1965. Foreign exchange holdings of nonreserve centers, at \$21.8 billion at the end of 1966, were at almost the same level as three years earlier, with reductions of \$1.2 billion in the holdings of industrial countries other than the United States and the United Kingdom and of \$0.6 billion in those of other developed countries being broadly offset by increased holdings of less developed countries.

Monetary liabilities of the United States to official holders, including both liquid and other liabilities as defined in Table 5, almost stopped

TABLE 4. OFFICIAL GOLD TRANSACTIONS, 1966<sup>1</sup>

(In millions of U.S. dollars)

	Change in Gold Reserves <sup>2</sup>	Net Purchases from U.S. Treasury <sup>3</sup>	IMF Gold Subscription from Own Reserves <sup>4</sup>	Other Transactions <sup>5</sup>
Members of gold pool <sup>6</sup>				
Belgium	-33	—	-21	-12
France	532	601	-49	-19
Germany	-118	—	-103	-15
Italy	10	60	-31	-19
Netherlands	-26	—	-27	—
Switzerland	-201	2	—	-203
United Kingdom	-325	-80	—	-245 <sup>7</sup>
United States	-830	(-431)	-259	-140 <sup>8</sup>
Other industrial countries				
Austria	1	—	—	—
Canada	-105	-200	-48	143
Denmark	11	5	—	6
Japan	1	—	—	—
Norway	-13	—	-13	—
Sweden	1	—	—	—
All industrial countries, excluding United States	-265	388	-292	-362
Nonindustrial countries	150	43	-213	320
All countries, excluding United States	-115	431	-505	-41
All countries	-945		-764	-181 <sup>9</sup>

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

<sup>1</sup> No sign indicates increase; minus sign indicates decrease.

<sup>2</sup> Gold payments made by the United States and other countries in 1965 in anticipation of quota increases in the Fund are treated throughout as made in 1966, when the quota increases took effect.

<sup>3</sup> Excluding gold purchases for Fund quota payments mitigated by Fund gold deposits with the United States. Purchases from the United States by other countries are shown positive.

<sup>4</sup> Excluding subscriptions made out of either gold purchases from reserve centers offset by gold deposits or special drawings of currency replenished by the Fund against gold.

<sup>5</sup> Including transactions with gold pool, Bank for International Settlements (BIS), domestic producers, and domestic users; as well as payments to the Fund in gold repurchases and charges less interest on loans to the Fund.

<sup>6</sup> Countries whose central banks make up the sales consortium providing resources to stabilize the London gold market. The gold pool arrangements for coordinated buying of gold on the market include in addition the Swedish central bank.

<sup>7</sup> Sales of gold of \$34 million for other countries' subscription payments to the Fund offset by Fund gold deposits of equal amount.

<sup>8</sup> Net domestic sales.

<sup>9</sup> Of which a net \$140 million was absorbed on other accounts by international institutions (comprising \$19 million by the Fund in transactions mentioned in footnote 4; a net decrease of \$134 million in the negative gold position of the BIS; offset by a decline of \$13 million in gold holdings of the European Fund). Total official gold stocks fell on balance by \$40 million.

TABLE 5. OFFICIAL HOLDINGS OF FOREIGN EXCHANGE, 1963-66<sup>1</sup>

(In millions of U.S. dollars)

	Totals, at End of 1963	Changes in <sup>2</sup>			Totals, at End of 1966
		1964	1965	1966	
<b>Assets of</b>					
United States	212	220	349	540	1,321
United Kingdom	173	6	560	420	1,159
Total reserve centers	385	226	909	960	2,480
Industrial Europe <sup>3</sup>	8,392	790	-1,681	393	7,895
Canada and Japan	3,375	-222	-61	-424	2,668
Other developed countries <sup>4</sup>	3,564	472	-897	-170	2,970
Less developed countries	6,317	109	1,212	613	8,250
Total nonreserve centers	21,648	1,149	-1,427	412	21,780
Total all countries	22,033	1,375	-518	1,372	24,260
<b>Liabilities of</b>					
United States	14,602	1,169	78	-951	14,898
of which					
Liquid liabilities	14,353	1,071	-52	-1,716	13,656
Other <sup>5</sup>	249	98	130	765	1,242
United Kingdom <sup>6</sup>	6,530	535	-320	756	7,501
Identifiable asymmetries <sup>7</sup>	-437	-36	-572	939	-106
Other liabilities <sup>8</sup>	1,338	-293	296	628	1,967
<b>Memorandum item: External liabilities to commercial banks and other private holders</b>					
United States	8,900	1,780	330	3,230	14,240
United Kingdom	4,760	53	227	-73	4,967

Sources: International Monetary Fund, *International Financial Statistics*, and staff estimates.<sup>1</sup> Holdings of international institutions are excluded throughout; holdings of Soviet countries and Mainland China are omitted from the compilation of assets, but included in U.S. and U.K. liabilities. This treatment results in a negative reconciliation item, so that "Other liabilities" are understated to this extent.<sup>2</sup> No sign indicates increase; minus sign indicates decrease.<sup>3</sup> Austria, Belgium, Denmark, France, Germany, Italy, Netherlands, Norway, Sweden, Switzerland.<sup>4</sup> Australia, Finland, Greece, Iceland, Ireland, New Zealand, Portugal, South Africa, Spain, Turkey, Yugoslavia.<sup>5</sup> Covers holdings by central banks and governments of nonmarketable inconvertible Roosa bonds and notes; other nonmarketable U.S. Treasury bonds and notes; and time deposits and certificates of deposit with an original maturity of one year or more.<sup>6</sup> Covers liabilities to foreign central monetary authorities, including inter-central-bank assistance.<sup>7</sup> Covers liabilities of United Kingdom on loans from Swiss Confederation, not included in Swiss reserves, amounting to \$80 million at the end of 1964, and \$120 million at the end of 1965 and end of 1966; U.K. sales of U.S. corporate securities of \$500 million in 1965, included in U.K. reserves only in February 1966; U.S. liabilities to Bank for International Settlements and European Fund amounting to \$437 million at the end of 1963, \$393 million at the end of 1964, \$425 million at the end of 1965, and \$186 million at the end of 1966; and holdings of German and Mexican currencies totaling \$0.2 billion at the end of 1966 included in U.S. reserves.<sup>8</sup> 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. See also footnote 1.

rising in 1965 and fell by \$1.0 billion in 1966. This movement, however, reflected a large-scale retention of dollar balances in private holdings in response to sharply increased dollar interest rates. Official holdings in the Euro-dollar market also increased. Official claims on the United Kingdom, including central banking credits, rose by about \$1 billion in the three years to the end of 1966, to \$7.5 billion (the notable recent change in the pattern of ownership of these claims is shown in Table 6). Finally, a residual item including official monetary liabilities of countries other than the United States and the United Kingdom, claims held by official holders in the Euro-dollar market,

and currency deposits with the Bank for International Settlements rose by \$0.6 billion in these three years (Table 5).<sup>2</sup>

Even without adjustment for the special influences in the net growth of foreign exchange holdings in 1965 and 1966, some 70 per cent of the growth in total reserves in this two-year period

<sup>2</sup> The aggregate of these three categories of claims may well be higher than the \$2.0 billion shown for "Other liabilities" for the end of 1966. This item reconciles the total of known foreign exchange assets with the total of known liabilities, and since only the latter reflect dollar and sterling holdings of Soviet countries and Mainland China, this is one asymmetry known to give rise to a negative element in the residual item.

TABLE 6. NET STERLING BALANCES, SEPTEMBER 1963-MARCH 1967

(Value in millions of U.S. dollars)

	Net Liabilities at End of September				Change, 1963 to 1966 <sup>1</sup>	Change, September 1966 to March 1967 <sup>1</sup>	Per Cent of Total		
	1963	1964	1965	1966			Sept. 1963	Sept. 1966	March 1967
1. To Central Monetary Institutions	6,093	6,723	6,711	7,445	1,352	-1,190	70	63	57
2. Sterling area	5,107	5,566	4,810	4,953	-154	14	59	42	45
3. Non-sterling area	986	1,157	1,901	2,492	1,506	-1,204	11	21	12
4. To Others	2,363	2,606	1,899	1,688	-675	401	27	14	19
5. Sterling area	1,882	1,800	1,627	1,915	33	-33	22	16	17
6. Non-sterling area	481	806	272	-227 <sup>2</sup>	-708	434	5	-2	2
7. To International Monetary Fund <sup>3</sup>	—	—	2,400	2,484	2,484	-69	—	21	22
8. To Other International Organizations	244	272	272	291	48	14	3	2	2
9. Total Net Liabilities <sup>4</sup>	8,700	9,601	11,282	11,908	3,208	-844	100	100	100
Memorandum Item: 3 + 7	986	1,157	4,301	4,976	3,990	-1,273	11	42	34

Source: Adapted from Central Statistical Office, *Economic Trends* (London), June 1967.<sup>1</sup> No sign indicates increase; minus sign indicates decrease.<sup>2</sup> Net claims.<sup>3</sup> Excess of Fund holdings over 75 per cent of quota.<sup>4</sup> Other than funds with local authorities and hire-purchase finance companies, and excluding Fund holdings equivalent to 75 per cent of quota.

was accounted for by the increase in reserve positions in the Fund. In 1965 the major influence here was in the exceptionally large drawings on the Fund, particularly by the United Kingdom, somewhat modified by reductions in the Fund's gold holdings (Table 7). The United Kingdom's drawing of the equivalent of \$1.4 billion, which increased its outstanding drawings in the credit tranches and reduced its conditional drawing rights to the same extent, added \$1 billion to

other countries' gold tranche positions and loan claims on the Fund, in respect of the amounts of their currencies used from existing Fund holdings or borrowed under the General Arrangements to Borrow; a further \$0.4 billion was added to national gold holdings as a result of Fund sales of gold for needed currency to this extent. In 1966 the dominant influence was the net payment of gold to the Fund in connection with quota increases.

TABLE 7. RESERVE POSITIONS IN THE FUND: SOURCES OF CHANGES, 1961-JUNE 1967

(In millions of U.S. dollars)

	1961	1962	1963	1964	1965 <sup>1</sup>	1966	Jan.-June 1967	Total, End of June 1967
Total change in reserve positions	588	-363	145	215	1,221	955	-434	5,897
Derived from changes in								
Fund gold holdings	-358	117	118	-133	-310	783	17	2,669
Gold deposits and investments	—	—	—	—	—	254	23	1,077
Use of Fund credit <sup>2</sup>	1,008	-433	84	349	1,589	-4	-423	2,598
of which								
United Kingdom	558	-558	—	516	1,391	-42	-523	1,342
Other	450	125	84	-167	198	38	100	1,256
Residual item <sup>3</sup>	-61	-47	-57	-1	-57	-81	-50	-447

Source: International Monetary Fund, *International Financial Statistics*.<sup>1</sup> Gold payments totaling \$313 million, mitigated by \$43 million of gold deposits, were made in 1965 in anticipation of quota increases; these transactions were reflected in Fund gold holdings and reserve positions in the Fund in 1966 when the increased quotas became effective.<sup>2</sup> Outstanding drawings other than gold tranche drawings.<sup>3</sup> Including, among other influences, net income of the Fund on a cash basis.

These gold payments in most cases establish additional gold tranches, although for countries that have drawn significantly into their credit tranche, the effect is confined to an increase in credit tranche facilities. In 1966, the associated gold deposits made by the Fund mitigated the effect on countries' own gold reserves without affecting their Fund reserve positions. (In terms of Table 7, these deposits limited the net increase in the Fund's gold holdings arising from gold subscriptions, and must accordingly be added to the change in these holdings as an influence on reserve positions in the Fund.) Total use of Fund credit, as defined in Table 7, showed a slight decline from its 1965 peak. In the two years to the end of 1966 as a whole, reserve positions in the Fund increased in total by \$2.2 billion whereas the Fund's gold holdings in this period increased on balance by only \$0.5 billion. At \$2.7 billion at the end of 1966, these gold holdings were equivalent to less than half—42 per cent—of total Fund reserve positions of \$6.3 billion. Yet the gold subscriptions purchased and mitigated at reserve centers in this round of quota increases still involved an accompanying reduction in reserves held in the form of reserve currencies, just as "direct" gold subscriptions involved a reduction in countries' gold reserves.

Increased reserve positions in the Fund resulting from use of a nonreserve currency in Fund drawings will also normally be offset for the country whose currency is drawn, by a reduced foreign exchange holding, as its own currency is presented for conversion into the drawing country's reserve or intervention currency. Whether total foreign exchange reserves are reduced, and the initial increase in Fund reserve positions is thereby offset, will then depend on whether the reserve currency so transferred is retained or converted into gold by recipient countries, and on whether the country whose currency is drawn chooses to replenish its depleted foreign exchange reserves through sale of gold. In certain cases, such as the Fund's borrowing of \$250 million in lire from Italy in 1966, immediately drawn by the United States to repay bilateral liabilities to Italy, Fund transactions have been closely associated with a reduction in foreign exchange reserves. New reserves created in the Fund should therefore be assessed in the context of any side effects on, or associated movements in, the total level of

other reserves in the form of gold and foreign exchange.

While reserve positions in the Fund in 1965 and 1966 together increased by over 50 per cent and were the dominant element in total reserve growth, they accounted for 9 per cent of the total stock of world reserves at the end of the period. The major element in reserve accretion was thus the smallest element in the total reserve stock. There had been a similar relationship in the earlier phase between 1951 and 1964, when dollar holdings were expanding rapidly from an initially low level. In both phases, the traditional or existing components of official international liquidity became of comparatively smaller significance as generators of additional liquidity. But under present conditions, the role played by reserve positions in the Fund in adding to world reserves as a whole, substantial as it has been hitherto, is likely to be limited or even negative in the immediate future. Past increases of major proportions in these positions have to an important degree either been partially reversed through subsequent repurchases of large credit drawings, or, in the form of gold subscriptions, have replaced other reserve media. In the first six months of 1967, Fund reserve positions declined by \$0.4 billion to \$5.9 billion.

### Determinants of Reserve Growth

Movements in the total level of each of these different reserve assets are determined by notably different forces. As a result, the factors determining reserve growth as a whole have changed to some degree along with the changing constituents of reserve growth. Thus, changes in official holdings of gold are determined by a variety of influences, being a residual of new gold production plus net inflows from, or minus net outflows to, both private holdings and official holdings in countries outside the statistical definition of the system, i.e., Soviet countries and Mainland China. This latter flow may be largely determined by the balance of payments between these countries and the rest of the world, as well as by any changes in the composition of their reserves. Otherwise, the addition to total gold reserves is for the most part independent of individual balance of payments influences, except insofar as developments in the balance of payments of important countries

may have an influence on gold speculation and hoarding. General economic and monetary forces have an indirect influence on accruals to official gold stocks in their effect on confidence factors and on the relative profitability of gold mining.

Additions to reserves in the form of foreign exchange, through holdings of reserve currencies and excluding for the moment those holdings resulting from central banking credits and other special transactions, are governed basically by two main sets of influences. The first relates to the net flow of these currencies from the reserve center or source countries, as influenced by their separate balance of payments deficits. But a second set of influences relates to the degree to which the potential recipients of the reserves in other countries, and including other reserve centers, first acquire these currencies in their official exchange funds through the actions of commercial bankers (which may in turn be influenced by

officially held claims upon it tends to diminish correspondingly. In practice, this tendency has itself been a potent influence in the leveling out in the total of foreign exchange holdings in their traditional form.

In certain countries, changes in official holdings of foreign exchange have represented in some degree an internal switch in ownership between the central bank and commercial banks. Such switches may be induced by the monetary authorities in a number of ways, including operations on interest rate differentials, intervention in forward exchange markets, and swaps undertaken directly with commercial banks, usually at fixed rates. Details of official swap commitments to domestic banks are available for Germany and Italy. These data show that in 1965 and 1966 large amounts of foreign exchange were taken up by the Italian commercial banks under swaps with the Italian Exchange Office (Table 8).

TABLE 8. GERMANY AND ITALY: CHANGES IN OFFICIAL FOREIGN EXCHANGE HOLDINGS AND IN SWAP COMMITMENTS TO BANKS, 1964-66 <sup>1</sup>

(In millions of U.S. dollars)

	Germany			Italy		
	1964	1965	1966	1964	1965	1966
Changes in official foreign exchange holdings	-534	-778	536	521	276	-235
Changes in swap commitments to banks	89 <sup>2</sup>	-89 <sup>2</sup>	— <sup>2</sup>	24 <sup>3</sup>	1,202 <sup>3</sup>	348 <sup>3</sup>
<b>Total</b>	<b>-445</b>	<b>-867</b>	<b>536</b>	<b>545</b>	<b>1,478</b>	<b>113</b>

Sources: International Monetary Fund, *International Financial Statistics*; Deutsche Bundesbank, *Monthly Report*, May 1967; and Bank of Italy, *Annual Report*, 1966.

<sup>1</sup> No sign indicates increase; minus sign indicates decrease.

<sup>2</sup> U.S. dollar swap commitments of Deutsche Bundesbank to German credit institutions.

<sup>3</sup> Includes swaps with and without guaranteed rates and foreign exchange deposits with the Italian Exchange Office.

official policy as noted below), and then retain these currencies as reserves. The important influences here are the practices and policies of these countries in the composition of their reserves as between gold and foreign exchange; the change in total official gold stocks, as influenced by new production, Soviet sales, and changes in private holdings (i.e., the availability of gold from sources other than the U.S. gold stock); and the distribution of payments surpluses and deficits among countries where policies of reserve composition differ. As this second set of influences tends to assume increasing weight, the link between the payments balance of the particular reserve center country and the total volume of

Foreign exchange holdings resulting from swap credits between central banks and from other special transactions fall into a different category, being determined primarily by the balance of payments position of the borrowing country. The most significant contributions made by swap arrangements to effective liquidity are, first, to add to immediate borrowing potential through the facilities that remain intact or unactivated (though this availability will also depend in practice on the financial capacity of the partner country to absorb the effects of a drawing on it) and, second, to reinforce the reserves of the drawing country. In addition, where the drawing is against a mutual

exchange of claims, reserves may also be created statistically for the "lending" country; but foreign exchange holdings of this kind (e.g., the large additional sterling holdings of the United States in 1965 and 1966) do not generally constitute immediately usable reserves. Balance of payments positions of particular countries are also an important determinant of reserve positions in the Fund; these, however, are subject to additional influences such as the Fund's gold transactions, as well as the particular position in the Fund of both the countries making Fund drawings and the countries whose currencies are drawn.

Another characteristic shared by swap claims and those reserve positions in the Fund that reflect other countries' use of credit tranches is that both are reversed when the underlying credits are repaid. Central banking credits are often repaid within three or six months, while drawings on the Fund are reversible within three to five years. To the extent that such reserves were originally created in relation to a temporary financing transaction, the reversal of these operations is of course entirely appropriate. Correspondingly, such operations in themselves will not form the basis of regular or permanent additions to reserves. Of course, if drawings take place at a steadily growing rate, the repayment obligations will not check the associated expansion of reserves, as reductions in particular debit and credit positions are more than offset by new transactions. This associated reserve growth may become less regular, however, as a result of particular large transactions, of which the main examples in practice have been the transactions associated with the financing of deficits of the United Kingdom. In the six months to the end of March 1967, repayments by the United Kingdom of its short-term central banking borrowings were directly responsible for part of the fall from \$1.1 billion to \$0.3 billion in the foreign exchange holdings of the United States. Equally, reductions of U.K. obligations to the Fund resulting from its 1964 drawing led in the first six months of 1967 to the fall in reserve positions in the Fund noted above. It may be recalled that repurchases by the United Kingdom in 1962 led to a fall in total reserve positions in the Fund in that year and contributed to an unusually small increase in world reserves as a whole (Chart 1).

## Reserves and Credits

The two major sources of recent reserve accretion have had, therefore, two characteristics in common: they have both been connected particularly closely with balance of payments positions of deficit countries, and they have both been associated with scheduled repayment obligations. These reserve developments have stemmed from credit operations which have provided temporary and conditional support to countries whose reserve positions have come under particular pressure. Such operations must of course be appraised essentially in the light of their primary function. The associated creation of reserves is incidental, and differs in that respect from a process of deliberate reserve creation. Additions to world reserves that stem from credit operations normally add in the first instance to the total reserves only of the borrowing countries; though if they are subsequently used to finance further deficits, they will provide a new source of "earned reserves" for surplus countries. As a general rule, while these injections ease the immediate difficulties of the borrowing countries, they have no sure general effect in meeting the desire for increased reserves among countries as a whole, particularly as the net addition to global reserves may later be reversed on repayment of the credits.

In sum, this combination of credit operations and at least temporary additions to reserves has certain distinctive effects. In its incidental effect on reserves, the repayment obligation, which as noted above is an integral and necessary part of the credit operation, may tend to increase the pressures for adjustment by the borrowing countries, which will normally be deficit countries. Except insofar as these reserve increases lead to larger deficits and surpluses, they do not add to reserve ease among surplus countries. These countries will therefore not be subject to new external encouragement, beyond the expansionary impetus of the surplus itself, to adopt more expansionary domestic policies, or more liberal policies affecting trade, aid, and capital movements, through which payments adjustment may be promoted by alternative forms of reserve creation. It should be noted, however, that policies in certain surplus countries that have been concerned to curtail demands on domestic resources and that have had sufficiently high reserves have in recent times

proved to be little affected by a greater degree of reserve ease. In these ways, addition of a given volume of gross reserves with a concomitant increase in repayment obligations is in itself clearly likely to induce a smaller degree of global reserve ease (which, from a world standpoint, may of course be desired at certain times and unwelcome at others) than injection of the same volume of reserves without the associated short-term liabilities. Whether the scheduled repayment commitments involve greater or smaller constraints than liquid liabilities in respect of reserve currency balances will depend in part on the likelihood of a calling of these liabilities through a reduction in the currency balances in question. The total addition of \$5 billion to world reserves in the three years to the end of 1966 was accompanied by an almost equal addition to countries' short-term and medium-term repayment commitments. Net outstanding drawings on the Fund rose by \$3.4 billion in these three years, from \$1.7 billion to \$5.1 billion; and official short-term and medium-term indebtedness to other lenders probably rose by at least \$1 billion.

Two aspects of this recent development in reserve evolution appear especially noteworthy. First, while there has been general agreement that the issue of any new reserve asset should not be based on particular payments deficits and surpluses, the course of world reserves at present is dependent to a substantial degree not merely on individual deficits and surpluses but on the particular form in which they are financed. Second, and following from this, unless repayments of large borrowings currently outstanding were to be more than offset by new borrowings by other countries, a major recent source of reserve growth will disappear.

Certain significant qualitative changes may also be observed in this recent phase of reserve development. Some of these changes indicate a particular sensitivity to reserve movements on the part of a fairly wide range of countries. The past year has seen widening sources being tapped for the provision of official credits for the financing of payments deficits. A noteworthy development in this context has been the use of central banking credits by nonindustrial countries. Central banking credit facilities between industrial countries have themselves grown in scope and in amount in

the past year. Facilities for the offsetting of fluctuations in sterling balances as well as for temporary support credits to the United Kingdom have been arranged by the group of central banks associated with the Bank for International Settlements (BIS); and a further extension has taken place in the network of mutual credits centered on the Federal Reserve Bank of New York. In May 1967 this extension brought the number of partner countries, aside from the BIS, to 14, all with convertible currencies; the participants included for the first time a nonindustrial country, Mexico.<sup>3</sup> The developments of the past year also include at least one regional arrangement between nonindustrial countries, in the shape of a loan granted by the Reserve Bank of Australia to the Reserve Bank of New Zealand for the equivalent of \$33 million, with a maturity of up to six years. The Reserve Bank of New Zealand has also borrowed a total of \$50 million, on shorter maturity, from the BIS. The BIS has made certain other loans to nonmember central banks. Use of official credits from these sources remain very small in relation to drawings from the Fund.

In a number of cases, both credit drawings and drawings on reserves have financed payments deficits on current account that the borrowing countries might otherwise have expected to cover by long-term borrowing on the international capital market. The severe tightening in this market in 1965-66, together with the curbs on direct and portfolio investment imposed by both the United States and the United Kingdom, and accompanied in the latter part of the period by a softening of commodity prices, caused increasing difficulties for an important group of nonindustrial countries in the middle stages of development. These countries were not included in the exemptions designed to safeguard the flow of capital to developing countries from the U.S. and U.K. restrictions. The greater part of these countries' export earnings still derives from primary products, and their current payments balances are frequently subject to relatively wide variations. Accordingly, many of these countries have attached importance to building up a level of reserves sufficient to meet these particular stresses. In the four years to the

<sup>3</sup> Credit arrangements between the U.S. Treasury and certain Latin American countries have existed for many years; with certain exceptions, these have been in the nature of one-way credits granted by the United States.

end of 1964, this group of "Other developed" countries increased their aggregate reserves by 75 per cent (Table 3). In the past two or three years this trend has been halted. Countries such as Australia and South Africa have used reserves to finance over-all deficits that might not have occurred in the same magnitude if access to capital markets had remained unimpaired. In the particular cases of Finland and New Zealand, reduced availabilities of market borrowing have been made good by increased borrowing from official sources, mostly at short or medium term and including drawings on the Fund.

The increased use of official credit facilities for the settlement of payments balances reflects the increased availability of such facilities, as well as the desire among deficit countries to conserve their reserve assets. Since 1964, conditional credit facilities in the Fund have been enlarged by increases in quotas in the regular quinquennial review, and by a liberalization in September 1966 of facilities for compensatory financing drawings. Outside the Fund, central banking credit facilities have been expanded in the ways indicated above. Holdings of foreign exchange by commercial banks and other private entities have also continued to increase. In some important cases, transfers of such holdings have contributed to payments equilibrium, obviating the need for recourse to official reserve movements. In 1966 such movements absorbed an important part of the basic surplus in Japan and Italy, and relieved the strain on the official settlements balance in the United States. On the other hand, commercial banking transactions between the spring of 1965 and the summer of 1966 were disequilibrating for the United Kingdom.

Because the leading suppliers of long-term capital in international transactions have been the reserve currency countries, the recent stringency in the supply of international capital funds can be related most directly to the balance of payments difficulties of these countries, as well as to the strong domestic pressures on their capital markets. But the slower pace and changed composition of the growth of world reserves as a whole have made it more difficult for all countries taken together to add to their reserves in the quantity and the form that are compatible with their long-term desires. To this extent, reserve developments of

this kind could over time have a significant influence on the degree to which alternative sources of capital exports are forthcoming. International capital flows are influenced—sometimes strongly so—by domestic factors, as discussed in Chapter 3. In 1965-66 the high pressure of demand experienced by most industrial countries, and the general reliance on monetary rather than fiscal restraints, brought a particular stringency to world capital markets. The subsequent easing in demand pressures has thus far brought only limited relief. In a number of major surplus countries, the authorities have adopted specific policies to overcome institutional obstacles to improve their capital markets. Improvements of this kind are intended to make industry in these countries less dependent on external sources of capital and otherwise encourage the net export of capital that is appropriate to such countries and that most of them desire in principle. At the same time, such capital exports would necessarily curtail the rate of reserve accumulation. Insofar as the recent slackening and changed composition in global reserve growth makes countries more concerned to maintain or increase their share of the existing reserve level, this development may have impeded somewhat the emergence of sources of capital exports alternative to the United States and the United Kingdom. Domestic developments in the potential recipient countries may of course also have considerable influence on capital flows.

Concern on the part of the reserve centers to avoid a weakening in their liquidity position has had other significant influences on general reserve developments. Thus, since 1963, the United States has granted to Canada special access to the U.S. capital market, while Canada ensures that its total reserves, including its net creditor position in the Fund, are kept within a fixed ceiling. A number of countries have made changes in the form of their monetary claims on the United States, with some limited effects on the character of these countries' foreign exchange assets. The main development has been the acquisition of technically nonliquid securities in the form of certificates of deposit and time deposits with original maturities of one year or more. These claims are usually still regarded as part of the reserves of the holding country, but do not constitute liquid liabilities in U.S. balance of payments computations. In 1966

the issue of a substantial volume of these non-liquid dollar claims offset in greater part a large net repayment of nonmarketable, but technically convertible, bonds and notes, which rank as liquid liabilities in U.S. computations and in Table 5, above.

### Policies of Reserve Composition

Another qualitative change may be seen in relation to the composition of countries' reserves. Effectively, the influence of traditional ratios between the various reserve components, and of changes in composition that might be desired in themselves, have both become relatively less important compared with more general considerations; though in some countries reviews of traditional reserve policies have also reflected changes in the country's own preference between reserve assets. Prominent among the more general considerations is a widespread acceptance among countries that they bear some joint responsibility for the working of the international monetary system. Within this general concern, countries have applied differing emphasis to the improvement of the adjustment process, to protection of the exchange structure, and to the repercussions of their reserve policies on reserve levels in other countries. In one sense, this latter concern may be seen as a realistic acceptance of the statistical fact that, for the world as a whole, any desired relationship between the various reserve components must either be fitted to the existing availability of those components or be achieved at a lower (or higher) total level of reserves.

Perhaps the most marked feature of these developments has been the adoption by a number of countries of the view that the recent trend in the accrual of gold to official holdings may call for some restraint in the accumulation of gold reserves. The German Bundesbank in the spring of 1967 made publicly known its intention of continuing its policy over the previous few years of refraining from conversions of dollars into gold from the U.S. Treasury, pointing out that additions to its gold reserves had stemmed from other sources. Such restraint may involve changes in proportionate reserve composition for particular countries which in the view of these countries are

appropriate at present for the functioning of the international monetary system. At the same time, these changes may affect the speed or intensity of the adjustment process. The pressures that lead to such restraint may strengthen the desire to move toward more conscious international regulation of reserve levels, which could accompany and fortify developments in international monetary cooperation designed to improve the adjustment process. The free interchangeability provided by the U.S. authorities between official dollar balances and gold forms an integral part of the existing international monetary system.

In practice, the international monetary system in the past year or so has become characterized by a marked decrease in official gold movements. Attention has on occasion been drawn to a tendency among countries to finance reserve losses and payments deficits so far as possible in forms other than gold. In counterpart, a number of important countries have taken an unusually small part of their monetary surpluses in gold, and a still smaller part of their basic payments surpluses. In this recent development, the degree to which countries have financed deficits and surpluses in forms other than gold has borne little relation to the average ratios of gold in their reserves.

The role of gold in monetary reserves among different countries and groups of countries is reflected in Tables 9 and 10. These data point to a marked diversity in reserve composition within particular groups of countries, as well as between the averages for different groups. The primary producing countries, both more developed and less developed, show distinctly low average gold ratios as groups (Table 9), but they nonetheless accounted at the end of 1966 for five of the ten countries with the highest gold ratios (Table 10). The countries with the largest total reserve holdings are also the countries with the largest gold holdings; but there is no consistent relationship between the size of reserves and the proportionate role of gold in these reserves. It is also apparent from Table 10 that, in absolute terms, the industrial countries are among the largest holders of foreign exchange.

In the most recent phase, the marked divergence between the proportionate role of gold in reserve changes and in reserve stocks (i.e., be-

TABLE 9. PATTERNS OF COUNTRIES' OFFICIAL GOLD HOLDINGS, 1959-66

	Changes in Gold Reserves <sup>1</sup>		Total Gold Reserves				
	End of 1959- end of 1965	1966	As per cent of total reserves		As per cent of all countries' gold reserves		
			End of 1966	End of 1959	End of 1966	End of 1959	End of 1966
	← Billion U.S. dollars →			← Per cent →			
United States	-5.4	-0.8	13.2	90.7	88.9	51.5	32.4
United Kingdom	-0.2	-0.3	1.9	89.8	62.6	6.6	4.7
Industrial Europe <sup>2</sup>	8.5	0.2	19.1	64.6	61.0	27.6	46.6
of which							
France	3.4	0.5	5.2	74.3	77.8	3.4	12.8
Germany	1.8	-0.1	4.3	55.1	53.5	7.0	10.5
Italy	0.7	—	2.4	57.2	49.2	4.6	5.9
Canada and Japan	0.3	-0.1	1.4	34.6	28.6	3.2	3.4
Other Developed Countries <sup>2</sup>	1.1	0.2	2.6	33.0	43.5	3.5	6.5
of which							
South Africa	0.2	0.2	0.6	51.2	81.1	0.6	1.6
Less Developed Countries	-0.2	-0.1	2.6	30.8	23.1	7.6	6.4
Total all countries	4.0	-1.0	40.9	66.1	57.2	100.0	100.0

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

<sup>1</sup> No sign indicates increase; minus sign indicates decrease.

<sup>2</sup> Countries included in these groups are indicated in Table 5.

tween marginal and average gold ratios) has tended to diminish the operational impact of "traditional" reserve policies of individual countries. A traditionally high gold ratio country, the United Kingdom, with its special position as a reserve center, used relatively little gold to finance

its payments deficits in 1964-66, which were covered rather by official credits from the Fund and through central banking credits, and the drawing down of second-line reserves; partly in connection with these special forms of financing, ensuing reserve gains were held unconverted in foreign ex-

TABLE 10. GOLD AND FOREIGN EXCHANGE RANKINGS, END OF 1966 <sup>1</sup>

Gold Reserves				Foreign Exchange Reserves			
By size		By ratio <sup>2</sup>		By size		By ratio <sup>2</sup>	
US\$ Billion		Per Cent		US\$ Billion		Per Cent	
United States	13.2	United States	88.9	Germany	2.5	Malaysia	96.0 <sup>3</sup>
France	5.2	Switzerland	85.4	Italy	1.6	Ireland	95.3
Germany	4.3	South Africa	81.1	Japan	1.5	Israel	89.0
Switzerland	2.8	Turkey	77.9	United States	1.3	Norway	88.4
Italy	2.4	France	77.8	Canada	1.2	Saudi Arabia	87.7
United Kingdom	1.9	Uruguay	74.5	Australia	1.2	Thailand	87.4
Netherlands	1.7	Afghanistan	74.5	United Kingdom	1.2	Brazil	85.9
Belgium-Luxembourg	1.5	Netherlands	70.7	Thailand	0.8	China, Republic of	81.6
Canada	1.0	Lebanon	68.4	Malaysia	0.7	Libya	78.8
Spain	0.8	Belgium-Luxembourg	65.7	Sweden	0.7	Australia	74.9
Austria	0.7	Spain	65.1	Saudi Arabia	0.7	Denmark	70.7
Portugal	0.6	United Kingdom	62.6	Israel	0.6	Japan	69.3
South Africa	0.6	United Arab Republic	59.6	Austria	0.5	Mexico	65.0
Venezuela	0.4	Portugal	57.3	France	0.5	Sweden	64.2
Japan	0.3	Germany	53.5	Switzerland	0.5	India	59.9
All other countries	3.5			All other countries	8.8		

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

<sup>1</sup> Countries are ranked by size of gold and foreign exchange reserves and of corresponding reserve ratios. Rankings of gold ratios are among all countries; rankings of foreign ratios are among countries with total reserves of over \$250 million.

<sup>2</sup> Ratio to total reserves, including reserve positions in the Fund.

<sup>3</sup> Including foreign exchange assets of government and other official institutions, the ratio amounted to 97.3 per cent; on the same basis the ratio for Kuwait would be 93.4 per cent.

change. The reserve currency function, as measured by the holding of sterling in the reserves of sterling area countries which regularly hold a major portion of their reserves in this form, has on balance provided no new financing to the United Kingdom since the end of World War II.

In the United States, which until 1961 held no foreign exchange in its reserves, the exceptional accumulation of sterling and other exchange assets at the end of 1966 temporarily placed the country fourth in a world ranking of official foreign exchange holdings by absolute size, and brought the foreign exchange component to 9 per cent of total U.S. reserves (Table 10). The main means of "nongold financing" in the special case of the United States has been the holding of currency claims on it by foreign monetary authorities, for which those claims constitute foreign exchange reserves. The relative reliance by the United States on this form of nongold financing is therefore dependent basically on the influences noted on page 18 in relation to levels of foreign exchange holdings—i.e., on other countries' policies of reserve composition, specifically in relation to changes in reserves, on the spread of payments deficits and surpluses among countries where such policies differ, and on net new accruals to the world's monetary gold stock.

As a result of all these influences in the three-year period 1964 through 1966, and with large divergences within this period, the U.S. official gold stock declined by \$2.4 billion, and its reserve position in the Fund by \$0.7 billion. These reserve losses compared with an aggregate payments deficit on an "official settlements" basis as measured by the U.S. authorities (see Table 76) of \$2.6 billion in these three years, and with a deficit on a "liquidity" basis of \$5.5 billion. Since the end of 1963, periods in which the United States has financed an unusually small portion of its deficit in gold have been followed by adjustments in the opposite direction. The U.S. authorities have themselves emphasized that growth in official holdings of U.S. dollars cannot be expected to continue on the earlier pattern. It follows that for any sustained balance of payments financing the United States has to lean to a greater degree than in the past on its reserves, in the same way as other countries, and on credit facilities, which include at present the whole of its credit tranche facilities in the Fund.

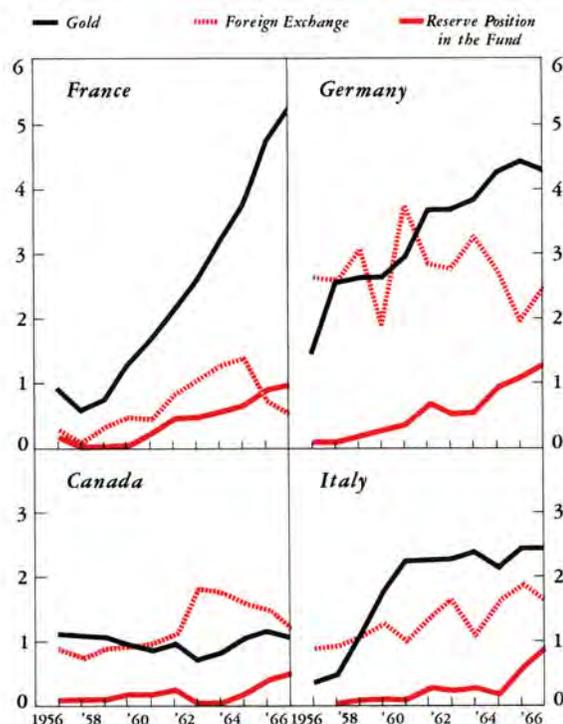
The occasional deficits incurred by other industrial countries in recent years have been financed in many cases with a notably smaller use of gold, or have even been marked by an increase in gold reserves accompanied by a reduction in other assets in excess of the total reserve loss. But this reserve behavior must be set in the context of the general disposition of these industrial countries since the early 1960's, with the important exception of France, to take a disproportionately small share of reserve gains in gold. Thus, the general tendency has been for a country's average gold ratio to rise when its total reserves are falling and to fall when its reserves are rising. Both these tendencies involve a reduction in gold transfers, and some tendency for gold stocks outside the reserve centers to freeze into their existing location. But since these industrial countries other than the United States and the United Kingdom have been in large net surplus in this period, so that reserve losses have been far outweighed by reserve gains, the net effect of this general leaning toward other reserve assets for reserve changes (i.e., toward low marginal gold ratios in both directions) has been for average gold ratios to be reduced.

Between the end of 1959 and the end of 1966, the continental countries of Industrial Europe, listed in Table 5, showed a fall in their average gold ratio from 65 per cent to 61 per cent (Table 9). This was the outcome of a rise from 74 per cent to 78 per cent in the gold ratio in France, on a sharply increased total, and a fall in the combined gold ratio of the other countries in the group from 64 per cent to 57 per cent. Since the average ratio of gold to total reserves of all countries dropped sharply in this period, this still meant that the share of total world gold reserves held by the Industrial Europe group rose by more (i.e., from 28 per cent to 47 per cent) than its share in total world reserves (from 28 per cent to 44 per cent).

In 1966 itself, the Industrial Europe group took only 12 per cent of its net increase of \$1.4 billion in total reserves in gold, while its average gold ratio was 61 per cent. It is noteworthy that in the years 1963 through 1966, inclusive, in which this group of countries showed a continuous increase in total reserves, the increase in gold holdings as a percentage of its increase in total reserves, or marginal gold ratio, was below the aver-

CHART 3. SELECTED COUNTRIES: RESERVE MOVEMENTS,  
END OF YEAR, 1956-66

(In billions of U.S. dollars)



age gold ratio in three years out of the four, though in the four years as a whole the net rise of \$4.2 billion in gold reserves within a rise of \$7.2 billion in total reserves still approached the 60 per cent figure around which the average gold ratio of this group has ranged fairly closely since the late 1950's. The abrupt change from gold overfinancing in 1965, with an increase in gold reserves in excess of the increase in total reserves, to the low gold intake of 1966, was itself connected in part with gold transactions of the Fund. These absorbed in 1966 \$0.2 billion of gold from Industrial Europe, after releasing in 1965 some \$0.3 billion of gold to this group.

Financing of payments surpluses through the Fund has played an increasingly important role in recent years. For the Industrial Europe group, which has been the major surplus area in these years, additions to its aggregate Fund reserve position accounted for 37 per cent of its total reserve gain in the four years to the end of 1966. (In the last three of these years, this marginal ratio was 50 per cent.) As a result, Fund reserve posi-

tions constituted 14 per cent of the total reserves of this group at the end of 1966, against 7 per cent at the end of 1962 and 4 per cent at the end of 1959.

Potential strains on the international monetary system were also relieved in 1966 by equilibrating outflows of short-term capital from a number of actual or potential surplus countries. Outflows of short-term capital, in part through the commercial banks, fully absorbed the basic surplus in Japan and greatly reduced it in Italy. In the three years to March 1967, Italy earned an aggregate basic surplus of about \$6.5 billion; increased gold holdings absorbed only 4 per cent of this surplus and 16 per cent of the addition to total official reserves. In Germany, gold holdings of \$4.3 billion at the end of March 1967 were somewhat below their level 12 months earlier, despite a surplus on current and long-term capital transactions of \$0.7 billion in these 12 months. In both these countries, a substantial portion of effective financing has taken place through changes in the net foreign exchange position of the commercial banking system.

These forms of "nonreserve financing" were in some cases specifically designed to limit official monetary movements but in other instances constituted stabilizing private capital movements of a largely autonomous, if still temporary, nature. In either case, they helped to relieve strains on the international monetary system arising from excessive reserve losses by deficit countries and potentially also from net reserve destruction through liquidation of reserve currency holdings. Yet in some degree, and excepting those capital movements that could be expected to be sustained while the accompanying surpluses endure, these forms of financing may obscure the necessary extent of international payments adjustment. They involve rather arbitrary alleviations of particular payments pressures, which could entail either an undue relief for deficit countries if the imbalances and the special financing were both sustained, or equally arbitrary intensifications of pressures if the financing were prematurely reversed. In these ways, the new phase of reserve development has emphasized the advantages to be gained, from several standpoints, from a more positive regulation of aggregate reserve levels.

## Chapter 3

# International Private Capital Movements and Capital Markets

INTERNATIONAL private capital movements have been a large part of total international payments particularly since the widespread moves to currency convertibility and the relaxation of controls over capital transfers in the late 1950's and early 1960's. The external convertibility of currencies and the increased mobility of private capital have served to link many of the separate national economies more closely to each other. As a consequence, differences in economic conditions and policies between countries are more likely to lead to international transfers of private capital, sometimes on a large scale. During the 1960's, many of these capital movements facilitated rapid growth in countries where opportunities for advance were greatest and contributed to the working of the international adjustment process. On occasion, however, these transfers of private capital have been disequilibrating or have increased the difficulties of implementing domestic monetary and fiscal policies.

In some countries, with strong demands on domestic resources and a tendency for the balance of payments on current account to be in deficit, foreign sources of capital have provided funds for investment. In others, with less strong demands and with tendencies for domestic savings to be large relative to domestic investment and for the current account to be in surplus, achievement of balance between saving and investment has been aided by capital outflows. That is, the private capital flows that have been important elements in the structure of international payments have often originated in disparities between the demands for and supplies of funds on national capital markets.

### Pressures on National Capital Markets

The end of the recession in late 1958 marked the beginning of a period of rapid economic ad-

vance in most of the industrial countries, which appears to have reached a peak in mid-1966. This progress stemmed largely from a substantial growth in private investment and government expenditures, including investment (Table 11).

TABLE 11. SELECTED COUNTRIES: GOVERNMENT EXPENDITURES<sup>1</sup> PLUS PRIVATE INVESTMENT, 1963-65  
(1962 = 100)

	1963	1964	1965
South Africa	118	142	170
Australia	119	128	157
Netherlands	108	138	147
New Zealand	113	127	143
Sweden	109	125	142
Denmark	98	124	140
Norway	108	118	139
Japan	113	135	138
Canada	106	119	138
Belgium	110	128	136
Austria	106	121	133
Germany	107	120	133
France	111	128	132
United Kingdom	106	123	131
Switzerland	111	125	126
Italy	117	122	123
United States	105	111	121

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

<sup>1</sup> General government consumption and investment.

In continental Europe, Canada, Japan, and the more developed primary producing countries, investment outlays were particularly large (Table 12) and the resulting strong demands on the capital markets provided a magnet for funds from other countries. The United States and the United Kingdom, where investment demands were less high, were the major sources of these funds. The relative strength of the pressures on capital markets arising from differences in investment expenditures were accentuated by differences in company financing practices. A large part of company investment in continental Europe was financed by borrowing, whereas in the United

States and the United Kingdom the company sector as a whole was able to cover its investment expenditures largely out of retained earnings and reserve allocations. Consequently, the continental European financial markets tended to be subject to more severe demands than those of the United Kingdom or the United States.

TABLE 12. SELECTED COUNTRIES: TOTAL INVESTMENT EXPENDITURES AND OTHER GOVERNMENT EXPENDITURES ON GOODS AND SERVICES AS PERCENTAGE OF GNP, 1962-65 AVERAGES

	Total Investment as Percentage of GNP	Government Consumption as Percentage of GNP
Japan	36	9
Norway	30	16
Switzerland	30	12
Germany	27	15
Australia	27	10
Netherlands	26	16
Austria	26	13
New Zealand	25	13
Sweden	24	19
Canada	24	14
South Africa	24	12
Denmark	23	15
Italy	23	14
France	22	13
Belgium	21	12
United Kingdom	18	17
United States <sup>1</sup>	15	20

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

<sup>1</sup> For the United States, total investment is slightly understated and government consumption overstated because all Federal Government expenditure is included in consumption.

At the same time, fiscal policy (including the financing of local governments and government-owned and government-financed enterprises) tended to increase rather than to ease strains on the capital markets, particularly in Belgium, Germany, Italy, the Netherlands, and Sweden. The demands for funds by government are partly attributable to the lesser reliance that has been placed on fiscal rather than monetary policy as an instrument for economic stabilization in recent years.

This combination of forces has been reflected in the large volume of new issues on securities markets (Table 13), which induced a considerable rise in long-term interest rates during the 1960's. Even where private investment grew only slowly (France in 1964 and 1965) or declined (Italy in 1964 and 1965), the demands from the public

sector were sufficiently large to prevent a substantial decrease in long-term interest rates. Although the stresses to which capital markets were subjected were stronger in some countries than in others, the interrelations between national financial markets resulted in a remarkably similar advance of interest rates in most countries (Charts 4 and 5).

These recent changes in interest rates were a continuation of the upward drift that has been in progress since the end of World War II (with the notable exception of Germany, where rates have been in the range of 6 per cent or higher since the effective reactivation of the securities markets in the mid-1950's, and of Switzerland, where rates have been low throughout the post-war period). While this rise in interest rates is primarily a result of the increased demands for investment and government finance, it is also a reaction to persistent inflation and its effect on saving.

If most businesses expect the price of their output to rise, for example, at the annual rate of 1.5 to 2.0 per cent that has prevailed since 1958, the "real cost" of borrowing may well be considered by them to be that much less than the stated interest rate and amortization charges.

CHART 4. SELECTED COUNTRIES: LONG-TERM GOVERNMENT BOND YIELDS, 1963-MAY 1967

(In per cent per annum)

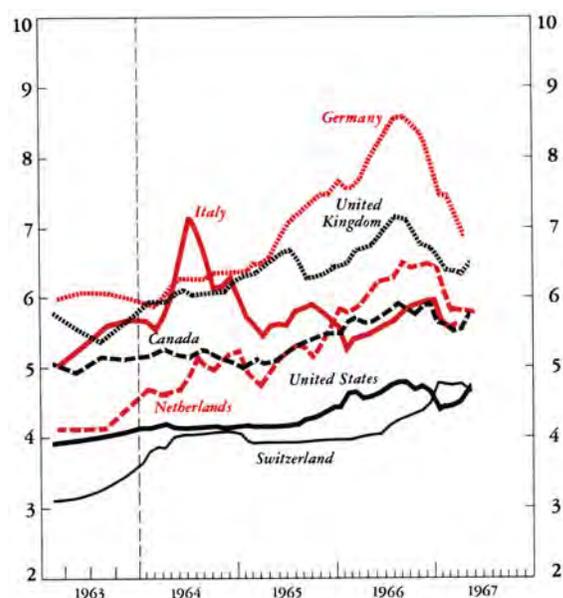
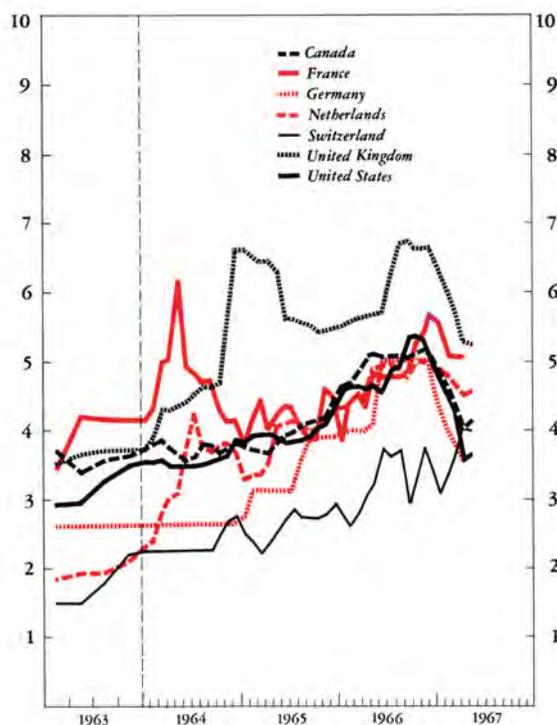


CHART 5. SELECTED COUNTRIES: SHORT-TERM INTEREST RATES, 1963-MAY 1967

(In per cent per annum)



Similarly, if governments expect that their revenues will grow in line with the rise in money incomes associated with inflation, they will be more likely to incur higher debts and put additional pressures on the financial markets, with the prospect that the increased burden of the interest and repayment charges will account for a declining percentage of their total revenues. At the same time, if individuals have come to expect the 2.5 to 3.5 per cent annual increase in the cost of living that has prevailed since 1958 to continue, they will regard the "real benefit" of financial saving to be that much less, particularly in view of tax considerations. Since individuals must pay taxes on their interest receipts (with some exceptions), the "after tax" return on their investment is less than the stated return and they must be compensated by higher rates if they are to be induced to acquire interest-bearing assets.

Prior to 1960, the relaxation of direct controls over investment and an increasing reliance on the market for the allocation of capital also exerted a strong upward push on interest rates. Since 1960 the demands for investment finance by private industry and the requirements of government finance have been the most powerful

TABLE 13. SELECTED COUNTRIES: NEW ISSUES OF SECURITIES BY COMPANIES AND GOVERNMENT SECTOR, 1963-66

(In millions of U.S. dollars)

	By Companies				By Government Sectors			
	1963	1964	1965	1966	1963	1964	1965	1966
Belgium <sup>1</sup>	396	542	578	364	552	768	924	504
Canada <sup>2</sup>	278	838	1,302	932	1,480	1,303	558	1,568
France <sup>3</sup>	1,224	1,353	1,377	703 <sup>4</sup>	1,652	1,592	1,775	1,313 <sup>4</sup>
Germany <sup>5</sup>	1,725	2,000	2,225	1,450	2,728	2,802	2,443	1,593
Italy <sup>6</sup>	813	941	775	746	1,573	2,268	2,982	4,465
Japan <sup>6</sup>	...	3,730	5,078	5,967	...	629	1,563	3,285
Netherlands	28	111	249	241	417	306	332	354
Sweden <sup>7</sup>	288	253	483	386	904	991	560	1,178
Switzerland	533	510	486	410	70	185	232	386
United Kingdom <sup>8</sup>	1,399	1,395	1,402	1,870	2,798	2,512	5,606	3,907
United States	12,210	13,956	15,992	18,074	22,102	22,405	23,227	26,126

Source: National sources.

<sup>1</sup> Gross issues including those for private financial institutions; public sector issues of bonds of more than one year maturity except issues on tap and issues not available to all subscribers.

<sup>2</sup> Net domestic issues payable in Canadian currency.

<sup>3</sup> Gross issues including foreign issues.

<sup>4</sup> Gross issues excluding foreign issues; bonds at nominal value, shares at issue value; as some funds are raised in the private sector for public users and vice versa, it is impossible to separate the statistics exactly between private and public borrowers.

<sup>5</sup> Net issues including issues by foreigners, government agencies and companies, and special credit institutes in the public sector. Some of the latter institutes (included in government) borrow so that they can lend to the private sector.

<sup>6</sup> Fiscal year ended March. Gross issues of bonds only.

<sup>7</sup> Gross issues; government sector issues include bonds issued by mortgage institutions for housing.

<sup>8</sup> Gross domestic issues including cash issues of Central Government.

direct influences on rates. These factors tended to increase in strength until mid-1966, when interest rates touched record peaks in several countries. Rates have since declined, but they remain high by historic standards.

Over the past several years a number of important industrial countries—outstandingly in continental Europe—have relaxed exchange controls on capital movements while the United Kingdom and the United States have adopted or tightened restraints on certain types of capital transactions. As a result of the changes in the pattern of exchange controls, the international flow of capital has tended to become more unstable among the industrial countries themselves and between the industrial countries and the rest of the world. While, on the one hand, the differing impact of exchange controls or restraints in various countries has sometimes distorted the international flow of capital and has been an important factor in the growth of the Euro-dollar and Euro-issue markets, the increased international demand for funds has tended to place an extra strain on domestic capital markets.

### The Pattern of Private International Capital Movements

Data on international private capital movements<sup>1</sup> are summarized in Table 14. During the 1960's the United States has been the predominant source of international capital, with smaller contributions from the United Kingdom, from Italy in the last three years, and from Japan in 1965 and 1966. These funds have gone in relatively small part to the less developed countries; on a larger scale to Canada, Japan (prior to 1965), and certain of the more developed producers of primary products (e.g., Australia, New Zealand, and South Africa); and on an even larger scale to the industrial countries of continental Europe (including Italy up to 1964). The sharp decline in transfers from the United States during 1966 reflected the tight monetary conditions prevailing in the first three quarters of the year and the Government's program of voluntary restraint on capital outflows.

<sup>1</sup> Unless otherwise indicated, the balance of payments entry for "errors and omissions" is assumed to consist predominantly of private capital transactions.

TABLE 14. NET INTERNATIONAL PRIVATE CAPITAL MOVEMENTS, 1960-66

(In millions of U.S. dollars)

	Average 1960-63	1964	1965	1966
United States	-3,768	-5,351	-3,879	-451
United Kingdom <sup>1</sup>	332	-414	107	-1,123
Continental Europe	2,840	3,643	1,729	...
EEC countries	1,401	1,595	196	-110
Belgium-Luxembourg	124	246	124	184
France <sup>2</sup>	438	549	169	245
Germany	607	600	1,144	954
Italy	205	-234	-1,296	-1,755
Netherlands	27	434	55	262
Other	1,439	2,048	1,533	...
Switzerland	492	521	148	-95
Nordic countries	406	638	582	699
Other countries	541	889	803	...
Canada	982	728	1,150	588
Japan	554	457	-683	-1,164
Australia, New Zealand, and South Africa	299	481	728	1,005
Less developed countries	845	1,045	1,127	...
Discrepancy <sup>3</sup>	-2,084	-589	-279	...

Source: International Monetary Fund, *Balance of Payments Yearbook*.

<sup>1</sup> Includes reinvested earnings.

<sup>2</sup> Excluding transactions with the rest of the franc area.

<sup>3</sup> Arising from individual transactions being defined as capital by one country and as current by another, or as government capital by one country and as private by another (e.g., a loan by a private bank in one country to a foreign government); differences in timing; incomplete coverage (balance of payments statements are not available for all countries); the lack of data on transactions between France and the rest of the franc area; statistical errors; etc.

International private capital transfers have exhibited marked fluctuations. Attention has already been drawn to the changes in the Italian and Japanese positions. The United Kingdom has alternated almost from year to year, being a net recipient of private capital in 1960, 1962, and 1965 and a net source in 1961, 1963, 1964, and 1966. The net outflow from the United States was fairly stable at \$3.5 billion to \$4.2 billion in the period from 1960 to 1963, rose to a peak of \$5.4 billion in 1964,<sup>2</sup> declined in 1965, and was replaced by a net inflow during part of 1966. Canada and Germany have been persistent importers of private capital, but the net inflows varied from the equivalent of slightly less than \$600 million in 1966 to more than \$1 billion in 1960, 1961, and 1965 for Canada, and from the equivalent of \$370 million in 1961 to \$1.3 billion in 1960 for Germany. (They approximated \$1 billion in both 1965 and 1966.) The inflow to Australia reached a peak equivalent to \$1.3 billion in 1961, declined to \$555 million in 1964, and rose again to \$890 million in 1966.<sup>3</sup> The flow of

<sup>2</sup> In the last quarter of the year these net payments reached an annual rate in excess of \$6.0 billion.

<sup>3</sup> The net inflow to Australia in the second quarter of the year was equivalent to an annual rate of \$1.2 billion.

private capital to the less developed countries, while relatively small, has tended to increase gradually.

International private capital flows have not been homogeneous. The net balances recorded in Table 14 mask the importance of some large offsetting flows. For example, the United Kingdom and France have consistently been among the largest recipients of long-term capital and among the largest sources, chiefly for sterling area countries (including the less developed ones) and for the overseas franc area. Some other countries, such as Australia and Canada, have also made capital available to less developed countries even though they have predominantly been recipients of long-term funds. While these inflows and outflows have not been directly related to each other, the receipts, primarily from the United States, have increased the capacity of some countries to lend funds abroad. Recently, the supply of capital to some of the more developed countries, and hence the availability of funds for investment by them in less developed ones, has been affected by restraints on U.K. and U.S. capital outflows.

Furthermore, international private capital movements comprise many different types of transaction. It is important to analyze these types separately since, as the analysis in following sections indicates, each type tends to respond differently to particular economic forces. At the same time, analysis of individual categories of private capital flows must be more tentative than that of the total flows. In national statistical sources the identification of particular types of transaction is less satisfactory than the measurement of total capital movements, and many individual transactions are recorded differently by partner countries.<sup>4</sup> Moreover, it must be recognized that any economic force inducing international capital movements may exert similar influences on more than one type of transaction. For example, the influences that lead a company to issue securities on a foreign market in order to finance its investment at home may be similar to those that encourage a company in the foreign country concerned to invest directly in the other country. Interest rate differentials that lead to decisions to make new issues on foreign markets

<sup>4</sup> The many discrepancies in the statistics are reflected in the large size of the "errors and omissions" (Table 21).

may also lead holders of outstanding foreign securities to adjust their portfolios of securities. Many such adjustments are motivated by the same interest rate differentials that induce short-term capital movements.

## Long-Term Private Capital

Long-term capital transfers<sup>5</sup> (Table 15) seem to have accounted for more than half of the net recorded total of international private capital movements in recent years. Direct investments have been the most important element of this category. They have been the most stable of the flows from year to year and they have been the largest single element in the flow of long-term capital from the United States and the United Kingdom to the rest of the world. Direct investments have also been the major source of foreign private long-term capital for the less developed countries. The statistics for other long-term capital movements are less satisfactory, and it is difficult to make generalizations regarding them.

### *Direct Investment*

The United States has been the main source of direct investment for the rest of the world in the 1960's. The United Kingdom has been a somewhat special case, being both a large recipient and a large exporter of capital for direct investment.

The factors influencing direct investments abroad by U.S. companies have been diverse, and a few of these may be noted. There is evidence that, in some fields at least, U.S. subsidiaries have technological or other advantages over domestically based companies that may be the chief competitors of these subsidiaries. Some studies have indicated that European subsidiaries of U.S. companies are able to earn a larger return than that earned by comparable European companies, although a part of this higher return may reflect accounting conventions leading to incomplete allocation of total costs to European operations. The development of a common tariff by the European Economic Community, along with the establish-

<sup>5</sup> Defined as transactions involving permanent equity financing or debt instruments with a maturity of more than one year.

ment of free trade within the area, has created opportunities for industries operating within the Community. In some cases, U.S. companies that previously had exported to individual members of the Community decided that they could not compete in the new unified market by exporting from the United States, and that it was essential for them to establish manufacturing facilities within the area.

Another factor of great importance was the high level of private savings, particularly earnings retained by large business enterprises, in the United States. Many U.S. corporations were thus

long-term capital accounts so that capital transactions might be regarded as disequilibrating. In most of these cases, however, the changes in the current and capital balances have generally been in the opposite direction.

Sometimes, this equilibrating relation is the product of closely linked transactions in the current and capital accounts. Direct investment often takes the form of transfers of equipment and services from the parent organization, or of purchases that would not otherwise have been made in the capital exporting country. However, this relation should not be overemphasized. For

TABLE 15. NET INTERNATIONAL PRIVATE LONG-TERM CAPITAL MOVEMENTS, 1960-66  
(In millions of U.S. dollars)

	Direct Investment (Net)				Other Long-Term Capital				Total			
	Average 1960-63	1964	1965	1966	Average 1960-63	1964	1965	1966	Average 1960-63	1964	1965	1966
United States	-1,640	-2,440	-3,361	-3,376	-643	-939	-1,204	490	-2,283	-3,379	-4,565	-2,886
United Kingdom	-192	-280	-356	-252	167	-426	-78	115	-25	-706	-434	-137
Continental Europe					1,298	1,983	1,310					
EEC countries	230 <sup>1</sup>	736 <sup>1</sup>	568	...	986 <sup>1</sup>	1,193 <sup>1</sup>	630	...	1,216	1,929	1,198	508
Belgium-Luxembourg	...	...	102	138	...	...	38	-120	28	190	140	18
France <sup>2</sup>	115	165	101	123	283	362	260	33	398	527	361	156
Germany	-13	91	315	235	254	108	120	184	241	199	435	419
Italy	172	399	108	...	392	494	139	...	564	893	247	-165
Netherlands	-64	-59	-58	-73	49	179	73	153	-15	120	15	80
Other	...	...	...	...	312	790	680	...	...	...	...	...
Switzerland	...	...	...	...	-149	-64	-60	...	...	...	...	...
Nordic countries	59	32	80	...	151	315	294	...	210	347	374	445
Other countries	138	170	192	...	310	539	446	...	448	709	638	...
Canada	388	162	259	620	332	597	404	269	720	759	663	889
Japan	-37	52	-32	-75	169	91	-254	-596	132	143	-286	-671
Less developed countries <sup>3</sup>	612	1,112	1,040	...	652	953	524	...	1,264	2,065	1,564	...

Source: International Monetary Fund, *Balance of Payments Yearbook*.

<sup>1</sup> Estimated.

<sup>2</sup> Excluding transactions with the rest of the franc area.

<sup>3</sup> An incomplete group that is consistent from year to year.

able and willing to take advantage of the opportunities for direct investment in Europe, with a resulting large flow of funds.

When direct investments reflect differences in saving ratios and profit opportunities between countries, such movements of funds are likely to be equilibrating for the balance of payments. In those countries where aggregate demand is relatively strong, leading to a shortage of capacity, and the external current balance deteriorating, an inflow of direct investment is stimulated and capital outflows are discouraged. In those countries where aggregate demand is relatively weak and the current balance improving, capital exports are stimulated and capital inflows are discouraged. However, in recent years some countries have had concurrent surpluses (or deficits) on current and

example, it is estimated that, on the average, the immediate favorable impact of U.K. direct investment on the U.K. current account has amounted to not more than 10 per cent of the investment.

While the less developed countries have received a relatively large part of the total direct investment flows, an even larger flow of such investment will be required if economic growth in these areas is to be pressed ahead. Any stimulation of the flow of private direct investment to these areas will have to face the twin hurdles of the widespread capital shortage in comparison with profitable investment opportunities within the developed countries at the present time, and of the conditions which make investments in those countries relatively attractive.

Direct investment in the less developed countries has, on the average, been at least as profitable as investment in the developed countries. However, other factors have tended to inhibit investment in the less developed countries. Thus, in some of them severe inflation has been a problem, and one of its effects has been to increase the uncertainty facing foreign investors. The Fund's views on the importance of monetary stability as a prerequisite for more rapid economic growth, and hence as an encouragement to an inflow of foreign capital, were set forth in the 1962 Annual Report (pp. 41-54).

None of the steps which the less developed countries may take to encourage direct investment inflows detracts from the need for the industrial and other more developed countries to expand disbursements of aid and other forms of economic assistance. More liberal trade policies with regard to export products of importance to the less developed countries would stimulate their economic growth. Guarantees between more developed and less developed countries against exchange inconvertibility and other noncommercial losses on direct investment should stimulate the flow of capital to the latter countries. Other measures, such as the exemption of capital transfers to the less developed countries from the effects of restraints on capital outflows from the developed countries, are also to be welcomed.

#### *Other Long-Term Capital*

The most striking development in long-term capital flows other than direct investment has been the re-emergence of a large international market for new issues of securities (Table 16). This market has a long history, and prior to World War II European financial centers were important parts of it. Postwar exchange controls limited access of foreign borrowers to European markets, and New York became the predominant center for issues by borrowers raising funds outside their own countries. The United States was the major source of funds for the purchase of these issues, but there were substantial purchases by European and other foreign investors following the relaxation of many exchange controls in the late 1950's and early 1960's. Canadian borrowers were the most important foreign issuers of securities on the New York market; those from Europe were

next in importance. With the imposition of the U.S. interest equalization tax, most European borrowers were effectively excluded from the New York market and perforce turned to European markets. These markets, as a group, are now more important than New York for international long-term financing, but European agencies of New York investment banks are participants in European underwriting activities. Flotations of Euro-issues (i.e., securities denominated in currencies other than those of the markets where they are floated—largely dollar issues) are now the most important transactions in the European markets for long-term foreign issues.

TABLE 16. NEW FOREIGN SECURITY ISSUES BY MARKET OF ISSUE, 1963-66

(In millions of U.S. dollars)

	1963	1964	1965	1966
United States	1,443	1,155	1,451	1,271
Canada	—	—	23	37
Europe	488	954	1,326	2,545
National markets <sup>1</sup>	319	330	215	371
Belgium	14	6	17	20
France	12	31	25	40
Germany	40	132	—	—
Italy	24	—	24	139
Luxembourg	—	—	6	—
Netherlands	3	15	29	15
Switzerland	142	82	77	101
United Kingdom	65	64	37	56
Other	19	—	—	—
Euro-issue market	169	623	1,110	2,174
Total	1,931	2,108	2,800	3,853

Sources: IMF, IBRD, and OECD staff estimates.

<sup>1</sup> Bond issues only; notes and other private placements of less than five-year maturity, and equities, are excluded.

The large majority of the new issues by non-residents on securities markets have traditionally been made by borrowers from industrial or other more developed countries and by international institutions (Tables 17 and 18). Even though the London market is open to issues by borrowers from the less developed members of the sterling area, and the New York market is open to borrowers from less developed countries in general, only a few of the more advanced and financially more stable of this group of countries have issued securities on foreign markets in recent years. One explanation is that many less developed countries are heavily indebted on short-term and medium-term account; the debt burdens they have to bear in the immediate future may raise doubts regard-

TABLE 17. EUROPE: NEW FOREIGN SECURITY ISSUES, 1963-66  
(In millions of U.S. dollars)

Borrowers	1963	1964	1965	1966
European countries and institutions	348	643	696	787
Nordic countries	83	334	237	106
EEC countries	147	89	228	363
Other European countries	42	70	104	70
European institutions	76	150	127	248
Japan	59	199	35	—
U.S. companies	—	—	372	721
Other countries	81	89	148	665
Sterling area	56	46	120	539
Other	25	43	28	126
International institutions	—	23	76	372
Total	488	954	1,326	2,545

Sources: IMF, IBRD, and OECD staff estimates.

ing their ability to service additional debts, or their willingness to curtail short-term borrowing in the period when presently issued long-term debts would mature. The problems of the debt burden of the less developed countries were discussed in the Fund's 1965 Annual Report (pp. 23-30).

The adoption by the United States in 1965 of a program that included voluntary restraint on net transfers for direct investment in developed countries added a new element to the Euro-issue market, with the advent of U.S. companies as borrowers whose transactions tended to associate the flow of direct investment funds with borrowing transactions. The demands for finance by European affiliates of U.S. companies rose sharply (Table 19), but the U.S. voluntary program, together with the stringency of credit in the United States, limited the funds that U.S. companies could transfer to these affiliates to meet such demands. Hence, their demands on the European financial markets increased markedly from mid-

TABLE 18. UNITED STATES: NEW FOREIGN SECURITY ISSUES, 1963-66  
(In millions of U.S. dollars)

Borrowers	1963	1964	1965	1966
Canada	734	725	738	939
Western Europe	351	51	180	5
Latin America	56	258	59	80
Japan	202	—	63	—
International institutions	—	5	200	118
Other	100	117	211	129
Total	1,443	1,155	1,451	1,271

Source: U.S. Department of Commerce.

1965. A part of this increase was met from the European security markets; a larger part of it was met through direct borrowing from banks and other financial institutions. These additional demands on the European capital markets not only contributed to the general tensions which they experienced but also made it more difficult for several countries, which had borrowed significant amounts in them, to make further new issues (e.g., Australia and Finland).

The shift of borrowing by Europeans from the U.S. new-issues market and the emergence of U.S. companies as large borrowers on the Euro-issue market are serving on an increasing scale to link the various national markets to each other, and thereby to promote the integration of an international market for long-term capital.

TABLE 19. EUROPEAN AFFILIATES OF U.S. COMPANIES: USES AND SOURCES OF FUNDS, 1962-66  
(In millions of U.S. dollars)

	1962	1963	1964	1965	1966
<b>Uses</b>					
Expenditures on plant and equipment	1,974	1,903	2,179	2,674	3,584
Increase in other assets <sup>1</sup>	926	1,747	2,421	2,326	2,816
Total	2,900	3,650	4,600	5,000	6,400
<b>Sources</b>					
Undistributed earnings	292	513	408	381	600
Depreciation and depletion	750	875	1,125	1,300	1,500
Other finance <sup>2</sup>	1,858	2,262	3,067	3,319	4,300
From the United States <sup>3</sup>	867	924	1,368	1,372	1,300
From Europe <sup>2</sup>	991	1,338	1,699	1,947	3,000
Security issues	—	—	—	372	668
Other <sup>2</sup>	991	1,338	1,699	1,575	2,332

Source: Fund staff estimates, based on U.S. Department of Commerce data.

<sup>1</sup> Including purchases of equity in existing businesses.

<sup>2</sup> To some extent, residuals.

<sup>3</sup> Excluding amounts borrowed in Europe by U.S. companies for transfer to their European affiliates.

This integration is likely to increase the importance of international trade in outstanding securities. Such trade is large for those countries whose national financial markets are closely linked, as is the case for Canada and the United States and for South Africa and the United Kingdom. Moreover, trade in outstanding securities is growing within the European Economic Community. As various national markets become more closely integrated, this trade, motivated as it tends to be by yield differentials between national markets, should become an increasingly important adjunct to international short-term capital movements.

## Short-Term Capital

Short-term movements of capital<sup>6</sup> have been important for a number of countries (Table 20). In several (e.g., France, Italy, Japan, the United Kingdom, and the United States) these transactions have been the ones where immediate equilibrating adjustments took place. On the other hand, in some countries, such as the United Kingdom, they also have been the most serious of the disequilibrating movements. Changes in short-term movements have been the major source of variations in the total flows referred to above. Many countries experienced large net inflows in some years (e.g., the equivalent of \$486 million for Canada in 1961, \$692 million for Italy in 1963, \$573 million for Japan in 1961, \$1,253 million for the United Kingdom in 1960, and \$2,818 million for the United States in 1966) and large net outflows in other years (e.g., the equivalent of \$301 million for Canada in 1966, \$1,038 million for Italy in 1965, \$449 million for Japan in 1966, \$1,082 million for the United Kingdom in 1961, and \$1,080 million for the United States in 1960).

Transfers to and from the United States have been the largest of the private short-term movements. U.S. short-term capital outflows have mainly been in the form of trade credit and of loans and commercial acceptances by U.S. banks. The private short-term inflows into the United States have mainly comprised increases in deposits or purchases of money market paper by foreign commercial banks, primarily banks in continental Europe.

The Euro-dollar market has in many respects become the focal point for the commercial banking element of short-term capital flows, other than the accumulation of balances in the United States. Its reaction to the demands placed on it during 1966 demonstrates its present flexibility. For example, the greatest contribution to the change in the U.S. private capital account was the withdrawal of funds from the Euro-dollar market by U.S. banks. The magnitude of the balances now outstanding in it are indicated in Chapter 7 (Table 41, p. 88).

For many years banks have accepted deposits denominated in currencies other than those of the

<sup>6</sup> Defined as transactions involving credit or debt instruments with a maturity of less than one year.

TABLE 20. NET INTERNATIONAL PRIVATE SHORT-TERM CAPITAL MOVEMENTS, 1960-66<sup>1</sup>

(In millions of U.S. dollars)

	Average 1960-63	1964	1965	1966
United States	-621	-1,023	1,101	2,818
United Kingdom	134	216	240	-1,028
Continental Europe				
EEC countries	715	-343	-1,074	77
Belgium-Luxembourg	92	46	-4	152
France	16	-38	-344	-70
Germany	254	24	230	329
Italy	352	-612	-1,038	-408
Netherlands	1	237	82	74
Other	...	...	...	...
Switzerland	...	...	...	...
Nordic countries	106	134	-74	5
Other countries	28	195	145	...
Canada <sup>2</sup>	262	-31	487	-301
Japan	397	304	-346	-449
Australia, New Zealand, and South Africa	-18	89	-100	...
Less developed countries	124	359	-48	...
Discrepancy	-1,127	100	-331	...

Source: International Monetary Fund, *Balance of Payments Yearbook*.

<sup>1</sup> Private short-term capital plus net movement in commercial banks' assets and liabilities.

<sup>2</sup> Including errors and omissions.

countries where they operate, but the modern Euro-dollar market is of recent origin. The impetus to its growth came with the U.K. prohibition of the use of sterling in financing transactions between countries outside the sterling area in 1957. These restrictions deprived London institutions of part of their normal sterling business. At the same time, the limit on interest rates for time deposits in the United States at levels lower than those prevailing in Europe, and the absence of

TABLE 21. NET ERRORS AND OMISSIONS AND UNALLOCATED PRIVATE CAPITAL MOVEMENTS, 1960-66

(In millions of U.S. dollars)

	Average 1960-63	1964	1965	1966
United States	-864	-949	-415	-383
United Kingdom	223	76	301	42
Continental Europe	266	736	582	...
EEC countries	-530	9	72	-695
Belgium-Luxembourg	4	10	-12	14
France	24	60	152	159
Germany	112	377	479	206
Italy <sup>1</sup>	-711	-515	-505	-1,182
Netherlands	41	77	-42	108
Other	796	727	510	...
Switzerland <sup>2</sup>	641	585	208	...
Nordic countries	90	157	282	249
Other countries	65	-15	20	...
Canada <sup>3</sup>	25	10	-51	-44
Japan	...	...	...	...
Australia, New Zealand, and South Africa	447 <sup>4</sup>	441 <sup>4</sup>	284 <sup>5</sup>	417 <sup>5</sup>
Less developed countries	-543	-1,379	-389	...
Discrepancy	446	1,065	-312	...

Source: International Monetary Fund, *Balance of Payments Yearbook*.

<sup>1</sup> Mainly repatriation of Italian banknotes.

<sup>2</sup> Includes both direct investment capital and private short-term capital.

<sup>3</sup> Included in private short-term capital.

<sup>4</sup> Includes all long-term private capital for Australia.

<sup>5</sup> Includes other long-term capital (portfolio) for Australia.

reserve requirements on foreign currency liabilities of U.K. banks, permitted the London institutions to attract dollar deposits at interest rates higher than those prevailing in the United States or for sterling deposits, while making countervailing dollar loans at rates no higher than those for sterling loans. By the time U.K. restrictions began to be removed in 1959, the Euro-dollar market was firmly established. The U.S. voluntary program of restraint on bank loans to borrowers in developed countries has also contributed to the recent growth of this market. While London is the main center of the Euro-dollar market, Euro-currency business is also conducted in other Western European centers. In recent years the market has become increasingly dominated by London branches of U.S. banks, and hence markedly influenced by monetary conditions in the United States affecting the head offices of those institutions. In addition to U.S. and European banks, the Canadian banks, with their agencies in New York and branches in London, as well as the Japanese and other foreign banks, also operate in this market and contribute to its importance as an international short-term market.

While residents of less developed countries have obtained commercial credit from the Euro-dollar market, and have provided some liquid funds to it, trade and bank credit (other than on Euro-dollar account) for the finance of current transactions are the most important elements in the short-term capital accounts of these countries. In this connection, many of the less developed countries have come to depend to an increasing extent on short-term and medium-term suppliers' credits, which are tied to commercial transactions and hence have served to isolate individual imports from the full rigor of international competition. The export-stimulation policies of many of the industrial countries have contributed to this trend. In the 1965 Annual Report (pp. 28-29), the Fund commented on some of these practices. The problems inherent in undue reliance on these types of suppliers' credits indicate a need not only for governments of less developed countries to exercise control over access to this type of finance, but also for governments of the industrial countries to exercise caution regarding the types of export promotion campaign that they are prepared to underwrite.

## The Structure of Capital Markets

While the pattern of international private capital flows has been determined primarily by fundamental economic forces and national economic policies, a number of institutional factors have influenced it. In particular, the existence of highly developed capital markets in New York and London has served to encourage movements to and from the United States and the United Kingdom, some of which have tended to aggravate tensions in the international monetary system. Although the short-term liabilities of the United Kingdom have not risen during the postwar period, their level makes its balance of payments vulnerable to changes in relative interest rates. The U.S. short-term liabilities have been rising steadily during that period, so that the potential volatility of the structure of international short-term indebtedness has tended to increase.

It has been suggested that the growth in U.S. liquid liabilities to continental Europe is a by-product of stronger desires for liquidity by European individuals and businesses than by their U.S. counterparts. However, according to such evidence as is available, the nonfinancial private sectors in continental European countries do not devote a larger portion of the increases in their financial assets to liquid types than is done in the United States; the private demand for increases in cash-type assets appears to be relatively high in the United States, as well as in the United Kingdom (Table 22). Hence, if there are institutional explanations for some of the international capital movements they must be found elsewhere.

Some of these movements may be one result of the greater technical efficiency of the U.S. and U.K. financial markets. The large volume of transactions conducted by U.S. financial institutions leads to certain economies of scale. The value of such transactions in the United States has, in recent years, been almost as great as the combined total in Belgium, Denmark, France, Germany, Italy, Japan, the Netherlands, Norway, Spain, Sweden, and the United Kingdom (Table 23). With this very large scale of operations, it has been relatively easy for foreign borrowers to compete with domestic borrowers. The large and

TABLE 22. SELECTED COUNTRIES: ACQUISITIONS OF FINANCIAL ASSETS BY NONFINANCIAL SECTORS

*(In percentages of total acquisitions by nonfinancial sectors)*

	Belgium (1959-63)	France (1959-63)	Germany <sup>2</sup> (1960-64)	Italy (1963-64)	Japan (1960-64)	Nether- lands (1960-64)	Norway (1959-63)	Sweden (1960-64)	United Kingdom (1962-64)	United States (1960-64)
<b>Including Life Insurance and Pension Funds</b>										
Money	20	32	15	26	16	15	8	5	}50	6
Quasi-money	22	19	27	37	25	31	34	45		61
Other claims on banks	9	3	18	1	2	—	1	11	—	—
Treasury bills	—	6	—	-2	—	-1	—	—	—	—
Liquid assets <sup>1</sup>	51	58	60	62	43	45	43	60	48	67
<b>Other claims on credit institutions</b>										
Life insurance and pension funds	3	24	6	5	23	—	8	—	21	2
Bonds	14	3	12	9	4	39	23	30	41	20
Shares	21	9	16	8	2	}14	14	4	}-10	12
Miscellaneous	11	7	7	16	11		9	6		—
Total	100	100	100	100	100	100	100	100	100	100
<b>Excluding Life Insurance and Pension Funds</b>										
Liquid assets	60	59	67	68	45	74	55	86	82	85
Other claims on credit institutions	3	24	7	5	24	—	11	—	36	2
Bonds	25	9	18	9	2	}23	18	5	}-17	15
Shares	12	7	9	17	11		11	8		—
Miscellaneous	—	—	—	—	18	3	4	—	—	—
Total	100	100	100	100	100	100	100	100	100	100

Source: Statistical material collected for the OECD Committee for Invisible Transactions.

<sup>1</sup> There can be no unequivocal separation of financial assets into "liquid" and "nonliquid." An attempt is made here to order assets by liquidity.<sup>2</sup> Adjusted by Fund staff to exclude government financing of mortgage institutions (to render data more comparable to those for other countries).

highly organized market for short-term funds in the United States also contributes to the smoothness with which the market for long-term funds operates. Particularly when foreign borrowers are making large issues of securities, their demands may be accommodated more readily on the U.S. market than on the smaller European markets.

London has a variety of institutions (including its money market) that is perhaps unrivaled by any other financial center. With a concentration of branches of overseas banks in London, and some 6,000 branches of U.K. banks overseas, it serves as a financial center for the entire world. This complex enables London to provide sources of finance and repositories for funds which would be hard to develop elsewhere.

On the other hand, it should be recognized that the financial markets in the major continental European countries, Canada, and Japan are not small in absolute terms or relative to economic magnitudes such as the volume of investment. Being separate from each other, however, these markets are limited in their ability to handle transactions above a certain size. One of the factors encouraging the issue of securities denominated in U.S. dollars rather than in the currency of one of the European countries is that such

issues may be floated in several financial centers simultaneously. Moreover, except in connection with very large individual issues, capital market efficiency is by no means solely a function of size, and there can be efficient smaller markets, as in Switzerland and the Netherlands.

The steps that might be taken to strengthen national capital markets are diverse. For example, one probable result of an effective attack on inflation would be an improvement in the efficiency of these markets, inasmuch as the upward trend of prices has added to the tensions in them. Again, if economic management in recent years had placed less reliance on monetary policy, and more on fiscal policy, interest rates would probably not only have risen less but would have moved within a narrower range and changes in the availability of credit would have been less marked. Such an improvement in national economic policies would also have facilitated further harmonization of national monetary policies, giving increased attention to international considerations. This would have reduced the strains on international capital markets arising from capital flows induced by an international structure of interest rates determined primarily by domestic considerations in the countries concerned.

The tendency for capital to move from countries with weaker demand to those where demand is stronger has been noted above. When private investors have the opportunity to seek out those markets where demand is relatively strong, movements of private funds are likely to lead to balances on international private capital accounts that are opposite in direction from those on current accounts. Hence, greater freedom and efficiency of capital markets may be expected to improve the international adjustment process, provided that inconsistent economic policies are not followed by individual countries.

short-term money markets, for the financing of international trade, and for the flotation of large individual long-term issues.

In many countries there are institutional reforms which could improve the efficiency of the national markets and the international adjustment process. Suggestions for a number of these reforms have been made elsewhere.<sup>8</sup>

Any improvements in the structures of capital markets in the industrial countries would be likely to make them more open to borrowers from the less developed countries and should thereby facilitate the flow of capital to those countries. It

TABLE 23. SELECTED COUNTRIES: SIZE OF THE CONSOLIDATED FINANCIAL SECTOR <sup>1</sup>

(Annual averages)

		Funds Accruing to the Sector <sup>2</sup>			Funds Lent by the Sector <sup>2</sup>		
		Billions of U.S. dollars	Per cent of GNP	Per cent of gross saving	Billions of U.S. dollars	Per cent of GNP	Per cent of gross fixed asset formation
United States	(1960-64)	47.0	8	46	51.0	9	54
Japan	(1960-65)	15.1	24	66	16.5	26	79
Germany	(1960-64)	11.0	13	46	11.0	13	50
France	(1960-64)	7.4	10	48	7.7	11	53
United Kingdom	(1962-64)	6.8	8	45	7.9	9	55
Italy	(1963-64)	5.8	12	53	...	...	...
Spain	(1961-64)	2.2	15	67	2.2	15	73
Netherlands	(1960-64)	1.2	13	46	1.8	13	54
Belgium	(1960-62)	1.6	12	61	1.8	13	68
Sweden	(1960-64)	1.6	11	44	1.6	11	46
Denmark	(1960-64)	0.7	10	43	0.8	12	50
Norway	(1960-63)	0.4	8	28	...	...	...

Source: Statistical material collected for the OECD Committee for Invisible Transactions.

<sup>1</sup> Banks and other financial institutions, government borrowing and lending operations, and the securities markets.

<sup>2</sup> The funds accruing to and lent by the sector are not necessarily equal. Financial intermediaries may absorb or restore funds on their own account, especially the public sector insofar as it is treated as a financial intermediary.

Further steps making it easier to transfer funds between financial markets, along the lines of the changes in French regulations in early 1967,<sup>7</sup> may be expected to enable individual markets to fit their operations into a larger aggregate with the efficiency that size tends to bring. If the separate capital markets of the EEC countries were in fact so closely linked that they could be considered an integrated market, they would become equal in absolute size to almost two thirds of the U.S. market. Such a linking of continental European markets would give greater opportunity for the distribution of liquid savings, for the settlement of temporary regional imbalances through

is not to be expected, however, that improvements in capital markets will have a marked effect on this flow of capital, because of the hindrances to foreign private investment in the less developed countries and the encouragements to private investment within the developed countries that have been indicated above. Such forces would continue to operate even if individual capital markets in the major countries functioned more efficiently. Measures of direct encouragement for investment in the less developed countries may be required if the

<sup>8</sup> For example, see the report of a Group of Experts established by the Commission of the European Economic Community, *Le Développement d'un Marché Européen des Capitaux* (Brussels, 1966).

<sup>7</sup> See Chapter 6, page 70.

flow of private finance to them is to be stimulated. Increased governmental aid and the adoption of general policies to foster growth in the less developed countries are likely to be the most effective means for encouraging the investment of private capital in them.

### Conclusion

International private capital movements have contributed substantially to the financing of the unprecedented economic growth of the developed countries in recent years even though they have, on occasion, introduced elements of strain into the international monetary system. On the other hand, the flow of private capital to the less developed countries has been less than might be considered adequate, while more recently the U.K. and U.S. restraints on movements of capital to the developed countries have added a new element to the situation. The institutions in the main financial centers have reacted flexibly to the demands placed on them by the high levels of invest-

ment and to the stresses associated with restraints on capital movements imposed by some countries. The growth of the Euro-dollar and Euro-security markets are examples of such reactions. Even so, institutional reforms in national capital markets would be likely to remove some of the sources of strain in the international monetary system. A widespread relaxation of the remaining restraints on capital transfers would probably have a similar effect. However, the most important changes in this regard might be expected to flow from general shifts in national financial policies, such as a more balanced relation between the demands placed on fiscal and monetary policies. Any improvements in the policies and practices followed by the industrial countries should provide some stimulus to the flow of private capital to the less developed countries. Large increases in this capital flow, however, are more likely to follow steps which effectively encourage the less developed countries' rate of economic growth, such as more widespread adherence to monetary stability on their part and an expansion in the flow of government aid to them.

## Foreign Exchange Policies in Less Developed Countries

OVER the past two decades, and especially since the latter part of the 1950's, the Fund has been closely associated with the less developed countries in connection both with the provision of resources to meet balance of payments difficulties and with periodic reviews and appraisals of policies and developments in their economies. From this association the Fund has gained considerable experience and insight in the search for solutions to the problems of these countries. The present chapter is based on this experience and deals with problems and policies in the foreign exchange field. Although this chapter does not deal with problems of the more developed countries, many of the observations made here are applicable to all countries.

Foreign exchange policies and practices of Fund members are regularly surveyed in the *Annual Report on Exchange Restrictions*. These annual reports clearly point to the substantial progress made by members, particularly in the past ten years or so, toward the establishment and maintenance of a sound international payments system. The less developed countries have shared in this progress; a large number have consistently pursued realistic foreign exchange policies and have succeeded in maintaining currency stability and a payments system which is wholly or largely free of exchange restrictions. Of the 31 members that have so far accepted the obligations of Article VIII, Sections 2, 3, and 4, about one half are less developed countries.

There are, however, many less developed countries where the balance of payments has been under serious and continuing pressure and dependence on direct restrictions or multiple currency practices has remained substantial. This chapter is devoted largely to discussing the problems of countries in such prolonged imbalance and reviewing the effectiveness of alternative policies to rectify it.

The Fund believes that policies aimed at achieving an enduring stability of the exchange

rate at a realistic level—that is, a rate that provides adequate incentives for exports while facilitating the maintenance of a liberal payments system—are essential to sound economic growth. An exchange rate that is seriously out of line with the developments in the economy and abroad will result in distortions in the allocation of resources. These distortions will increase as the overvaluation of the currency increases over time, complicating the adjustment of the balance of payments and creating impediments to further growth. Consequently, in this analysis and review of situations typical of countries in persistent imbalance, attention is focused primarily on the economic costs of currency overvaluation and stress is placed on the advantages of prompt and decisive action to correct the situation.

The foreign exchange problems that have confronted less developed countries are, to some extent, of external origin. Continued weakness or instability in foreign demand and the existence of tariff and nontariff barriers to trade maintained by developed countries have been obstacles to a sustained expansion of export earnings of less developed countries. The contribution of appropriate foreign exchange policies toward the strengthening of their balance of payments will be more important if efforts to remove these obstacles succeed.

### Payments Problems and Policy Responses

The types of balance of payments difficulties that have led members to adopt programs of stabilization were described in the 1966 Annual Report.<sup>1</sup> In countries that are predominantly exporters of primary products, the difficulties have arisen to some extent from short-run fluctuations in export earnings as a result of natural or other conditions affecting supply or foreign demand

<sup>1</sup> Chapter 3, pages 21-23.

conditions. Although the price behavior of primary products has not followed a uniform pattern and has affected countries differently, the short-term export fluctuations have at times placed considerable strains on the ability of these countries to maintain their development efforts. The Fund's compensatory drawing facility, as revised and improved in September 1966, is designed, in conjunction with its normal drawing facilities, to assist countries to cope with difficulties in this area.<sup>2</sup>

Many of the payments difficulties of less developed countries can be attributed to the tendency for domestic expenditures to outstrip available resources as countries attempt to provide desirable public services to their growing populations and to increase the rate of economic growth. It has been difficult to restrain the growth in public current expenditures, particularly for defense and welfare purposes; in many instances, substantial and continuing budgetary support has been necessary to meet the operating losses of public enterprises. Moreover, not infrequently development plans have called for a considerable acceleration in investment expenditures. The mobilization of additional resources through taxation or other means for financing the rising levels of both current and investment expenditures has often proved difficult. Low levels of income have created social resistance to policies aimed at reducing the growth of private consumption. The absence of appropriate institutions for mobilizing and channeling private savings has also been a constraining factor. In these circumstances recourse to inflationary financing has been substantial, and one of the consequences has been a weakening of the balance of payments. In some countries the process of inflation has tended to become entrenched, aggravating the balance of payments difficulties.

Payments imbalance has at times been more directly associated with particular investment decisions made by a country. If investments are directed to activities which are not well suited to the country's potential, they will fail to yield adequate economic returns, and will tend to weaken the balance of payments. The determination of an optimum investment pattern is, however, not an easy task. It is not always possible, for exam-

ple, to identify precisely the areas where the country's latent advantage in production lies. There may also be errors in estimating the costs of the projects or the period necessary before the investments can bring full results. The time horizon chosen for the selection of investments is, moreover, an important consideration; projects which yield higher returns in the short run may not be the more productive ones when a longer period is taken as the reference. While these basic difficulties may understandably give rise to pressures on resources and create payments difficulties, more frequently problems have arisen because allocation of investments was not based upon productivity considerations. This has been particularly evident when the saving of foreign exchange through the replacement of imports has been made the overriding criterion in the selection of new industries. In many small countries, for instance, the manufacturing sector consists mainly of the final stage of the assembly of consumer goods. The import content of the products of these industries has remained high, and, in view of the limited size of the market, they have only infrequently reached economic dimensions.

When, with the onset of balance of payments difficulties, action has been taken through speedy adjustments in financial and other internal policies, it has been possible, often with Fund support, to bring the payments position under control. With such action, the stability of the currency and confidence in the foreign exchange system of the country are not impaired and the undesirable effects arising from expectations of a change in the exchange rate or in trade and payments policies are avoided. In the absence of corrective action, the cost-price structure over a period of time will suffer serious distortions. The resulting overvaluation of the currency leads to a rise in imports, a tendency for exports to be discouraged, and, with growing expectations of a devaluation, an inducement for capital to move abroad. The adjustment of the balance of payments in these cases of serious imbalance requires changes in the pattern of production through a shift of resources from the domestic to the external sector. Experience shows that the reallocation of resources can best be achieved by creating appropriate market incentives through a change in relative prices.

<sup>2</sup> See below, pages 131-32.

A policy of deflation alone may achieve this but, in situations of serious imbalance, the required reduction of domestic expenditure will have undesirable consequences on the level of economic activity and the process of economic growth. Under these circumstances an exchange rate adjustment accompanied by monetary and fiscal policies aimed at eliminating excess demand will permit the desired shifts of resources to take place without being as disruptive of economic growth. These policies act in a complementary fashion to facilitate the adjustment; the increase in prices in domestic currency in the external sector, consequent on devaluation, creates new incentives while the reduction in domestic outlay releases resources for reabsorption. In practice, however, the restoration of internal and external balance takes time during which there may be difficult problems of adjustment. The speed with which the economy can respond to the changes in demand and supply conditions depends largely on the extent to which existing resources can be transferred between different uses and on the volume of additional resources that can be mobilized. If the structural or institutional characteristics of the economy inhibit the necessary mobility of resources, the ability of the country to attract foreign resources may be crucial. Moreover, the relative growth of the export sector depends on the rate of expansion of foreign demand for the country's products and the extent to which producers are able to realize gains in productivity and reorient production to the characteristics of foreign demand.

Although the benefits of an exchange rate adjustment may take time to be fully realized, there are many ways in which the balance of payments may show an immediate favorable response. An increase in the exportable supply of some commodities, particularly through reduced domestic consumption as a result of higher prices, as well as the reappearance of exports withheld by traders in anticipation of a rate change, may yield quick results. Some immediate decrease in pressures on imports is also likely with the adjustment in prices of imports and a reduction in inventories of imported goods accumulated because of continuing inflation or uncertainties in import policy. Moreover, to the extent that confidence is restored, there is likely to be a favorable movement of capital.

It is, however, unlikely that the deficit in the balance of payments will be fully eliminated immediately after a devaluation. In order to reap the maximum advantage from the exchange rate adjustment, it may thus be necessary to have available adequate foreign financing to facilitate the avoidance or elimination of restrictions and to bolster confidence in the currency. The Fund has been an important source of such financing. Often its own assistance has been paralleled by resources from other sources, including long-term resources for investments necessary to foster output in those sectors where profitability has been improved by the rate adjustment.

Countries have sometimes delayed an overt adjustment of the exchange rate for various reasons, including domestic political resistance to a reduction in the external value of the currency and the fact that such action is virtually irreversible. The immediate effects of the adjustment on the prices of imported goods have weighed heavily on the judgment of their authorities, especially where such goods form an important component of the cost of living. More generally, the transfer of real incomes from consumers to producers of international goods, which would result from the change in relative prices of domestic and international goods, has generated resistance. There has also been a strong apprehension that a devaluation would seriously worsen terms of trade, particularly where the country is an important supplier to world markets.

Many less developed countries have, therefore, responded to continuing balance of payments difficulties by resort to a mixture of measures. These include exchange rationing, import licensing, reliance on bilateral payments or barter arrangements, export subsidies and import surcharges, and introduction of multiple rates, which have seemed to be preferable to the sometimes politically more difficult course of adopting a unified and realistic exchange rate. These measures have also seemed more suitable because they have permitted a differentiation in treatment between classes of foreign transactions. However, besides being objectionable from an international point of view, they have made the restrictive system increasingly complex and the effects generally have not been favorable to economic growth.

## Effects of Restrictions on Allocation of Resources

Prolonged use of restrictions creates serious distortions in the allocation of resources, which tend to be drawn into the production of goods that cannot be imported or can be imported only in severely restricted quantities. At the same time, the increasing overvaluation of the currency strongly discourages the expansion of exports. In fact, the relative profitability of the new manufacturing industries tends to divert resources from existing export industries or from primary production, without encouraging exports by those new industries. Moreover, until recently, agricultural expansion did not receive adequate emphasis in many development plans; this together with the relatively liberal treatment usually accorded to imports of food and raw materials has weakened efforts to increase the domestic supply of food and agricultural raw materials, notwithstanding the increased need for food in response to growth in population and income. Preferential treatment of imports of capital goods has tended to result in an overexpansion of capacity. To provide foreign exchange for imports required for the establishment and operation of the new industrial enterprises, as well as for other essential imports, a fresh round of restrictions to compress the remaining imports sooner or later proves unavoidable. This process can in theory continue until domestic production has been so diversified that it can be maintained with a small volume of imports; in practice, however, the growing rigidity in the structure of imports means that after some point a reduction in their volume can only be achieved by restricting imports essential to the maintenance of domestic production. It is not an uncommon phenomenon for some industries in less developed countries to operate at levels much below capacity for lack of imported materials, fuel, and components.

Even when a country has a policy of stimulating production selectively, attempts to cope with a deteriorating payments situation by continued resort to restrictions make effective implementation of the policy very difficult. As restrictions embrace a wider range of products, it becomes difficult or even impossible to limit inducements to particular industries. Restrictions imposed more broadly for payments purposes lead to in-

creases in prices in other sectors, often making it profitable to divert resources from the initially protected industries. Moreover, with continuing balance of payments difficulties, these industries can no longer count upon the uninterrupted supply of imported machinery and raw materials needed for the production process. The tendency in consequence is that the allocation of resources comes to be increasingly influenced by measures taken in response to the exigencies of the balance of payments situation and may differ substantially from an allocation based on the requirements of a well-conceived development approach.

The Fund has not objected, under certain conditions, to the adoption of multiple currency practices by members and, at times, has even made its resources available for an exchange reform that had certain multiple currency features. This support has, however, always been based on pragmatic considerations with an understanding that use of such practices would be temporary. Assistance has been given when the existing exchange rate was so out of line that the adoption of multiple currency practices could be considered an improvement. There are, however, serious disadvantages associated with the use of multiple currency practices. On the import side a multiple rate system discriminates in favor of "essential" goods and against "nonessentials." This raises the same policy and practical issues as direct restrictions; it distorts the allocation of resources and involves exceedingly difficult determinations as to the "essentiality" of classes of imports. On the export side the rate applying to some exports has often continued to overvalue the currency, thus discouraging the growth of production of goods in which the country may have the greatest comparative advantage. Moreover, uncertainties and instability inherent in the multiple rate system have militated against new investment initiatives and rationalization of export production. As the balance of payments position has continued to weaken, frequent changes have been made in the scope and number of effective rates. The effect of these changes has been to depreciate the rate structure but on a basis that has inevitably become increasingly arbitrary as the complexity of the system has increased. Frequently, it has been necessary to combine multiple rate systems with complicated exchange controls and

import licensing in order to limit the demand for exchange to the available supply.

When currency overvaluation persists for a long time, the machinery of exchange and trade control developed to mitigate the balance of payments pressures gradually tends to embrace nearly all areas of external transactions. The complexity and the discretionary aspect of the system makes it difficult to administer effectively. In such situations the scarcity of foreign exchange produces opportunities for exceptional gains for traders able to obtain import or exchange licenses. Moreover, with the increasing displacement of the market mechanism by detailed regulations, a disproportionate segment of the administrative apparatus becomes tied up in the interpretation and implementation of the regulations. Not only do foreign exchange allocation and management become wasteful but the making and implementation of sound policies in other spheres suffer.

With growing complexity of the exchange system, confidence in the currency is likely to be seriously eroded, leading to substantial outflows of domestic capital. If there are legal impediments, outflows may occur through various devices such as understating of receipts and overstating of payments requirements as well as export of banknotes and securities. At the same time, controls on current transfers, the general uncertainty about future policies, and the expectation of an eventual devaluation discourage the inflow of foreign capital.

### Experience with Exchange Reform

The heavy costs of currency overvaluation emphasize the importance of early action in adjusting the exchange rate; undue delay in taking this action leads to allocative distortions in the economy which become more widespread over time. The correction of these distortions may in such situations call for a substantial adjustment of the exchange rate. Several countries have been able to accomplish the needed adjustment in one step. Others have chosen a gradual course and have made only a partial or selective devaluation in the initial stage. It has also not always proved feasible, in connection with a reform of the exchange system, to modify financial policies so as to eliminate inflation altogether. Thus the immedi-

ate objectives of some of the reforms have been limited to bringing about some liberalization of imports and encouragement of exports and slowing down the rise in prices, thereby preparing the ground for subsequent action.

Despite the initial problems of adjustment, the immediate establishment of a realistic rate, together with the adoption of policies aimed at the control of inflation, has important advantages. If the devaluation is adequate and is supported by financial and other measures of a comprehensive character, it will foster confidence in the stability of the currency and the new price relationships. Given this confidence, producers and traders can be expected to make the desired adjustments in production, investment, and marketing. If a gradual approach to the control of inflation or the reform of the exchange system is followed in order to ease the immediate problems of adjustment, action in the initial stage will be less far-reaching and there will be expectations of further changes. In view of the uncertainties, the response to the policy adjustments may well be less than expected. Any gradual approach carries with it the danger that evolving social or political pressures or the appearance of new economic difficulties may weaken the resolve to make further moves toward a realistic rate. This is not to say that a program of financial and exchange reform spread out over several years will be unsuccessful. But it has to be concluded that it is an exceedingly difficult operation, requiring sustained and resolute efforts to attain the objectives of the program.

In many less developed countries one problem that has arisen in association with a devaluation concerns the difference between the costs of production of traditional export goods and of other goods, especially manufactures. These countries generally have a comparative advantage in primary products but many of them understandably feel that in the longer run the best opportunity for improvement in the balance of payments lies in the diversification of exports, mainly in the field of manufacturing. A devaluation of the degree required to facilitate the diversification of exports may generate substantial windfall profits in the export sector for primary products. When the existing tax machinery of the country does not respond promptly to the increased income in this sector there is a case for levying taxes on exports

of primary products, both to provide an additional source of financing for the budget and to encourage the diversification of production and exports. Moreover, when a country is an important world supplier of the goods in question, taxation would prevent an undesirable lowering of the foreign price inviting retaliatory action by competing suppliers. At the same time, however, in setting the tax rates it must be recognized that the placing of an undue burden on primary exports may have adverse effects on production. Failure to expand the supply of primary products for export at competitive prices may deprive the country of the opportunity of expanding exports as world demand increases, and may invite attempts at substitution in the importing countries. As the cost and price differentials resulting from the devaluation are narrowed by shifts in resources and production, the taxes may and often should be reduced and eventually eliminated. In general, it must not be assumed that the traditional export sector will take care of itself and can always stand heavy taxation.

On the import side a devaluation normally permits a relaxation of restrictions, thus increasing the influence of the price mechanism and competition from abroad in the allocation of resources. It thus affords the occasion for rationalizing import policy through the selection of industries to be stimulated and setting more clearly the degree of protection for such industries by an adjustment of the tariff structure. The general relaxation of restrictions on imports improves the relative attractiveness of the protected sector as well as the export sector. In many cases, however, retention of administrative restrictions on some imports has been considered necessary in order to ensure that import demand is kept sufficiently restricted. Import surcharges have also been used for this purpose; they have had the additional advantage of providing revenues and restraining import demand through the price mechanism, especially when the immediate impact of demand pent up during the previous period could not be clearly ascertained. It has been expected that, as exports responded to the new incentives and as production increased owing to a more rational allocation of resources, a basis would be created for the removal of the remaining restrictions. Import subsidies have occasionally been granted on a temporary basis in

order to cushion the impact of devaluation on the cost of living, especially in situations where a considerable degree of devaluation was called for.

The establishment of a realistic rate of exchange has not always involved the immediate adoption of a fixed rate; not infrequently countries instead have adopted a fluctuating rate of exchange as a means of finding the level at which the rate can subsequently be maintained. At the time of stabilization after a prolonged period of inflation, there is often uncertainty whether the measures undertaken will be fully effective in eliminating inflation, or what the degree of overall price change will be when these measures have taken effect. In these circumstances it is difficult to determine the appropriate level of the exchange rate. This difficulty is sometimes even greater when a complex multiple rate system has existed and has, moreover, been combined with quantitative restrictions.

A fluctuating exchange rate adopted in these circumstances carries with it the understanding that the rate will be allowed to move in accordance with market forces and that the authorities will intervene only to maintain orderly market conditions. It is to be expected that rate changes will tend to diminish as the supporting financial policies exercise their effect; thus, the level of the rate after these policies become fully effective should provide a clearer indication of where it could be stabilized. In countries which have quickly implemented financial policies aimed at internal monetary stability, the movements in the rate in practice have been confined within a small range after the initial period. This has helped to establish confidence in the currency and enabled the authorities to stabilize the exchange rate in a relatively short time.

In other cases the immediate difficulties of terminating an acute and prolonged inflation or of adjusting a highly restrictive and complex exchange system have been considered so great that countries have chosen to undertake the reform in successive stages. Several countries, for example, have adopted programs aimed at a reduction of the degree, rather than the elimination, of inflation in order to let the economy adjust gradually to a slower pace in the rise in prices. With continuing domestic inflation, the beneficial effects of a single

exchange rate adjustment are likely to be rapidly wiped out. Consequently, in these cases exchange rate policy ordinarily has involved some degree of rate flexibility conforming broadly to basic market trends, thereby helping to prevent undesirable shifts of resources from the external to the domestic sector of the economy and to maintain the country's import capacity and access to foreign investment.

Even when the need for rate flexibility is recognized, the authorities often find it difficult to maintain a flexible rate; in the absence of clear criteria for exchange rate action, the tendency is to peg the rate at a level which soon becomes out of line with developments in the economy. Accordingly, in some countries where a flexible rate policy is considered essential because of continuing inflation, a "test" is set up as a means of assuring that a rate will be maintained which conforms to the basic market trends. Such a test usually consists of a prescribed minimum level at which the foreign exchange reserves of the country are to be maintained during a stated period, with exchange rate action taken whenever that level is threatened.

Some countries have chosen a gradual correction of the distortions caused by prolonged recourse to restrictions, even when there was a reasonable prospect of bringing inflation under control. The initial adjustments have taken various forms. When the currency has been devalued only partially, it has not been possible to achieve a substantial relaxation of restrictions. The further adjustments necessary to establish a realistic exchange rate have awaited an improvement in the balance of payments position. More frequently, exchange reform has consisted initially in different degrees of depreciation affecting different transactions, giving rise to two or three effective rates; such a system has provided another form of transitional reform of complex multiple rate systems.

Two broad types of simple multiple rate arrangements can be distinguished:

(1) One in which a fixed rate is applied to traditional exports, "essential" imports, and other "essential" payments and receipts, and a free rate is applied to all other transactions. Generally, transactions are gradually moved from the fixed rate to the free market and, when the free market covers all or nearly all transactions and acquires

stability, a fixed unitary exchange rate is established.

(2) A more frequently used arrangement that differentiates between trade and nontrade transactions by applying a fixed rate to trade transactions while creating a free market for capital and invisibles. This has often been adopted when an outflow of capital has been a destabilizing factor and is not amenable to administrative controls. Isolating capital transactions in a separate market in which the rate is more depreciated enables the authorities to reduce the outflow while attracting capital from abroad; at the same time the pressure on external reserves is reduced. As confidence in the currency is strengthened, the spread between the two markets narrows, thus improving the prospects for unification. When the free market rate, however, has tended to suffer continuous depreciation, this deterioration has often been taken as an indication of basic maladjustments and the need to change the rate for trade transactions. In this situation it has been easier for the monetary authorities to gain political support for a devaluation.

### Benefits of an Appropriate Exchange Rate

The Fund has endeavored to take account of the difficulties which have confronted many less developed countries in making necessary exchange rate adjustments. While the Fund has always favored full and adequate action, it has supported less than ideal adjustments when there was a clear indication that they represented a distinct improvement over the previous situation and when, moreover, it could be expected that they would be followed by further moves to establish a realistic exchange rate. In every case, the Fund considers the program of stabilization as a whole, in both its domestic and its external aspects. The Fund will continue this approach and will support phased programs of action aimed at several years of adjustment when countries do not find it possible to take immediate and decisive action to adjust a seriously unbalanced situation. In some instances, the early stages may involve multiple rates as strictly transitional devices.

The argument for the continuing application of multiple rates to trade transactions, as has been explained on preceding pages, is based on the idea

that exchange rates can be geared to the differing conditions of production of various export commodities and to the need for selective and differential restriction of imports of goods that compete with domestic production and of those considered nonessential. In practice, it is difficult to devise a system where the exchange rates can perform these various functions and the attempt to do so leads to a complex differentiation of the rate structure.

Multiple rate arrangements, since they provide no unified single foreign value of the currency that the authorities seek to support by their domestic policies, tend to raise doubts about the stability of the currency. Moreover, multiple rates do not engender the discipline that a fixed unitary rate does; if, for example, inflationary pressures cause strains in the balance of payments, the policy response tends to make the rate system more complex in the hope of mitigating the strains, rather than to make adjustments in financial policies. As the number or scope of multiple rates is altered for balance of payments reasons, the initial objective of stimulating production selectively is impaired.

Furthermore, since exchange rates established for different transactions frequently can be altered by executive action, producers and traders tend to exercise strong and continuing pressures on the authorities for a more favorable rate treatment; efforts to modify the rate structure to their advantage appear to be an easier way to increase profits than the promotion of efficiency would be. In the past two decades many countries have resorted to multiple currency practices for the purpose of encouraging the expansion of manufactured exports. In general, however, multiple rates have not achieved this purpose. The rate for manufactured exports cannot be chosen in isolation from other rates. A small spread between the rates for traditional and manufactured exports may not be adequate to stimulate the production and export of manufactures. On the other hand, maintenance of a large spread proves difficult as continuous pressures are exercised by exporters of traditional products to obtain a rate similar to that applying to manufactured exports.

Taxes levied directly on exports and imports, on the other hand, are generally established by legislative bodies; adjustments in their levels also

tend to be more carefully considered and reviewed. A realistic exchange rate with appropriate taxes thus provides a framework in which producers and traders are more likely to direct their energies to improving the efficiency of their operations in order to maintain and develop markets abroad and at home.

There are strong reasons to believe that a unitary exchange rate which is supported without undue recourse to restrictions can provide an active and dynamic link between the growth of the economy and that of the world at large. It influences the allocation of resources in ways that would help a country to increase its participation in the international division of labor and thereby creates a basis for furthering its development. A higher yield is secured from investments through both concentration on the production of goods in which a developing country has an existing or a potential comparative advantage and more intensive exploitation of the economies of scale as the size of the market widens. Full use of these opportunities is particularly important in a period when world trade has been expanding rapidly.

The experience of a number of less developed countries which have over the past 15 or 20 years maintained realistic exchange rate policies lends strength to this view. It is also reinforced by the experience of a considerable number of other countries, including some nonindustrial countries of Europe, that during the last 10 years or so, and especially in the latter part of the 1950's, undertook exchange reforms in order to unify multiple exchange rate structures and liberalize trade and payments. In most cases the reform was introduced as part of a comprehensive stabilization program supported with resources from the Fund.

The establishment and maintenance of a realistic exchange rate, linked to appropriate domestic fiscal and monetary policies, have contributed importantly to the ability of both groups of countries to attain, on the whole, a satisfactory rate of economic growth. In some countries whose exports consist of products for which world demand has been buoyant, the export sector has led the growth process. In others, foreign exchange earnings have expanded sufficiently, along with the inflow of foreign capital, to meet the rising import needs of the economy. The increased earnings

have resulted not only from a rise in traditional exports but also in many cases from a sizable expansion in exports of manufactured products, and in receipts from tourism. Many of these countries have had successive stand-by arrangements with the Fund in support of programs aimed at restoring or maintaining domestic stability, and avoiding the introduction or intensification of restrictions in the foreign exchange field.

### Foreign Demand and Wider Access to Markets

While the Fund believes that growth in export earnings of the less developed countries is of strategic importance for their economic growth and that appropriate exchange policies are essential for export promotion, it recognizes that, in the face of persistent weakness in world prices for its exports, a country may find its efforts in this direction thwarted. It therefore welcomes efforts aimed at dealing with problems associated with the instability of commodity prices.

Although there has been a trend toward reducing import restrictions in industrial countries, the restrictions that remain bear heavily on many of the manufactures that less developed countries seek to export. Some of the highest tariffs are levied by industrial countries on products of light industries, which are relatively labor intensive, employ a simple technology, and in which the less developed countries have an existing or a potential

comparative advantage. The restrictive effect of tariffs on manufactures is severe, since rates tend to be higher on manufactures than on semimanufactures and lowest on raw materials. For certain tropical products exclusively produced in the less developed areas, the widening of markets abroad is hindered by high internal taxes in a number of importing countries. The Fund firmly believes that one of the most important contributions that the industrial countries can make to the growth of the less developed countries would be to remove the existing barriers to the importation of goods from these countries. The removal of these barriers would be more beneficial if more of the less developed countries were pursuing realistic exchange rate policies; such policies would enable them to respond to any new opportunities which would be created by the removal of such barriers.

Efforts are being made by the less developed countries to promote various forms of cooperation among themselves as a means of expanding their markets, e.g., trade liberalization, coordination of investment programs, and regional integration of national markets. If the political problems in implementing such cooperative arrangements can be resolved, they can be of advantage, particularly to small countries, as access to a larger market will permit fuller utilization of the economies of scale and greater specialization. These benefits, however, can be reaped only if there is continuing implementation of coordinated financial and exchange rate policies.

## Chapter 5

# The Fund in 1966/67

THE past fiscal year brought a variety of developments bearing on the Fund's financial role, and an intensification of its activity. Prominent among the developments were a rise in the level of outstanding drawings from the equivalent of \$4.7 billion, which was already a record figure, to \$5.2 billion; an increase in quotas aggregating \$1.5 billion; the beginning of a 4-year renewal of the General Arrangements to Borrow (GAB); and an extension of the policy governing drawings under the Fund's compensatory financing facility. In the course of the fiscal year the currencies of Brazil, Malaysia, Norway, and Venezuela were used for the first time in drawings by other members, and the Fund made its first borrowing outside the GAB, obtaining the equivalent of \$250 million in Italian lire. During and shortly after the fiscal year, Bolivia, Denmark, Guyana, and Norway accepted the obligations of Article VIII, Sections 2, 3, and 4, of the Fund Agreement; this raised to 31 the number of countries which have fully accepted the obligations of that Article.

Over the year, the Fund's membership grew to 106 with the addition of Guyana and Singapore and the return of Indonesia. This further enlarged the scope of the annual consultations with members which, together with the expanded programs of technical assistance, play closely associated roles in the Fund's work. The increasing tempo of activity has brought a continued expansion of personnel and of headquarters accommodation, and more frequent meetings of the Executive Directors than at any time in the preceding 15 years. As indicated in a previous chapter, the Executive Directors and the staff have also devoted, and are continuing to devote, a substantial part of their time to discussions of various aspects of international liquidity, centering on the deliberate creation of reserves.

## Fund Transactions

By April 30, 1967 total drawings on the Fund since operations were begun in 1947 had exceeded the equivalent of \$13.2 billion, and of this amount \$10 billion was in the period since April 1960 and over \$5 billion since April 1964. The figure for outstanding drawings, at the equivalent of \$5.21 billion on April 30, 1967, had approximately tripled since April 1964.

In the year ended April 30, 1967, new drawings, at the equivalent of \$1.1 billion, were again substantial although below previous record levels. Of the 34 members obtaining drawings or stand-by arrangements, all but the United States were primary producing countries. With drawings equivalent to \$490 million, including the drawing of the \$250 million in lire which the Fund had borrowed from Italy, the United States accounted for over 45 per cent of total drawings in 1966/67. As a result of this, together with sales of dollars to other countries and other transactions in dollars, outstanding drawings of the United States increased from the equivalent of \$564 million to \$933 million, i.e., by \$369 million. The United Kingdom was the only other industrial country with drawings on the Fund outstanding in 1966/67, but the amount thus outstanding was reduced by the equivalent of \$78 million as a result of drawings of sterling by other members and other sterling transactions. The outstanding drawings of primary producing countries as a group rose by the equivalent of \$169 million. These three sets of changes produced a net increase in outstanding drawings of \$460 million during the fiscal year.

The increase in outstanding drawings of primary producing countries was net of repurchases of the Fund's holdings of these members' currencies acquired in connection with earlier draw-

ings. During the fiscal year 30 Fund members—all primary producing countries—made repurchases equivalent to \$340 million, of which \$269 million was in accordance with agreed schedules providing for repurchase not later than five years from the date of the relevant drawing. Under the Articles of Agreement, convertible currencies, i.e., currencies of countries which have accepted the obligations of Article VIII, Sections 2, 3, and 4, of the Agreement, may be accepted in repurchase to the extent that the Fund's holdings thereof would not be increased above 75 per cent of the member's quota. Thus repurchases cannot be made at present in sterling or U.S. dollars, but the United States has, from time to time since 1964, drawn acceptable currencies from the Fund for resale against dollars to other members for use in repurchases. During 1966/67 the United States drew the equivalent of \$210 million in Canadian dollars and \$30 million in deutsche mark for this purpose.

The largest recent repurchase operation came after the end of the fiscal year, on May 25, 1967, when the United Kingdom repurchased sterling equivalent to \$405 million in eight currencies which the Fund had borrowed in the same amounts under the GAB when the United Kingdom drew the equivalent of \$1 billion in December 1964. Upon the repurchase the Fund repaid the amounts borrowed in 1964. The U.K. repurchase, together with other transactions, meant that the total of outstanding drawings was reduced from the equivalent of \$5.21 billion to \$4.84 billion during the month of May.

An important development in the Fund's policy on the use of its resources was the introduction in February 1963 of the compensatory financing facility, designed mainly to assist primary producing countries which experience temporary shortfalls in their export earnings through circumstances largely beyond their control. As first established, the facility afforded such members the possibility of special drawings, normally up to 25 per cent of quota, even if this would bring their drawings above the normal limit prescribed in the Articles of Agreement. Under a decision adopted in September 1966, the range of compensatory financing was extended to 50 per cent of quota. As noted on page 131, however, except in the case of shortfalls resulting from

disasters or major emergencies, outstanding compensatory drawings may not increase by more than 25 per cent of quota in any 12-month period. Further, requests for drawings which would increase outstanding compensatory drawings beyond 25 per cent of a member's quota will be met only if the Fund is satisfied that the member has been cooperating with it in an effort to find, where required, appropriate solutions for its balance of payments difficulties. In addition, any drawings under this facility are separate from others in the sense that outstanding drawings under the compensatory facility will not be taken into account in determining the member's ability to draw under the normal policies governing the use of the Fund's resources.

Although only three members made use of the facility in the three and one half years before the 1966 amendment, there has subsequently been increasing use. There were compensatory financing drawings in 1963 by Brazil and the United Arab Republic, and in 1965 by the Sudan; subsequently the Dominican Republic and Ghana drew in December 1966, and Ceylon, Colombia, and New Zealand in the first five months of 1967. Throughout much of the earlier period the trend in commodity prices, especially of minerals, was generally favorable to the exporting countries. But adverse weather conditions affected agricultural output in some countries and some products met slackening demand or difficult market conditions. Such factors had affected all the countries making recent use of the compensatory financing facility.

In a number of instances commodity production and export problems were also of importance to members which in 1966/67 obtained stand-by arrangements under which they might draw on the Fund under its normal tranche policies. Paraguay's request for such an arrangement in August was prompted in part by flood damage to grain crops and a lag in meat production and exports. Morocco's stand-by arrangement in September followed a prolonged drought which increased food imports. Accumulated cotton stocks were still a problem for the Sudan at the time of its September stand-by arrangement. Somalia was striving to improve the competitiveness of its banana exports, despite vulnerability to droughts and floods, when a stand-by was arranged in

January 1967. Turkey's stand-by arrangement in February was designed in part to bolster the country's reserves against fluctuations in export receipts from agricultural products. The Guatemalan stand-by in March was to assist the authorities in their efforts to adjust to an expected lower level of export receipts.

During the fiscal year 1966/67, the Fund approved a total of 25 new stand-by arrangements for an aggregate amount equivalent to \$591 million. The undrawn balances on these 25 arrangements were equivalent to \$402 million on April 30, 1967. Almost one third of the total amount drawn from the Fund during the fiscal year had been authorized under stand-by arrangements for 19 members and, in each of the past two fiscal years, there have been 20 or more stand-by arrangements in effect at all times.

Among the conditions governing the use of the Fund's resources are the requirements of the Articles of Agreement that a waiver is required (1) if a proposed drawing would cause the Fund's holdings of the member's currency to increase by more than 25 per cent of its quota during a 12-month period (except to the extent that the Fund's holdings of the member's currency were less than 75 per cent of its quota) or (2) if the drawing would cause the Fund's holdings of the member's currency to exceed 200 per cent of its quota. Waivers of the first of these types were required in connection with 23 of the 25 stand-by arrangements approved by the Fund in the fiscal year 1966/67 and in connection with four drawings not under stand-by arrangements. No waivers of the second of the types described were required during the fiscal year. In this connection, on April 30, 1967 the Fund's holdings of only 13 members' currencies were above 150 per cent, and its holdings of only 2 currencies were above 175 per cent, of the respective members' quotas.

### Fund Resources

Increasing activity by the Fund in providing its members with needed foreign exchange has led to efforts to enlarge its resources; there has also been a much more intensive examination of the

problems of international liquidity. Since 1958 the Fund's financial capacity has been enlarged by two general increases in quotas and supplemented by the General Arrangements to Borrow (GAB) and bilateral borrowing.

In 1958 consideration of the adequacy of Fund resources first led to a decision for a general (50 per cent) increase in quotas, with additional increases for Canada, Germany, and Japan, in view of their position in world trade and recent relative economic growth, and for a group of members whose quotas were each less than \$20 million. The total of all quotas rose from \$9.2 billion at the end of 1958 to \$15 billion in 1961, and thereafter, with additions to membership, to almost \$16 billion in 1965. A second general increase of 25 per cent, coupled with 16 special increases, was approved by the Board of Governors in March 1965. Ninety-two members had consented to the proposed increases and total quotas stood at approximately \$21 billion by April 30, 1967. On that date the Fund's gold account stood at the record level of \$2,932 million, including general deposits of gold held by the Fund in the United States and the United Kingdom. The period for acceptance on the part of the few members who have not yet consented has been extended to October 31, 1967.

The Fund did not borrow under the GAB during the past fiscal year, which closed with the equivalent of \$5,070 million still available from ten industrial countries—Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States—and which has been extended for a second four-year term, until October 1970.<sup>1</sup> As has already been noted, however, the Fund borrowed bilaterally \$250 million in Italian lire in August 1966. Italy was running a large balance of payments surplus at the time, and the Fund's holdings of lire were at a reduced level consequent on drawings by other countries. The financial terms were generally similar to those of the GAB: repayment by the Fund is to be within five years, and earlier if the Fund's holdings of lire increase beyond its working requirements, or if Italy has balance of payments need for repayment.

<sup>1</sup> With the repayment by the Fund of the equivalent of \$405 million on May 25, 1967, the amount available was increased to the equivalent of \$5,475 million.

## International Liquidity

Reference has been made in Chapter 1 to the work of the Executive Directors and staff on the subject of international liquidity and possible reform of the international monetary system.

Liquidity and reform of the international monetary system have received attention elsewhere, notably in various meetings under the aegis of the United Nations Conference on Trade and Development (UNCTAD). In addition, the Managing Director has held discussions with the Secretary-General of UNCTAD in January 1967, and shortly thereafter the Secretary-General and three members of the UNCTAD Group of Experts on International Monetary Issues explored these matters informally with the Executive Directors.

## Consultations and Technical Assistance

While the Fund's financial operations receive regular publicity, its consultations with members on their foreign exchange systems and related policies and its technical assistance to members are less well known. These efforts to explore and deal with the root causes of international payments difficulties, and to maintain effective collaboration between the Fund and its members, have also intensified over the recent past.

Through its regular discussions with individual members, both with those resorting to the transitional arrangements under Article XIV of the Fund Agreement and those with convertible currencies under the Agreement as a result of their acceptance of the obligations of Article VIII, Sections 2, 3, and 4, the Fund seeks to assist members in the progressive strengthening of their internal and external positions, which will in turn be conducive to continued liberalization of restrictive exchange practices.

Over the years the Fund's consultation discussions with an increasing number of member countries have continued to be based on careful and comprehensive preparation. The discussions have produced intensive analyses of members' problems and policies, leading to the reports and recommendations for the consideration of the Executive Directors. This detailed consultation process is an essential instrument in promoting

the purposes of the Fund, in paving the way for the use of its resources where appropriate, and in facilitating suitable steps to adjust disequilibria in payments positions where they exist.

The application of exchange, fiscal, and monetary policies, especially in many of the less developed countries, has raised numerous technical questions. The Fund has accepted the responsibility of assisting and advising members within the main areas of its interest in a more extensive manner than is possible in normal contacts and consultations. Members of the staff have assisted member countries on technical matters associated with their trade and payments systems. The Fund's Fiscal Affairs Department and Central Banking Service, organized in 1964, are meeting increasing requests for assistance in their respective fields. The Central Banking Service relies for long-term assignments mostly on experts borrowed from central banks; but advisory missions, to assist the monetary authorities in planning legislative and institutional reforms, are almost exclusively carried out by members of the permanent Fund staff. In the fiscal field also, most long-term assignments are filled by experts from outside the Fund, although staff members have been utilized as well. Both types of fiscal expert serve in an advisory capacity with the continuous support and supervision of the Fiscal Affairs Department.

In 1966/67 Fund staff members visited 30 countries for the specific purpose of providing technical assistance to them or, in one case, to a regional organization. This was additional to such assistance as was provided during Article VIII and Article XIV consultation discussions or other assignments. The Fund also supplied outside experts to many of these countries, as well as to 13 others.

In the past year the Fund has again provided assistance to groups of countries considering the rescheduling of indebtedness which had become excessively burdensome for certain less developed countries.<sup>2</sup> Documentation was provided for meetings of creditor countries considering the debts of Ghana and Indonesia, and Fund staff members participated in those meetings. During the meetings on Ghana's indebtedness, the representa-

<sup>2</sup> See *Annual Report, 1965*, pages 23-30, for a consideration of debt burdens and debt renegotiations and of the role of the Fund.

tives of that country raised the question of Ghana's additional needs for balance of payments support for 1967 and 1968, and subsequently requested the Fund to organize a meeting of potential donor countries to consider this matter. After ascertaining that its assumption of such a role would meet the wishes of the countries concerned, the Fund issued invitations for a meeting in Paris in April 1967, which was attended by representatives of 8 countries, in addition to Ghana, and of 3 other international organizations, including the International Bank for Reconstruction and Development, which collaborated with the Fund in organizing the meeting. Ghana subsequently began bilateral discussions with the countries concerned regarding specific aid requirements; further meetings to provide a continuing review of Ghana's aid requirements were foreseen.

Another form of technical assistance has been provided through courses for officials of member countries, which have been conducted by the IMF Institute in English and French and which are being extended into Spanish. In addition to those dealing with financial analysis and policy and with balance of payments methodology, the Institute

has arranged, with the help of the Fiscal Affairs Department, a new course in public finance. The program for 1967/68 is thus to consist of this new course plus three courses in financial analysis and policy, one each in English, French, and Spanish, and two in balance of payments methodology, one in English and one in French.

\* \* \* \* \*

In all its activities in technical assistance, consultation, and exchange transactions, which are aimed at a common set of objectives, the Fund depends upon the full support of its membership. All countries make important contributions to its purposes as they develop their policies in harmony with the Fund Agreement, add to the common store of experience and information, and provide or productively use financial help and counsel. The activities summarized in this chapter, and set out in more detail in Supplementary Note A on pages 129-44, indicate that 1966/67 was a busy and fruitful year in all phases of the Fund's work. It is to be expected that the problems of an expanding and increasingly complex world economy will require continuing efforts in the period ahead.

**Part II**  
**REVIEW OF THE YEAR**

*This page intentionally left blank*

## Chapter 6

# Developments in the Industrial Countries

**D**URING the course of 1966 the levels of economic activity in the industrial countries<sup>1</sup> changed markedly. For most of these countries, where output was rising rapidly in late 1965 and early 1966, there was a definite slackening in the rate of growth after the first few months. In Italy and Japan the rate of economic expansion picked up considerably during the year. In France the expansion was rapid from the second half of 1965 through the third quarter of 1966 but has continued more slowly since then.

In the United States, Canada, Germany, and some other industrial countries, the pace of economic expansion, which had become exceptionally strong in late 1965, was maintained at a high level during the early months of 1966. In most of these countries this rapid expansion put pressures on available resources and prices showed an upward trend. To varying degrees and at different times, the authorities became concerned with growing inflationary pressures and took progres-

<sup>1</sup> For convenience of analysis this Report employs the classification, industrial countries and primary producing countries. Industrial countries in this grouping are Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, and the United States; primary producing countries are all of the remainder with the exception of Soviet countries and Mainland China, generally not covered in the Report because of the absence of data. The category of primary producing countries is subdivided into more developed countries (Australia, Finland, Greece, Iceland, Ireland, New Zealand, Portugal, South Africa, Spain, Turkey, and Yugoslavia) and less developed countries (all others).

It is recognized that no simple classification, such as that adopted in this Report, can reflect the full nature of each economy. For example, industrial countries, such as Canada and the United States, are also important producers and exporters of primary products; some countries classified as primary producers, such as Australia, have significant industrial capacity; and, in a few instances, some less developed primary producing countries may have relatively high per capita incomes.

For some purposes in this Report, it has also been useful to distinguish between developed countries and less developed countries. When this is done, the term developed countries covers both industrial countries and more developed primary producing countries.

sively more severe measures aimed at restraining domestic demand. Partly as a result of these measures, industrial output during the course of the second half of 1966 leveled off in the United States and Canada and declined in Germany. In the United Kingdom total output had been rising slowly at the end of 1965 and beginning of 1966, but balance of payments difficulties and inflationary pressures called for further corrective measures in May and July; the peak in activity touched in the first quarter of 1966 was not attained during the rest of the year. In general, economic expansion in the other countries of this group also slowed down after the first few months of the year. On the other hand, in Japan the rate of economic growth was comparatively low during 1965 and the early part of 1966. But in response to measures of stimulation, some of which had been taken earlier, it expanded more rapidly during the second half of the year and in early 1967.

The policy measures which contributed to the slowdown of economic expansion in industrial countries were largely monetary in nature. During the period, capital markets were faced with large demands for funds for financing business investments and government expenditures. They were also subjected to the effects of programs of the United States aimed at restraining capital outflows from that country. Against this background a primary reliance on monetary policies produced severe strains on money and capital markets. Interest rates rose to their highest levels in a long time and there were major changes in the direction of international capital flows. The outflow of funds from the United States was markedly reduced during the year. Germany experienced a substantial inflow of capital. Despite large capital outflows from Italy and Japan, these developments put particular pressure on the United Kingdom and contributed to the sterling crisis in July.

The United Kingdom was the only major country restraining demand in 1966 to suffer a sharply increased outflow of capital, including short-term

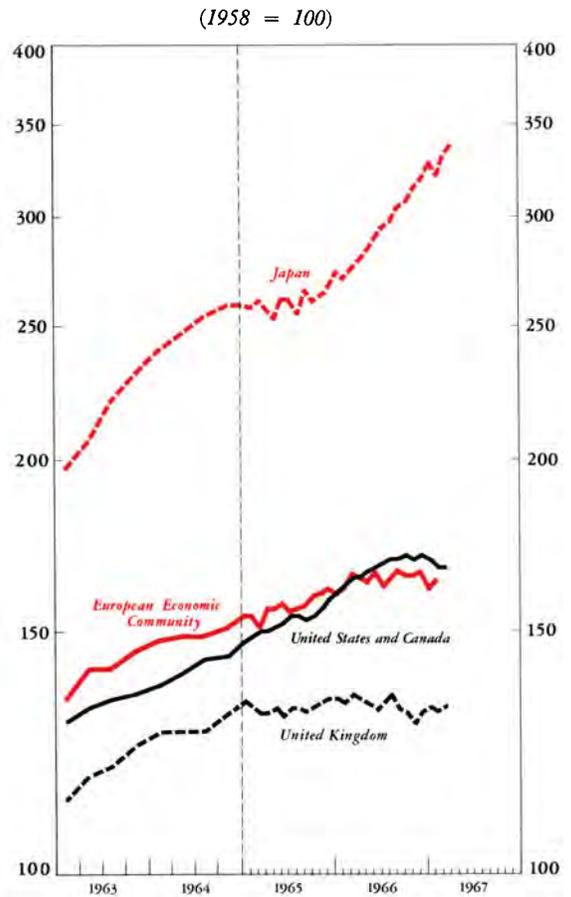
capital, and was also exceptional in some other respects. While it acted like the United States, Canada, and Germany to restrain demand after the first few months of 1966, it did so somewhat later than those countries. Among those acting to restrain demand, the United Kingdom was also the only country which relied heavily on fiscal and incomes-policy measures, along with monetary measures, to achieve its objectives. The other countries which made substantial use of fiscal (as well as monetary) measures to influence the course of economic activity—France, Italy, and Japan—did so to stimulate rather than restrain demand.

### Output and Demand

Output was rising more rapidly in most of the industrial countries in late 1965 and early 1966 than in the immediately preceding period (Charts 6 and 7 and Table 24). This rise was associated with strong demands in some important countries (e.g., Canada, Germany, the Netherlands, and the United States), where the already high level of capacity utilization at the beginning of 1966 imposed a restraint on the further expansion of output. Even where the rate of growth was slower (e.g., in the United Kingdom), pressures on resources were also strong. As 1966 progressed, therefore, the advances of total output in most of the industrial countries slowed down and this tendency extended into 1967. However, in some countries (e.g., France, Italy, and Japan) there was unutilized capacity available at the end of 1965 and output could grow more rapidly in 1966 without creating strains. Partly as a result of a decline in the rate of growth in its exports, the advance in output became somewhat slower in France toward the end of 1966 and in early 1967. In Italy and Japan output continued to rise rapidly through the first part of 1967.

In the United States the pace of economic advance picked up sharply after the middle of 1965. Real gross national product increased at the very high annual rate of 7 per cent over the three quarters ended March 1966. The pressure put on domestic resources by this rapid advance was reflected in a fall in unemployment and a faster rise in prices. Partly as a consequence of measures to restrain the pace of economic expansion,

CHART 6. SELECTED AREAS AND COUNTRIES: INDUSTRIAL PRODUCTION, SEASONALLY ADJUSTED, 1963–APRIL 1967



the growth of real national product declined to an annual rate of about 3.5 per cent in the remaining three quarters of the year; in the first quarter of 1967 there was a slight decline in real product. The rate of increase in consumer prices slackened toward the end of 1966. Throughout the year military expenditures increased rapidly, and business fixed investment also was an expansionary force. The most pronounced slackening of demand after the first quarter of 1966 was in residential housing.

At the beginning of 1966 real gross product was rising rapidly in Canada, chiefly in response to rising business investment and government expenditures. Partly because of the measures introduced in the March budget to restrain demand, economic activity grew more slowly thereafter. However, the average unemployment rate of 3.6 per cent in 1966 was the lowest since 1956.

The rate of increase of total output in the United Kingdom picked up slightly in late 1965. Under the impact of the deflationary measures introduced during 1966, however, the economic advance decelerated considerably. For the year as a whole industrial production increased by only about 1 per cent in 1966, compared with 3 per

CHART 7. EEC COUNTRIES: INDUSTRIAL PRODUCTION, SEASONALLY ADJUSTED, 1963–APRIL 1967  
(1958 = 100)

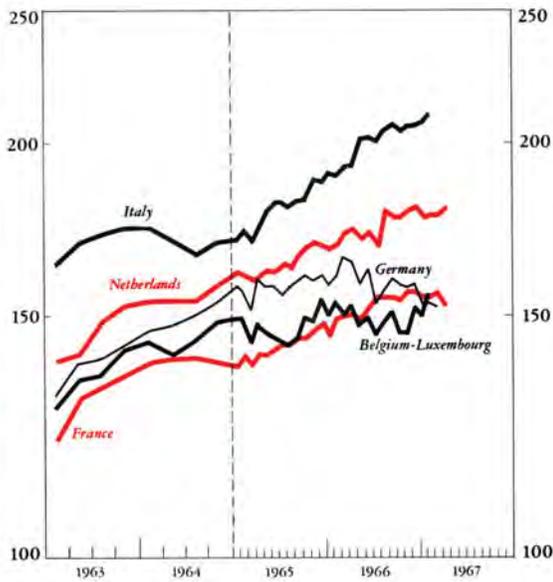


TABLE 24. SELECTED COUNTRIES: GROSS NATIONAL PRODUCT AT CONSTANT PRICES, QUARTERLY, 1964–FIRST QUARTER 1967

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

	Canada	Italy	Japan	United Kingdom <sup>1</sup>	United States	Germany <sup>2</sup>
1964						
I	2.1	1.1	4.5	0.8	1.4	} 2.2
II	1.5	-0.8	2.1	0.8	1.5	
III	0.4	-0.4	3.5	0.5	1.2	} 2.9
IV	0.9	1.6	-0.1	1.9	0.4	
1965						
I	3.1	0.2	0.4	0.5	2.2	} 2.6
II	1.3	2.1	1.9	-0.7	1.2	
III	2.4	1.2	-0.2	0.8	1.7	} 1.7
IV	0.9	1.2	1.2	1.1	2.1	
1966						
I	2.8	1.1	4.5	1.1	1.7	} 2.0
II	1.1	2.1	...	-1.1	0.6	
III	-0.6	2.2	...	0.3	0.8	} 0.3
IV	1.1	0.9 <sup>1</sup>	...	0.4	1.0	
1967						
I	0.6	...	...	...	-0.1	...

Sources: National sources.

<sup>1</sup> Gross domestic product.

<sup>2</sup> Staff estimates based on seasonally adjusted increase on previous half year.

cent in 1965. There was a surge in consumer expenditure during the first quarter of 1966, partly in anticipation of increased taxation in the May budget and partly because of sharp increases in wage rates and, temporarily, in dividend payments. During the rest of the year consumer expenditure in real terms declined as credit restraints were tightened and as real personal disposable income fell as a consequence of rising prices, increased taxes, and lower dividend payments. Business investment also declined after the third quarter, but there were steady increases, in public sector investment. The change in the tempo of economic activity and in short-run business expectations was reflected in the substantial increase of unemployment, which until mid-1966 was lower than it had been for almost a decade.

In the European Economic Community output increased at a slower pace in 1966 than in the previous year. In three members of the Community—Belgium, Germany, and the Netherlands—the authorities were concerned over the existence of high pressures on domestic resources during the early part of the year and took measures designed to restrain economic expansion. In Germany the export sector expanded rapidly during 1966, mainly as a result of the economic recovery in France and Italy and strong import demand in the United States. All other sectors, however, expanded at a slower rate than in 1965. As a result, there was a reduction in the rate of growth of real gross product—and an actual decline in the level of industrial production—in the second half of the year. In Belgium-Luxembourg the rate of growth in total output, which had already slowed markedly in 1965, declined slightly further in 1966. External demand and both public and private consumption increased, in real terms, at a lesser pace in 1966. However, gross fixed capital formation (mainly that by foreign enterprises) expanded relatively more than in 1965. While the industrial production index increased by 3.5 per cent in the first half of 1966, the increase in the second half was only slightly over 1 per cent. In the Netherlands, although the 4.5 per cent increase in real gross product in 1966 was relatively high, it was lower than the 5.4 per cent increase registered in 1965. There was some deceleration in the rate of output growth in the second half of 1966, though this was less sharp than in Germany

and Belgium-Luxembourg. In the Netherlands, because of a combination of special factors and slackening pressures in some of its important trading partners, exports grew at a slower rate in 1966. As in Belgium-Luxembourg the impetus for economic expansion came from gross fixed investment.

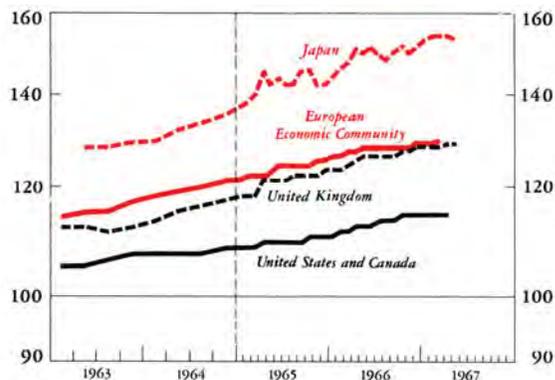
The French and Italian economies, following the economic slowdowns that had occurred earlier, recorded relatively high advances in output in 1966. Both countries experienced increases in real gross national product, as well as in industrial production, that were substantially higher than in 1965. In France, partly because of added fiscal incentives, fixed asset formation led the pace of expansion. The impetus to expansion stemming from export demand slackened in the latter part of 1966, largely because of the economic recession in Germany. In Italy, where the 1964-65 recession was more severe, the expansion has been more vigorous. All the major elements of demand strengthened during 1966.

In Japan the recovery in 1966 from the relative stagnation that had been experienced since the fourth quarter of 1964 was spurred by strong external demand and by a rapid increase in domestic investment, resulting from an actively expansionary budget, which tended to encourage private consumption. The index of industrial production, which had remained static in 1965, advanced by 20 per cent during 1966. Contrary to the situation in most other industrial countries, the economic advance in Japan during 1967 is expected to remain rapid.

### Prices and Wages

In the early months of 1966, prices in most industrial countries were rising at exceptionally high rates. However, the slowdown in the tempo of economic activity that occurred in later months of the year and in early 1967 tended to induce some deceleration in the rate of price rise (Chart 8). Even so, the increases in the cost of living that occurred in some industrial countries were the highest in many years. In the United States and Canada the increases in the cost of living index during 1966, although not large in comparison with those in other countries, were the highest

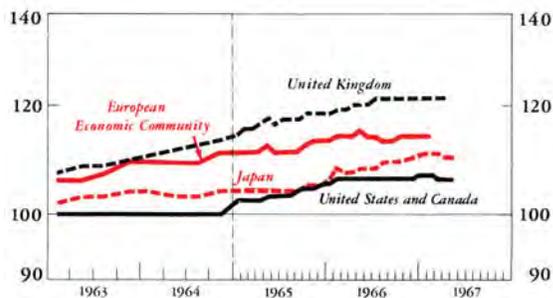
CHART 8. SELECTED AREAS AND COUNTRIES: COST OF LIVING, 1963-MAY 1967  
(1958 = 100)



recorded since 1952. Relatively high rates were similarly recorded in Switzerland (highest since 1949) and in Sweden (highest since 1953). In the other industrial countries, the increases in the cost of living index in the course of 1966 were approximately the same in France, Germany, and Belgium as in 1965, while in Austria, Denmark, Italy, Japan, the Netherlands, Norway, and the United Kingdom the increases were less than a year earlier.

On the whole, the relative movements in wholesale prices (Chart 9) were similar to, but less rapid than, those in the cost of living. There were, however, some instances of divergent movements. Whereas in Sweden and Switzerland the rise in the cost of living accelerated in 1966, the rate of increase of wholesale prices moderated slightly. In Japan the rise in wholesale prices was greater in 1966 than a year earlier.

CHART 9. SELECTED AREAS AND COUNTRIES: WHOLESALE PRICES, 1963-MAY 1967  
(1958 = 100)



Wage rates in the United States increased somewhat more in 1966 than in 1965. In the latter part of 1966 a number of important contract negotiations resulted in agreements which provided wage and fringe-benefit increases considerably in excess of the 3.2 per cent standard suggested by the wage-price "guideposts" outlined in the 1962 Annual Report of the Council of Economic Advisers. This development, together with the accelerated rise in the cost of living during 1966, was one of the factors causing the Council, in effect, to attach rather less importance to the 3.2 per cent standard in its 1967 Annual Report. Advances in wage rates have been faster in Canada than in the United States; the index rose by 6.1 per cent during 1966, compared with 4.0 per cent the year before. In the United Kingdom wage rates were advancing rapidly during the first half of 1966, at a pace which would have resulted in a large increase during the year as a whole if it had been allowed to persist. To halt the inflationary spiral, the Government announced in July that any further increases in wages and salaries, and (with a few strictly defined exceptions) in prices were prohibited, and Parliament approved the measure in September. On the Continent wage rates on the whole increased at a

slower pace during 1966 than in 1965. In France, Germany, Italy, the Netherlands, and Sweden, the increases in the wage rate indices during 1966 were less than those recorded in 1964 and 1965. This development probably reflected the slightly easier conditions prevailing on the labor markets of those countries. In Italy the pressure which the increasing rate of economic expansion during 1966 might otherwise have put on the labor market was mitigated by the reduction in the employment of Italian labor in Germany as the growth of output there slackened in the latter part of the year. In Belgium-Luxembourg and Switzerland, however, increases in wage rates accelerated. In Japan, contrary to the situation in the two cyclically expanding European economies (France and Italy), wage rates advanced at a slightly higher rate than in the previous year.

In most of the countries for which information on wage costs per unit of output is available, the relation of wage increases to increases in productivity in 1966 reflected, in part, the patterns of cyclical developments in the economies (Chart 11). In Italy wage costs per unit of output declined markedly, and in France and Japan productivity increases during the year seem at least to have matched increases in wages. In the United States unit wage costs, after declining somewhat from 1963 to 1964, were stable in 1965 and then increased in 1966 to their 1963 level. In Canada such costs rose sharply from mid-1965 through

CHART 10. SELECTED AREAS AND COUNTRIES: WAGE RATES, 1963-APRIL 1967  
(1958 = 100)

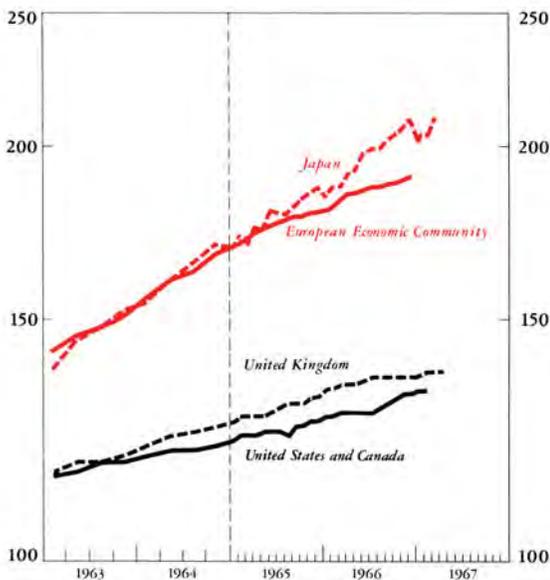
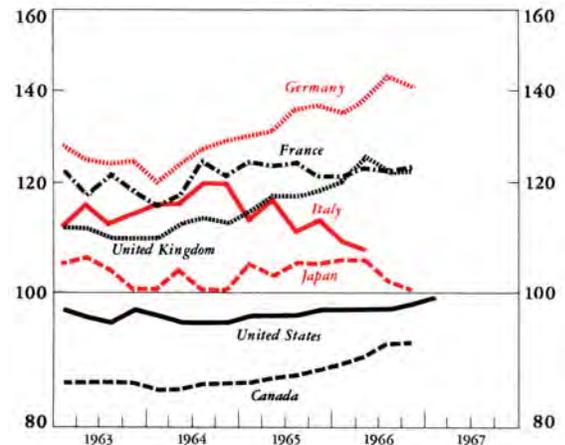


CHART 11. SELECTED COUNTRIES: WAGE COST PER UNIT OF OUTPUT IN MANUFACTURING, 1963-FIRST QUARTER 1967  
(1958 = 100)



1966—more than in the United States. In Germany unit wage costs advanced as industrial production declined. In the United Kingdom a substantial advance of wage costs took place during the first half of 1966; thereafter such costs fell back a little.

CHART 12. SELECTED AREAS AND COUNTRIES: EXPORT PRICES, 1963–APRIL 1967

(1958 = 100)



For some time export price indices have tended to rise less than indices of domestic commodity prices.<sup>2</sup> The pattern of relative stability for these prices persisted in the United States, Sweden, and Japan. In Italy, the export price index even declined. In Germany the rate of increase moderated. In the United Kingdom, Canada, and France, however, the relative increase in export prices was higher during 1966 than in 1965.

### Fiscal Policy

Expansion of government expenditures in most of the industrial countries during 1965 and 1966 was an important source of the increased demands outlined above. These expenditures generally rose

<sup>2</sup> There are several reasons for this divergence. The competition on international markets tends to be more severe than on domestic markets. Also, the increasing government incentives for exports have been reducing the risks in exporting and thereby driving down the profit margins that are acceptable to exporters. The relative ease of obtaining export credit, compared with other types, has worked to the same end. At the same time, exports from the industrial countries tend to be concentrated on those commodities which can be produced most economically and in which recent productivity gains have been greatest. Moreover, exports have also tended, in recent years, to be concentrated on the output of those industries which have been expanding most rapidly and, hence, where investment (including cost-reducing investment) has also been greatest.

by more than 6 per cent in real terms in 1965 and, with few exceptions, by not much less in 1966. The largest increases in expenditures—except in the United States in 1966—were incurred on behalf of local governments and public corporations. The relative increases in government sector spending were in most cases, particularly in the United Kingdom, Germany, and the Netherlands, considerably in excess of the over-all rise in total expenditure, so that a marked shift occurred in the government sector's share of total outlays. Under the generally buoyant demand conditions which were characteristic of most of the industrial countries in 1965 and the first half of 1966, the substantial rise in public sector expenditures added to the strain on domestic resources.

The causes of the increases in total government expenditure in 1965 and 1966 in the main industrial countries differed markedly as between countries. They reflected not only specific expansionary fiscal policies, as in Italy, Japan, and to a lesser extent France, but also important political and social objectives which had to be met at times of rising prosperity. For example, the substantial increases in government consumption in Belgium, Canada, Germany, Italy, the Netherlands, and Sweden were accounted for largely by increases in the wage bill of the government itself, and higher net social security payments, both of which reflected the general wage inflation which these countries were experiencing. In France, Italy, and Germany there were substantial increases in loans and advances to the government corporations and industry in general. The bulk of the increase in government expenditure in the United Kingdom was accounted for by lending to the local authorities and government corporations to finance higher investment. In the United States the rise in military expenditures in 1966 accounted for a very large proportion of the increased expenditures by the Federal Government. Japanese Government expenditures rose sharply not only under the impact of higher social security payments but also, in line with the general reactivation policy, of public works outlays.

Despite the general rise in public expenditures (particularly in the form of advances to private and government-owned enterprises), programs of retrenchment of expenditures by the governments were undertaken in some countries. In the United

Kingdom, for example, though the budget of May 1966 was concerned mainly with increasing taxation, the economic measures of July 1966 were largely intended to depress demand including that generated by government expenditure. Steps were taken to reduce proposed government expenditures by £150 million in the fiscal year 1967/68 through reductions in investment expenditure by central and local governments and the public corporations. In the Netherlands, in June 1966, the authorities imposed a postponement of most public investment expenditures and a freeze on civil service employment. The Belgian Government cut back certain programs. The United States also implemented a program of "stretching out" public expenditures. In general, however, the retrenchment programs only slightly moderated the increase of expenditures.

The means by which the rising government expenditures were financed increased their inflationary impact. In almost all cases, even though rising national incomes resulted in higher tax receipts, government revenues rose less than enough to eliminate the deficits in 1966, and governments continued to absorb financial resources from the rest of the community (Table 25). In the Netherlands, Germany, and Canada direct taxes were reduced in 1965. In most cases, however, tax increases took the form of increased indirect taxes, which, in a number of cases, exacerbated the rise in domestic prices and, to a lesser extent, some domestic costs. Undoubtedly, the main financial impact of increased government demand for resources was felt in the capital markets in the form of increased official borrowing, at a time when these markets were already under strain from the private sector.

Only in the United Kingdom, where excessive demand was accompanied by a protracted balance of payments deficit, was taxation increased to the extent needed to curb domestic demand effectively. The selective employment tax (i.e., a wage tax on all employment, offset by equal rebates to some employers, such as central and local governments, and by greater rebates to manufacturing industries) was also intended to increase the relative profitability of, and thereby encourage the expansion of, export-type industries.

In the United States fiscal receipts rose rapidly with the expansion of the economy. Although the

collection of corporate and personal withholding taxes was accelerated, there were few changes in tax rates or assessment regulations, except for increases in social security contributions (which were to be offset in part by increased social security payments). Previously authorized reductions in excise tax rates were canceled in March 1966, and in September 1966 the 7 per cent investment tax credit was suspended for 15 months. The changed outlook in early 1967 induced the Administration to ease the restraint by recommending the reinstatement of the investment credit from March.

TABLE 25. SELECTED COUNTRIES: CENTRAL GOVERNMENT  
REALIZED CASH SURPLUSES OR DEFICITS, 1963-66<sup>1</sup>

(In billions of national currencies)

	1963	1964	1965	1966
Belgium	-15.8	-11.4	-21.5	-27.3
Canada	-0.412	-0.395	-0.136	...
France	-8.26	-1.57	0.18	-2.03
Germany	-3.06	-1.10	-2.10	-2.52
Italy	-858	-847	-1,560	-1,314 <sup>2</sup>
Japan	-198	-315	-515	-827
Netherlands	-0.28	-0.82	-1.20	1.54
Sweden	-0.201	-0.260	0.245	-1.252
United Kingdom	-0.148	-0.423	-0.597	-0.530
United States	-4.54	-5.20	-4.54	-5.61

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

<sup>1</sup> No sign indicates surplus; minus sign indicates deficit.

<sup>2</sup> Ten months.

In view of the continuing pressure of demand on resources in Canada, most of the reduction in taxes on individual incomes which had been sanctioned in 1965 was withdrawn in early 1966 and several measures were taken to cut down, and stretch out, the projected expansion in business capital outlays. By early 1967, however, a less restrictive policy appeared appropriate. The refundable levy on corporate profits was suspended in March; the capital cost allowances that had been reduced in 1966 were restored as of April 1; and, in accordance with a proposal in the June 1 Budget Speech, the elimination of the sales tax on production machinery removed an incentive—no longer desired—for postponement of business investment expenditures.

Indirect taxes were increased in Sweden in both the 1965/66 and 1966/67 budgets. The budget measures of 1965/66, however, also included a reduction in income taxes effective from January 1, 1966. In the 1966/67 budget indirect taxes were again raised in order to check the growth of consumption and to reduce imports. To

cover the extraordinarily large increase in government expenditure in 1965 and reduce the size of the budget deficit, the Belgian Government raised indirect taxes in 1966.

In those countries with excess capacity in their economies—France, Italy, and Japan—public expenditures were increased and, in Japan, taxes were reduced.

## Monetary Policy

In most industrial countries chief use was made of monetary policy to restrain demand in early 1966 and to stem the economic slowdowns later in the year. The widespread restrictiveness of monetary policy during most of 1966 is indicated by the fact that all the changes in central bank discount rates were increases (Chart 13 and Table 26). In the first half of 1967 all the changes were decreases. In 1965 there had been movements in both directions. On the whole, the other changes in monetary policy during 1966, until the autumn, tended to fit the pattern of tightening. Thus, frac-

CHART 13. DISCOUNT RATES, 1963–JUNE 1967  
(In per cent per annum)

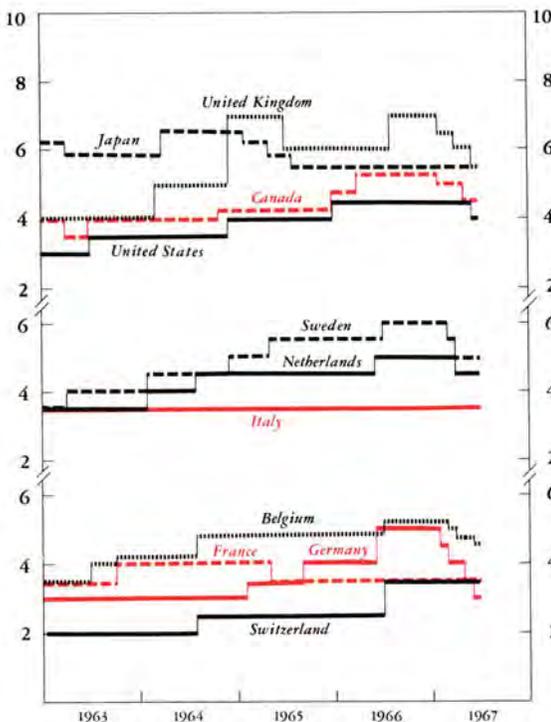


TABLE 26. SELECTED COUNTRIES: CHANGES IN DISCOUNT RATES, 1966 AND FIRST HALF 1967

Date	Increase or Decrease <sup>1</sup> (Percentage Points)	New Rate (Per Cent Per Annum)	
<i>January 1 to December 31, 1966</i>			
Belgium	June 2	0.50	5.25
Canada	March 14	0.50	5.25
Germany	May 27	1.00	5.00
Netherlands	May 2	0.50	5.00
South Africa	July 8	1.00	6.00
Sweden	June 10	0.50	6.00
Switzerland	July 6	1.00	3.50
United Kingdom	July 14	1.00	7.00
<i>January 1 to June 30, 1967</i>			
Austria	April 18	-0.25	4.25
Belgium	February 2	-0.25	5.00
	March 23	-0.25	4.75
	May 11	-0.25	4.50
Canada	January 30	-0.25	5.00
	April 7	-0.50	4.50
Germany	January 6	-0.50	4.50
	February 17	-0.50	4.00
	April 14	-0.50	3.50
	May 12	-0.50	3.00
Netherlands	March 15	-0.50	4.50
Sweden	February 3	-0.50	5.50
	March 10	-0.50	5.00
United Kingdom	January 26	-0.50	6.50
	March 16	-0.50	6.00
	May 4	-0.50	5.50
United States	April 7	-0.50	4.00

Source: International Monetary Fund, *International Financial Statistics*.  
<sup>1</sup> No sign indicates increase; minus sign indicates decrease.

tional reserve requirements against liabilities of certain financial institutions were raised in five countries, and reduced in only three. Six countries either intensified or introduced quantitative restrictions on domestic credit. In Belgium, such restrictions were suspended in 1965, reintroduced in 1966, and finally abolished in June 1967. In addition, the authorities in most industrial countries paid considerable attention to the use to which domestic credit was put.

In many countries the authorities were concerned to ensure that the increasing cost of credit resulting from steps taken by them did not affect export finance adversely. Five countries changed existing provisions or introduced new provisions to ensure that the cost and availability of finance formed no obstacle to the expansion of their export trade.

Until the end of 1965, U.S. monetary policy had been oriented toward stimulating domestic demand while also working toward balance in the international accounts. At that time, problems associated with relatively full utilization of resources began to appear more urgent, and the discount rate was raised from 4.0 per cent to 4.5 per cent in December. Thereafter, monetary policy became

increasingly restrictive. Pressure was applied to bank reserves through open market operations and by twice raising reserve requirements on longer-term deposits; to control bank loans, moral suasion was exercised at the Federal Reserve Banks' discount window. There were rapid declines in security prices in August and early September and these led some observers to believe that security markets were on the brink of a crisis, though such a crisis did not ultimately emerge.<sup>3</sup> By November 1966 it seemed that the policy measures taken earlier had contained the domestic demand pressures and that the maintenance rather than the restriction of demand might be a problem in 1967. Consequently, monetary policy became less restrictive and then expansionary. Reserve requirements for certain savings deposits and small time deposits were reduced and, following reductions in discount rates in a number of industrial countries in the first quarter of 1967, the U.S. rate was reduced on April 7 from 4.5 to 4.0 per cent, the level which had prevailed prior to the increase in December 1965.

At the beginning of 1966 inflationary pressures were strong in Canada. In mid-March the Bank of Canada's discount rate was raised from 4.75 per cent to 5.25 per cent. During most of the year the Bank's open market and other operations tended to be directed toward restraining the strong demands for finance. Toward the close of 1966, however, these pressures appeared to be abating, and a less restrictive monetary policy was adopted. The Bank's discount rate was reduced to 5 per cent late in January 1967 and to 4.5 per cent in April.

Perhaps the most dramatic combination of monetary and fiscal restraint during 1966 was seen in the United Kingdom. The bank rate, which had been lowered in June 1965 to 6 per cent,

<sup>3</sup> The Federal Reserve System was in close touch with the situation. On July 1, 1966 the Board of Governors agreed to make credit available to mutual savings banks and other depository-type institutions, in order to permit such institutions to meet unusual withdrawals of funds. This authority was continued until March 1, 1967. On August 23, 1966 the Open Market Committee changed its directive regarding the management of the open market account to emphasize the importance of maintaining orderly money market conditions and to provide for the moderation of unusual liquidity pressures. This clause, or a similar one, was maintained in the directive until November 1. (See Board of Governors of the Federal Reserve System, *Annual Report*, 1966.)

was raised again in July 1966 to 7 per cent to meet the balance of payments crisis. Also in July the amount of special deposits which the banks are required to maintain with the Bank of England was doubled. At the same time, the limit imposed on the power of the financial institutions to grant credit to the private sector, which had not been increased when it was reviewed in February 1966, was extended unchanged to March 1967. A number of fiscal and other measures to restrain demand were also taken in July. All these measures contributed to the dampening of domestic demand and to a resultant improvement in the balance of payments. As a consequence, it became possible to lower the bank rate to 6.5 per cent in January 1967, to 6.0 per cent in March, and to 5.5 per cent in May. These changes were in line with the general policy of most countries to work toward lower interest rates in the prevailing circumstances. In the April 1967 Budget Speech it was announced that the limit on credit from the London clearing banks and the Scottish banks had been removed, and that in future the activities of these banks would be influenced by official guidance on the direction of lending and by a more flexible use of special deposits. For other banks and finance houses the limit would be retained, while other arrangements were being worked out; they would also be subject to guidance on the direction of lending.

Domestic inflationary pressures were also a major source of concern to the German authorities through most of 1966. The chief burden of containing these pressures was placed on monetary policy. In May the central bank discount rate was raised from 4 per cent to 5 per cent and bank rediscount quotas were reduced by between 10 per cent and 12½ per cent. In the course of the year there was a decline in the rate of economic expansion, and stagnation rather than inflation became the main problem facing the German authorities. As a consequence, monetary policy was made easier toward the end of 1966. In December it was announced that the usual seasonal reduction in bank reserve requirements (except those relating to savings deposits) of approximately 9 per cent would not be reversed. Further reductions of 10 per cent, 5 per cent, and 8 per cent were decreed effective in March, May, and July 1967, respectively. Effective January 1, 1967, the

compensation privilege on banks' holdings of foreign deposits was removed in order to reduce the banks' incentives to hold foreign assets rather than to make domestic loans.<sup>4</sup> In the first five months of 1967, the Bundesbank's discount rate was reduced by a total of 2 percentage points in four equal steps.

Several other European countries took monetary steps to restrain demand in 1966. Central bank discount rates were raised in Belgium, the Netherlands, Sweden, and Switzerland. Belgium, Denmark, Finland, the Netherlands, and Norway either introduced or maintained their quantitative controls over domestic credit. Toward the end of 1966 the outlook appeared easier in most of these countries. As a result, there were moves toward less restrictive monetary policy during the first half of 1967, as exemplified by the lowering of central bank discount rates in Austria, Belgium, the Netherlands, and Sweden.

While most of the industrial countries were faced by inflationary pressures in 1966, there were important exceptions to this generalization—France, Italy, and Japan. Here stimulation of economic activity was the main problem to which the authorities addressed themselves.

Of the three countries, France introduced the most extensive policy changes. Commercial banks were authorized to accept deposits on more than a two-year term; savings banks were permitted to make nonhousing loans to their depositors; all banks were authorized to regard certain medium-term loans as reserve assets, as the authorities sought to stimulate the supply of longer-term loans. These measures also served to reduce the marked compartmentalization of the French financial system. Further, in July 1966, all restrictions on the opening of deposit accounts denominated in foreign currencies were removed; in the same month the 25 per cent withholding tax on foreign interest payments on French securities was markedly reduced. These developments set the stage for the suppression of exchange controls and the relaxation of credit regulations that were implemented in January 1967. At the end of 1966, the authorities were still continuing their market-liberalizing and stimulative program. In December, for example, they granted a tax reduction on life insurance premium payments.

<sup>4</sup> See Chapter 7, page 90.

In 1966 the Italian authorities continued the general approach to monetary policy which had been adopted in mid-1964. This was based on a liberalization of domestic credit and an encouragement of capital export. For example, in January restrictions on direct investment in all OECD countries were removed, whereas previously only the EEC countries had been exempted.

Domestically the Japanese authorities faced a set of problems in 1966 similar to those in Italy. On external account, the surplus on Japan's current account was offset in part by outflows of short-term and long-term capital resulting from the influence of structural factors in the Japanese economy and from the tight money situation in the United States. The authorities concentrated on further measures to remove the shortfall of domestic demand, which had not responded to the measures of monetary ease taken in 1965. While maintaining the policy of monetary ease and improving the techniques of monetary policy to make it more effective, for the first time in many years the Japanese authorities deliberately used fiscal policies for contracyclical purposes. In this connection, in January 1966 the Government made its first issue of long-term bonds in the domestic market since 1946, to cover a shortfall in fiscal receipts.

## Money and Securities Markets

The various national capital markets were dominated by the changes in the demand for business investment and government finance and by the effects of monetary policy. Business borrowings tended to rise from 1965 through mid-1966 and then to ease later in the year. In most countries the financing of government deficits put pressures on the national capital markets. In addition there was some evidence of a weakening of personal savings. Consequently, the markets were subject to extreme pressures which were increased rather than eased by the monetary policies adopted in most countries that in a few cases brought them close to crises. These strains in national markets had repercussions in the international markets.

In late 1965 and early 1966, the rapidly rising business outlays for the expansion of plant and

equipment were not matched by increases in allocations for depreciation and undistributed income in most countries. This rising excess of expenditure over available funds was covered by increasing business borrowings through the first three quarters of 1966, except in countries such as Germany and Japan where investment demand was slack. At present sector financing data are available for only a few countries, and are subject to considerable errors of estimation. For most such countries, net business borrowing was larger in 1965 than in 1964 (Table 27). In Canada and the United States this borrowing was still larger in 1966. Even in the United Kingdom where economic progress was not particularly rapid, pressures on company profits were also translated into pressures on capital markets. In Germany some relief of financial pressures was provided by the abatement of company demands after mid-1966. In Japan there was an upturn in the third quarter. In France, while investment was rising, at least through the third quarter, and companies had larger needs for capital market financing, most of these needs were covered by bank financing rather than by security issues. In most of the smaller industrial countries of Europe, particularly in Belgium-Luxembourg, the Netherlands, and Sweden, corporate liquidity deteriorated sharply, and in the Netherlands and Sweden the rise in investment in the private sector was financed mainly by an expansion of bank credit but at progressively higher interest rates. In summary, private businesses were exerting rising pressures on the financial markets through mid-1966 in those countries where output was expanding (i.e., most of the industrial countries). Toward the end

of the year, however, the slackening of investment demand in most of these countries was reflected in a decline in private financial demands.

The sources of the strong pressures exerted on most capital markets by the requirements for government finance were outlined above and in Chapter 3.

Particularly in the early part of 1966, there were signs of weakening in personal saving. In the United Kingdom total personal saving was 6 per cent lower in 1966 than it had been in 1965. There was a marked decline in Germany, where household saving fell from the first half of 1965 high of 12.1 per cent of disposable income to 9.9 per cent (i.e., back to the level of the second half of 1963) in the first six months of 1966. The rise of this ratio, in the second half of 1966, to its early 1965 level is probably accounted for by the large increase in savings deposits consequent on year-end interest payments on savings accounts at the high rates prevailing after July. In the United States the ratio of personal saving to disposable income in the first three quarters of 1966 was appreciably below the 1965 level. In Canada personal saving declined (in the second and third quarters of 1966) from its record first-quarter rate. For the other industrial countries, indirect evidence (such as the increases in purchases of consumer durable goods in Italy) suggest that the pattern of declining personal saving ratios was widespread.

The restraints and restrictions on the expansion of bank credit during the first three quarters of 1966 limited the finance available from this source to meet the large borrowing demands coming on the capital markets. In the United States this limitation was mitigated by the fact that the banks were able to draw in funds from abroad. One result of this conjuncture of influences was a marked increase in security issues which reached record levels during 1966 in Canada, Italy, the Netherlands, Sweden, and Switzerland and continued to be large in the United Kingdom and the United States (Table 13, p. 28).

These pressures on domestic capital markets had important international repercussions. The tensions in the domestic U.S. market were reflected in levels of private capital outflow during the first, second, and fourth quarters of 1966 well below those prevailing in earlier years (Table 40,

TABLE 27. SELECTED COUNTRIES: BUSINESS NET FINANCING REQUIREMENTS, 1963-66 <sup>1</sup>

(Annual rates, average net borrowing in 1963-65 = 100)

	Canada	Germany	Japan	United Kingdom	United States
	Business <sup>2</sup> net financing	Business <sup>2</sup> net financing	Business <sup>2</sup> net financing	Identified net financing <sup>3</sup>	Identified net financing <sup>4</sup>
1963	68	81	129	37	58
1964	85	99	137	148	94
1965	147	120	34	115	146
1966	187	97	...	130	356

Sources: National sources.

<sup>1</sup> Net borrowing plus net reduction in holdings of financial assets.

<sup>2</sup> All business.

<sup>3</sup> Of industrial and commercial companies.

<sup>4</sup> Of nonfinancial corporations.

p. 88) and a large inflow during the third quarter. This reduction in the flow of finance to other countries served to generalize the financial stringency throughout the industrial and other more developed parts of the world. It must be recognized, however, that the withdrawal of short-term funds from Europe exerted pressures on bank liquidity which were consistent with the objective being pursued by the monetary authorities in most countries.

In several instances financial markets appeared to be close to disorganization at certain points in the year. Reference has already been made to the severe stringency in the U.S. market in August and September 1966. In Germany, the yields on long-term bonds moved from the 6 per cent to the 7 per cent range in late 1965 and passed into the 8 per cent range in July 1966. This increase in bond yields involved a fall in bond prices from January 1965 to August 1966 that was typically not much less than 13 percentage points, with almost 6 points of this decline taking place in 1966. These rapid movements in bond prices put great pressure on the liquidity positions of certain financial institutions and contributed to the uncertainty which prevailed in the year. The situation was brought under control by reductions in government expenditure and by agreement of all official issuers in May to refrain from issuing securities. Even so, severe stringency persisted in the German capital market until August.

In brief, with rising private investment and government demands for finance, a less rapidly rising flow of funds for investment by the personal sector, and a decline in the flow of international capital from the United States to Europe, the financial markets in the industrial countries were subjected to severe strains during 1966.

### Interest Rates

The changing pressures of demand and their associated financing requirements, together with the policies adopted to cope with them, resulted in large changes in interest rates from late 1965 through early 1967. In some countries these rates not only advanced rapidly until mid-1966, but reached historically high levels (Charts 4 and 5, pp. 27 and 28). In the United States the yield on

long-term government securities, at its peak in November, was more than 14 per cent above its level of 12 months earlier. This rise in rate implied a decline of almost 6 per cent in the market value of long-term issues. Even 3-5 year bond prices fell by over 5 per cent in these 12 months. For most of 1966 the yield on treasury bills was at a level which had been touched only briefly during the crisis of late 1929, and that on government bonds was higher than at any time since shortly after World War I.

Although interest rates in the United Kingdom were high by international standards at the beginning of 1966, the discounts on sterling in the forward markets were greater than the comparable interest differentials in the money markets. Hence, the relatively high U.K. rates were relatively low on a covered basis (Chart 14). Further, in the first half of 1966 U.K. interest rates did not participate fully in the general upward movement. Partly as a result, the pressures on sterling increased until July. The monetary and other measures taken in that month led to a sharp rise in rates. At their August 1966 peak, long-term rates were over 1.0 percentage point higher than in September 1965. This increase involved more than a 12 per cent decline in the market price of perpetual securities. Yields on shorter-dated issues (5-year issues) rose by 0.9 percentage point from their November 1965 to their August 1966 peak.

The most dramatic movements, which were reviewed in the previous section, occurred in Germany. Canadian rates tended to move in line with U.S. rates, although the range over which they moved was narrower. Interest rates in most other industrial countries showed the general pattern of increases in the first half followed by stability or declines toward the end of the year.

Short-term interest rates in the United States moved sharply upward in December 1965 and January 1966, after the December increase in the discount rate, and continued upward in subsequent months. This upward course reached its peak at the end of August and beginning of September 1966.

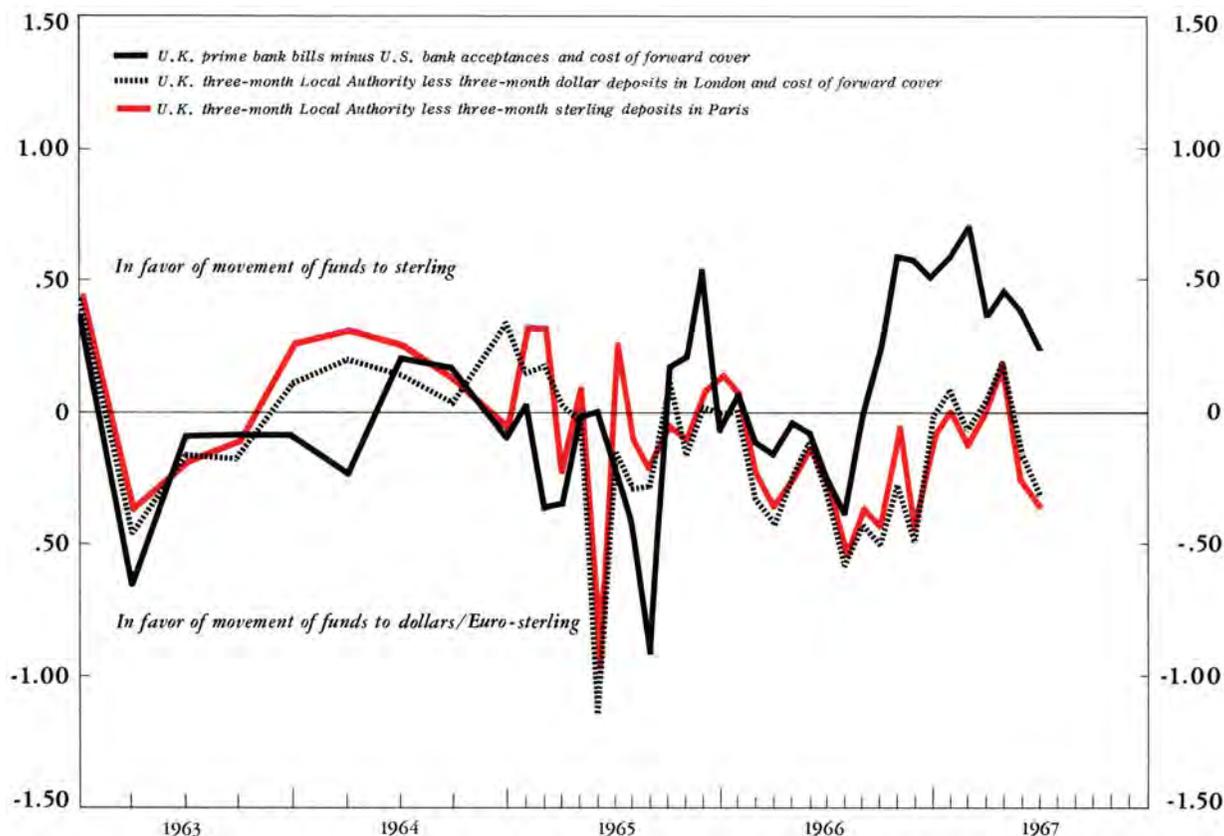
The effectiveness of the high rates, particularly in the United States, may well have been enhanced by the fact that in most markets they were expected to be temporary, as is suggested by the changes in the term structure of rates on govern-

ment securities after December 1964. Whereas in the earlier period the yield curve showed the more usual distribution of rising yields as the time to maturity increased, the 1965 and 1966 curves showed continuous declines in yields for successively longer maturities starting with 1 year, or a less rapidly rising curve (Chart 15). The pattern of

tively low levels to which they had fallen in 1965; in France they rose only moderately until the fourth quarter of 1966, when short-term rates showed a marked increase.

The yield on private bonds tended to rise during 1966 by one and a half times the increase in yields on government bonds except in Germany

CHART 14. UNITED KINGDOM: SHORT-TERM INTEREST DIFFERENTIALS, 1963-JUNE 1967

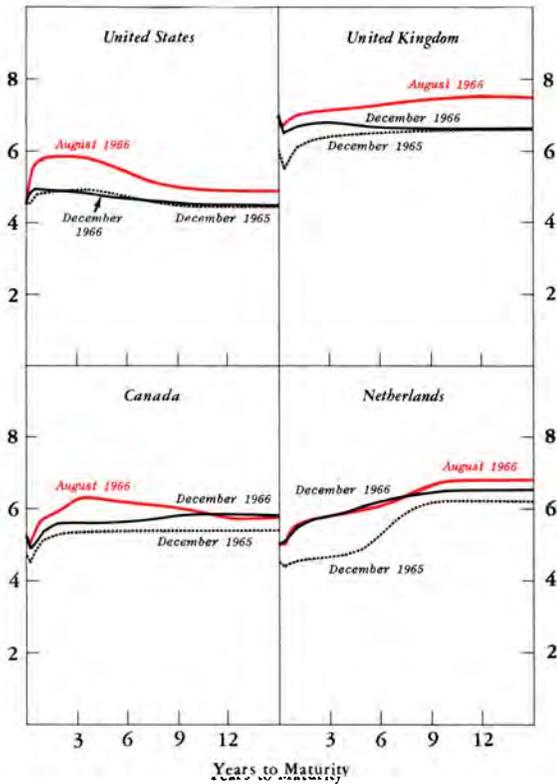


costs to preferred private borrowers conformed to this shift, short-term bank loans in the United States having an estimated effective cost of over 7 per cent in late 1966 in contrast to the 6.1 per cent yield on new issues of highest grade private bonds. With rates expected to decline, the incentive to postpone investment was increased.

While the general trend of interest rate movements was upward until late 1966, there were certain important exceptions. In the three countries where policies were directed toward an expansion of output, interest rates did not follow the general trend. In Italy rates even tended to fall; in Japan they remained stable at the rela-

and the United Kingdom, where both private and government yields rose by approximately the same amount (Chart 16). Hence, the impact of tightness in the credit markets on industrial borrowing was greater than is indicated by most interest rate data. A part of the larger increase in the yields on private bonds may have arisen from the fact that the duration of the private debts was on average shorter than that of the government securities, at a time when medium-term rates had risen more than long-term rates. In the easier-money countries there was a rise of  $\frac{1}{2}$  percentage point in private bond yield in France, and a fall of  $\frac{1}{4}$  point in Italy.

CHART 15. TERM STRUCTURE OF INTEREST RATES  
(In per cent per annum)



In general, the yields that had to be offered to make newly issued securities acceptable to the market rose by more than the yields on outstanding issues. In the United States, where large private borrowers have ready access to the long-term market, the cost of current borrowing rose much more than the rate on outstanding issues. In contrast to a 0.9 point rise in yields on outstanding high-quality private bonds, the yield on new high-quality private issues rose by 1.2 percentage points from the end of 1965 to the peak in September 1966.

Although interest rates moved generally higher during 1966, there were some important differences in timing as between increases in different countries, and these partly accounted for the large short-term capital movements which occurred during the year. The slower increase in interest rates in the United Kingdom during the first half of the year has been mentioned earlier as contributing to the outflow of capital from that country prior to July 1966. Canadian short-term interest rates also increased somewhat less than U.S. rates

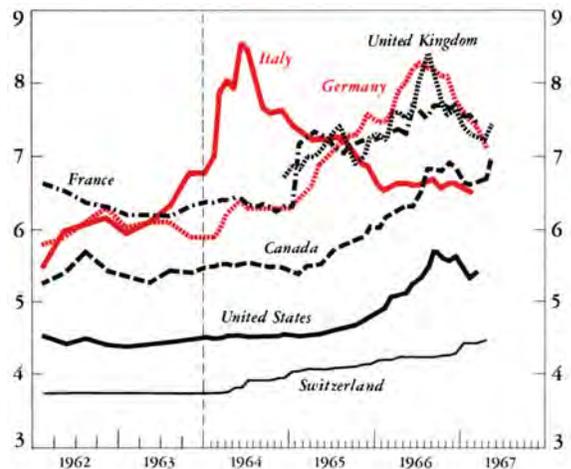
after mid-year, and the shift in rate relationships contributed to the flow of short-term capital from Canada to the United States in the third quarter of 1966.

With the changes in the degree of monetary restraint and, in some instances, in the direction of policy in late 1966 and early 1967, interest rates responded quickly. By March 1967 short-term rates in the United States had fallen back to the level prevailing before the December 1965 increase in discount rate. In the United Kingdom they were back to their early July 1966 levels. Rates had fallen back to where they had been in June 1966 for Switzerland, in May for the Netherlands, in March for Belgium-Luxembourg and France, in December 1965 for Canada, and early 1965 for Germany. Long-term bond yields showed a similar pattern of change. By March 1967 U.S. and U.K. yields were back to their December 1965 levels. Yields had fallen back to their March 1966 level in the Netherlands, to their November 1965 level in Canada, and the substantial rise of German rates after November 1965 had been wiped out.

The high interest rates that had prevailed through most of 1966 induced some potential borrowers to postpone the issue of securities. The declines in rates in the early months of 1967 encouraged companies in Canada, the United Kingdom, and the United States to rebuild their liquidity by making long-term bond issues, notwithstanding the sluggishness of investment. As a

CHART 16. SELECTED COUNTRIES: INDUSTRIAL BOND YIELDS, 1962-MAY 1967

(In per cent per annum)



consequence, particularly in the United States, there was an upsurge of private bond issues, and long-term interest rates moved back close to their 1966 levels. In some parts of the corporate bond market, U.S. rates even surpassed the 1966 peaks. French long-term rates also rose; on the other hand, in Germany, Japan, and Switzerland interest rates remained stable or continued to decline slowly.

Euro-dollar rates, being subject to influences in all the important capital markets, as described in Chapter 3, responded markedly to the changing pressures outlined here. The London rate on three-month deposits rose from an August-September 1965 low of 4.4 per cent to over 5.0 per cent by the end of the year. By the end of June 1966 it had reached 6.0 per cent. It rose rapidly to over 7.0 per cent at the end of September and touched a peak of 7.2 per cent at the beginning of December. Thereafter it declined, partly in response to the intervention by several central banks and the Bank for International Settlements. By mid-April this rate was below 5.0 per cent, but subsequently it rose slightly.

### Restraints on International Capital Movements

At the beginning of 1966 international capital movements were free from various forms of official restraint in only a very few industrial countries. On balance, official controls over international capital transactions were increased during the year. The United Kingdom and the United States both responded to their continued balance of payments difficulties by further restraining capital transfers to other developed countries. The most notable move toward greater freedom for capital transactions was the French announcement that in early 1967 most of the controls on inward and outward movements of capital would be lifted.

The U.S. program of voluntary restraint on total foreign loans and investment continued in effect throughout the year, and was renewed in December. The 1967 program provides the same ceiling for total credits to developed countries by commercial banks for the year as a whole as had been set for 1966. As the tight U.S. monetary

policy had induced the banks to curtail foreign lending through most of 1966, there was a leeway of \$1.2 billion available to them on October 1, 1966. The easing of monetary policy late in 1966 coincided with a seasonal increase of approximately \$300 million in their foreign credits. In order to guard against a sudden outflow, the banks were asked to limit the increases in their foreign lending in 1967 to not more than 40 per cent of the October 1, 1966 leeway by March 31, 60 per cent by June 30, and 80 per cent by September 30. Nonfinancial corporations also were requested, in effect, to limit direct investment expenditures from their own resources (i.e., transfers of capital and reinvestment of earnings, but not use of funds borrowed abroad) to approximately \$400 million more than their 1966 total. This would bring these expenditures back to approximately their 1964 level, but, with the growth in this investment and the consequent increase in normally retained earnings since 1964, it implies a limitation of capital transfers to something like their 1966 total. Early in 1967 the Administration requested extension of the interest equalization tax for a further two years, amended to give the President discretion to vary the rates charged under it to provide levies equivalent to interest rates from nil to 1.5 per cent a year on financial claims, the acquisition of which is subject to the tax. This increase in the possible effective rates of the tax increased the scope for lowering U.S. long-term interest rates relative to rates in other important capital markets without repercussions on capital flows from the United States.

In May 1966 the United Kingdom announced a voluntary program with the aim of confining direct investment transfers to the more developed countries of the sterling area—Australia, New Zealand, South Africa, and the Republic of Ireland—to those which promised an early, substantial, and continuing benefit to the U.K. balance of payments. Direct investments outside the sterling area involving less than £25,000 and those over that sum which held a similar promise could continue to be financed through the investment currency market; all other investments could be made only if they were financed by appropriate borrowing outside the sterling area. In addition, institutional investors were asked to

exercise voluntary restraint on investment in portfolios of securities denominated in the currencies of non-sterling area countries and in the currencies of the four countries mentioned above. Borrowing in the United Kingdom by residents of these four countries that required consent under the Control of Borrowing Order had to meet the criterion of an early, substantial, and continuing benefit to the U.K. balance of payments. Restrictions continued to be imposed on borrowing for fixed investment purposes by U.K. nonresident-controlled companies. As part of the July stabilization program, other exchange control restrictions on capital transfers were tightened.

Canada continued its voluntary program aimed at discouraging any change in policy by companies controlled from outside the country that would

involve a reduction in their rate of reinvestment of earnings on Canadian operations.

In November the French Government announced that it would make fundamental changes in the system of exchange control over capital transactions. In principle the system would become one of free convertibility. However, French direct investment abroad and foreign direct investment in France still have to be declared to the authorities, who have the right to request their postponement. Borrowing abroad by French firms other than banks has to be authorized. Foreign issues on the French capital market are subject to the same regulations as French issues, namely, a date for the issue must be set with the agreement of the Treasury. These changes were implemented early in 1967.

## Chapter 7

# World Trade, Payments, and Reserves

**M**AINLY because of differences in the rates of economic expansion in the industrial countries, several countries experienced substantial shifts in the current account of the balance of payments in 1966. The changes in capital accounts induced by the varying impact of cyclical forces and by the financial policies adopted to restrain or encourage domestic expansion were no less striking than those on current account. The acute tensions that arose in financial markets, resulting in part from the industrial countries' generally heavy reliance on monetary policies to restrain internal demand pressure, not only led to sharp changes in the flow of funds between developed countries, but also had important reper-

cussions on the movement of official and private capital to the less developed countries.

The slowing down of economic expansion in many of the developed countries during 1966 was reflected in a marked deceleration in the growth of export receipts of less developed countries in the second half of the year, and in declining commodity prices as well. These developments presaged further weakness in the export receipts of less developed countries in 1967.

### Main Trends in World Trade

World industrial production and international trade expanded at approximately the same sub-

CHART 17. DEVELOPED AREAS AND COUNTRIES: SEASONALLY ADJUSTED INDUSTRIAL PRODUCTION AND VALUE OF IMPORTS, 1963–FIRST QUARTER 1967  
(1960=100)

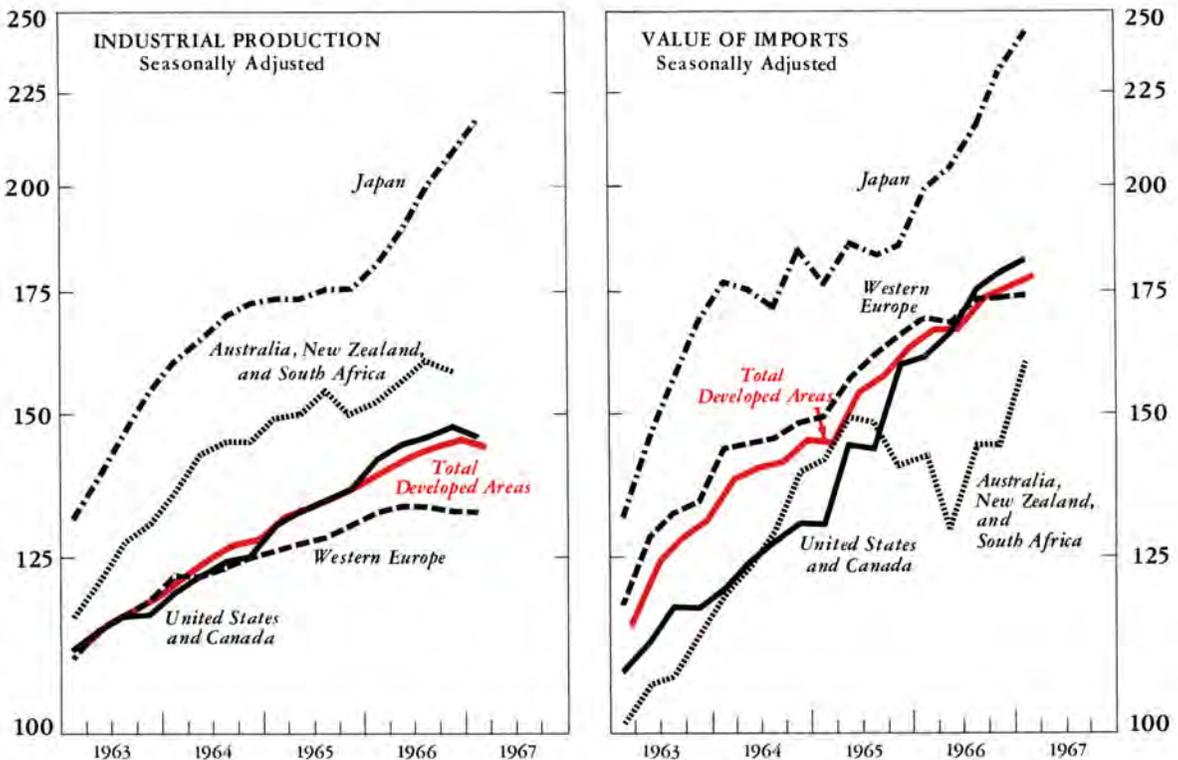


TABLE 28. GROWTH IN VALUE OF EXPORTS FROM MAJOR AREAS, 1965-66

(In percentage changes from preceding year or from preceding half year, the latter based on seasonally adjusted data and expressed as annual rates)

	Value in 1965	1965		1966			
		1965	1966	First half	Second half	First half	Second half
	<i>Billion U.S. dollars</i>	<i>Per cent</i>					
World <sup>1,2</sup>	165	9	9	9	11	9	7
Industrial Countries <sup>2</sup>	118	10	10	10	12	10	8
United States <sup>2</sup>	27	5	9	-1	16	8	6
Other <sup>3</sup>	91	12	10	13	11	11	9
More Developed Primary Producing Countries	11	4	10	5	10	9	14
European countries <sup>4</sup>	6	10	13	10	17	12	13
Australia, New Zealand, and South Africa	5	-2	7	—	4	6	16
Less Developed Primary Producing Countries <sup>5</sup>	36	6	7	5	9	6	3

Sources: International Monetary Fund, *International Financial Statistics*; OECD, *Main Economic Indicators*; and staff estimates.

<sup>1</sup> Excluding Soviet countries and Mainland China.

<sup>2</sup> Excluding U.S. military exports. U.S. data have been adjusted, according to U.S. Department of Commerce estimates, for advancements or delays in shipments due to the maritime strike, but the growth of U.S. trade in 1965 and 1966 was influenced by the trade permanently lost as a consequence of the strike in the first half of 1965.

<sup>3</sup> EEC countries (Belgium-Luxembourg, France, Germany, Italy, and the Netherlands), EFTA countries other than Portugal (Austria, Denmark, Norway, Sweden, Switzerland, and the United Kingdom), Canada, and Japan.

<sup>4</sup> Finland, Greece, Iceland, Ireland, Portugal, Spain, Turkey, and Yugoslavia.

<sup>5</sup> All other countries except the Soviet countries and Mainland China.

stantial rates, year over year, in 1966 as in 1965. Whereas the expansion had accelerated in the course of 1965, however, there was a marked slackening during 1966. Throughout most of 1966, as in 1965, output was rising much more rapidly in the United States and Canada than in Western Europe. While the growth of industrial production in Europe leveled out in the second quarter of 1966, and the value of imports rose very little after the first quarter of the year, output expansion in the United States did not flatten out until the final months of the year, and imports increased steeply until the last quarter (Chart 17). In the first quarter of 1967, over-all industrial production in the industrial countries, which had risen at a decelerating rate after the first quarter of 1966, showed very little change (Table 1, p. 4). This slowdown in output was reflected in a reduced rate of import growth into the industrial countries, and in a cessation of rise in the exports of less developed countries in the six months ended March 1967 (Table 2, p. 4).

The value of world trade rose by about 9 per cent in both 1965 and 1966; the expansion in the total exports of industrial countries (10 per cent) and of less developed countries (7 per cent) was

also similar in the two years (Table 28). The exports of the more developed primary producing countries, however, increased considerably more in 1966 than in the previous year. The exports of the United States also rose somewhat faster in 1966—a development reflecting in part the hindrance to U.S. trade caused by the 1965 maritime strikes, but also the more marked growth of demand in 1966 in such important U.S. export markets as Canada, France, Italy, Japan, and Latin America.

The major stimulus to the expansion of world trade from 1965 to 1966 was the growth of output and income in the United States. U.S. industrial output rose by 9 per cent, and U.S. imports by 19 per cent; these increases were more than twice as large as those for other developed countries as a group (Table 29). While imports also rose rapidly during 1966 in France, Italy, and Japan, where domestic activity was increasing after slowdowns in 1964-65, there was only a slight expansion of imports during 1966 for the EFTA countries and for the Netherlands. Imports into Germany, which had been increasing steeply since early 1964, declined after the first quarter of 1966 (Chart 18). Imports into Australia, New

Zealand, and South Africa recovered in the second half of 1966 after having declined for about a year.

The value of trade between industrial countries again rose faster than world trade as a whole in 1966, and nearly twice as fast as trade between less developed countries—which increased by about 5 per cent per annum over the last five years (Table 30). There was a very sharp increase in the industrial countries' exports to the Soviet countries and Mainland China and, as in 1965, industrial countries' imports from that area rose considerably faster than world trade in general. Although the data for the less developed countries' trade are still incomplete for 1966, there appears to have been a marked slowing down in the growth of exports from primary producing

countries to the Soviet countries and Mainland China, following a rapid expansion in 1963-65.

In 1965 trade between industrial countries made up 47 per cent of the total trade of the world, excluding the exports of Soviet countries and Mainland China, compared with 44 per cent in 1961 (Table 31). While trade between industrial countries and primary producing countries had declined from 45 to 43 per cent of this total over the period, trade between industrial countries and the more developed primary producing countries had risen slightly in importance, to 12 per cent of the total. Trade among primary producing countries accounted for only about 6 per cent of the total in 1965.

While 1966 was on the whole a rather favorable year for primary producing countries' trade,

TABLE 29. INDUSTRIAL COUNTRIES AND MORE DEVELOPED PRIMARY PRODUCING COUNTRIES:  
GROWTH OF INDUSTRIAL PRODUCTION AND GROWTH IN VALUE OF IMPORTS, 1965-66

(In percentage changes from preceding year or from preceding half year, the latter based on seasonally adjusted data and expressed as annual rates)

	Percentage Share of Total Production or of Imports, 1965			1965		1966	
		1965	1966	First half	Second half	First half	Second half
<b>Industrial Production</b>							
<b>Industrial countries</b>							
United States	50	9	9	9	7	12	5
Canada	4	8	8	8	10	9	3
Japan	7	5	12	3	2	12	20
EFTA countries	13	4	2	5	1	3	-1
EEC countries	22	4	5	6	6	6	1
of which, Germany	10	6	2	6	3	4	-5
<b>More developed primary producing countries</b>							
European countries	2	10	3	11	9	9	3
Australia, New Zealand, and South Africa <sup>1</sup>	3	7	4	8	3	2	7
Total	100	7	7	7	6	9	4
<b>Imports</b>							
<b>Industrial countries</b>							
United States <sup>2</sup>	17	15	19	12	19	20	17
Canada	6	15	14	14	23	11	13
Japan	6	3	17	4	4	19	22
EFTA countries	23	5	5	4	7	6	2
EEC countries	36	9	9	8	17	7	7
of which, Germany	13	20	3	19	14	2	-4
<b>More developed primary producing countries</b>							
European countries	7	16	13	18	15	14	8
Australia, New Zealand, and South Africa	6	13	-3	17	-2	-11	12
Total	100	10	10	9	13	9	9

Sources: International Monetary Fund, *International Financial Statistics*; OECD, *Main Economic Indicators*; and staff estimates.

<sup>1</sup> No industrial production index is available for New Zealand.

<sup>2</sup> U. S. data have been adjusted, according to U.S. Department of Commerce estimates, for advancements or delays in shipments due to the maritime strike, but the growth of U.S. trade in 1965 and 1966 was also influenced by the trade permanently lost as a consequence of the strike in the first half of 1965.

TABLE 30. GROWTH IN VALUE OF EXPORTS FROM MAJOR AREAS, BY MAJOR AREAS OF DESTINATION, 1962-66  
(In percentage changes from preceding year)

Exports from		Exports to					World
		Industrial countries	Primary producing countries		Soviet countries and Mainland China		
			More developed	Less developed			
Industrial Countries <sup>1</sup>	1962	8	6	-2	5	5	
	1963	10	13	5	5	9	
	1964	13	16	9	29	13	
	1965	11	15	7	2	10	
	1966	11	4	8	22	10	
Primary Producing Countries	More developed	1962	4	3	5	-4	4
		1963	10	15	3	32	11
		1964	12	19	13	14	13
		1965	—	8	10	22	4
		1966	12	10	18	-4	10
	Less developed <sup>2</sup>	1962	7	8	4	9	6
		1963	9	15	5	19	9
		1964	9	6	8	29	9
		1965	6	7	4	16	6
		1966	7	7	6	3	7
World, Excluding Soviet Countries and Mainland China	1962	7	6	-1	4	5	
	1963	10	14	5	12	9	
	1964	12	15	9	27	12	
	1965	9	13	7	9	9	
	1966	10	5	8	13	9	
Soviet Countries and Mainland China <sup>3</sup>	1962	4	18	19	11	11	
	1963	9	23	15	5	7	
	1964	15	19	7	7	8	
	1965	15	10	11	4	7	
	1966	17	20	9	2	6	
World	1962	7	7	—	8	6	
	1963	10	14	5	7	9	
	1964	13	16	9	12	12	
	1965	9	13	7	6	9	
	1966	11	5	8	5	9	

Sources: International Monetary Fund and International Bank for Reconstruction and Development, *Direction of Trade*; International Monetary Fund, *International Financial Statistics*; United Nations, *Monthly Bulletin of Statistics*, June 1967; and staff estimates.

<sup>1</sup> U.S. exports exclude military exports. All unallocated exports have been distributed between the areas of destination in proportion to reported exports to those areas.

<sup>2</sup> Figures for 1964, 1965, and 1966 are partly estimated.

<sup>3</sup> Exports to Cuba are included with exports to less developed countries.

in the latter part of the year commodity prices were declining and there was a marked slowing down in the expansion of export earnings. Prices of metals and minerals rose sharply in the spring, and remained well above the relatively high level at which they stood at the end of 1965; over the year they were on average 20 per cent higher than in 1965. Agricultural prices were on balance slightly higher in 1966 than in 1965, but prices of both foodstuffs and agricultural raw materials were distinctly lower at the end of 1966 than a year earlier (Chart 23, p. 94).

As a consequence of divergent price trends and other factors, there were great contrasts in the development of various primary producing countries' export receipts in 1966. In 1965 the more developed primary producing countries, the oil exporting countries, and the less developed countries exporting mainly agricultural products had achieved fairly similar increases, of from 4 to 6 per cent, in their export earnings (Table 45, p. 96). The somewhat faster growth in the total export receipts of primary producing countries in 1966 than in 1965 was, however, wholly due to

TABLE 31. SHARES IN WORLD EXPORTS, BY MAJOR AREAS, 1961 AND 1965

(In per cent)

Exports from		Exports to					World
		Industrial countries	Primary producing countries		Soviet countries and Mainland China		
			More developed	Less developed			
Industrial Countries	1961	44.1	6.4	18.2	2.3	71.0	
	1965	47.0	7.4	15.6	2.4	72.4	
Primary Producing Countries							
More developed	1961	5.2	0.4	1.0	0.6	7.2	
	1965	4.7	0.4	1.0	0.8	6.9	
Less developed	1961	15.7	1.2	4.2	0.7	21.8	
	1965	14.9	1.2	3.6	1.0	20.7	
World, Excluding Soviet Countries and Mainland China <sup>1</sup>	1961	65.0	8.0	23.4	3.6	100.0	
	1965	66.6	9.0	20.2	4.2	100.0	

Sources: As for Table 30.

<sup>1</sup> For comparison with the figures given above, in 1965 the exports of the Soviet countries and Mainland China to all other countries were equivalent in value to about 4.5 per cent of the total exports of all other countries. Approximately 17 per cent of the exports of the Soviet countries and Mainland China then went to industrial countries, 5 per cent to the more developed primary producing countries, and 14 per cent to less developed primary producing countries, while 64 per cent went to other countries in the group.

TABLE 32. EXPORT UNIT VALUES OF INDUSTRIAL AND PRIMARY PRODUCING COUNTRIES, 1964-66

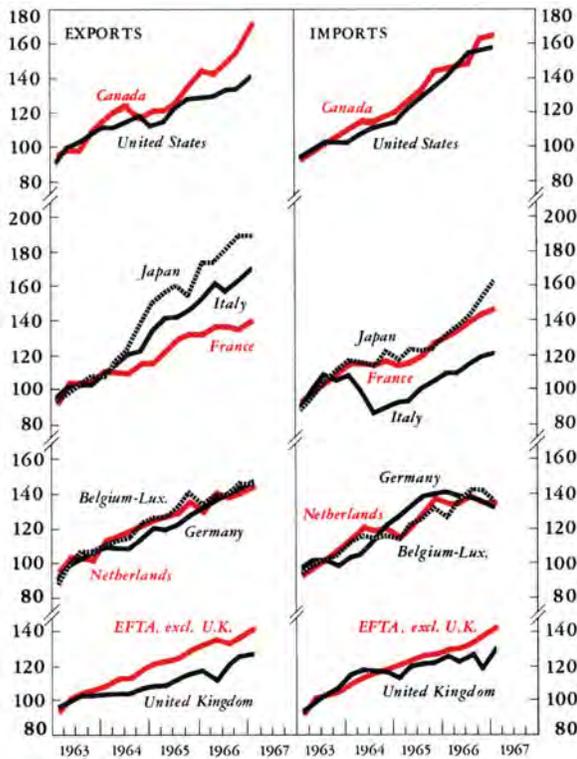
(1963 = 100)

	1964	1965	1966	1965		1966	
				First half	Second half	First half	Second half
Export Unit Values							
World	102	103	105	103	103	104.5	105
Industrial Countries	102	104	106	104	104	105	106
United States and Canada	101	103	...	104	103	104	...
EEC countries	102	103	104	102	104	104	104
EFTA countries	103	105	108	105	106	107	109
Japan	101	100	101	100.5	100	100	101.5
More Developed Primary Producing Countries							
European countries	103	106	109	104.5	108	107.5	109.5
Australia, New Zealand, and South Africa	105.5	100	104	99	101	104.5	103
Less Developed Primary Producing Countries	102	102	104	102.5	102	104	104
of which							
Latin American countries	108	108	109	107	108	109	109
Asian countries	100	103	103	101	101	104	102
Middle Eastern countries	100	100	100	100	99	100	99
Central African countries	105	102	112	101.5	103	110	114

Sources: United Nations, *Monthly Bulletin of Statistics*, July 1967; International Monetary Fund, *International Financial Statistics*; and staff estimates.

CHART 18. INDUSTRIAL COUNTRIES: SEASONALLY ADJUSTED EXPORTS AND IMPORTS, 1963–FIRST QUARTER 1967

(1963=100)



a much greater expansion in the export receipts of the more developed countries, and of those less developed countries exporting mainly minerals other than petroleum and other nonagricultural products. The exports of the oil producing countries rose at about the same rate as in 1965, but the exports of countries mainly dependent on agricultural exports rose much less than in 1965 or other recent years. Since the import prices of less developed countries rose on the average by 2 per cent from 1965 to 1966, there was almost no increase in the total import purchasing power of this large group of less developed countries.

## Balance of Payments Developments

### Over-All Payments Balances

In spite of the disequilibrating tendencies in certain countries' current or capital account positions in 1966 referred to earlier, the aggregate of

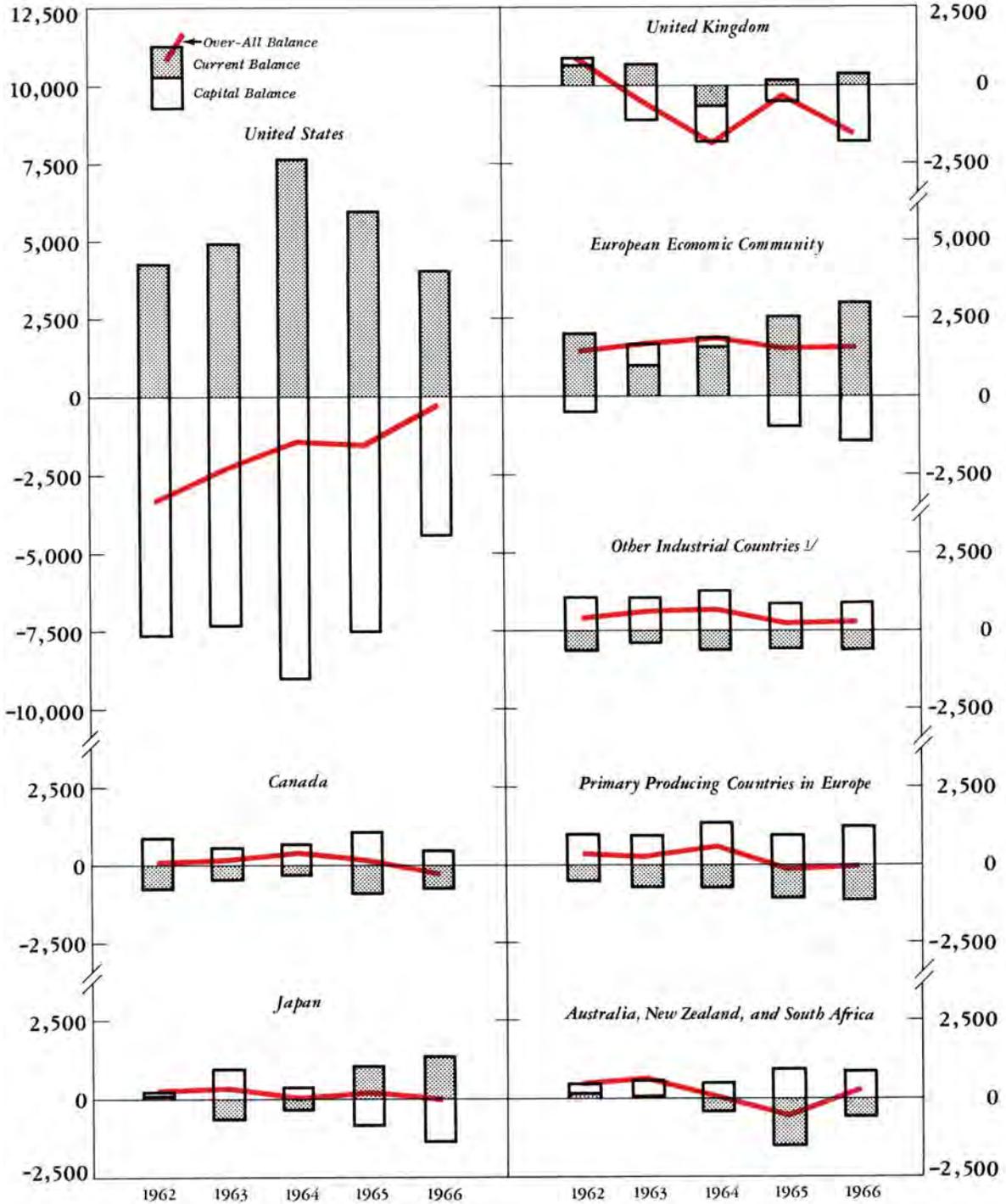
disequilibria in the over-all balances<sup>1</sup> of developed countries matched by their official settlements was nevertheless somewhat smaller than in 1965.

Some indication of how far the changes in the developed countries' payments positions in 1966 may be judged to have been equilibrating or disequilibrating is given in Chart 19. It shows that the reduction in the U.S. over-all deficit in 1966 occurred in spite of a deterioration in the current account position. This deterioration did not add to pressures on the international payments system during 1966; indeed, the rapid increase in U.S. imports underlying the reduction in the U.S. current surplus, at a time when there were tendencies toward a slowdown in the imports of several industrial countries, was a favorable factor particularly for many less developed countries. On the other hand, the sharp reduction in the U.S. net outflow of capital imposed severe pressure upon financial markets throughout the world. Some countries, notably Italy and Japan, did not resist the withdrawal of funds, allowing such movements to offset their large surpluses on current account. (See Tables 34 and 35.) In other countries, however, especially within the European Economic Community, such movements of funds tended to be discouraged by the high levels of interest rates. France, Belgium-Luxemborg, and the Netherlands had larger net inflows of capital in 1966 than in 1965; Germany, which relied heavily on monetary policy to counter domestic inflationary pressures during the first part of 1966, would have experienced a net inflow for the year as a whole had it not been for the advance payment of \$250 million for defense equipment from the United States. Thus the moderate deterioration in the capital balance of the EEC countries as a whole was accounted for by the increased net outflow of capital from Italy. As a consequence of these developments, a great

<sup>1</sup> A country's over-all balance of payments position measures changes in the balance financed by "official settlements," i.e., changes in official gold and foreign exchange assets, net IMF positions, liabilities resulting from swap transactions with the United States, and other liabilities to foreign monetary authorities. The current balance is defined as the balance on goods, services, and private transfer payments. The capital balance is taken to be the difference between the over-all balance and the current balance, and therefore includes the errors and omissions in the balance of payments accounts.

CHART 19. DEVELOPED AREAS AND COUNTRIES: CURRENT, CAPITAL, AND OVER-ALL BALANCES, 1962-66

(In millions of U.S. dollars)



<sup>1</sup> Austria, Denmark, Norway, Sweden, and Switzerland.

TABLE 33. MAJOR COUNTRIES AND AREAS: SUMMARY OF OVER-ALL BALANCES OF PAYMENTS, 1965-66<sup>1</sup>  
(In millions of U.S. dollars)

	1965	1966	Change 1965-66	1965		1966	
				First half	Second half	First half	Second half
<b>Industrial Countries</b>							
United States	-1,557	-234	1,323	80	-1,637	7	-241
United Kingdom	-344	-1,567	-1,223	-360	16	-594	-973
Germany	-452	790	1,242	-429	-23	-18	808
Other industrial countries	2,416	646	-1,770	542	1,874	-156	802
Total	63	-365	-428	-167	230	-761	396
<b>More Developed Primary Producing Countries</b>							
Australia, New Zealand, and South Africa	-581	226	807	-420	-161	364	-138
Spain	-105	-203	-98	-62	-43	-216	13
Other primary producing countries in Europe	-90	138	228	-155	65	-80	218
Total	-776	161	937	-637	-139	68	93
<b>Less Developed Primary Producing Countries<sup>2</sup></b>							
Oil exporters <sup>3</sup>	236	226	-10	331	-95	269	-43
Primary producing countries in Asia <sup>4</sup>	150	376	226	-58	208	380	-4
Other primary producing countries	689	-149	-838	196	493	-57	-92
Total	1,075	453	-622	469	606	592	-139
Balance of Recorded Surpluses and Deficits	362	249	-113	-335	697	-101	350
Recorded Change in World Monetary Gold	240	-90	-330	-35	275	40	-130
<b>Resulting Balance Due to Asymmetries and Errors and Omissions</b>	122	339	217	-300	422	-141	480

Source: Data reported to the International Monetary Fund.

<sup>1</sup> A country's over-all balance of payments measures the balance financed by "official settlements," i.e., changes in official gold and foreign exchange assets-net IMF positions, liabilities resulting from swap transactions with the United States, and other liabilities to foreign monetary authorities. Adjustments are made for advance repayments of foreign debt by governments. (The figures for Germany in this table (as also in Tables 34 and 35) differ from those published in Germany (see Deutsche Bundesbank, *Annual Report, 1966*, p. 100). They exclude changes in the Bundesbank's assets of limited usability, in its external assets not contained in monetary reserves, in its external liabilities, and in money market paper held by foreign monetary authorities.) The balance thus reflects the net effect of all external transactions other than "official settlements," i.e., the sum of the trade balance, other current transactions, long-term capital movements, short-term capital not considered to be "official settlements," and also errors and omissions. Although the over-all balance is based on a fairly symmetrical definition, the excess of surpluses that results when all countries' balances have been added usually exceeds the sum accounted for by net additions to world monetary gold holdings. This discrepancy arises not only from errors in reporting and the lack of balance of payments data for a number of countries, but also from inconsistencies in the treatment of some important transactions, above all in reserve currencies, in the balance of payments statistics of the countries concerned.

<sup>2</sup> Data are not available for a number of territories, including Hong Kong, Singapore, Qatar, and other oil exporters in the Middle East not listed in footnote 3.

<sup>3</sup> Iran, Iraq, Kuwait, Libya, Saudi Arabia, and Venezuela.

<sup>4</sup> Excluding the Middle East.

deal of the adjustment in the U.S. capital account was borne by the United Kingdom, the over-all position of which worsened markedly from 1965 to 1966.

The European Economic Community's continuing large payments surplus from 1963 to 1966 stemmed to an increasing degree from a rising surplus on current account. In both 1965 and 1966 this was partly offset by a net outflow of capital and official transfers, including large transfers for indemnification payments by Germany. Nevertheless, there is a contrast between the EEC countries, on the one hand, and Canada, Japan, and the other country groupings shown, on the other; for the latter, changes in the current and capital balances in recent years have tended to be mutually offsetting and have resulted in the maintenance of a high degree of payments equilibrium. Canada's continued access to the U.S. capital market as a consequence of agreement between the U.S. and Canadian authorities has played an important role in this respect, and in

Japan short-term capital movements have helped to smooth out cyclical payments imbalances perhaps more than in any other industrial country. Details of the balances of payments in 1965 and 1966 of ten industrial countries are given in Supplementary Note B.

The industrial countries together had a combined over-all payments deficit equivalent to approximately \$350 million in 1966, compared with a closely balanced position in 1965 (Table 33). However, the deterioration is probably understated.<sup>2</sup> The change in the aggregate payments position of the industrial countries was accompanied by an improvement in that of the more developed primary producing countries, which taken together were in surplus in 1966 after having sustained a deficit approaching \$800 mil-

<sup>2</sup> As Table 33 shows, the excess of recorded surpluses over recorded deficits not accounted for by increased monetary holdings of gold, but due to inconsistencies in the treatment of swap transactions between central banks and other official institutions and other asymmetries and errors and omissions, was substantially larger in 1966 than in 1965.

TABLE 34. INDUSTRIAL COUNTRIES: SUMMARY OF CURRENT, CAPITAL, AND OVER-ALL BALANCES, 1965 AND 1966  
(In millions of U.S. dollars)

	Current Balance		Capital Balance		Over-All Balance		Changes in Balances		
	1965	1966	1965	1966	1965	1966	Current	Capital	Over-all
Industrial Countries <sup>1</sup>									
United States	5,920	4,092	-7,477	-4,326	-1,557	-234	-1,828	3,151	1,323
EEC countries	2,513	3,042	-1,021	-1,457	1,492	1,585	529	-436	93
Germany	-650	892	198	-102	-452	790	1,542	-300	1,242
Italy	2,333	2,248	-1,364	-1,962	969	286	-85	-598	-683
Other EEC countries	830	-98	145	607	975	509	-928	462	-466
United Kingdom	164	332	-508	-1,899	-344	-1,567	168	-1,391	-1,223
Canada	-917	-755	1,062	420	145	-335	162	-642	-480
Japan	1,025	1,380	-892	-1,413	133	-33	355	-521	-166
Other Countries <sup>2</sup>	-638	-675	832	894	194	219	-37	62	25
Total	8,067	7,416	-8,004	-7,781	63	-365	-651	223	-428

Source: Data reported to the International Monetary Fund.

<sup>1</sup> For further details of the balances of payments of Belgium-Luxembourg, Canada, France, Germany, Italy, Japan, Netherlands, United Kingdom, and United States, see Supplementary Note B, Tables 68-76.

<sup>2</sup> Austria, Denmark, Norway, Sweden, and Switzerland.

lion in 1965. At the same time, the aggregate net surplus of the less developed countries was reduced considerably.

Marked changes took place in the payments positions of a number of industrial countries from 1965 to 1966. Germany and the United States were in opposite phases of the trade cycle, but each secured a substantial improvement in the over-all balance (Table 34). In Germany, where demand pressure was considerably reduced in the latter part of 1966, large current account and over-all surpluses developed; these were in part the cause of a more or less marked deterioration

in the current account and over-all positions of the other EEC countries, which unlike Germany were generally in the expansive phase of the trade cycle. While the capital balance of the United States improved greatly, its current account worsened by \$1.8 billion as domestic activity expanded at close to the capacity ceiling and, consequently, imports rose sharply. Despite a further improvement in the current account position of the United Kingdom from 1965 to 1966, its over-all balance worsened substantially.

Among the more developed primary producing countries, Australia, Ireland, and South Africa

TABLE 35. INDUSTRIAL COUNTRIES: SUMMARY OF CURRENT, CAPITAL, AND OVER-ALL BALANCES, FIRST HALF 1965-SECOND HALF 1966  
(In millions of U.S. dollars)

	Current Balance				Capital Balance				Over-All Balance			
	1965		1966		1965		1966		1965		1966	
	First half	Second half	First half	Second half	First half	Second half	First half	Second half	First half	Second half	First half	Second half
Industrial Countries <sup>1</sup>												
United States	3,404	2,516	2,681	1,411	-3,324	-4,153	-2,674	-1,652	80	-1,637	7	-241
EEC countries	1,112	1,401	895	2,147	-765	-256	-602	-855	347	1,145	293	1,292
Germany	-191	-459	44	848	-238	436	-62	-40	-429	-23	-18	808
Italy	876	1,457	858	1,390	-399	-765	-859	-1,103	277	692	-1	287
Other EEC countries	427	403	-7	-91	72	73	319	288	499	476	312	197
United Kingdom	151	13	-20	352	-511	3	-574	-1,325	-360	16	-594	-973
Canada	-658	-259	-636	-119	391	471	397	23	-67	212	-239	-96
Japan	146	879	332	1,048	-140	-752	-335	-1,078	6	127	-3	-30
Other countries <sup>2</sup>	-569	-69	-452	-223	396	436	227	667	-173	367	-225	444
Total	3,586	4,481	2,800	4,616	-3,753	-4,251	-3,561	-4,220	-167	230	-761	396

Source: Data reported to the International Monetary Fund.

<sup>1</sup> For further details of some of these countries' balances of payments, see Supplementary Note B, Tables 68-76.

<sup>2</sup> Austria, Denmark, Norway, Sweden, and Switzerland. Figures included for the current and capital balance of Switzerland are estimates, as no half-yearly data are reported.

TABLE 36. MORE DEVELOPED PRIMARY PRODUCING COUNTRIES: SUMMARY OF CURRENT, CAPITAL, AND OVER-ALL BALANCES, 1965 AND 1966<sup>1</sup>

(In millions of U.S. dollars)

	Current Balance		Capital Balance		Over-All Balance		Changes in Balances		
	1965	1966	1965	1966	1965	1966	Current	Capital	Over-all
More Developed Primary Producing Countries									
In Europe									
Finland	-193	-204	99	103	-94	-101	-11	4	-7
Greece	-277	-238	246	260	-31	22	39	14	53
Iceland	5	-8	5	12	10	4	-13	7	-6
Ireland	-116	-43	80	126	-36	83	73	46	119
Portugal	-35	55	90	58	55	113	90	-32	58
Spain	-489	-628	384	425	-105	-203	-139	41	-98
Turkey	-9	-98	21	89	12	-9	-89	68	-21
Yugoslavia	35	-32	-41	58	-6	26	-67	99	32
Total	-1,079	-1,196	884	1,131	-195	-65	-117	247	130
Australia, New Zealand, and South Africa									
Australia	-954	-535	596	555	-358	20	419	-41	378
New Zealand	-135	-122	35	120	-100	-2	13	85	98
South Africa	-421	-24	298	232	-123	208	397	-66	331
Total	-1,510	-681	929	907	-581	226	829	-22	807
Grand Total	-2,589	-1,877	1,813	2,038	-776	161	712	225	937

Source: Data reported to the International Monetary Fund and staff estimates.

<sup>1</sup> For further details of these countries' balances of payments, see Supplementary Note B, Table 77.

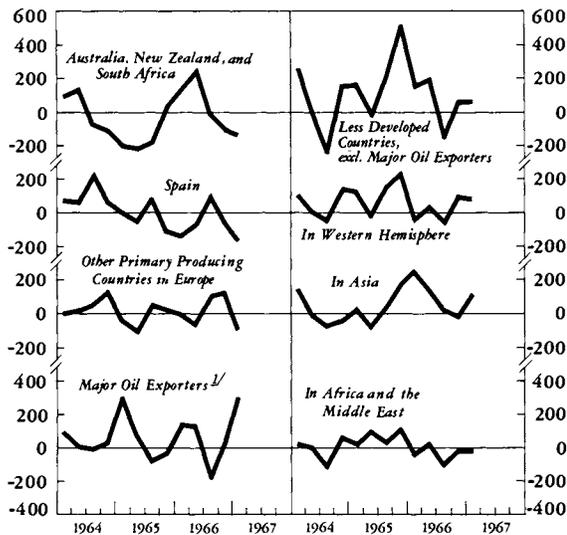
experienced a large improvement in their current account balances from 1965 to 1966 (Table 36). Exports expanded, whereas imports declined in the year ended mid-1966 as a consequence of the slower expansion of domestic demand and, in the case of South Africa, of the imposition of more restrictive import controls. The inflow of capital into South Africa declined from its unusually high rate of the previous year, and there was also a moderate reduction in Australia's capital inflow. The strengthening of New Zealand's reserves was largely due to official short-term borrowing. Of the other countries in the group, Spain, Turkey, and Yugoslavia sustained a marked worsening on current account from 1965 to 1966, there was little change in the current account position of Finland, and there was a slight improvement in that of Greece. The substantial improvement in Portugal's current balance stemmed from increases in receipts from tourism and remittances. The economic developments underlying the changes in the balance of payments of more developed primary producing countries are described in Chapter 8.

With the notable exception of oil exporting countries and a few countries in the Far East, less

developed countries tended to experience smaller surpluses or larger deficits than in the preceding year. As Chart 20 shows, apart from seasonal fluctuations, there was no marked change in the payments position of the major oil producers, taken as a group, from 1965 to 1966. In the Far Eastern region, Korea, Thailand, and Viet-Nam experienced a marked strengthening of their payments positions mainly as a consequence of increased receipts for goods and services, and official transfers connected with the hostilities in Viet-Nam. China also benefited to a lesser extent. These four countries had a combined surplus equivalent to \$450 million, compared with \$130 million in 1965.

The over-all payments position of less developed areas was broadly favorable in 1965 and the first half of 1966. The first signs of a general worsening did not become apparent until the second half of the year. The slackening in the expansion of industrial countries' output which occurred at that time appears to have had an important impact upon the export receipts of less developed countries. Although the slower rise in their export receipts did not have much effect on the

CHART 20. PRIMARY PRODUCING COUNTRIES: OVER-ALL BALANCES OF PAYMENTS, 1964-66  
(In millions of U.S. dollars)



<sup>1</sup> Iran, Iraq, Kuwait, Libya, Saudi Arabia, and Venezuela.

less developed countries' growth of imports in 1966, the cessation of reserve accumulation by most of these countries during the year seems likely to be reflected in lower import growth during 1967.

In the aggregate, the current account surplus of industrial countries showed a decline equivalent to approximately \$700 million from 1965 to 1966, and there was a similar improvement in the current account position of the more developed primary producing countries. The consequent slight change in the aggregate current account balance of developed countries suggests that there was a correspondingly small increase in the collective current account deficit of the less developed countries. Their combined current account position was stronger in the first half of 1966 than in the same period of 1965. In the second half year, however, with the exception of the oil producing countries and the Far Eastern countries noted above, the current accounts of less developed countries were generally weaker than a year earlier.

Because of the incompleteness of the data now available, it is difficult to gauge how the capital balance of the industrial and more developed primary producing countries as a group changed

from 1965 to 1966. It would seem, however, that there was some reduction in the net flow of capital (including transfers and the balance of unrecorded transactions) from these countries to the less developed countries. One factor in this change was an apparent increase in capital outflows to industrial countries from the oil exporting countries of the Middle East. There also seems to have been a reduction in the net inflow of private capital into Latin America and Africa; the increased demands on the financial markets in both Europe and North America probably contributed to this development.

The generalizations made here necessarily do not take account of the many important changes that occurred in the balances of payments of individual less developed countries. During 1966 a number of exceptional events influenced the external payments of such countries; these are described in Chapter 8.

#### *Current Accounts and Basic Balances of Industrial Countries*

The largest improvement in the current account in 1966, apart from that of Germany, accrued to Japan. The continued acceleration of the Japanese economic expansion in the course of 1966 was influenced by the fiscal measures taken to stimulate the economy and by a rapid rise in exports. There were signs of a cyclical worsening of Japan's current account position in the early months of 1967.

The improvement in the U.K. current account balance was less striking than that which occurred from 1964 to 1965. In the first half of 1966 the economy was still somewhat overstrained, impeding improvement of the current position. Favorable trade results in the final quarter of 1966, however, resulted in a reduction equivalent to \$360 million in the trade deficit for the year as a whole (Table 37). The balance on other current transactions in 1966 was exceptionally unfavorable, however, owing to the loss of shipping earnings caused by the seamen's strike, heavier tax payments to a number of oil producing countries, and a marked reduction in net insurance earnings, as well as the resumption of interest payments on the postwar North American loans.

Well over half of the deterioration in the U.S. current balance from 1965 to 1966 occurred on merchandise trade. The balance on other cur-

TABLE 37. INDUSTRIAL COUNTRIES: BALANCES ON TRADE, OTHER CURRENT TRANSACTIONS, AND CURRENT ACCOUNT, 1965 AND 1966

(In millions of U.S. dollars)

	Trade		Services and Private Transfers		Current Account		Changes in Balances		
	1965	1966	1965	1966	1965	1966	Trade	Services and private transfers	Current account
	United States	4,772	3,658	1,148	434	5,920	4,092	-1,114	-714
Canada	235	468	-1,152	-1,223	-917	-755	233	-71	162
Japan	1,901	2,273	-876	-893	1,025	1,380	372	-17	355
EEC countries									
Germany	1,273	2,916	-1,923	-2,024	-650	892	1,643	-101	1,542
France	388	-38	193	140	581	102	-426	-53	-479
Italy	668	349	1,665	1,899	2,333	2,248	-319	234	-85
Belgium-Luxembourg	104	-94	96	44	200	-50	-198	-52	-250
Netherlands	-500	-594	549	444	49	-150	-94	-105	-199
EFTA countries									
United Kingdom	-787	-423	951	755	164	332	364	-196	168
Austria	-413	-602	361	393	-52	-209	-189	32	-157
Denmark	-361	-405	194	210	-167	-195	-44	16	-28
Norway	-704	-768	612	619	-92	-149	-64	7	-57
Sweden	-402	-296	144	93	-258	-203	106	-51	55
Switzerland	-710	-650	641	731	-69	81	60	90	150

Source: Data reported to the International Monetary Fund.

rent transactions (which in 1965 accounted for about one fifth of the current account surplus) worsened substantially as a consequence of the increase (almost \$800 million) in net military expenditures. This interrupted a trend toward improvement that had been evident for some years mainly in consequence of rising investment income from abroad. In the fourth quarter of 1966 the deterioration of the current account virtually halted. There was a further improvement in the trade balance in the first quarter of 1967, doubtless associated with the softening of domestic economic activity.

While France and the Benelux countries experience a marked deterioration in their current account balances from 1965 to 1966, Italy's current account surplus remained almost as large as in 1965, owing to a continued improvement in its substantial surplus on services, especially tourist earnings.

Changes in the current account positions of other industrial countries were less sizable. Canada's current balance continued to benefit from expanding wheat shipments and from the rapid growth of U.S. imports. Among the smaller EFTA countries, the deterioration in the trade and current balances of Austria, Denmark, and Norway was in part due to the heavy dependence of those countries on exporting to certain markets (Ger-

many, Sweden and the United Kingdom) where demand rose comparatively little in 1966.

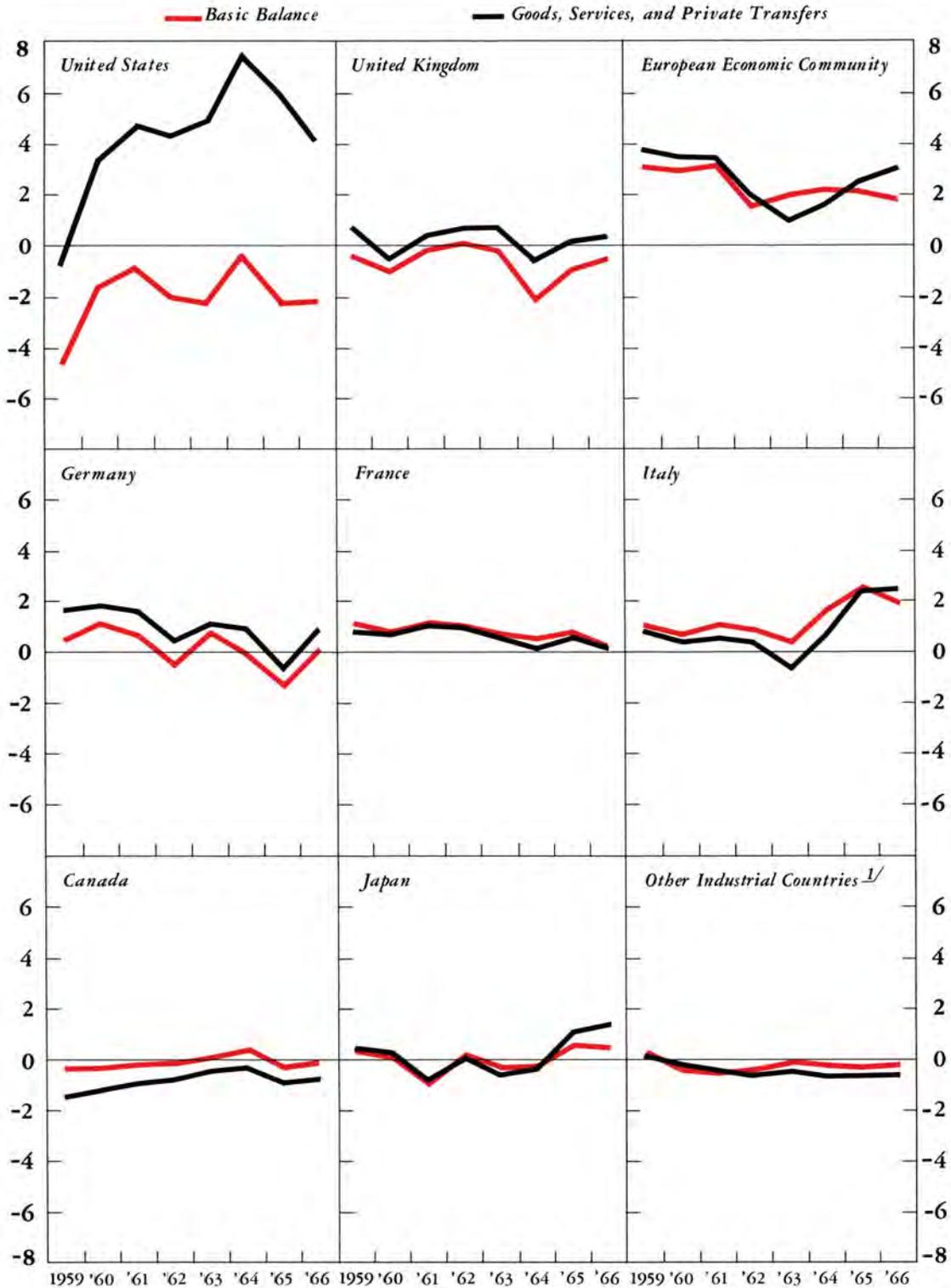
Countries' basic balances,<sup>3</sup> given in Chart 21, indicate their surplus or deficit positions in respect of all items other than those of a highly volatile nature. For each country the comparison between the current and basic balances shows how far a deficit (or surplus) on current account has or has not been financed by net inflows (or outflows) on account of elements of a generally recurrent nature, such as official transfer payments and capital and private long-term capital movements.

In 1965 and still more in 1966, there was substantial divergence in the development of current and basic balances for a number of industrial countries. As a major example, the worsening of the U.S. current balance was not reflected in any deterioration in its basic balance; nor was the improvement in Japan's and the EEC current accounts accompanied by any rise in their basic balances.

Marked changes in private long-term capital movements gave rise to these divergencies. The reduction in the net outflow of private long-term capital from the United States greatly outweighed increases in government transfer payments and

<sup>3</sup> The basic balance is defined as the balance on account of current transactions, government aid, and government and private long-term capital transactions, excluding advance repayments of government debt.

CHART 21. SELECTED INDUSTRIAL AREAS AND COUNTRIES: CURRENT AND BASIC BALANCES OF PAYMENTS, 1959-66  
(In billions of U.S. dollars)



<sup>1</sup> Austria, Denmark, Norway, Sweden, and Switzerland.

in the outflow of official capital. As a consequence of this reduction, the basic balance was lower in relation to the current account position than in 1965 for Japan and each of the EEC countries except the Netherlands, where changes in current and basic balances were similar. The change to a net outflow of private long-term capital from the European Economic Community was to a large extent accounted for by Italy. The net inflow of official and private long-term capital into Germany declined between 1965 and 1966 partly because of increased German portfolio investment abroad, but government transfers were somewhat smaller.

In contrast to developments in Japan and the EEC countries, the basic balances of the United Kingdom and Canada strengthened somewhat more than their current accounts. The net outflow of private long-term capital from the United Kingdom was again reduced in 1966 as a result of government exchange control measures taken in the last two years and of higher investments in the United Kingdom by foreign oil companies connected with exploration for natural gas. The balance on official capital transactions remained almost unchanged. There was a substantial increase in long-term direct investment in Canada,

mainly by U.S. concerns. On the other hand, official transfer payments by Canada rose to a record level with the provision of increased food aid to India.

#### *Changes in Trade Balances of Industrial Countries*

Changes in the trade balances of particular industrial countries from 1965 to 1966 were strongly influenced by the relation between the rates of increase of domestic output and the rates of output expansion in other industrial countries, since this relationship influenced that between the growth of demand for imports and the average growth in each country's export markets.

There was a quite close relation between increases in industrial output and in the value of imports from 1965 to 1966 (Tables 38 and 39). In the six countries where output rose faster than the import-weighted average for all fourteen countries, imports also increased more than the average except in the Netherlands, where imports leveled off early in 1966. Of the eight economies in which output increased relatively little from 1965 to 1966, imports increased markedly less fast than the average in all but three. There was also some tendency for import growth to be high

TABLE 38. INDUSTRIAL COUNTRIES: GROWTH OF INDUSTRIAL OUTPUT AND GROWTH OF IMPORTS RELATIVE TO GROWTH OF INDUSTRIAL OUTPUT, 1964-65, 1965-66, AND SECOND HALF 1965-SECOND HALF 1966

(In percentage changes)

	1964 to 1965			1965 to 1966		Second Half 1965 to Second Half 1966	
	Growth of industrial output <sup>1</sup>	Relative growth of imports <sup>2</sup>		Growth of industrial output <sup>1</sup>	Relative growth of imports <sup>2</sup>	Growth of industrial output <sup>1</sup>	Relative growth of imports <sup>2</sup>
All Industrial Countries	5.2 <sup>3</sup>	3.5	All Industrial Countries	5.6 <sup>3</sup>	5.1	5.3 <sup>3</sup>	3.9
Countries of Above-Average Growth in Output from 1964 to 1965			Countries of Above-Average Growth in Output from 1965 to 1966				
Canada	8	6	Japan	12	5	17	4
Sweden	8	6	Italy	11	5	12	3
United States	8	6	United States	9	10	9	9
Norway <sup>4</sup>	7	3	Canada	8	6	6	5
Denmark	6	3	France	7	7	6	8
Germany	6	13	Netherlands	6	1	6	-3
Netherlands	6	-1					
Countries of Average or Below-Average Growth in Output from 1964 to 1965			Countries of Below-Average Growth in Output from 1965 to 1966				
Japan	5	-2	Austria	4	7	3	2
Austria	4	8	Norway <sup>4</sup>	4	7	5	9
Italy	4	-3	Sweden	3	1	2	1
Switzerland	4	-2	Switzerland	3	3	3	4
United Kingdom	3	-1	Denmark <sup>5</sup>	2	4	4	5
Belgium-Luxembourg	2	7	Germany	2	2	—	-1
France	1	2	United Kingdom	2	2	—	2
			Belgium-Luxembourg	2	8	—	8

Sources: International Monetary Fund, *International Financial Statistics*; and OECD, *Main Economic Indicators*.

<sup>1</sup> Percentage change in index of industrial output (initial period = 100).

<sup>2</sup> Percentage by which the index of value of imports (initial period = 100) exceeds or falls short of (-) the index of industrial output (initial period = 100).

<sup>3</sup> Each country's output is weighted by the country's total imports.

<sup>4</sup> Relative growth of imports based on import data excluding ships.

<sup>5</sup> The output indicator used is volume of sales by manufacturing industries.

TABLE 39. INDUSTRIAL COUNTRIES: GROWTH OF OUTPUT, IMPORTS, EXPORT MARKETS, AND EXPORTS, 1965-66 AND SECOND HALF 1965-SECOND HALF 1966

(Percentage changes from preceding year or from corresponding period of preceding year)

	1966				Second Half 1966			
	Industrial output	Imports	Export markets <sup>1</sup>	Exports	Industrial output	Imports	Export markets <sup>1</sup>	Exports
All Industrial Countries	5.6	11.0	10.3	10.3	5.3	9.4	9.2	9.2
Countries of Above-Average Growth in Output from 1965 to 1966								
Japan	12	17	13	16	16	22	14	18
Italy	11	17	9	11	12	15	7	10
United States <sup>2</sup>	9	20	11	11	9	18	11	7
Canada	8	14	17	18	6	11	14	16
France	7	15	8	8	6	14	6	5
Netherlands	6	8	8	6	6	2	5	4
Countries of Below-Average Growth in Output from 1965 to 1966								
Austria	4	11	8	5	3	5	6	3
Norway <sup>3</sup>	4	12	6	8	5	14	3	6
Sweden	3	5	9	8	2	2	7	7
Switzerland	3	7	11	11	3	7	9	9
Denmark <sup>4</sup>	2	6	7	6	4	10	4	3
Germany	2	3	11	13	—	-1	11	14
United Kingdom	2	4	9	7	—	2	9	7
Belgium-Luxembourg	2	10	9	7	—	8	7	5

Sources: International Monetary Fund, *International Financial Statistics*; International Monetary Fund and International Bank for Reconstruction and Development, *Direction of Trade*; and OECD, *Main Economic Indicators*.

<sup>1</sup> For the purpose of calculating average growth in geographic markets, the world has been divided into 24 markets, consisting of 14 industrial countries, 9 groups of primary producing countries, and the Soviet countries and Mainland China. The average 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 going to each market. Except for the Soviet countries and Mainland China, the growth in each market is taken to be the growth in the total exports of industrial countries to that market area. For each exporting country, the growth of the market in the Soviet countries and Mainland China is taken to be the actual growth in its exports to those countries.

<sup>2</sup> U.S. export figures include military exports, which since 1964 have been included in U.S. exports reported by destination. No adjustments have been made for the effects of the maritime strike in the first half of 1965.

<sup>3</sup> Imports exclude ships.

<sup>4</sup> The output indicator used is volume of sales by manufacturing industries.

(or low) in relation to output growth in countries where output was rising more (or less) rapidly than the average.

The growth of output, and of imports relative to it, was high in the United States and Canada, as had been the case in 1964-65, and also in France, where import growth in 1965-66 apparently reflected the influences of a cyclical upswing. However, in the fastest growing economies, Italy and Japan, generally elastic supply conditions appear to have moderated the growth of imports relative to output, offsetting the effect of any build-up in inventories of imported raw materials and semimanufactures which may have been associated with the increased rate of expansion in those countries. Among the slower growing economies, the 1965-66 increases in imports relative to output were low, by comparison with the average for all industrial countries, in Germany,

Sweden, and the United Kingdom—countries where output expansion was decelerating in response to a marked moderation in demand pressures, especially in the second half of 1966. The relative growth of imports was low for Denmark and Switzerland also. By contrast, imports increased exceptionally fast relative to output in Austria and Belgium-Luxembourg, both from 1965 to 1966 and from 1964 to 1965, suggesting that the low growth of output in those countries in recent years has been associated with limitations on the supply side. In Austria, however, the situation seems to have changed during 1966, as indicated by the figures for the second half of the year. In Norway the high growth of imports relative to output (excluding imports of ships, which do not respond to short-term influences) appears to have reflected an intensification of pressures during 1966.

During periods in which the pace of business activity differs widely from country to country, the average rates of growth of various countries' export markets tend to diverge, because of the differing dependence of particular countries on particular markets. From 1965 to 1966 the average rates of growth in industrial countries' export markets varied from 17 per cent for Canada to 6 per cent for Norway. The high figure for Canada reflected its exceptional dependence on the U.S. market and the large increase in its exports to the Soviet countries and Mainland China (as explained in Table 39, footnote 1). Japan also benefited from its high dependence on the U.S. market. For the United Kingdom, however, this factor was more than offset by the unfavorable market trends in Australia, South Africa, other African countries, and in the Nordic countries. The average growth of U.S. export markets was higher than that for all industrial countries as a group, owing mainly to the rapid expansion of the Canadian, Japanese, and Latin American markets. The pattern of expansion was highly unfavorable, however, for Norway and Denmark, and somewhat unfavorable for Austria, France, and the Netherlands. The growth of demand for these countries' exports was influenced by the slow pace of expansion in Germany, Sweden, and the United Kingdom.

The importance of market factors in conditioning the growth of countries' exports is indicated by the fact that the actual rate of export growth was generally quite similar to the average growth in each country's export markets. Four countries—Italy, Japan, Germany, and Norway—achieved a growth of exports from 1965 to 1966 considerably exceeding the average growth in their respective export markets, by increasing their shares of exports to particular markets. Germany's export performance appears to have been especially strong in the second half of 1966. On the other hand, the increases in exports from Austria, Belgium-Luxembourg, the Netherlands, and the United Kingdom were less than those in their respective export markets. Canada, France, Sweden, Switzerland, and the United States broadly maintained their market shares from 1965 to 1966; however, the share of the United States was markedly lower in the second half of 1966 than in the comparable months of 1965. For the

United States this comparison is more meaningful than that for the whole years, which is distorted by the effects of the maritime strike in limiting U.S. exports in the first half of 1965. French exports to Germany, Belgium-Luxembourg, the Netherlands, and the United Kingdom were larger in the first half of 1966 than in the first half of 1965, but were little higher or even lower in the second half than they had been 12 months earlier. Canada's export performance was influenced favorably by the automotive agreement with the United States.

Relative demand pressures, export availabilities, and prices can be seen to have had an important effect upon the trade balances of most industrial countries—on the one side by enhancing or diminishing the growth of imports relative to the increase in industrial output; and, on the other side, by influencing the growth of exports in relation to the average growth in the country's export markets. Austria, Belgium-Luxembourg, France, and the United States were countries where imports increased rapidly relative to output and where average export shares declined from 1965 to 1966 or as between the second halves of the two years. The price, wage, and unemployment data for these five countries broadly suggest high or increasing demand pressures over the two-year period. On the other hand, Germany's low import growth relative to output was combined with faster growth in exports than in export markets, and the same would apply for Sweden if exports of ships were excluded. In the United Kingdom, the low growth of imports in relation to output was associated with a loss in average export share of 2 per cent from 1965 to 1966, whereas the loss had been 6 per cent from 1964 to 1965 and 8 per cent from 1963 to 1964. The easy supply conditions in Japan and Italy, which moderated the growth of their imports relative to output from 1965 to 1966, also permitted exports to increase somewhat more than export markets. In the Netherlands the apparent moderation of pressures in the course of 1966, indicated by both price and unemployment data, was more clearly reflected in imports than in export performance. The Netherlands virtually maintained its export share in the second half of 1966, however, after marked losses in 1965 and early 1966.

In sum, of the six countries whose output increased more than the average from 1965 to 1966, four—France, Italy, the Netherlands, and the United States—experienced a deterioration of the trade balance. Canada experienced an improvement, largely owing to the exceptionally favorable development of its export markets, while Japan's balance improved both as a consequence of its favorable market situation and of its success in increasing its share of export markets. The deterioration in Italy's trade balance was apparently moderated by a further strengthening in the competitiveness of export and import-competing products.

Of the eight countries whose output increased less than average, four—Germany, Sweden, Switzerland, and the United Kingdom—experienced an improvement in their trade balance, reflecting a considerably lower growth of their imports than of their export markets. Three countries—Austria, Belgium-Luxembourg, and Norway—experienced a deterioration in the trade balance mainly associated with the rapid growth of their imports relative to output, combined in the case of Austria and Norway with a relatively unfavorable growth in their export markets. The deterioration in Denmark's trade balance was also associated with unfavorable export markets.

### International Private Capital Movements

The pattern of international private capital flows shifted radically in the course of 1966 (Table 40). The net outflow from the United States was sharply reduced for the year (there was a large net inflow in the third quarter). The U.K. credit balance on capital account in 1965 was replaced by a debit balance in 1966. The 1966 increase in the net outflow from Italy more than offset the increased inflows into Belgium, France, and the Netherlands and the continuing large receipts by Germany, so that the European Economic Community as a whole had small net payments in 1966 rather than the important net receipts of most recent years. The inflow into Canada continued to be large, although lower than in 1965. On the other hand, Japan, which has been a net importer of capital in most recent years, had larger net payments than in 1965. Finally, there is some indication that there was a

moderate decline in the volume of private financial resources becoming available to the less developed countries during 1966.

### *Short-Term and Banking Capital*

The influence of monetary policies on international private capital movements is indicated by the large shifts in the pattern of short-term and other banking capital movements during 1966, which were consistent with the important changes in the international pattern of interest rates. (See pp. 66-69 in Chapter 6, above.) The continued confidence in the dollar shown by private holders and official intervention in the market kept the forward exchange margin within limits so that, even on a covered basis, investment in short-term U.S. paper became more attractive (Chart 14, p. 67) until New York rates declined at the end of the year by more than the reductions in European rates.

These movements in interest rates had an immediate impact on the Euro-currency markets. Some of the statistics on commercial banks' foreign currency net positions (largely changes in the Euro-currency markets) are presented in Table 41. These data underline the continued growth of the U.K. market as a center for Euro-dollar deposits. In 1966 the transfers of funds to their head offices by the London branches of U.S. banks, which are important members of this market, are reflected in the growth of the foreign currency assets of U.K. banks. In addition to these transfers from the United Kingdom, Euro-dollar balances with Canadian banks were run down in the first three quarters of 1966. In early 1966 the Canadian banks met a part of these withdrawals by reducing their foreign assets, albeit by less than the decline in their deposits, but later in the year they placed funds in the market. The easing of monetary conditions in the United States in the fourth quarter of the year was accompanied by a return of some of the funds that had been withdrawn from this market earlier in the year. Hence, at the end of the year the structure of asset/liability positions in the market was closer to that prevailing at end-1965 than in mid-1966. The largest source of funds to meet all these demands came from Italian banks, mainly in response to higher interest rates abroad than at home.

TABLE 40. NET INTERNATIONAL PRIVATE CAPITAL MOVEMENTS, 1960-66\*

(In millions of U.S. dollars)

	Average 1960-63	1964	1965			1966				
			Total	First half	Second half	Total	First quarter	Second quarter	Third quarter	Fourth quarter
United States	-3,768	-5,351	-3,879	-1,442	-2,437	-451	-128	-501	1,134	-956
United Kingdom <sup>1</sup>	332	-414	107	-91	198	-1,123	107	-246	-693	-291
Continental Europe	2,840	3,643	1,729	...	...	...	...	...	...	...
EEC countries	1,401	1,595	196	120	76	-110	-137	267	-40	-200
Belgium-Luxembourg	124	246	124	60	64	184	-30	108	60	46
France <sup>2</sup>	438	549	169	127	42	245	-49	118	238	-62
Germany	607	600	1,144	354	790	954	99	338	239	278
Italy	205	-234	-1,296	-514	-782	-1,755	-341	-374	-568	-472
Netherlands	27	434	55	93	-38	262	184	77	-9	10
Other	1,439	2,048	1,533	...	...	...	...	...	...	...
Switzerland	492	521	148	...	...	-95	...	...	...	...
Nordic countries	406	638	582	395	187	699	414	...	285	...
Other countries	541	889	803	...	...	...	...	...	...	...
Canada	982	728	1,150	626	524	588	250	199	-179	318
Japan	554	457	-683	-56	-627	-1,164	-25	-188	-520	-431
Australia, New Zealand, and South Africa	299	481	728	324	404	1,005	625	...	380	...
Less Developed Countries	845	1,045	1,127	...	...	...	...	...	...	...
Discrepancy <sup>3</sup>	-2,084	-589	-279	...	...	...	...	...	...	...

Source: International Monetary Fund, *Balance of Payments Yearbook*.

\* For footnotes see Table 14, page 29.

TABLE 41. SELECTED COUNTRIES: COMMERCIAL BANKS' FOREIGN CURRENCY LIABILITIES TO, AND CLAIMS ON, NONRESIDENTS, 1964-66

(In millions of U.S. dollars)

	1964		1965		1966		
	Dec.	Mar.	Dec.	Mar.	June	Sept.	Dec.
<b>Liabilities <sup>1</sup></b>							
Belgium-Luxembourg	940	970	1,160	1,330	1,320	1,380	1,610
Canada	2,610	2,400	2,402	2,070	1,976	1,840	2,159
France <sup>2</sup>	1,370	1,280	1,600	1,520	1,520	1,810	1,960
Germany	520	290	440	340	350	390	380
Italy	1,890	1,790	2,150	1,720	1,690	2,120	2,520
Japan	2,737	2,866	2,907	2,910	2,938	2,803	2,850
Netherlands <sup>3</sup>	510	510	740	860	960	980	1,140
Switzerland <sup>4</sup>	1,920	1,790	2,060	1,850	2,020	1,940	2,100
United Kingdom	4,900	5,110	5,800	6,060	6,720	7,530	8,270
<b>Assets <sup>1</sup></b>							
Belgium-Luxembourg	680	730	850	1,020	990	1,000	1,180
Canada	3,379	2,962	2,768	2,559	2,454	2,570	2,968
France <sup>2</sup>	1,520	1,480	1,860	1,900	1,930	2,180	2,460
Germany	560	630	610	540	580	760	520
Italy	1,190	1,060	2,040	1,840	1,810	2,510	2,730
Japan	2,610	2,690	3,000	2,940	2,970	3,190	3,250
Netherlands <sup>3</sup>	680	720	820	860	970	890	1,060
Switzerland <sup>4</sup>	2,744	2,780	3,210	3,080	2,920	2,780	3,220
United Kingdom	4,330	4,130	5,340	5,730	6,520	7,310	8,210
<b>Net Position</b>							
Belgium-Luxembourg	-260	-240	-310	-310	-330	-380	-430
Canada	769	562	366	489	478	730	809
France <sup>2</sup>	150	200	260	380	410	370	500
Germany	40	340	170	200	230	370	140
Italy	-700	-730	-110	120	120	390	210
Japan	-127	-176	93	30	32	387	400
Netherlands	170	210	80	—	10	-90	-80
Switzerland	824	990	1,150	1,230	900	840	1,120
United Kingdom	-570	-980	-460	-330	-200	-220	-60

Sources: Bank for International Settlements and national sources.

<sup>1</sup> Position in deutsche mark, French francs, Italian lire, Netherlands guilders, pounds sterling, Swiss francs, and U.S. dollars.<sup>2</sup> Positions vis-à-vis banks only.<sup>3</sup> Position in deutsche mark, pounds sterling, Swiss francs, and U.S. dollars only.<sup>4</sup> Includes Bank for International Settlements.

Monetary policy in the United States had a pronounced impact on the international accounts of U.S. banks. Changes in the balances on these accounts provided a net inflow in the first half of 1966 of almost \$1 billion (compared with an average annual outflow of approximately the same amount in the preceding five years). In the third quarter these receipts jumped to a net of \$1.5 billion. More than \$1 billion of this represented an increase in deposits and other liabilities to non-residents, practically all of it due to commercial banks, in many cases to foreign branches of U.S. banks. In the final quarter U.S. banks continued to obtain funds from foreign commercial banks but their acquisition of claims on foreigners was renewed. On balance, U.S. banks gained almost \$0.5 billion in these three months. For the year as a whole U.S. banks increased their liabilities to foreign commercial banks by \$2.7 billion.

The guidelines for the foreign lending activity of U.S. financial institutions announced in February 1965, and discussed in Chapter 6, were intended to direct the restraint on bank credits to foreigners primarily against the flow of funds to the more developed countries. In the second quarter of 1965 the banks responded to the new program by withdrawing credit from both the developed and less developed countries (Table 42).

TABLE 42. CHANGES IN CLAIMS ON FOREIGNERS REPORTED BY BANKS IN THE UNITED STATES, 1964-66

(In millions of U.S. dollars)

	Changes <sup>1</sup> in Claims on		
	Less developed countries	Developed countries	All countries
1964	865	1,599	2,464
1965			
I	201	237	438
II	-93	-284	-377
III	15	-234	-219
IV	250	-186	64
Total	373	-467	-94
1966			
I	-147	-125	-272
II	47	11	58
III	94	-425	-331
IV	284	8	292
Total	278	-531	-253

Source: U.S. Department of Commerce.

<sup>1</sup> Negative sign indicates an inflow of capital arising from a decrease in banks' claims on foreigners.

Thereafter, the flow to the less developed countries was resumed while there were continued reductions of the advances to the developed countries that had been rising quite rapidly prior to the introduction of the program. This withdrawal of credit from the developed countries reached a peak in the third quarter of 1966. In the first quarter of 1966, the less developed countries reduced their total indebtedness to U.S. banks, but over the year as a whole these liabilities rose by almost \$300 million. A part of the reduction in the first quarter represented voluntary repayments by Latin American traders during the coffee exporting season and was followed by normal recourse to U.S. banking credit. Yet, a part undoubtedly reflected restraint on foreign loans by U.S. banks in response to domestic monetary pressures.

A portion of the inflow of banking and other short-term credit to the United States had a counterpart in the outflow from the United Kingdom. The continued decline in the net foreign currency liabilities of the U.K. banks largely reflected the pressure of foreign demand for Euro-dollars. By the end of June 1966 the Euro-dollar and other foreign currency positions of these institutions was almost balanced, as foreign currency funds previously employed in the United Kingdom were re-lent abroad. In the third quarter, particularly in July, the outflow of funds on short-term account, concentrated in withdrawals of sterling balances, reached crisis proportions. The net outflow equivalent to almost \$750 million on all short-term transactions was greater than in the "crisis quarter" of October-December 1964, and was the largest for any three-month period since quarterly data have been compiled. By the end of September the rundown of U.K. sterling liabilities had gone far enough to make London a net creditor on short-term sterling account vis-à-vis individuals and institutions other than central monetary institutions in countries outside the sterling area. The pattern of U.K. short-term capital movements in the first half of the year was largely consistent with the international structure of interest rates. While the influence of this interest rate structure continued into the third quarter, speculative influences became stronger and probably were the dominant force inducing movements of funds out of the United Kingdom. With the return of confidence in sterling, this speculation abated

TABLE 43. DISTRIBUTION OF U.S. DIRECT INVESTMENT ABROAD, 1964-66<sup>1</sup>  
(In millions of U.S. dollars)

	1965				1966				
	1964	Total	First half	Second half	Total	First quarter	Second quarter	Third quarter	Fourth quarter
<b>Developed Countries</b>									
United Kingdom	206	324	190	134	352	100	69	17	166
Other Western Europe	1,162	1,108	768	340	1,311	175	425	159	552
Canada	239	895	387	508	1,071	208	169	304	390
Japan	78	21	8	13	36	11	3	25	-3
Australia, New Zealand, and South Africa	136	171	143	28	159	49	70	—	40
Subtotal	1,821	2,519	1,496	1,023	2,929	543	736	505	1,145
<b>Less Developed Countries</b>									
Western Hemisphere	268	260	163	97	228	53	79	56	40
Asia, Middle East, and Africa	247	549	437	112	253	18	266	9	-40
Other (unallocated)	80	43	-12	55	-57	9	-28	7	-45
Subtotal	595	852	588	264	424	80	317	72	-45
<b>Total Direct Investment</b>	<b>2,416</b>	<b>3,371</b>	<b>2,084</b>	<b>1,287</b>	<b>3,353</b>	<b>623</b>	<b>1,053</b>	<b>587</b>	<b>1,100</b>

Source: U.S. Department of Commerce.

<sup>1</sup> Excludes reinvested earnings and investment financed by the issue of securities in Europe by U.S. affiliates of European affiliates of U.S. companies.

in the final quarter of 1966 and the outflow of short-term capital was stemmed.

The slight deterioration in the Canadian capital account in the first half of 1966 reflected a shift from net inflow to net outflow on short-term account, largely offset by a marked increase in long-term receipts (even if the \$150 million postponement of new issues in New York from 1965 to 1966 is ignored). The withdrawal of Euro-dollar balances from Canadian banks (the second most important group of institutions in the market) accounted for practically all of the outflow of short-term funds in the first half of the year. In the third quarter Canadian banks accumulated balances in the United States despite a continued withdrawal of Euro-dollar balances. Hence, despite continued receipts of long-term funds, Canada was a net exporter of capital for the first time since the third quarter of 1964. In large part these transfers reflected the rise of U.S. short-term interest rates to higher levels than those prevailing in Canada (even on a covered basis). With a return to the more traditional pattern of higher short-term rates in Canada than in the United States, there was a reflux of short-term funds to Canada in the final months of the year.

The stringency in the German financial markets was reflected in continued short-term borrowing

abroad by German nonfinancial institutions and individuals through the third quarter. On the other hand, in response to the Bundesbank policies which, in fact, enabled German banks to earn about an extra 1 per cent per annum profit on holdings of foreign assets, these institutions continued to transfer short-term capital abroad, so that the inflow on account of trade credit<sup>4</sup> was offset, in part, by banking transactions. This "compensation privilege" was discontinued as of January 1, 1967, but the banks have continued to export short-term capital.

Attention has already been drawn to the important easing of strains in the short-term capital markets consequent on the outflows from Italy and from France (in the first part of the year). In the third quarter of 1966 Japanese borrowers repaid almost \$300 million to U.S. banks.

#### *Long-Term Capital Transactions*

International private capital flows on long-term account in 1966 and early 1967 continued to be largely dominated by the flow of direct investment funds from the United States, and a continued movement of capital to the less developed countries.

<sup>4</sup> Reflected in errors and omissions.

The flow of direct investment funds from the United States has continued (Table 43).

Among the other aspects of long-term capital movements during 1966, attention should be drawn to the continued apparent stability in the over-all flow of investment funds (other than for petroleum development) to the less developed countries. U.S. direct investments in these areas were close to their 1965 levels, if oil investment in some wealthy Middle East countries is excluded from the totals. The relatively small volume of new issues in New York declined somewhat (Table 18, p. 33).<sup>5</sup> The flow of direct investment from the United Kingdom to the less developed countries evidently rose. Some of the rising volume of Italian investment presumably went to these countries. There is little sign of any marked increase in the flow of private development funds, but, at least, there are no apparent signs of decline. The decrease in the volume of funds apparently made available to less developed countries was almost entirely a decline in short-term finance.

### Changes in International Reserves

The various payments developments reviewed here contributed to the changes in gross international reserves during 1966, which are summarized in Table 3, page 12. As might be expected, the geographic pattern of these changes is, in many respects, similar to that of over-all balances of payments summarized in Table 33. The relatively small increase during 1966 in the total of international reserves, as well as the role of increases in reserve positions in the Fund, the importance of claims on each other by the reserve centers in the rise of the foreign exchange component of international reserves, and the decline in countries' gold holdings, are reviewed in Chapter 2.

The United States and the United Kingdom experienced declines in their gold holdings equivalent to \$830 million and \$325 million, respectively, which were concentrated in the first half of 1966. These losses were approximately equal to the sum of the excess of nonmonetary use of gold and gold hoarding over available supplies plus the accumulations of gold by certain coun-

<sup>5</sup> Including IBRD and IDB issues as finance for developing countries.

tries (mainly France and South Africa). In these two countries changes in reserve positions in recent years have been financed primarily by changes in gold holdings. France moved into balance in the course of 1966, so that its reserve position was practically unchanged after August while South Africa has lost reserves since that month. Changes in the gold holdings of other countries tended to be small.

In 1966 and early 1967, the U.S. loss of reserves continued. In the first half of 1966 official U.K. reserves declined<sup>6</sup> primarily because of the repayment of the outstanding central banking credit. Renewed recourse was made to central banking credits in the summer. In September reserves began to increase and by the end of April 1967 at \$3,405 million they were the equivalent of \$252 million higher than they had been at the end of August 1966. Net repayments of the central bank credits were made from October onward and were very substantial in the first quarter of 1966. By March, payments equivalent to \$1,296 million over the preceding six months had discharged all the short-term debt. In May the equivalent of \$485 million was repaid to the Fund and Switzerland. These repayments were associated with a decline of \$451 million of reserves. In June, as a result of the Middle East crisis, they fell by the equivalent of \$120 million.

Germany added more to its official reserves in 1966 than it had lost in 1965. Reserve gains in Italy were kept down by the measures indicated above. The reserve loss of \$0.3 billion by Canada reflected deliberate policies, including direct measures such as a repatriation of Canadian securities held abroad. Japanese reserves were stable in 1966 and early 1967.

The primary producing countries as a whole tended to fall into three categories in 1966. The more developed countries—other than Spain—tended to gain reserves. The gains of the non-European countries in this group were equivalent to \$0.2 billion, compared with losses equivalent to \$0.6 billion in 1965; by the latter half of the year, however, the reserve positions of Australia, South Africa, and New Zealand were all deteriorating.

Among the less developed countries, the outstanding feature of 1966 was the reserve gain by

<sup>6</sup> After allowance is made for the \$885 million of U.S. securities which were taken into the reserves in February.

six countries in the Far East that have received an important share of increased U.S. military expenditures (Viet-Nam, China, Korea, Malaysia, the Philippines, and Thailand). For these countries as a group, the increase in their reserves (equivalent to \$0.5 billion) was slightly less than twice as large as that experienced in 1965, and they have continued to accumulate reserves in 1967. The 1966 increase in the reserves of this Far East group of countries was almost double that of the Middle East oil producers. The total reserves of these two groups together, equivalent to \$4.5 billion, amounted at the end of 1966 to some two fifths of the reserves of less developed countries as a whole.<sup>7</sup> By comparison, these two

<sup>7</sup> If the foreign exchange holdings of some Middle East oil producers for whom data are not available (e.g., Abu Dhabi, Bahrain, and Qatar) and of the Kuwait and Malaysian Governments were included, this share would exceed one half.

groups account for less than one fourth of the imports of all less developed countries.

Among other groups of less developed countries, the decline in the reserves of the countries in Africa (excluding Libya and the United Arab Republic) that began in 1961 and was temporarily checked in 1965 was again resumed. The Caribbean countries showed the first fall in reserves since 1961, partly as a result of a sharp downturn of those in Venezuela, which was, however, checked in the last quarter of the year. The other Latin American countries showed a renewed fall in reserves following the substantial gain equivalent to \$0.4 billion in 1965; for many of these countries, however, movements in gross reserves are of limited significance in view of the importance of credit transactions, both with the Fund and with commercial institutions.

## Developments in Primary Producing Countries

THE year 1966 as a whole was a favorable one for many primary producing countries,<sup>1</sup> though in several regions agricultural output was held down by severe drought and certain countries faced serious problems of food shortages. In the later months of 1966 and early 1967, there was a marked slowing down in the expansion of the export earnings of primary producing countries. (See Table 2, p. 4, and Chart 22.) This reflected largely the slower growth of output and income in the industrial countries and a reversal of the upward movement of commodity prices which had occurred during the last quarter of 1965 and the first half of 1966 (Chart 23).

### Commodity Prices and Exports

The rise in the over-all index of prices quoted for primary products on world commodity exchanges during the first half of 1966 stemmed mainly from the strong increase in metal prices. Over the year as a whole, mineral and metal prices were, on average, one fifth higher than in 1965 and two thirds higher than in 1961 and 1962. Prices of agricultural products other than food also increased quite markedly in the second half of 1965 and the first half of 1966, and during the latter period there was a slight rise in the index of prices for foodstuffs. Food prices were on average about 2 per cent lower in 1966 than in 1965, but they were considerably higher than in 1961 and 1962. Prices of other agricultural products were higher in 1966 than in 1965, but by early 1967 had fallen back to their lowest level during the 1960's.

Unsettled labor conditions and crises of a political nature had a very considerable impact upon copper supplies and prices during 1966. Copper prices (which receive a heavy weight in the minerals and metals index) have since been adjusted downward from their exceptionally high levels in

the first half of 1966 (Chart 24). Prices of lead, zinc, and tin weakened from 1965 to 1966, but nickel prices, which like aluminum prices had been largely unaffected by the general boom in nonferrous metal prices in 1964-65, were raised by the leading producer toward the end of 1966.

There were divergent price movements for various types of foodstuffs in 1966. A further strengthening occurred in cereal prices (especially rice), and there was a sharp recovery of cocoa prices. These increases were, however, more than counterbalanced by declines for certain other products. Sugar prices, which had been falling precipitously over the preceding two years from a very high level at the end of 1963, continued to decline in 1966. Prices of arabica coffees, mainly exported by Latin American countries, also weakened as a result of increasing supplies coming onto world markets.

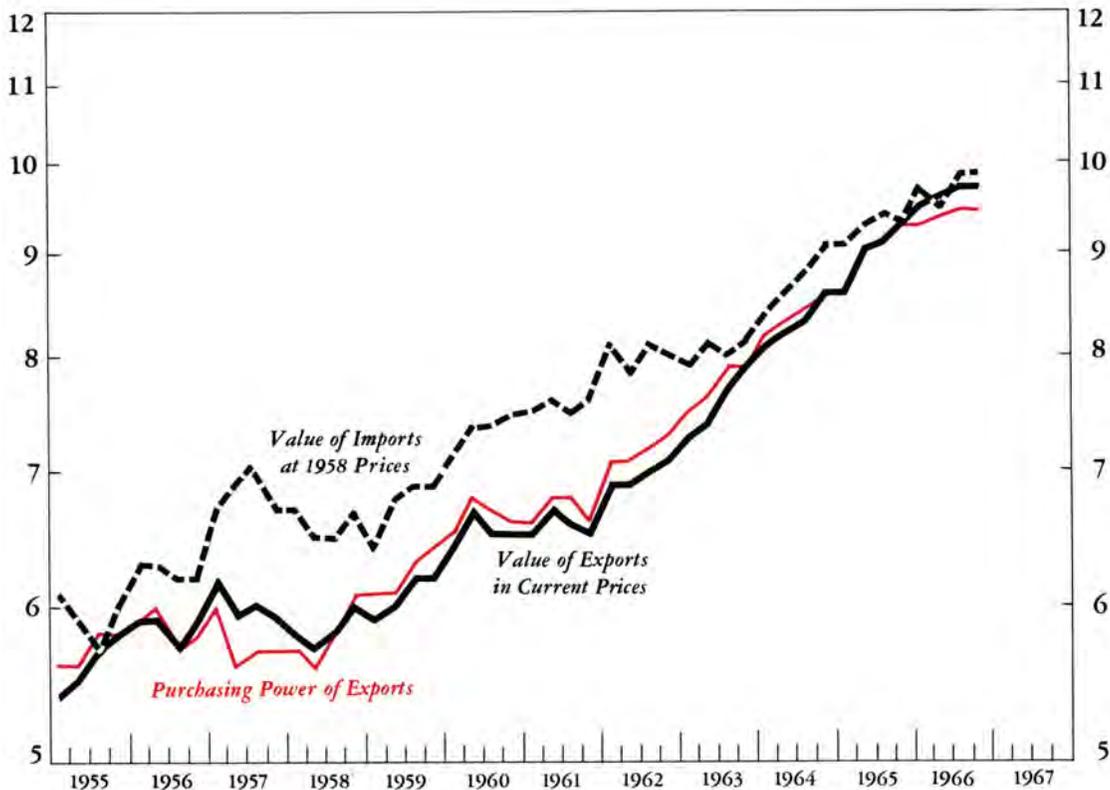
The improvement in agricultural raw material prices during late 1965 and early 1966 was almost exclusively due to stronger prices for fine wools resulting in part from the limitation of Australian supplies by drought. Toward the end of 1966 and in the early months of 1967, wool prices weakened considerably, especially for exports from South America and New Zealand, as larger Australian supplies came onto the market and demand in Europe declined below its normal level. Cotton prices eased in 1966, rubber prices dropped after the first quarter of the year, and sisal prices continued to decline.

The increase in average prices for agricultural exports from 1965 to 1966 was in large measure due to strong demand for, or short supplies of, certain products of temperate agriculture over much of the year (notably wheat, wool, and meat). Such products are exported mainly by more developed primary producing countries. For less developed countries exporting agricultural products, the changes in prices from 1965 to 1966 were probably less favorable than the indices shown in Chart 23 would suggest, despite the

<sup>1</sup> See footnote 1, page 55.

CHART 22. LESS DEVELOPED PRIMARY PRODUCING COUNTRIES: VALUE OF EXPORTS IN CURRENT PRICES, IMPORT PURCHASING POWER OF EXPORTS AT 1958 PRICES,<sup>1</sup> AND VALUE OF IMPORTS AT 1958 PRICES, 1955–FIRST QUARTER 1967

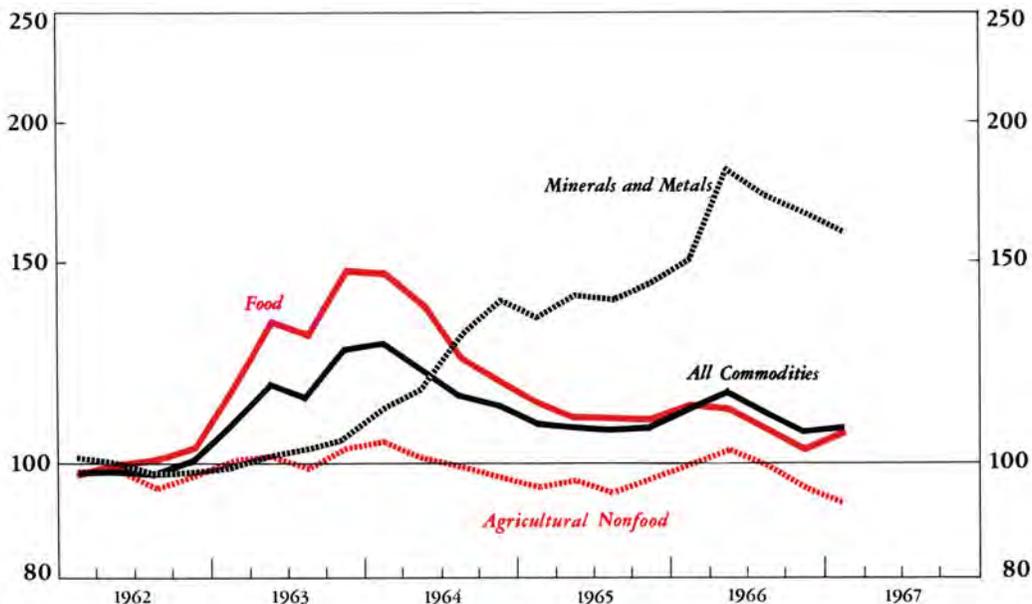
(Quarterly data, seasonally adjusted, in billions of U.S. dollars)



<sup>1</sup> Value of exports deflated by the index of unit value of imports into these countries (1958 = 100).

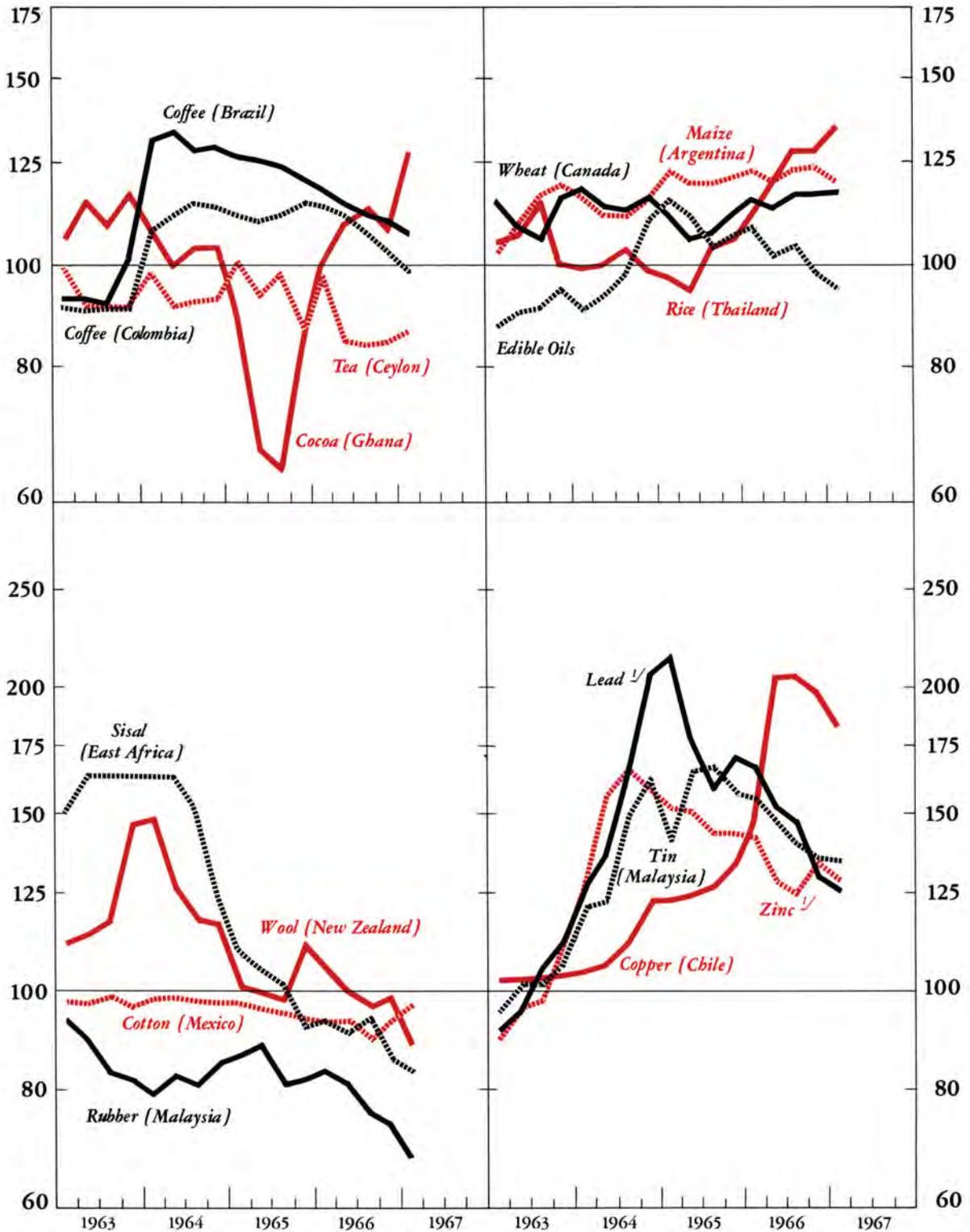
CHART 23. PRIMARY PRODUCING COUNTRIES: PRICES OF COMMODITIES EXPORTED (EXCLUDING PETROLEUM), 1962–FIRST QUARTER 1967<sup>1</sup>

(1961 = 100)



<sup>1</sup> Indices calculated by the National Institute of Economic and Social Research, London.

CHART 24. SELECTED PRIMARY PRODUCTS: AVERAGE PRICES, 1963–FIRST QUARTER 1967  
(1961 = 100)



<sup>1</sup> Prices on London Metal Exchange.

TABLE 44. EXPORT PRICES (UNIT VALUES) FOR AGRICULTURAL PRODUCTS, 1962-66

(Indices, 1961 = 100)

	Food and Feed	Beverages and Tobacco	Raw Materials	All Agricultural Products
World <sup>1</sup>				
1962	101	97	96	99
1963	110	99	100	106
1964	113	111	99	110
1965	112	108	93	107
1966 <sup>2</sup>	114	119	94	109
Less Developed Primary Producing Countries				
1962	100	96	94	97
1963	118	96	94	104
1964	120	110	90	108
1965	114	106	89	104
1966	...	...	...	...

Source: Based on data published by the Food and Agriculture Organization.

<sup>1</sup> Excluding Soviet countries and Mainland China.<sup>2</sup> Preliminary.

fact that prices for certain major export crops (including cocoa, African robusta coffee, rice, and tobacco) improved considerably.

Changes in prices quoted on commodity markets are as a rule associated with much smaller changes in the average prices (unit values) received by countries for their exports of primary products. Table 44 shows that the average unit value of agricultural products entering into world

trade rose by 2 per cent from 1965 to 1966, and had almost recovered its 1964 level. The unit value of agricultural exports of less developed countries, however, had fallen more sharply from 1964 to 1965, and probably did not rise significantly from 1965 to 1966. Although the unit value of exports of beverages and tobacco rose considerably, that of agricultural raw material exports from these countries was probably lower, and that of food and feedstuffs was probably about the same as in 1965 or lower. Over all, the unit value of agricultural exports from less developed primary producing countries in 1966 may have been about 5 per cent higher than in 1961.

The value of exports from primary producing countries is provisionally estimated to have risen by 7 per cent in 1966, following a 5 per cent increase in 1965. While exports from the more developed primary producing countries recovered sharply from the effects of drought and other factors which had slowed their expansion in 1965, those of less developed countries rose at the same 6 per cent rate as from 1964 to 1965. In both groups of countries the growth of exports from 1965 to 1966 was considerably higher than during the 1950's (Table 45).

TABLE 45. PRIMARY PRODUCING COUNTRIES: EXPORTS, 1953-66  
(Values in billions of U.S. dollars and percentage changes per annum)

	Value of Exports 1965	1953-60 <sup>1</sup>	1960-65 <sup>1</sup>	1964-65	1965-66 <sup>2</sup>
Primary Producing Countries	47.1	4	6	5	7
More developed countries	11.1	4	8	4	10
Less developed countries <sup>3</sup>	36.0	4	6	6	6
Countries mainly exporting					
Petroleum	10.2	8	7	6	7
Other minerals	2.0	3	5	12	25
Other nonagricultural products <sup>4</sup>	3.2	5	7	12	17
Minerals and agricultural products	3.3	4	4	-1	6
Coffee	3.4	-1	6	5	7
Foodstuffs and other beverages	6.5	2	6	6	2 <sup>5</sup>
Agricultural materials	2.9	5	3	9	3
Mixed agricultural products	3.8	2	7	3	-1
Subtotal, four groups mainly exporting agricultural products	16.6	2	6	6	3 <sup>5</sup>

Source: International Monetary Fund, *International Financial Statistics*.<sup>1</sup> Percentage increase (or decrease) expressed as a compound annual rate.<sup>2</sup> Preliminary.<sup>3</sup> Includes a number of very small countries (exports totaling about \$0.7 billion in 1965) which are not allocated among the groups specified below.<sup>4</sup> Countries with substantial exports of manufactures or large entrepôt trade.<sup>5</sup> Excluding Rhodesia, the exports of which declined very sharply, the percentage increase for the group is 5 and, for the total of the four groups, it is 4.

There was, however, a much greater divergence in the development of the export receipts of various primary producing countries in 1966 than in 1965. Considerably faster growth of exports in 1966 than in 1965 was common to the group of more developed countries, certain less developed countries with a substantial export trade in manufactures and processed products, and the less developed countries exporting mainly minerals other than petroleum (whose exports rose by 25 per cent following a 12 per cent rise in the preceding year). Very large increases in export earnings were secured by a small number of countries highly dependent on exporting copper and by countries in which newly exploited resources of petroleum or other minerals were coming into production.

In contrast, the export proceeds of the less developed countries dependent on agricultural exports rose less from 1965 to 1966 than in preceding years. While the countries exporting mainly beverages or foodstuffs had a diverse experience, almost all of the countries exporting mainly agricultural materials or mixed agricultural products showed only slight increases or actual declines in the value of their exports (Table 46).

### Balance of Payments

The principal changes in the payments balances of primary producing countries from 1965 to 1966 have already been set forth in Chapter 7 (pp. 79-81). While the majority of the more developed primary producing countries experienced improvement in their over-all balance of payments (Table 36, p. 80), only a small number of less developed primary producing countries did so. Those whose payments positions strengthened included several countries in the Far East whose foreign exchange earnings were increased as a consequence of the Viet-Nam conflict (Thailand, Viet-Nam, and the Republic of China), and Burma, Libya, Mexico, and Pakistan. Iraq's substantial surplus in 1966 reflected an advance in the timing of payments of oil royalties and was followed by a deficit in the first quarter of 1967. Several other countries whose basic balances improved from 1965 to 1966 did not experience an improvement in their over-all position because of unfavorable changes in net flows of

commercial bank funds and other short-term capital movements (including errors and omissions). These countries included Ghana and the United Arab Republic as well as certain ones in Latin America for which movements in gross reserves are of limited significance in view of the considerable importance of credit transactions. (See Chapter 7, p. 92.)

As usual, the changes in payments positions of particular primary producing countries were generally associated with shifts in the balance of their trade. Marked improvement or worsening of the trade balance was in some cases related to highly favorable or unfavorable conditions for exports in 1966; however, some of the most striking changes in trade balances stemmed from changes in policies affecting aggregate demand or import restrictions.

In the context of rapidly rising exports, a number of petroleum or other mineral exporting countries (notably Saudi Arabia, Chile, Mauritania, and Zambia) as well as certain other countries (including Costa Rica and Guatemala, among the coffee exporting countries, and the Republic of China) experienced marked improvements in their trade balances from 1965 to 1966. The more favorable development of exports, along with declines in imports, greatly strengthened the trade balances of Australia and South Africa (Table 47).

On the other hand, a considerable number of countries exporting agricultural products experienced a worsening of the trade balance associated with a decline, or no increase, in the value of their exports from 1965 to 1966. Among such countries, the exports of Burma, Cambodia, Ceylon, Morocco, and Viet-Nam fell quite sharply in value while those of Colombia, Ethiopia, the Syrian Arab Republic, the United Arab Republic, and Uruguay either declined somewhat or did not increase measurably. Except in Colombia, where the decline was due mainly to the fall in coffee prices during 1966, and Viet-Nam, where the fall of exports was due to special factors, the unfavorable development of these countries' exports was strongly influenced by adverse harvest conditions affecting agricultural output. (See below, pp. 106-107.) In some countries, notably Ceylon, Morocco, and the Syrian Arab Republic, imports increased substantially in part because of the need to supplement domestic food production.

TABLE 46. LESS DEVELOPED PRIMARY PRODUCING COUNTRIES: RELATIVE CHANGES IN EXPORTS AND IMPORTS, AND ABSOLUTE TRADE BALANCES, 1960-66

(Percentage changes; value of exports and trade balances in millions of U.S. dollars)

	Value of Exports in 1965 <sup>1</sup>	Changes in Exports f.o.b. <sup>1</sup>			Changes in Imports c.i.f. <sup>1</sup>			Trade Balances <sup>2</sup>		
		Average annual rate, <sup>3</sup> 1960-65	1964-65	1965-66	Average annual rate, <sup>3</sup> 1960-65	1964-65	1965-66	Annual average, 1960-65	1965	1966
<b>Countries exporting mainly</b>										
Petroleum	10,200	7	6	7	6	12	4	2,810	3,021	3,408
Venezuela	2,740	2	2	2	4	15	-6	1,310	1,112	1,031
Iran	1,300	9	4	1	9	28	8	390	322	376
Iraq	880	6	5	2	2	9	9	360	430	480
Kuwait	1,240	5	2	5	9	17	19	...	...	...
Saudi Arabia	1,390	11	18	18	14	17	15	660	682	931
Libya	800	4	29	25	14	10	27	90	475	590
Others	1,830	5	3	6	3	2	-1	...	...	...
<b>Other minerals</b>										
Bolivia	2,000	5	12	25	7	14	15	260	258	...
Chile	110	17	18	7	13	30	-5	-20	-11	-10
Mauritania	690	7	10	30	3	-1	16	70	63	148
Zambia	60	...	22	16	-5	38	-27	-30	6	...
Others	530	8	13	30	...	34	17	240 <sup>5</sup>	201	...
Others	610	-2	12	18	9	18	18	...	...	...
<b>Other nonagricultural products</b>										
China, Republic of	3,200	7	12	17	6	9	13	-990	-945	...
Hong Kong	450	22	4	19	13	30	12	-70	-72	-42
Korea	1,140	10	13	16	9	5	13	-330	-297	...
Singapore	180	40	47	43	6	15	59	-290	-244	-430
Israel	980	-3	9	12	-1	10	7	...	-248	-215
Others	430	15	15	17	11	...	...	-300	-332	-258
<b>Minerals and agricultural products</b>										
Peru	3,300	4	-1	6	1	5	7	-10	-60	...
Indonesia	670	9	...	15	14	26	14	100	25	41
Morocco	710	-2	-2	6	1	-4	-7	-10	24	...
Tanzania	430	4	-1	-12	2	-1	17	-30	41	4
Tunisia	180	3	-11	34	6	14	29	20 <sup>6</sup>	5	5
Others	120	...	-8	17	5	-1	2	-100	-131	-141
Others	1,240	7	2	2	-5	3	5	...	...	...
<b>Coffee</b>										
Brazil	3,400	6	5	7	1	-5	23	170	783	387
Colombia	1,600	5	12	9	-3	-13	31	190	655	460
Costa Rica	540	3	-2	-6	10	-23	49	-20	167	-90
Guatemala	110	6	-1	24	12	28	1	-20	-49	-24
Ethiopia	190	10	18	23	10	13	-8	-10	-22	-2
Ivory Coast	120	9	11	-4	12	22	1	...	-16	-23
Uganda	280	13	-6	12	15	...	12	...	31	47
Others	180	8	-4	5	9	24	5	30 <sup>6</sup>	17	19
Others	430	9	1	4	9	9	9	...	...	...
<b>Foodstuffs and other beverages<sup>7</sup></b>										
Argentina	6,500	6	6	2	5	5	5	-290	-137	-98
Panama	1,490	7	6	7	-1	11	-6	30	294	469
Burma	80	24	13	10	12	15	13	-90	-100	-107
Ceylon	220	...	-6	-14	-1	-9	-36	20	30	13
Philippines	410	1	4	-13	-6	-25	37	-30	-3	-73
Thailand	770	7	4	9	6	3	7	-10	-24	...
Ghana	620	9	5	13	11	14	40	-90	-157	-360
Kenya	290	...	...	-16	4	32	-21	-40	-116	-41
Nigeria	150	5	-3	20	5	16	26	...	-54	-85
Rhodesia	750	10	25	6	5	9	-7	-80	-7	86
Others	440	...	18	-38	...	9	-30	...	...	...
Others	1,260	5	-1	7	8	-1	10	...	...	...
<b>Agricultural materials</b>										
Malaysia	2,900	3	9	3	6	...	3	-650	-777	-611
Pakistan	1,240	1	12	2	4	5	2	130	178	179
Syrian Arab Republic	530	6	7	14	10	5	-14	-330	-513	-294
United Arab Republic	170	7	-4	...	-2	-9	36	-70	-47	-124
Sudan	610	1	12	...	7	-2	13	-350	-391	-348
Others	200	1	-1	4	3	-24	4	-30	-4	-24
Others	170	17	4	-2	5	2	6	...	...	...
<b>Mixed agricultural products</b>										
Mexico	3,800	7	3	-1	5	5	1	-1,560	-1,942	-2,063
Uruguay	1,150	9	9	7	6	5	3	-350	-431	-578
India	190	8	7	-3	-7	-24	9	...	73	24
Viet-Nam	1,680	5	-4	-5	5	1	-5	-980	-1,254	-1,068
Others	40	-17	-27	-14	8	20	9	-230	-330	-641
Others	700	12	14	-3	7	14	7	...	...	...

Sources: Based on International Monetary Fund, *International Financial Statistics*; balance of payments data reported to the International Monetary Fund; and staff estimates.<sup>1</sup> Derived from customs data. Figures for 1965-66 are preliminary.<sup>2</sup> Derived from payments data, exports f.o.b. less imports f.o.b. See Supplementary Note B, Table 77. Group totals include only the countries for which data are given. Figures for 1965 and 1966 are preliminary.<sup>3</sup> Percentage increase (or decrease) from 1960 to 1965 expressed as a compound annual rate.<sup>4</sup> Exports increased from \$11 million in 1960 to \$797 million in 1965.<sup>5</sup> Average 1964-65.<sup>6</sup> Average 1961-65.<sup>7</sup> Excluding Rhodesia, the exports and imports of the group increased by 5 and 6 per cent, respectively, in 1965-66.

TABLE 47. MORE DEVELOPED PRIMARY PRODUCING COUNTRIES: CHANGES IN EXPORTS AND IMPORTS, AND TRADE BALANCES, 1960-66

(Percentage changes; value of exports and trade balances in millions of U.S. dollars)

	Value of Exports in 1965 <sup>1</sup>	Changes in Exports f.o.b. <sup>1</sup>			Changes in Imports c.i.f. <sup>1</sup>			Trade Balances <sup>2</sup>		
		Average annual rate, <sup>3</sup> 1960-65	1964-65	1965-66	Average annual rate, <sup>3</sup> 1960-65	1964-65	1965-66	Annual average, 1960-65	1965	1966
<b>More Developed Primary Producing Countries</b>										
<b>In Europe</b>										
Finland	1,427	8	11	6	9	9	5	-136	-225	-228
Iceland	129	14	16	10	9	5	16	-4	4	-7
Ireland	618	8	-1	10	11	7	--	-300	-415	-363
Greece	328	10	6	24	10	28	8	-472	-700	-727
Portugal	576	12	12	9	11	19	10	-184	-324	-375
Spain	967	6	1	30	33	34	19	-795	-1,759	-2,005
Turkey	464	8	13	6	4	7	26	-100	-26	-145
Yugoslavia	1,092	14	22	12	9	-3	22	-288	-200	-355
Total	5,601	9	10	13	14	16	13	-2,279	-3,645	-4,205
<b>Australia, New Zealand, and South Africa</b>										
Australia	2,993	9	-2	6	7	14	-3	100	-335	111
New Zealand	1,007	4	-6	7	6	9	5	153	120	166
South Africa	1,507	4	1	12	10	15	-7	458	47	428
Total	5,507	6	-2	7	8	13	-4	711	-168	705
Grand Total	11,108	8	4	10	11	15	6	-1,568	-3,812	-3,500

Sources: Based on International Monetary Fund, *International Financial Statistics*; and balance of payments data reported to the International Monetary Fund.<sup>1</sup> Derived from customs data.<sup>2</sup> Derived from payments data, exports f.o.b. less imports f.o.b. See Supplementary Note B, Table 77.<sup>3</sup> Percentage increase (or decrease) from 1960 to 1965 expressed as a compound annual rate.

Some of the most important changes in trade balances from 1965 to 1966 resulted from changes in import policy. Pakistan secured a large improvement in its trade balance after further restricting imports, while Brazil, Colombia, and Yugoslavia experienced a weakening of the balance following import liberalization in 1965. Burma, Ghana, India, and the United Arab Republic, whose foreign exchange positions became stringent during 1965-66, took steps resulting in a considerable reduction of imports, and consequently experienced some improvement or only slight further deterioration in the balance of trade from 1965 to 1966.

Changes in the domestic demand situation had an important influence on the trade balance of certain other countries. In Thailand and Turkey a deterioration in the trade balance was due principally to the rapid growth of domestic demand and the consequent steep rise in imports. In Thailand's case, however, the 40 per cent rise in imports posed no problem inasmuch as there was a large increase in receipts on services account and in the inflow of official capital and transfers. In Israel measures to restrain the expansion of domestic demand curbed the growth of imports for the second year in succession and

resulted in a strengthening of the trade balance. The marked improvement in Argentina's trade balance was associated with lower imports of raw materials and semimanufactures accompanying a decline in domestic activity in 1966.

Table 48 provides a summary of changes from 1965 to 1966 in the balances of payments of 20 less developed countries. Of the 12 countries whose basic balances improved, 8 benefited from rapid growth of total receipts. The principal factor in the improvement of the basic balances of Chile and the Republic of China was the substantial increase in exports of goods and services. In Korea, Thailand, and Viet-Nam, receipts for goods and services also rose quite exceptionally from 1965 to 1966, but the large over-all surpluses of these 3 countries were in the main due to the greatly increased inflows of official financing. Mexico, too, benefited from a greatly increased inflow of private long-term capital. In Peru an increased inflow of government capital and aid more than offset the sharp reduction in the inflow of private capital. The improvement in Argentina's basic balance reflected, besides the increase in the trade surplus, a marked reduction in the outflow of private long-term capital (which had amounted to over \$100 million in

1965) and a net inflow of government capital and aid, following a net outflow in 1965.

The declines in the basic balances of Brazil, Ceylon, Colombia, and Uruguay from 1965 to 1966 were mainly occasioned by the changes in trade balances noted above. Although imports of goods and services rose by 22 per cent, Brazil remained in surplus on the basic balance and was able to make substantial repayments of foreign debt in 1966. In Colombia, in addition to the deterioration in the balance on goods and services, the net inflow of private capital in 1965 was replaced by an outflow in 1966. Pakistan's basic balance worsened from 1965 to 1966 despite the marked improvement of the trade balance; earnings from transportation and government services declined, and the net inflow of private long-term

capital and government capital and aid was considerably reduced. Changes in capital movements were responsible for the reduction of the surpluses of Iran and the Philippines. In Iran the net inflow of private long-term capital declined from its exceptionally high level in 1965. In the Philippines the outflow of private long-term and short-term capital became substantial in 1966, and the net inflow of official capital and aid was halved as a result of reduced borrowing in the U.S. market and smaller drawings on loans from the International Bank for Reconstruction and Development. The worsening of Nigeria's payments position from 1965 to 1966 was due mainly to an increase in investment income payable overseas and in payments for other services; there was also a decline in receipts of official financing.

TABLE 48. SELECTED LESS DEVELOPED COUNTRIES: CHANGES IN CERTAIN ELEMENTS OF THE BALANCE OF PAYMENTS, 1965-66

	Percentage Changes, 1965 to 1966				Absolute Values, in 1966, in Million U.S. Dollars		Changes, 1965 to 1966, in Million U.S. Dollars	
	Exports of goods and services	Net inflow of private long-term and official capital <sup>1</sup>	Total receipts <sup>2</sup>	Imports of goods and services	Basic balance	Over-all balance	Basic balance	Over-all balance
Countries which experienced improvement of the basic balance associated with rapid increases in total receipts								
Viet-Nam	116	66	81	70	126	128	87	91
Korea	57	117	90	59	107	99	81	90
Thailand	24	142	41	34	123	185	80	106
China, Republic of	25	-44	17	10	29	37	44	34
Chile	27	47	30	24	128	47	53	-3
Mexico	10	90	17	6	-22	23	200	69
Peru	15	17	16	15	61	-20	14	-35
Argentina	8	... <sup>3</sup>	15	7	292	26	141	-101
Countries which experienced improvement of the basic balance despite little increase or decline in total receipts								
Sudan	-1	47	4	4	-10	-15	2	7
United Arab Republic	7	-15	3	-1	-47	-25	53	-8
Burma	-19	... <sup>3</sup>	-6	-16	8	8	29	35
Ghana	-12	-44	-14	-24	-29	-51	69	-71
Countries which experienced deterioration of the basic balance								
Brazil	8	8	8	22	222	-51	-191	-284
Uruguay	2	-33	-2	21	56	7	-42	5
Ceylon	-11	-6	-11	6	-43	-41	-76	-51
Colombia	-4	-66	-12	33	-239	-8	-337	-38
Iran	9	-12	5	10	34	19	-69	-19
Philippines	9	... <sup>4</sup>	3	7	118	4	-46	-72
Nigeria	5	-7	3	4	-63	-23	-19	-22
Pakistan	1	-33	-15	-14	-6	-22	-22	39

Source: Data reported to the International Monetary Fund. For details of countries' balances of payments in 1965 and 1966, see Supplementary Note B, Table 77.

<sup>1</sup> "Official capital" comprises central government capital and transfers.

<sup>2</sup> Covers the first two columns plus receipts from private transfers.

<sup>3</sup> Change from net outflow to net inflow.

<sup>4</sup> Change from net inflow to net outflow.

## Progress in Less Developed Countries

The comparatively slow growth of exports in recent years for many less developed countries that depend upon agricultural exports occasions increasing concern. In most of the countries that achieved a fairly rapid expansion of output from 1960 to 1965, the main stimulus was provided by the rapid growth of the export sector induced by the important demands of the industrial countries for specific products. On the other hand, in a considerable number of countries the failure to achieve an adequate growth of foreign exchange earnings has imposed a brake on the rate of economic development and has in some cases entailed grave difficulties for the internal management of the economy or severe balance of payments difficulties.

### *Exports and Growth*<sup>2</sup>

The real product of the less developed countries appears to have increased on average by some 4 to 4½ per cent a year from 1960 to 1965. This was a somewhat smaller increase than that during the previous five years, and the growth of per capita output was distinctly lower than in the second half of the 1950's. Although the expansion of output in many instances compared not unfavorably with that in industrial countries, it was often insufficient to ensure any significant rise in per capita real incomes because of the rapid increase in population. Moreover, the gains were very unevenly distributed (Table 49). Per capita output rose appreciably in some areas: Southern Europe, the Middle East, the Far East excluding Indonesia, Mexico and Central America, and Central Africa. However, per capita output rose slightly or declined in other areas accounting for nearly two thirds of the total population of less developed countries: South America, South Asia, North Africa, the Democratic Republic of Congo, and Indonesia.

In almost all of the countries where total real output was rising rapidly from 1960 to 1965—i.e., by 7 to over 10 per cent per annum—exports

<sup>2</sup> In this section several of the primary producing countries in Europe (Greece, Portugal, Spain, Turkey, and Yugoslavia) are considered with the less developed countries with which they share many problems of development by reason of their low per capita income.

TABLE 49. LESS DEVELOPED PRIMARY PRODUCING COUNTRIES: <sup>1</sup> ANNUAL GROWTH OF POPULATION AND REAL DOMESTIC PRODUCT, BY REGIONAL GROUPINGS, 1960-65

Region	Population, 1960 (Millions)	Compound Percentage Growth Rates		
		Real product	Population growth	Per capita product
Southern Europe <sup>2</sup>	86	7.5	1.5	6
Middle East <sup>3</sup>	76	6.6	2.3	4
Far East <sup>4</sup>	125	6.1	3.0	3
Central Africa <sup>5</sup>	175	3.7	2.1	2
Mexico and Central America	58	5.3	3.0	2
South America	144	4.2	2.7	1
South Asia <sup>6</sup>	592	3.3	2.2	less than 1
North Africa <sup>7</sup>	28	0.8	2.2	-1 to -2
Indonesia	100	...	...	} Probably
Congo, Dem. Rep. of	16	...	...	} negative

Source: OECD, *National Accounts of Less Developed Countries*, February 1967.

<sup>1</sup> Greece, Portugal, Spain, Turkey, and Yugoslavia are here included with less developed primary producing countries. (See p. 101, footnote 2.)

<sup>2</sup> Cyprus, Greece, Malta, Portugal, Spain, Turkey, Yugoslavia.

<sup>3</sup> Iran, Iraq, Israel, Jordan, Lebanon, Syrian Arab Republic, United Arab Republic.

<sup>4</sup> Cambodia, Republic of China, Korea, Malaysia, Philippines, Thailand, Viet-Nam.

<sup>5</sup> Ethiopia, Ghana, Kenya, Malawi, Nigeria, Rhodesia, Sudan, Tanzania, Uganda, Zambia, and (as a group) Cameroon, Central African Republic, Chad, Congo (Brazzaville), Dahomey, Gabon, Ivory Coast, Malagasy Republic, Mali, Mauritania, Niger, Senegal, Togo, and Upper Volta.

<sup>6</sup> Burma, Ceylon, India, Pakistan.

<sup>7</sup> Algeria, Morocco, Tunisia. The decline in per capita real product reflects a steep decline in Algeria.

of goods and services were rising considerably faster, in some cases by as much as 15 to 20 per cent per annum or even more. In a number of these countries, a principal factor underlying the rapid growth of exports was the existence of unusually close connections with, and the accessibility to, rapidly expanding industrial markets in Europe (Spain, Greece, and Yugoslavia) or in the United States and Japan (Hong Kong, Korea, and the Republic of China). The close ties between Israel and the industrial countries exercised a similar effect in promoting the expansion of Israel's trade. The situation of these countries, as it were on the periphery of the industrial world, encouraged increasing foreign demands upon their productive facilities and substantial inflows of foreign capital; it favored the expansion of earnings from tourism and stimulated emigration of workers to industrial countries. In another group of countries, including oil producing states in Arabia, Libya, Mauritania, Liberia, and Gabon, the rapid growth of real gross domestic product reflected sharply increasing production for export of oil and other minerals by foreign-owned concerns. The same factor was important for Bolivia and Nigeria, where total output rose somewhat less, but more than in most of the other countries in the same regions. In Peru,

TABLE 50. LESS DEVELOPED PRIMARY PRODUCING COUNTRIES:<sup>1</sup>  
RELATIVE CHANGES IN EXPORTS OF GOODS AND SERVICES,  
CAPITAL INFLOWS, TOTAL RECEIPTS, AND IMPORTS  
OF GOODS AND SERVICES, 1960-65<sup>2</sup>

(Average annual percentage changes)<sup>3</sup>

	I	II	III	IV
	Exports of goods and services	Net in- flow of private long-term and official capital <sup>4</sup>	Total receipts (I + II) <sup>5</sup>	Imports of goods and services
<b>Most rapid growth of total receipts in column III (over 8 per cent per annum)</b>				
1. Libya	70	...	55	53
2. Nicaragua	17	43	19	17
3. Honduras	14	...	17	16
4. Spain	16	14	17	30
5. Bolivia	17	11	15	13
6. El Salvador	13	35	15	10
7. Portugal	15	70	15	15
8. China, Republic of	21	-5	14	14
9. Peru	9	60	14	14
10. Uganda	10	65	14	13
11. Yugoslavia	17	-18	14	11
12. Ethiopia	12	13	13	13
13. Greece	14	17	13	15
14. Israel	16	7	12	13
15. Pakistan	6	19	12	12
16. Thailand	11	22	12	12
17. Guatemala	12	2	11	12
18. Panama	13	3	11	10
19. Saudi Arabia	8	...	11	10
20. Costa Rica	6	41	9	11
21. Iran	7	31	9	7
22. Nigeria	10	6	9	9
23. Paraguay	9	9	9	6
24. Viet-Nam	11	6	9	10
<b>Medium growth of total receipts in column III (4-8 per cent per annum)</b>				
25. Chile	7	12	8	3
26. Jordan	17	1	8	7
27. Mexico	8	16	8	7
28. Philippines	11	-17	7	6
29. Tanzania	8	4	7	7
30. Tunisia	-1	25	7	7
31. Turkey	8	4	7	5
32. Uruguay	8	2	7	-6
33. Dominican Republic	-3	...	6	8
34. Iraq	6	...	6	5
35. Korea	20	-9	6	5
36. Malaysia	5	21	6	5
37. Colombia	4	22	5	2
38. India	4	11	5	6
39. Brazil	4	12	4	-5
40. Ecuador	5	-1	4	5
41. Morocco	2	12	4	3
42. United Arab Republic	1	35	3	4
<b>Lowest growth or declines in total receipts in column III</b>				
43. Ceylon	1	19	2	-2
44. Sudan	3	-6	2	6
45. Syrian Arab Republic	5	...	2	-
46. Venezuela	-	...	2	4
47. Ghana	-	-2	-1	5
48. Haiti	-3	-	-1	1
49. Burma	-	...	-2	-1
50. Argentina	6	...	-3	-2

Source: Data reported to the International Monetary Fund. Absolute data for 1965 are shown in Table 77 of Supplementary Note B.

<sup>1</sup> Greece, Portugal, Spain, Turkey, and Yugoslavia are here included with less developed primary producing countries. (See p. 101, footnote 2.)

<sup>2</sup> Countries ranked in descending order of change in total receipts for exports of goods and services and net capital inflows, shown in column III.

<sup>3</sup> Percentage increase (or decrease) from 1960 to 1965 expressed as a compound annual rate.

<sup>4</sup> "Official capital" comprises central government capital and transfers.

<sup>5</sup> Also includes receipts from private transfers.

<sup>6</sup> Change from net inflow to net outflow.

<sup>7</sup> Change from net outflow to net inflow.

rapidly expanding exports of fish meal provided a strong stimulus to the domestic economy. Rather different factors underlay the rapid growth of exports from certain other Far Eastern and Central American countries and from Mexico. Dwindling exports of rice from certain major suppliers in Southeast Asia provided a stimulus for increased rice exports from Thailand; the reduction of Cuba's trade created special opportunities for increasing exports of sugar from neighboring countries. The increased strategic interest of the United States in Southeast Asia has also spurred the expansion of exports of goods and services from certain countries in the Far East. In addition, some Caribbean and Central American countries benefited from the favorable price developments created by the international limitation of coffee exports and from U.S. price supports for cotton production.

Most other less developed countries experienced increases averaging 4-8 per cent a year in their exports of goods and services from 1960 to 1965. However, a certain number of countries—including many of those in which there was the least growth in per capita output—experienced a slower growth of exports and at times encountered serious balance of payments difficulties. Among the most important in this latter group were Burma, Ceylon, India, and Indonesia; Brazil, Colombia, Ecuador, Haiti, the Dominican Republic, and Costa Rica; Algeria, the Democratic Republic of Congo, Ghana, and Tunisia; and the United Arab Republic.

In most countries the growth of foreign exchange receipts from 1960 to 1965 corresponded fairly closely with that in their exports of goods and services (Table 50). In some countries, however, the growth of total receipts was considerably enhanced by a faster rise in the net inflow of private long-term and official capital (including transfers) than in exports of goods and services; among them were several countries whose exports of goods and services stagnated or rose comparatively little over the period, such as the Dominican Republic, Tunisia, the United Arab Republic, and Venezuela. Other countries favored by rapidly expanding inflows of capital and aid were Costa Rica, El Salvador, Honduras, and Nicaragua in Central America; and Iran, Pakistan, Peru, Saudi

Arabia, and Uganda. On the other hand, in a few countries the growth of total receipts was less rapid than the expansion of exports of goods and services. This was the case for several countries which received exceptionally large inflows of official capital and aid in the early 1960's (Korea, the Republic of China, Israel, Jordan, and Viet-Nam), as well as for Argentina and the Philippines, where heavy inflows of private long-term

capital in 1960 had given way to net outflows in 1965 (Table 51).

A number of less developed primary producing countries attained a high rate of fixed investment and a rapid growth of foreign exchange receipts in the early 1960's as a consequence of the exploitation of scarce mineral resources or the existence of special circumstances favoring the expansion of trade with industrial countries. In many less de-

TABLE 51. LESS DEVELOPED PRIMARY PRODUCING COUNTRIES WHICH RECEIVED LARGE NET INFLOWS OF LONG-TERM CAPITAL IN 1960 OR 1965<sup>1</sup>

(Net inflows expressed as percentages of receipts from exports of goods and services)

	Official and Private Long-Term Capital		Official Capital <sup>2</sup>		Private Long-Term Capital	
	1960	1965	1960	1965	1960	1965
Countries which were less dependent on such inflows in 1965 than in 1960						
Korea	210	53	208	40	2	13
Viet-Nam	156	127	153	128	3	-1
Jordan	154	73	152	72	2	1
Israel	62	41	40	23	22	18
China, Republic of	61	14	52	10	9	4
Libya	57	-3	62	—	-5	-3
Bolivia	53	40	21	27	32	13
Argentina	42	-4	1	3	41	-7
Ghana	40	37	37	14	3	23
Nigeria	35	28	8	7	27	21
Turkey	30	24	26	20	4	4
Guatemala	25	16	14	4	11	12
Panama	24	15	11	6	13	9
Philippines	21	5	12	7	9	-2
Sudan	19	12	19	9	—	3
Ecuador	17	13	11	4	6	9
Uruguay	16	6	9	1	7	5
Yugoslavia	16	3	16	3	—	—
Countries which were more dependent on such inflows in 1965 than in 1960						
Pakistan	51	91	45	80	6	11
Tunisia	28	90	21	52	7	38
India	46	54	37	56	9	-2
Dominican Republic	—	49	—	49	—	—
Greece	24	28	15	6	9	22
Peru	4	27	-1	10	5	17
Ethiopia	25	26	15	19	10	7
Iran	8	22	5	-1	3	23
El Salvador	4	21	-1	4	5	17
Paraguay	20	21	7	9	13	12
Morocco	13	20	13	20	—	—
Costa Rica	5	20	4	3	1	17
Haiti	13	16	13	13	—	3
Thailand	10	16	6	10	4	6
Uganda	3	18	6	16	-3	2
Colombia	7	15	-1	6	8	9
United Arab Republic	4	15	—	16	4	-1

Source: Data reported to the International Monetary Fund.

<sup>1</sup> Greece, Portugal, Spain, Turkey, and Yugoslavia are here included with less developed primary producing countries. (See p. 101, footnote 2.) Countries listed in this table are those in which the net inflow of private long-term and official capital and transfers was equivalent to 15 per cent or more of receipts from exports of goods and services in 1960 or 1965.

<sup>2</sup> Comprises central government capital and transfers.

veloped countries, however, development was hampered by the slow growth of foreign exchange earnings and by rising imports of other than investment goods.

The comparatively slow growth of output in the agricultural sector has also posed severe problems for many less developed countries with rapidly increasing populations. Since food consumption accounts for a considerable share of total consumption in low-income countries, the rate of population growth implies a minimum growth of real consumption, which in practice will have first call upon output or foreign exchange resources. This situation poses especially difficult problems for countries with a rapidly growing population and limited exports of non-agricultural products, since in their case the simultaneous attainment of an expanding volume of exports and of rising total consumption must of necessity depend on the achievement of a fairly rapid expansion of agricultural output. Failure to attain a sufficient increase in agricultural output

will result either in limited export growth as increased demand for foodstuffs restricts production of export crops, or in the pre-empting of a rising proportion of slowly growing exports to pay for imports of foodstuffs. If shortages of food occur, pressure on scarce foreign exchange resources is also likely to be increased because of the consequent intensification of inflationary pressures.

While the expansion of agricultural production for export has in some cases been held back in recent years by the slow growth of world demand for certain commodities, in a number of countries the production of staple food crops has failed to match, or has barely kept up with, the increase in population. As a consequence, a considerable number of countries (including Ceylon, India, Pakistan, the Philippines, the United Arab Republic, several other countries in the Middle East, some of the smaller West African countries, Chile, Colombia, and Jamaica) have become more dependent on cereal imports from the developed countries or from a few less developed countries

TABLE 52. LESS DEVELOPED PRIMARY PRODUCING COUNTRIES: GROWTH OF EXPORTS AND IMPORTS BY MAJOR COMMODITY GROUPINGS, 1961-65<sup>1</sup>  
(Average percentage increase per annum)

	All Countries	Countries in			
		Latin America	Asia	Africa	Middle East
<b>Exports</b>					
Agricultural exports	4.5	6.1	3.0	3.4	9.5
Food imports <sup>2, 3</sup>	6.0	5.8	7.3	2.4	8.8
Agricultural exports net of food imports	3.8	6.2	—	4.0	...
Nonagricultural exports					...
Ores and metals	9.2	8.5	9.0	10.9	...
Fuels	8.7	4.0	-2.0	39.0	10.2
Manufactures	14.0	16.7	12.0	15.4	13.6
Total net of food imports <sup>2, 3</sup>	7.3	6.3	4.9	11.3	10.1
Total exports	7.1	6.2	5.5	9.5	10.0
<b>Imports<sup>3</sup></b>					
Machinery and transport equipment	7.4	0.9	10.8	12.9	9.1
Metals	6.1	2.5	7.3	6.5	7.7
Total capital goods	7.2	1.2	9.9	11.8	8.9
Fuels	2.0	2.6	3.4	-4.0	6.1
Raw materials	4.9	6.7	1.4	7.5	12.1
Chemicals	7.5	6.6	7.4	7.9	10.2
Passenger road vehicles	5.5	2.1	10.7	2.7	7.5
Other manufactured consumer goods	4.7	3.1	4.3	3.2	9.1
Total excluding food	5.5	2.5	6.5	6.4	9.0
Total imports	5.6	2.8	6.6	5.7	9.0

Sources: Based on United Nations, *Monthly Bulletin of Statistics*, March 1967, Table E, and May 1967, Table B.

<sup>1</sup> The coverage of the commodity groupings shown in this table is described in footnote 1 to Table 53.

<sup>2</sup> It has not been possible to include Section 4, Animal and vegetable oils and fats, which in the source data is not distinguished from Section 2, Inedible crude materials other than fats.

<sup>3</sup> Import figures are derived from matrix tables of world exports and show the growth of exports from the world to the group of countries indicated in the column heading.

<sup>4</sup> Increased deficit.

in the Far East and South America which have exportable surpluses of grain. For less developed countries as a group, total agricultural exports net of food imports have recently risen by less than 4 per cent per annum; there has been no increase in the net agricultural exports of less developed countries in Asia and the Middle East (Table 52).

For the less developed countries as a group, exports of metals, ores, and petroleum rose twice as fast as exports of agricultural products from 1960 to 1965, and exports of manufactures rose three times as fast. However, in 1965 manufac-

tures still accounted for only 5-7 per cent of the total value of exports from less developed countries in Latin America, Africa, and the Middle East (Table 53). The much higher share of manufactures in the trade of Asian countries reflects India's and Pakistan's dependence on exports of cotton and jute textiles and the substantial exports of manufactures of Hong Kong, Korea, the Republic of China, and Singapore.

On an f.o.b. basis imports of capital goods were equivalent in value to more than one third of the less developed countries' total exports both

TABLE 53. LESS DEVELOPED PRIMARY PRODUCING COUNTRIES: RELATIVE IMPORTANCE OF TRADE IN MAJOR COMMODITY GROUPINGS, 1961 AND 1965<sup>1</sup>

(Exports or imports as percentages of total value of exports)

	All Countries		Countries in							
			Latin America		Asia		Africa		Middle East	
	1961	1965	1961	1965	1961	1965	1961	1965	1961	1965
<b>Exports</b>										
Agricultural exports	51.3	46.5	57.3	57.0	61.4	55.6	69.6	55.4	9.7	9.6
Food imports <sup>2, 3</sup>	16.9	16.2	10.0	9.8	23.4	25.0	22.7	17.3	11.8	11.2
Agricultural exports net of food imports	34.4	30.3	47.3	47.2	38.0	30.6	46.9	38.1	-2.1	-1.6
Nonagricultural exports										
Ores and metals	9.5	10.3	11.8	12.9	7.4	8.5	15.4	16.2	—	—
Fuels	29.3	31.0	27.3	25.0	7.6	5.6	8.1	20.7	84.2	84.6
Manufactures	9.2	11.8	3.2	4.7	22.6	28.8	5.8	7.2	5.4	6.2
Unclassified	0.7	0.4	0.4	0.4	1.1	1.5	1.1	0.5	0.7	-0.2
Total net of food imports <sup>3</sup>	83.1	83.8	90.1	90.2	76.7	75.0	77.3	82.7	88.2	89.0
Total exports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<b>Imports<sup>3</sup></b>										
Machinery and transport equipment	28.8	29.1	35.0	28.5	29.7	36.1	29.6	33.5	18.3	17.7
Metals	7.3	7.1	7.7	6.7	9.9	10.5	6.6	5.9	5.2	4.8
Total capital goods	36.1	36.2	42.7	35.2	39.6	46.6	36.2	39.4	23.5	22.5
Fuels	10.7	8.8	6.4	5.6	9.3	8.6	9.9	5.9	6.8	5.9
Raw materials	7.6	7.0	5.9	5.9	14.4	12.2	5.1	4.7	4.3	4.6
Chemicals	8.7	8.8	9.9	10.0	10.5	11.3	8.4	8.0	4.3	4.3
Passenger road vehicles	2.4	2.3	2.6	2.3	1.9	2.3	3.4	2.6	2.0	1.8
Other manufactured consumer goods	22.5	20.6	15.8	14.1	27.2	26.0	32.6	25.7	16.7	16.2
Unclassified	4.0	3.0	2.6	1.3	6.3	6.0	3.4	1.8	1.6	1.8
Total excluding food	92.0	86.7	86.0	74.3	109.1	113.0	98.9	88.0	59.3	57.0
Total imports	108.9	102.8	96.0	84.1	132.5	138.0	121.6	105.3	71.0	68.2

Sources: Based on United Nations, *Monthly Bulletin of Statistics*, March 1967, Table E, and May 1967, Table B.

<sup>1</sup> The commodity groupings shown in this table and in Table 52 comprise the following one-digit sections, two-digit divisions, or three-digit groups of the Standard International Trade Classification—Agricultural Exports, Sections 0, 1, 2 (except 28), and 4; Food Imports, Sections 0 and 1 (food, beverages, and tobacco); Ores and Metals, Divisions 28, 67, 68 (except 681); Fuels, Section 3; Exports of Manufactures, Sections 5, 6, 7, and 8 excluding Base Metals, Divisions 67 and 68 except 681; Imports of Machinery, Section 7 excluding passenger road vehicles (groups 732.1, 732.6, 732.9, 733.1, 733.4); Imports of Raw Materials, Sections 2 and 4. Unclassified Exports and Imports include Section 9 (Parcel Post, Live Animals not for food, etc.) as well as unclassified trade.

<sup>2</sup> Excludes animal and vegetable oils and fats (see Table 52, footnote 2).

<sup>3</sup> Import figures are derived from matrix tables of world exports and show the value of exports of each commodity grouping from the world to the group of countries indicated in the column heading, expressed as a percentage of its total export receipts in the same year.

in 1960 and in 1965. In Asia and Africa, capital goods imports rose relatively faster than exports over this period. In Latin America, where the need of certain countries to make heavy repayments of short-term and medium-term debt kept the growth of imports lower than that of exports, the restraint of imports fell very largely on capital goods, which rose by 1 per cent per annum in value and scarcely at all in real terms.

### *Growth of Output in 1966*

The occurrence of severe drought over much of Northwestern Africa and the Middle East, the continuance of serious drought in the Indian subcontinent, and adverse agricultural conditions in several other regions of Asia and in parts of Latin America led to declines in agricultural output or in food production in a large number of less developed countries in 1966. In the majority of countries, the growth of real gross domestic product was smaller than in 1965 or 1964; in India, however, there was a recovery of output following a decline from 1964 to 1965.

Largely owing to the effects of drought, the deceleration of output growth in 1966 was particularly marked in Africa, and aggregate output is estimated to have increased by 2 per cent, against 4 per cent in 1965 and 1964. In Nigeria total production rose by more than 5 per cent despite a cutback in development expenditures. In Ghana, gross fixed investment fell by 13 per cent and output failed to increase for the second consecutive year; in both 1965 and 1966 cocoa production was held down by unfavorable weather and by the low farm prices which discouraged efforts to maintain output. Agricultural conditions were quite favorable, however, in East Africa. Mining output in the Democratic Republic of Congo rose in 1966. The taking over of the Union Minière du Haut Katanga in December 1966 was followed by the suspension of exports, but substantial export shipments were resumed in March 1967.

Drought slowed down the expansion of production in several Middle Eastern countries, notably Iraq, Jordan, and the Syrian Arab Republic. The growth of output also slackened in the United Arab Republic, where the cotton crop was affected by disease and industrial production was

limited by shortages of imported materials and parts. In Iran, however, excellent agricultural conditions prevailed in 1966, and a high rate of growth with rising public and private investment continued under conditions of price stability, favored by a marked improvement in public finances. In Israel the earlier rapid expansion of output had been accompanied by inflationary pressures, rising wage costs, and increasing strain upon the balance of payments; in 1966 the authorities sought to restrain the growth of aggregate demand by limiting public investment.

A relatively rapid expansion of output continued to be experienced by many Asian countries, although, except for India, the output of this region rose considerably less in 1966 than in 1965. Adverse developments in 1966 were most marked in Burma and Indonesia. In Burma total output declined because of a 5 per cent fall in rice production in the 1965/66 harvest, and the 1966/67 crop is expected to be even smaller owing to unfavorable climatic conditions. In Indonesia agricultural production rose in 1966, but total output increased little as industrial production was kept at a low level by shortages of imported materials and parts.

Output rose less than in 1965 in Ceylon, Malaysia, and the Republic of China. In Pakistan and the Philippines the rate of growth was about the same as in 1965, while in Thailand and Korea still more rapid rates of expansion (8 and 10 per cent, respectively) were attained. In Pakistan agricultural production did not increase, as a poor wheat harvest offset a rise in nonfood crops. The output of nonagricultural goods and services rose substantially under the stimulus of high defense spending and rising private consumption, but public sector investment was cut by 20 per cent. In the Philippines industrial production revived in 1966, following a relaxation of credit restrictions and a campaign to limit the smuggling of imported manufactures; rice production rose comparatively little, however, and imports were required to meet the growing demand. In Thailand rice production was lower than in 1964/65, but there was a substantial expansion of other export crops. Services and construction industries experienced a boom as a consequence of U.S. military expenditures and work for the Asian Fair and Asian Games, and public sector expenditures for economic

development and defense increased very considerably.

The growth of output in Latin America from 1965 to 1966 appears to have slackened for the second successive year and is estimated to have amounted to about 4 per cent. The slowing down of expansion in 1966 occurred mainly in Argentina and Brazil. Both of these countries had smaller crops in 1966, following a very good year in 1965. In Argentina fixed investment declined, and total output fell slightly after rising by almost 8 per cent in both 1964 and 1965. In Brazil the growth of the economy was somewhat slower than had been anticipated, partly because of the unfavorable agricultural harvests following an exceptionally good year in 1965. Real gross domestic product rose considerably less in 1966 than in 1965. Although there was a strong recovery of industrial production in 1966, there was no marked reactivation of private investment activity. Public sector investment, however, continued to grow very rapidly. Elsewhere in Latin America, output rose less in 1966 than in 1965 in Costa Rica, Ecuador, Guatemala, and Honduras, and rates of investment were reduced. Output appears to have risen somewhat faster than in 1965 in Bolivia, Colombia, Mexico, Peru, and Uruguay. In Mexico agricultural production, especially of export commodities, rose less than in the preceding year, but public investment was restored after a temporary cutback in 1965, and private investment continued to expand. Public and private investment also increased in Peru.

#### *Financial Developments and Prices*

In many less developed countries the unfavorable agricultural situation was an important factor underlying the faster rise in the cost of living in 1966 than in preceding years. In many instances, reduced agricultural production also had important indirect effects upon import availabilities and the finances of the public sector. In the countries most affected by adverse agricultural conditions, the need to import foodstuffs resulted in more stringent restriction of other imports, including those for maintenance and development purposes. Output in manufacturing industries catering to the home market was limited not only by reduced demand but also by severe shortages of imported

materials and components, leading in some cases to scarcities even of industrial goods.

Public sector finances in such countries weakened. Current expenditures were increased by higher prices and larger spending for relief, support of agricultural incomes, or agricultural credits. At the same time there were declines in revenues derived from both rural and industrial sectors and in receipts from import duties and taxes on agricultural exports. Thus, the deterioration in agricultural supplies was an important element in the worsening of public sector finances that occurred during 1966 in India, Burma, Pakistan, the Philippines, Algeria, Morocco, Tunisia, the United Arab Republic, Jordan, Iraq, Mali, and Ghana.

Deterioration of the budgetary situation was commonly associated with sharp increases in current public expenditures rather than with higher capital spending. Larger defense expenditures were a factor in the worsening of public finances, notably in India, Indonesia, Iraq, Malaysia, Pakistan, Thailand, the Sudan, and the United Arab Republic. In a number of Latin American and African countries, substantial government deficits arose to a large extent from failure to cover the mounting costs of wages and salaries in the public sector by tax revenues and from heavy transfers to public enterprises and state and local authorities to enable them to meet increasing wage bills without raising charges or local taxation commensurately. In India, Pakistan, some French-speaking African countries, and the United Arab Republic, reductions in the inflow of foreign aid contributed to the worsening of the budgetary situation.

In contrast to these adverse developments, prices continued to rise only moderately in a number of countries where output was expanding at a satisfactory rate, as in the majority of Central American republics, Mexico, Venezuela, most of the East African countries, Iran, Malaysia, and Korea. In Korea, where a high rate of inflation in the early 1960's was occasioned by sharply increasing investment in the context of inadequate food supplies, the rate of increase in prices has declined since 1964 as both domestic and imported supplies of food and manufactures have increased and public sector finances have improved. Fiscal receipts have expanded substanti-

ally in recent years as a result of better tax administration and of rapidly increasing money incomes, output, and imports.

Certain countries—among them several, such as Chile, the Democratic Republic of Congo, Iran, and Panama, which benefited from a marked rise in their export receipts—secured a considerable improvement in public sector finances in 1966. In a somewhat less favorable export situation, Brazil, Israel, and Paraguay achieved a considerable strengthening of public finances by deliberate policy measures. In Iran the attainment of a budget surplus in the first half of the fiscal year 1966/67 was the result of increased receipts of a nonrecurrent nature from the oil sector. Government revenues in the Democratic Republic of Congo were increased both by higher taxes levied upon imports and exports and by the substantial expansion of exports. The budgetary deficit was also reduced from its high 1965 level through the initiation of stricter control over expenditures. In the first half of 1967, however, a large budget deficit reappeared, mainly because of increased expenditure abroad and a decline in revenue resulting from the dispute over the operation of the Union Minière. Export proceeds declined while domestic prices rose more rapidly. As a consequence, the exchange control system came under severe strain and a new rate of exchange was established in late June.

#### *Stabilization Efforts*

In four of the largest South American countries, the efforts being made to reduce the rapid rates of inflation met with varying success during 1966. The achievement of price stability is rendered more difficult in these countries by the length of time for which rapid inflation has continued almost uninterrupted and by the consequent development, not only of severe distortions in the price structure but also of arrangements, intended to protect the real income of various groups against erosion by inflation, which tend to intensify and prolong the inflationary process. The rate of inflation in 1966 was further reduced in Chile, where the cost of living rose by 17 per cent, against 26 per cent in 1965 and 38 per cent in 1964. In Brazil the cost of living again rose by over 40 per cent from 1965 to 1966. The

rate of inflation was more rapid in 1966 than in 1965 in Colombia, while in Argentina it was higher in both 1965 and 1966 than in the two preceding years.

The financial problems confronting the authorities in Chile were eased in 1966 by the strong demand for its exports of copper. The growth of exports, and the adoption of a flexible exchange rate policy, permitted the Government to liberalize import controls. The tariff structure was simplified, and increased incentives for developing new exports were introduced toward the end of the year. While seeking to control inflation, the Government also pursued a policy of income redistribution in favor of lower-income groups through increased expenditure on education, housing, and social services. Measures were taken to promote a diversification of the structure of output, by strengthening the agricultural and industrial sectors. The continuing increase in public expenditures could, however, pose a problem for the stabilization program if export receipts and revenue rise more slowly in 1967 than over the past two years.

The 40 per cent price rise in Brazil in 1966 was partly attributable to the process of raising certain prices to economic levels and to the impact of low crop production upon staple food prices. The continued high rate of inflation occurred despite the implementation of effective measures to control the expansion of bank credit. The adoption of a more flexible price policy for coffee enabled Brazil to sell its entire quota in the 1965/66 crop year, and during 1966, in contrast to preceding years, the finances of the coffee sector were a contractionary factor in the credit situation. Better food supplies and the restraint maintained over wage increases were reflected in a smaller rise in the cost of living in the first quarter of 1967 than in the same period of 1966. Substantial further progress was made in 1966 toward simplifying and liberalizing the exchange and trade system, with the discontinuance of various exchange rates, the transfer of a large number of imports from the restrictive Special to the General category, the introduction of a lower tariff schedule in March 1967, the removal of some export taxes, and the virtual abolition of export licensing.

In Colombia, the faster rise in prices in 1966 mainly reflected the increase in import prices

which resulted from the gradual depreciation of the peso under the exchange reform initiated in September 1965. Following the liberalization of import controls at that time, imports rose rapidly from their severely restricted 1965 level, the acquisition of import inventories being financed to a large extent by bank lending. By mid-1966 the payments position was under severe strain, and the deterioration was aggravated by the fall in the price of coffee in the later months of 1966. Export receipts declined steeply, and the authorities reintroduced exchange controls in November. There was, however, a marked improvement in government finances in 1966 as a result of higher receipts from import duties and the sales tax. Domestic activity responded to rising government expenditures. Wage increases were moderated by public arbitration and, although there was a considerable expansion of bank credit to finance coffee stocking, the rise in domestic prices and wages was smaller, relative to the change in the exchange rate, than after the devaluation in 1962.

In March 1967 the exchange system in Colombia was liberalized, and most transactions are now effected in the certificate market with a flexible exchange rate. This system and other recent measures are expected to encourage the expansion of exports other than coffee and to permit a gradual relaxation of restrictions on imports. Steps have also been taken to strengthen further the fiscal position and improve the control over monetary expansion.

In Argentina the cost of living rose by 38 per cent in 1965 and 30 per cent in 1966, following somewhat smaller increases in 1963 and 1964, and the budgetary situation continued to pose severe problems. Despite a substantial reduction, the deficit in 1965 still amounted to almost 3 per cent of the national product. In 1966 revenues were adversely affected by the smaller rise in taxable output and incomes caused by the poor harvest and by increasing tax arrears, as well as by the decline of imports and the abolition or reduction of certain export taxes. At the same time, expenditures rose considerably, mainly as the result of higher wages paid to government employees and larger transfers to state enterprises and decentralized agencies.

The heavy deficits incurred by the Government—for the most part not for the purpose of financ-

ing public investment, but rather in directions tending to raise the level of aggregate consumption—have been the principal factor underlying the high rate of inflation, the low rate of growth, and the recurrent balance of payments crises experienced by Argentina since the war. Rapid increases in wage rates have, to a large extent, reflected the inflationary tendencies resulting from the financial policies pursued, but pressure by the unions has at times been a factor in the rate of cost increases.

Until late 1958 a complex system of controls—operated to a large extent through the exchange system—hampered the development of agricultural resources in Argentina. A realistic exchange rate has not been consistently applied in the 1960's, although the exchange rates adopted have provided rather more adequate incentives to export than previously. On the whole, the environment has not been conducive to the formulation of long-term plans in the agricultural sector, which supplies the bulk of exports and a large part of domestic consumption. Industrial development has, on the other hand, been encouraged by the prohibition of many imports and by tariffs ranging up to 325 per cent or, in a few cases, even higher. Nonetheless, manufacturing output has not risen much faster than agricultural output in the 1960's, and in a number of capital-intensive industries capacity has been underutilized for several years. The very strong inducements to industrial investment and import substitution encouraged a surge of investment in 1958-62, heavily financed by short-term and medium-term borrowing abroad. It has since been necessary, as in Brazil, to hold gross domestic expenditure below output in order to repay this foreign debt.

In March 1967 the Argentine Government adopted a comprehensive series of measures aimed at slowing down the rate of inflation and improving the allocation of resources. The revised budget for 1967 provides for a sharp reduction in the deficit through higher internal taxes, higher taxes on exports related to the exchange rate adjustment, increased utility charges, restraint on government spending, and a firmer wage policy. All wage contracts were adjusted in April and May, the increases granted being related to the length of time since the signing of the existing contract. No further wage increases are contem-

plated until the end of 1968. In addition, the program calls for a slower expansion in central bank credit. In order to foster a satisfactory balance of payments performance and a higher inflow of capital, the exchange rate was changed from about 250 pesos to 350 pesos per U.S. dollar, and virtually all restrictions on payments and transfers were eliminated. As part of the plan to improve the functioning of the economy, particularly in the industrial sector, the tariff system has been reformed. Import duties have been reduced substantially, most import prohibitions have been lifted, and export subsidies have been eliminated.

In India the authorities have placed a maximum emphasis on securing a high rate of capital formation, through the development of basic and heavy industries. Despite considerable recourse to deficit financing during the second plan, which ended in the fiscal year 1960/61, prices rose only moderately up to that time, partly as a consequence of some exceptionally good harvests. Moreover, exports expanded rather slowly for several reasons. The high rate of increase in money incomes led to increasing domestic consumption and reduced the margin of agricultural production available for export. The orientation of industrial investment toward basic industries meant that investment did not result in larger supplies of finished manufactures for export, and the inducement to expand exports of consumer goods was comparatively slight in the context of strong demand conditions in the domestic market.

During the course of the third plan, inflationary pressures were greatly intensified in India because of a drought, increased defense expenditures required by the hostilities with Mainland China and with Pakistan, and the drying up of the flow of external finance when the latter conflict broke out. The budget for the year ended March 1967 provided for increased revenue from sales taxes, excise duties, and direct taxation, while reducing development expenditure. Emphasis was placed upon certain investments which might quickly yield increases in agricultural production and upon the completion of projects already under construction. Additional ad hoc measures of export encouragement were adopted, including import entitlement and tax assistance schemes. However, these quickly became exceedingly complex to administer and failed to provide

exporters the certainty of continued incentives. Efforts to enforce a stringent reduction of imports by licensing overburdened the administration of import controls, and in early 1966 import licensing came to a virtual standstill because of the extreme shortage of foreign exchange; the need for more fundamental measures thus became clear.

In June 1966 the rupee was devalued by 36.5 per cent, the complex export promotion schemes and the tax credit certificate scheme covering a wide range of nontraditional exports were terminated, and duties were imposed on a number of traditional exports (such as tea and jute manufactures) to siphon off the windfall gains from the devaluation. Imports of raw materials and component parts have since been liberalized substantially, and subsidies on a limited scale for specific engineering and certain other exports have been reintroduced. The 1967/68 budget, presented in May 1967, increased taxes on domestic consumption of luxuries (including tea, coffee, and cigarettes), footwear, and postal services; and it sought to avoid deficit financing and to effect a shift in development expenditures toward agriculture.

In Pakistan defense expenditures were reduced and development outlays were restored to a higher level in the 1966/67 budget. Revenue from customs and excise taxes, personal income taxes, and corporate taxes was expected to rise substantially. While there was considerable progress in reducing the public sector reliance on bank credit during 1966, a rapid rate of monetary expansion continued as the increase in credit to the private sector accelerated in a situation of slackening industrial activity. The financing of public expenditures out of local currency counterpart funds and bank borrowing is being held down pending an anticipated increase in the inflow of official transfers and capital.

The Government in Indonesia is attempting to raise revenues from taxation and from profits on the sale of foreign exchange, to make public enterprises self-supporting, and to streamline the administrative machinery. Since the initiation of the stabilization program in October 1966, the exchange rate has been allowed to fluctuate, and negotiations have been undertaken with Indonesia's creditors to permit a rescheduling of debt and the granting of emergency import credits.

A program of economic rehabilitation was introduced in the spring of 1966 by the Government of Ghana. The budget covering the period from mid-1966 to mid-1967 provided for a substantial reduction of development expenditures through the elimination of uneconomic projects. Revenues have also declined, however, as a consequence of lower cocoa exports and reduced imports. During the course of the year cash deficits and net internal borrowings were reduced by the availability of increased external support, including drawings from the Fund. In December 1966 an agreement was reached between Ghana and its creditor countries to reschedule the repayment of its medium-term outstanding debts.

Renewed stabilization efforts are being made in the Sudan, where the earlier program suffered a setback in 1965/66, owing to a steep rise in defense expenditures and to a slower growth in tax revenue due in part to an inflexible cotton marketing policy. The government deficit widened and the budgeted increase in development outlays was curtailed. Toward the end of the 1965/66 fiscal year, the sharp reduction in foreign reserves led to a severe intensification of restrictions on current payments. In July 1966 a comprehensive program was adopted to strengthen the financial structure; cotton marketing policy was changed to dispose of the large cotton stocks, and tax revenues were increased by the introduction of new taxes and by raising import surcharges, sugar monopoly profits, and excise duties. A stand-by arrangement for \$28.5 million was agreed by the Fund in September 1966, and the stabilization program was modified in May 1967.

In summary, a number of the primary producing countries that have recently encountered severe balance of payments difficulties have adopted a comprehensive series of corrective policies. These have encompassed, in the first place, measures to strengthen the finances of the public sector and, where necessary, to establish more effective control over the extension of credit to the private sector. These measures have usually been accompanied by a substantial adjustment of overvalued exchange rates, or the introduction of flexible exchange rates, and by the abolition or simplification of multiple exchange rate practices, import controls, and specific export promotion devices in order to place greater reliance on the market

mechanism to secure an improved allocation of resources.<sup>3</sup> Where necessary, policies have placed increasing emphasis upon raising agricultural output. In certain countries that have suffered from a wage-price spiral, efforts are being made to implement a rational wage policy.

The comparatively slow growth of demand for imports of agricultural commodities into the industrial countries as a group poses a major problem for many less developed countries in the pursuit of their development goals. The largest and most populous of the less developed countries, which provide a large share of the world supply of staple agricultural commodities, face particularly severe difficulties in expanding their traditional exports. For such countries, some of which already possess a relatively broad industrial base, the need to develop exports of manufactures is therefore particularly vital. This need, in turn, makes the avoidance of a high rate of inflation essential. Apart from the social inequities caused by inflation, the adverse effects of rapidly rising prices upon private saving and the direction of investment have their counterpart in increasing strains on the external balance. It becomes at first difficult, and subsequently impossible, to maintain the rate of fixed investment because of the increasing problem of expanding foreign exchange receipts from exports and capital inflows, and perhaps even more because of the problem of restraining the increasing diversion of limited foreign exchange resources to the purchase of less essential imports or to the financing of capital outflows.

For many less developed countries, the problem of raising foreign exchange earnings, and hence of maintaining a satisfactory rate of growth, could be reduced by easier access to markets in the industrial countries.<sup>4</sup> However, this would not obviate the need for the less developed countries to solve two related problems of development that have become increasingly apparent in recent years: ensuring an adequate expansion of agricultural production as the basis for industrial development, and avoiding inflationary pressures caused by the failure to reconcile competing demands upon the limited resources of the economy.

<sup>3</sup> See Chapter 4 for a more complete discussion of the relation of foreign exchange policy to development.

<sup>4</sup> See Chapter 4, page 47.

## Progress in More Developed Countries

Among the more developed primary producing countries, the six higher-income countries (Australia, New Zealand, and South Africa and the European countries of Iceland, Ireland, and Finland) have achieved satisfactory rates of economic growth during the 1960's. In the course of the last two years, however, all these countries experienced periods of somewhat slower growth. In Australia the slowdown (in the year ended mid-1966) was mainly occasioned by severe drought conditions. Production in South Africa was also affected by drought; however, there and in the other four countries lower rates of growth resulted in part from policy measures taken in response to adverse balance of payments developments. Each of the three European countries and New Zealand faced considerable difficulty in raising capital abroad since their borrowing possibilities were limited by the tight monetary conditions and high interest rates prevailing in international capital markets during much of 1966. The inflow of private capital into Australia nevertheless increased substantially, and there was a heavy inflow into South Africa in the year to mid-1966.

In Australia real gross national product in the year ended June 1966 was only about 1 per cent higher than in 1964/65. The drought led to declines in farm income, output, and investment. A more moderate rise in consumer outlays than in the preceding 12 months was also related to increased taxes and to the slower growth in wage and salary incomes. Much of the stimulus to the more rapid economic expansion that developed in the second half of 1966 came from a more favorable export situation and a very large wheat harvest. Australia's over-all balance of payments swung back into surplus in 1966 (Table 36, p. 80) as exports recovered and imports declined slightly. The substantial increase during 1966 in the net inflow of private capital, concentrated in the first half of the year, was more than offset by a net outflow on account of official capital and aid.

In South Africa the rate of economic expansion lessened toward the end of 1965, as both private and public investment declined following three years of strong advance, but faster growth was resumed in the second half of 1966. Real gross national product rose by 5½ per cent from 1965 to 1966, about the same increase as in the pre-

vious year. The balance of payments on current account improved in the first half of 1966 as imports fell sharply, partly because of the tightening of import restrictions in August 1965. A heavy net inflow of private capital during 1966 was a factor in the resumption of faster growth. This, together with a selective relaxation of import controls in July, led to renewed expansion of imports. Nevertheless, the current account remained strong as exports, particularly of manufactured goods, also rose. Additional monetary and fiscal restraints were imposed at various times in the second half of 1966 and early 1967, and import restrictions were further relaxed.

In New Zealand private investment flattened out in 1966, and the pace of expansion slowed following three years of rapid growth. A large current account deficit was incurred in 1965, when exports declined with lower wool prices. In 1966 a further widening of the deficit on invisibles offset much of the improvement in the trade balance that resulted from an increase in the volume of wool exports coupled with a more moderate growth of imports. An already weak payments position was exacerbated by a sharp fall in wool prices toward the end of 1966. Thereafter, the Wool Commission began purchasing wool to support the market and wool exports, which normally account for about 30 per cent of export receipts, were severely curtailed.

The financing of New Zealand's current account deficit during 1966 became increasingly difficult. A further loss of reserves over the year was prevented by heavy official borrowing, which included a considerable amount of short-term assistance. Drawings on the Fund, equivalent to a total of \$37 million, were made in 1966 and the first half of 1967. In the meantime, the Government adopted a number of measures to lessen inflationary pressures and reduce the strain on the balance of payments. These included the abolition of certain major food subsidies, a tightening of installment credit terms, a strengthening of control over the operations of finance companies, and the imposition of stricter import licensing.

In Finland the expansion of output began to slow down in the latter part of 1965 following a very rapid growth in 1964. Real gross domestic product increased little more than 2 per cent from 1965 to 1966 after rising 5½ per cent from 1964 to 1965. The slowdown in 1966 stemmed largely

from the flattening out of fixed investment, under the impact of disinflationary policies adopted during 1965 and early 1966 in order to strengthen the external position. In 1964 there were exceptionally favorable opportunities for placing Finnish bonds with investors in the United States and Western Europe, and the heavy inflow of private capital had made it possible to finance a sharp increase in imports while still adding to reserves. The net capital inflow, however, declined with the tightening of international capital markets in 1965. Although the growth of imports subsided in 1965 and 1966, the current balance did not improve inasmuch as the growth of exports also slowed down because foreign demand and prices for exports of forestry products weakened, particularly in 1966. Reserves declined in both 1965 and 1966, and in March 1967 the Fund agreed to a stand-by arrangement for \$94 million.

In Ireland also, the expansion of output slackened in 1965 and decelerated further in 1966, when real gross domestic product scarcely rose. The inflow of private capital declined after 1964, and the ensuing tightness in the banking system was reinforced by monetary and fiscal measures taken in the latter part of 1965 and in the first half of 1966 to reduce the strain on the balance of payments. The slight growth of output in 1966 was associated with a decline in the rate of fixed investment and with a slower growth of private consumption. Imports changed little from 1965 to 1966, and the current account position improved appreciably. Total foreign exchange reserves rose by 20 per cent.

In general, the lower-income primary producing countries in Southern Europe benefited from exceptionally favorable harvest conditions in 1966 and achieved large increases in output (8-9 per cent). In Portugal, however, the expansion of output slowed down as a consequence of a poor harvest and a slackening in manufacturing production. In Spain measures of economic restraint lessened the investment boom and led to some deceleration of the growth of output in the second

half of 1966. Price increases moderated and the growth of imports was reduced. The further strengthening of the surplus for tourism and transfers partly offset the widening of the trade deficit, and the net inflow of private capital appears to have increased. The over-all balance of payments nevertheless deteriorated from 1965 to 1966, and in January 1967 Spain made a large drawing on the Fund. In Greece there was a sharp rise in manufacturing output, reflecting the coming into operation of new plants. Pressure on resources, however, gave rise to price increases and a further worsening of the trade balance, despite a very marked expansion of exports occasioned by sales of wheat stocks. In Turkey 1966 was a year of record agricultural production and increasing private and public investment. Prices, which had risen rapidly in the second half of 1965, went up little in 1966 as a consequence of a restrictive credit policy in the first half of the year, smaller wage increases, improved food supplies, and sharply higher imports. In Yugoslavia the growth of industrial production in 1966 slowed to a rate of about 4 per cent, reflecting the expected effects of the implementation of the July 1965 economic reform, restrictive credit policies, and less buoyant foreign demand. Industrial employment declined as a concomitant of adjustment following the reform. Imports expanded by 22 per cent from 1965 to 1966 following a slight decline in the preceding period. Wage and farm incomes rose sharply in the second half of 1966, and additional measures of restraint were taken.

The year 1966 was thus a generally favorable one for the more developed primary producing countries. Nevertheless, the payments positions of a number of these countries came under increasing strain because of reduced capital inflows, falling prices for certain primary products, or declines in foreign exchange receipts associated with the slowing down of expansion in the industrial countries. Six of the countries made one or more drawings on the Fund in 1966 and the first part of 1967.

## Chapter 9

# Gold

### Gold Production

A major feature of developments in gold markets during 1966 was the virtual leveling off in production of gold in the Western world. World output of gold increased only slightly, by 0.3 per cent. This excludes the production of Soviet countries and Mainland China, on which no reliable information is available. Total production was about 41.4 million ounces, worth (at \$35 a fine ounce) approximately

million. South African output constituted rather more than 74 per cent of world production, as defined above, and this proportion has been increasing since the mid-1950's when it was about 50 per cent. At the same time, South African gold production in 1966 was equivalent to 40 per cent of South Africa's exports of merchandise plus gold production (i.e., including the whole of gold production as available for export); comparable ratios were 42 per cent in 1965 and 32 per cent in 1956. No other gold producing coun-

TABLE 54. GOLD: VALUE OF WORLD PRODUCTION, 1940, 1945, AND 1962-66<sup>1</sup>  
(In millions of U.S. dollars at US\$35 a fine ounce)

	1940	1945	1962	1963	1964	1965	1966
South Africa	492	428	892	961	1,019	1,069	1,081
Canada	186	95	146	139	133	126	115
United States	170	32	55	51	51	59	63
Australia	57	23	38	36	34	31	32
Ghana	31	19	31	32	30	27	24
Rhodesia	29	20	19	20	20	19	18
Japan	30	3	15	15	16	18	19
Philippines	39	—	15	13	15	15	16
Colombia	22	18	14	11	13	11	10
Congo, Dem. Rep. of	20	12	7	8	8	2	4
Mexico	31	17	8	8	7	8	8
Other <sup>2</sup>	157	69	60	62	60	55	55
Total <sup>2</sup>	1,264	736	1,300	1,356	1,406	1,440	1,445

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

<sup>1</sup> Excluding the output of Soviet countries and Mainland China.

<sup>2</sup> These figures include estimates for data not available.

\$1,445 million (Table 54). In general the trend noticeable in earlier years has continued. Output in South Africa continued to rise but at a slower rate; production outside South Africa continued to fall, although within this area production increased in the United States for the second year running. The world prospect is more than ever strongly influenced by the developments in South Africa.

South African production reached nearly 30.9 million fine ounces in 1966, an increase of 1.3 per cent over the 1965 level of 30.5 million ounces and equivalent to approximately \$1,080

try shows an equivalent ratio above 10 per cent. In assessing future prospects for world gold production, these differences in the proportionate weight of gold mining in the national economies may be relevant, insofar as they make changes in the level of gold output a matter of national rather than of local or sectoral concern.

Excluding three mines classified as primary uranium producers, and two which ceased operations during the year, there were 47 gold mines operating as members of the Transvaal and Orange Free State Chamber of Mines at the end of 1966, and these mines accounted for 96 per

cent of total South African gold production. The tonnage of ore milled by all members in 1966 was 2.2 per cent lower than in 1965, but the average grade of ore rose, from 7.518 dwt. in 1965 to 7.776 dwt. in 1966. Combined working profits from gold, uranium, and other products, which were on a strongly rising trend from the mid-1950's to the mid-1960's, are reported to have declined slightly, from R 332.2 million (\$465.1 million) in 1965 to R 325.5 million (\$455.7 million) in 1966. Five of the 47 mines, accounting for a little less than 2 per cent of South African gold production, operated at a loss in calendar year 1966. At the other end of the scale the 10 largest producers of gold and generally most profitable mines, which with one exception all commenced production after 1950, accounted for 67 per cent of the total profits of members of the Chamber of Mines. These mines together showed average working costs of only R 11.01 an ounce (\$15.41 an ounce) on their aggregate production, accounting for roughly half the South African total. At these individual mines working costs per ounce ranged from R 7.2 (\$10.08) to R 18 (\$25.20). The 1966 profits of this group were, however, slightly higher than in 1965. Output for the group was up by nearly 2 per cent. The Western Deep Levels Mine, which is one of the newest mines, was the only mine in this group to reduce its working costs per ounce in 1966, while also increasing both its production and profits. Working costs per ton milled for the 10 mines as a whole increased in 1966 by rather more than 4.8 per cent.

During the second half of 1966 a series of small strikes may have hampered production and thus have contributed to the smaller increase in 1966 than in recent years. A recent agreement between management and labor has been reached on the basis of increases in productivity.

South African mining costs, measured by working costs per ton milled among members of the Chamber of Mines, rose by about 3 per cent a year from 1959 until 1964; in 1965 they increased by 5 per cent and they are estimated to have increased by nearly 4½ per cent in 1966. In addition, the South African Government, as part of its anti-inflationary measures, has added a surcharge of 5 per cent to the tax liabilities of the gold mines. Furthermore, the South African

budget, presented in March 1967, included a proposal for an additional 5 per cent loan levy on the mines. On the other hand, tax relief is available to the gold mining industry, principally for new mines which are exempt until profits have covered initial capital costs of installation. Mergers of mines have also effectively reduced the incidence of taxation, particularly in relation to new development expenditures.

In the United States the value of production increased by about 5.2 per cent to the equivalent of \$62.8 million in 1966, the highest since 1956. Increased official attention is now being given to stimulating gold production in the United States. The U.S. Administration has persistently opposed subsidy or assistance payments on the grounds that these could lead to uncertainty about the official gold price and thereby undermine confidence in the dollar. But this does not rule out official aid in resource development. In 1961 gold was added to the list of minerals eligible for the exploration loan program of the Geological Survey, and in the following five years 37 contracts relating to gold were made, totaling \$2.2 million. Studies of the Geological Survey identified a new type of gold deposit which was developed by private exploration into the Carlin Mine in Nevada, the opening of which in 1965 was responsible for the recent upturn in U.S. gold output. In 1966, a more extensive Heavy Metals Program was launched jointly by the Geological Survey and the Bureau of Mines. Early results included identification of a gold-bearing zone in the Cortez area of Nevada, similar to that of the Carlin Mine.

The working basis of the official exploration and research effort is that discovery of new sources and development of new or improved mining and metallurgical techniques offer better promise of increased output than the reopening of known mines, though it is hoped that the lives of existing operations may be extended by improved technology. Attention is also being paid to marine exploration, which requires improved drill rigs; two different types are to be tested in the Bering Sea off Alaska.

The most significant reduction in gold production in 1966 was in Canada, where output fell by the equivalent of about \$11 million. The Act under which financial assistance is granted to the

Canadian gold mining industry is due to expire at the end of 1967. Of 41 mines which received assistance in 1965, 18 were paid the maximum permissible amount, which implies that production costs in these mines were at a level of Can\$45 (US\$41.63) a fine ounce. In 1965 approximately 67 per cent of the gold produced in Canada was eligible for some degree of financial assistance. This assistance is directed primarily to easing social problems, rather than to stimulating gold production as such, and is therefore limited to existing mining communities. The Mining Association of Canada, however, has urged continuance of this assistance on an extended basis to encourage the development of new gold producing areas.

As shown in Table 54, 1966 gold production increased by small amounts in Australia, the Democratic Republic of Congo, Japan, and the Philippines, remained constant in Mexico, but declined in Ghana and Colombia.

In Nicaragua the UN Development Program is carrying out a geological and geophysical exploration program in collaboration with the Nicaraguan Geological Survey. As a result of this survey it is hoped that the recent fall in gold production can be reversed. Until 1950 gold constituted Nicaragua's largest single export and it still accounts for more than half the total value of mining output. The UN Development Program is also carrying out projects in Bolivia, Ethiopia, Ivory Coast, Kenya, Senegal, the Sudan, Tanzania, and Upper Volta, with the object of increasing gold production.

There have again been reports of gold finds in the U.S.S.R. A major new gold field is reported to have been discovered at Muruntau in the Central Asian region. The report suggests that production could begin in the near future in this area and that it could be on a large scale. More than ten deposits of gold are also said to have been discovered in the Transbaikalia region of Eastern Siberia. These deposits are located at shallow depth in the Karaton River valley.

### Gold Holdings

During the 17 years 1949 to 1965, annual additions to official gold stocks ranged between

\$210 million and \$825 million, averaging about \$510 million. In calendar year 1966, however, there was a decline in the official gold stocks of national monetary authorities and international institutions of approximately \$40 million (Table 55 and Chart 25). Total recorded official gold stocks amounted to \$43.2 billion at the end of 1966. Changes in the distribution of gold reserves during 1966 are discussed in Chapters 2 and 7.

TABLE 55. GOLD: AVAILABLE NEW SUPPLIES AND USE, 1964-66

(In millions of U.S. dollars)

	1964	1965	1966
Production <sup>1</sup>	1,406	1,440	1,445
Sales by U.S.S.R.	450	550	
Purchases by Mainland China	—	-150	-75
Total new supplies	1,856	1,840	1,370
Total added to countries' monetary gold stock <sup>1</sup>	625	1,005	-945
IMF gold transactions <sup>2</sup>	-132	-311	783 <sup>3</sup>
BIS and EF gold transactions <sup>2</sup>	225	-487	121
Total added to world monetary gold stock <sup>1</sup> (rounded)	715	210	-40
Residual: consumption in industry and arts, and private hoarding	1,140	1,630	1,410

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

<sup>1</sup> Excluding Soviet countries and Mainland China.

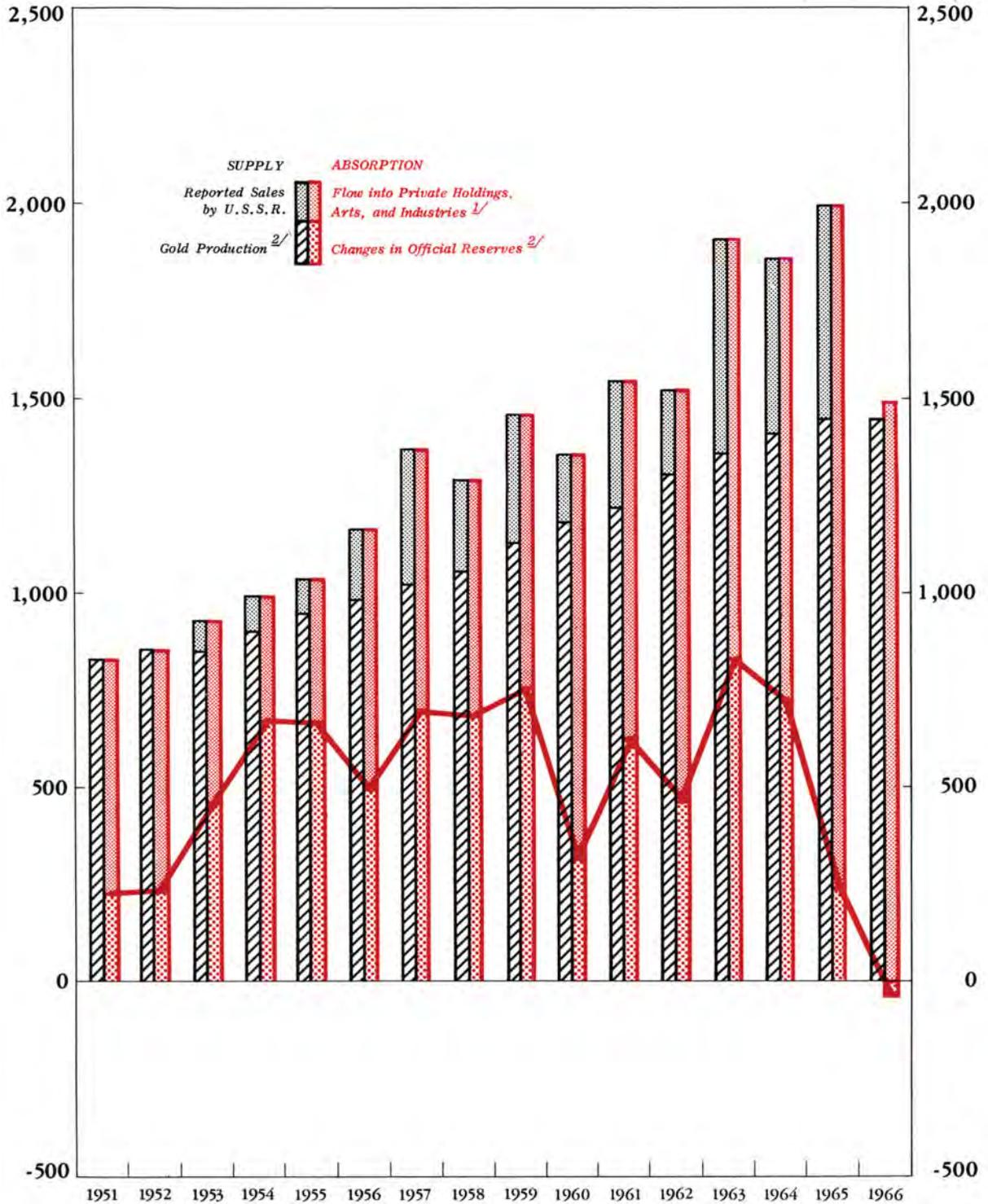
<sup>2</sup> Minus sign denotes net outflow of gold from institution.

<sup>3</sup> Excluding gold placed on general deposit in London and New York (\$254 million).

Gold holdings of the International Monetary Fund increased during calendar 1966 by a net \$783 million. The total amount of gold received by the Fund in respect of subscriptions and increases in quota amounted to the equivalent of \$1,165 million, of which \$254 million was placed on general deposit with the Fund's gold depositories in New York and London in accordance with the arrangements provided for in the report of the Executive Directors to the Board of Governors concerning increases in quotas of Fund members, Fourth Quinquennial Review dated February 26, 1965.<sup>1</sup> Sales of gold to member countries amounting to \$148 million were made under the same arrangements. Gold received by the Fund in respect of charges amounted to \$24 million, which was offset in part by charges paid in gold by the Fund, amounting to \$16 million in respect of borrowings by the Fund of members' currencies under the General Arrangements

<sup>1</sup> See *Annual Report, 1965*, pages 33-34.

CHART 25. GOLD: ESTIMATED NEW SUPPLIES AND ABSORPTION, 1951-66  
(In millions of U.S. dollars)



<sup>1</sup> Including purchases by Mainland China amounting to the equivalent of \$150 million in 1965 and of \$75 million in 1966.  
<sup>2</sup> Excluding Soviet countries and Mainland China.

to Borrow. Repurchases of members' currencies from the Fund against gold amounted to \$11 million.

As gold production was not supplemented by Russian sales in 1966, newly available gold in the Western world amounted to approximately \$1,445 million. Mainland China was again reported as a buyer of gold to the estimated value of about \$75 million, compared with some \$150 million in 1965. Absorption of gold by industry and the arts and by private hoarding appears to have been of the order of \$1,410 million, \$220 million less than in 1965 when total absorption for these purposes reached a peak. Since 1951 it is estimated that \$13.5 billion of gold has been used by industry and the arts, or has gone into private hands. The motives behind the private acquisition of gold cannot be clearly disentangled, but they no doubt represent some hoarding in preference to other forms of savings, some speculation about an increase in the world price of gold, safeguards against currency devaluation, fear of war, and, more simply, response to the attractiveness of gold as an ornament.

#### *Private Absorption*

A breakdown of private uses between different categories cannot be made with much degree of reliability on the basis of the information presently available. Certain statistics are compiled by a number of countries on gold supplied by national mints and other central authorities for "industrial" use, i.e., for fabrication in the jewelry trade, for dental purposes, and for industrial consumption. In a number of cases, however, these "industrial" allocations may have been diverted in part to private holdings of nonfabricated or semi-fabricated gold. In addition, jewelry with a high gold content is held, mainly outside Europe and North America, as an important hedge against rising prices and falling currency values, as well as a repository for long-term savings; this apparent "industrial" use may in practice thus belong to a different type of private consumption of gold. Trends in nonmonetary uses of gold are of clear importance in assessing a number of key aspects of the international monetary system, and in the past year or so a widespread desire has been expressed for more accurate and compre-

hensive information. The Fund hopes to obtain improved information in this field.

One analysis of the forces and trends underlying private absorption of gold has been published by the Bank for International Settlements (BIS). For some time the BIS has been collecting statistics on the "industrial" use of gold, and it published them in 1966 as combined figures for 12 major countries. The BIS has stressed the hazards involved in such statistics and estimates because of the gaps in the statistics and because the motives behind private gold buying cannot be clearly separated in quantitative terms. A set of figures is also published by the U.S. Bureau of the Mint. The most recent set, for the calendar year 1965, comprises estimates for 36 countries derived from sources such as central banks, assay offices, ministries, and other official and semi-official institutions.

In the absence of additional, more comprehensive, and more precise statistics, these two sets have been used in Table 56 in order to approach a breakdown of private absorption into two main categories, industrial and artistic use of gold and private gold hoarding. By using the Bureau of the Mint figures for countries that are not covered in the BIS survey, the range of countries covered, in which the amount of gold consumed by industry is estimated to be significant, can be considerably extended.

In general, the increase in the consumption of gold for industrial and artistic purposes seems to have been roughly in line with the increase in private gold hoarding during the last decade. The estimated use of gold in industry and jewelry fabrication has expanded rapidly and has more than doubled in size over the period as a whole. Toward the end of the period, however, it seemed to grow at a somewhat faster rate than private hoarding which appears to have declined in 1966 from the very high level reached in 1965. In spite of the shortcomings of the statistics and the caution which is needed in their interpretation, they indicate remarkably strong upward changes in the trend of the "industrial" use of gold in 1960 and again in 1964, especially so in the Mint series but also in the BIS series. In 1960 consumption classified in this category expanded by about \$95 million, and in 1964 by about \$130 million, in contrast to an average addition over

TABLE 56. GOLD: NEW SUPPLIES AND USE, 1956-66

(In millions of U.S. dollars)

Year	(A) Newly Available Gold <sup>1</sup>	(B) Additions to World Mon- etary Stock <sup>2</sup>	(C) Estimated Industrial And Artistic Use <sup>3</sup>		(D) Estimated Private Hoarding <sup>4</sup>
			BIS	U.S. Bureau of the Mint	
1956	1,125	490	165	80	390
1957	1,275	690	195	45	345
1958	1,285	680	200	65	340
1959	1,380	750	220	60	350
1960	1,378	310	265	110	695
1961	1,540	615	285	95	545
1962	1,515	355	330	60	770
1963	1,906	825	325	65	690
1964	1,856	715	430	90	620
1965	1,840	210	465	95	1,070
1966	1,370	-40		650 <sup>5</sup>	760

<sup>1</sup> New production plus Russian sales less purchases by Mainland China.

<sup>2</sup> Data from International Monetary Fund, *International Financial Statistics*.

<sup>3</sup> Based on series published by the BIS (*Annual Report, 1966*) for 12 countries and by the U.S. Bureau of the Mint for an additional 29 countries not covered by the BIS series.

<sup>4</sup> The residual amount, columns A - (B + C) = D.

<sup>5</sup> Fund staff estimate.

the preceding three years of approximately \$12 million and \$5 million, respectively. The first upturn in 1960 closely parallels a strong expansion in private hoarding of gold and this coincided with substantial demand for conversion of dollars into gold at the U.S. Treasury.

These two main features, the general parallelism in the expansion of private hoarding and "industrial" use of gold and the sudden expansion in certain years of the latter, are unlikely to have their roots in the use of gold for industrial purposes in the narrow sense of the term. As a rule, the major share within the category of "industrial" use is accounted for by gold used in the jewelry trade. Nor would changes in industrial stocks of gold explain these sudden spurts since the expansion was rather steady as a whole. In countries covered by the estimates, growth of real incomes during the period under review may have influenced the more steady expansion of the private use of gold. But this influence is probably of less importance in connection with the increased use of gold by industry than in the jewelry trade and other private acquisitions. Some of the sudden expansion of industrial use may have to be attributed to gold hoarding of the more speculative type. Without such an inference the behavior of the available figures on the private and artistic use of gold cannot be easily explained.

Statistics of nonmonetary absorption of gold are available for the United States. These show a strongly rising trend in recent years. Net issues of gold to domestic industry (i.e., after allowing for returns of scrap) exceeded \$200 million in 1966. This absorbed about one seventh of the whole of world production outside the U.S.S.R., and was more than three times as large as U.S. production. U.S. industrial use of gold rose strongly from 1957 through 1966; but this trend followed an apparent sharp decline in the early 1950's and a flat trend in the mid-1950's. Thus, it was not until 1960 that net U.S. domestic absorption of gold regained its level of the late 1940's. It may be coincidental that the period of slack industrial use of gold in the United States occurred in the years of relative unconcern about the world gold price. But at the least, this somewhat longer perspective suggests that, while industrial uses of gold may be expected to grow together with real income, and perhaps to increase notably faster than real income when income levels are high, it may be premature to project the most recent relationship into the immediate future. Even in the United States, where uses of gold in the computer and space industries are far more advanced than elsewhere, over three fifths of "industrial" use has recently been accounted for by jewelry manufacture and the arts.

In 1965 new gold absorbed by industry in the United States amounted to the equivalent of \$185 million. Of this total, \$120 million (65 per cent) was used in the manufacture of jewelry and the arts; \$43 million (23 per cent) by industrial electronics, including space and defense; \$13 million (7 per cent) by the dental profession; and \$9 million (5 per cent) by other industry.

Demand for jewelry may be expected to increase over the long term with increased living standards in the high-income countries. This could, however, be countered by an opposite tendency in very low-income countries such as India, where gold hoarding is in part a facet of the lack of adequate alternative facilities for investment. More generally, the demand for gold for jewelry purposes is dependent on the availability and relative prices of competing materials such as diamonds, platinum, and silver; and also on changing tastes and fashions in the jewelry trade. These may be related somewhat distantly to speculation about the monetary price of gold.

In Germany, which is among the countries imposing no restrictions on private holdings of gold, commercial banks and gold dealers in the ten years ended in 1965 officially imported 600 tons, an average of the equivalent of \$67 million a year. Imports were particularly heavy in 1965.

In Japan, the level of new gold production, which has remained roughly constant for the past two or three years, has not satisfied domestic industrial demand. In recent years, a substantial part of the gap between domestic production and industrial use has been bridged by the recovery of old gold and releases from official stocks. The remaining unsatisfied demand has induced smuggling and high premium prices. Accordingly, the Japanese authorities have announced that for the first time since the end of World War II they expect to buy some 10 tons (\$11 million) of gold in the year ending in March 1968 to bridge the gap between domestic production and the requirements of industry.

Private demand for gold has continued at a high level elsewhere in Asia and in the Middle East, and has been heightened by insecurity and inflation. Laos has become an important center of gold operations in the Far East. Imports into Laos are subject to a duty which was increased gradually from 6 per cent in early 1966 to 8½

per cent in April 1967; gold imports totaled some \$60 million in 1966. This gold is allegedly re-exported in the form of "smugglers' jewelry," a crude form of jewelry manufactured with little craftsmanship, mainly to Thailand and Viet-Nam. Imports of gold into Macao are said to have been in the region of \$40 million for the whole of 1965, almost double the amount imported a year earlier. These imports are subject to a levy which finances some 20 per cent of the territory's budgetary expenditure.

Demand for gold coins has persisted at relatively high levels, and prices have risen steadily but modestly. Calculation of the percentage appreciation or depreciation in the value of sovereigns and napoleons based on their price in local currency over each year since the end of 1961 shows only a small appreciation for the sovereign over the period to the end of 1966, the largest increase in price being in the Beirut market with an average capital gain of 1.8 per cent per annum. The increase in the price of napoleons would have yielded an average of 4.6 per cent per annum in Beirut and an average of 3.5 per cent per annum in both Milan and Paris. These rates of average annual appreciation on this form of investment are of course smaller than the average yields on most income-earning investments.

## Gold Movements, Markets, and Prices

### *New York*

During 1966 official sales of gold by the U.S. Treasury to foreign countries totaled a net of \$744 million (Table 57). In addition, the equivalent of \$141 million was sold from the U.S. gold stock in 1966 to cover demand for industrial, professional, and artistic uses not met by new production and recovered gold. The \$259 million paid by the United States into a suspense account of the International Monetary Fund in 1965 in anticipation of the increase in quota is attributed in Fund statistics to 1966, when the quota increase took effect, but it is shown in the U.S. statistics as an outflow of gold in 1965. Purchases of gold from foreign countries during the year under review included the equivalent of \$200 million from Canada and \$80 million from the United Kingdom. This figure may not reveal the

TABLE 57. UNITED STATES: GOLD TRANSACTIONS, 1964-66  
(In millions of U.S. dollars)

	1964	1965	1966
<b>Purchases from</b>			
Brazil	54.2	25.2	—
Canada	—	—	200.0
Italy	200.0	—	—
United Kingdom	617.7	149.7	79.8
Other countries	35.0	38.4	33.1
<b>Total</b>	<b>906.9</b>	<b>213.3</b>	<b>312.9</b>
<b>Sales to</b>			
Argentina	—	—	21.5
Austria	55.4	100.0	—
Belgium	40.1	82.7	—
France	405.1	884.2	600.9
Germany	225.0 <sup>1</sup>	—	—
Italy	—	80.0	60.0
Netherlands	60.0	35.0	—
Spain	32.0	180.0	—
Switzerland	81.0	50.0	2.0
Turkey	—	36.8	12.5
Other countries	44.5	52.5	46.8
Industrial, professional, artistic	89.0	117.9	140.6
<b>Total</b>	<b>1,032.1</b>	<b>1,619.1</b>	<b>884.3</b>
<b>Transfer to International   Monetary Fund</b>	—	258.8 <sup>2</sup>	—
<b>Total</b>	<b>1,032.1</b>	<b>1,877.9</b>	<b>884.3</b>
<b>Net decrease in stocks</b>	<b>125.2</b>	<b>1,664.6</b>	<b>571.4</b>

Source: U.S. Treasury Department, *Foreign Gold Transactions*.

<sup>1</sup> Two hundred million dollars of these sales formed part of the transaction initiated by the purchase from Italy shown.

<sup>2</sup> Since the increase in Fund quotas did not take effect until calendar 1966, this figure is shown statistically, elsewhere in this Report, as being transferred from the U.S. Treasury to the Fund during calendar 1966.

exact movement of gold between the United Kingdom and the United States, since presumably it is adjusted in respect of operations in the London market by the gold pool<sup>2</sup> in which the United States has a 50 per cent share. Altogether, U.K. official gold holdings declined by the equivalent of \$325 million in the course of 1966. Sales of gold by the U.S. Treasury in 1966 included the equivalent of \$601 million to France, all in the first three quarters of the calendar year. In addition, the United States sold gold to certain Fund members to enable them to pay the gold portion of their subscriptions to the Fund in respect of their increased quotas. These sales are not included in the amount of \$744 million (net) mentioned above, as the Fund has placed an equivalent amount of gold on general deposit

<sup>2</sup> See *Annual Report, 1964*, pages 131-32.

with the Federal Reserve Bank of New York. On April 30, 1967, the Fund's general gold deposit with the Federal Reserve Bank of New York amounted to the equivalent of \$230 million. Under a similar arrangement the Fund had placed the equivalent of \$44 million on general deposit with the Bank of England.

The amount of gold held under earmark by Federal Reserve Banks for accounts of foreign governments, central banks, and international organizations increased in 1966 by the equivalent of \$49.8 million to \$12,945.8 million.

### London

For most of the 12-month period May 1, 1966 to April 30, 1967, the price of gold in London was on the high side of the effective range for the market over the past several years, namely, \$35.08 to \$35.20 a fine ounce. During this period the price of gold quoted in U.S. dollar terms, converted from sterling at the buying price for U.S. dollars in London at the time of the daily fixing, fluctuated between a minimum of \$35.10 $\frac{7}{8}$  on May 3, 1966 and a maximum of \$35.19 $\frac{3}{4}$  a fine ounce on December 23, 1966, the highest price at the fixing for five years (Chart 26). Over the same period one year earlier, the range was 10 $\frac{5}{8}$  cents—between \$35.08 $\frac{3}{4}$  and \$35.19 $\frac{3}{8}$  a fine ounce.

During the year under review, demand in the London market was particularly heavy toward the end of September, just prior to the Fund's Annual Meeting, and deals were reported after the fixing on September 29 at prices up to \$35.20 a fine ounce. In December buying increased sharply as a result of fears that the United Kingdom's political difficulties with Rhodesia might lead to attempted sanctions on trade with South Africa. During January 1967, pressure for consideration of a rise in the international price of gold led to heavy demand, which subsided following a strong statement by the U.S. Treasury rejecting any such action. The price of gold and activity in the market declined as a result.

The demand for gold in the London market for 1966 as a whole has been described by the authorities in London as much lower than in 1965. Nevertheless, demand is said to have exceeded available supplies, and the central bank gold pool is reported to have been a net seller

over the year, for the first time since its inception, as the Bank of England used the pool's resources to meet excess demand to stabilize the price. Full evaluation of gold movements and the analysis of market behavior would require more details than are forthcoming as to the operations of the gold pool, such as the percentage participation of its members and the methods and timing of its settlement of surpluses and shortages.

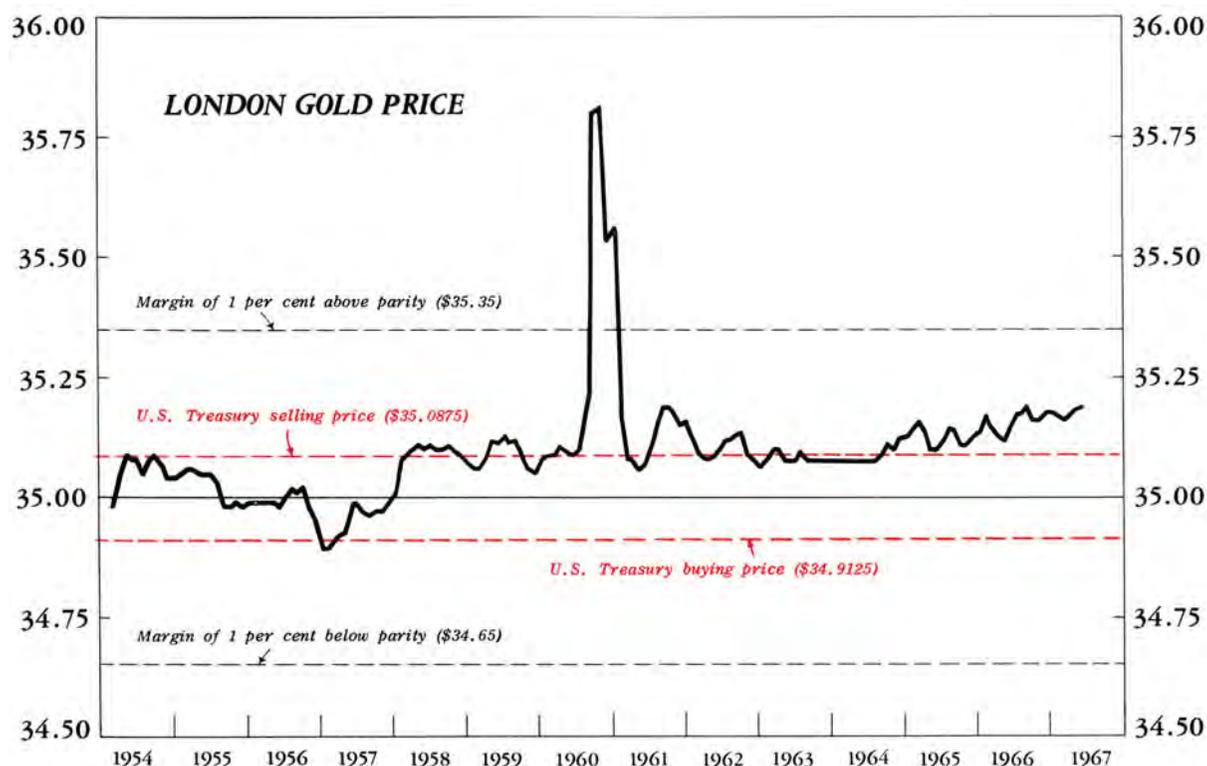
Imports of gold into the United Kingdom were less in 1966 than in 1965, totaling the equivalent of approximately \$931 million in 1966, compared with \$1,378 million in 1965 (Table 58). The de-

U.S.S.R. as a seller of gold in 1966 was also a significant factor.

#### Paris

From May through December 1966 prices for the kilogram ingot in the Paris market increased steadily, to the equivalent of \$35.44 a fine ounce at the end of the calendar year. On January 9 the price of the kilogram ingot reached a 5-year high in heavy trading at the equivalent of \$35.61 a fine ounce; on the same date the napoleon reached its highest level for 15 years, equivalent to \$54.56 a fine ounce. Activity declined on January 10 fol-

CHART 26. GOLD: PRICE IN LONDON MARKET, MONTHLY AVERAGES, MARCH 1954-JUNE 1967  
(In U.S. dollars a fine ounce)



cline is accounted for principally by the reduction in imports from South Africa, from the equivalent of \$1,210 million in 1965 to \$834 million in 1966. The main explanation lies in the build-up of South African reserves during the second and third quarters of 1966 at a time of balance of payments surplus, whereas gold reserves had been allowed to decline in 1965 at a time of balance of payments difficulties and this led to increased shipments of gold to London. The absence of the

lowing the U.S. Treasury statement referred to above.

At the end of January 1967 the French authorities announced the withdrawal of restrictions on the import and export of gold, thus freeing the Paris market. This change, effective February 1, had no significant effect on the Paris market since, although there has been prohibition in principle of the importation of gold, residents of France have been able, under an Amnesty Law of 1958,

to repatriate funds from abroad in the form of gold and to sell the gold on the Paris market. The market being adequately supplied with gold, the prices were roughly in line with those quoted in London and Zurich.

#### *Developments in Other Markets*

In other markets (Table 59) the U.S. dollar equivalent price for gold may be affected much more than in London and Paris by the fluctuations in the rate of exchange between the local currency

price being the equivalent of \$40.19 at the end of July 1966 and the high point being \$40.95 a fine ounce at the end of December 1966.

In Milan prices were extremely stable, moving within the narrow range of 12 cents; over the year as a whole prices for bar gold declined slightly.

In Greece the regulation of the free gold coin market introduced in December 1965<sup>3</sup> resulted in the dishoarding of some 10 million gold sovereigns in calendar 1966, which approximates the number sold by the authorities to the public in

TABLE 58. UNITED KINGDOM: IMPORTS AND EXPORTS OF GOLD, 1962-66  
(In millions of U.S. dollars)

	1962		1963		1964		1965		1966	
	Imports	Exports								
Europe	1.0	817.7	1.1	489.3	0.8	389.3	2.6	2,163.6	39.4	952.9
Austria	—	30.3	—	19.0	—	18.6	—	30.4	—	36.4
France	0.1	135.0	0.4	98.6	—	94.1	2.3	1,512.8	31.8	412.7
Germany	—	79.7	—	24.7	0.4	48.9	0.2	81.4	—	69.0
Italy	—	22.7	—	36.1	—	40.8	—	45.2	—	40.7
Switzerland	0.2	509.7	—	275.5	—	149.6	—	425.4	6.6	352.1
Other countries	0.7	40.3	0.7	35.4	0.4	37.3	0.1	68.4	1.0	42.0
Africa	717.8	23.0	873.7	5.1	1,158.5	8.9	1,256.0	23.3	860.2	4.1
Ghana	30.6	—	33.6	—	29.4	—	25.7	—	23.9	—
South Africa	664.7	—	816.1	—	1,106.0	—	1,209.6	—	834.1	—
Other countries	22.5	23.0	24.0	5.1	23.1	8.9	20.7	23.3	2.2	4.1
Middle East	—	132.9	—	140.2	—	162.3	6.0	194.6	0.1	215.9
Asia	15.1	22.0	—	13.3	—	19.0	—	112.7	0.1	47.7
North America	350.6	0.2	42.0	0.5	—	1.2	—	10.5	—	4.2
South and Central America	1.2	17.0	1.1	11.3	1.8	33.2	1.0	52.4	0.8	29.8
Soviet countries and Mainland China	106.9	0.8	282.4	4.5	268.6	1.6	112.6	119.7	30.4	37.8
Other	0.3	0.2	0.3	0.2	0.2	0.2	0.1	1.4	0.1	0.9
Total	1,192.9	1,013.8	1,200.5	664.5	1,429.8	615.8	1,378.3	2,678.1	931.2	1,293.3

Source: *Annual Statement of the Trade of the United Kingdom*.

and the U.S. dollar, as well as by the special circumstances of each market. Prices for both bar gold and gold coins over the period May 1, 1966 to April 30, 1967 followed a generally firmer trend, reflecting the high level of prices quoted in London. In Beirut the price for bar gold fluctuated within a range of 78 cents. The local banking crisis in mid-October caused the suspension of gold dealings from October 15 to October 21, 1966. Prices for the sovereign and napoleon rose steadily throughout the year.

The prices for bar gold in Hong Kong spanned a relatively wide range for that market, the low

1965. Dealings in gold coins have been banned since May 1967.

On June 6, 1966 the rupee was devalued and, while the price of gold in the Bombay market, in terms of rupees, immediately rose somewhat, the equivalent price in U.S. dollar terms declined from \$89.58 a fine ounce on June 3 to \$61.14 a fine ounce on June 10. The price remained fairly steady until early November when the amendments to the Gold Control Order<sup>4</sup> were published. Since November, prices have not been available on

<sup>3</sup> See *Annual Report, 1966*, pages 118-19.

<sup>4</sup> See *Annual Report, 1964*, page 108.

TABLE 59. GOLD: PRICES IN VARIOUS WORLD MARKETS, END OF APRIL, 1966 AND 1967  
(In U.S. dollars a fine ounce, at day's dollar rate)

	Bar Gold		Sovereign		Napoleon	
	End of Apr. 1966	End of Apr. 1967	End of Apr. 1966	End of Apr. 1967	End of Apr. 1966	End of Apr. 1967
Beirut	35.27	35.36	42.03	43.56	48.18	51.01
Bombay	100.31 <sup>1</sup>	64.90	...	...	...	...
Brussels	35.22	35.42	41.93	42.43	50.14	...
Hong Kong	40.28	40.23	...	...	...	...
Milan	35.45	35.44	42.01	42.68	51.05	52.75

<sup>1</sup> This figure has been obtained by conversion from quotation for 14-carat gold; transactions were limited to gold of that purity.

a regular basis, but at the end of April 1967 the Bombay price reached Rs 156.5 per 10 grams, equivalent to \$64.90 a fine ounce.

Since private ownership of gold in India is the result of long-established custom, sales are uncommon unless the owner is subject to economic distress. Against this background it is unlikely that the devaluation of the Indian rupee on June 6, 1966 caused dishoarding of any sizable amounts of gold.

### Changes in National Policies Affecting Gold

*Bolivia.* Toward the end of 1966 the Bolivian authorities authorized the Banco Central de Bolivia to purchase all gold and platinum produced in the country. The relevant decree permits the Central Bank to buy gold and platinum from national and foreign mining companies for U.S. dollars, based on the current quotations for the peso boliviano in New York. The decree also obliges cooperatives, societies, and individuals who mine gold and platinum to sell their output to the Central Bank. The purchase, exchange, and movement of gold and platinum are now illegal without the authorization of the Central Bank.

*France.* A decree implementing the law of December 28, 1966 on the reform of the exchange system and the liberalization of capital controls was published on January 29, 1967. French residents are now allowed to import or export gold freely or to hold the metal in France or abroad. The import or export is subject only to filing with the customs authorities a declaration previously visaed by the Bank of France.

*India.* On November 1, 1966 the Indian authorities amended the Gold Control Order.<sup>5</sup> In order to discourage smuggling, the Government made it illegal for persons other than authorized dealers or refiners to hold gold in the form of bars, ingots, or slabs, following a transitional period of six months from March 1, 1967 wherein individuals were required to dispose of their primary gold holdings and of a further six months wherein dealers and goldsmiths were to convert such primary gold into ornaments.

### Gold Subsidy Programs

The gold subsidy programs of Australia,<sup>6</sup> Canada,<sup>7</sup> Rhodesia,<sup>8</sup> and South Africa<sup>8</sup> discussed in previous Annual Reports have continued in operation during the past year.

The Philippines<sup>8</sup> consulted the Fund regarding the amendment of the Gold Industry Assistance Act. The Act, as amended, provides for increased financial assistance to various categories of gold mines. The amount of the assistance is related to the production capacity of each category of mine and, where the mine is not producing gold as a by-product, to the differential between the costs of production and the official price. The Fund deemed these arrangements to be not inconsistent with the objectives of the Fund's statement on gold subsidies dated December 11, 1947.<sup>9</sup>

<sup>5</sup> *Ibid.*

<sup>6</sup> See *Annual Report, 1960*, page 144; *1963*, page 181; *1965*, page 103.

<sup>7</sup> See *Annual Report, 1959*, pages 149-50; *1961*, pages 125-26; *1964*, page 109.

<sup>8</sup> See *Annual Report, 1964*, page 109.

<sup>9</sup> *Selected Decisions of the Executive Directors and Selected Documents* (third issue, Washington, January 1965), pages 14-15.

### 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, 121 transactions amounting to \$1,093 million have taken place since March 1952. There was one small transaction in the fiscal year 1966/67.

*This page intentionally left blank*

## **SUPPLEMENTARY NOTES**

*This page intentionally left blank*

## A. Activities of the Fund

THIS note sets forth, in somewhat more detail than given in Chapter 5, information about the activities of the Fund during the past year and provides some statistics on its operations since its inception.

### Membership

Fund membership rose to 106 during 1966/67, with the admission of two new members and the readmission of one that had previously withdrawn. Singapore joined the Fund on August 3, 1966, with a quota of \$30 million and Guyana on September 26, 1966, with a quota of \$15 million; Indonesia, which originally became a member on April 15, 1954 and withdrew on August 17, 1965, resumed membership on February 21, 1967, with a quota of \$207 million. Applications for membership by The Gambia and Malta were under consideration at the end of the fiscal year. With the additional members and the increases in quotas shown in Table 62, the aggregate of Fund quotas on April 30, 1967 was \$20,921 million, compared with \$19,411 million at the end of the previous fiscal year.

### Executive Directors

A list of the Executive Directors and Alternate Executive Directors and their voting power as of April 30, 1967 is given in Appendix II, and changes in membership of the Executive Board during 1966/67 are shown in Appendix III.

### Article VIII

Four countries accepted the obligations of Article VIII, Sections 2, 3, and 4, of the Fund Agreement during and shortly after the fiscal year: Guyana, with effect from December 27, 1966; Denmark, with effect from May 1, 1967; Norway, with effect from May 11; and Bolivia, with effect from June 5. The 31 members that have rendered

their currencies convertible under the Articles of Agreement are listed in Table 60.

TABLE 60. COUNTRIES THAT HAVE ACCEPTED ARTICLE VIII, JUNE 30, 1967

Member	Effective Date of Acceptance
Australia	July 1, 1965
Austria	August 1, 1962
Belgium	February 15, 1961
Bolivia	June 5, 1967
Canada	March 25, 1952
Costa Rica	February 1, 1965
Denmark	May 1, 1967
Dominican Republic	August 1, 1953
El Salvador	November 6, 1946
France	February 15, 1961
Germany	February 15, 1961
Guatemala	January 27, 1947
Guyana	December 27, 1966
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
Norway	May 11, 1967
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

### Par Values

The Fund concurred in the proposal of the Government of India for a change in the par value of the rupee from Rs 4.7619 per U.S. dollar to Rs 7.5 per U.S. dollar, effective June 6, 1966. The Fund concurred in the par value proposed by the United Kingdom for the new monetary unit of the Bahama Islands, in respect of which the United Kingdom has accepted the Fund Agreement, at the rate of 1.02041 Bahamian dollars per U.S. dollar, effective May 25, 1966. The Bahamian dollar, a decimal currency, replaced

the Bahamas pound. The Fund also concurred in the par value proposed by the Government of Ghana for the "new cedi," which was introduced to replace the cedi as the legal unit of value; the agreed par value was N¢ 0.714286 per U.S. dollar, effective February 23, 1967.

Initial par values were established by agreement between the Fund and five members during the fiscal year, as shown in Table 61.

TABLE 61. INITIAL PAR VALUES ESTABLISHED, FISCAL YEAR ENDED APRIL 30, 1967

Member	Currency Unit	Effective Date	Units of Member's Currency per U.S. Dollar
Guyana	Dollar	February 13, 1967	1.71429
Kenya	Shilling	September 14, 1966	7.14286
Malawi	Pound	May 27, 1966	0.357143
Tanzania	Shilling	August 4, 1966	7.14286
Uganda	Shilling	August 15, 1966	7.14286

After the close of the fiscal year, the Fund concurred in a proposal of the Government of Singapore for an initial par value for the new currency unit, the Singapore dollar, of S\$3.06122 per U.S. dollar, effective June 12, 1967. The Fund concurred in a proposal of the Government of Ghana for a change in the par value of the new cedi, from N¢ 0.714286 per U.S. dollar to N¢ 1.02041 per U.S. dollar, effective July 8, 1967. The Fund also concurred in a proposal of the Government of New Zealand for the establishment of a par value for that member's new decimal currency unit, the New Zealand dollar, which replaced the New Zealand pound; the par value agreed was \$NZ 0.719194 per U.S. dollar, effective July 10, 1967.

## Quotas

During the year under review, the quotas of 34 members were increased in accordance with Board of Governors' Resolutions Nos. 20-6 and 20-7 entitled "Increases in Quotas of Members—Fourth Quinquennial Review,"<sup>1</sup> which provided for a general increase of 25 per cent in the quotas of all members and special increases for 16 members, as described in the 1965 and 1966 Annual

<sup>1</sup> See *Annual Report, 1965*, pages 124-32.

TABLE 62. INCREASES IN QUOTAS, FISCAL YEAR ENDED APRIL 30, 1967

(In millions of U.S. dollars)

Member	Former Quota	New Quota	Effective Date
Algeria	63.00	66.00 <sup>1</sup>	Apr. 27, 1967
Argentina	280.00	350.00	Aug. 10, 1966
Belgium	337.50	422.00	July 26, 1966
Cameroon	15.00	15.80 <sup>2</sup>	May 4, 1966
		16.60 <sup>1</sup>	Apr. 18, 1967
Canada	550.00	740.00	May 31, 1966
Central African Republic	7.50	8.00 <sup>2</sup>	May 3, 1966
		8.50 <sup>1</sup>	Apr. 28, 1967
Chad	7.50	8.00 <sup>2</sup>	June 28, 1966
Congo (Brazzaville)	7.50	8.00 <sup>2</sup>	June 22, 1966
Congo, Dem. Rep. of	45.00	47.40 <sup>2</sup>	Sept. 23, 1966
Costa Rica	20.00	25.00	Aug. 19, 1966
Dahomey	7.50	8.00 <sup>2</sup>	June 18, 1966
Dominican Republic	26.40	27.80 <sup>1</sup>	Mar. 29, 1967
France	787.50	985.00	Aug. 17, 1966
Gabon	7.50	8.00 <sup>2</sup>	May 20, 1966
Germany	787.50	1,200.00	May 27, 1966
Guinea	15.00	19.00	July 27, 1966
Ivory Coast	15.80	16.60 <sup>1</sup>	Mar. 25, 1967
Jordan	13.00	13.75 <sup>1</sup>	Mar. 30, 1967
Lebanon	6.75	9.00	Feb. 3, 1967
Luxembourg	15.00	15.80 <sup>2</sup>	Aug. 16, 1966
Malaysia	84.17	89.17 <sup>1</sup>	Mar. 28, 1967
		110.00 <sup>2</sup>	Apr. 7, 1967
Mauritania	8.00	8.50 <sup>1</sup>	Apr. 25, 1967
Morocco	75.60	79.20 <sup>1</sup>	Apr. 15, 1967
Netherlands	412.50	520.00	May 25, 1966
Niger	7.50	8.00 <sup>2</sup>	Aug. 30, 1966
Nigeria	50.00	63.00	Nov. 16, 1966
Norway	100.00	150.00	May 5, 1966
Philippines	75.00	110.00	Sept. 30, 1966
Rwanda	12.00	12.75 <sup>1</sup>	Apr. 3, 1967
Tanzania	25.00	32.00	June 13, 1966
Tunisia	28.00	35.00	May 31, 1966
Turkey	86.00	108.00	Jan. 28, 1967
Upper Volta	7.50	8.00 <sup>2</sup>	May 17, 1966
Viet-Nam	23.80	29.00 <sup>4</sup>	Feb. 24, 1967

<sup>1</sup> Represents payment of second of five annual installments under the general increase in quotas.

<sup>2</sup> Represents payment of first of five annual installments under the general increase in quotas.

<sup>3</sup> Represents final installment of a special increase.

<sup>4</sup> Represents completion of payment under the general increase in quotas, after earlier payment of one installment.

Reports.<sup>2</sup> As of April 30, 1967, 92 members, representing 94.82 per cent of the Fund's quotas as of February 26, 1965, the date specified in the Executive Directors' Report to the Governors recommending approval of the general increase in Fund quotas,<sup>1</sup> had taken up their authorized increases, either in full or by installments. Thus, only 9 countries that were Fund members on February 26, 1965 had not formally consented to an increase in their quotas and paid the corresponding amount of the increase (25 per cent in gold and the rest in the member's currency); 3 of those members had indicated to the Fund that they did not intend to consent to the increase. The Executive Directors extended the period for consent under the above-mentioned Resolutions to October 31, 1967.

<sup>2</sup> See *Annual Report, 1965*, pages 31-34; *1966*, pages 33-35 and 123-25.

In addition to the increases noted above, Malaysia completed payment of the final of 3 installments of a special increase in its quota approved by the Board of Governors on September 10, 1964. The changes in quotas during the year are shown in Table 62.

After the end of the fiscal year, the Board of Governors approved increases in the quota of Peru from \$47 million to \$85 million and subsequently in the quotas of Korea from \$24 million to \$50 million and of Viet-Nam from \$29 million to \$39 million. Each action was in accordance with the Compensatory Financing Decision, which specifies that the Fund is willing to give sympathetic consideration to requests for adjustment of the quotas of certain primary exporting countries, and in particular countries with relatively small quotas, where adjustment would be appropriate to make them more adequate in the light of fluctuations in export proceeds and other relevant criteria. These increases become effective when the member concerned notifies the Fund of its consent; by June 30, 1967 notification had been received from Peru.

### Compensatory Financing of Export Fluctuations

In September 1966 the Fund made a number of changes in its compensatory financing facility, established in 1963. The principal changes concern the amount of compensatory assistance available and the floating character of outstanding compensatory drawings. First, the limit on outstanding drawings, which had normally been 25 per cent of a member's quota, was extended to 50 per cent. Except in the case of shortfalls resulting from disasters or major emergencies, however, outstanding compensatory drawings may not increase by more than 25 per cent of quota in any 12-month period. In addition, requests for drawings which would increase outstanding compensatory drawings beyond 25 per cent of the member's quota will be met only if the Fund is satisfied that the member has been cooperating with it in an effort to find, where required, appropriate solutions for its balance of payments difficulties. Second, in the method of calculating shortfalls greater weight is to be given to qualitative esti-

mates (and thereby account taken of the fact that for most countries a rising trend of exports is normal). Third, compensatory drawings no longer affect the nature of the policy criteria which are applied to members' subsequent requests for ordinary drawings, which might otherwise be subject to the more severe criteria for drawings in the higher credit tranches. This is achieved by separating the compensatory facility from other drawing facilities in the sense that the Fund's tranche policies are applied as if the Fund's holdings of a member's currency were less than they actually are by the amount of outstanding compensatory drawings. Fourth, as a means of rendering more rapid assistance in cases of short-term export difficulties, ordinary drawings may within a certain period be reclassified as compensatory drawings if the requirements for a compensatory drawing of the same amount are met. Thereby, the member's other drawing rights are restored for use in future contingencies. Finally, the Fund has recommended that, as soon as possible after the end of each of the four years following a compensatory drawing, members use in repurchase an amount approximately equal to one half of any excess of exports over the medium-term (five-year) trend value of their exports. Thus, the amended facility links repurchases in respect of compensatory drawings more closely to recovery in exchange earnings, thereby emphasizing the character of the facility as an offset to fluctuations in export receipts.<sup>3</sup>

In the years immediately following its introduction in 1963, the compensatory facility was not used very frequently. There had been a sharp upturn in prices of many primary commodities in 1963-64 and export proceeds of most primary producing countries had developed favorably during this period. It was chiefly as a result of this development that only three members made use of the facility during the first three years of its existence. Brazil and the United Arab Republic made compensatory drawings in 1963 and the Sudan in the middle of 1965. These three drawings taken together amounted to somewhat more than \$87 million. Since the change in the compensatory facility in September 1966, less favorable tendencies in export earnings of primary producing countries, together with greater familiarity of member coun-

<sup>3</sup> The Executive Directors' Decision on Compensatory Financing of Export Fluctuations, taken on September 20, 1966, is reproduced in Appendix I, pages 159-61.

tries with the operation of the facility, brought about an increase in the number of requests for compensatory drawings. To June 30, 1967 five members—Ceylon, Colombia, the Dominican Republic, Ghana, and New Zealand—have used this special form of assistance with total drawings amounting to approximately \$91 million. On the basis of this experience, it seems likely that the compensatory facility will tend to be actively used by Fund members during periods when export proceeds of primary producing countries develop less favorably, so that this facility, together with drawings from the Fund under ordinary tranche policies, should be of increased value in mitigating the effects of instability of export earnings.

## Fund Transactions

### *Purchases*

During the past fiscal year, 25 members purchased currencies from the Fund totaling the equivalent of \$1,061.3 million. Of this amount, the equivalent of \$676 million was purchased by 3 members in direct purchase transactions, \$301.1 million was purchased by 19 members under stand-by arrangements, \$62.3 million by 4 members under the Compensatory Financing Decision, and \$21.9 million by 5 members in connection with increases in their quotas. Three of these members, Guinea, Iraq, and Sierra Leone, purchased currency from the Fund for the first time. The United States accounted for almost half of total purchases, and 24 primary producing countries for the balance. Of the total purchases made during the year, approximately \$710 million fell within the members' gold tranche position in the Fund, \$92 million in the first credit tranche, \$84 million in the second, \$127 million in the third, and \$48 million in the fourth credit tranches. Table 63 lists the purchases of currencies from the Fund during the year ended on April 30, 1967.

The largest purchase during the fiscal year was made by the United States in August 1966 for the equivalent of \$250 million in Italian lire. In connection with this drawing, the Fund borrowed the equivalent of \$250 million in lire from the Government of Italy.

The Fund's arrangement with Italy marks its first borrowing outside the \$6 billion General Ar-

rangements to Borrow (GAB). The financial terms agreed between the Fund and the Italian Government are similar, however, to those applied under the GAB.<sup>4</sup>

The purchase of Italian lire was the second drawing by the United States not associated with repurchases by other members of the Fund; the first was made late in July 1965 for the equivalent of \$300 million. 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,<sup>5</sup> 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 on April 30, 1967, the United States purchased Canadian dollars equivalent to US\$210 million and deutsche mark equivalent to US\$30 million for this purpose. Altogether, the United States has purchased currencies from the Fund for this purpose equivalent to \$1,090 million; 25 members have availed themselves of the facility offered, and have purchased currencies totaling the equivalent of \$1,087 million. 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 \$933.3 million on April 30, 1967.

### *Stand-By Arrangements*

For members in need of financial assistance from the Fund, the stand-by arrangement has continued to be a valuable instrument. During the past fiscal year stand-by arrangements were approved for 25 members authorizing purchases equivalent to \$591 million. By April 30, 1967 currencies equivalent to \$189.6 million had been drawn by 13 members under these arrangements. Table 64 gives details of stand-by arrangements in force during the fiscal year. Some particulars of these arrangements follow.

*Colombia.* A stand-by arrangement authorizing Colombia to purchase up to the equivalent of \$60

<sup>4</sup> See *Annual Report, 1962*, pages 33-36.

<sup>5</sup> See *Annual Report, 1964*, page 11.

TABLE 63. PURCHASES OF CURRENCIES FROM THE FUND, FISCAL YEAR ENDED APRIL 30, 1967

(In millions of U.S. dollars)

Member Purchasing	Under Stand-By Arrangements	Under Decision on Compensatory Financing	In Connection With Quota Increases Under First Resolution	Direct Purchase Transactions	Total
Afghanistan	7.69				7.69
Argentina			17.50		17.50
Burundi	8.00				8.00
Ceylon	25.00	19.50			44.50
Chile	30.00				30.00
Colombia	40.50	18.90			59.40
Costa Rica	3.50		1.25		4.75
Dominican Republic		6.60			6.60
Ecuador	5.00				5.00
El Salvador	20.00				20.00
Finland	55.00				55.00
Ghana	31.40	17.25			48.65
Guatemala	7.00				7.00
Guinea			1.00		1.00
Haiti	3.50		0.44		3.94
Iraq				20.00	20.00
Liberia	4.60				4.60
Rwanda	2.00				2.00
Sierra Leone	3.50				3.50
Spain				166.00	166.00
Sudan	19.50				19.50
Tunisia	5.40		1.75		7.15
Turkey	24.50				24.50
United States				490.00	490.00
Uruguay	5.00				5.00
Total	301.09	62.25	21.94	676.00	1,061.28

million was agreed by the Fund in April 1967; by the end of that month, \$22.5 million had been drawn. The arrangement was in support of efforts by the Colombian authorities to improve the country's balance of payments position and to maintain financial stability, and followed the introduction of a new exchange system in March 1967.

*Finland.* In March 1967 the Fund agreed to a stand-by arrangement for Finland authorizing purchases equivalent to \$93.75 million; \$55 million had been drawn by April 30. The arrangement was in support of efforts by the Finnish authorities to restore equilibrium in the balance of payments.

*Ghana.* The stand-by arrangement for Ghana was approved in May 1966. It authorized drawings up to \$36.4 million to provide support for the Government's comprehensive program of economic rehabilitation and financial reform. Under the arrangement \$31.4 million had been drawn by April 30, 1967.

*Guyana.* A stand-by arrangement for Guyana, the first for this member, was approved in February 1967. It authorized drawings up to \$7.5 million to support a program designed to strengthen the country's financial position. No drawing under this arrangement was made during the fiscal year.

*Paraguay.* The stand-by arrangement for Paraguay was approved in August 1966. It authorized drawings up to \$7.5 million to support the Government's efforts to promote the country's economic growth while maintaining financial equilibrium. No drawing under this arrangement was made during the fiscal year.

*Sierra Leone.* The first stand-by arrangement for Sierra Leone was approved in October 1966. It authorized drawings up to \$7.5 million to provide support for the efforts of the Sierra Leonean authorities to improve the country's balance of payments and fiscal position. Under this arrangement \$3.5 million had been drawn by April 30, 1967.

TABLE 64. FUND STAND-BY ARRANGEMENTS FOR MEMBERS, FISCAL YEAR ENDED APRIL 30, 1967

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

Member	Date of Inception	Date of Expiration	Amount	New or Renewed in 1966/67	Amount Available April 30, 1967
Afghanistan	June 17, 1965	June 16, 1966	6.75	—	—
	Aug. 3, 1966	Aug. 2, 1967	8.00	8.00	2.00
Bolivia	Sept. 1, 1965	Nov. 30, 1966 <sup>1</sup>	14.00	—	—
	Dec. 2, 1966	Dec. 1, 1967	18.00	18.00	18.00
Brazil	Feb. 1, 1966	Jan. 31, 1967	125.00	—	—
	Feb. 13, 1967	Feb. 12, 1968	30.00	30.00	30.00
Burundi	Mar. 28, 1966	Mar. 27, 1967	5.00	—	—
	Mar. 28, 1967	Mar. 27, 1968	6.00	6.00	1.00
Ceylon	June 15, 1965	June 14, 1966	30.00	—	—
	June 15, 1966	June 14, 1967	25.00	25.00	—
Chile	Mar. 1, 1966	Feb. 28, 1967	40.00	—	—
Colombia	Jan. 1, 1966	Dec. 31, 1966	36.50	—	—
	Apr. 15, 1967	Apr. 14, 1968	60.00	60.00	37.50
Costa Rica	Mar. 1, 1966	Feb. 28, 1967	10.00	—	—
Ecuador	July 1, 1965	June 30, 1966	12.00	—	—
	July 15, 1966	July 14, 1967	13.00	13.00	8.00
El Salvador	Oct. 15, 1965	Oct. 14, 1966	20.00	—	—
Finland	Mar. 6, 1967	Mar. 5, 1968	93.75	93.75	38.75
Ghana	May 17, 1966	May 16, 1967	36.40	36.40	5.00
Guatemala	Jan. 1, 1966	Dec. 31, 1966	15.00	—	—
	Apr. 1, 1967	Mar. 31, 1968	13.40	13.40	13.40
Guyana	Feb. 15, 1967	Feb. 14, 1968	7.50	7.50	7.50
Haiti	Oct. 1, 1965	Sept. 30, 1966	4.00	—	—
	Oct. 1, 1966	Sept. 30, 1967	4.00	4.00	2.50
Honduras	Jan. 1, 1966	Dec. 31, 1966	10.00	—	—
Korea	Mar. 22, 1966	Mar. 21, 1967	12.00	—	—
	Mar. 22, 1967	Mar. 21, 1968	18.00	18.00	18.00
Liberia	June 1, 1965	May 31, 1966	4.00	—	—
	June 1, 1966	May 31, 1967	6.00	6.00	1.40
Morocco	Sept. 23, 1965	Sept. 22, 1966	45.00	—	—
	Sept. 23, 1966	Sept. 22, 1967	50.00	50.00	50.00
Panama	July 26, 1965	July 25, 1966	7.00	—	—
Paraguay	Sept. 1, 1966	Aug. 31, 1967	7.50	7.50	7.50
Peru	Mar. 31, 1966	Mar. 30, 1967	37.50	—	—
Philippines	Apr. 12, 1966	Apr. 11, 1967 <sup>2</sup>	26.70	—	—
	Jan. 5, 1967	Jan. 4, 1968	55.00	55.00	55.00
Rwanda	Apr. 15, 1966	Apr. 14, 1967	5.00	—	—
	Apr. 20, 1967	Apr. 19, 1968	2.00	2.00	2.00
Sierra Leone	Nov. 1, 1966	Oct. 31, 1967	7.50	7.50	4.00
Somalia	Jan. 19, 1966	Jan. 18, 1967	2.80	—	—
	Jan. 19, 1967	Jan. 18, 1968	5.00	5.00	5.00
Sudan	Sept. 22, 1966	Sept. 21, 1967	28.50	28.50	9.00
Tunisia	Nov. 12, 1965	Nov. 11, 1966	5.60	—	—
	Dec. 5, 1966	Dec. 4, 1967	9.60	9.60	7.00
Turkey	Feb. 1, 1966	Dec. 31, 1966	21.50	—	—
	Feb. 15, 1967	Dec. 31, 1967	27.00	27.00	24.00
Uruguay	June 9, 1966	June 8, 1967	15.00	15.00	10.00
Yugoslavia	July 26, 1965	July 25, 1966	80.00	—	—
	Jan. 1, 1967	Dec. 31, 1967	45.00	45.00	45.00
Total as of April 30, 1967				591.15	401.55

<sup>1</sup> Extended from August 31, 1966.<sup>2</sup> Canceled by the Philippines on January 4, 1967.

*Sudan.* The stand-by arrangement for the Sudan, approved in September 1966, was also the first for the member. It authorized drawings up to \$28.5 million to provide support for the efforts of the national authorities to reduce existing pressures on resources and to lay the ground for achieving internal and external equilibrium. Under this arrangement \$19.5 million had been drawn by April 30, 1967.

*Uruguay.* A stand-by arrangement for Uruguay, which became effective in June 1966, authorized drawings up to \$15 million. The arrangement was in support of a financial program aimed at slowing the pace of domestic inflation, removing distortions in the economy, strengthening the balance of payments, and reducing short-term foreign indebtedness, thereby establishing the foundations for sound economic development. Under the arrangement \$5 million had been drawn by April 30, 1967.

Stand-by arrangements approved during the year for Afghanistan, Bolivia, Brazil, Burundi, Ceylon, Ecuador, Guatemala, Haiti, Korea, Liberia, Morocco, the Philippines, Rwanda, Somalia, Tunisia, Turkey, and Yugoslavia were in continuation of the financial support the Fund had accorded to them under stand-by arrangements in the preceding year. Those for Brazil, Ceylon, Guatemala, Rwanda, and Yugoslavia were for smaller amounts, those for Afghanistan, Bolivia, Burundi, Ecuador, Korea, Liberia, Morocco, the Philippines, Somalia, Tunisia, and Turkey were for larger amounts than the preceding arrangements, and the one for Haiti was for a similar amount.

#### *Waivers*

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 those for Brazil and Turkey. Four of the purchases, not under stand-by arrangements, made during the year also required

waivers—the purchases by Ceylon and Ghana under the Fund's Compensatory Financing Decision and the purchases made by Costa Rica and Tunisia in connection with the increases in their quotas.

#### *Repurchases*

During 1966/67, 30 members made repurchases equivalent to \$340.1 million. Of this amount, the equivalent of \$268.9 million was repurchased in accordance with agreed schedules providing for repurchase not later than five years from the date of purchase. Also included was the equivalent of \$28.4 million repurchased in discharge of obligations under Article V, Section 7(b), of the Articles of Agreement; this provides that a member shall repurchase annually an amount of the Fund's holdings of its currency in excess of 75 per cent of its quota, equivalent to one half of any increase in the Fund's holdings of its currency that has occurred during the Fund's financial year, plus or minus one half of any increase or decrease in its monetary reserves during the same period. In addition, \$3.8 million was repurchased before the expiration of the three-year period in respect of purchases under stand-by arrangements and \$1 million in respect of a gold tranche purchase; \$22 million at the expiration of three years from the date of purchases made under stand-by arrangements; and \$13.5 million at the expiration of one year and \$2.5 million at the expiration of two years from the date of purchase, representing the first and second installments in respect of purchases made in connection with quota increases. One member did not repurchase at the agreed dates and discussions with that member were in progress. Repurchases of currencies from the Fund during the fiscal year ended on April 30, 1967 are listed in Table 65.

For 8 members, the Executive Board agreed at the end of the three-year period to repurchase schedules permitting repurchases not later than five years from the date of purchase. One member was permitted to postpone payment of its repurchase obligation, incurred under Article V, Section 7(b), of the Articles of Agreement, as at April 30, 1966, to coincide with scheduled repurchases.

### Currency Composition of Drawings and Repurchases

The Fund sold 15 members' currencies to other members of the Fund during 1966/67. Brazilian cruzeiros, Malayan dollars, Norwegian kroner, and Venezuelan bolívares were sold to other members of the Fund for the first time. All of these sales were consistent with the statement on Currencies to Be Drawn and to Be Used in Repurchases, approved by the Executive Directors on July 20, 1962.<sup>6</sup> The sale of Brazilian cruzeiros, pounds sterling, and U.S. dollars had the effect of reducing the Fund's holdings of these currencies, which were above 75 per cent of the members' quotas, and thus reduced the amounts to be repurchased by these members.

Purchases and repurchases during the year ended on April 30, 1967 are classified by currency in Table 66, which shows separately the largest drawings, the equivalent of \$490 million by the United States, and repurchases made during the Fund's financial year in discharge of repurchase obligations incurred by members under Article V, Section 7(b), of the Articles of Agreement. The Fund's holdings of U.S. dollars on April 30, 1967 were equivalent to 93 per cent of the U.S. quota and those of pounds sterling to 173 per cent of the U.K. quota. The Fund's holdings of Italian lire were the lowest of any currency as a percentage of the member's quota, 4.7 per cent, on April 30, 1967.

### Summary of Transactions, 1948-67

From the inception of Fund operations, 64 members have purchased currencies from the Fund, and 4 members have had stand-by arrangements without drawing under them. Total sales by the Fund were equivalent to \$13.2 billion. All Fund transactions are summarized in Table 67. 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 27.

Drawings made by 55 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, 1967, the total amount of

TABLE 65. REPURCHASES OF CURRENCIES FROM THE FUND, FISCAL YEAR ENDED APRIL 30, 1967

(In millions of U.S. dollars)

Member Repurchasing	Amount
Afghanistan	4.36
Argentina	64.00
Bolivia	2.50
Brazil	27.03
Burundi	3.19
Ceylon	7.50
Chile	38.50
Colombia	34.00
Costa Rica	2.50
Cyprus	1.16
Ecuador	0.25
Ghana	4.00
Guatemala	0.40
Haiti	3.10
Honduras	5.25
India	57.50
Ireland	1.31
Jamaica	—
Jordan	0.01
Liberia	5.00
Nicaragua	5.59
Pakistan	1.90
Philippines	10.80
Sudan	3.10
Syrian Arab Republic	3.22
Tunisia	0.46
Turkey	18.00
United Arab Republic	16.00
Uruguay	8.00
Yugoslavia	11.50
Total	340.12

members' purchases still outstanding was equivalent to \$5.21 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	1,154.5	27
13 to 18 months	786.0	27
19 to 24 months	1,843.2	17
25 to 30 months	1,061.1	19
31 to 36 months	121.4	15
37 to 42 months	30.9	5
43 to 48 months	120.0	7
49 to 54 months	50.7	5
55 to 60 months	42.4	4

### Fund Charges

As of April 30, 1967, 31 members were paying the charges levied by the Fund on its holdings of members' currencies in excess of their quotas; the

<sup>6</sup> See *Annual Report, 1962*, pages 36-41.

TABLE 66. DRAWINGS AND REPURCHASES BY CURRENCY, FISCAL YEAR ENDED APRIL 30, 1967  
(In millions of U.S. dollars)

Currency	Drawings			Repurchases		
	United States	Other countries	Total	Under Article V, Section 7(b) <sup>1</sup>	Other	Total
Gold	—	—	—	14.3	—	14.3
Australian dollars	—	21.3	21.3	—	—	—
Austrian schillings	—	20.0	20.0	0.2	—	0.2
Belgian francs	—	10.0	10.0	— <sup>2</sup>	2.7	2.7
Brazilian new cruzeiros <sup>3</sup>	—	15.0	15.0	—	—	—
Canadian dollars	210.0	43.8	253.8	0.7	227.8	228.5
El Salvadoran colones	—	—	—	— <sup>2</sup>	—	— <sup>2</sup>
French francs	—	46.2	46.2	6.5	6.6	13.1 <sup>4</sup>
Deutsche mark	30.0	52.0	82.0	3.2	34.9	38.1
Italian lire	250.0	59.3	309.2	— <sup>2</sup>	6.9	6.9
Japanese yen	—	—	—	0.4	30.4	30.9
Malayan dollars <sup>3</sup>	—	5.0	5.0	—	—	—
Mexican pesos	—	14.0	14.0	— <sup>2</sup>	—	— <sup>2</sup>
Netherlands guilders	—	10.0	10.0	1.4	0.9	2.3
Norwegian kroner <sup>3</sup>	—	5.0	5.0	—	—	—
Swedish kronor	—	—	—	1.0	1.5	2.5
Pounds sterling	—	120.4	120.4	0.2	—	0.2
U.S. dollars	—	139.5	139.5	0.5	—	0.5
Venezuelan bolívares <sup>3</sup>	—	10.0	10.0	—	—	—
Total	490.0	571.3	1,061.3	28.4	311.7	340.1

<sup>1</sup> Including discharges in respect of previous years.

<sup>2</sup> Less than \$50,000.

<sup>3</sup> Currency could not be accepted for repurchase during the fiscal year because member had not accepted the obligations of Article VIII, Sections 2, 3, and 4.

<sup>4</sup> In addition, the equivalent of \$2.5 million was received from the withdrawing member.

amount of such charges incurred during the year totaled \$82.5 million, compared with \$65.7 million during the preceding year. Since the beginning of the Fund's operations, 54 members have been subject to such charges. At present, part of these charges is paid by 6 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 1967 and continues in effect. The decision is to be reviewed by the Executive Board annually. The schedule is reproduced in each issue of *International Financial Statistics*.

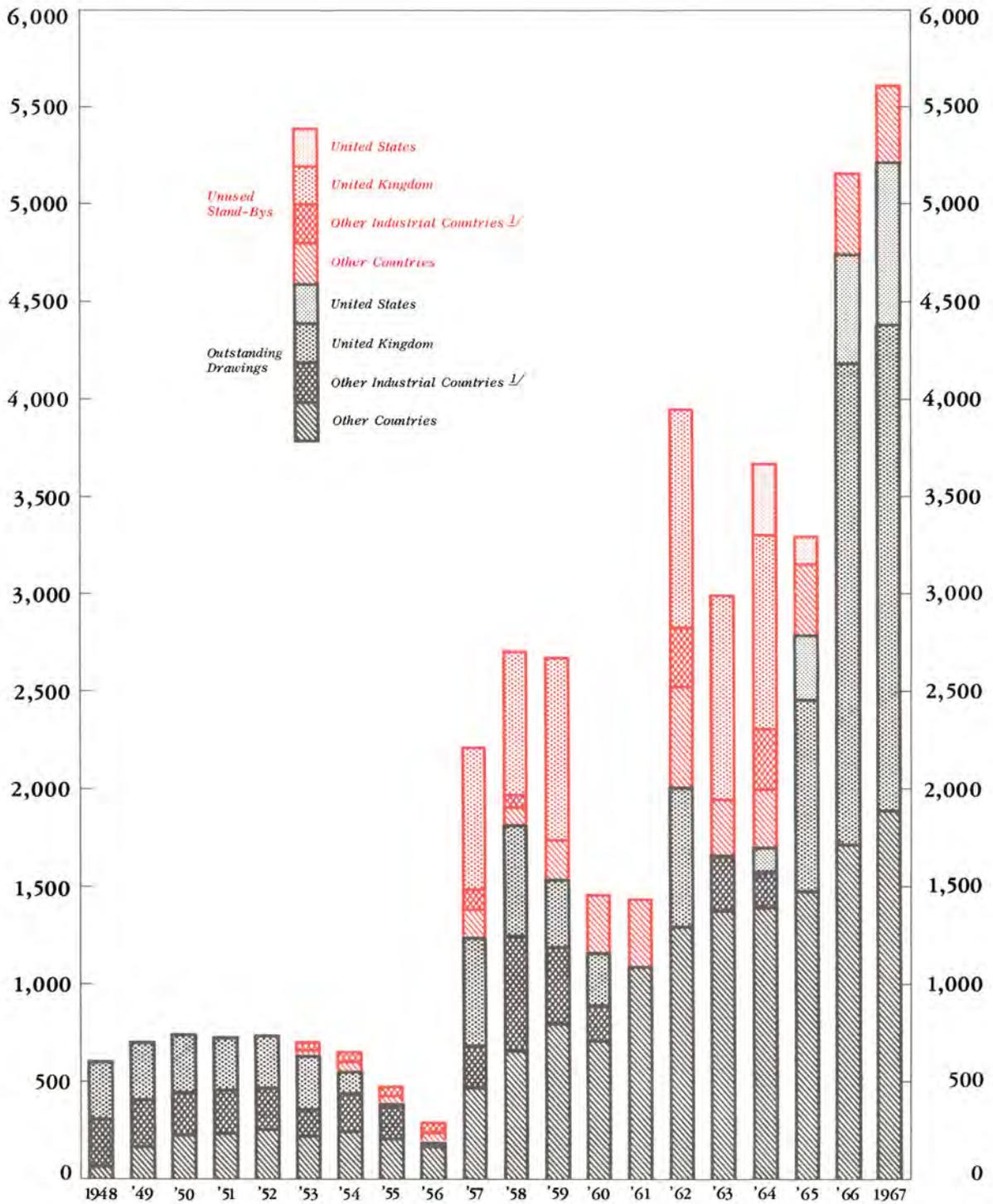
Service charges on drawings totaled \$5.3 million during the year under review, compared with \$14.1 million in 1965/66. Charges collected

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' currencies that restored or increased the members' gold tranches, totaled \$0.9 million during the year ended on April 30, 1967. 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 \$0.6 million, compared with \$0.4 million in 1965/66.

Charges paid by the Fund in accordance with the loan agreement with Italy amounted to \$1.25 million. Interest paid by the Fund in accordance with paragraph 3(b) of the loan agreement with Italy and paragraph 9(b) of the General Arrangements to Borrow amounted to a total of \$15.6 million. Both charges and interest were paid in gold.

CHART 27. OUTSTANDING BALANCES OF DRAWINGS FROM THE FUND AND UNUSED STAND-BY ARRANGEMENTS, ON APRIL 30, 1948-67

(In millions of U.S. dollars)



<sup>1</sup> Belgium, Canada, Denmark, France, Italy, Japan, Netherlands, and Norway.

## Consultations with Members

Member countries that are availing themselves of the transitional arrangements of 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 1966/67 such consultations were completed with 45 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 re-

strictions. Again, 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 18 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<sup>7</sup> 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 collaboration on international monetary problems.

TABLE 67. SUMMARY OF FUND TRANSACTIONS, FISCAL YEARS ENDED APRIL 30, 1948-67

(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
1967	1,061.28	401.55	340.12
Total	13,247.35		6,548.80 <sup>1</sup>

<sup>1</sup> Including \$281.62 million repurchased in excess of drawings. Of this amount, \$257.52 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 \$1,692.68 million and adjustments of \$77.28 million due primarily to settlement of accounts with members that have withdrawn from the Fund, making a total of \$1,769.96 million having the effect of repayment.

## Technical Cooperation

The fiscal year 1966/67 saw a further strengthening and expansion of the technical services provided by the Fund to member countries. During the year staff members have been assigned, in teams or individually, to countries requesting assistance on a variety of problems in fields related to the work of the Fund. These assignments have covered advice on the preparation and the carrying out of monetary, exchange, and fiscal policies, the drafting of central banking legislation, the organization of central banks, and the development of financial statistics. The Fund has also sent its representatives to a number of member countries to assist them in the implementation of programs related to stand-by arrangements. Many of these assignments have been for a relatively short duration, but some have been for a year or longer. In the fiscal year regular Fund staff members were assigned for six months or more to 17 countries and one regional organization.

Only part of the technical expertise made available to member countries, however, has been provided from the Fund's own staff. A growing number of those assigned have been outside experts with suitable experience in central banking,

<sup>7</sup> *Selected Decisions of the Executive Directors and Selected Documents* (third issue, Washington, 1965), pages 81-83.

financial, and fiscal management. For these experts, the Fund has again had to rely heavily on the assistance offered by the older and more experienced central banks and Treasuries, who have been most generous in releasing qualified staff members, often senior officials, for assignment by the Fund. It is evident that the demand for these specialized services is an expanding one, and the Fund is doing its best to meet, from the limited pool of trained personnel available, all the requests of its members.

Since the establishment of the Fiscal Affairs Department in 1964, the Fund has been able to respond to members' requests related to public finance problems with far greater effectiveness. In the three years since its inception the Department made 17 assignments from its panel of fiscal experts for assistance to countries in Africa, Asia, the Middle East, and Latin America. Twelve of these assignments, to 10 countries, and covering all aspects of public finance, were made in the past fiscal year. To some countries the Fund has sent a general fiscal advisor to evaluate the existing sources of government revenue and recommend new sources of taxation, to advise on new measures and institutions for the mobilization of domestic savings, and to advise on the desirability of modifying the budgetary process. Fund experts have been called upon to advise on improving the management and control of treasury operations, on the formulation and organization of budgets, on the improvement of government accounts and reporting systems, and on administrative procedures for the collection and enforcement of taxation.

The Central Banking Service, also established in 1964, has similarly experienced a continuous increase in the demand for its services. During the year, 42 experts carried out assignments in 25 countries under its auspices. Much, but not all, of this assistance went to the central banks of 18 countries in Africa and the Middle East. Twenty missions were sent to provide advice on the functions and organization of the central bank, as well as on the appropriateness of projected changes in its legal framework. Advice was sought on analysis of existing credit structures and systems and on possible needs for reform. Arrangements for cooperation between central banks were also discussed. Seventeen countries received

assistance with legislation governing the central bank, the commercial banking system, and negotiable instruments. Many of the requests have come from newer institutions, but a number of inquiries were received from institutions which have been in operation for some years, reflecting a need to modernize the application of the instruments of monetary policy.

The widening and consolidation of the Fund's facilities for providing technical assistance, including that by the IMF Institute noted below, has reflected the growing needs of its member countries, particularly of its newer members who joined the Fund after becoming independent. For many of these countries, the difficulties of achieving rapid economic growth, the need to utilize the more advanced techniques of financial and economic control, and the general shortage of skilled and experienced economic administrators pose problems akin to those arising from the rather more widely publicized technological gap in science and industry. In endeavoring to meet the requests of its members, the Fund is providing a service which, though narrowly specialized, is crucial for the achievement of the broader aim of economic development.

### The IMF Institute

The IMF Institute continued to broaden the scope of its programs in the third year of its existence.

As in previous years, the principal task of the Institute has been the preparation and presentation of the regular courses on financial analysis and policy. The Institute began two such courses in 1966/67. The first one, which was conducted in French over a 16-week period beginning on September 6, 1966, was attended by 25 officials from central banks and Ministries of Finance, Commerce, and Economic Affairs, mostly from French-speaking African countries. This course, which was 6 weeks longer than the one given in the previous year, closely followed the outline of the 20-week regular course in English which ended in July 1966. The second course, which began on March 6, 1967 for a 20-week period, was given in English to 26 participants from 24 member countries. The regular courses on finan-

cial analysis and policy have, as their principal focus, the formulation of appropriate monetary, fiscal, and balance of payments policies, with special emphasis on the problems of developing countries. These courses draw extensively on the experience gained by the Fund in its contacts with member countries.

In addition to the above courses, the Institute organized two shorter courses in 1966/67. A course, in English, on balance of payments methodology was given from January 4 to February 24, 1967, in cooperation with the Fund's Balance of Payments Division. A course on public finance, in English, was arranged for the first time for the period May 15-July 7, 1967, with the help of the Fund's Fiscal Affairs Department.

During 1967/68, the Institute will further expand its activities, with the organization of the first course on financial analysis and policy in Spanish. The first course given by the Institute in Spanish was a course in balance of payments methodology held in May-June 1966 in San Salvador under the auspices of the Central American Monetary Council.

The increase in the scope of the Institute's programs has been facilitated by the recruitment of additional staff and the acquisition of improved office space and expanded living quarters for the participants during 1966. The Institute was able to organize two courses simultaneously, for the first time, in 1966/67. In 1967/68, further progress will be made in this direction. Because of the improved facilities, the Institute has also been able to increase the duration of the various courses.

### Relations with Other International Organizations

The Fund has continued to maintain close relations with international and regional organizations with which it has common concerns—the United Nations (UN), the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade (GATT), the Organization for Economic Cooperation and Development (OECD), the Bank for International Settlements (BIS), the OAS Inter-American Committee on the Alliance for Progress (CIAP), and the Inter-American Development Bank (IDB)—and with the International Bank

for Reconstruction and Development (IBRD), with which it has a special relationship. These and other international organizations having related fields of interest were represented at the joint Annual Meetings of the Fund and the Bank, and Fund representatives attended meetings of those organizations and maintained direct working relationships with their staffs.

The Managing Director addressed the United Nations Economic and Social Council (ECOSOC) on the occasion of the presentation of the Fund's Annual Report to the Resumed Forty-First Session in December 1966. He also took part in meetings of the UN Administrative Committee on Coordination (ACC) and of the Interagency Consultative Board of the UN Development Program (UNDP). In connection with the liquidity discussions, the Managing Director attended the Ministerial Meeting of the Group of Ten at The Hague in July 1966. He addressed the High Level Meeting of the Development Assistance Committee of the OECD which met in Washington also in July. The Deputy Managing Director attended the ACC Meeting in Geneva in April 1967.

Other Fund representatives attended the Twenty-First Session of the UN General Assembly, the Forty-First Sessions of the ECOSOC, and meetings of the UN regional Economic Commissions for Africa (ECA), Asia and the Far East (ECAFE), and Europe (ECE). Fund staff also attended meetings of the UN Committee of Experts on Development Planning in New York and Santiago, Chile, the Governing Council of the UN Development Program, various subsidiary committees and working groups established by the ACC and its Preparatory Committee, the first session of the UN Industrial Development Board, and the meeting of the UN Expert Group on the measurement of capital flow to the developing countries. The Fund sent observers to the ECA Sub-Regional Meeting on Economic Cooperation in West Africa at Niamey, and to the ECAFE Tenth Session of the Working Party on Economic Development Planning and its Fourth Workshop on Problems of Budget Classification and Management in Countries of the ECAFE Region, both of which were held in Bangkok.

Representatives of the Fund attended the Fourth Session of the UN Trade and Develop-

ment 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 special groups of UNCTAD. The Fourth Session of the Board and most other UNCTAD meetings took place in Geneva, where the Fund has established an office; some meetings at which the Fund was represented were in New York. Of particular interest to the Fund has been the work of the Committee on Invisibles and Financing related to Trade, the Expert Group on International Monetary Issues, and the Intergovernmental Group on Supplementary Financing. The record of the discussions in UNCTAD of international monetary reform was transmitted early in 1966 to the Fund and to other international organizations for due consideration. Pursuant to a resolution adopted by the UN General Assembly in December 1966, the Secretary-General of UNCTAD consulted with the Managing Director on the progress of activity relating to international monetary reform; subsequently the Secretary-General, together with some members of the Expert Group on International Monetary Issues and of the UNCTAD secretariat, discussed this subject informally with the Executive Directors.

In the field of commodities, the Fund sent representatives to the meetings of the Food and Agriculture Organization's Committee on Commodity Problems in Rome, the UN Cocoa Conference in New York, the International Cotton Advisory Committee in Lima, and the first session of the UNCTAD Permanent Subcommittee on Commodities in Geneva.

In the Latin American area, members of the staff attended the Eighth Meeting of Central Bank Technicians of the American Continent and the Ninth Operational Meeting of the Center for Latin American Monetary Studies (CEMLA) held in Buenos Aires, the Eighth Annual Meeting of the Board of Governors of the Inter-American Development Bank in Washington, and the Third Special Inter-American Conference of the Organization of American States (OAS), which was preceded by an Extraordinary Meeting of the Inter-American Economic and Social Council at the Ministerial Level, in Buenos Aires. Fund representatives also attended several meetings of the OAS Inter-American Committee on the Alli-

ance for Progress (CIAP) and, as in previous years, participated in informal periodic inter-agency meetings arranged by the CIAP secretariat in connection with the preparation of the CIAP country reviews and other matters of mutual interest. Furthermore, the Fund again made available some of its staff members to give a series of lectures on monetary subjects at the CEMLA in Mexico City.

The Fund was represented at the dedication of new buildings of the Bank of Guatemala and the Central Bank of Venezuela, and at a round table on liquidity and capital markets held after the latter dedication. Fund representatives also attended the formal opening of the premises of the Central Bank of Trinidad and Tobago and the Inaugural Meeting of the Asian Development Bank in Tokyo.

The Fund and the Bank continued their close collaboration on matters of mutual concern, including the coordination of aid. The Fund was represented at meetings of consultative and other groups and consortia held under IBRD auspices for individual countries and the Bank collaborated in the Ghana Aid Meeting convened by the Fund. Fund representatives also attended the second general meeting on aid coordination held by the Bank during the joint Annual Meetings of the Boards of Governors in September.

Fund representatives continued to attend meetings of various committees of the OECD, including the Economic and Development Review Committee; the Economic Policy Committee and its Working Party 3, which is primarily concerned with policies for improving international payments equilibrium; the Development Assistance Committee (DAC) and its various working parties, including the Working Party on Financial Aspects of Development Assistance and the Working Group on Short-Term Economic Prospects; and the Committee for Invisible Transactions, which is undertaking a study, with Fund participation, on the improvement of capital markets. The Fund was represented at the annual meeting of the Ministerial Council of the OECD, and a staff member participated in meetings of the Group of Experts on capital flow statistics convened by the DAC.

Representatives of the Fund attended meetings arranged by the CONTRACTING PARTIES to the

General Agreement on Tariffs and Trade (GATT), including a meeting in Punta del Este in January 1967 of the Committee on Trade and Development. 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 cases involving balance of payments or exchange aspects. For countries consulting with the GATT on such matters, background material and decisions which the Fund reaches at the conclusion of its own Article XIV consultations are regularly furnished to the GATT.

### Staff

At the end of the fiscal year, the Fund staff numbered 861, including 35 on temporary appointment. This total represented a net increase of 111 over the beginning of the year. During the year, 211 new staff members were appointed from 51 member countries. Nationals of 72 countries were on the staff on April 30, 1967.

### Administrative Finance

During the fiscal year, the Fund's operating income, equivalent to \$89,618,556, exceeded its total expenditure by \$50,426,542. This amount was transferred provisionally to the General Reserve pending action by the Board of Governors. The General Reserve totaled \$236,783,492 on April 30, 1967.

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 \$40,959,870 for the fiscal year; it was credited to a Special Reserve, which showed a balance of \$223,141,700 on April 30, 1967.

The administrative budget approved by the Executive Directors for the period May 1, 1967–April 30, 1968 is presented in Appendix IV. Comparative income and expenditure figures for the fiscal years ended 1965, 1966, and 1967 are given in Appendix V.

The Executive Directors requested the Governments of Canada, the Philippines, and Venezuela to nominate members of the Audit Committee for 1967. The following nominations were made and confirmed: Mr. George R. Long, Assistant Auditor General of Canada; Mr. Julian D. Mercado, Executive Assistant to the Deputy Governor, Central Bank of the Philippines; Mr. Guillermo Pimentel, Advisor, Central Bank of Venezuela. The report of the Committee is submitted separately. Appendix VI gives the Auditors' Certificate, together with the audited Balance Sheet as at April 30, 1967 and the audited Statement of Income and Expenditure for the financial year.

### Publications

The Fund's regular program of publications was continued in 1966/67: *Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1966*, with shortened versions in French, German, and Spanish; *Balance of Payments Yearbook*, Volume 18, 1961-65; *International Financial News Survey*, weekly; *International Financial Statistics* (issued in an English edition and in a combined English, French, and Spanish edition), monthly, and *Supplement to 1966/67 Issues*; *Schedule of Par Values*, 42nd and 43rd issues; *Seventeenth Annual Report on Exchange Restrictions*; *Staff Papers*, Volume XIII, Nos. 2 and 3, and Volume XIV, No. 1; and *Summary Proceedings of the Twenty-First Annual Meeting of the Board of Governors*.

In conjunction with the IBRD, the Fund published *Direction of Trade*, monthly, with an annual edition, 1961-65; and *Finance and Development*, quarterly (English, French, and Spanish editions).

The Fund's second report on the compensatory financing of fluctuations in exports of primary producing countries, *Compensatory Financing of Export Fluctuations: Development in the Fund's Facility*, was published in September 1966 (in English, French, and Spanish editions). The Fund's first report on this subject was published in February 1963.

In April 1967 the Fund published *Central Banking Legislation: A Collection of Central Bank, Monetary and Banking Laws; Volume II*,

*Europe*, selected and annotated by Mr. Hans Aufricht, of the Fund's Legal Department. This volume is a sequel to Mr. Aufricht's earlier collection of central bank, monetary, and banking laws published by the Fund in 1961. It contains the basic domestic laws that govern the central bank, banking, and monetary regimes of European countries, providing, in English, an up-to-date inventory of the legal and institutional framework within which European central banks operate. The countries covered in detail by this second volume are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and Yugoslavia.

Other publications of the Fund in 1966/67 were a second edition of the pamphlet *The Financial Structure of the Fund* and three new pamph-

lets: *Balance of Payments: Its Meaning and Uses*; *The Cuban Insurance Cases and the Articles of the Fund*; and *The Fund and Non-Member States: Some Legal Effects*. There are now nine publications in this Pamphlet Series; all of them are being issued in English, French, and Spanish.

The *Balance of Payments Yearbook*, *International Financial Statistics* (and Supplements), *Staff Papers*, and *Direction of Trade* are available by subscription. The total cost for all four publications is \$33.50 to general subscribers. University libraries, faculty members, and students may subscribe at the reduced rate of \$3.00 a year to any one of these publications or \$10.00 a year for all four. *Central Banking Legislation* is being sold by the Fund at \$10.00 for each volume. All other publications of the Fund mentioned above are available free of charge.

## B. Balance of Payments Statements

THE following tables 68-76 present recent balance of payments statements for the members of the European Economic Community, Canada, Japan, the United Kingdom, and the United States. Less detailed statements

are presented in Table 77 for the primary producing countries. For some countries the tables reflect the latest revisions of the data which could not be incorporated elsewhere in the Report.

TABLE 68. BELGIUM-LUXEMBOURG: BALANCE OF PAYMENTS SUMMARY, 1965-FIRST QUARTER 1967<sup>1</sup>  
(In millions of U.S. dollars)

	1965	1966 <sup>2</sup>	1966 <sup>3</sup>				1967 <sup>4</sup>
			First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
<b>A. Goods, Services, and Transfer Payments</b>							
Exports <sup>1</sup>	5,314	5,648	1,374	1,413	1,393	1,468	1,454
Imports <sup>1</sup>	-5,210	-5,742	-1,390	-1,419	-1,429	-1,504	-1,390
Trade balance	104	-94	-16	-6	-36	-36	64
Services (net)	46	12	10	-12	-8	22	28
Transfer payments (net)	2	-18	-2	-6	-6	-4	-6
Total	152	-100	-8	-24	-50	-18	86
Memorandum item: Goods, Services, and Private Transfers	200	-50	2	-12	-36	-4	98
<b>B. Long-Term Capital</b>							
Private	134	32 <sup>4</sup>	20 <sup>4</sup>	28 <sup>4</sup>	14 <sup>4</sup>	-30 <sup>4</sup>	46 <sup>4</sup>
Official	-88	-84	-24	-12	-30	-18	-58
Total	46	-52	-4	16	-16	-48	-12
<b>C. Total (A plus B)</b>	198	-152	-12	-8	-66	-66	74
<b>D. Short-Term Capital, n.i.e. (including net errors and omissions)</b>							
Private nonmonetary	-18	... <sup>4</sup>	... <sup>4</sup>	... <sup>4</sup>	... <sup>4</sup>	... <sup>4</sup>	... <sup>4</sup>
Treasury short-term certificates	-26	34	2	-2	2	32	...
Net errors and omissions	-6	17	4	6	-2	9	-8
Total	-50	51	6	4	-	41	-8
<b>E. Commercial Bank Capital</b>	14	132	-56	70	40	78	-76
<b>F. Total (C through E)</b>	162	31	-62	66	-26	53	-10
<b>G. Official Monetary Movements</b>							
IMF accounts	-108	-58	-14	-22	-22	-	-
Foreign exchange (increase-)	102	10	38	6	-6	-28	2
Other claims (net)	-48	-17	36	-50	24	-27	8
Monetary gold (increase-)	-108	34	2	-	30	2	-
Total	-162	-31	62	-66	26	-53	10

Source: National Bank of Belgium.

<sup>1</sup> Positive figures are credits; negative figures are debits.

<sup>2</sup> Preliminary.

<sup>3</sup> Partly f.o.b.; partly c.i.f.

<sup>4</sup> Includes short-term capital, appropriate to Group D.

TABLE 69. CANADA: BALANCE OF PAYMENTS SUMMARY, 1965–FIRST QUARTER 1967<sup>1</sup>*(In millions of U.S. dollars)*

	1965	1966	1966				1967
			First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
<b>A. Goods, Services, and Transfer Payments</b>							
Exports	8,089	9,500	2,046	2,392	2,481	2,581	2,417
Imports	-7,980	-9,148	-2,046	-2,386	-2,203	-2,513	-2,346
Nonmonetary gold	126	116	31	27	28	30	31
Trade balance	235	468	31	33	306	98	102
Investment income	-704	-818	-179	-180	-178	-281	-175
Other services (net)	-446	-460	-203	-168	41	-130	-208
Transfer payments (net)	-85	-99	-23	9	-61	-24	-33
Total	-1,000	-909	-374	-306	108	-337	-314
Memorandum item: Goods, Services, and Private Transfers	-917	-755	-344	-292	188	-307	-266
<b>B. Long-Term Capital</b>							
Direct investment in Canada	375	611	111	176	134	190	111
Canadian direct investment abroad	-116	9	-14	-37	83	-23	-28
Transactions in Canadian securities							
New issues	1,118	1,339	539	331	269	200	307
Retirements and other transactions	-556	-672	-128	-204	-163	-177	-110
Transactions in foreign securities	-78	-367	-69	-110	-110	-78	-50
Columbia River Treaty (net)	30	30	—	—	—	30	—
Other loans by Canadian Government (net)	-3	-10	-4	-1	-7	2	7
Other	-110	-62	-20	43	-24	-60	8
Total	660	879	414	198	183	84	245
<b>C. Total (A plus B)</b>	-340	-30	40	-108	290	-253	-69
<b>D. Short-Term Capital (including net errors and omissions)</b>	487	-301	-168	—	-368	236	57
<b>E. Total (C plus D)</b>	146	-332	-128	-108	-79	-17	-12
<b>F. Official Monetary Movements</b>							
IMF accounts	-156	-95	-26	-59	-18	8	-20
Gold and foreign exchange (increase—)	10	427	154	167	97	9	32
Total	-146	332	128	108	79	17	12

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

<sup>1</sup> Preliminary. Positive figures are credits; negative figures are debits.

TABLE 70. METROPOLITAN FRANCE: BALANCE OF PAYMENTS SUMMARY, 1965-66<sup>1</sup>*(In millions of U.S. dollars)*

	1965	1966	1966			
			First quarter	Second quarter	Third quarter	Fourth quarter
<b>A. Goods, Services, and Transfer Payments</b>						
Exports f.o.b.	8,596	9,492	2,337	2,445	2,354	2,356
Imports f.o.b.	-8,208	-9,530	-2,290	-2,395	-2,307	-2,538
Trade balance	388	-38	47	50	47	-182
Services (net)	93	54	50	111	-138	31
Transfer payments (net)	37	17	-2	-15	-1	35
Total	518	33	95	146	-92	-116
Memorandum item: Goods, Services, and Private Transfers	581	102	123	179	-68	-132
<b>B. Long-Term Capital</b>						
Private						
Direct investment in France	334	293	52	91	75	75
Direct investment abroad	-233	-170	-28	-54	-43	-45
Other private long-term capital	260	33	42	46	-80	25
Official <sup>2</sup>						
Advance debt redemption	-179	-71	—	—	-71	—
Other official	-66	-66	-17	-5	-35	-9
Total	116	19	49	78	-154	46
<b>C. Total (A plus B)</b>	634	52	144	224	-246	-70
<i>Total, excluding advance debt redemption</i>	813	123	144	224	-175	-70
<b>D. Short-Term Capital, n.i.e. (including net errors and omissions)</b>						
Private nonmonetary	-90	-114	-15	-39	-35	-25
Net errors and omissions						
Operations pending settlement	-7	29	-32	-10	8	63
Other	159	130	8	107	107	-92
Total	62	45	-39	58	80	-54
<b>E. Net Transactions of Overseas Franc Area</b>	269	252	97	57	51	47
<b>F. Commercial Bank Capital</b>						
Liabilities (decrease-)	273	797	-35	88	453	291
Assets (increase-)	-527	-753	-41	-111	-247	-354
Total	-254	44	-76	-23	206	-63
<b>G. Total (C through F)</b>	711	393	126	316	91	-140
<b>H. Official Monetary Movements<sup>3</sup></b>						
IMF accounts	-265	-104	-6	-38	-57	-3
Other liabilities	-82	-7	-5	-3	15	-14
Other claims (increase-)	613	250	-15	-55	166	154
Monetary gold (increase-)	-977	-532	-100	-220	-215	3
Total	-711	-393	-126	-316	-91	140

Source: Data provided by the French authorities.

<sup>1</sup> Groups A through D cover settlements of Metropolitan France with the non-franc area, while Group E covers the transactions of the rest of the franc area with the non-franc area settled through Metropolitan France. Groups F and H cover changes in assets and liabilities of institutions in Metropolitan France arising from transactions of both parts of the franc area with the rest of the world. Positive figures are credits; negative figures are debits.

<sup>2</sup> Preliminary.

<sup>3</sup> Central government short-term capital is included in official monetary movements (Group H).

TABLE 71. FEDERAL REPUBLIC OF GERMANY: BALANCE OF PAYMENTS SUMMARY, 1965–FIRST QUARTER 1967<sup>1</sup>

(In millions of U.S. dollars)

	1965	1966 <sup>2</sup>	1966 <sup>2</sup>				1967 <sup>2</sup>
			First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
<b>A. Goods, Services, and Transfer Payments</b>							
Exports f.o.b.	17,896	20,138	4,736	4,903	4,968	5,531	5,191
Imports c.i.f.	-17,474	-18,024	-4,493	-4,534	-4,370	-4,627	-4,075
Other merchandise	-200	-265	-125	-97	-19	-24	-86
Trade balance	222	1,849	118	272	579	880	1,030
Paid services to foreign troops	1,040	1,239	268	297	341	333	287
Other services	-1,315	-1,508	-250	-343	-544	-371	-279
Total goods and services	-53	1,580	136	226	376	842	1,038
Transfer payments	-1,465	-1,475	-389	-351	-334	-401	-338
Total	-1,518	105	-253	-125	42	441	700
Memorandum item: Goods, Services, and Private Transfers	-650	892	-16	60	200	648	895
<b>B. Long-Term Capital</b>							
Bonds	-72	-163	-30	-130	12	-15	-58
Shares	9	-4	-47	139	-55	-41	-30
Other private long-term capital	589	538	212	113	132	81	-10
Advance debt redemption	—	-235	—	-39	—	-196	—
Other government long-term capital	-327	-395	-86	-109	-84	-116	-50
Repayments on post-EPU claims	27	22	—	—	22	—	—
Other Bundesbank assets (increase—) <sup>3</sup>	-136	127	49	42	26	10	1
Total	90	-110	98	16	53	-277	-147
<b>C. Total (A plus B)</b>	-1,428	-5	-155	-109	95	164	553
Total, excluding certain extraordinary transactions <sup>4</sup>	-1,319	81	-204	-112	47	350	552
<b>D. Short-Term Capital, n.i.e. (including net errors and omissions)</b>							
Government short-term capital	297	51	-21	114	4	-46	-87
Commercial bank short-term credits (net)	-72	-118	-173	25	40	-10	-130
Other short-term capital	205	426	124	99	200	3	157
Net errors and omissions	479	206	177	102	53	-126	236
Total	909	565	107	340	297	-179	176
<b>E. Commercial Bank Liquid Capital (net)</b>							
Foreign exchange (increase—) <sup>5</sup>	-87	29	-22	-36	-144	231	-494
Foreigners' deposits (decrease—)	112	-8	-152	12	-13	145	-196
Total	25	21	-174	-24	-157	376	-690
<b>F. Total (C through E)</b>	-494	581	-222	207	235	361	39
<b>G. Official Monetary Movements</b>							
IMF accounts	-164	-181	-24	-118	-1	-38	-3
Bundesbank liabilities	41	19	43	-45	26	-5	-48
Foreign exchange (increase—) <sup>5</sup>	779	-537	195	-136	-275	-321	14
Monetary gold (increase—)	-162	118	8	92	15	3	-2
Total	494	-581	222	-207	-235	-361	-39

Source: Deutsche Bundesbank, *Monthly Report*.<sup>1</sup> Positive figures are credits; negative figures are debits.<sup>2</sup> Preliminary.<sup>3</sup> Covers IBRD bonds and notes and repayments received on consolidated credits and other Bundesbank assets of limited usability.<sup>4</sup> This balance is intended to facilitate analysis of the more basic factors in the balance of payments. It excludes the following extraordinary transactions: (a) advance debt redemption, (b) repayments on post-EPU claims, and (c) other Bundesbank assets, i.e., IBRD bonds and notes, 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.<sup>5</sup> 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 G.

TABLE 72. ITALY: BALANCE OF PAYMENTS SUMMARY, 1965–FIRST QUARTER 1967<sup>1</sup>

(In millions of U.S. dollars)

	1965	1966 <sup>2</sup>	1966 <sup>2</sup>				1967 <sup>2</sup>
			First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
<b>A. Goods, Services, and Transfer Payments</b>							
Exports f.o.b.	7,095	7,924	1,863	2,010	1,963	2,088	2,093
Imports f.o.b.	-6,427	-7,575	-1,848	-1,852	-1,848	-2,027	-2,119
Trade balance	668	349	15	158	115	61	-26
Travel (net)	1,061	1,199	134	288	563	214	144
Other services (net)	176	245	4	54	137	50	-13
Transfer payments (net)	331	346	70	69	117	90	78
Total	2,236	2,139	223	569	932	415	183
Memorandum item: Goods, Services, and Private Transfers	2,333	2,248	248	610	947	443	200
<b>B. Capital Movements (excluding Group D) and Net Errors and Omissions</b>							
Remittances of Italian banknotes <sup>3</sup>	-314	-559	-178	-103	-103	-175	-229
Foreign investments in Italy <sup>3</sup>	388	260	47	13	175	25	54
Italian investment abroad	-158	-425	-20	-57	-204	-144	-129
Other private capital and net errors and omissions	-622	-623	40	-211	-259	-193	-141
Advance debt redemption	—	-145	—	—	-145	—	—
Other government capital	62	-70	-26	-21	6	-29	-11
Total	-644	-1,562	-137	-379	-530	-516	-456
<b>C. Total (A plus B)</b>	1,592	577	86	190	402	-101	-273
Total, excluding advance debt redemption	1,592	722	86	190	547	-101	-273
<b>D. Commercial Bank Capital</b>							
Liabilities (decrease—)	400	426	-445	15	487	369	-257
Assets (increase—)	-1,035	-834	215	-31	-664	-354	385
Total	-635	-408	-230	-16	-177	15	128
<b>E. Total (C through D)</b>	957	169	-144	174	225	-86	-145
<b>F. Official Monetary Movements</b>							
IMF accounts	-403	-335	-39	-33	-255	-8	-25
Short-term liabilities	8	-29	-3	3	-20	-9	5
Foreign exchange (increase—)	-276	235	202	-164	42	155	170
Other net claims (increase—)	11	-30	-50	19	-4	5	-3
Monetary gold (increase—)	-297	-10	34	1	12	-57	-2
Total	-957	-169	144	-174	-225	86	145

Sources: Ufficio Italiano dei Cambi (UIC), *Movimento Valutario*, and Bank of Italy.<sup>1</sup> Positive figures are credits; negative figures are debits. Some data in Group A and all data in Group B are on a payments (exchange record) basis.<sup>2</sup> Preliminary.<sup>3</sup> 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.

TABLE 73. JAPAN: BALANCE OF PAYMENTS SUMMARY, 1965 FIRST QUARTER 1967<sup>1</sup>

(In millions of U.S. dollars)

	1965	1966 <sup>2</sup>	1966 <sup>2</sup>				1967 <sup>2</sup>
			First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
<b>A. Goods, Services, and Transfer Payments</b>							
Exports f.o.b.	8,333	9,639	2,070	2,307	2,499	2,763	2,228
Imports f.o.b.	-6,432	-7,366	-1,700	-1,859	-1,808	-1,999	-2,077
Trade balance	1,901	2,273	370	448	691	764	151
Government special receipts <sup>3</sup>	345	476	101	117	121	137	123
Other services and transfer payments	-1,315	-1,498	-388	-374	-334	-402	-442
Total	931	1,251	83	191	478	499	-168
Memorandum item: Goods, Services, and Private Transfers	1,025	1,380	107	225	505	543	-130
<b>B. Long-Term Capital</b>							
Private							
Direct investment	-32	-75	-17	-31	-13	-14	—
Other	-254	-595	-85	-85	-173	-252	-165
Official	-128	-138	-54	-13	-31	-40	-23
Total	-414	-808	-156	-129	-217	-306	-188
<b>C. Total (A plus B)</b>	517	443	-73	62	261	193	-356
<b>D. Short-Term Capital, n.i.e. (including net errors and omissions)</b>							
Nonmonetary short-term capital	-62	-64	12	-14	-11	-51	90
Net errors and omissions	-51	-44	54	7	-16	-89	-18
Total	-113	-108	66	-7	-27	-140	72
<b>E. Commercial Bank Capital</b>							
Liabilities	88	-276	-45	-47	-219	35	252
Assets (increase—)	-372	-113	53	-18	-90	-58	49
Total	-284	-389	8	-65	-309	-23	301
<b>F. Total (C through E)</b>	120	-54	1	-10	-75	30	17
<b>G. Official Monetary Movements</b>							
IMF accounts	-35	-66	-56	-10	—	—	39
Official reserves (increase—)	-98	99	54	15	60	-30	-42
Other	13	21	1	5	15	—	-14
Total	-120	54	-1	10	75	-30	-17

Sources: Bank of Japan, *Balance of Payments Monthly* and *Economic Statistics Monthly*.<sup>1</sup> Positive figures are credits; negative figures are debits.<sup>2</sup> Preliminary.<sup>3</sup> Includes sales of goods and services to foreign military forces.

TABLE 74. NETHERLANDS: BALANCE OF PAYMENTS SUMMARY, 1965–FIRST QUARTER 1967<sup>1</sup>*(In millions of U.S. dollars)*

	1965	1966 <sup>2</sup>	1966 <sup>2</sup>				1967 <sup>2</sup>
			First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
<b>A. Goods, Services, and Transfer Payments</b>							
Exports f.o.b.	6,096	6,460	1,495	1,595	1,652	1,718	1,591
Imports f.o.b.	-6,596	-7,054	-1,776	-1,772	-1,694	-1,812	-1,784
Trade balance	-500	-594	-281	-177	-42	-94	-193
Services (net)	556	455	72	92	136	155	118
Transfer payments (net)	-3	-56	-10	-18	-12	-16	-12
Total	53	-195	-219	-103	82	45	-87
Memorandum item: Goods, Services, and Private Transfers	49	-150	-208	-91	93	56	-76
<b>B. Long-Term Capital, n.i.e.</b>							
Private	15	80	-38	43	8	67	-15
Official	-36	-25	-5	-10	-3	-7	-9
Total	-21	55	-43	33	5	60	-24
<b>C. Total (A plus B)</b>	32	-140	-262	-70	87	105	-111
<b>D. Short-Term Capital, n.i.e. (including net errors and omissions)</b>							
Private nonmonetary	-20	-21	24	11	-9	-47	5
Net errors and omissions	-42	108	92	28	-42	30	57
Total	-62	87	116	39	-51	-17	62
<b>E. Commercial Bank Capital</b>							
Liabilities (decrease-)	397	427	141	135	-33	184	-119
Assets (increase-)	-295	-332	-35	-140	67	-224	146
Total	102	95	106	-5	34	-40	27
<b>F. Total (C through E)</b>	72	42	-40	-36	70	48	-22
<b>G. Official Monetary Movements</b>							
IMF accounts	-93	-55	-14	-42	1	—	-10
Short-term liabilities <sup>3</sup>	-2	-4	-1	-1	6	-8	1
Other short-term assets (increase-) <sup>3</sup>	91	-9	55	53	-77	-40	31
Monetary gold (increase-)	-68	26	—	26	—	—	—
Total	-72	-42	40	36	-70	-48	22

Source: Data provided by the Netherlands Bank.

<sup>1</sup> Positive figures are credits; negative figures are debits.<sup>2</sup> Preliminary.<sup>3</sup> Payments agreement liabilities are included with "Other short-term assets" of the central bank.

TABLE 75. UNITED KINGDOM: BALANCE OF PAYMENTS SUMMARY, 1965–FIRST QUARTER 1967<sup>1</sup>

(In millions of U.S. dollars)

	1965	1966 <sup>2</sup>	1966 <sup>2</sup>				1967 <sup>2</sup>
			First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
<b>A. Goods, Services, and Transfer Payments</b>							
Exports, seasonally adjusted	13,395	14,308	3,542	3,368	3,615	3,783	3,802
Imports, seasonally adjusted	-14,148	-14,616	-3,743	-3,651	-3,783	-3,439	-3,856
Payments for U.S. military aircraft	-34	-115	-20	-34	-31	-30	-64
Trade balance, seasonally adjusted	-787	-423	-221	-317	-199	314	-118
Services and transfer payments, seasonally adjusted	456	257	95	22	56	84	233
Total seasonally adjusted	-331	-166	-126	-295	-143	398	115
Seasonal influences	—	—	28	82	-171	61	-107
Total, unadjusted	-331	-166	-98	-213	-314	459	8
Memorandum item: Goods, Services, and Private Transfers, unadjusted	164	332	53	-73	-222	574	151
<b>B. Long-Term Capital Movements, n.i.e.</b>							
Official	-235	-221	-69	50	-39	-163	-17
Private investment (net)							
Abroad	-997	-882	-255	-280	-173	-174	-204
In U.K.	563	745	120	255	134	236	277
Total	-669	-358	-204	25	-78	-101	56
<b>C. Total (A plus B)</b>	-1,000	-524	-302	-188	-392	358	64
Memorandum item:							
Loan service, due to U.S. and Canada, but deferred	-174	—	—	—	—	—	—
Total (A plus B including loan service)	-1,174	-524	-302	-188	-392	358	64
<b>D. Net Errors and Omissions</b>	301	42	189	-73	96	-170	431
<b>E. Short-Term Capital Movements, n.i.e.</b>							
Miscellaneous capital	177	-265	-28	-142	-126	31	14
Foreign currency liabilities (net) of banks	-182	-453	-148	-185	20	-140	392
Sterling liabilities (net) other than to central monetary institutions							
Sterling area countries	467	64	115	308	-225	-134	81
Other	-107	-431	73	-213	-411	120	356
Total	355	-1,085	12	-232	-742	-123	843
<b>F. Total (C through E)</b>	-344	-1,567	-101	-493	-1,038	65	1,338
<b>G. Official Monetary Movements</b>							
IMF accounts	1,391	-41	-18	-25	8	-6	-59
Gold deposit liability to IMF	8	34	25	6	3	—	1
Sterling liabilities (net) to central monetary institutions							
Sterling area countries	-456	-75	126	179	-249	-131	146
Other countries	100	—	—	—	—	—	—
Central bank assistance	-50	859	-349	37	1,161	10	-1,265
Swiss loan	40	—	—	—	—	—	—
Transfer of securities from dollar portfolio to reserves	—	885	885	—	—	—	—
Convertible currency reserves (increase—)	-560	-420	-798	302	14	62	-423
Gold reserves (increase—)	-129	325	230	-6	101	—	263
Total	344	1,567	101	493	1,038	-65	-1,338
Memorandum item:							
Deferment of loan service, due to U.S. and Canada	174	—	—	—	—	—	—
Total (Group G including waiver)	518	1,567	101	493	1,038	-65	-1,338

Source: U.K. Central Statistical Office, Balance of Payments article in *Economic Trends* for June 1967.<sup>1</sup> Positive figures are credits; negative figures are debits.<sup>2</sup> Preliminary.

TABLE 76. UNITED STATES: BALANCE OF PAYMENTS SUMMARY, SEASONALLY ADJUSTED, 1965–FIRST QUARTER 1967<sup>1</sup>  
(In millions of U.S. dollars)

	1965	1966	1966				1967 <sup>2</sup>
			First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
<b>A. Goods, Services, and Transfers (excluding aid)</b>							
Exports f.o.b.	26,244	29,168	7,203	7,181	7,382	7,402	7,690
Imports f.o.b.	-21,472	-25,510	-6,025	-6,225	-6,580	-6,680	-6,689
Export surplus	4,772	3,658	1,178	956	802	722	1,001
Net military expenditures	-2,047	-2,847	-652	-689	-747	-759	-703
Investment income	4,159	4,171	994	1,064	1,022	1,091	1,051
Other services, remittances, and pensions (excluding aid and military transfers)	-964	-890	-247	-223	-204	-216	-271
Total	5,920	4,092	1,273	1,108	873	838	1,078
<b>B. Aid and Nonmonetary Sectors' Selected Capital</b>							
Advance repayments on U.S. Government loans	221	428	3	7	226	192	—
Other government capital and grants	-3,596	-3,874	-978	-995	-985	-916	-1,205
Direct investment abroad	-3,418	-3,462	-634	-1,006	-900	-922	-695
Portfolio investment abroad	-1,078	-257	-252	-69	-5	69	-154
Foreign direct and portfolio investment in United States	-60	1,358	266	730	92	270	335
Total	-7,931	-5,807	-1,595	-1,333	-1,572	-1,307	-1,719
<b>C. Total (A plus B)</b>	-2,011	-1,715	-322	-225	-699	-469	-641
<b>D. Net Errors and Omissions</b>	-415	-383	-233	-198	277	-229	-206
<b>E. Short-Term Capital, n.i.e.</b>							
U.S. private assets	753	-413	-95	-60	-27	-231	-157
Foreign nonliquid capital	208	322	-26	98	173	77	125
Foreign liquid capital	15	-313	71	-289	67	-162	50
Total	976	-404	-50	-251	213	-316	18
<b>F. Liquid Liabilities to Foreign Commercial Banks</b>	116	2,697	162	499	1,070	966	-993
<b>G. Total (D through F)</b>	677	1,910	-121	50	1,560	421	-1,181
<b>H. Total (C plus G)</b>	-1,334	195	-443	-175	861	-48	-1,822
<b>I. "Official Settlements"<sup>3</sup></b>							
Liabilities to foreign official agencies							
Nonliquid liabilities	130	832	25	263	111	433	335
Liquid liabilities	-18	-1,595	-6	-156	-1,054	-379	460
IMF accounts	165	278	-125	22	335	46	-31
U.S. convertible currency holdings (increase—)	-349	-540	222	-163	-426	-173	1,007
Gold sales	1,406	830	327	209	173	121	51
Total	1,334	-195	443	175	-861	48	1,822
<b>J. Main Categories, without seasonal adjustment</b>							
Export surplus			1,154	1,088	440	974	963
Services and transfers (excluding aid)			290	149	-479	476	541
Aid and nonmonetary sectors' selected capital			-1,498	-1,575	-1,228	-1,506	-2,171
Subtotal			-54	-338	-1,267	-56	-667
Unrecorded transactions			3	-38	165	-513	30
Short-term capital, n.i.e.			50	-325	363	-492	109
Liquid liabilities to foreign commercial banks			404	316	1,144	833	-751
Subtotal			457	-47	1,672	-172	-612
"Official Settlements"			-403	385	-405	228	1,279
<b>Memorandum item: change (increase—) in monetary reserve assets net of liquid liabilities</b>							
Seasonally adjusted			651	122	165	419	544
Without seasonal adjustment			47	149	695	466	243

Source: U.S. Department of Commerce, *Survey of Current Business*, June 1967.

<sup>1</sup> Positive figures are credits; negative figures are debits.

<sup>2</sup> Preliminary.

<sup>3</sup> The items in this group are not separately available on a seasonally adjusted basis, and the entire adjustment has arbitrarily been allocated to the series for liquid liabilities to foreign official agencies.

TABLE 77. PRIMARY PRODUCING COUNTRIES: BALANCE OF PAYMENTS SUMMARIES, 1965 AND 1966<sup>1</sup>

(In millions of U.S. dollars)

	1965									
	Exports f.o.b. (1)	Imports f.o.b. <sup>2</sup> (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 <sup>4</sup> (Cols. 8 + 9) (10)
<b>A. More Developed</b>										
Primary Producers										
Australia	2,949	-3,284	-335	-619	-954	-64	517	-501	143	-358
Finland	1,427	-1,652 <sup>6</sup>	-225	32	-193	-5	38	-160	96	-64
Greece	331	-1,031 <sup>6</sup>	-700	423	-277	41	170	-66	33	-33
Iceland	129	-125 <sup>6</sup>	4	1	5	—	5	10	-4	6
Ireland	601	-1,016 <sup>6</sup>	-415	299	-116	—	55	-59	23	-36
New Zealand	1,042	-922	120	-255	-135	23	-13	-125	25	-100
Portugal	632	-956	-324	289	-35	29	27	21	23	44
South Africa	2,587	-2,540	47	-469	-422	101	111	-210	55	-155
Spain	1,019	-2,778	-1,759	1,270	-489	-22	322	-189	66	-123
Turkey	479	-505	-26	17	-9	119	29	139	-64	75
Yugoslavia	1,120	-1,320 <sup>6</sup>	-200	235	35	42	—	77	-92	-15
Total, Group A	12,316	-16,129	-3,813	1,223	-2,590	266	1,261	-1,063	304	-759
<b>B. Less Developed</b>										
Primary Producers										
Latin America										
Argentina	1,493	-1,199 <sup>6</sup>	294	-74	220	42	-111	151	29	180
Bolivia	116	-127	-11	-27	-38	34	16	12	1	13
Brazil	1,596	-941	655	-421	234	119	60	413	45	458
Chile	688	-625 <sup>6</sup>	63	-101	-38	111	2	75	-36	39
Colombia	591	-424	167	-180	-13	41	70	98	-32	66
Costa Rica	112	-161	-49	-22	-71	4	24	-43	38	-5
Dominican Republic	126	-121	5	-32	-27	74	—	47	-39	8
Ecuador	181	-155	26	-50	-24	8	16	—	-13	-13
El Salvador	190	-201	-11	-4	-15	9	14	8	-9	-1
Guatemala	192	-214	-22	-11	-53	7	27	-19	18	-1
Haiti	38	-43	-5	-13	-18	5	1	-12	10	-2
Honduras	129	-113	16	-25	-9	7	8	6	-1	5
Jamaica	217	-255	-38	10	-28	6	14	-8	8	—
Mexico	1,146	-1,577 <sup>6</sup>	-431	34	-397	21	152	-224	166	-58
Nicaragua	149	-133	16	-42	-26	6	12	-8	28	20
Panama	93	-193	-100	64	-36	14	17	-5	—	-5
Paraguay	61	-53	-8	-16	-8	6	8	6	1	7
Peru	685	-660	25	-186	-161	76	132	47	-33	14
Trinidad and Tobago	413	-476 <sup>6</sup>	-63	-17	-80	14	59	-7	6	-1
Uruguay	196	-123	73	-5	68	3	27	98	-91	7
Venezuela	2,436	-1,324	1,112	-1,118	-6	14	56	64	-86	-22
Subtotal, Latin America	10,848	-9,118	1,730	-2,256	-526	621	604	699	10	709
Asia										
Burma	239	-209 <sup>6</sup>	30	-48	-18	-3	—	-21	-6	-27
Ceylon	401	-404 <sup>6</sup>	-3	2	-1	35	-1	33	1	34
China, Republic of	451	-523	-72	-14	-86	51	23	-12	20	8
India	1,678	-2,932 <sup>6</sup>	-1,254	-81	-1,335	1,132	-4	-207	104	-103
Korea	176	-420	-244	114	-130	116	40	26	-22	4
Malaysia	1,226	-1,048	178	-161	17	45	96	158	-137	21
Pakistan	527	-1,040	-513	-75	-588	528	70	10	-77	-67
Philippines	784	-808	-24	135	111	75	-22	164	-179	-15
Singapore	918	-1,166	-248	195	-53	33	16	-4	4	—
Thailand	609	-766 <sup>6</sup>	-157	76	-81	79	45	43	37	80
Viet-Nam	41	-371 <sup>6</sup>	-330	109	-221	263	-3	39	-2	37
Subtotal, Asia	7,050	-9,687	-2,637	252	-2,385	2,354	260	229	-257	-28
Middle East										
Cyprus	66	-124	-58	59	1	10	14	25	-4	21
Iran	1,169	-847 <sup>6</sup>	322	-494	-172	-16	291	103	-41	62
Iraq	882	-452 <sup>6</sup>	430	-402	28	5	-47	-14	-1	-15
Israel	403	-735	-332	123	-209	162	128	81	13	94
Jordan	28	-157 <sup>6</sup>	-129	61	-68	81	1	14	49	63
Saudi Arabia	1,162	-480	682	-584	98	42	77	217	-94	123
Syrian Arab Republic	169	-216 <sup>6</sup>	-47	55	8	—	8	8	-9	-1
United Arab Republic	568	-959 <sup>6</sup>	-391	140	-251	157	-16	-110	37	-73
Subtotal, Middle East	4,447	-3,970	477	-1,042	-565	441	448	324	-50	274
Africa										
Ethiopia	117	-133	-16	-14	-30	31	11	12	4	16
Ghana	321	-437	-116	-107	-223	54	86	-83	10	-73
Ivory Coast	286	-255 <sup>6</sup>	31	-71	-40	36	17	13	8	21
Kenya	219	-273 <sup>6</sup>	-54	37	-17	40	2	25	-22	3
Libya	797	-322 <sup>6</sup>	475	-388	87	6	-28	65	11	76
Malawi	39	-57	-18	-8	-26	30	4	8	4	12
Morocco	436	-395 <sup>6</sup>	41	-50	-9	114	2	107	-56	51
Nigeria	742	-749 <sup>6</sup>	-7	-270	-277	60	173	-44	58	14
Sierra Leone	83	-94	-11	-27	-38	8	26	-4	1	-3
Somalia	34	-53	-19	-1	-20	15	2	-3	—	-3
Sudan	209	-213 <sup>6</sup>	-4	-38	-42	23	7	-12	-14	-26
Tanzania	199	-194	5	-6	-1	22	-2	19	-14	5
Tunisia	120	-251	-131	-50	-181	103	75	-3	1	-2
Subtotal, Africa	3,602	-3,426	176	-993	-817	542	375	100	-9	91
Total, Group B	25,947	-26,201	-254	-4,039	-4,293	3,958	1,687	1,352	-306	1,046
<b>C. Total Primary Producers</b>	<b>38,263</b>	<b>-42,330</b>	<b>-4,067</b>	<b>-2,816</b>	<b>-6,883</b>	<b>4,224</b>	<b>2,948</b>	<b>289</b>	<b>-2</b>	<b>287</b>

Source: International Monetary Fund, *Balance of Payments Yearbook*.<sup>1</sup> Positive figures are credits; negative figures are debits. <sup>2</sup> Preliminary and including Fund staff estimates. <sup>3</sup> F.o.b. unless otherwise noted.

Footnotes continued on page 155.

TABLE 77 (concluded). PRIMARY PRODUCING COUNTRIES: BALANCE OF PAYMENTS SUMMARIES, 1965 AND 1966<sup>1</sup>

(In millions of U.S. dollars)

	1966 <sup>2</sup>									
	Exports f.o.b. <sup>3</sup> (1)	Imports f.o.b. <sup>3</sup> (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 <sup>4</sup> (Cols. 8 + 9) (10)
<b>A. More Developed</b>										
<b>Primary Producers</b>										
Australia	3,083	-2,972	111	-646	-535	-321	416	-440	490 <sup>5</sup>	50
Finland	1,505	-1,733 <sup>6</sup>	-228	24	-204	-17	50	-171	45	-126
Greece	426	-1,153 <sup>6</sup>	-727	489	-238	72	147	-19	42	23
Iceland	140	-147	-7	-1	-8	1	5	-2	6	4
Ireland	680	-1,043 <sup>6</sup>	-363	320	-43	20	70	47	36	83
New Zealand	1,113	-947	166	-288	-122	48	-4	-78	15	-63
Portugal	692	-1,067	-375	430	55	17	81	153	-23	130
South Africa	2,766	-2,338	428	-452	-24	29	109	114	81	195
Spain	1,257	-3,262	-2,005	1,377	-628	13	330	-285	103	-182
Turkey	494	-639	-145	47	-98	102	17	21	-27	-6
Yugoslavia	1,220	-1,575 <sup>6</sup>	-355	323	-32	-1	-	-33	77	44
<b>Total, Group A</b>	<b>13,376</b>	<b>-16,876</b>	<b>-3,500</b>	<b>1,623</b>	<b>-1,877</b>	<b>-37</b>	<b>1,221</b>	<b>-693</b>	<b>845</b>	<b>152</b>
<b>B. Less Developed</b>										
<b>Primary Producers</b>										
<b>Latin America</b>										
Argentina	1,593	-1,124 <sup>6</sup>	469	-216	253	49	-10	292	-188	104
Bolivia	122	-132	-10	-23	-33	28	12	7	-4	3
Brazil	1,730	-1,270	460	-418	42	77	103 <sup>7</sup>	222	...	222
Chile	883	-735 <sup>6</sup>	148	-186	-38	151	15	128	-62	66
Colombia	537	-627	-90	-187	-277	52	-14	-239	187	-52
Costa Rica	137	-161	-24	-23	-47	5	20	-22	17	-5
Dominican Republic	138	-161	-23	-44	-67	41	-	-26	6	-20
Ecuador	187	-153	34	-55	-21	20	11	10	1	11
El Salvador	192	-220 <sup>6</sup>	-28	-13	-41	17	14	-10	-5	-15
Guatemala	220	-222	-2	-56	-58	7	32	-19	11	-8
Haiti	35	-44	-9	-6	-15	4	1	-10	10	-
Honduras	144	-134	10	-28	-18	6	6	-6	10	4
Jamaica	227	-283	-56	17	-39	9	14	-16	25	9
Mexico	1,241	-1,619 <sup>6</sup>	-378	28	-350	10	318	-22	23	1
Nicaragua	141	-150	-9	-50	-59	14	18	-27	30	3
Panama	102	-209	-107	77	-30	15	2	-13	2	-11
Paraguay	55	-58	-3	-12	-15	6	4	-5	4	-1
Peru	787	-746	41	-224	-183	204	40	61	-83	-22
Trinidad and Tobago	425	-454 <sup>6</sup>	-29	-21	-50	10	36	-4	2	-2
Uruguay	188	-164 <sup>6</sup>	24	12	36	8	12	56	-37	19
Venezuela	2,343	-1,312	1,031	-1,087	-56	54	-24 <sup>7</sup>	-26	...	-26
<b>Subtotal, Latin America</b>	<b>11,427</b>	<b>-9,978</b>	<b>1,449</b>	<b>-2,515</b>	<b>-1,066</b>	<b>787</b>	<b>610</b>	<b>331</b>	<b>-51</b>	<b>280</b>
<b>Asia</b>										
Burma	191	-178 <sup>6</sup>	13	-35	-22	30	-	8	-1	7
Ceylon	352	-425 <sup>6</sup>	-73	-4	-77	37	-3	-43	-10	-53
China, Republic of	544	-586	-42	31	-11	-4	44	29	-7	22
India	1,532	-2,600 <sup>6</sup>	-1,068	56	-1,012	955	11	-46	-21	-67
Korea	250	-680	-430	204	-226	156	177	107	11	118
Malaysia	1,246	-1,067	179	-174	5	23	65	93	-128	-35
Pakistan	569	-863	-294	-118	-412	370	36	-6	-3	-9
Philippines	853	-853	-	124	124	38	-44	118	-135	-17
Singapore	1,035	-1,250	-215	200	-15	9	15	9	6	15
Thailand	680	-1,040 <sup>6</sup>	-360	178	-182	275	30	123	62	185
Viet-Nam	26	-667 <sup>6</sup>	-641	334	-307	432	1	126	2	128
<b>Subtotal, Asia</b>	<b>7,278</b>	<b>-10,209</b>	<b>-2,931</b>	<b>796</b>	<b>-2,135</b>	<b>2,321</b>	<b>332</b>	<b>518</b>	<b>-224</b>	<b>294</b>
<b>Middle East</b>										
Cyprus	73	-133	-60	60	-	2	4	6	11	17
Iran	1,291	-915 <sup>6</sup>	376	-584	-208	9	233	34	-26	8
Iraq	959	-479 <sup>6</sup>	480	-491	-11	20	-	5	50	59
Israel	475	-733	-258	92	-166	133	74	41	-60	-19
Jordan	35	-184 <sup>6</sup>	-149	68	-81	100	1	20	7	27
Saudi Arabia	1,503	-572	931	-786	145	44	45	234	-158	76
Syrian Arab Republic	169	-293 <sup>6</sup>	-124	65	-59	-	-	-59	49	-10
United Arab Republic	597	-945 <sup>6</sup>	-348	180	-168	130	-9	-47	50	3
<b>Subtotal, Middle East</b>	<b>5,102</b>	<b>-4,254</b>	<b>848</b>	<b>-1,396</b>	<b>-548</b>	<b>438</b>	<b>348</b>	<b>238</b>	<b>-77</b>	<b>161</b>
<b>Africa</b>										
Ethiopia	110	-133	-23	-16	-39	33	8	2	-1	1
Ghana	280	-321	-41	-93	-134	47	58	-29	6	-23
Ivory Coast	325	-278 <sup>6</sup>	47	-98	-51	25	1	-25	26	1
Kenya	260	-345	-85	50	-35	34	6	5	5	10
Libya	995	-405 <sup>6</sup>	590	-460	-130	5	-30	105	-11	94
Malawi	47	-75	-28	-10	-38	24	3	-11	6	-5
Morocco	449	-445	-4	-29	-25	91	3	-	-79	-10
Nigeria	781	-695 <sup>6</sup>	86	-367	-281	30	188	-63	35	-28
Sierra Leone	78	-86	-8	-15	-23	7	8	-8	2	-6
Somalia	30	-42 <sup>6</sup>	-12	-	-12	10	1	-1	1	-
Sudan	212	-236 <sup>6</sup>	-24	-30	-54	46	-2	-10	3	-7
Tanzania	255	-250	5	-8	-3	22	13	32	-7	25
Tunisia	172	-313	-141	-24	-165	86	55	-24	3	-21
<b>Subtotal, Africa</b>	<b>3,994</b>	<b>-3,624</b>	<b>370</b>	<b>-1,100</b>	<b>-730</b>	<b>460</b>	<b>312</b>	<b>42</b>	<b>-11</b>	<b>31</b>
<b>Total, Group B</b>	<b>27,801</b>	<b>-28,065</b>	<b>-264</b>	<b>-4,215</b>	<b>-4,479</b>	<b>4,006</b>	<b>1,602</b>	<b>1,129</b>	<b>-363</b>	<b>766</b>
<b>C. Total Primary Producers</b>	<b>41,177</b>	<b>-44,941</b>	<b>-3,764</b>	<b>-2,592</b>	<b>-6,356</b>	<b>3,969</b>	<b>2,823</b>	<b>436</b>	<b>482</b>	<b>918</b>

For footnotes 1-3, see page 154.

<sup>4</sup> Represents net official reserve movements, including changes in reserve position in the Fund. Positive figures indicate over-all surpluses; negative figures indicate over-all deficits. <sup>5</sup> Including portfolio investment. <sup>6</sup> C.i.f. <sup>7</sup> Including other short-term capital and net errors and omissions.

*This page intentionally left blank*

## **APPENDICES**

*This page intentionally left blank*

## Appendix I. EXECUTIVE BOARD DECISION

### Compensatory Financing of Export Fluctuations: Amendment of 1963 Decision

In the light of the considerations set forth in the foregoing sections of this report,<sup>1</sup> Executive Board Decision No. 1477-(63/8)<sup>2</sup> of February 27, 1963, on Compensatory Financing of Export Fluctuations is hereby amended by the deletion of paragraphs (5) through (8) and the substitution of the following paragraphs:

(5) The Fund has reviewed its policies to determine how it could more readily assist members, particularly primary exporters, encountering payments difficulties produced by temporary export shortfalls, and has decided that such members can expect that their request for drawings will be met where the Fund is satisfied that

- (a) the shortfall is of a short-term character and is largely attributable to circumstances beyond the control of the member; and
- (b) the member will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties.

Drawings outstanding under this paragraph (5) may amount to 50 per cent of the member's quota provided that (i) except in the case of shortfalls resulting from disasters or major emergencies, such drawings will not be increased by a net amount of more than 25 per cent of the member's quota in any 12-month period, and (ii) requests for drawings which would increase the drawings outstanding under this paragraph (5) beyond 25 per cent of the member's quota will be met only if the Fund is satisfied that the member has been cooperating with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties.

The existence and amount of an export shortfall for the purpose of any drawing under this paragraph (5) shall be determined with respect to the latest 12-month period preceding the drawing request for which the Fund has sufficient statistical data, and any excess of a shortfall over the drawing made under this paragraph (5) in respect to that shortfall cannot be carried forward and covered by a later drawing under this paragraph (5).

(6) In order to identify more clearly what are to be regarded as export shortfalls of a short-term character, the Fund, in conjunction with the member concerned, will seek to establish reasonable estimates regarding the medium-term trend of the member's exports based partly on statistical calculation and partly on appraisal of export prospects.

<sup>1</sup> *Compensatory Financing of Export Fluctuations: Developments in the Fund's Facility; a Second Report by the International Monetary Fund* (second printing, Washington, March 1967).

<sup>2</sup> See *Annual Report, 1963*, pages 196-99.

## Appendix I (*continued*). EXECUTIVE BOARD DECISION

(7) A member requesting a drawing under paragraph (5) will be expected to represent that it will make a repurchase corresponding to the drawing in accordance with the principles of E.B. Decision No. 102-(52/11)<sup>3</sup> of February 13, 1952, as renewed by E.B. Decision No. 270-(53/95)<sup>4</sup> of December 23, 1953. With a view to an application of these principles appropriate to drawings under paragraph (5), the Fund recommends that, as soon as possible after the end of each of the four years following a drawing under paragraph (5), the member repurchase an amount of the Fund's holdings of the member's currency approximately equal to one half of the amount by which the member's exports exceed the medium-term trend of its exports. Calculations of export excesses for this purpose will be made with respect to successive 12-month periods following the period of the shortfall with respect to which the drawing was made and on the basis of statistical information only.

(8) Whenever the Fund's holdings of a member's currency resulting from an outstanding compensatory drawing under paragraph (5) are reduced, by the member's repurchase or otherwise, this will restore *pro tanto* the member's facility to make a further compensatory drawing under that paragraph, should the need arise.

(9) When drawings are made under paragraph (5), the Fund will so indicate in an appropriate manner. Within six months from the date of any drawing which is not under paragraph (5) and to the extent that it is still outstanding, a member may request that all or part of the drawing be reclassified and treated, for all purposes of this decision, as a drawing made under paragraph (5). The Fund will agree to such a request if at the time of the request the member meets the requirements for a drawing of an equal amount under paragraph (5).

(10) In order to implement the Fund's policies in connection with compensatory financing of export shortfalls, the Fund will be prepared to waive the limit on Fund holdings of 200 per cent of quota, where appropriate. In particular, the Fund will be prepared to waive this limit (i) where a waiver is necessary to permit compensatory drawings to be made under paragraphs (4) and (5) above, or (ii) to the extent that drawings in accordance with paragraph (5) are still outstanding.

Moreover, the Fund will apply its tranche policies to drawing requests by a member as if the Fund's holdings of the member's currency were less than its actual holdings of that currency by the amount of any drawings outstanding under paragraph (5).

(11) The provision of credit to deal with the balance of payments effects of export fluctuations provides immediate relief for a country's short-term difficulties. In many cases, however, it will also be necessary to introduce measures of a policy character in order to attain a satisfactory and lasting solution to a country's balance of payments problems. Members generally have actively cooperated with the Fund to find and adopt the measures necessary to this end. Beyond immediate balance of payments difficulties, the primary exporting countries are, in many instances, facing unfavorable long-term export trends, and all are trying to meet the challenge of achieving more rapid and sustained development through a strengthening and broadening of their economies. The last-mentioned problem will require action in many fields and over many years by both the primary exporting countries and the industrial countries, separately and in concert,

<sup>3</sup> See *Selected Decisions of the Executive Directors and Selected Documents* (third issue, Washington, 1965), pages 21-24.

<sup>4</sup> *Ibid.*, pages 26-28.

Appendix I (*concluded*). EXECUTIVE BOARD DECISION

including readier access to the markets of the developed countries for the products of the developing countries and an appropriate and sustained flow of technical and financial assistance to the developing countries. The Fund considers that its activities can provide valuable assistance in helping to establish a climate within which longer-term measures can be more effectively pursued.

(12) The Fund will review this decision in the light of experience and developing circumstances.

*Decision No. 2192-(66/81)*  
*September 20, 1966*

Appendix II. EXECUTIVE DIRECTORS AND VOTING POWER  
on April 30, 1967

Director <i>Alternate</i>	Casting Votes of	Votes by Country	Total Votes <sup>1</sup>	Per Cent of Total
<b>APPOINTED</b>				
William B. Dale <i>John S. Hooker</i>	United States	51,850	51,850	22.22
J. M. Stevens <i>Douglas W. G. Wass</i>	United Kingdom	24,650	24,650	10.56
Ernst vom Hofe <i>Horst Ungerer</i>	Germany	12,250	12,250	5.25
René Larre <i>Gérard M. Teyssier</i>	France	10,100	10,100	4.33
B. K. Madan <i>Arun K. Banerji</i>	India	7,750	7,750	3.32
<b>ELECTED</b>				
Ahmed Zaki Saad (United Arab Republic) <i>Albert Mansour</i> (United Arab Republic)	Afghanistan Ethiopia Iran Iraq Jordan Kuwait Lebanon Pakistan Philippines Saudi Arabia Somalia Syrian Arab Republic United Arab Republic	540 440 1,500 1,050 387 750 340 2,130 1,350 1,150 400 630 1,750	12,417	5.32
Sergio Siglienti (Italy) <i>Costa P. Caranicas (Greece)</i>	Greece Italy Portugal Spain	1,250 6,500 1,000 2,750	11,500	4.93
Hideo Suzuki (Japan) <i>Eiji Ozaki (Japan)</i>	Burma Ceylon Japan Nepal Thailand	550 1,030 7,500 350 1,200	10,630	4.55
S. J. Handfield-Jones (Canada) <i>Patrick M. Reid (Canada)</i>	Canada Guyana Ireland Jamaica	7,650 400 1,050 550	9,650	4.13
J. O. Stone (Australia) <i>A. M. de Villiers (South Africa)</i>	Australia New Zealand South Africa	5,250 1,820 2,250	9,320	3.99

Appendix II (continued). EXECUTIVE DIRECTORS AND VOTING POWER  
on April 30, 1967

Director <i>Alternate</i>	Casting Votes of	Votes by Country	Total Votes <sup>1</sup>	Per Cent of Total
Pieter Lieftinck (Netherlands) <i>H. M. H. A. van der Valk</i> (Netherlands)	Cyprus	400	8,750	3.75
	Israel	1,150		
	Netherlands	5,450		
	Yugoslavia	1,750		
André van Campenhout (Belgium) <i>Herman Biron</i> (Belgium)	Austria	2,000	8,208	3.52
	Belgium	4,470		
	Luxembourg	408		
	Turkey	1,330		
Jorge González del Valle (Guatemala) <i>Alfredo Phillips O.</i> (Mexico)	Costa Rica	500	8,080	3.46
	El Salvador	500		
	Guatemala	500		
	Honduras	440		
	Mexico	2,950		
	Nicaragua	440		
	Venezuela	2,750		
Torben Friis (Denmark) <i>Jorma Aranko</i> (Finland)	Denmark	1,880	8,030	3.44
	Finland	1,500		
	Iceland	400		
	Norway	1,750		
	Sweden	2,500		
Alexandre Kafka (Brazil) <i>Paulo H. Pereira Lira</i> (Brazil)	Brazil	3,750	7,260	3.11
	Colombia	1,500		
	Dominican Republic	528		
	Haiti	400		
	Panama	362		
	Peru	720		
Paul L. Faber (Guinea) <i>Leonard A. Williams</i> (Trinidad and Tobago)	Burundi	400	7,132	3.06
	Guinea	440		
	Kenya	570		
	Liberia	450		
	Malawi	362		
	Mali	420		
	Nigeria	880		
	Sierra Leone	400		
	Sudan	820		
	Tanzania	570		
	Trinidad and Tobago	500		
	Uganda	570		
	Zambia	750		

Appendix II (concluded). EXECUTIVE DIRECTORS AND VOTING POWER

on April 30, 1967

Director <i>Alternate</i>	Casting Votes of	Votes by Country	Total Votes <sup>1</sup>	Per Cent of Total
Adolfo C. Diz (Argentina) <i>Yamandú S. Patrón (Uruguay)</i>	Argentina	3,750	6,990	2.99
	Bolivia	540		
	Chile	1,250		
	Ecuador	500		
	Paraguay	400		
	Uruguay	550		
Beue Tann (China) <i>C. L. Chow (China)</i>	China	5,750	6,780	2.91
	Korea	490		
	Viet-Nam	540		
Amon Nikoi (Ghana) <i>Muhamad Barmawie Alwie (Indonesia)</i>	Algeria	910	6,157	2.64
	Ghana	940		
	Laos	325		
	Libya	440		
	Malaysia	1,350		
	Morocco	1,042		
	Singapore	550		
	Tunisia	600		
Antoine W. Yaméogo (Upper Volta) <i>Léon M. Rajaobelina (Malagasy Republic)</i>	Cameroon	416	5,885	2.52
	Central African Republic	335		
	Chad	330		
	Congo (Brazzaville)	330		
	Congo, Democratic Rep. of	724		
	Dahomey	330		
	Gabon	330		
	Ivory Coast	416		
	Malagasy Republic	440		
	Mauritania	335		
	Niger	330		
	Rwanda	377		
	Senegal	500		
	Togo	362		
	Upper Volta	330		
		233,389 <sup>2</sup>	100.00	

<sup>1</sup> Voting power varies on certain matters with use by members of the Fund's resources.

<sup>2</sup> This total does not include the votes of Indonesia, which rejoined the Fund after the 1966 Regular Election of Executive Directors.

### Appendix III. CHANGES IN MEMBERSHIP OF EXECUTIVE BOARD

Changes in the membership of the Executive Board between May 1, 1966 and April 30, 1967 were as follows:

J. A. Sillem (Netherlands) served as Temporary Alternate Executive Director to Pieter Lieftinck (Netherlands), May 16 and June 6, 1966.

Rufino Gil (Costa Rica) served as Temporary Alternate Executive Director to Enrique Tejera-París (Venezuela), May 27, 1966.

Ulrich Beelitz (Germany) resigned as Executive Director for Germany, effective May 31, 1966.

Ernst vom Hofe (Germany) was appointed Executive Director by Germany, effective June 1, 1966.

Horst Ungerer (Germany), formerly Alternate Executive Director to Ulrich Beelitz (Germany), was appointed Alternate Executive Director to Ernst vom Hofe (Germany), June 1, 1966.

Abderrahman Tazi (Morocco) served as Temporary Alternate Executive Director to Amon Nikoi (Ghana), June 1 and December 7, 1966.

Alexandre Kafka (Brazil) was appointed Alternate Executive Director to Maurício C. Bicalho (Brazil), effective June 5, 1966.

Erwin Schmidbauer (Austria) served as Temporary Alternate Executive Director to André van Campenhout (Belgium), June 6, 1966.

G. Malcolm Gill (United Kingdom) served as Temporary Alternate Executive Director to J. M. Stevens (United Kingdom), June 13 (a.m.), July 8 (p.m.), 15, and 20 (a.m.), August 3, 12, and 19, September 12, and December 2, 1966, and January 13 and March 31, 1967.

Juan Haus-Solís (Bolivia) served as Temporary Alternate Executive Director to Luis Escobar (Chile), June 13 (p.m.) to 17, June 27 to 30, and July 11 to 22, 1966.

Louis Plum (Belgium) served as Temporary Alternate Executive Director to André van Campenhout (Belgium), June 13, 1966 (a.m.)

Chalong Pungtrakul (Thailand) served as Temporary Alternate Executive Director to Gengo Suzuki (Japan), June 17 and August 12, 1966.

Joaquín Gutiérrez Cano (Spain) served as Temporary Alternate Executive Director to Sergio Siglienti (Italy), June 17, 1966.

Appendix III (*continued*). CHANGES IN MEMBERSHIP OF EXECUTIVE BOARD

Carlos Pérez de la Cova (Venezuela) served as Temporary Alternate Executive Director to Enrique Tejera-París (Venezuela), June 29 to 30 and September 21, 1966.

Arun K. Ghosh (India) resigned as Alternate Executive Director to J. J. Anjaria (India), June 30, 1966.

Arun K. Banerji (India) was appointed Alternate Executive Director to J. J. Anjaria (India), effective July 1, 1966, and to B. K. Madan (India), effective February 1, 1967.

Ugo Toscano (Italy) served as Temporary Alternate Executive Director to Sergio Siglienti (Italy), July 1, 1966.

Jean Malaplate (France) served as Temporary Alternate Executive Director to René Larre (France), July 13 to 18 and August 3 to 15, 1966 and February 1 to 3, 1967.

Luis Machado (Cuba) served as Temporary Alternate Executive Director to Enrique Tejera-París (Venezuela), July 15 to 22 and September 19, 1966, and to Jorge González del Valle (Guatemala), December 12 to 16, 1966.

Jean R. Vallet (France) served as Temporary Alternate Executive Director to René Larre (France), July 20 and August 17, 1966.

Tetsuo Tanaka (Japan) served as Temporary Alternate Executive Director to Gengo Suzuki (Japan), August 15 to 17, 1966, and to Hideo Suzuki (Japan), February 10 and 17, 1967.

Jorge Mejía-Palacio (Colombia) served as Temporary Alternate Executive Director to Maurício C. Bicalho (Brazil), August 19, 1966.

Taoufik Smida (Tunisia) served as Temporary Alternate Executive Director to Amon Nikoi (Ghana), August 19, 1966.

S. Othello Coleman (Liberia) served as Temporary Alternate Executive Director to Semyano Kiingi (Uganda), September 14, 1966, and to Paul L. Faber (Guinea), April 10, 1967.

Maurício C. Bicalho (Brazil) completed his term of service as Executive Director for Brazil, Colombia, the Dominican Republic, Haiti, Panama, and Peru, October 31, 1966.

Kurt Eklöf (Sweden) completed his term of service as Executive Director for Denmark, Finland, Iceland, Norway, and Sweden, October 31, 1966.

Otto Schelin (Denmark) completed his term of service as Alternate Executive Director to Kurt Eklöf (Sweden), October 31, 1966.

Appendix III (*continued*). CHANGES IN MEMBERSHIP OF EXECUTIVE BOARD

Luis Escobar (Chile) completed his term of service as Executive Director for Argentina, Bolivia, Chile, Ecuador, Paraguay, and Uruguay, October 31, 1966.

Enrique Domenech (Argentina) completed his term of service as Alternate Executive Director to Luis Escobar (Chile), October 31, 1966.

Louis Kandé (Senegal) completed his term of service as Executive Director for Cameroon, the Central African Republic, Chad, Congo (Brazzaville), Dahomey, Gabon, Ivory Coast, the Malagasy Republic, Mauritania, Niger, Rwanda, Senegal, Togo, and Upper Volta, October 31, 1966.

Semyano Kiingi (Uganda) completed his term of service as Executive Director for Burundi, the Democratic Republic of Congo, Guinea, Kenya, Liberia, Mali, Nigeria, Sierra Leone, the Sudan, Tanzania, Trinidad and Tobago, and Uganda, October 31, 1966.

Gengo Suzuki (Japan) completed his term of service as Executive Director for Burma, Ceylon, Japan, Nepal, and Thailand, October 31, 1966.

Enrique Tejera-París (Venezuela) completed his term of service as Executive Director for Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Venezuela, October 31, 1966.

Adolfo C. Diz (Argentina) was elected Executive Director by Argentina, Bolivia, Chile, Ecuador, Paraguay, and Uruguay, effective November 1, 1966.

Yamandú S. Patrón (Uruguay) was appointed Alternate Executive Director to Adolfo C. Diz (Argentina), effective November 1, 1966.

Paul L. Faber (Guinea), formerly Alternate Executive Director to Semyano Kiingi (Uganda), was elected Executive Director by Burundi, Guinea, Kenya, Liberia, Malawi, Mali, Nigeria, Sierra Leone, the Sudan, Tanzania, Trinidad and Tobago, Uganda, and Zambia, effective November 1, 1966.

Leonard A. Williams (Trinidad and Tobago) was appointed Alternate Executive Director to Paul L. Faber (Guinea), effective November 1, 1966.

Torben Friis (Denmark) was elected Executive Director by Denmark, Finland, Iceland, Norway, and Sweden, effective November 1, 1966.

Jorma Aranko (Finland) was appointed Alternate Executive Director to Torben Friis (Denmark), effective November 1, 1966.

Jorge González del Valle (Guatemala), formerly Alternate Executive Director to Enrique Tejera-París (Venezuela), was elected Executive Director by Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Venezuela, effective November 1, 1966.

Appendix III (*continued*). CHANGES IN MEMBERSHIP OF EXECUTIVE BOARD

Alfredo Phillips O. (Mexico) was appointed Alternate Executive Director to Jorge González del Valle (Guatemala), effective November 1, 1966.

S. J. Handfield-Jones (Canada) completed his term of service as Executive Director for Canada, Ireland, and Jamaica, October 31, 1966, and was elected Executive Director by Canada, Guyana, Ireland, and Jamaica, effective November 1, 1966.

Patrick M. Reid (Canada) was reappointed Alternate Executive Director to S. J. Handfield-Jones (Canada), effective November 1, 1966.

Alexandre Kafka (Brazil), formerly Alternate Executive Director to Maurício C. Bicalho (Brazil), was elected Executive Director by Brazil, Colombia, the Dominican Republic, Haiti, Panama, and Peru, effective November 1, 1966.

Pieter Lieftinck (Netherlands) was re-elected Executive Director by Cyprus, Israel, the Netherlands, and Yugoslavia, effective November 1, 1966.

H. M. H. A. van der Valk (Netherlands) was reappointed Alternate Executive Director to Pieter Lieftinck (Netherlands), effective November 1, 1966.

Amon Nikoi (Ghana) completed his term of service as Executive Director for Algeria, Ghana, Laos, Libya, Morocco, and Tunisia, October 31, 1966, and was elected Executive Director by Algeria, Ghana, Laos, Libya, Malaysia, Morocco, Singapore, and Tunisia, effective November 1, 1966.

M. W. O'Donnell (Australia) completed his term of service as Executive Director for Australia, New Zealand, South Africa, and Viet-Nam, October 31, 1966, and was elected Executive Director by Australia, New Zealand, and South Africa, effective November 1, 1966. He resigned, effective February 1, 1967.

A. M. de Villiers (South Africa) was reappointed Alternate Executive Director to M. W. O'Donnell (Australia), effective November 1, 1966, and was appointed Alternate Executive Director to J. O. Stone (Australia), effective February 2, 1967.

Ahmed Zaki Saad (United Arab Republic) was re-elected Executive Director by Afghanistan, Ethiopia, Iran, Iraq, Jordan, Kuwait, Lebanon, Pakistan, the Philippines, Saudi Arabia, Somalia, the Syrian Arab Republic, and the United Arab Republic, effective November 1, 1966.

Sergio Siglienti (Italy) was re-elected Executive Director by Greece, Italy, Portugal, and Spain, effective November 1, 1966.

Hideo Suzuki (Japan) was elected Executive Director by Burma, Ceylon, Japan, Nepal, and Thailand, effective November 1, 1966.

Eiji Ozaki (Japan), formerly Alternate Executive Director to Gengo Suzuki (Japan), was appointed Alternate Executive Director to Hideo Suzuki (Japan), effective November 1, 1966.

Appendix III (*continued*). CHANGES IN MEMBERSHIP OF EXECUTIVE BOARD

Beue Tann (China) completed his term of service as Executive Director for China, October 31, 1966, and was elected Executive Director by China, Korea, and Viet-Nam, effective November 1, 1966.

André van Campenhout (Belgium) was re-elected Executive Director by Austria, Belgium, Luxembourg, and Turkey, effective November 1, 1966.

Herman Biron (Belgium) was reappointed Alternate Executive Director to André van Campenhout (Belgium), effective November 1, 1966.

Antoine W. Yaméogo (Upper Volta), formerly Alternate Executive Director to Louis Kandé (Senegal), was elected Executive Director by Cameroon, the Central African Republic, Chad, Congo (Brazzaville), the Democratic Republic of Congo, Dahomey, Gabon, Ivory Coast, the Malagasy Republic, Mauritania, Niger, Rwanda, Senegal, Togo, and Upper Volta, effective November 1, 1966.

Léon M. Rajaobelina (Malagasy Republic) was appointed Alternate Executive Director to Antoine W. Yaméogo (Upper Volta), effective November 1, 1966.

Paulo H. Pereira Lira (Brazil) was appointed Alternate Executive Director to Alexandre Kafka (Brazil), effective November 13, 1966.

Erich Stoffers (Germany) served as Temporary Alternate Executive Director to Ernst vom Hofe (Germany), November 25, 1966 and January 13, 1967.

Craig T. MacDonald (Canada) served as Temporary Alternate Executive Director to S. J. Handfield-Jones (Canada), December 7, 1966 and February 13, 1967.

Luis Escobar (Chile) served as Temporary Alternate Executive Director to Adolfo C. Diz (Argentina), December 16, 1966 and February 17 to 20, 1967.

Muhamad Barmawie Alwie (Indonesia) was appointed Alternate Executive Director to Amon Nikoi (Ghana), effective January 16, 1967.

J. J. Anjaria (India) resigned as Executive Director for India, effective January 31, 1967.

B. K. Madan (India) was appointed Executive Director by India, effective February 1, 1967.

Felice Gianani (Italy) served as Temporary Alternate Executive Director to Sergio Siglienti (Italy), February 1 to 3, 1967.

Iddi Simba (Tanzania) served as Temporary Alternate Executive Director to Paul L. Faber (Guinea), February 1 to 10, 1967.

Appendix III (*concluded*). CHANGES IN MEMBERSHIP OF EXECUTIVE BOARD

J. O. Stone (Australia) was elected Executive Director by Australia, New Zealand, and South Africa, effective February 2, 1967.

Daniel Fernández (Argentina) served as Temporary Alternate Executive Director to Adolfo C. Diz (Argentina), February 24, 1967.

Appendix IV. ADMINISTRATIVE BUDGET  
Letter of Transmittal

July 26, 1967

My dear Mr. Chairman:

The administrative budget of the Fund approved by the Executive Board for the Fiscal Year ending April 30, 1968 is presented herewith, in accordance with Section 20 of the By-Laws. The presentation also shows actual expenditure for the past two fiscal years.

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

Yours sincerely,

/s/

P.-P. SCHWEITZER

*Chairman of the Executive Board*

Chairman of the Board of Governors  
International Monetary Fund

Appendix IV (concluded)

ADMINISTRATIVE BUDGET AS APPROVED BY THE EXECUTIVE BOARD FOR THE FISCAL YEAR ENDING  
APRIL 30, 1968, COMPARED WITH ACTUAL EXPENDITURES FOR THE FISCAL YEARS  
1965-66 AND 1966-67

Category of Expenditure	F.Y. 1967-68 Budget	F.Y. 1966-67		F.Y. 1965-66 Actual Expenditures
		Budget	Actual Expenditures	
I. BOARD OF GOVERNORS.....	\$ 850,000	\$ 565,000	\$ 509,243	\$ 473,432
II. EXECUTIVE DIRECTORS				
Salaries and allowances.....	1,340,000	1,279,000	1,242,497	1,047,582
Other compensations and benefits.....	339,000	287,000	256,608	231,314
Travel.....	336,000	398,000	336,182	239,570
Total.....	\$ 2,015,000	\$ 1,964,000	\$ 1,835,287	\$ 1,518,466
III. STAFF				
Salaries.....	8,980,000	7,754,000	7,651,328	6,628,564
Other compensations and benefits.....	3,178,000	2,602,000	2,551,226	2,203,858
Travel.....	2,410,000	2,190,000	2,034,929	1,566,808
Total.....	\$14,568,000	\$12,546,000	\$12,237,483	\$10,399,230
IV. SPECIAL SERVICES TO MEMBER COUNTRIES.....	\$ 2,120,000	\$ 1,410,000	\$ 1,242,350	\$ 682,281
V. OTHER ADMINISTRATIVE EXPENSES				
Communications.....	495,000	465,000	445,079	376,910
Office occupancy expenses.....	485,000	566,000	559,479	554,748
Books and printing.....	479,000	410,000	394,088	312,694
Supplies and equipment.....	517,000	462,000	445,488	410,872
Miscellaneous.....	571,000	452,000	413,838	306,954
Total.....	\$ 2,547,000	\$ 2,355,000	\$ 2,257,972	\$ 1,962,178
TOTAL.....	\$22,100,000	\$18,840,000	\$18,082,335	\$15,035,587

## Appendix V. COMPARATIVE STATEMENT OF INCOME AND EXPENDITURE

	Year Ended Apr. 30, 1965	Year Ended Apr. 30, 1966	Year Ended Apr. 30, 1967
<b>INCOME <sup>1</sup></b>			
Service charges			
Received in gold.....	\$ 1,197,187	\$ 2,111,437	\$ 2,506,479
Received in members' currencies.....	8,290,000	11,975,000	2,799,896
Total.....	\$ 9,487,187	\$14,086,437	\$ 5,306,375
Charges on Fund's holdings of members' currencies and securities in excess of quotas			
Received in gold.....	\$26,167,091	\$25,539,937	\$19,599,228
Received in members' currencies.....	9,738,818	40,201,750	62,925,458
Total.....	\$35,905,909	\$65,741,687	\$82,524,686
Other operational income.....	\$ 2,353,709	\$ 1,484,572	\$ 1,780,394
Miscellaneous income.....	2,257	3,904	7,101
<b>TOTAL INCOME.....</b>	<b>\$47,749,062</b>	<b>\$81,316,600</b>	<b>\$89,618,556</b>
<b>EXPENDITURE</b>			
Administrative.....	\$13,011,474	\$15,035,587	\$18,082,335
Operational.....	4,557,523	16,074,373	17,804,327
Fixed property.....	4,635,295	5,661,158	3,305,352
<b>TOTAL EXPENDITURE.....</b>	<b>\$22,204,292</b>	<b>\$36,771,118</b>	<b>\$39,192,014</b>

<sup>1</sup> Excludes income from investments transferred to Special Reserve for the fiscal years ended April 30, as follows:

1965.....	\$30,750,435
1966.....	33,907,383
1967.....	40,959,870

Appendix VI. FINANCIAL STATEMENTS OF INTERNATIONAL  
MONETARY FUND AND STAFF RETIREMENT FUND

Letter of Transmittal

July 26, 1967

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, 1967, together with two memoranda from the Audit Committee, which include the audit certificates.

In conformity with the By-Laws, the external audit of the Fund has been performed by an Audit Committee consisting of auditors nominated by three member countries. At the Fund's request, Canada, the Philippines, and Venezuela nominated auditors to serve on this Committee. They respectively nominated Mr. George R. Long, Assistant Auditor General of Canada; Mr. Julian D. Mercado, Executive Assistant to the Deputy Governor, Central Bank of the Philippines; and Mr. Guillermo Pimentel, Advisor, Central Bank of Venezuela. The Auditors thus nominated were confirmed by the Executive Directors.

It will be noted that, in the period under review, ordinary income amounted to \$89,618,556 and expenditure amounted to \$39,192,014, resulting in a net income of \$50,426,542, which has been transferred provisionally to General Reserve pending Board of Governors' action. In addition, income of \$40,959,870 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 23, 1967

To the Managing Director  
and the Executive Directors  
International Monetary Fund

The report of the Audit Committee, dated June 23, 1967, 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, 1967, includes the following paragraphs relating to the scope of the audit 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. In determining its program of test examination, consideration was given to the work performed by the Internal Auditor, as reported by him to the Committee, and to the standard of his work performance as observed by the Committee.

AUDIT CERTIFICATE

We have made an independent examination of the Balance Sheet of the International Monetary Fund as at April 30, 1967, of the Statement of Income and Expenditure and of the Statement of Reserves for the fiscal year then ended, together with the schedules related to these statements. We have obtained from the officers and staff of the Fund all information we have required in the audit.

In our opinion, the Balance Sheet and 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, 1967, 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 the preceding year.

AUDIT COMMITTEE:

/s/ J. D. Mercado, Chairman (Philippines)

/s/ G. R. Long (Canada)

/s/ G. Pimentel (Venezuela)

Appendix VI  
Exhibit A

BALANCE  
as at April

Values expressed in U.S. dollars on the

ASSETS

GOLD ACCOUNT			
Gold with depositories (See Note 1)			
<i>(83,766,749.232 fine ounces at \$35 per ounce)</i>			
Bars.....	\$2,657,124,144		
General deposits.....	274,712,079	\$2,931,836,223	
<hr/>			
Investments (See Note 2)			
\$830,148,000 U.S. Government securities maturing within 12 months, at cost.....			
	\$799,969,470		
Funds awaiting investment.....	22,041	799,991,511	\$ 3,731,827,734
<hr/>			
CURRENCIES AND SECURITIES			
With depositories			
Currencies.....		\$ 3,004,089,148	
Securities.....		14,977,934,748	17,982,023,896
<i>(nonnegotiable, noninterest-bearing demand obligations, payable at face value by members in their currencies)</i>			
<hr/>			
SUBSCRIPTIONS TO CAPITAL—RECEIVABLE			
Balances not due.....		\$807,894,973	
Balances of installments not due (Contra).....		74,985,000	882,879,973
<hr/>			
WITHDRAWING MEMBER'S CURRENCY (See Note 3).....			4,999,931
OTHER ASSETS (See Note 4).....			42,204,667
<b>TOTAL ASSETS.....</b>			<b>\$22,643,936,201</b>

NOTES:

1. Excludes 9,309.777 fine ounces earmarked for members.
2. 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.
3. Redeemable by Cuba in gold, or convertible currencies acceptable to the Fund, in installments not later than July 1, 1968.
4. The assets and liabilities of the Staff Retirement Fund are not included in this Balance Sheet.
5. Represents currencies borrowed under Article VII, Section 2(i), of the Articles of Agreement.
6. Under certain circumstances, the charge for a stand-by arrangement is credited against the service charge for funds drawn under that arrangement. Moreover, a member that cancels a stand-by arrangement will be paid a refund which will be the prorated portion of the remaining stand-by charge.

SHEET  
30, 1967

basis of established parities or provisional rates

CAPITAL, RESERVES, AND LIABILITIES

CAPITAL		
Authorized subscriptions of members.....		\$20,921,150,000
RESERVES (Exhibit C)		
Special reserve.....	\$223,141,700	
General reserve.....	236,783,492	459,925,192
SUBSCRIPTIONS IN RESPECT OF INCREASES IN QUOTAS CONSENTED TO BUT NOT YET EFFECTIVE		
Balances of installments not due (Contra).....	\$74,985,000	
Partial payments.....	1,115,000	76,100,000
INDEBTEDNESS (See Note 5)		
To Participants under General Arrangements to Borrow.....	\$930,000,000	
Other.....	250,000,000	1,180,000,000
PROVISION FOR POTENTIAL REFUNDS OF STAND-BY CHARGES (See Note 6).....		852,835
OTHER LIABILITIES (See Note 4).....		5,908,174
TOTAL CAPITAL, RESERVES, AND LIABILITIES.....		<u>\$22,643,936,201</u>

/s/ R. KROC  
Acting Treasurer

/s/ P.-P. SCHWEITZER  
Managing Director

## Appendix VI (continued)

## Exhibit B

STATEMENT OF INCOME AND EXPENDITURE  
for the year ended April 30, 1967

INCOME		
Operational charges.....	\$ 7,086,406	
Charges on balances in excess of quotas.....	82,524,686	
Other.....	7,464	
TOTAL INCOME (See Note 1).....		\$89,618,556
EXPENDITURE		
Administrative expenditure		\$ 509,243
Board of Governors.....		
Executive Directors		
Salaries and expense allowances.....	\$1,242,497	
Other compensations and benefits.....	256,608	
Travel.....	336,182	1,835,287
Staff		
Salaries.....	\$7,651,328	
Other compensations and benefits.....	2,551,226	
Travel.....	2,034,929	12,237,483
Special services to member countries.....		1,242,350
Other administrative expenses		
Communications.....	\$445,079	
Office occupancy expenses.....	559,479	
Books and printing (See Note 2).....	394,088	
Supplies and equipment.....	445,488	
Miscellaneous (See Note 3).....	413,838	2,257,972
Total administrative expenditure.....		\$18,082,335
Operational expenditure		
Transfer charges on amount borrowed.....	\$ 1,250,000	
Interest on indebtedness		
Under General Arrangements to Borrow.....	13,950,000	
Other.....	2,604,167	
Gold handling costs and sundry other (net).....	160	17,804,327
Total operational expenditure.....		17,804,327
Fixed property expenditure.....		3,305,352
TOTAL EXPENDITURE.....		39,192,014
NET INCOME.....		\$50,426,542
(Transferred provisionally to General Reserve pending Board of Governors' action) (Exhibit C)		

## NOTES:

1. Excludes income from investments amounting to \$40,959,870, transferred to Special Reserve (Exhibit C).
2. After deduction of \$80,704 for sales of Fund's publications.
3. After deduction of \$220,811 for food service sales.

STATEMENT OF RESERVES  
for the year ended April 30, 1967

SPECIAL RESERVE (See Note)		
Balance, April 30, 1966.....	\$182,181,830	
Add		
Income from investments in U.S. Government securities for year.....	<u>40,959,870</u>	
Balance, April 30, 1967.....		\$223,141,700
GENERAL RESERVE		
Balance, April 30, 1966.....	\$186,356,950	
Add		
Net income for year (Exhibit B), transferred provisionally pending Board of Governors' action.....	<u>50,426,542</u>	
Balance, April 30, 1967.....		<u>236,783,492</u>
TOTAL RESERVES (per Balance Sheet).....		<u><u>\$459,925,192</u></u>

## NOTE:

Consists of income from investments in U.S. Government securities from November 1, 1957.

STAFF RETIREMENT FUND

MEMORANDUM BY THE AUDIT COMMITTEE

June 23, 1967

To the Managing Director  
and the Executive Directors  
International Monetary Fund

The report of the Audit Committee, dated June 23, 1967, 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, 1967, 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 year ended April 30, 1967. 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 of the Internal Auditor, whose report to the Committee showed that a detailed examination had been made of the participants' accounts.

AUDIT CERTIFICATE

In our opinion, the 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, 1967 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 the preceding year.

INVESTMENTS

Changes in the General Rules on Investment were made by the Pension Committee during the year in order to lower the floor on the holdings of obligations of the U.S. Government and to provide broader authority for the purchase of obligations of U.S. Government agencies that do not carry a specific government guarantee.

Holdings of the various classes of investments at April 30, 1967 were within the limiting percentages, stated in original investment values, prescribed by the Pension Committee, as follows:

Appendix VI (continued)

	<i>Percentage Authorized</i>	<i>Percentage Held</i>
Bonds		
U.S. Government .....	Minimum 25	29.05
International Bank for Reconstruction and Development and Inter-American Development Bank .....	Maximum 20	17.81
Corporate (other than convertible) .....	Maximum 25	15.99
Corporate (convertible) .....	Maximum 5	<u>0.15</u>
Total bonds .....		63.00
Corporate stocks .....	Maximum 50	<u>37.00</u>
Total portfolio .....		<u>100.00</u>

The Audit Committee received directly from the depository confirmation of the investments held as at April 30, 1967.

AUDIT COMMITTEE:

/s/ J. D. Mercado, Chairman (Philippines)

/s/ G. R. Long (Canada)

/s/ G. Pimentel (Venezuela)

Appendix VI (concluded)

Exhibit I

STAFF RETIREMENT FUND

BALANCE SHEET  
as at April 30, 1967

ASSETS

CASH AT BANKS .....		\$	82,310
INVESTMENTS			
Bonds, at amortized cost			
United States Government ( <i>market value,</i> \$5,010,086) .....	\$5,418,334		
International Bank for Reconstruction and Development and Inter-American Development Bank ( <i>market value, \$3,271,570</i> ) .....	3,396,935		
Corporate ( <i>market value, \$2,691,988</i> ) .....	3,063,719		
Corporate convertible ( <i>market value, \$46,950</i> ) . . .	30,000	\$11,908,988	
Corporate stocks (common), at cost ( <i>market value,</i> \$11,713,003) .....	8,411,916		20,320,904
ACCRUED INTEREST ON BONDS .....			143,219
ACCRUED CONTRIBUTIONS FROM PARTICIPANTS AND EMPLOYER .....			13,627
TOTAL ASSETS .....			<u>\$20,560,060</u>

LIABILITIES AND RESERVES

PARTICIPANTS' ACCOUNT .....		\$	4,268,460
ACCUMULATION ACCOUNT .....			12,405,914
RETIREMENT RESERVE ACCOUNT .....			3,071,461
RESERVE AGAINST INVESTMENTS .....			814,225
TOTAL LIABILITIES AND RESERVES .....			<u>\$20,560,060</u>

/s/ R. KROC  
Acting Treasurer

/s/ P.-P. SCHWEITZER  
Managing Director

# INDEX

*This page intentionally left blank*

## INDEX

Numbers refer to pages. An asterisk (\*) denotes a table, a dagger (†) denotes a chart.

- AFGHANISTAN**—drawing, 133\*; gold and foreign exchange reserves, 23\*; repurchase from Fund, 136\*; stand-by arrangements, 134\*, 135
- AFRICA**—balance of payments and reserves, 81†, 154-55\*; capital movements, 81; economic developments, 106; economic developments in Central Africa, 101; economic developments in East Africa, 106; economic developments in North Africa, 101; financial developments, 107; gold, foreign exchange, and reserve position in Fund, 12\*, 92; gold exports to U.K., 123\*; gold imports from U.K., 123\*; international trade, 86, 105, 106; international trade of Central Africa, 75\*; international trade of West Africa, 104; prices in East Africa, 107; sisal prices in East Africa, 95†; U.S. direct investment in, 90\*; *see also* individual countries
- AGRICULTURAL PRODUCTS**—export earnings, 94†; prices 93, 96, 98\*, 100\*, 102\*
- ALGERIA**—economic developments, 102; financial developments, 107; Fund quota increase, 136\*
- ALUMINUM**—prices, 93
- ANTI-INFLATION**—*see* STABILIZATION PROGRAMS
- ARGENTINA**—balance of payments and reserves, 98\*, 99, 100\*, 154-55\*; capital movements, 102\*, 103\*; drawing, 133\*; economic developments, 107; export earnings, 98\*; Fund quota increase, 136\*; gold purchases, 121\*; inflation, 108, 109, 110; international trade, 102\*; maize prices, 95†; repurchase from Fund, 136\*; stabilization problems, 109-110
- ARTICLES OF AGREEMENT**—*see* FUND ARTICLES OF AGREEMENT
- ASIA**—balance of payments and reserves, 78\*, 81†, 154-55\*; economic developments, 106; economic developments in South Asia, 101; gold, foreign exchange, and reserve position in Fund, 12\*; gold exports to U.K., 123\*; gold imports from U.K., 123\*; international trade, 75\*, 105, 106; U.S. direct investment in, 90\*; *see also* individual countries
- AUSTRALIA**—balance of payments and reserves, 21, 77†, 78\*, 79-80, 81†, 97, 99\*, 112, 154-55\*; capital movements, 29, 30, 31\*, 34\*, 80, 88\*, 112; criteria for borrowing in U.K., 69-70; economic developments, 112; export earnings, 99\*; Fund Article VIII, acceptance of, 129\*; gold, foreign exchange, and reserve position in Fund, 12\*, 23\*, 91; gold production, 114\*, 116; gold subsidy program, 124; gross national product, 112; industrial production, 71†, 73\*; international trade, 71†, 72\*, 73\*, 75\*, 86; investment and government expenditures, 26\*; investment, government expenditures, and gross national product, 27\*; U.S. direct investment in, 90\*
- AUSTRIA**—balance of payments and reserves, 82; cost of living, 58; discount rates, 62\*, 64; Fund Article VIII, acceptance of, 129\*; gold and foreign exchange reserves, 23\*; gold imports from U.K., 123\*; gold transactions, 14\*, 121\*; industrial production, 84\*, 85\*; international trade, 84\*, 85, 86, 87; investment and government expenditures, 26\*; investment, government expenditures, and gross national product, 27\*; prices, 58
- BAHAMA ISLANDS**—par value established, 129-30
- BALANCE OF PAYMENTS**—6-9, 76, 78-87, 97-101, 145-55; industrial countries, 78\*, 79, 81, 145-53\*; primary producing countries, less developed, 78\*, 80-81, 154-55\*; primary producing countries, more developed, 78\*, 79-80, 154-55\*; *see also* individual countries
- BANK CREDIT**—industrial countries, 20; primary producing countries, less developed, 20; primary producing countries, more developed, 20; *see also* individual countries
- BANK FOR INTERNATIONAL SETTLEMENTS**—Euro-dollar market, 69; Fund cooperation with, 141; gold transactions, 116\*
- BELGIUM**—balance of payments and reserves, 82; budget deficits, 61\*; capital market, 28\*, 32\*, 35, 36\*, 37\*, 65, 88\*; capital movements, 87; cost of living, 58; discount rates, 62, 64; fiscal policy, 27, 60, 62; Fund Article VIII, acceptance of, 129\*; Fund quota increase, 130\*; General Arrangements to Borrow, extended, 50; gold prices, 124\*; gold transactions, 14\*, 121\*; investment and government expenditures, 26\*; investment, government expenditures, and gross national product, 27\*; monetary policy, 62, 64; prices, 58; *see also* BELGIUM-LUXEMBOURG
- BELGIUM-LUXEMBOURG**—balance of payments and reserves, 82\*, 146\*; capital market, 65; capital movements, 29\*, 31\*, 34\*, 76, 88\*; economic situation, 57; gold, foreign exchange, and reserve position in Fund, 12\*, 23\*; industrial production, 57, 84\*, 85\*; interest rates, 68; international trade, 76†, 84\*, 85, 86, 87; wages, 59
- BOARD OF GOVERNORS**—*see* FUND BOARD OF GOVERNORS
- BOLIVIA**—balance of payments and reserves, 98\*, 154-55\*; capital movements, 102\*, 103\*; economic developments, 101, 107; export earnings, 98\*; Fund Article VIII, acceptance of, 48, 129; gold policy, 124; international trade, 102\*; repurchase from Fund, 136\*; stand-by arrangements, 134\*, 135
- BONDS, GOVERNMENT**—yields, 27†, 66-68
- BONDS, INDUSTRIAL**—yields, 67-68
- BRAZIL**—balance of payments and reserves, 98\*, 99, 100, 154-55\*; capital movements, 102\*; coffee prices, 95†; cost of living, 108; currency used in Fund transactions, 48; drawing, 49, 131; economic developments, 102, 107; export earnings, 98\*; financial developments, 108; gold and foreign exchange reserves, 23\*; gold sales, 121\*; gross domestic product, 107; inflation, 108; international trade, 102\*; repurchase from Fund, 136\*; stabilization problems, 108; stand-by arrangements, 134\*, 135
- BURMA**—balance of payments and reserves, 97, 98\*, 99, 100\*, 154-55\*; capital movements, 102\*; economic developments, 102, 106; export earnings, 98\*; financial developments, 107; international trade, 102\*
- BURUNDI**—drawing, 133\*; repurchase from Fund, 136\*; stand-by arrangements, 134\*, 135
- CAMBODIA**—balance of payments and reserves, 97
- CAMEROON**—Fund quota increase, 130\*
- CANADA**—balance of payments and reserves, 77†, 78, 79\*, 82, 83†, 84, 147\*; bonds, government, yields of, 27†, 68; bonds, industrial, yields of, 68†; bonds issued, industrial, 68; budget deficits, 61\*; capital market, 28\*, 29\*, 33, 36, 65, 88\*; capital movements, 29, 30, 31\*, 34, 68, 70, 84, 87, 88\*, 90; cost of living, 58; discount rates, 62, 63; economic growth, 5, 55; economic situation, 6; employment, 56; export prices, 60; fiscal policy, 5, 60, 61; Fund Article VIII, acceptance of, 129\*; Fund quota increase, 130\*; General Arrangements to Borrow, extended, 50; gold, foreign exchange, and reserve position in Fund, 12\*, 15\*, 21, 23\*, 25†, 91; gold production, 114\*, 115; gold subsidy program, 124; gold transactions, 14\*, 121\*; gross national product, 56, 57\*; industrial production, 4\*, 5, 55, 56, 71†, 72, 73\*, 84\*, 85\*; interest rates, 3, 28†, 66, 68; international trade, 4\*, 71†, 72, 73\*, 75\*, 76†, 84\*, 85, 86, 87; investment, 26; investment and government expenditures, 26\*; investment, government expenditures, and gross national product, 27\*; monetary

- policy, 63; personal saving, 65; prices, 5, 58; U.S. direct investment in, 90\*; wages, 5, 59-60; wheat prices, 95†
- CAPITAL MARKETS**—3, 26-38, 87-88; industrial countries, 64-66; *see also* individual countries
- CAPITAL MOVEMENTS**—26-38, 81; industrial countries, 25, 69-70, 76, 78; private, 87-91; *see also* individual countries
- CENTRAL AFRICAN REPUBLIC**—Fund quota increase, 130\*
- CENTRAL AMERICA**—economic developments, 101, 102; gold exports to U.K., 123\*; gold imports from U.K., 123\*; prices, 107; *see also* individual countries
- CENTRAL BANKING SERVICE**—*see* FUND ORGANIZATION AND ADMINISTRATION
- CEYLON**—balance of payments and reserves, 97, 98\*, 100, 154-55\*; capital movements, 102\*; drawings, 49, 132, 133\*; economic developments, 102, 106; export earnings, 98\*; international trade, 102\*, 104; repurchase from Fund, 136\*; stand-by arrangements, 134\*, 135; tea prices, 95†
- CHAD**—Fund quota increase, 130
- CHILE**—balance of payments and reserves, 97, 98\*, 99, 100\*, 154-55\*; capital movements, 102\*; copper prices, 95†; drawing, 133\*; export earnings, 98\*; financial developments, 108; inflation, 108; international trade, 102\*, 104; repurchase from Fund, 136\*; stabilization problems, 108; stand-by arrangement, 134\*
- CHINA, MAINLAND**—gold exports to U.K., 123\*; gold imports from U.K., 123\*; gold purchases, 116; international trade, 73, 74\*, 86
- CHINA, REPUBLIC OF**—balance of payments and reserves, 80, 97, 98\*, 99, 100\*, 154-55\*; capital movements, 102\*, 103; economic developments, 106; export earnings, 98\*; gold and foreign exchange reserves, 23\*; international trade, 102\*, 105; reserves, 92
- COCOA**—prices, 93, 95†
- COFFEE**—prices, 93, 95†, 96\*, 98\*
- COLOMBIA**—balance of payments and reserves, 97, 98\*, 99, 100, 154-55\*; capital movements, 102\*, 103\*; coffee prices, 95†; drawings, 49, 132, 133\*; economic developments, 102, 107; export earnings, 98\*; gold production, 114\*, 116; inflation, 108; international trade, 102\*, 104; repurchase from Fund, 136\*; stabilization problems, 108-109; stand-by arrangements, 132-33, 134\*
- COMPENSATORY FINANCING**—*see* FUND TRANSACTIONS
- CONGO (BRAZZAVILLE)**—Fund quota increase, 130\*
- CONGO, DEMOCRATIC REPUBLIC OF**—economic developments, 101, 102, 106; financial developments, 108; Fund quota increase, 130\*; gold production, 114\*, 116
- COPPER**—prices, 93, 95†
- COST OF LIVING**—selected countries, 58†
- COSTA RICA**—balance of payments and reserves, 97, 98\*, 154-55\*; capital movements, 102, 103\*; drawings, 133\*; economic developments, 102, 107; export earnings, 98\*; Fund Article VIII, acceptance of, 129\*; Fund quota increase, 130\*; international trade, 102\*; repurchase from Fund, 136\*; stand-by arrangement, 134\*
- COTTON**—prices, 93, 95†
- CREDIT AND CREDIT CONTROL**—*see* BANK CREDIT and MONETARY POLICY
- CYPRUS**—balance of payments and reserves, 154-55\*; repurchase from Fund, 136\*
- DAHOMY**—Fund quota increase, 130\*
- DENMARK**—balance of payments and reserves, 82; capital market, 35, 37\*; cost of living, 58; Fund Article VIII, acceptance of, 48, 129; gold and foreign exchange reserves, 23\*; gold transactions, 14\*; industrial production, 84\*, 85\*; international trade, 84\*, 85, 86, 87; investment and government expenditures, 26\*; investment, government expenditures, and gross national product, 27\*; monetary policy, 64; prices, 58
- DISCOUNT RATES**—industrial countries, 62-64
- DOMINICAN REPUBLIC**—balance of payments and reserves, 154-55\*; capital movements, 102, 103\*; drawing, 49, 132, 133\*; economic developments, 102; Fund Article VIII, acceptance of, 129\*; Fund quota increase, 130\*; international trade, 102\*
- DRAWINGS**—*see* FUND TRANSACTIONS and individual countries
- ECUADOR**—balance of payments and reserves, 154-55\*; capital movements, 102\*, 103\*; drawing, 133\*; economic developments, 102, 107; international trade, 102\*; repurchase from Fund, 136\*; stand-by arrangements, 134\*, 135
- EDIBLE OILS**—prices, 95†
- EL SALVADOR**—balance of payments and reserves, 154-55\*; capital movements, 102, 103\*; drawing, 133\*; Fund Article VIII, acceptance of, 129\*; international trade, 102\*; stand-by arrangement, 134\*
- ETHIOPIA**—balance of payments and reserves, 97, 98\*, 154-55\*; capital movements, 102\*, 103\*; export earnings, 98\*; international trade, 102\*
- EURO-DOLLAR MARKET**—7, 15, 29, 34-35, 38, 69, 89, 90
- EURO-ISSUES**—29, 32, 33, 38, 87-88
- EUROPE**—balance of payments and reserves, 77†, 78\*; capital markets, 26, 32, 33, 36, 37; capital movements, 29, 31\*, 34\*, 81, 88\*; economic developments, 5, 101; gold, foreign exchange, and reserve position in Fund, 12\*, 15\*, 23\*, 24-25; gold exports to U.K., 123\*; gold imports from U.K., 123\*; industrial production, 71†, 73\*; interest rates, 3; international trade, 71†, 72\*, 73\*, 75\*; investment, 26; U.S. direct investment in, 90\*; wages, 59; *see also* individual countries
- EUROPEAN ECONOMIC COMMUNITY**—balance of payments and reserves, 6, 7, 77†, 78-79, 82\*, 83-84; capital markets, 33, 37; capital movements, 29\*, 31\*, 34\*, 76, 82, 87, 88\*; cost of living, 58†; economic situation, 57; export prices, 60†; industrial production, 56†, 57; international trade, 73\*, 75\*; prices, 58†; wages, 59†; *see also* individual countries
- EUROPEAN FREE TRADE ASSOCIATION**—balance of payments and reserves, 82\*; industrial production, 73\*; international trade, 72, 73\*, 75\*, 76†; *see also* individual countries
- EUROPEAN FUND**—gold transactions, 116\*
- EXCHANGE RATE POLICIES**—39-47
- EXECUTIVE DIRECTORS**—*see* FUND EXECUTIVE BOARD
- EXPORT EARNINGS**—94†, 96-97, 98\*; *see also* WORLD TRADE and individual countries
- EXPORTS**—industrial countries, 71-87; primary producing countries, less developed, 93, 96-97; primary producing countries, more developed, 93, 96
- FAR EAST**—balance of payments and reserves, 7, 80, 81, 97; economic developments, 101; gold, foreign exchange, and reserve position in Fund, 12\*, 92; international trade, 105; *see also* individual countries
- FINLAND**—balance of payments and reserves, 21, 80, 99\*, 154-55\*; capital movements, 112-13; drawing, 133\*; economic developments, 112-13; export earnings, 99\*; gross domestic product, 112; monetary policy, 64; stand-by arrangement, 113, 133, 134\*
- FISCAL POLICY**—industrial countries, 60-62; *see also* individual countries
- FOREIGN EXCHANGE**—*see* EXCHANGE RATE POLICIES; EXPORT EARNINGS; RESERVES, GOLD AND FOREIGN EXCHANGE; and individual countries
- FRANCE**—balance of payments and reserves, 6, 8, 82, 83†, 148\*; bonds, industrial, yields of, 67, 68†; budget deficits and surpluses, 61\*; capital market, 28\*, 32\*, 35, 36\*, 37\*, 65, 88\*; capital movements, 29\*, 30, 31\*, 34, 69, 70, 76, 87, 88\*, 90; cost of living, 58; discount rates, 62†; economic growth, 4, 5, 55, 64; economic situation, 58; export prices, 60; fiscal policy, 5, 56, 60,

- 62; Fund Article VIII, acceptance of, 129\*; Fund quota increase, 130\*; General Arrangements to Borrow, extended, 50; gold, foreign exchange, and reserve position in Fund, 12\*, 23\*, 24, 25†, 91; gold exports to U.K., 123\*; gold imports from U.K., 123\*; gold policy, 24, 122-23, 124; gold prices, 122; gold transactions, 13, 14\*, 121\*; gross national product, 58; industrial production, 4\*, 56, 57†, 58, 84\*, 85\*; interest rates, 28†, 67, 68, 69; international trade, 4\*, 72, 76†, 84\*, 85, 86, 87; investment, 27; investment and government expenditures, 26\*; investment, government expenditures, and gross national product, 27\*; monetary policy, 64; prices, 58; wages, 59
- FUND ARTICLES OF AGREEMENT**—49, 50; Article V, Section 7(b), repurchase postponement, 135, 136; Article V, Section 8 (f), payment of Fund charges, 138; Article VIII, Sections 2, 3, and 4, acceptance of, 39, 48, 129; Article VIII, Sections 2, 3, and 4, consultations, 51, 139; Article VIII, Sections 2, 3, and 4, convertible currencies, 49; Article XIV, Section 2, consultations, 51, 139
- FUND ASSISTANCE TO MEMBERS**—*see* **FUND SERVICES TO MEMBERS**
- FUND BOARD OF GOVERNORS**—quota increases, 130; Resolutions 20-6 and 20-7, 130
- FUND CONSULTATIONS WITH MEMBERS**—*see* **FUND SERVICES TO MEMBERS**
- FUND COOPERATION WITH OTHER INTERNATIONAL ORGANIZATIONS**—141-43; *see also* individual organizations
- FUND CURRENCY HOLDINGS**—*see* **FUND RESOURCES**
- FUND EXECUTIVE BOARD**—129; Executive Directors, list and voting power, 162-64; membership changes, 165-70
- FUND EXECUTIVE BOARD DECISIONS**—102-(52/11), currencies for use in repurchase, 160; 270-(53/95), currencies for use in repurchase, 160; 1477-(63/8), compensatory financing, 159; 2192-(66/81), compensatory financing, 49, 131, 159-61
- FUND FINANCIAL STATEMENTS**—171-82
- FUND GOLD HOLDINGS**—*see* **FUND RESOURCES**
- FUND MANAGING DIRECTOR**—addresses, etc., 141
- FUND MEMBERS**—applications to become, 129; new, 48, 129; number of, 129; par values, 129-30; readmitted, 48, 129
- FUND ORGANIZATION AND ADMINISTRATION**—Audit Committee, 174-75, 180-81; budget and expenditure, 143, 171-73, 178; Central Banking Service, 51, 140; Fiscal Affairs Department, 51, 140; IMF Institute, 52, 140-41; publications, 143-44; staff, 143; Staff Retirement Fund, 174, 180-81, 182; *see also* **FUND BOARD OF GOVERNORS**, **FUND EXECUTIVE BOARD**, and **FUND MANAGING DIRECTOR**
- FUND QUOTAS**—increases, 21, 48, 50, 129, 130-31
- FUND RESOURCES**—50; General Arrangements to Borrow, 48, 50; gold and currency holdings, 13, 17, 50, 116, 118, 132; U.S. securities, investment in, 143, 176-77, 179
- FUND SERVICES TO MEMBERS**—consultations, 51, 139; debt renegotiation, 51-52; IMF Institute, 52, 140-41; technical assistance, 51-52, 139-40; *see also* **FUND ORGANIZATION AND ADMINISTRATION**: Central Banking Service, Fiscal Affairs Department
- FUND TRANSACTIONS**—48-50, 131-81; borrowing from Italy, 17, 48, 50, 132; charges to members, 136, 138; compensatory financing, 21, 39-40, 48, 49, 131-32; currencies used by Fund, 136, 137\*; drawings, 20, 48-50, 113, 132, 137\*, 139\*; gold transactions, 16-17, 116, 118; gold transactions service, 125; repurchases by members, 118, 135-36, 137\*, 139\*; stand-by arrangements, 49-50, 113, 132-35, 139\*; summary, 136; waivers, 50, 135
- GABON**—economic developments, 101; Fund quota increase, 130\*; gross domestic product, 101
- GAMBIA**—membership in Fund, application for, 129
- GENERAL AGREEMENT ON TARIFFS AND TRADE**—Fund cooperation with, 141, 142-43
- GENERAL ARRANGEMENTS TO BORROW**—*see* **FUND RESOURCES**
- GERMANY**—balance of payments and reserves, 9, 78\*, 79, 81, 82, 83†, 149\*; bonds, government, yields of, 27†, 66, 67, 68; bonds, industrial, yields of, 67, 68†; budget deficits, 61\*; capital market, 5, 28\*, 32\*, 35, 36\*, 37\*, 65, 66, 88\*; capital movements, 7, 29, 31\*, 34\*, 55, 76, 78, 84, 87, 88\*, 90; cost of living, 58; discount rates, 62, 63-64; economic growth, 5, 55, 86; economic situation, 6, 57; export prices, 60; fiscal policy, 27, 60, 61; Fund Article VIII, acceptance of, 129\*; Fund quota increase, 130\*; General Arrangements to Borrow, extended, 50; gold, foreign exchange, and reserve position in Fund, 12\*, 18, 23\*, 25, 91, 120; gold exports to U.K., 123\*; gold imports, 120; gold imports from U.K., 123\*; gold policy, 22; gold transactions, 14\*, 121\*; gross national product, 57; industrial production, 4\*, 5, 55, 56, 57, 73\*, 84\*, 85\*; interest rates, 27, 28†, 66, 68; international trade, 4\*, 72, 73\*, 76†, 84\*, 85, 86, 87; investment and government expenditures, 26\*; investment, government expenditures, and gross national product, 27\*; monetary policy, 63-64; personal saving, 65; prices, 58; wages, 60
- GHANA**—balance of payments and reserves, 97, 98\*, 99, 100\*, 154-55\*; capital movements, 102\*, 103\*; cocoa prices, 95†; debt servicing problems, 51-52; drawings, 49, 132, 133\*; economic developments, 102, 106; export earnings, 98\*; financial developments, 107; gold exports to U.K., 123\*; gold production, 114\*, 116; international trade, 102\*; par value changed, 130; repurchase from Fund, 136\*; stabilization problems, 111; stand-by arrangement, 133, 134\*
- GOLD**—absorption by private holders, industry, and arts, 13, 117†, 118-20; coins, prices of, 120; hoarding, 118-19; holdings, 12-14, 17, 50, 116-20; markets, 120-24; movements, 120-24; national policies affecting, 22-25, 122-25; prices, 120-24; production, 114-16, 117†; subsidy programs, 124-25; transactions service of Fund, 125; *see also* **FUND TRANSACTIONS**
- GOLD POOL**—13, 14\*, 121-22
- GREECE**—balance of payments and reserves, 80, 99\*, 154-55\*; capital movements, 102\*, 103\*; economic developments, 113; export earnings, 99\*; gold policy, 123; international trade, 102\*; prices, 113
- GROSS NATIONAL PRODUCT**—selected countries, 57\*
- GUATEMALA**—balance of payments and reserves, 97, 98\*, 154-55\*; capital movements, 102\*, 103\*; drawing, 133\*; economic developments, 107; export earnings, 98\*; Fund Article VIII, acceptance of, 129\*; international trade, 102\*; repurchase from Fund, 136\*; stand-by arrangements, 50, 134\*, 135
- GUINEA**—drawing, 132, 133\*; Fund quota increase, 130\*
- GUYANA**—Fund Article VIII, acceptance of, 48, 129; membership in Fund, 48, 129; par value established, 130\*; stand-by arrangement, 133, 134\*
- HAITI**—balance of payments and reserves, 154-55\*; capital movements, 102\*, 103\*; drawings, 133\*; economic developments, 102; Fund Article VIII, acceptance of, 129\*; international trade, 102\*; repurchase from Fund, 136\*; stand-by arrangements, 134\*, 135
- HONDURAS**—balance of payments and reserves, 154-55\*; capital movements, 102; economic developments, 107; Fund Article VIII, acceptance of, 129\*; international trade, 102\*; repurchase from Fund, 136\*; stand-by arrangement, 134\*
- HONG KONG**—balance of payments and reserves, 98\*; export earnings, 98\*; gold prices, 123, 124\*; international trade, 105

- ICELAND—balance of payments and reserves, 80\*, 99\*, 154-55\*; economic developments, 112; export earnings, 99\*
- INDIA—balance of payments and reserves, 98\*, 99, 154-55\*; capital movements, 102\*, 103\*; economic developments, 102, 106; export earnings, 98\*; financial developments, 107; food problem, 84; gold and foreign exchange reserves, 23\*; gold hoarding, 120; gold policy, 124; gold prices, 124; gross domestic product, 106; inflation, 110; international trade, 102\*, 104-105; par value changed, 129; repurchase from Fund, 136\*; stabilization problems, 110
- INDONESIA—balance of payments and reserves, 98\*; debt servicing problems, 51; economic developments, 101, 102, 106; export earnings, 98\*; financial developments, 107; industrial production, 106; membership in Fund, 48, 129; stabilization problems, 110
- INDUSTRIAL COUNTRIES—3-7; aid to other countries, 8; balance of payments and reserves, 8-9, 77†, 78-79, 81, 82\*; capital markets, 64-66; capital movements, 69-70, 76, 78, 81; discount rates, 62-63; drawings, 138†; economic policy adjustments, 4-5; economic situation, 6, 55-70; employment, 4; export prices, 60; fiscal policy, 60-62; gold, foreign exchange, and reserve position in Fund, 12, 15\*, 23\*; gold transactions, 14\*; industrial production, 4\*, 71, 73\*, 84\*, 85\*; interest rates, 55, 66-69; international trade, 4\*, 71-75, 84-87; monetary policy, 62-64; prices, 58-59; stand-by arrangements, 138†; U.S. direct investment in, 90\*; wages, 59
- INDUSTRIAL PRODUCTION—3, 56†, 57†; industrial countries, 4\*, 71, 73\*, 84\*, 85\*; primary producing countries, more developed, 71†, 73\*
- INFLATION—3; primary producing countries, less developed, 40, 44-45, 108-110, 111; *see also* PRICE STABILITY and STABILIZATION PROGRAMS
- INTER-AMERICAN COMMITTEE ON THE ALLIANCE FOR PROGRESS—Fund cooperation with, 141
- INTER-AMERICAN DEVELOPMENT BANK—Fund cooperation with, 141
- INTEREST RATES—3; industrial countries, 55, 66-69; selected countries, 28†
- INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (WORLD BANK)—aid to Ghana discussed, 52; Fund cooperation with, 141
- INTERNATIONAL LIQUIDITY—3, 9-10, 48, 51
- INTERNATIONAL MONETARY FUND—*see* FUND
- INTERNATIONAL MONETARY SYSTEM—9, 22, 25, 51
- INTERNATIONAL ORGANIZATIONS—Fund cooperation with, 141-42
- INTERNATIONAL RESERVES—11-25; changes in countries' assets, 11†; components of growth, 12-17; created through credits, 19-22; determinants of growth, 17-19; national policies affecting composition, 22-25; *see also* RESERVES, GOLD AND FOREIGN EXCHANGE
- INTERNATIONAL TRADE—*see* WORLD TRADE and individual countries
- IRAN—balance of payments and reserves, 98\*, 100, 154-55\*; capital movements, 102, 103\*; economic developments, 106; export earnings, 98\*; financial developments, 108; international trade, 102\*; prices, 107
- IRAQ—balance of payments and reserves, 97, 98\*, 154-55\*; capital movements, 102\*; drawing, 132, 133\*; economic developments, 106; export earnings, 98\*; financial developments, 107; international trade, 102\*
- IRELAND—balance of payments and reserves, 79-80, 97, 99\*, 154-55\*; capital movements, 113; criteria for borrowing in U.K., 69-70; economic developments, 112, 113; export earnings, 99\*; Fund Article VIII, acceptance of, 129\*; gold and foreign exchange reserves, 23\*; gross domestic product, 113; repurchase from Fund, 136\*
- ISRAEL—balance of payments and reserves, 98\*, 99, 106, 154-55\*; capital movements, 102\*, 103; economic developments, 101, 106; export earnings, 98\*; financial developments, 108; gold and foreign exchange reserves, 23\*; inflation, 106; international trade, 102\*
- ITALY—balance of payments and reserves, 6, 8-9, 50, 79\*, 82, 83†, 150\*; bonds, government, yields of, 27†; bonds, industrial, yields of, 67, 68†; borrowing by Fund, 17, 48, 50, 132; budget deficits, 61\*; capital market, 28\*, 32\*, 35, 36\*, 37\*, 65, 88\*; capital movements, 7, 21, 25, 29, 31\*, 34, 55, 76, 87, 88\*, 90, 91; cost of living, 58; discount rates, 62†; economic growth, 4, 5, 55, 59, 64; economic situation, 58; export prices, 60; fiscal policy, 5, 27, 56, 60, 62; Fund Article VIII, acceptance of, 129\*; General Arrangements to Borrow, extended, 50; gold, foreign exchange, and reserve position in Fund, 12\*, 18, 23\*, 25, 91; gold imports from U.K., 123\*; gold prices, 123, 124\*; gold transactions, 13, 14\*, 121\*; gross national product, 57\*, 58; industrial production, 4\*, 56, 57, 58, 84\*, 85\*; interest rates, 67; international trade, 4\*, 72, 76†, 84\*, 85, 86, 87; investment, 27; investment and government expenditures, 26\*; investment, government expenditures, and gross national product, 27\*; monetary policy, 5, 64; personal saving, 65; prices, 58; wages, 59
- IVORY COAST—balance of payments and reserves, 98\*, 154-55\*; export earnings, 98\*; Fund quota increase, 130\*
- JAMAICA—balance of payments and reserves, 154-55\*; Fund Article VIII, acceptance of, 129\*; international trade, 104; repurchase from Fund, 136\*
- JAPAN—balance of payments and reserves, 8, 9, 77†, 78, 79\*, 81, 82, 83†, 84, 151\*; budget deficits, 61\*; capital market, 28\*, 33\*, 35, 36, 37, 65, 88\*; capital movements, 7, 21, 25, 29, 31\*, 34, 55, 64, 76, 87, 88\*, 90; cost of living, 58; discount rates, 62†; economic growth, 4, 5, 55, 64; economic situation, 58; export prices, 60; fiscal policy, 5, 56, 60, 62; Fund Article VIII, acceptance of, 129\*; General Arrangements to Borrow, extended, 50; gold, foreign exchange, and reserve position in Fund, 12\*, 15\*, 23\*, 91; gold production, 114\*, 116, 120; gold transactions, 14\*, 120; gross national product, 57\*; industrial production, 4\*, 56, 58, 71†, 73\*, 84\*, 85\*; interest rates, 67, 69; international trade, 4\*, 71†, 72, 73\*, 75\*, 76†, 84\*, 85\*, 86, 87; investment, 26; investment and government expenditures, 26\*; investment, government expenditures, and gross national product, 27\*; monetary policy, 5, 64; prices, 58; U.S. direct investment in, 90\*; wages, 59
- JORDAN—balance of payments and reserves, 154-55\*; capital movements, 102\*, 103; economic developments, 106; financial developments, 107; Fund quota increase, 130\*; international trade, 102\*; repurchase from Fund, 136\*
- KENYA—balance of payments and reserves, 98\*, 154-55\*; export earnings, 98\*; par value established, 130\*
- KOREA—balance of payments and reserves, 80, 98\*, 99, 100\*, 154-55\*; capital movements, 102\*, 103; economic developments, 106; export earnings, 98\*; financial developments, 107-108; Fund quota increase, 131; inflation, 107; international trade, 102\*, 105; prices, 107; reserves, 92; stand-by arrangements, 134\*, 135
- KUWAIT—balance of payments and reserves, 98\*; export earnings, 98\*; Fund Article VIII, acceptance of, 129\*
- LAOS—gold imports, 120
- LATIN AMERICA—balance of payments and reserves, 97, 154-55\*; capital markets, 33\*; capital movements, 81; economic developments, 106, 107; financial developments, 107; gold, foreign exchange, and

- reserve position in Fund, 12\*, 92; international trade, 72, 75, 86, 105, 106; *see also* individual countries
- LEAD—prices, 93, 95†
- LEBANON—Fund quota increase, 130\*; gold and foreign exchange reserves, 23\*; gold prices, 123, 124\*
- LIBERIA—drawing, 133\*; economic developments, 101; gross domestic product, 101; repurchase from Fund, 136\*; stand-by arrangements, 134\*, 135
- LIBYA—balance of payments and reserves, 97, 98\*, 154-55\*; capital movements, 102\*, 103\*; economic developments, 101; export earnings, 98\*; gold and foreign exchange reserves, 23\*; gross domestic product, 101; international trade, 102\*
- LIQUIDITY—*see* INTERNATIONAL LIQUIDITY
- LUXEMBOURG—balance of payments and reserves, 82; capital market, 32\*; Fund Article VIII, acceptance of, 129\*; Fund quota increase, 130\*; *see also* BELGIUM-LUXEMBOURG
- MACAO—gold imports, 120
- MAIZE—prices, 95†
- MALAYSIA—balance of payments and reserves, 80, 98\*, 154-55\*; capital movements, 102\*; currency used in Fund transactions, 48; economic developments, 106; export earnings, 98\*; financial developments, 107; Fund quota increase, 130\*, 131; gold and foreign exchange reserves, 23\*; international trade, 102\*; prices, 107; reserves, 92; rubber prices, 95†; tin prices, 95†
- MALAWI—balance of payments and reserves, 154-55\*; par value established, 130\*
- MALI—financial developments, 107
- MALTA—membership in Fund, application for, 129
- MANUFACTURING COUNTRIES—*see* INDUSTRIAL COUNTRIES
- MAURITANIA—balance of payments and reserves, 97, 98\*; economic developments, 101; export earnings, 98\*; Fund quota increase, 130\*; gross domestic product, 101
- METALS—*see* MINERALS AND METALS
- MEXICO—balance of payments and reserves, 97, 98\*, 99, 100\*, 154-55\*; capital movements, 102\*; central bank credit, 20; cotton prices, 95†; economic developments, 101, 102, 107; export earnings, 98\*; Fund Article VIII, acceptance of, 129\*; gold and foreign exchange reserves, 23\*; gold production, 114\*, 116; international trade, 102\*; prices, 107
- MIDDLE EAST—balance of payments and reserves, 81†, 154-55\*; capital movements, 81; economic developments, 101, 106; gold, foreign exchange, and reserve position in Fund, 12\*, 92; gold exports to U.K., 123\*; gold imports from U.K., 123\*; international trade, 75, 104-105; U.S. direct investment in, 90\*; *see also* individual countries
- MINERALS AND METALS—prices, 74, 93, 94†, 95†
- MONETARY POLICY—industrial countries, 62-64; *see also* individual countries
- MONEY MARKETS—*see* CAPITAL MARKETS
- MOROCCO—balance of payments and reserves, 97, 98\*, 154-55\*; capital movements, 102\*, 103\*; export earnings, 98\*; financial developments, 107; Fund quota increase, 130\*; international trade, 102\*; stand-by arrangements, 49, 134\*, 135
- NETHERLANDS—balance of payments and reserves, 82, 84, 151\*; bonds, government, yields of, 27†, 68; budget deficits and surpluses, 61\*; capital market, 28\*, 32\*, 35, 36, 37\*, 65, 88\*; capital movements, 29\*, 31\*, 34\*, 76, 87, 88\*; cost of living, 58; discount rates, 62, 64; economic growth, 5; economic situation, 57, 58; fiscal policy, 27, 60, 61; Fund Article VIII, acceptance of, 129\*; Fund quota increase, 130\*; General Arrangements to Borrow, extended, 50; gold, foreign exchange and reserve position in Fund, 12\*, 23\*; gold transactions, 14\*, 121\*; gross national product, 57; industrial production, 56, 57†, 84\*, 85\*; interest rates, 28†, 66, 68; international trade, 72, 76†, 84, 85\*, 86; investment and government expenditures, 26\*; investment, government expenditures, and gross national product, 27\*; monetary policy, 64; prices, 58, 59
- NEW ZEALAND—balance of payments and reserves, 21, 77†, 78\*, 80, 81†, 99\*, 112, 154-55\*; capital movements, 29, 31\*, 34\*, 80, 88\*; central bank credit, 20; criteria for borrowing in U.K., 69-70; drawing, 49, 132; economic developments, 112; export earnings, 99\*; gold, foreign exchange, and reserve position in Fund, 12\*, 91; industrial production, 71†, 73\*; international trade, 71†, 72, 73, 75\*; investment and government expenditures, 26\*; investment, government expenditures, and gross national product, 27\*; par value established, 130; U.S. direct investment in, 90\*; wool prices, 93, 95†, 112
- NICARAGUA—balance of payments and reserves, 154-55\*; capital movements, 102; Fund Article VIII, acceptance of, 129\*; gold production, 116; international trade, 102\*; repurchase from Fund, 136\*
- NICKEL—prices, 93
- NIGER—Fund quota increase, 130\*
- NIGERIA—balance of payments and reserves, 98\*, 100, 154-55\*; capital movements, 102\*, 103\*; economic developments, 101, 106; export earnings, 98\*; Fund quota increase, 130\*; international trade, 102\*
- NORDIC COUNTRIES—capital markets, 33\*; capital movements, 29\*, 31\*, 34\*, 88\*; international trade, 86; *see also* individual countries
- NORWAY—balance of payments and reserves, 82; capital market, 35, 36\*, 37\*; cost of living, 58; currency used in Fund transactions, 48; Fund Article VIII, acceptance of, 48, 129; Fund quota increase, 130\*; gold and foreign exchange reserves, 23\*; gold transactions, 14\*; industrial production, 84\*, 85\*; international trade, 84, 85, 86, 87; investment and government expenditures, 26\*; investment, government expenditures, and gross national product, 27\*; monetary policy, 64; prices, 58
- OIL—*see* EDIBLE OILS and PETROLEUM
- ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT—Fund cooperation with, 141, 142
- PAKISTAN—balance of payments and reserves, 97, 98\*, 99, 100, 154-55\*; capital movements, 102, 103\*; economic developments, 106; export earnings, 98\*; financial developments, 107; international trade, 102\*, 104-105; repurchase from Fund, 136\*; stabilization problems, 110
- PANAMA—balance of payments and reserves, 98\*, 154-55\*; capital movements, 102\*, 103\*; export earnings, 98\*; financial developments, 108; Fund Article VIII, acceptance of, 129\*; international trade, 102\*; stand-by arrangement, 134\*
- PAR VALUES—*see* FUND MEMBERS and individual countries
- PARAGUAY—balance of payments and reserves, 154-55\*; capital movements, 102\*, 103\*; financial developments, 108; international trade, 102\*; stand-by arrangement, 49, 133, 134\*
- PERU—balance of payments and reserves, 98\*, 99, 100\*, 154-55\*; capital movements, 102, 103\*; economic developments, 101-102, 107; export earnings, 98\*; Fund Article VIII, acceptance of, 129\*; Fund quota increase, 131; international trade, 102\*; investment, 107; stand-by arrangement, 134\*
- PETROLEUM—prices, 96\*, 98\*
- PETROLEUM EXPORTERS—balance of payments and reserves, 7, 78\*, 80, 81; gold, foreign exchange, and reserve position in Fund, 12\*, 92

- PHILIPPINES**—balance of payments and reserves, 80, 98\*, 100, 154-55\*; capital movements, 102\*, 103; economic developments, 106; export earnings, 98\*; financial developments, 107; Fund quota increase, 130\*; gold production, 114\*, 116; gold subsidy program, 124; industrial production, 106; international trade, 102\*, 104; repurchase from Fund, 136\*; reserves, 92; stand-by arrangements, 134\*, 135
- PORTUGAL**—balance of payments and reserves, 80, 99\*, 154-55\*; capital movements, 102\*; economic developments, 113; export earnings, 99\*; gold and foreign exchange reserves, 23\*; international trade, 102\*
- PRICE STABILITY**—primary producing countries, less developed, 108
- PRICES**—export, 60, 96\*, 98\*; gold, 122†; industrial countries, 58-59; primary products, 73-74, 93-97; wholesale, 58†; *see also* COST OF LIVING
- PRIMARY PRODUCING COUNTRIES, LESS DEVELOPED**—balance of payments and reserves, 7-8, 78\*, 80-81, 97, 98\*, 100\*, 154-55\*; capital movements, 29-30, 31\*, 34\*, 88\*, 103; drawings, 49, 132, 138†; economic developments, 6, 101, 103-104, 106-107; exchange rate, benefits of appropriate, 45-47; exchange rate adjustment, need for, 41; exchange rate policies, 39-47; exchange reform, experience with, 43-45; export earnings, 4, 76, 94†, 96\*, 98\*, 101-102; export prices, 96\*; export promotion, opportunities for, 47; financial developments, 107-108; gold, foreign exchange, and reserve position in Fund, 12\*, 15\*, 22, 23\*, 91-92; gold transactions, 14\*; inflation, 32, 40, 44-45; international trade, 4\*, 72, 73, 74, 75, 104\*, 105-106; payments problems and policy responses, 39-41; repurchases from Fund, 49; resources, use of affected by payments restrictions, 42-43; stand-by arrangements, 138†; taxes, 43-44; U.S. direct investment in, 90\*; *see also* individual countries
- PRIMARY PRODUCING COUNTRIES, MORE DEVELOPED**—balance of payments and reserves, 7, 77†, 78\*, 79-80, 81†, 97, 99\*, 154-55\*; capital movements, 7, 29, 81; drawings, 48-49, 132, 138†; economic developments, 6, 112-13; export earnings, 4, 73-74, 94†, 96\*, 99\*; gold, foreign exchange, and reserve position in Fund, 12\*, 15\*, 22, 23\*, 92; gold transactions, 14\*; industrial production, 71†, 73\*; international trade, 4\*, 71†, 72, 73\*, 74\*, 75\*; investment, 26; repurchases from Fund, 49; stand-by arrangements, 138†; U.S. direct investment in, 90\*; *see also* individual countries
- QUOTAS OF FUND MEMBERS**—*see* FUND QUOTAS
- RESERVES, GOLD AND FOREIGN EXCHANGE**—91-92; world, 3, 8, 11-25, 116\*, 117†, 119\*
- RHODESIA**—balance of payments and reserves, 98\*; export earnings, 98\*; gold production, 114\*; gold subsidy program, 124
- RICE**—prices, 95†
- RUBBER**—prices, 93, 95†
- RWANDA**—drawing, 133\*; Fund quota increase, 130\*; stand-by arrangements, 134\*, 135
- SAUDI ARABIA**—balance of payments and reserves, 97, 98\*, 154-55\*; capital movements, 102-103; economic developments, 101; export earnings, 98\*; Fund Article VIII, acceptance of, 129\*; gold and foreign exchange reserves, 23\*; gross domestic product, 101; international trade, 102\*
- SECURITIES MARKETS**—*see* CAPITAL MARKETS
- SIERRA LEONE**—balance of payments and reserves, 154-55\*; drawing, 132, 133\*; stand-by arrangement, 133, 134\*
- SINGAPORE**—balance of payments and reserves, 98\*; export earnings, 98\*; international trade, 105; membership in Fund, 48, 129; par value established, 130
- SISAL**—prices, 93, 95†
- SOMALIA**—balance of payments and reserves, 154-55\*; stand-by arrangements, 49, 134\*, 135
- SOUTH AFRICA**—balance of payments and reserves, 21, 77†, 78\*, 79-80, 81†, 97, 99\*, 112, 154-55\*; capital market, 33; capital movements, 29, 31\*, 34\*, 80, 88\*, 112; criteria for borrowing in U.K., 69-70; discount rates, 62\*; economic developments, 112; export earnings, 99\*; gold, foreign exchange, and reserve position in Fund, 12\*, 23\*, 91; gold exports to U.K., 123\*; gold production, 114-15; gold subsidy program, 124; gross national product, 112; industrial production, 71†, 73\*; international trade, 71†, 72-73, 75\*, 86; investment and government expenditures, 26\*; investment, government expenditures, and gross national product, 27\*; U.S. direct investment in, 90\*
- SOUTH AMERICA**—economic developments, 101; gold exports to U.K., 123\*; gold imports from U.K., 123\*; international trade, 105; stabilization programs, 108-110; wool prices, 93; *see also* individual countries
- SOVIET COUNTRIES**—gold exports to U.K., 123\*; gold imports from U.K., 123\*; international trade, 73, 74\*, 86
- SPAIN**—balance of payments and reserves, 78\*, 80, 81†, 99\*, 113, 154-55\*; capital market, 35, 37\*; capital movements, 102\*, 113; drawing, 113, 133\*; economic developments, 113; export earnings, 99\*; gold and foreign exchange reserves, 23\*; gold purchases, 121\*; international trade, 102; reserves, 91
- STABILIZATION PROGRAMS**—primary producing countries, less developed, 108-111
- STAND-BY ARRANGEMENTS**—*see* FUND TRANSACTIONS and individual countries
- STERLING AREA**—capital markets, 33\*
- SUDAN**—balance of payments and reserves, 98\*, 100\*, 154-55\*; capital movements, 102\*, 103\*; drawings, 49, 131, 133\*; export earnings, 98\*; financial developments, 107; international trade, 102\*; repurchase from Fund, 136\*; stabilization problems, 111; stand-by arrangement, 49, 134\*, 135
- SUGAR**—prices, 93
- SWEDEN**—balance of payments and reserves, 82\*; budget deficits and surpluses, 61\*; capital market, 28\*, 35, 36\*, 37\*, 65; cost of living, 58, 59; discount rates, 62\*, 64; economic growth, 86; export prices, 60; fiscal policy, 27, 60, 61; Fund Article VIII, acceptance of, 129\*; General Arrangements to Borrow, extended, 50; gold and foreign exchange reserves, 23\*; gold transactions, 14\*; industrial production, 84\*, 85\*; international trade, 84\*, 85, 86, 87; investment and government expenditures, 26\*; investment, government expenditures, and gross national product, 27\*; prices, 58; wages, 59
- SWITZERLAND**—balance of payments and reserves, 82\*; bonds, government, yields of, 27†; bonds, industrial, yields of, 68†; capital market, 28\*, 32\*, 36, 65, 88\*; capital movements, 29\*, 31\*, 34\*, 88\*; cost of living, 58; discount rates, 62, 64; gold and foreign exchange reserves, 12\*, 23\*; gold exports to U.K., 123\*; gold imports from U.K., 123\*; gold transactions, 14\*, 121\*; industrial production, 84\*, 85\*; interest rates, 27, 28†, 68, 69; international trade, 84\*, 85, 86, 87; investment and government expenditures, 26\*; investment, government expenditures, and gross national product, 27\*; prices, 58; wages, 59
- SYRIAN ARAB REPUBLIC**—balance of payments and reserves, 97, 98\*, 154-55\*; capital movements, 102\*; economic developments, 106; export earnings, 98\*; international trade, 102\*; repurchase from Fund, 136\*
- TANZANIA**—balance of payments and reserves, 98\*, 154-55\*; capital movements, 102\*; export earnings, 98\*; Fund quota increase, 130\*; international trade, 102\*; par value established, 130\*
- TAXES**—primary producing countries, less developed, 43-44
- TEA**—prices, 95†

- TECHNICAL ASSISTANCE AND COOPERATION—*see* FUND ORGANIZATION AND ADMINISTRATION: Central Banking Service and FUND SERVICES TO MEMBERS
- THAILAND—balance of payments and reserves, 80, 97, 98\*, 99, 100\*, 154-55\*; capital movements, 102\*, 103\*; economic developments, 102, 106; export earnings, 98\*; financial developments, 107; gold and foreign exchange reserves, 23\*; international trade, 102\*; reserves, 92; rice prices, 95†
- TIN—prices, 93, 95†
- TRINIDAD AND TOBAGO—balance of payments and reserves, 154-55\*
- TUNISIA—balance of payments and reserves, 98\*, 154-55\*; capital movements, 102, 103\*; drawings, 133\*; economic developments, 102; export earnings, 98\*; financial developments, 107; Fund quota increase, 130\*; international trade, 102\*; repurchase from Fund, 136\*; stand-by arrangements, 134\*, 135
- TURKEY—balance of payments and reserves, 80, 99, 154-55\*; capital movements, 102\*, 103\*; drawing, 133\*; economic developments, 113; export earnings, 99\*; Fund quota increase, 130\*; gold and foreign exchange reserves, 23\*; gold purchases, 121\*; international trade, 102\*; prices, 113; repurchase from Fund, 136\*; stand-by arrangements, 50, 134\*, 135
- UGANDA—balance of payments and reserves, 98\*, 154-55\*; capital movements, 102-103; export earnings, 98\*; international trade, 102\*; par value established, 130\*
- UNION OF SOVIET SOCIALIST REPUBLICS—gold production, 116; gold sales, 116\*, 117†; *see also* SOVIET COUNTRIES
- UNITED ARAB REPUBLIC—balance of payments and reserves, 97, 98\*, 99, 100\*, 154-55\*; capital movements, 102, 103\*; drawing, 49, 131; economic developments, 102, 106; export earnings, 98\*; financial developments, 107; gold and foreign exchange reserves, 23\*; international trade, 102\*, 104; repurchase from Fund, 136\*
- UNITED KINGDOM—balance of payments and reserves, 6, 7, 8, 77†, 78\*, 79, 81, 82\*, 83†, 84, 153\*; bonds, government, yields of, 27†, 66, 67, 68; bonds, industrial, yields of, 67, 68†; bonds issued, industrial, 68; budget deficits, 61\*; capital market, 7, 26, 28\*, 32, 33, 35, 36\*, 37\*, 65, 88\*; capital movements, 21, 29, 30, 31\*, 34, 35, 38, 55-56, 69, 78, 84, 87, 88\*, 89-90, 91; claims on, 15, 16\*; Control of Borrowing Order, 70; cost of living, 58; discount rates, 62, 63; drawings, 16, 48, 138†; economic growth, 5, 86; economic situation, 6, 55, 57; employment, 57; export prices, 60; fiscal policy, 56, 60-61; Fund Article VIII, acceptance of, 129\*; General Arrangements to Borrow, extended, 50; gold, foreign exchange, and reserve position in Fund, 12\*, 15\*, 23\*, 91, 121; gold exports, 123\*; gold imports, 122, 123\*; gold policy, 23; gold prices, 121, 122†; gold transactions, 14\*, 121\*; gross domestic product, 57\*; industrial production, 4\*, 5, 56, 57, 84\*, 85\*; interest rates, 3, 28†, 35, 66, 67†, 68; international trade, 4\*, 76†, 84\*, 85, 86, 87; investment, 26-27, 57; investment, direct, 30, 31; investment, direct, curbs on, 20; investment and government expenditures, 26\*; investment, government expenditures, and gross national product, 27\*; monetary policy, 63; personal saving, 65; prices, 58; repayments of borrowings, 19; repurchase from Fund, 49; stand-by arrangements, 138†; sterling, pressure on, 7; U.S. direct investment in, 90\*; wages, 60
- UNITED NATIONS—Conference on Trade and Development, 51, 141-42; Development Program, geological exploration projects, 116; Fund cooperation with, 141-42; international liquidity discussed, 51
- UNITED STATES—balance of payments and reserves, 6, 8, 9, 78\*, 76, 77†, 79, 81-82, 83†, 153\*; bank credit, 65; bank credit to foreigners, 89; bonds, government, yields of, 27†, 66, 68; bonds, industrial, yields of, 68; bonds issued, industrial, 68; budget deficits, 61\*; capital market, 3, 5, 7, 21, 26, 28\*, 32, 33, 35-36, 37\*, 65, 66, 91; capital movements, 6, 7, 21, 29, 30, 31\*, 32, 33, 34, 35, 38, 55, 65-66, 68, 69, 76, 82, 84, 87, 88\*, 89; claims on, 13, 14-15, 21-22; cost of living, 58; discount rates, 62, 63; drawings, 48, 132, 133\*, 136, 137\*, 138†; economic growth, 5, 55; economic situation, 6, 56; employment, 56; export prices, 60; financing of affiliated companies in Europe, 33\*; fiscal policy, 5, 60, 61; Fund Article VIII, acceptance of, 129\*; General Arrangements to Borrow, extended, 50; gold, absorption of by industry, 119, 120; gold, foreign exchange, and reserve position in Fund, 12\*, 15\*, 19, 23\*, 24, 91; gold holdings under earmark, 121; gold policy, 24; gold prices, 122†; gold production, 114\*, 115; gold transactions, 14\*, 120, 121; gross national product, 56; industrial production, 4\*, 5, 55, 56, 71†, 72, 73\*, 84\*, 85\*; interest equalization tax, 32, 69; interest rates, 3, 28†, 34, 66-67, 68, 69; international trade, 4\*, 71†, 72, 73\*, 75\*, 76†, 84\*, 85, 86, 87; investment, 26; investment, direct, 30, 31, 90-91; investment, direct, curbs on, 20; investment abroad, direct, 90\*; investment and government expenditures, 26\*; investment, government expenditures, and gross national product, 27\*; monetary policy, 63; personal saving, 65; prices, 58; repayments of borrowings, 19; repurchase from Fund, 49; stand-by arrangements, 138†; sterling, pressure on, 7; U.S. direct investment in, 90\*; wages, 60
- VENEZUELA—balance of payments and reserves, 98\*, 154-55\*; capital movements, 102; currency used in Fund transactions, 48; export earnings, 98\*; gold and foreign exchange reserves, 23\*, 92; international trade, 102\*; prices, 107
- VIET-NAM—balance of payments and reserves, 80, 97, 98\*, 99, 100\*, 154-55\*; capital movements, 102\*, 103; export earnings, 98\*; Fund quota increase, 130\*, 131; international trade, 102\*; reserves, 92
- WAGES—cost per manufactured unit, 59†; industrial countries, 59; rates, 59†
- WESTERN HEMISPHERE—balance of payments and reserves, 81†; U.S. direct investment in, 90\*; *see also* individual countries
- WHEAT—prices, 95†
- WOOL—prices, 93, 95†
- WORLD BANK—*see* INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
- WORLD RESERVES—*see* RESERVES, GOLD AND FOREIGN EXCHANGE AND INTERNATIONAL RESERVES
- WORLD TRADE—3, 4\*, 71-76; export prices, 96\*; industrial countries, 72-73, 75\*, 85-87; primary producing countries, less developed, 72, 74\*, 75\*; primary producing countries, more developed, 71, 72, 73\*, 74\*, 75\*
- YUGOSLAVIA—balance of payments and reserves, 80, 99, 154-55\*; capital movements, 102\*, 103\*; economic developments, 113; export earnings, 99\*; industrial production, 113; international trade, 102\*; repurchase from Fund, 136\*; stand-by arrangements, 134\*, 135
- ZAMBIA—balance of payments and reserves, 97, 98\*, 154-55\*; export earnings, 98\*
- ZINC—prices, 93, 95†

ISBN 978-1-61635-179-3  
90000  
9 781616 351793