1968 ANNUAL REPORT

INTERNATIONAL MONETARY FUND

ANNUAL REPORT
1968

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INTERNATIONAL MONETARY FUND

ANNUAL REPORT

OF THE

EXECUTIVE DIRECTORS FOR THE FISCAL YEAR ENDED APRIL 30, 1968

WASHINGTON, D. C.

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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., 1965-67 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., 1967/68) to indicate a fiscal year or a crop year.

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

INTERNATIONAL MONETARY FUND

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Managing Director and Chairman of the Executive Board

Frank A. Southard, Jr.
Deputy Managing Director

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Guenther Schleiminger	Horst Ungerer
Georges Plescoff	Paul Mentré
B. K. Madan	Arun K. Banerji
Ahmed Zaki Saad	Albert Mansour
Francesco Palamenghi-Crispi	Costa P. Caranicas
Hideo Suzuki	Seitaro Hattori
S. J. Handfield-Jones	Patrick M. Reid
J. O. Stone	A. M. de Villiers
Pieter Lieftinck	H. M. H. A. van der Valk
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Torben Friis	Jorma Aranko
Paul L. Faber	Leonard A. Williams
Alexandre Kafka	Eduardo da S. Gomes, Jr.
Adolfo C. Diz	Yamandú S. Patrón
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Antoine W. Yaméogo	Léon M. Rajaobelina

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The Economic Counsellor	J. J. Polak
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African Department	Mamoudou Touré, Director
Asian Department	D. S. Savkar, Director
Central Banking Service	J. V. Mládek, Director
European Department	L. A. Whittome, Director
Exchange and Trade Relations Department	Ernest Sturc, Director
Fiscal Affairs Department	Richard Goode, Director
IMF Institute	F. A. G. Keesing, Director
Legal Department	Joseph Gold, Director
Middle Eastern Department	John W. Gunter, Acting Director [1]
Research Department	J. J. Polak, Director
Secretary's Department	W. Lawrence Hebbard, Secretary
Treasurer's Department	Oscar L. Altman, Treasurer
Western Hemisphere Department	Jorge Del Canto, Director
Bureau of Statistics	Earl Hicks, Director
Office in Europe (Paris)	Jean-Paul Sallé, Director
Office in Geneva	Edgar Jones, Director
Chief Editor	Roger V. Anderson

July 19, 1968

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

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LETTER OF TRANSMITTAL

TO THE BOARD OF GOVERNORS

July 19, 1968

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, 1968.

Yours sincerely,

/s/

PIERRE-PAUL SCHWEITZER

Chairman of the Executive Board

Chairman of the Board of Governors

International Monetary Fund

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Part I

THE WORLD ECONOMY AND THE FUND

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Chapter 1

General Economic Survey

Introduction

THE performance of the world economy during 1967 was characterized by a mixture of marked progress and serious difficulty. The immediate challenge to stem and reverse the slowdown in economic activity that had begun in 1966 was met effectively. However, the deceleration and subsequent recovery in the trend of activity were accompanied by and contributed to balance of payments developments that aggravated long-standing problems and underlined the need to improve the functioning of the international monetary system.

The slowdown of demand and output in major industrial countries during the course of 1966 became more pronounced and more pervasive in the first half of 1967. This led to a substantial reduction in the growth of world trade, the effects of which were felt in most parts of the world. Commodity prices tended to weaken, and strains developed in the external positions of many primary producing countries. However, the recovery of economic activity in industrial countries that began around the middle of 1967 engendered a strong resurgence of growth in world output and trade toward the end of the year and in the first part of 1968.

The United Kingdom suffered severe difficulties during 1967 as slower growth in its export markets and a number of special circumstances added to the weakness of its balance of payments position. The resulting sterling crisis and devaluation caused the most serious disturbances in the world monetary system during the year. Sterling's troubles were, however, but one aspect of an international payments disequilibrium prevailing over a number of years. This disequilibrium also involved continuous balance of payments deficits in the United States and a sizable over-all surplus for the industrial countries of continental Europe taken as a group. During 1967 the continental European surplus remained high and the U.S. balance of payments deteriorated seriously. In the aftermath of sterling devaluation, speculative pressures shifted to the U.S. dollar but did not abate in the case of sterling itself. Private demand for gold became intense, and flared up again early in 1968 despite the announcement of a stronger and broader balance of payments program by the United States on January 1.

The heavy strains to which the international monetary system was subjected in 1967 and the first half of 1968 put international financial cooperation to its severest test in a long time. This cooperation, as reflected in the responses of international financial institutions and of national monetary authorities acting in concert, provided timely, albeit temporary, support to the system while comprehensive measures were being adopted by the United Kingdom and the United States to redress their balance of payments positions. The devaluation of sterling and of 14 other member currencies in November 1967 was an orderly operation, especially noteworthy for the fact that the sterling devaluation occurred with the financial support of other major industrial countries and without a change in the exchange rate of any of them. Inter-central-bank assistance, by means of swap agreements and other techniques, countered speculative capital movements and eased severe intermittent pressures on sterling and on the U.S. dollar. With the payments deficit of the United States continuing, monetary authorities in other countries were prepared to accumulate additional claims on the United States rather than to make substantial calls on the U.S. gold stock. In mid-March 1968, the seven central banks actively participating in the London gold pool dealt with the massive private hoarding of gold by establishing a two-price system that permitted the price in private markets to be determined by the forces of supply and demand without official intervention. (See Chapter 7.)

Also in March 1968, the United Kingdom adopted a restrictive budget that gave clear evidence of its determination to deal energetically with its balance of payments problem, and thus to ensure the effectiveness of the devaluation. Late in June, the U.S. Administration's tax bill, accompanied by expenditure cuts, was enacted after a delay of many months. These developments, as well as the measures taken with respect to gold markets and to future international liquidity arrangements (Chapter 2), were generally viewed as salutary. But the restoration of enduring confidence and stability in the international monetary system depends primarily on the achievement of early and progressive improvement in the external positions of both the United Kingdom and the United States.

With the enactment of the new fiscal measures, U.S. policies are designed to bring about a substantial moderation in the growth of aggregate demand during the latter half of 1968 and the first part of 1969 for the principal purposes of relieving inflationary pressures and dampening imports. In Canada, Japan, and the United Kingdom also, the direction of policies toward restraint—as planned—should mean little, if any, rise of imports during this period. In these circumstances, continental European countries with unutilized capacity should, with due regard to stability, make full use of their margins for economic expansion so as to support the growth of world trade and to help eliminate the disequilibrium in international payments. The situation poses an important challenge to the effective working of the international adjustment process.

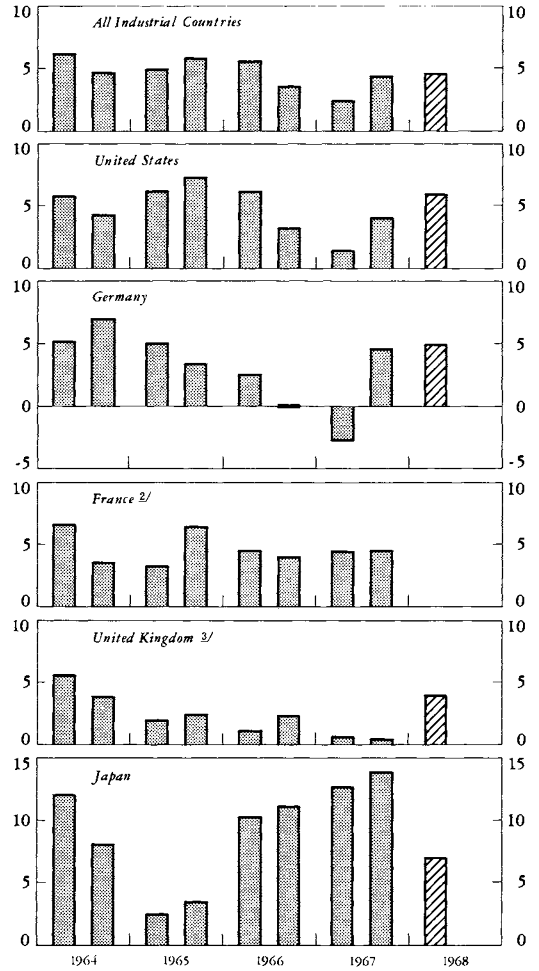
Trends in Industrial Countries

Culminating a strong expansion of more than five years, the growth of total real output in the industrial countries reached an annual rate of almost 6 per cent in the second half of 1965 and held close to that figure in the first half of 1966 (Chart 1). The rate of increase in total output declined markedly in the second half of 1966, and it was further reduced to less than 2½ per cent in the first half of 1967. Japan and Italy, where output continued to expand rapidly, were major exceptions to the general economic deceleration in the industrial world from mid-1966 to mid-1967.[1] Since then, however, a new upsurge of activity in the industrial countries has developed.

[1] In terms of the more volatile measure of quarterly industrial production, the deceleration involved the shift from an increase of 11 per cent (annual rate) in the first quarter of 1966 to small declines in the first two quarters of 1967.

CHART 1. INDUSTRIAL COUNTRIES: GROSS NATIONAL PRODUCT AT CONSTANT MARKET PRICES, 1964–FIRST HALF 1968[1]

(Percentage change from preceding half year, at annual rates, seasonally adjusted)



[1] Data for first half of 1968 are estimated.
[2] Change for first half of 1968 is not shown because of difficulty in estimating effect of the May-June strikes.
[3] Gross domestic product at factor cost.

For the industrial countries as a group, there was no general slowdown of economic growth during the first half of the 1960's, and continuing strong demand sustained a rapid expansion in world trade. By late 1965 or early 1966, the vigor of demand forces generated overheating in Germany, in some other industrial countries of Europe, and in the United States and Canada. As inflationary strains developed and, in some countries, external trade accounts deteriorated, the authorities in a number of the leading countries decided to restrain aggregate demand in order to reduce the pressure on domestic resources. Relatively little use was made of fiscal policy for this purpose, and during most of 1966 monetary restrictiveness was the dominant feature of national economic policy in most industrial countries. In the United Kingdom pressures were intense despite relatively slow growth, and severe fiscal and incomes-policy measures had to be adopted in July 1966 to cope with domestic inflation and a balance of payments crisis. Principal exceptions during 1966 to the pattern of strains on available resources were France, Italy, and Japan, all of which had significant margins of unutilized economic capacity as a result of earlier stabilization programs.

The very tight conditions in financial markets, together with some weakening of underlying expansionary forces, brought about a marked decrease of industrial production in Germany during the second half of 1966 and, toward the close of the year, a leveling out or dip in the United States, Canada, the United Kingdom, France, and the Netherlands. The economic situation in these countries generally showed a further weakening during the first half of 1967, although this was limited by the dramatic easing of monetary policy that had begun late in 1966 and, in the United States and Canada, by a switch to fiscal stimulus. In Germany, where recessionary tendencies were strongest, total output actually declined at an annual rate of 3 per cent from the second half of 1966 to the first half of 1967, and in the United States it increased by only 1½ per cent.

In Europe, the softening of economic activity during 1966-67 led to virtual elimination of the pressure on domestic resources in Germany and moderated this pressure in several other countries. By mid-1967 unemployment had by postwar standards reached high levels in Germany, the Netherlands, and the United Kingdom, and it was still rising in France and Belgium. Except in France, rates of wage and price increases in these countries tended to decline, with incomes policy being a special force in the case of the United Kingdom. In France, wage pressures eased little and consumer prices continued to advance noticeably. In the United States, the slowing of economic activity was reflected in only a limited reduction of inflationary pressures. Labor markets remained fairly tight and wage rates continued to increase strongly. There was some moderation of price increases in the first half of 1967, but later in the year a sharp upward movement developed. In Canada, cost and price pressures were severe throughout 1967, despite an increase in the unemployment rate.

In the course of 1967 a number of continental European countries took steps to encourage renewed economic expansion. Monetary policy was generally eased further during the first half of the year; fiscal action was also undertaken, although the continued evidence of price pressures —and, in certain instances, an unbalanced budget structure—inclined the authorities to be somewhat cautious in their approach. A widespread economic recovery became evident during the second half of 1967 both on the continent of Europe—notably in Germany—and in the United States, where the problem for policy became one of restraining the expansion of aggregate demand. In January 1967 the U.S. Administration had announced its intention of asking for higher taxes on the incomes of individuals and corporations, and in August the request for a 10 per cent tax surcharge was sent to the Congress. Monetary policy became noticeably restrictive in late 1967 and early 1968 but, in the absence of fiscal restraint, aggregate demand expanded at an excessive rate, the rise in prices accelerated, and the external trade surplus declined sharply as imports showed a strong upsurge. Taken together, the industrial countries registered an expansion in total output of 4½ per cent in the second half of 1967; the expansion in the first half of 1968 was probably at least that much, notwithstanding the effects of the May-June strikes in France.

Although economic growth in industrial countries has thus made a pronounced recovery since the middle of 1967, the associated price and cost performance—in addition to its undesired domestic effects in some countries—has not been helpful to the balance of payments adjustment process. During the period 1962-65, it will be recalled, the U.S. economy was in the process of absorbing the substantial margin of unutilized resources that had developed in the latter part of the 1950's and in the 1960-61 recession, whereas on the continent of Europe high rates of resource utilization were general. In the prevailing circumstances, costs and prices were essentially stable in the United States but advanced markedly in Europe; this combination of developments worked in the direction of reducing the U.S. balance of payments deficit and of moderating European surplus positions. For some two and a half years, however, prices and costs in the United States have increased at least as much as in Europe, and since mid-1967 the U.S. increase appears to have been significantly larger. The underlying causal factor—fuller utilization of resources in the United States than in most of Europe—also has income, as well as price, effects that run counter to a reduction of the disequilibrium in international payments.

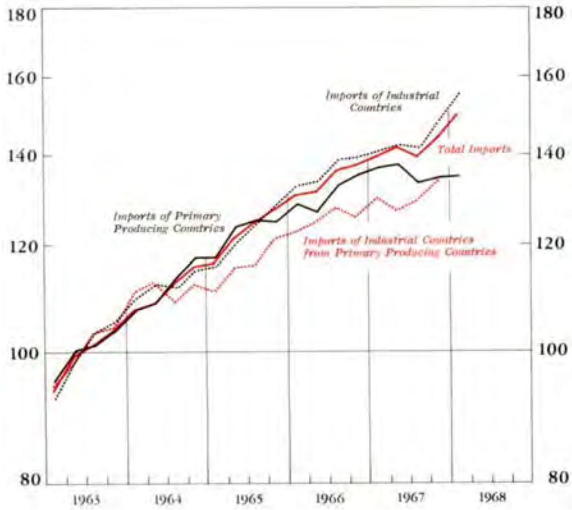
Trade and Payments

Slow growth of output in the industrial countries was the main cause of a pronounced break in the growth of world trade from the third quarter of 1966 to the third quarter of 1967 (Chart 2). The increase in value of world trade during that period amounted to only 2 per cent, with total imports of primary producing countries showing no net change.

In the fourth quarter of 1967 and the first quarter of 1968, there was a remarkably sharp expansion of imports by the industrial countries and of total world trade. The dominant factor in this upsurge, which evidently continued into the second quarter, was rapid demand expansion in the United States, coupled with large U.S. imports of copper and steel induced by actual or anticipated strikes. In light of the expected slowdown in the U.S. economy because of fiscal restraint, a marked

CHART 2. WORLD TRADE, 1963–FIRST QUARTER 1968

(1963 = 100; seasonally adjusted)



change in the trend of U.S. imports seems likely to occur in the second half of 1968. For this and other reasons, discussed in the final section of this survey, the rapidity of growth in world trade during late 1967 and the first half of 1968 was probably of a temporary character.

The recent experience provides fresh evidence of the well-known fact that fluctuations in the pace of economic activity in the industrial world have a direct and marked impact on the primary producing countries. Most of these countries were affected during 1966-67 by the weakness of demand in industrial countries—which take about 70 per cent of their exports—and by the associated weakness of prices in the markets for many of the commodities that they produce. Although the prices of individual commodities are influenced by diverse forces, changes in the general level of raw material prices have tended to reflect variations in the growth of output in industrial countries and the average of these prices declined in the second half of 1966 and through much of 1967. (See Chart 21 and accompanying discussion.) A limited number of primary producing countries, in special situations, expanded their exports, but the majority suffered a much reduced growth of exports or actual declines. This had a dampening effect on economic activity, not only directly but also because many countries had to limit the expansion of domestic demand in order to protect their external positions.[2]

In addition, of course, activity in the large and diverse group of primary producing countries was affected by a variety of less general influences. An important one was the improvement of weather conditions, and of agricultural production, on the Indian subcontinent and in some other areas. All in all, it now appears that the total output of primary producing countries expanded from 1966 to 1967 at about the same rate (4-4½ per cent) as in the previous year—a rate that cannot be considered satisfactory in view of the high population growth and low levels of income prevailing in most of these countries.

[2] Primary producing countries continued to attract a rising flow of imports through the first half of 1967, and there was a widespread tendency to deterioration in their trade balances. The cumulating pressure of this deterioration, together with some special factors, led to a sharp downward adjustment in the level of primary producers' imports during the second half of 1967 and the first quarter of 1968.

Among the more developed primary producing countries, the balance of payments experience of countries in Europe [3] in 1967 contrasted with that of Australia, New Zealand, and South Africa as a group. In the European countries, a substantial reduction in their combined current account deficit was counterbalanced by a decline in the net capital inflow, and the over-all position remained close to balance. The three countries in the Southern Hemisphere sustained a marked worsening in their current account deficit, but the inflow of capital remained at a high level and enabled them to hold their over-all deficit in 1967 to modest proportions, following upon a surplus of $0.2 billion the year before.

The aggregate current account deficit of the less developed group of primary producing countries increased by about $1½ billion to $6 billion in 1967. This deterioration, which occurred in spite of the sharp drop in imports during the second half of 1967, was offset in part by a rise in the flow of official capital and aid, which accrued almost entirely to a few Asian countries. The inflow of private long-term capital was only moderately above the low rate recorded for 1966, but short-term flows showed a favorable swing. On balance, the less developed countries realized an over-all surplus of $1.0 billion in 1967, compared with $0.6 billion for 1966. The bulk of this improvement, however, was concentrated in a relatively few countries and stemmed in major part from official short-term borrowing in the face of balance of payments difficulty.

In the event, most primary producing countries experienced balance of payments pressures in 1967. Losses in official reserves predominated, and the comparatively few increases that occurred mainly reflected special situations rather than strength of the external position.[4] A number of these countries devalued their currencies, particularly in November at the time of the sterling devaluation; and many adopted fiscal and monetary measures to restrain imports, or imposed restrictions. Greater assistance was obtained from the Fund, including an increased use of the facility for compensatory financing of export shortfalls.

Strong demand expansion in industrial countries over the latter part of 1967 and into the first half of 1968 undoubtedly benefited the exports of primary producing countries and led to a recovery in their current account. Beyond this, however, the external position will continue to constitute a periodic brake on development efforts of the primary producing countries unless the flow of capital and aid to them is expanded substantially and unless their exports are afforded freer access to the markets of industrial countries. But primary producing countries, on their part, need to achieve a greater degree of financial stability in order to stimulate the inflow of foreign resources; and they must also take various measures on the supply side if an increasing flow of these resources is to be used effectively and if the capacity to fill expanded export markets is to be developed. Such efforts by these countries to improve the external position should of course be part of a continuing policy approach that includes as a fundamental element the effective mobilization of domestic resources.

Among the industrial countries, the dominant feature of balance of payments developments in 1967 was the unsatisfactory record of the United Kingdom and the United States. Beyond this, particularly noteworthy developments took place in Germany and Japan.

Striking changes in the current account balances of Germany and Japan were clearly related to the pressure of demand in those countries relative to that in other industrial countries. Germany's current surplus widened by $2.4 billion [5] from 1966 to 1967 as the recession cut back imports while exports continued to expand. The continued rapid growth of the Japanese economy during 1967, while many other industrial economies were faltering, led to the disappearance of the current account surplus, which had reached $1.4 billion in 1966. However, in each country a change in domestic monetary policy—a marked easing in Germany and a tightening in Japan—encouraged equilibrating capital flows, to the effect that the over-all payments position was just about in balance for 1967 as a whole. This represented a decline of $0.5 billion in Germany's payments

[3] Finland, Greece, Iceland, Ireland, Portugal, Spain, Turkey, and Yugoslavia.

[4] It may be noted that the figures on official reserves of primary producing countries at the end of 1967 (shown in Table 10) reflect the lower U.S. dollar value of sterling assets resulting from devaluation of the pound. This reduction was of the order of $0.5 billion.

[5] This and other figures in the paragraph are drawn from Table 5.

surplus, but the surplus of most other continental European countries widened and the area's overall surplus remained in excess of $1½ billion.

In the United Kingdom, the salient fact of balance of payments experience in 1967 was that the deficit on current and long-term capital accounts was four times as great as in 1966. During the second half of 1967, the trade account deteriorated sharply and short-term capital outflows became large.

Since the devaluation of sterling on November 18, the United Kingdom has acted with increasing vigor to hold down home demand for domestic output and for imports, and to contain wage and price increases, in order that the devaluation may bring about a shift in resource utilization and a substantial surplus in the balance of payments. Nonetheless, signs of improvement in the trade account were slow to appear and sterling remained subject to speculative pressures, particularly in the period prior to the budget on March 19 and again in May. For June, the trade returns were more encouraging.

Devaluation by the United Kingdom did not give rise to an exchange rate adjustment by any other country that accounts for a substantial share of world trade. The currencies of 14 other member countries were devalued in November 1967; these actions were necessary because of close economic relationships with the United Kingdom or severe payments difficulties that already existed.

Although the November devaluations were carried out smoothly, the adoption of a new parity for a major reserve currency had the effect, in the prevailing circumstances, of creating uncertainties about the stability of currencies in general and of the U.S. dollar and the pound sterling in particular. A serious weakening of confidence was manifest in the absence of any large return flow of funds to the United Kingdom, despite an 8 per cent Bank Rate, and in substantial shifts of funds from U.S. dollar assets into the major continental European currencies and into gold. These shifts, reflecting market reaction to continuation of the long-standing deficit in the U.S. external accounts, virtually ceased for a while after announcement of a strengthened U.S. payments program on January 1, 1968. However, the upsurge of U.S. imports during late 1967 and early 1968, together with evident difficulties in making parts of the new program effective, contributed to renewed movements of funds out of U.S. dollars into continental currencies and into gold, until the official supply of gold to private buyers was cut off in mid-March.

In the first quarter of 1968, the deficit in the U.S. balance of payments was at an annual rate (seasonally adjusted) exceeding $2 billion on both an official settlements basis and in terms of the "liquidity" definition used in the U.S. accounts. (See Supplementary Note B, Table 45.) Although this outturn represented a great improvement over the fourth quarter of 1967, when the deficit was exceptionally large, it was unsatisfactory in light of the requirements of the international monetary situation and of the U.S. goal, as announced on January 1, of bringing the balance of payments "to—or close to—equilibrium" in 1968.

The improvement in the U.S. balance of payments from the fourth quarter of 1967 to the first quarter of 1968 centered in the capital account, which benefited from the strengthened programs of capital control and the further rise in U.S. interest rates. But a disturbing feature of first-quarter developments was the sharp deterioration of the surplus on merchandise trade, attributable mainly to the effect on imports of rapid expansion of aggregate demand in the United States. Moreover, it was evident that in the second quarter of 1968 demand expansion was still rapid and the upward pressures on costs and prices continued strong. These considerations, among others, gave urgency to the need for the measures of fiscal restraint finally enacted at the end of June.

Developments in World Reserves

The major disturbances in the international financial system during 1967 and early 1968 gave rise to unusual changes in world reserves.[6] These changes were even less subject to pattern than those which had taken place during 1965 and 1966.

In Chapter 2 of the 1967 Annual Report, it was noted that developments in 1965-66 had differed from the earlier postwar pattern in important ways: in the pace of reserve growth, in the asset composition of that growth and in its determinants,

[6] These reserves are here defined as countries' holdings of gold and of foreign exchange in convertible currencies and their reserve positions in the Fund. A country's reserve position in the Fund equals the sum of its gold tranche position and its readily repayable claims on the Fund under a loan agreement.

and in the extent of associated repayment liabilities. In brief, the increase in total reserves had decelerated; reserves in their traditional forms, gold and foreign exchange, had moved erratically and in a generally downward direction; and reserve positions in the Fund had risen by exceptional amounts, reflecting primarily large drawings by the United Kingdom in 1965 and members' additional gold subscriptions to the Fund in 1966. Special financing transactions of the United Kingdom had since late 1964 been a major source of world reserve growth. This growth had amounted to only $0.9 billion, or 1.3 per cent, in the 12 months through March 1967, which were virtually free of any net impact of such transactions, whereas the growth from 1960 through 1964 had averaged $2.1 billion, or 3.3 per cent, a year.

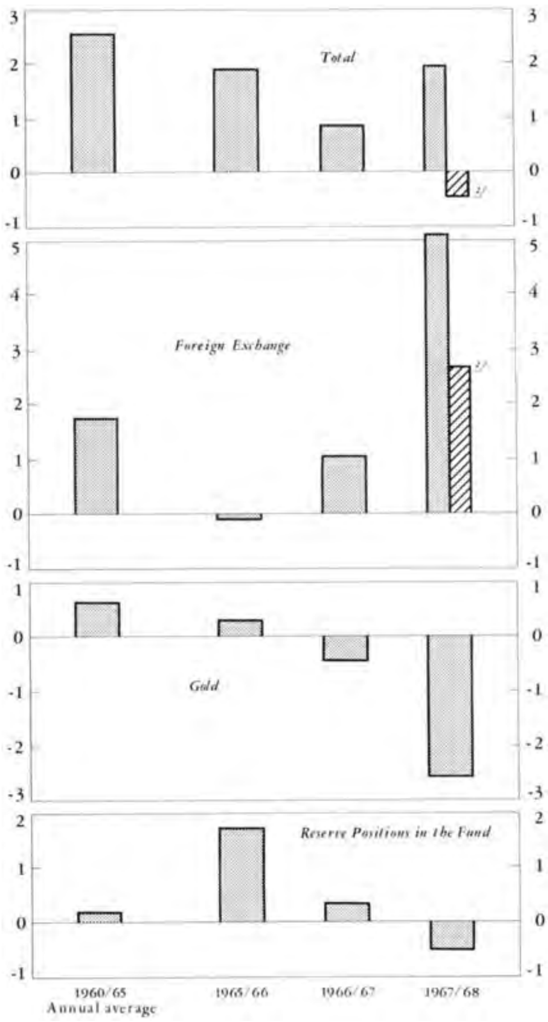
In the 12 months to the end of March 1968, countries' official reserves increased by $2.0 billion in the aggregate; foreign exchange holdings expanded by $5.1 billion, while the official stock of gold fell by $2.6 billion and reserve positions in the Fund recorded a decline of $0.5 billion attributable primarily to the repurchases by the United Kingdom in May and November 1967. However, the accrual of foreign exchange included a large element that clearly was special and temporary, i.e., the rise in U.S. holdings as the counterpart of currency swaps that were due to be reversed within a short time. Exclusive of these holdings under swaps,[7] total reserves during the 12 months ended March 1968 show a small decline (Chart 3). At the same time, it should be borne in mind that the development of official reserves in this period was affected by a variety of other special operations in foreign exchange on the part of central banks, including substantial sales of exchange by the Bundesbank under swap contracts with the German commercial banks during late 1967 and the first quarter of 1968. Also noteworthy, the dollar value of sterling holdings was reduced by an estimated $0.6 billion as a result of the devaluation of the pound.

The shifts in the gold and foreign exchange components of total reserves during the year ended March 1968 reflected mainly the sizable over-all deficits incurred by the United Kingdom and the United States, and the accompanying speculation against the two reserve currencies. After a brief spell of relative ease at the beginning of the period,

[7] Consisting of an estimated $2.2 billion in pounds sterling and $250 million in Canadian dollars.

CHART 3. CHANGES IN COUNTRIES' OFFICIAL RESERVES, 1960-68 [1]

(In billions of U.S. dollars)



[1] Years ended March 31.

[2] Adjusted to exclude U.S. holdings of pounds sterling and Canadian dollars under swaps. Similar adjustments for earlier years would be small.

the pound was subjected to intermittent pressures from the end of May until the time of devaluation, and again in March 1968, while expectations of a possible increase in the official price of gold triggered two large waves of private gold buying in November and December 1967 and another beginning late in February 1968. The demand was met by the seven central banks actively participating in the London gold pool; in order to prevent the price of gold in London from rising above the official price, they sold more than $3 billion of gold through the market there from November to mid-March, when they decided to discontinue such transactions and to allow the price of gold in private markets to be determined by market forces. At $37.8 billion, the gold holdings of national monetary authorities at the end of March 1968 were lower than at any time in more than a decade.

Most of the combined deficit of approximately $6 billion recorded for the two reserve currency countries in the year ended March 1968 was financed through an increase in liabilities—thus accounting for the bulk of reserve creation in the form of foreign exchange assets during this period. The major part of the increase in sterling liabilities related to swaps of sterling against U.S. dollars for use in the defense of the pound. The increase in U.S. liabilities to foreign official holders had its main counterpart in the accumulation of dollar claims by a relatively few industrial countries. As pointed out in Chapter 2 of last year's Annual Report, a number of countries had come to the view that some restraint in the conversion of dollars into gold might be advisable. In the recent period, it was particularly significant that several European countries were prepared to continue the policy of holding substantial dollar balances. At the same time, the United States made use of currency swaps to facilitate some of the accumulation of dollars, and further amounts of nonmarketable U.S. Treasury paper denominated in foreign currencies were substituted for dollars held outright. Also, concerted action was taken by a number of central banks and the Bank for International Settlements in order to counter erratic capital movements that on several occasions resulted in massive flows of dollars into European financial centers.

In sum, reserve developments over the past several years have been dominated by special and erratic influences that, on balance, have led to a substantially slower accumulation of countries' official reserves than in prior periods. Such developments could not, over the longer run, be expected to provide the basis for a satisfactory performance of the world economy.

The International Adjustment Process

The economic policies of four industrial countries—the United States, Canada, the United Kingdom, and Japan—are now in a phase of restraint. In each of these countries, the general objective is to hold the expansion of aggregate demand within the limits of productive capacity and to reduce the pressure on domestic resources. This objective is appropriate on both domestic and external grounds.

In the United States, where the application of effective financial restraint was delayed for many months by the stalemate over fiscal legislation, it has now become necessary temporarily to restrain demand expansion so as to bring the growth of real GNP well below the capacity rate of 4 per cent and thus to relieve upward pressures on costs and prices and to dampen imports. During this period of economic adjustment, it is essential that the U.S. authorities should maintain a sufficient degree of monetary restraint to provide firm support to the programs of control over outflows of U.S. capital.

Pursuit of fiscal and monetary policies of the general character now envisaged, combined with the strengthened programs of capital control, should make for a substantial improvement in the U.S. balance of payments. Elimination of the deficit must now become a primary objective of economic policy, in the interest of the United States itself and of the international monetary system. It is generally agreed that equilibrium in the U.S. balance of payments should, in the longer term, encompass a removal of capital controls in line with the necessary enlargement of the current account surplus.

In conjunction, the policies of restraint now being applied by the United States, Canada, the United Kingdom, and Japan should have the effect of sharply retarding the growth of import demand in these countries during the second half of 1968 and at least the first part of 1969. Clearly, the maintenance of a satisfactory growth of world trade and activity in such a situation would require expansionary policies on the part of some other industrial countries—countries in comfortable balance of payments and reserve positions, and with a margin of unutilized capacity. Fortunately, the economic recovery of continental Europe from the marked 1966-67 slowdown is proceeding apace, encouraged by governmental policies. In France, the problem for economic policy has now become one of ensuring domestic and external stability, along with satisfactory growth, in the face of pressures emanating from the wage settlements reached after the recent wave of strikes.

With maintenance of the current expansionary climate, the import-generating capacity of continental Europe in the period ahead should be very substantial. The concurrent elimination of pressures in the U.S. economy and absorption of slack in European economies could have a pronounced effect in restoring the U.S. trade surplus to a more adequate level and, more generally, in reducing the disequilibrium in international payments.

Although it is thus possible to sketch in broad outline the evolving patterns and trends in the world economy, and the desired direction of countries' policies, the outcome will depend heavily on the actual policy measures taken, as well as on developments now unforeseen. Economic policies in member countries continue to be governed primarily by domestic considerations, and the instruments of policy invariably have limitations, in part reflecting institutional and political factors. However, a growth of international cooperation toward improving the international adjustment process has become evident over the years. An important example of this has been the response of continental European governments to the situation posed by the introduction of the U.S. balance of payments program on January 1, 1968. This response took the form of an expressed willingness on the part of these governments to accept the impact of the new U.S. measures on their balance of payments and reserves, and to counter the potential impact of those measures on the level of income and on domestic liquidity. A striking feature of European policies in 1968 has been the fostering of easy monetary conditions, which continue to be necessary in the interest of international payments equilibrium.

An essential task for the international adjustment process is to effect a substantial readjustment of the payments positions of the United States and the United Kingdom, through elimination of their deficits. This readjustment, quite obviously, cannot succeed without perseverance on the part of the United States and the United Kingdom in the pursuit of policies directed toward that end. In the longer run, the question will arise whether other countries, in Europe or elsewhere, will be satisfied with the cessation of reserve increases or the reserve losses which the readjustment may entail. Hence, action in the area of reserve creation might well become an essential element in international cooperation aimed at achieving a lasting international payments equilibrium in a world environment of satisfactory economic growth and of resumed progress toward liberalization of current and capital transactions.

Chapter 2

Proposed Amendment to the Fund's Articles of Agreement

DURING the past fiscal year, for the first time in the Fund's history, proposed modifications in the Articles of Agreement were submitted to the Board of Governors for its approval. The Proposed Amendment of the Articles would add an important function to the Fund's activities by establishing a new facility based on special drawing rights. It would also make certain changes in the present rules and practices of the Fund to take account of developments in world economic conditions and the Fund's experience since the adoption of the Articles of Agreement.

On April 16, 1968, the Executive Directors proposed the introduction in the Articles of modifications that they had prepared in the form of the Proposed Amendment on these two matters, and adopted an accompanying report. These were transmitted to Governors. The relevant Resolution was adopted by the Governors on May 31, 1968. The Proposed Amendment must be accepted by three fifths of the members, having four fifths of the total voting power, before it can enter into force, and for most members this involves legislative action.

The Fund's Work on International Liquidity, 1963 to 1968

The purposes for which the Fund was created have necessarily meant that problems relating to the adequacy of liquidity in general and reserves in particular have occupied the Fund during its whole history. Less than ten years after it began operations, the Fund prepared a major report at the request of the Economic and Social Council of the United Nations.[1] Moreover, the Fund is required to focus on the subject of international liquidity at least once every five years; Article III, Section 2, requires the Fund to review the quotas of members at such intervals, and to propose an adjustment of quotas if it deems this appropriate. In addition, the Fund can and does agree to increase individual quotas at other times.

Starting with the Annual Report for 1963, the Executive Directors have in each Report dealt with international liquidity from the policy, analytical, statistical, and technical points of view. It may be useful to indicate briefly a few major themes running through these Reports that found final expression in the amendment now proposed.

The 1963 Report first introduced the concept of the gold tranche in the Fund as constituting part of a member's international reserves, a concept for which the Proposed Amendment is intended to provide additional legal strength. In this Report the adequacy of international liquidity was discussed in terms of the Fund's purposes (on p. 49):

> International liquidity is, of course, not an end in itself. If the world is keenly interested in the question of the adequacy and responsiveness of liquidity, it is because the proper level of liquidity is expected to contribute to objectives such as those mentioned in Article I of the Fund Agreement: the expansion and balanced growth of international trade, the promotion and maintenance of high levels of employment and real income, the development of the productive resources of all members; exchange stability, orderly exchange arrangements among members, and the avoidance of competitive exchange depreciation; a multilateral system of payments in respect of current transactions, and the elimination of foreign exchange restrictions which hamper the growth of world trade.

This approach, it may be noted, is reflected in the text of Article XXIV, Section 1(a), in the Proposed Amendment, which puts forward as general principles governing the allocation and cancellation of special drawing rights the attainment of the Fund's purposes as well as the avoidance of economic stagnation and deflation and of excess demand and inflation in the world.

In the 1963 Report, the point was also made that it might be more important and feasible to concentrate on the adaptation or enlargement of the existing multilateral arrangements through the Fund than to seek to establish supplementary or

[1] "The Adequacy of Monetary Reserves," published in International Monetary Fund, *Staff Papers*, Vol. III (1953), pp. 181-227.

alternative arrangements outside, and it was anticipated that the Fund would in due time take any requisite action or propose such action to its members.

At the 1963 Annual Meeting of the Board of Governors, the Managing Director indicated that the Fund would intensify its studies of international liquidity and related questions; at the same time, the Ministers and Governors of the Group of Ten [2] instructed their Deputies to make "a thorough examination of the outlook for the functioning of the international monetary system and of its probable future needs for liquidity."

In its 1964 Annual Report, the Fund addressed itself to the fundamental issue of the relation between international liquidity and the process of adjustment. It emphasized that the provision of international liquidity—the means to finance disequilibria—should always be viewed in conjunction with the process of payments adjustment, i.e., the steps to eliminate disequilibria. This would require that each country, in addition to taking such specific policy measures in other fields as would be appropriate to this end, would, in framing its general economic policies, take account not only of the requirements of its domestic policy objectives but also of fundamental trends in its balance of payments. This approach would involve a willingness on the part of countries in persistent payments deficit to pursue less expansionary policies than they would otherwise prefer, and on the part of countries tending to run persistent surpluses to pursue more expansionary policies than they would have been inclined to adopt for purely domestic reasons. The decisions with respect to economic policy adopted in 1968 by many industrial countries—which are described elsewhere in this Report—indicate that these fundamental principles of the adjustment process are gaining wider acceptance by deficit and surplus countries alike.

The role that international liquidity can play in promoting this process of adjustment was fully recognized in the 1964 Annual Report, although it was stressed how difficult it might be to arrive at "collective judgment" regarding appropriate action in the field of liquidity. With respect to the particular action that might be taken at the time, the Fund's Annual Report for 1964 focused on increasing international liquidity of a conditional character by means of quota increases, to be studied in detail as promptly as possible after the 1964 Annual Meeting; the same focus for immediate action was contained in the Report issued by the Deputies of the Group of Ten in the summer of 1964. With respect to the potential contribution that the Fund might make toward the supply of unconditional liquidity, the Annual Report limited itself to a brief and very tentative discussion of possible techniques.

In the course of the following year, the Executive Directors proposed and the Governors approved an increase in Fund quotas from about $16 billion to close to $21 billion. Paralleling this action, the Executive Directors considered, in the 1965 Annual Report, both the technical and the policy aspects of what then became known as "deliberate reserve creation," as distinguished from the creation of reserve positions in the Fund as a by-product of the extension of conditional credit by the Fund. These questions were also the subject of intensive study during that year by the Study Group on the Creation of Reserve Assets appointed by the Deputies of the Group of Ten, whose Report [3] was published at about the same time as the Fund's 1965 Annual Report.

In contrast to the exploratory character of the activities carried on in 1964/65, the discussions in 1965/66, by both the Executive Directors and the Group of Ten, were directed toward finding the basis for agreement among governments on a contingency plan for deliberate reserve creation when it would be decided that a need for such action existed. Consideration was given to a number of concrete schemes under which such reserve creation might take place. Among them were two proposals put forward, for purposes of discussion, by the Managing Director. One of the proposed schemes was based on the extension of quasi-automatic drawing rights of the gold tranche type in the Fund, and the other on the issuance of reserve units by a Fund affiliate whose membership would be open to all Fund members. Apart from such differences as follow from these two technically different approaches, both proposals were guided by certain general considerations. These included the principle that international liquidity is

[2] I.e., the countries that had joined the General Arrangements to Borrow. These are Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States.

[3] Also known as the Ossola Report; Mr. Rinaldo Ossola was Chairman of the Study Group.

the concern of all member countries and that all should be entitled to participate, with due safeguards, in the decisions on reserve creation and in the distribution of newly created reserves, with such participation being based on members' quotas. The new facility to be created should be automatic in character, but should be used only in case of balance of payments need, and all members willing to participate should also share in the obligation to accept transfers of the new assets.

The parallel discussion of these and a number of other proposals in reports issued by the Fund and by the Deputies of the Group of Ten in the summer of 1966 led to the decision, taken in September of that year, for a direct exchange of views between the Executive Directors and the Deputies. The most suitable approach to this was found to be a series of joint, informal meetings. Four such meetings took place between November 1966 and June 1967. They proved valuable in establishing close contact between Executive Directors and Deputies, and led to the preparation of an agreed Outline of a Facility Based on Special Drawing Rights in the Fund that was approved by the Executive Directors in September 1967 and submitted to the Annual Meeting of the Fund's Board of Governors at Rio de Janeiro. In the course of 1967 a number of suggestions had also been made for possible changes in the Fund as it operates at present, in order to take account of present world economic conditions and the experience of the Fund over the last twenty years.

In a resolution adopted on September 29, 1967, the Governors requested the Executive Directors to proceed with work relating both to the establishment in the Fund of a new facility and to possible improvements in the present rules and practices of the Fund, and to propose amendments of the Articles on these matters. After the Annual Meeting, Executive Directors devoted a large proportion of their time to the preparation of the proposed amendments requested by the Governors and of the accompanying report. The full document, which was dispatched to Governors on April 17, 1968, is reproduced in Appendix I of this Report. Governors were requested to vote on the proposed Resolution not later than May 31. The Resolution was duly adopted. The Proposed Amendment, as noted earlier, will become effective after it has been accepted by three fifths of the members, having four fifths of total voting power.

The Proposed Amendment now before the Fund membership, covers two broad subjects, of which the main features are set out below.

New Facility Based on Special Drawing Rights

The proposed new facility based on special drawing rights to meet the need, as and when it arises, for a supplement to existing reserve assets reflects the basic principles that were developed over the years of study, preparation, and discussion. In this effort the Fund also benefited from the deliberations conducted in various groups and the suggestions made by them. The establishment of the facility requires, in addition to the acceptance of the Proposed Amendment by the required majorities, the participation of members having quotas amounting to at least 75 per cent of total Fund quotas.

Only members of the Fund can become participants in the facility. Allocations of special drawing rights will be made to individual participants in proportion to their quotas in the Fund. Decisions to allocate will normally be made for five-year periods ahead, with allocations being made at yearly intervals. A participant may, however, elect not to receive allocations made under a decision if it did not vote in favor of that decision.

Countries will be able to use the special drawing rights unconditionally whenever they have a balance of payments or reserve need to do so. Correspondingly, participants will be obliged, whenever designated to do so, to accept special drawing rights and in exchange to provide currency convertible in fact, a term which is defined in the Proposed Amendment. A participant will normally be designated for this purpose only when its balance of payments and gross reserve position is sufficiently strong. The magnitude of the obligation to accept is determined by the total amount of special drawing rights allocated to the participant less any part thereof that has been canceled. This amount is termed the net cumulative allocation, and the participant's obligation to accept special drawing rights from other participants extends to the point where its holdings of special drawing rights equal the amount received as its net cumulative allocation, plus twice this amount. As a result of these provisions, participants will be able to use the new special drawing rights in much the same manner as they use their holdings of traditional reserves.

In the elaboration of the provisions for the facility, great care was taken that any decision to allocate special drawing rights should have broad support. Decisions on allocation can only be made on a proposal by the Managing Director of the Fund, concurred in by the Executive Directors, and approved by the Governors by an 85 per cent majority of the total voting power. The Proposed Amendment spells out the principles and considerations applying to any such proposal. The first decision to allocate special drawing rights will have to take into account a collective judgment that there is a global need to supplement reserves, and the attainment of a better balance of payments equilibrium, as well as the likelihood of a better working of the adjustment process in the future.

It has been provided that a participant's net use of its special drawing rights must be such that the average of its holdings of special drawing rights over a five-year period will not be less than 30 per cent of the average of its net cumulative allocations of special drawing rights over the same period. Participants that have, during some part of any five-year period, used more than 70 per cent of their average net cumulative allocation may, therefore, have to reconstitute their holdings in order to ensure that their average use does not exceed the specified proportion.

With the establishment of the new facility, the Fund will maintain and conduct its operations through two separate accounts. Operations and transactions involving special drawing rights will be conducted through the Special Drawing Account, and the present operations and transactions of the Fund will be conducted through the General Account. The Fund will meet the cost of conducting the business of the Special Drawing Account from the General Account, but these costs will be reimbursed to the General Account from time to time by assessments on participants to be paid in special drawing rights. Special drawing rights can also be acquired by the Fund in the General Account as a result of their use by members, in repurchases and in the payment of charges. The Fund will be able to use the special drawing rights which it holds in the General Account to replenish its holdings of currencies and to make special drawing rights available, against gold or convertible currencies, to participants that need to acquire them.

Each participant's holdings of special drawing rights are to be recorded in the Special Drawing Account. The account of each participant will be credited with the amount of special drawing rights allocated to it and debited in the event of a decision to cancel special drawing rights. The use by a participant of its special drawing rights will result in debits to its account and equivalent credits to the accounts of one or more other participants. It will be noted that the functioning of the special drawing rights facility, in contrast to the operations of the present Fund, will not be based on the Fund's holdings of gold and member currencies. Special drawing rights will thus derive their strength, not from a pool of assets held by the Fund, but from the acceptance obligations of participants to provide exchange from their own holdings to other participants entitled to use their special drawing rights.

The Special Drawing Account will also record the Fund's holdings of special drawing rights held in the General Account as well as those held by any other holder which the Fund may have prescribed.[4]

The value of special drawing rights is fixed in terms of gold. A participant will earn interest on its holdings of special drawing rights, and will pay a charge on the amount of its net cumulative allocation. The participant's position in the Special Drawing Account will determine whether, on balance, it will receive interest or pay charges. The rate of interest and the rate of charge will be the same; both will initially be 1½ per cent, with some room for later changes. Interest will be credited and charges debited to participants' accounts in special drawing rights.

Changes in Fund Rules and Practices

The changes in the rules and practices of the Fund proposed in the form of certain amendments to the existing 20 Articles of the Fund Agreement cover a number of provisions. First, there are changes in the majorities required for certain important Fund decisions. Changes in quotas, insofar as they are the result of a general

[4] These could include nonmember countries, members that are not participants, and institutions that perform one or more functions of a central bank for members.

review of quotas, will require a majority of 85 per cent of the total voting power, and the same majority will apply in respect of decisions on certain questions closely related to general quota increases, such as the question whether a member will be permitted to pay less than the standard 25 per cent of its additional subscription in gold.[5] An 85 per cent majority will also be required for decisions adopted by the Fund under the provisions in the Articles that relate to a uniform proportionate change in par values.

Decisions requiring an 85 per cent majority under the Proposed Amendment, whether with respect to the General Account or the Special Drawing Account, are to be taken by the Board of Governors.

There are a number of proposed changes relating to the formal status of a member's entitlement to buy the currency of other members from the Fund. Gold tranche purchases, which are now practically automatic, will become legally automatic under the new provisions. At the same time, the Articles will be amended to make explicit what had been implicit before: that use of the Fund's resources must be temporary in character and that the Fund must adopt policies to this end. Under the new provisions, the Fund will no longer have the legal power to make the use of Fund resources outside of the gold tranche quasi-automatic and quasi-unconditional, in view of the availability of the new special drawing rights facility to take care of any need for additions to existing unconditional reserve assets. On the other hand, these proposed changes in the legal status of a member's entitlement to buy currency from the Fund in a transaction conducted through the General Account are not intended to make the rules with respect to use of the Fund's resources more restrictive than they are now.

The Proposed Amendment also provides for the payment of remuneration to members that hold what has become known as a super gold tranche position in the Fund.[6] The rate of remuneration will be 1½ per cent per annum, but the Executive Directors would be authorized to make changes in this rate.

[5] Changes in quotas other than those resulting from a general review of quotas will continue to require approval by the present majority of 80 per cent of the total voting power.

[6] The amount by which 75 per cent of a member's quota exceeds the Fund's holdings of its currency.

In addition, the Articles as amended will permit the Fund to reduce or eliminate the service charge (presently at ½ per cent) on gold tranche purchases.

The Proposed Amendment calls for substantial changes in repurchases governed by Article V, Section 7. These changes involve, inter alia, the transition from a concept of monetary reserves net of currency liabilities to a gross concept. The changes can affect the amounts to be repurchased and also the media in which repurchases are to be made.

Finally, the Proposed Amendment envisages a change in the procedure to deal with questions of interpretation. Essentially, this change involves the creation of a Standing Committee on Interpretation of the Board of Governors, which will have to consider any question of interpretation referred to the Board of Governors at the request of a member. The decision of this Committee will be final unless the Board of Governors decides otherwise by an 85 per cent majority of the total voting power. Each member of the Committee on Interpretation will have one vote.

The Proposed Amendment will require changes and additions in the By-Laws and in the Rules and Regulations as well as in some of the previous decisions of the Fund. In the course of the coming months, the Executive Directors intend to make appropriate communications on these matters to the Governors.

Conclusion

The broad impact of the new facility will be that it will permit the Fund to assure an appropriate level of international reserves in the light of the needs of the world economy, by supplementing the existing reserve assets in the form of gold and reserve currencies. For the first time, therefore, the total stock of reserves and its rate of growth will reflect deliberate international decisions rather than being determined solely by the availability of gold for official reserves and the accumulation of balances in reserve currencies. At the same time the present mechanism of the Fund, which provides members primarily with liquidity of a conditional character, will continue to operate as in the past. Thus the Fund will become a major source for the supply of both unconditional and conditional liquidity.

Chapter 3

The Fund in 1967/68

THE year ended April 30, 1968 was unique in the history of the Fund, not only in the degree of activity but also in the nature and variety of the work undertaken. As a measure of activity, the Executive Directors met more frequently during the year than in any other similar period and three times as often as the average for the years 1956/57 to 1963/64. A substantial number of these meetings—74 in the period December 1, 1967 to April 16, 1968—was devoted in whole or in part to the preparation of the Executive Directors' response to Resolution No. 22-8 of the Board of Governors, adopted in Rio de Janeiro on September 29, 1967. This led on April 17, 1968 to the transmission to Governors of the Directors' Report proposing amendment of the Fund's Articles of Agreement: *Establishment of a Facility Based on Special Drawing Rights in the International Monetary Fund and Modifications in the Rules and Practices of the Fund.*[1] Another period of intense activity for staff and Directors came in November 1967 when, in the space of seven days, the Fund considered and concurred in proposals for the devaluation of the pound sterling, the currencies of certain nonmetropolitan areas of the United Kingdom, and the currencies of 14 other member countries.

The events related to the Proposed Amendment and the November devaluations, of course, reflect only part of the Fund's work in 1967/68. During the year regular consultations were completed, by the Executive Directors' consideration of staff reports, with a record number of member countries. Stand-by arrangements in order to provide access to the Fund's resources were agreed for more members than in any previous year; drawings under the compensatory financing facility became a frequently used procedure; and the total number of financial transactions exceeded that in any earlier year. Technical assistance to member countries, including the training programs of the IMF Institute, increased further in scope and intensity.

While much work continues as before, new problems arise to replace some of those that in the past required so much attention. As this report is written, the Fund, in association with the World Bank, is actively engaged in the preparation of the study of the problem of the stabilization of prices of primary products for submission to the Boards of Governors, in response to Resolutions adopted at the 1967 Annual Meetings in Rio de Janeiro.[2]

[1] See discussion in Chapter 2 and text in Appendix I (pp 129-74).

[2] Resolution No. 22-9, Stabilization of Prices of Primary Products, adopted by the Board of Governors of the Fund on September 29, 1967, reads as follows:

> WHEREAS Governors of the Fund and the Bank for Cameroon, Central African Republic, Congo (Brazzaville), Ivory Coast, Dahomey, France, Gabon, Upper Volta, Madagascar, Mali, Mauritania, Niger, Senegal, Chad and Togo have transmitted to the Managing Director of the International Monetary Fund the following request:
>
> > CONSIDERING the decisive importance of the stabilization of prices of primary products at a remunerative level for the economic advancement of the developing countries and the improvement of the standard of living of their populations, the Governors meeting in Dakar request that in Rio study be made of the conditions in which IMF, IBRD and IDA could participate in the elaboration of suitable mechanisms involving balanced commitments on the part both of the producing and of the consuming countries, and devote the necessary resources thereto.
>
> AND WHEREAS the Board of Governors recognizes the importance of this subject in relation to the purposes of the Fund;
>
> NOW THEREFORE the Board of Governors resolves that the Managing Director is hereby invited to have the staff, in consultation with the Bank staff, prepare a study of the problem, its possible solutions, and their economic feasibility, in the light of the foregoing, to be submitted to the Executive Directors who are requested to transmit it with such comments or recommendations as they may have to the Board of Governors for consideration and appropriate decision by the Board, if possible at its next Annual Meeting.

A parallel Resolution, with the same title, was adopted by the Board of Governors of the International Bank for Reconstruction and Development on the same date.

Membership and Quotas

One country, The Gambia, joined the Fund in 1967/68, thereby raising total membership to 107 and increasing total quotas by $5 million. From all sources, quotas rose by $198 million in 1967/68, against increases of $1.5 billion in 1966/67 and $3.4 billion in 1965/66. On April 30, 1968 total quotas were over $21.1 billion.

Quotas continued to rise as a result of the general increase approved by the Board of Governors in March 1965, with 2 countries taking up the whole of the increase in their quotas provided for by the Governors' Resolution and 16 others that had elected so to do increasing their quotas by one or more installments. Most of the larger increases provided for in March 1965 had, however, taken place before the opening of the past fiscal year, so that the actions in 1967/68 added only $65 million to total quotas, against $1,237 million in 1966/67. The most important source of increased quotas in the past year was the part of the Compensatory Financing Decision that provides for sympathetic Fund consideration of requests for quota adjustments by certain primary producing countries, particularly those with relatively small quotas. Increases by 5 countries under this provision totaled $128 million in the fiscal year, compared with no changes in 1966/67 and increases by 11 countries totaling $106 million in 1965/66.

Changes in Par Values

For the first time since September 1949, the Fund was faced with the task of dealing with a substantial number of proposals for par value adjustments. This occurred in November 1967, when the proposal of the United Kingdom for a 14.3 per cent devaluation of the pound sterling was followed by proposals for devaluation by 14 other member countries (including one that had not yet established a par value). The developments surrounding these actions are detailed elsewhere in this Report.[3]

The experience and knowledge, gained through close contact with member countries over the years, greatly facilitated the Fund's dealing with the devaluations in November, and on three other occasions during 1967/68. On the basis of the facts at its disposal, the Fund was able to satisfy itself that each of the proposed changes was necessary to correct a fundamental disequilibrium and to give its concurrence without any undue delay in accordance with the Articles of Agreement. The limited extent of the November 1967 adjustment reflected an encouraging degree of cooperation among the Fund's members, and the adjustment was generally seen as introducing a better balance among the world's currencies without competitive exchange depreciation. Fund counsel to member countries during the hectic days of November contributed to this result.

[3] See pages 50-51.

Fund Transactions

Purchases of currencies (or drawings) from the Fund amounted to the equivalent of $1.3 billion during the year ended April 30, 1968, but this amount was more than offset by repurchases and other transactions with the same effect, so that there was a reduction of outstanding drawings by $0.5 billion over the fiscal year.

A large increase during the first three months of 1968 brought total drawings for 1967/68 to the figure of $1.3 billion. This amount exceeded the drawings of $1.1 billion in 1966/67, but was below the levels of three earlier years, 1961/62, 1964/65, and 1965/66. Although the amount drawn during 1967/68 was large, three types of transaction had the effect of reducing the amount of drawings outstanding at the end of the year. First, member countries in the course of the year repurchased Fund holdings of their currencies to the extent of $1.1 billion. Second, the use of currencies of which the Fund's holdings were in excess of 75 per cent of the members' quotas, in purchase transactions and in repayment of Fund borrowings, reduced the amount of outstanding drawings of these members—and thus the total of outstanding drawings—by $0.5 billion. Third, a drawing in the super gold tranche is not subject to repurchase under the Articles of Agreement and, while it adds to amounts drawn, it is, therefore, not considered part of outstanding drawings; an operation of this nature amounted to $0.2 billion in 1967/68.[4] The

[4] A drawing, or that part of a drawing, that is in the super gold tranche does not increase the Fund's holdings of the purchasing member's currency above the level of 75 per cent of its quota. About half of the Canadian drawing in February 1968 was in the super gold tranche.

various transactions thus produced the reduction of outstanding drawings by \$0.5 billion during the fiscal year, to the equivalent of \$4.6 billion on April 30, 1968.

While outstanding drawings declined, amounts that had not been drawn under stand-by arrangements existing at the end of the fiscal year rose by \$1.6 billion between April 30, 1967 and April 30, 1968 to a record of \$2.0 billion, so that the sum of these amounts and outstanding drawings rose by \$1.1 billion, to \$6.6 billion, the highest recorded year-end level.

Since the end of the fiscal year, two particularly large transactions have taken place. In June 1968, France made a gold tranche drawing [5] equivalent to \$745 million and the United Kingdom drew the full amount of \$1,400 million available under its stand-by arrangement.[6] In connection with each drawing, the General Arrangements to Borrow (GAB) were activated, and the Fund replenished its holdings of currencies drawn by sales of gold. Borrowings and gold sales totaled \$741 million and \$547 million, respectively, in connection with the two drawings. As a result of these and other operations, outstanding drawings rose by \$1.1 billion to \$5.7 billion between April 30 and June 30, 1968.

Considering in more detail the transactions that took place in the fiscal year ended April 30, 1968, the largest drawings were made by Canada and the United States. In February 1968 Canada drew the equivalent of \$391 million, all within the gold tranche, raising the Fund's holdings of Canadian dollars to 100 per cent of quota. In addition, the Fund repaid its \$35 million indebtedness to Canada under the GAB. The drawing of the equivalent of \$200 million by the United States in March 1968 was also within the gold tranche and approximately equaled the total of the U.S. dollars used by the Fund in the Canadian operations just described. Other purchase transactions in 1967/68 that were not under stand-by arrangements or the Compensatory Financing Decision, and not related to quota increases, amounted to the equivalent of \$90.5 million, drawn by 5 less developed countries.

Next in importance during the year were purchases equivalent to \$441 million under stand-by arrangements. All of this amount was drawn by 23 primary producing countries, most of them less developed countries. The extent to which member countries obtained support for their policies by these arrangements, providing access as needed to the Fund's resources, far exceeded the amount drawn. During the fiscal year the Fund approved a record number of 32 new stand-by arrangements for a total of \$2,352 million. The largest such arrangement, equivalent to \$1,400 million, was approved for the United Kingdom in November 1967; as has been noted, the full amount was drawn in June 1968, after the end of the fiscal year. All the other stand-by arrangements approved in 1967/68 were for primary producing countries, most of them less developed primary producing countries; on 27 of these arrangements \$618 million had not been drawn on April 30, 1968.[7]

The Fund's compensatory financing facility was increasingly used in 1967/68 to assist primary producing countries which experience temporary shortfalls in their export proceeds through circumstances largely beyond their control. Nine primary producing countries affected by adverse export conditions drew the equivalent of \$194 million under the facility. In addition, 3 countries obtained the agreement of the Fund to reclassify as compensatory drawings a total of \$26 million previously obtained in other purchase transactions, as provided for under the Fund's Decision as amended in September 1966. Drawings under the amended compensatory facility are separate from others in the sense that they are not taken into account in determining the member's ability to draw under the normal policies governing the use of the Fund's resources. Including the three reclassification cases, 6 members made both compensatory and other drawings in the course of 1967/68.

Repurchases of \$1.1 billion during the past year reflected to a considerable degree two repurchases by the United Kingdom, the equivalent of \$405 million in May 1967 and \$250 million in

[5] A gold tranche drawing does not increase the Fund's holdings of the purchasing member's currency above 100 per cent of its quota. A gold tranche drawing may include a drawing in the super gold tranche; the latter accounted for two thirds of the drawing by France.

[6] Also in June 1968, the Fund consented to a proposal by France to transfer its claim on the Fund under the General Arrangements to Borrow (GAB) to four other GAB participants. The amount involved was equivalent to \$140 million. This redistribution of claims on the Fund had no effect on the total of Fund borrowing outstanding.

[7] Details of amounts drawn under stand-by arrangements and of arrangements approved in 1967/68 are given in Tables 30 and 31 (pp. 99 and 100).

November 1967. On the occasion of the former, the Fund repaid the same amount that it had borrowed under the GAB when the United Kingdom made a purchase in respect of which it was repurchasing in May 1967. Repurchases by 39 primary producing countries totaled $461 million in 1967/68.

The number of currencies that are used in drawings on the Fund and in repurchases has continued to grow. In 1967/68 the currencies of Ireland and South Africa were used for the first time, and, by the end of April 1968, a total of 22 currencies had been sold since the Fund's inception, compared with 16 at the end of 1965 and 8 at the end of 1960. The ability of the Fund to use a greater number of currencies for drawings adds to the Fund's effective liquidity and leads to a broader distribution of reserve positions in the Fund. This process has been helped by the fact that more and more members who hold gold tranche positions have come to look upon these positions as a part of their reserves, and to consider the use of their currencies in drawings from the Fund as a change in the composition of their reserves. The Fund has also widened the number of currencies that are used in repurchases, as more currencies have become formally convertible under Article VIII of the Fund Agreement and can, therefore, be used in repurchase by other members. At the present time, U.S. dollars and pounds sterling cannot be accepted by the Fund in repurchase since the Fund's holdings of these currencies are in excess of 75 per cent of the respective quotas. Since members do not normally hold in their reserves large amounts of currencies presently acceptable by the Fund in repurchase, they may have to acquire them against payment in reserve currencies when repurchasing.

In recent years large Fund sales of currencies of surplus countries have reduced its holdings of these currencies to successively lower levels. On April 30, 1968 the Fund's holdings of the currencies of 6 members, namely, Austria, Belgium, France, Germany, Italy, and the Netherlands, were about 19 per cent of their combined quotas. In 1967/68 the Fund used these currencies in the equivalent of $661 million in drawings and $372 million in repayment of borrowings under the GAB; however, the effects on the Fund's holdings were largely offset by the use of the 6 currencies in the amount of $888 million in repurchases by other members.

The Fund has at the same time increasingly sold currencies of members that have drawings outstanding from the Fund as improvements in their balance of payments and reserve positions permitted. Such sales reduce the outstanding drawings of these members and have, therefore, the same effect on their Fund positions as repurchases by them. During the past fiscal year Argentine pesos, Brazilian new cruzeiros, and Irish pounds, totaling the equivalent of $53 million, have thus been used.[8] During the same period, pounds sterling, amounting to the equivalent of $152 million, and U.S. dollars, amounting to $337 million, have been used in a similar fashion, partly for the convenience of members wishing to make small drawings in their reserve currencies. Sales of sterling, together with U.K. repurchases of sterling from the Fund, reduced the United Kingdom's outstanding drawings by the equivalent of $807 million during the fiscal year, to $1,508 million on April 30, 1968. The effect of sales of U.S. dollars, the use of $16 million in that currency in the Canadian GAB repayment, and drawings equivalent to $200 million by the United States was to reduce outstanding U.S. drawings by $153 million, to $728 million.[9]

The Fund has also used the currencies of other member countries, of which its holdings were, at the time of the drawing, at or below 75 per cent of the respective quotas but relatively larger than those of the six surplus countries listed above. Drawings of these currencies totaled the equivalent of $145 million in 1967/68, including $53 million of Australian dollars, $20 million of South African rand, $19 million of Norwegian kroner, $15 million of Swedish kronor, and $13 million of Mexican pesos. In addition, the equivalent of $52 million was used in the repayment of GAB borrowings. The use of currencies of this group of countries in drawings and repayment of borrowings was, however, exceeded by amounts received by the Fund in repurchases, the equivalent of

[8] Excludes the equivalent of $10 million of Irish pounds drawn after the Fund's holdings of the currency were reduced to 75 per cent of Ireland's quota.

[9] On June 30, 1968, after drawings by France, the United Kingdom, and other members, outstanding drawings of the United Kingdom and the United States were the equivalent of $2,908 million and $313 million, respectively.

$203 million in the year ended April 30, 1968.[10]

At the end of April 1968, the Fund's holdings of currencies designated for use in drawings,[11] other than pounds sterling and U.S. dollars, amounted to $2.7 billion, and its gold account, including general deposits of gold and investments in U.S. Government short-term securities, amounted to $3.8 billion. On the same date $2.0 billion had not been drawn under stand-by arrangements then existing, and members maintained reserve positions in the Fund amounting to $5.8 billion. The outstanding borrowings of the Fund under the GAB and from Italy, part of members' reserve positions in the Fund, amounted to $740 million, while the lines of credit not borrowed under the GAB were $5.4 billion.

Consultations and Technical Assistance

Apart from its financial transactions with members, a substantial amount of the work of the Fund is concerned with problems and developments specific to individual member countries. Much of this work is done in the countries concerned. During the fiscal year 1967/68, members of the Fund staff visited 100 countries to conduct regular consultation discussions, to discuss the countries' problems, to help in the formulation of stabilization programs and the preparation of requests for stand-by arrangements, to conduct reviews of these programs and arrangements, and to provide technical assistance. A substantial portion of such assistance involved advice on and help in dealing with the banking and fiscal problems faced by developing countries. But it also covered advice on exchange policies, the operation of exchange systems, and the development of balance of payments and financial statistics.

The growth in the Fund's membership has brought an increase in regular consultation activity. In 1967/68, 69 Article VIII or Article XIV consultations were completed with a record number of 67 member countries.

Since the beginning of the Article XIV consultations in 1952, the Fund and its members have held this activity to be of great value. The discussion and analysis of the member's problems and policies by the staff, and their consideration by the Executive Directors, can and does facilitate the solution of problems, the removal of practices harmful to other countries, and the development of policies that contribute to strengthening the country's economic position. At the same time, the continuing process provides the Fund with a body of information which enables it to deal more promptly and more expertly with a request for the use of the Fund's resources, a proposal for a change in a par value, or a proposed modification of an exchange system. The assembled information is often of considerable use to the member and aids the Fund in its consultations with other international organizations considering the economic problems of countries.

On the basis of this experience, in 1960 the consultation process was extended to Article VIII countries, countries which have accepted the convertibility obligations of the Fund Agreement. Over the years the number of these countries has grown. In the past fiscal year, 3 more members accepted the obligations of Article VIII—Bolivia, Denmark, and Norway—bringing the total to 31 out of the Fund's membership of 107.

Technical assistance supplied by members of the Fund staff directly to member countries increased significantly in 1967/68. Assistance was also provided by the Fund through outside experts principally in the fields of banking and fiscal affairs. This assistance continued to increase and, on April 30, 1968, 60 such experts were on assignment in 30 countries, mostly for six months or more. About one fourth of the long-term assignments undertaken in the central banking program since its inception in 1964 have been completed, and there are indications that the number of new requests is leveling off following the very rapid growth of the preceding two years. On the other hand, the fiscal program, which has grown at a slower rate, is continuing to expand with the increasing demand for advisors.

Technical assistance provided at the Fund's headquarters through training courses offered by the IMF Institute also expanded in 1967/68, with the introduction of a course on public finance, the addition of a course on financial analysis and policy given in Spanish, and the extension of some courses.

[10] Repurchases during the fiscal year also included the equivalent of $24 million in gold. (See Table 34, p. 104.)
[11] See Supplementary Note A, pages 104-105.

As in previous years, the Fund organized a series of lectures and discussions in Washington for a group of trainees from the Centro de Estudios Monetarios Latinoamericanos (CEMLA) in connection with their program on central banking and monetary policies and provided staff lecturers for the CEMLA program on financial analysis and problems in Mexico City. A seminar for Brazilian university professors of economics was held in Rio de Janeiro, jointly with the International Bank for Reconstruction and Development (IBRD), just prior to the 1967 Annual Meetings; the Fund also conducted a seminar for professors from French-speaking countries in Europe and nearby Africa in Aix-en-Provence in November 1967.

During the year, the Fund again organized meetings for the review of Ghana's aid requirements, while staff representatives participated in and provided documentation for meetings of Indonesia's donors and creditors convened by the Netherlands and France. Staff members also took part in meetings of consortia and consultative and other groups considering the coordination of aid to individual countries, held under the auspices of the IBRD or the Organization for Economic Cooperation and Development.

Proposed Distribution of Net Income

On August 7, 1968, at a late stage in the preparation of this Report, the Executive Directors agreed to recommend to the Board of Governors a distribution of net income. As indicated on page 111 in Supplementary Note A, net income earned in the fiscal year ended April 30, 1968 amounted to $55,743,725, which had been transferred provisionally to the General Reserve. The Executive Directors' recommendation proposed that $18,285,244 of this net income be allocated to the General Reserve and that the remainder, equal to $37,458,482, be distributed to members at a rate of 1½ per cent on the amount by which 75 per cent of each member's quota exceeded the average of the Fund's holdings of the member's currency during the fiscal year ended April 30, 1968, i.e., to members that had a super gold tranche position in the Fund during the past fiscal year. This recommendation to the Board of Governors is being submitted for action at its Annual Meeting, September 30 to October 4, 1968. If approved, this will be the first occasion on which a distribution of net income will have been made under the provisions of Article XII, Sections 6(*a*) and (*b*), of the Fund Agreement.

Part II

REVIEW OF THE YEAR

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Chapter 4

World Trade, Payments, and Reserves

World Trade

Principal Changes

THE value of world trade rose by 5 per cent in 1967, about one half the growth rate achieved in the three previous years (Table 1) and close to the lowest annual increase in this decade. The unit value of trade declined slightly from 1966 to 1967, reversing the trend that had prevailed since 1962, and the deceleration in the growth of trade was therefore less pronounced in volume terms than in value. It is estimated that the volume of trade increased by 5½ per cent from 1966 to 1967, compared with 7½ per cent in the previous year.

The slowdown of trade, which was particularly marked from the third quarter of 1966 until the third quarter of 1967, can be traced largely to the easing of demand conditions in Europe and, later and more briefly, in North America. In total, industrial-country imports rose by 6 per cent in value from 1966 to 1967, a smaller increase than in any year since 1961. The exports of industrial countries increased at about the same rate as their

TABLE 1. GROWTH IN VALUE OF IMPORTS AND CHANGES IN TRADE BALANCES OF MAJOR AREAS, 1964-67

(Changes from preceding period, at annual rates) [1]

	1964	1965	1966	1967	1966 First half	1966 Second half	1967 First half	1967 Second half
					Per cent			
Growth in value of imports								
World [2]	12	9	10	5	8	9	5	2
Industrial countries	12	9	11	6	10	8	4	5
North America	10	15	19	6	20	14	3	3
Continental Europe	12	9	9	3	7	5	1	5
United Kingdom	14	1	3	7	2	—	13	1
Japan	18	3	17	22	17	24	20	22
(Industrial countries' imports from primary producing countries)	(11)	(4)	(8)	(4)	(9)	(5)	(3)	(5)
Primary producing countries	12	9	7	4	4	10	5	−5
					Billion U.S. dollars			
Changes in trade balances [3]								
Industrial countries [4]	0.8	0.6	−1.3	−0.3	−1.2	0.6	2.1	−4.7
Primary producing countries	−1.4	−2.1	—	−0.1	0.6	−1.5	−1.3	4.0
Total, industrial and primary producing countries [4, 5]	−0.6	−1.5	−1.3	−0.4	−0.6	−0.9	0.8	−0.7

Sources: International Monetary Fund, *International Financial Statistics;* Organization for Economic Cooperation and Development, *Over-All Trade by Countries;* Fund staff seasonal adjustments.

[1] Half-yearly figures are seasonally adjusted changes from the previous half year, and the average of these changes will therefore differ from the annual changes shown in the left-hand part of the table.

[2] Excluding CMEA countries, mainland China, etc. (see footnote 1, p. 27).

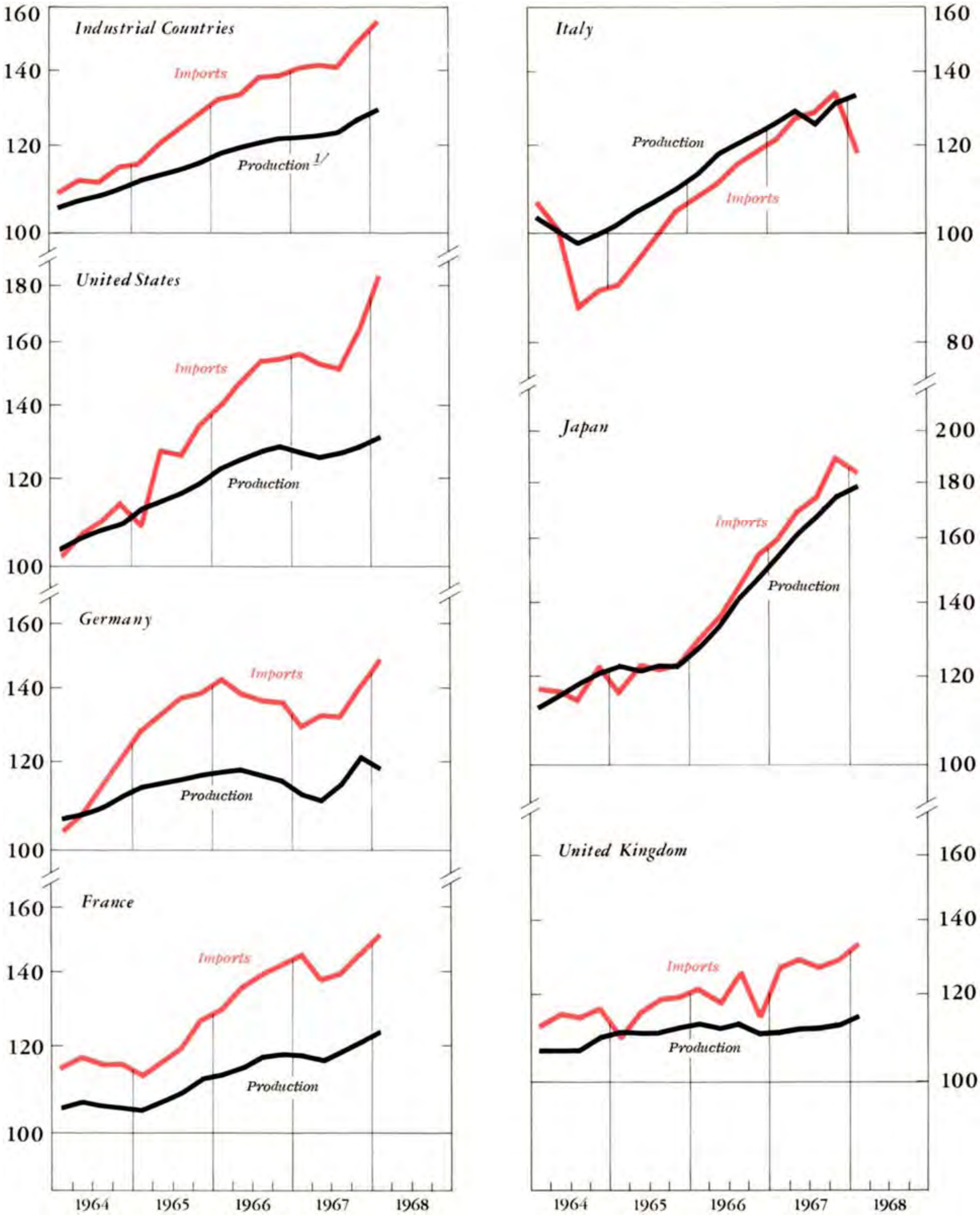
[3] Trade balances are based on customs data, exports f.o.b. less imports c.i.f.

[4] Excludes U.S. Department of Defense shipments.

[5] Figures reflect changes in balances of trade with CMEA countries, mainland China, etc., changes in expenditures on insurance and freight, and miscellaneous statistical discrepancies.

CHART 4. INDUSTRIAL COUNTRIES: VALUE OF IMPORTS AND INDUSTRIAL PRODUCTION, 1964–FIRST QUARTER 1968

(1963 = 100; seasonally adjusted)



[1]Country indices weighted by total imports in 1963.

imports, inasmuch as the slowing of their imports from primary producing countries was matched, for 1967 as a whole, by a slowing of their exports to these countries. The value of total imports of primary producing countries rose by 4 per cent from 1966 to 1967, about the same as the increase in their exports.[1]

Although the annual trade balance of industrial countries and of primary producing countries, taken as groups, thus changed little from 1966 to 1967, there were major swings in the balances of the two areas during this period of slowdown in world trade. The trade balance of industrial countries improved considerably in late 1966 and the first half of 1967, when the growth of their imports from primary producing countries was slackening and their exports to these countries continued to rise at a faster pace. In the second half of 1967 and early 1968, the renewed growth of industrial-country imports from primary producing countries, together with an abrupt fall in the imports of those countries, led to a large decline in the industrial countries' trade balance and a corresponding reversal of the earlier deterioration in the balance of the primary producing countries.

Impact of Economic Activity on Trade

The development of imports into industrial countries was clearly related to underlying shifts in economic activity, as indicated in Chart 4 by seasonally adjusted industrial production. German imports reached a peak in the early part of 1966 and then declined well into 1967 in line with the fall in industrial production. In most other continental European countries, production and imports grew more slowly or declined during this period, although the changes were generally later and less marked than in Germany. During the second half of 1967 and the first part of 1968, the renewal of economic growth led to a strong recovery of imports into Germany and most of the European countries that had experienced stagnant or declining output in 1966 and earlier in 1967. The main exceptions in Europe to this cyclical pattern were Italy and the United Kingdom. In Italy the rapid growth of industrial production continued until mid-1967 and then became erratic; imports increased through 1967 and declined in the first quarter of 1968. The development of imports into the United Kingdom was greatly influenced by the removal of import surcharges in November 1966; this caused imports to be postponed and to rise sharply in the first part of 1967 despite the relatively flat trend of industrial production. U.K. imports rose again in late 1967 and early 1968.

In Japan strong economic growth continued in 1967 and supported a further rapid increase in imports throughout the year. However, the strong rising trends of production and imports have been interrupted in 1968 under the impact of the policies of restraint adopted by the Japanese authorities.

Import demand in the United States had also expanded with domestic activity during 1966, but during the first half of 1967, when total output was rising more slowly and industrial production fell below the level of late 1966, a decline in U.S. imports was added to the weakness that had already developed in European markets. In the fourth quarter, U.S. imports again began to rise strongly and continued to do so in the early months of 1968. Although this rise, like that

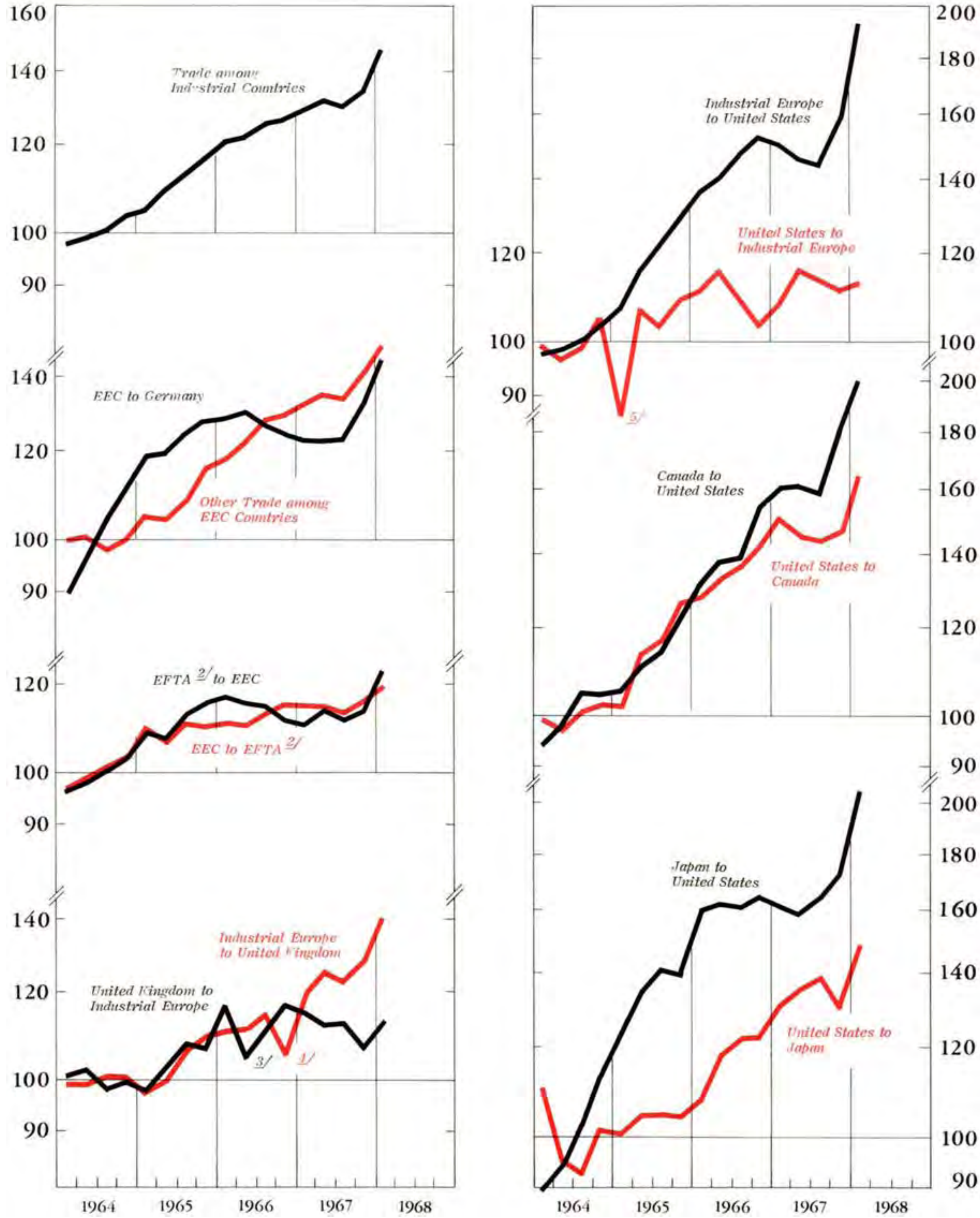
[1] For convenience of analysis this Report employs the classification, industrial countries and primary producing countries. Industrial countries in this grouping are Austria, Belgium, Canada, Denmark, France, the Federal Republic of Germany, Italy, Japan, Luxembourg, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, and the United States; primary producing countries are all of the remainder with the exception of CMEA countries, mainland China, etc., generally not covered in the Report because of the absence of data. (Members of the Council for Mutual Economic Assistance are Albania, Bulgaria, Czechoslovakia, Eastern Germany, Hungary, Mongolia, Poland, Rumania, and the Union of Soviet Socialist Republics. In addition to these countries and mainland China, the territories generally not covered include Cuba, North Korea, and North Viet-Nam.) 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.

CHART 5. TRADE FLOWS BETWEEN SELECTED INDUSTRIAL COUNTRIES AND AREAS, 1964–FIRST QUARTER 1968[1]

(*1964 = 100; seasonally adjusted*)



[1] Based on export data.
[2] Excluding the United Kingdom and Portugal.
[3] U.K. seamen's strike.
[4] Removal of U.K. import surcharge.
[5] U.S. dock strike.

which had emerged in Europe, mainly reflected the renewed upsurge of output, the U.S. import level was inflated at the end of 1967 and early in 1968 by some temporary influences, particularly an unusually large volume of metal imports related to the copper strike and to anticipation of a possible strike in the steel industry.

The earlier downturn of imports in Germany and the United States strongly conditioned the pattern of trade flows among the industrial countries (Chart 5). The slowdown of demand in Germany—which was of central importance in European developments—led to a striking decline in its imports from other EEC countries from mid-1966 until late 1967. Other flows of trade among EEC countries, including exports from Germany, continued to increase but at a less rapid pace than before, reflecting not only the impact of the German recession on economic activity in the other EEC economies but also the slow growth of domestic demand in France, Belgium, and the Netherlands. As trade among EEC countries slowed down, exports from the continental EFTA countries to the EEC also tended to decline; trade in the opposite direction had increased in late 1966 but drifted downward through the first three quarters of 1967.

The over-all sluggishness of industrial markets on the European continent during most of 1967 was an important part of the export picture for many countries outside this area—but most especially for the United Kingdom, whose exports to Europe declined throughout 1967 while its imports from Europe were rising sharply. The steep upward trend of Europe's exports to the United States during 1965 and 1966 was abruptly reversed during the first three quarters of 1967 and, in line with the easing of demand pressures in the United States at that time, U.S. exports to Europe (to the EEC as well as to the United Kingdom) rose markedly during the first half from their low level in late 1966. These developments produced a substantial but temporary improvement in the U.S. balance of trade with Europe, but they also added to the deflationary tendencies on the European continent and aggravated the United Kingdom's external difficulties. Japan's exports to the United States slowed down early in 1966, coinciding with the upsurge of domestic demand in Japan, and declined during the first half of 1967. Trade between the United States and Canada leveled out or declined through most of 1967.

The recovery in the trade of industrial countries that began during the second half of 1967 and continued into 1968 was, like the earlier slowdown, particularly marked in the imports of the United States and Germany. However, the imports of most other industrial countries recovered more or less simultaneously in an unusually strong surge of industrial-country trade. The imports of Japan and Italy continued to rise strongly in the second half of 1967 but the growth was interrupted in early 1968.

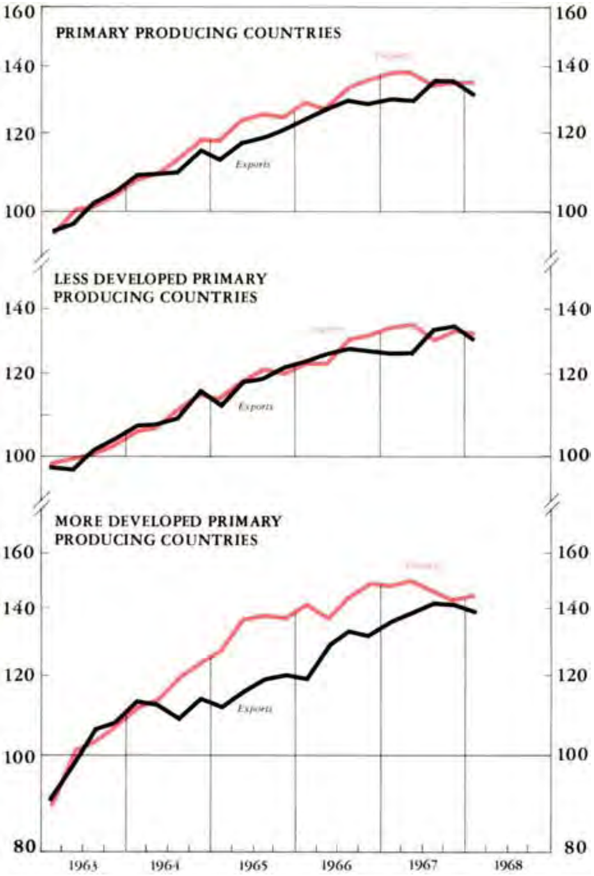
The value of industrial-country imports from primary producing countries had leveled off toward the end of 1966 and increased relatively little for almost a year (see Chart 20). The slackened intensity of demand in the industrial countries cut back the growth in volume of their imports, and there was also a tendency for commodity prices to decline through most of 1967 (see Charts 21 and 22). The latter development, in turn, was reflected in the unit values of exports from primary producing countries and in their terms of trade, which from 1966 to 1967 deteriorated substantially in most primary producing areas. The year-end upswing of demand in the industrial countries brought with it some strengthening of commodity prices, and the value of industrial-country imports from most primary producing areas increased strongly in the fourth quarter of 1967.

The movement in total exports of primary producing countries (Chart 6) was broadly similar to that in their export trade with the industrial world. There was little change in the level of their exports from the third quarter of 1966 through most of 1967, except for a sharp increase in exports from the Middle East after the hostilities there. The increase from 1966 to 1967 in exports from all primary producing countries was only 3 per cent, compared with 8 per cent in the previous year. These data reflect mainly the behavior of exports from the less developed countries; by and large, the more developed primary producing countries fared much better, and the rise in their total exports from 1966 to 1967, amounting to 8 per cent, was almost as large as that in the previous year.

There was a tendency for imports of primary producing countries to decline in the second half of 1967, bringing about a marked improvement in

CHART 6. TRADE OF PRIMARY PRODUCING COUNTRIES, 1963–FIRST QUARTER 1968

(1963 = 100; seasonally adjusted)



trade balances during the year. The developments on the import side reflected, to a considerable extent, adjustments to declines in export earnings. This was especially so for some countries in Africa and Latin America, where the authorities attempted to meet deteriorating payments situations by measures ranging from devaluation to import controls. But in many of the primary producing countries the upward movement of imports through the first half of 1967, and the subsequent decline, can be attributed to other factors: abnormal food shipments to Asia in the first part of 1967, fluctuations in U.S. strategic shipments to Southeast Asia, and, during the second half of 1967, the disruption of Europe's trade with many developing countries caused by the closing of the Suez Canal and the U.K. dock strike. The U.S. dollar value of imports into primary producing countries was also reduced late in the year as a consequence of the devaluation of sterling and certain other currencies.

Chapter 6 includes a fuller discussion of the trade of primary producing countries in 1967.

Exports and Trade Balances of Industrial Countries

As a consequence of the much reduced rate of industrial expansion and the slower growth or decline in the imports of primary producing countries, the export markets of almost all industrial countries rose considerably less from 1966 to 1967 than from 1965 to 1966 (Table 2). Disparities in the growth of different countries' export markets were much smaller than from 1965 to 1966, ranging from 4 per cent to 7 per cent, compared with 6 per cent to 17 per cent. The growth of export markets from 1966 to 1967 was particularly small for countries that direct a large part of their exports to Germany. Germany's own export markets increased relatively rapidly, and the strong increase in the United Kingdom's imports that followed removal of import surcharges was an important factor in the favorable market growth experienced by Sweden and Denmark.

TABLE 2. INDUSTRIAL COUNTRIES: GOWTH OF EXPORT MARKETS AND EXPORTS, 1966 AND 1967

(Percentage changes from preceding year; countries ranked by growth of exports in 1967)

	1965 to 1966		1966 to 1967	
	Market growth [1]	Increase in exports	Market growth [1]	Increase in exports
All industrial countries [2]	10.3	10.3	5.6	5.6
Norway	6	8	5	11
Canada	17	18	5	10
Germany	11	13	7	8
Italy	9	12	4	8
Netherlands	8	6	5	8
Japan	13	16	6	7
Austria	8	5	6	7
Switzerland	11	11	5	7
Sweden	9	8	7	6
United States [2]	11	10	6	5
France	8	8	4	4
Belgium-Luxembourg	9	7	4	3
Denmark	7	6	7	3
United Kingdom	9	7	6	−2

Source: International Monetary Fund and International Bank for Reconstruction and Development, *Direction of Trade*.

[1] 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 CMEA countries, mainland China, etc. 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 total exports going to that market. Except for CMEA countries, mainland China, etc., 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 CMEA countries, mainland China, etc., is taken to be the actual growth in its exports to those areas.

[2] Excluding U.S. strategic exports, mainly to Southeast Asia, for which data on the country of destination are withheld. Such exports increased sharply from 1965 to 1966 and fell sharply in 1967. Including such shipments, the actual growth of U.S. exports was 11 per cent from 1965 to 1966 and 4 per cent from 1966 to 1967.

For most countries, the smaller rise of exports from 1966 to 1967 than from 1965 to 1966 was roughly in line with the decline in the rate of growth of their export markets, with little evident change in export performance. The large increase in Norway's exports relative to the growth of its markets was accounted for by the timing of ship deliveries. There was an unusually rapid increase in Canada's exports from 1966 to 1967, as a consequence of larger exports of automobiles and parts under the agreement with the United States. The agreement also led to a sizable increase in U.S. exports to Canada, but this was not sufficient to arrest the moderate declining trend in the U.S. share of industrial-country exports.

The United Kingdom's exports have grown less rapidly than its export markets for a number of years. In 1967, the decline of 2 per cent in the United Kingdom's exports, while its markets expanded by 6 per cent, was to a considerable extent attributable to the impact of the dock strikes, the closing of the Suez Canal in the second half of the year, and to the effect of the devaluation of sterling in reducing the U.S. dollar value of exports in November and December. However, apart from these special factors, some weakening of the U.K. export performance in industrial markets had already become evident in the latter half of 1966 and intensified in the first half of 1967, as export availabilities in Germany, the United States, Sweden, and some other countries improved.

As a result of the various changes in the pattern of world trade, there were major shifts in the trade balances of Germany, Japan, and the United Kingdom from 1966 to 1967 (Table 3). The widening of Germany's merchandise surplus by $2.3 billion was more than matched by reductions of $1.5 billion in the trade positions of both the United Kingdom and Japan. Among the other EEC countries, there was virtually no change in the trade balance of France, and a decline of $0.4 billion in the Italian balance was nearly equaled by increases in those of Belgium-Luxembourg and the Netherlands. There were also small changes among the other European industrial countries.

TABLE 3. INDUSTRIAL COUNTRIES: GROWTH IN VALUE OF EXPORTS AND CHANGES IN TRADE BALANCES, 1966 AND 1967

(Changes from preceding year or half-year; half-year figures seasonally adjusted and expressed as annual rates)

	1966	1967	1966 First half	1966 Second half	1967 First half	1967 Second half
			Per Cent			
Growth in value of exports						
United States[1]	10	5	7	6	10	−4
Canada	18	10	17	14	17	−6
EFTA countries[2]	7	2	4	9	7	−13
of which United Kingdom	*7*	*−2*	—	*14*	*1*	*−23*
EEC countries	10	7	8	9	7	4
of which Germany	*13*	*8*	*13*	*15*	*6*	*5*
Japan	16	7	23	12	5	6
Total	10	6	9	9	8	−2
			Billion U.S. dollars			
Changes in trade balances						
United States[1]	−1.8	0.2	−1.5	−0.8	1.2	−0.9
Canada	—	0.2	0.1	0.1	0.3	−0.3
EFTA countries[2]	0.3	−1.4	—	0.6	−0.5	−2.1
of which United Kingdom	*0.4*	*−1.5*	*−0.1*	*1.0*	*−1.0*	*−1.9*
EEC countries	0.2	2.2	—	1.2	1.9	−0.5
of which Germany	*1.7*	*2.3*	*0.8*	*1.9*	*1.4*	*−0.1*
Japan	—	−1.5	0.3	−0.5	−0.7	−1.0
Total	−1.3	−0.3	−1.2	0.6	2.1	−4.7

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

[1] Excludes U.S. Department of Defense shipments. Including these shipments, the U.S. trade balance declined by $0.2 billion from 1966 to 1967.

[2] Excluding Portugal.

In the early months of 1968 the Japanese trade balance improved substantially as the policies of restraint began to take hold, and there was also an improvement in Italy's trade balance. In the United Kingdom, however, imports continued to rise, and, despite a strong recovery in the dollar value of exports from the very low fourth-quarter level, the trade balance in the first five months of 1968 was little different from its average level in the second half of 1967. In the United States a striking decline in the trade balance in the last quarter of 1967 was extended into 1968. In the first five months of 1968 the trade surplus (seasonally adjusted) was at an annual rate of $1.0 billion, in contrast to a rate of $4.7 billion for the first three quarters of 1967. While the level of imports in early 1968 was inflated by special factors, it was evident that the trade position of the United States had undergone a sharp deterioration, thus posing a new and substantial problem for the achievement of equilibrium in the balance of payments.

Balance of Payments Developments

Although there was little change in the merchandise trade balance of the group of industrial countries from 1966 to 1967, a deterioration in their balance on services and private transfer payments and a substantial increase in the net outflow of capital led to a widening of their over-all deficit from $0.6 billion in 1966 to $3.3 billion in 1967 (Table 4).[2] The surplus recorded by primary producing countries was $0.7 billion in 1967, virtually unchanged from the previous year, and thus over-all deficits exceeded surpluses by $2.5 billion in the combined statement for all reporting countries. The statistical treatment of the liquidation of the United Kingdom's portfolio of dollar securities accounted for $0.5 billion of this discrepancy, and a further $1.6 billion resulted from the decline in world monetary gold holdings.

This reduction of $1.6 billion in gold holdings, stemming from private gold purchases in excess of supplies to the market in the form of new production and sales by the U.S.S.R. less purchases by mainland China, was a major feature of world monetary developments in 1967. In 1966, there was virtually no change in world monetary gold holdings; in earlier years, there had been a net increase in these holdings that was reflected in a moderate excess of surpluses over deficits averaging some $0.6 billion a year.

[2] The external positions of particular industrial countries are discussed below, but it may be noted here that the main component of the change in their over-all balance was the serious worsening in the position of the United States.

Primary Producing Countries

Among the more developed primary producing countries, over-all positions were not greatly changed from 1966 with the exception of South Africa, where a $0.2 billion deterioration in the balance resulted largely from a surge of imports following removal of most import restrictions. Australia's current account balance worsened, but an enlarged inflow of capital served to keep the over-all position close to balance. New Zealand's current account deficit remained at about the same high level as in 1966, and the pressure on its reserve position was again alleviated by borrowing abroad. There was a tendency for the merchandise trade positions of European primary producing countries to strengthen, as a result of continued increases in the exports of most countries while imports generally declined. The flow of capital to these countries declined by slightly more than the improvement in their current account balance so that the small deficit in their over-all position widened somewhat.

The payments position of the less developed countries showed a modest improvement from 1966 to 1967, but this was concentrated in a few countries that benefited from rather special circumstances. Among the primary producing countries of the Western Hemisphere, the most usual pattern was one of a worsening in merchandise trade balances that was not quite offset by an increase in receipts of capital. The over-all surplus of the area was concentrated in Argentina, where gross reserves were increased by the proceeds of large foreign borrowings and by a favorable swing in short-term flows, and in Venezuela, where oil sales increased in the wake of the Middle East crisis. In the Middle East, most countries were in over-all surplus in 1967. The surpluses recorded by Jordan and Israel were particularly high. Imports fell off sharply in both countries during the third quarter, and reserves were further strengthened by emergency capital assistance to Jordan and unusually high private remittances to Israel

TABLE 4. BALANCE OF PAYMENTS SUMMARY, 1966 AND 1967 [1]
(In billions of U.S. dollars)

	Current Balance [2]		Capital Balance		Over-All Balance [3]	
	1966	1967	1966	1967	1966	1967
Industrial countries	**7.3**	**7.3**	**−7.9**	**−10.5**	**−0.6**	**−3.3**
Primary producing countries	**−6.3**	**−7.8**	**7.1**	**8.5**	**0.8**	**0.7**
Australia, New Zealand, and South Africa	−0.7	−1.1	1.0	1.1	0.2	−0.1
European countries	−1.2	−0.9	1.1	0.7	−0.1	−0.2
Total, more developed countries	−1.9	−2.0	2.1	1.8	0.2	−0.3
Western Hemisphere	−1.2	−1.6	1.1	2.0	—	0.4
Africa	−0.7	−0.6	0.8	0.5	0.1	−0.1
Middle East	−0.5	−0.3	0.7	0.7	0.2	0.5
Asia	−2.0	−3.3	2.4	3.5	0.4	0.2
Total, less developed countries	−4.4	−5.9	5.0	6.8	0.6	1.0
Excess of deficits (—)	1.1	−0.6	−0.8	−2.0	0.2	−2.5
Change in monetary gold					—	−1.6
Treatment of U.K. portfolio liquidation [4]				−0.5		−0.5
Other asymmetries and errors					0.2	−0.4

Sources: Data reported to the International Monetary Fund and staff estimates.
[1] For balance of payments details, see Supplementary Note B, Tables 37-46.
[2] Balance on goods, services, and private transfers; government transfer payments are included in capital account.
[3] In this statistical presentation the over-all balance of payments is generally that financed by changes in net Fund positions and in official gold and foreign exchange holdings, as shown in *International Financial Statistics.* In most cases foreign exchange holdings are net of liabilities arising from swap transactions with other central banks and with the Bank for International Settlements. Advance repayments of foreign debt by governments are also treated as a financing item. For the United Kingdom the over-all balance is that financed by the official monetary movements included in item H of Table 44 in Supplementary Note B; for the United States it is that financed by "official reserve transactions" as published by the U.S. Department of Commerce, and by advance repayments received on foreign debt; for Germany the constituent figures comprise the "change in over-all central reserve position" as published in the *Monthly Report* of the Bundesbank, and, in 1966, the advance repayment made on foreign debt.
Discrepancies that become evident when all countries' balances are added together result not only from errors in reporting and the lack of balance of payments data for a number of countries, but also from changes in world monetary gold holdings and from inconsistencies in the treatment of some important transactions, principally in reserve currencies, in the balance of payments statistics of the countries concerned. See, for example, footnote 4, below.
[4] Of the excess of deficits over surpluses in 1967 shown in this table, $0.5 billion reflects asymmetrical treatment of the liquidation of the U.K. portfolio of U.S. securities. This transaction gave rise to a capital outflow and an increased over-all deficit in the U.S. accounts, but does not affect the accounts shown for the United Kingdom.

following hostilities. Most of the African countries were in weaker payments positions than in 1966 as a result of the rapid drop in their exports to industrial countries that has been noted in the previous section. There was also a tendency for payments balances to deteriorate in the Asian countries, the principal exceptions being Korea and the Republic of China.

Industrial Countries

In most industrial countries the changes in current account positions (Table 5) from 1966 to 1967 were dominated by the evolution of their merchandise trade. Changes in aggregate net flows of service payments and private transfers were relatively small and, in most cases, were in line with the trend of recent years. One significant exception occurred in North America, where the U.S. travel account deteriorated by some $450 million and Canada's improved as much, mainly because of travel to Expo 67. Despite the pronounced slowdown of trade from 1966 to 1967, the industrial countries' total receipts and payments on transportation account appear to have recorded much the same increase as in the previous year, reflecting in part the higher ocean freight rates that prevailed in the second half of 1967. An interruption in the rising trend of outpayments for tourism and workers' remittances from Germany and some other European industrial countries had unfavorable repercussions on the payments positions of Italy and of the southern European primary producing countries.

Japan's over-all payments position was close to balance in 1967 as in 1966, inasmuch as the

TABLE 5. INDUSTRIAL COUNTRIES: BALANCE OF PAYMENTS SUMMARY, 1966 AND 1967 [1]

(In billions of U.S. dollars)

	Current Balance		Capital Balance		Over-All Balance	
	1966	1967	1966	1967	1966	1967
United Kingdom	0.4	−0.9	−2.0	−0.4	−1.6	−1.3
United States	4.1	3.5	−4.3	−6.9	−0.2	−3.4
Total	4.5	2.6	−6.3	−7.3	−1.8	−4.7
Germany	0.8	3.2	−0.3	−3.1	0.6	0.1
France	0.1	0.1	0.4	0.2	0.5	0.3
Italy	2.2	1.9	−2.0	−1.3	0.3	0.6
Belgium-Luxembourg	—	0.3	0.1	—	—	0.2
Netherlands	−0.1	—	0.2	0.2	—	0.2
Total, EEC countries	3.0	5.4	−1.6	−4.1	1.4	1.3
Canada	−0.9	−0.2	0.6	0.2	−0.3	—
Japan	1.4	—	−1.4	−0.1	—	−0.1
Austria	−0.2	−0.1	0.2	0.3	—	0.2
Switzerland	0.1	0.2	−0.1	−0.1	0.1	0.1
Denmark	−0.2	−0.3	0.2	0.2	—	−0.1
Norway	−0.1	−0.2	0.2	0.3	0.1	0.2
Sweden	−0.2	−0.1	0.3	−0.1	0.1	−0.2
All industrial countries	7.3	7.3	−7.9	−10.5	−0.6	−3.3

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

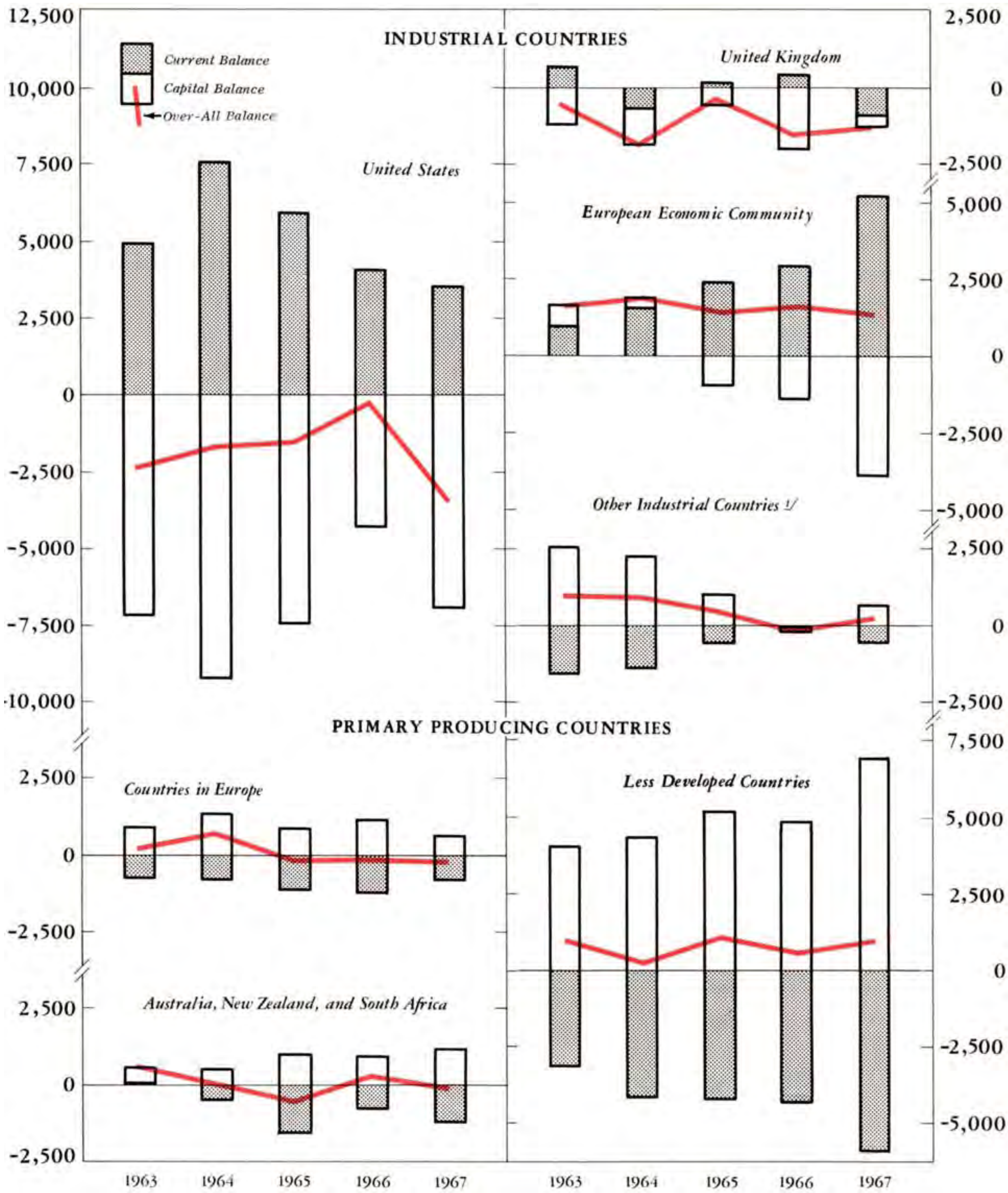
[1] The classification of items differs in some cases from that used in national publications and other sources. For definitions of "current," "capital," and "over-all" balances, see notes to Table 4. Detailed balance of payments statements are given in Supplementary Note B. For France the figures above relate to transactions with countries outside the French franc area, for which 1967 details are given in the first column of Table 39.

deterioration in its current account was just about offset by a major reversal of short-term capital flows. In Europe, Germany's current account surplus was nearly matched by a capital outflow of $3.1 billion, much of it in long-term forms, compared with an outflow of $0.3 billion in 1966. The over-all surplus declined from $0.6 billion in 1966 to $0.1 billion in 1967. Changes in the capital flows of other continental European industrial countries were considerably smaller. These changes led to a net outflow of $0.3 billion from these countries (compared with an outflow of $0.6 billion in 1966) and to an improvement of $0.4 billion in their over-all surplus, offsetting most of the reduction in Germany's surplus. That is to say, the increase in continental Europe's current account surplus was slightly more than matched by an increase in the outflow of capital, and the over-all surplus of the area declined moderately to $1.5 billion.

For the United States, an increase in capital outflows from $4.3 billion in 1966 to $6.9 billion in 1967, combined with some deterioration on current account, led to the large over-all deficit of $3.4 billion; this was in contrast to the deficit of $0.2 billion in 1966, when the tightening of credit conditions led to a massive inflow of banking funds and contributed to a substantial reduction in the net outflow of capital. The "liquidity" deficit of the United States widened by somewhat less, from $1.4 billion in 1966 to $3.6 billion in 1967. The deterioration on this basis was held down by an increase in net foreign official investment in non-liquid U.S. liabilities from $0.8 billion in 1966 to $1.3 billion in 1967 (Supplementary Note B, Table 45). In the United Kingdom, a reversal of short-term capital flows in the early part of 1967 led to a reduction of the capital outflow from $2.0 billion in 1966 to $0.4 billion in 1967—an improvement that more than offset the deterioration of $1.3 billion on current account but still left the United Kingdom with an over-all deficit of $1.3 billion for the year as a whole. Moreover, the United Kingdom was in surplus during the early months of 1967 when there were large short-term capital inflows. Beginning in the spring, however, the trade balance deteriorated and short-term capital began to leave the country on an increasing scale. In the second half of 1967, the over-all deficit amounted to $2.7 billion, about one half

CHART 7. SELECTED COUNTRIES AND AREAS: CURRENT, CAPITAL, AND OVER-ALL BALANCES, 1963-67

(In millions of U.S. dollars)



[1] Austria, Canada, Denmark, Japan, Norway, Sweden, and Switzerland.

of which arose from short-term capital outflows despite official support of sterling in the forward market.

These unsatisfactory developments in the external accounts of the two reserve currency countries engendered the major disturbances in the payments system that came to a head in the latter part of 1967 and early 1968. The crisis of sterling and the subsequent emergency measures to protect the dollar were products of a disequilibrium that had persisted for many years—a disequilibrium involving continuous balance of payments deficits in the reserve currency countries matched in the main by surpluses of EEC countries (Chart 7).

In the first quarter of 1968 the payments positions of the United Kingdom and the United States reflected continuing difficulties. The U.K. current account was in substantial deficit, although at a much lower level than in the fourth quarter of 1967. There were also large outflows of long-term capital during the first quarter as well as continued short-term outflows, with the result that the over-all deficit was running at much the same rate as in the fourth quarter of 1967. The most striking feature of U.S. balance of payments developments in early 1968 was the deterioration of the trade account, but there was an unusually large improvement on capital account, which served to bring the over-all deficit in the first quarter down to an annual rate of about $2 billion, from the $3.4 billion recorded for 1967. The impact of the U.S. balance of payments program on capital flows in the first quarter was evident in a $0.4 billion reduction in the claims of banks on nonresidents, in a $0.4 billion increase (over the average for 1967) in net sales abroad of securities by U.S. corporations to finance their foreign operations, and in a decline in the outflow of funds for direct investment abroad. There was an improvement in the short-term capital position in the first quarter, reflecting in part the difficulties encountered by Canada.

Canada's external position during the first quarter was subjected to severe speculative pressures. The current account balance was at about the same level as in the first quarter of 1967, but a reduced inflow of long-term capital and a large short-term outflow resulted in a deficit of $0.7 billion financed by losses of reserves and official short-term borrowing, compared with a roughly balanced position in 1967. During the second quarter there was a large return flow of funds to Canada.

In continental Europe, the principal change in current account positions in the first quarter was the sharp increase in Italy's surplus. The capital outflow from Italy continued on a substantial scale, and there was also a further increase in the outflow of private long-term funds from Germany. The French balance of payments position appears to have been strong in the first quarter, but in May and June the wave of strikes led to large capital outflows and reserve losses.

Long-term capital. Except in the United States and Germany there was little change in the long-term capital flows of industrial countries from 1966 to 1967 (Table 6). Canada was once again the main long-term borrower. Japan exported long-term capital on about the same scale as in 1966 despite the much weaker performance on current account, much of this capital outflow reflecting deferred payment credits and the increase in economic assistance to developing countries. There were relatively small alterations in the long-term capital accounts of the United Kingdom and of continental European countries other than Germany.

The long-term capital transactions of the United States resulted in an outflow of $7.0 billion—$1.1 billion larger than in 1966, with official transactions accounting for most of the increase. There were virtually no advance debt repayments to the United States by foreign governments in 1967, whereas the U.S. capital account had benefited from $0.4 billion of advance repayments in 1966. In addition, loans by the Export-Import Bank rose sharply in 1967. The smaller deterioration in the private long-term capital position was the net result of a $0.5 billion reduction in direct investment outflows (undoubtedly influenced by the voluntary balance of payments program) and a larger increase in the outflow of funds from other private transactions, including an increase of some $0.4 billion in net U.S. investment in foreign securities as well as the sale by the United Kingdom of the remaining $0.5 billion of its portfolio of dollar securities. The latter transaction was roughly matched by foreign purchases of U.S. securities.

The United States has for many years been the main exporter of direct investment funds, although there have been fairly large outflows from the United Kingdom and a substantial increase since

TABLE 6. INDUSTRIAL COUNTRIES: BALANCES ON LONG-TERM CAPITAL ACCOUNT, 1965-67

(In billions of U.S. dollars)

	Private			Official[1]			Total		
	1965	1966	1967	1965	1966	1967	1965	1966	1967
United Kingdom	−0.4	−0.1	−0.1	−0.7	−0.7	−0.6	−1.2	−0.8	−0.6
United States	−4.8	−2.4	−2.8	−3.4	−3.4	−4.2	−8.2	−5.9	−7.0
Germany	0.6	0.4	−0.5	−1.3	−1.2	−1.1	−0.8	−0.8	−1.7
France	0.4	0.2	0.1	−0.3	−0.2	−0.1	0.1	−0.1	0.1
Italy	0.2	−0.2	−0.1	—	−0.3	−0.2	0.2	−0.5	−0.4
Belgium-Luxembourg	0.1	—	0.1	−0.2	−0.1	−0.2	—	−0.1	−0.1
Netherlands	—	0.1	−0.1	—	−0.1	−0.1	—	—	−0.2
Canada	0.8	1.0	1.3	−0.1	−0.2	−0.2	0.7	0.8	1.1
Japan	−0.3	−0.7	−0.6	−0.2	−0.3	−0.4	−0.5	−0.9	−1.0
Other industrial countries	0.4	0.3	0.7	—	—	—	0.3	0.3	0.6
Total	−3.0	−1.4	−1.9	−6.2	−6.6	−7.2	−9.3	−8.1	−9.0

Sources: Data reported to the International Monetary Fund and staff estimates.
[1] Includes aid and other central government transfer payments.

1965 in the outflow of such funds from Germany. The restraint on the outflow of direct investment capital from the United States in recent years has been associated with a major increase in borrowing in Europe for the account of U.S. corporations. Such borrowing amounted to about $650 million in 1967 (see Table 12) and has been at a much higher rate in 1968. In some cases borrowing from European financial institutions has been facilitated by official credit policies.

The rapid increase in recent years in sales of international securities is described in Chapter 5. Although the funds raised in this way are often used in the country where they have been borrowed, a substantial part does give rise to net flows of long-term funds between countries. The flows cannot be traced precisely in the available statistics, but some of the pattern can be discerned. For instance, there was a substantial increase in the volume of bonds issued by Scandinavian borrowers from 1966 to 1967, and French borrowers entered the market for the first time with issues totaling $150 million. It is particularly noteworthy that borrowers in primary producing countries raised a record total of over $500 million from European sources in 1967, compared with an average of $200 million in the three preceding years.

The substantial swing in Germany's long-term capital position from 1966 to 1967 also reflected international bond transactions. The progressive easing of monetary policy in Germany during 1967 brought about a striking decline in the level of long-term interest rates (see Charts 17 and 18), both absolutely and in comparison with yields on Euro-bonds and other securities. This change in the relative attractiveness of German bonds induced German investors and others to sell such securities and acquire other issues, including Euro-bonds, that offered more attractive returns. At the same time, Germans were borrowing less in the international bond market. Thus, the striking reversal of Germany's private long-term capital account in 1967 and the continued long-term outflow in early 1968 were evidence of the working of yield incentives in international long-term capital movements. There was also a substantial flow of Italian investment funds into the Euro-bond market in 1967 and early 1968, and here again the change in relative yield indicated in Charts 17 and 18 was the moving force.[3]

Private short-term capital flows. Short-term capital flows shown in Table 7 were, of course, strongly influenced by differences in the levels of short-term interest rates among the industrial countries. In Germany, the marked easing of financial conditions in 1967 reduced domestic money market rates below the comparable rates in other important international money markets (see Chart

[3] Much of this outflow of funds from Italy appears to have been reflected in the short-term capital item "Repatriation of Italian banknotes" in the Italian balance of payments. See Supplementary Note B, Table 41.

TABLE 7. INDUSTRIAL COUNTRIES: PRIVATE SHORT-TERM CAPITAL MOVEMENTS (INCLUDING ERRORS AND OMISSIONS), 1966–FIRST QUARTER 1968

(In millions of U.S. dollars)

	1966	1967	1966 Third quarter	1966 Fourth quarter	1967 First quarter	1967 Second quarter	1967 Third quarter	1967 Fourth quarter	1968 First quarter
United Kingdom	–1,196	126	–624	–316	1,332	199	–827	–578	–451
of which									
Commercial banks	*–944*	*–424*	*–641*	*–110*	*733*	*–160*	*–433*	*–676*	*–292*
Other identified	*–215*		*–90*	*–12*	*146*	*143*	*–178*		*52*
Balancing item	*–37*	*550*	*107*	*–194*	*453*	*216*	*–216*	*98*	*–211*
United States	1,991	99	1,672	–91	–662	–368	1,502	–373	700
of which									
Commercial banks	*3,078*	*997*	*1,362*	*335*	*–654*	*–214*	*1,318*	*547*	*829*
Germany	497	–1,461	115	188	–449	–527	–136	–349	38
of which									
Commercial banks	*–97*	*–805*	*–117*	*366*	*–819*	*–245*	*–46*	*305*	*–462*
Japan	–493	943	–335	–163	374	334	39	196	354
of which									
Commercial banks	*–389*	*510*	*–309*	*–25*	*301*	*185*	*–63*	*87*	*206*
Other industrial countries	–511	–989	–603	380	–265	183	–804	–102	. . .
of which									
Commercial banks [1]	*–628*	*230*	*–206*	*10*	*354*	*238*	*–554*	*192*	. . .

Sources: International Monetary Fund, *Balance of Payments Yearbook*, and staff estimates; Bank of England, *Quarterly Bulletin;* U.S. Department of Commerce, *Survey of Current Business.*

[1] Excludes Switzerland.

15). Moreover, late in the year, when funds were tending to flow to the European continent, the Bundesbank encouraged the export of short-term capital by offering concessional rates for forward cover. In the fourth quarter of 1967 the Bundesbank entered into swap transactions with commercial banks in the amount of $632 million, under the stipulation that the swaps were not to be reversed before the end of the year, that is, not before the seasonal peak in the banks' liquidity needs had been passed (Table 8). For the whole of 1967 there was an outflow of short-term capital from Germany of $1.5 billion, which together with the outflow on long-term account almost offset the very substantial current account surplus. In Japan, on the other hand, the tightening of credit conditions led to a rise in domestic interest rates relative to short-term rates abroad, with the desired result that Japanese enterprises switched to foreign financing, borrowing almost $1 billion of short-term funds largely from U.S. banks and on the Euro-dollar market; this inflow enabled Japan to maintain a closely balanced position in its external accounts. Over 1967 as a whole the United States did not succeed in attracting a substantial flow of short-term funds, whereas in 1966, when U.S. financial conditions became extremely tight, a short-term inflow of about $2 billion had brought the over-all payments position close to balance. Italy, which had been the major exporter of short-term capital in 1966, lent less in 1967 as yields on domestic money market assets became more attractive than those on foreign claims. In 1967 the Bank of Italy did not enter into swap transactions with commercial banks on anything like the same scale as in 1966 (Table 8).

The international pattern of short-term capital flows was strongly influenced in the course of 1967 by the ebbs and flows of confidence in sterling as well as by interest rate levels. It is therefore appropriate to focus closer attention on the evolution of the United Kingdom's short-term accounts (Table 7 and Chart 16).

During the fourth quarter of 1966, the distinct improvement in the U.K. trade balance led to a resurgence of confidence in sterling, a narrowing of the discount on forward sterling, and a sharp reduction in short-term capital outflows from the high level of the third quarter. During the first quarter of 1967, when monetary conditions eased abroad, particularly in the United States and Germany, the United Kingdom experienced an inflow of private short-term capital amounting to $1.3 billion. The U.K. external accounts continued to

TABLE 8. GERMANY AND ITALY: CHANGES IN CENTRAL BANK SWAP COMMITMENTS WITH COMMERCIAL BANKS, 1965–FIRST QUARTER 1968 [1]

(In millions of U.S. dollars)

	Germany [2]	Italy [3]
1965		
I	152	294
II	−80	293
III	−144	585
IV	−17	31
Year	−89	1,202
1966		
I	—	203
II	—	24
III	—	125
IV	—	−4
Year	—	348
1967		
I	—	3
II	—	14
III	—	12
IV	632	13
Year	632	42
1968		
I	226	8

Sources: Deutsche Bundesbank, *Monthly Report,* May 1968; Bank of Italy, *Annual Reports,* 1965-67.

[1] No sign indicates increase; minus sign indicates decrease.

[2] U.S. dollar swap commitments of Deutsche Bundesbank to German credit institutions.

[3] Includes swaps with and without guaranteed rates and foreign exchange deposits with the Italian Exchange Office.

benefit from an inflow of short-term funds into the second quarter of 1967. By April the United Kingdom had repaid all short-term debt to other central banks, and in late May it repurchased almost one half of the 1964 drawing from the Fund, six months ahead of schedule.

Beginning during the second quarter of 1967, there was a growing realization that the expected improvement in the U.K. external trading position was not materializing. This was the underlying factor that weakened confidence in sterling and led to a reversal in the course of the second quarter in the direction of short-term capital flows. In the following months the continued deterioration in the trade balance, coupled with the lingering uncertainties engendered by the Middle East crisis, further eroded confidence in sterling. Another factor contributing to the pressure was the rising level of short-term rates in the United States. The main counterpart of the United Kingdom's substantial outflow seems to have been an inflow to the United States, where there was a very large increase during the third quarter in commercial banks' liabilities to their foreign branches and to other nonresidents.

The U.K. trade deficit widened ominously in September and October, and expectations concerning exports sagged with the continuation of the dock strike. In these circumstances, increases in Bank Rate taken in concert with action by other central banks to hold down rates in the Euro-deposit market could do little to restore confidence in sterling.

The 14.3 per cent devaluation of the pound sterling on November 18 left in its wake continued uncertainties about the stability of currencies generally and of the U.S. dollar and the pound sterling in particular. Although there was some return flow of funds to the United Kingdom, it was not as large as the outflows prior to devaluation and for the fourth quarter as a whole there was a $0.6 billion outflow of short-term funds. The serious weakening of confidence was also manifest in other substantial short-term flows as speculators moved funds from U.S. dollar assets into the major continental currencies and into gold.

Changes in International Reserves

The major forces underlying changes in international reserves in recent years have been the deficits in the payments balances of the United Kingdom and the United States. The strains to which these deficits gave rise became much more pronounced in 1967 and, in the effort to meet them, there was greater recourse to techniques which themselves affect the size and composition of world reserves. The transactions employed—principally swaps between central banks—added to countries' holdings of foreign exchange. These increased by $3.7 billion in 1967, despite the reduction of about $0.6 billion in the dollar value of sterling reserves which resulted from the devaluation. However, the total of countries' reserves increased in 1967 only slightly more than in 1966 because of a very large movement of gold from official to private holders and a reduction of reserve positions in the Fund (Table 9). During the first quarter of 1968, the drain on official gold holdings continued and the total of countries' reserves declined by $1.0 billion.

The reserves data considered here exclude facilities in the form of conditional credit available in the Fund and of unactivated central bank swaps.[4] With regard to the latter, it may be noted that the unused portion of swap lines rose during 1967—despite increased recourse to them—and again in March 1968, when the lines were further increased.

amounted to $0.7 billion, and especially in 1965, when such sales totaled $1.3 billion.

The largest increase in foreign currency reserves recorded for an individual country other than the United States was that of $609 million for Italy, almost entirely in U.S. dollars. In 1966 Italy's official foreign exchange holdings had declined by $235 million, but the Bank of Italy had encouraged an outflow of funds by selling a net amount of $348 million of foreign exchange to commercial

TABLE 9. SUMMARY OF CHANGES IN COUNTRIES' OFFICIAL RESERVES, 1965–FIRST QUARTER 1968
(In billions of U.S. dollars)

	1965	1966	1967	1967 First quarter	1968 First quarter
Foreign exchange	−0.5	1.4	3.7	−0.7	0.8
U.S. liabilities	*0.1*	*−0.9*	*3.3*	*0.2*	*−1.1*
U.K. liabilities	*−0.3*	*0.8*	—	*−1.2*	*1.1*
Other	*−0.3*	*1.5*	*0.4*	*0.3*	*0.8*
Reserve positions in IMF	1.2	1.0	−0.6	−0.1	—
Countries' holdings of gold	1.0	−1.0	−1.4	−0.5	−1.7
Supply [1]	*1.8*	*1.4*	*1.4*	*0.4*	*0.4*
Less private purchases	*−1.6*	*−1.4*	*−3.0*	*−0.4*	*−1.8*
Transactions with IMF, BIS, and the European Fund	*0.8*	*−0.9*	*0.2*	*−0.4*	*−0.3*
Total	1.7	1.4	1.7	−1.2	−1.0

Sources: International Monetary Fund, *International Financial Statistics,* and staff estimates.
[1] New production plus sales by the U.S.S.R. ($550 million in 1965, $15 million in 1967, and $11 million in the first quarter of 1968) less purchases by mainland China ($150 million in 1965, $75 million in 1966, and $20 million in 1967).

Reserve Components and Policies

Details of changes in the components of reserves of most industrial countries and of other regions of the world in 1966 and 1967 are given in Table 10. The increase of $3.7 billion in holdings of foreign exchange during 1967 largely reflected transactions undertaken by industrial countries as part of the effort to cope with the pressures that developed on the reserve currencies. Thus, most of the gain of more than $1.0 billion in U.S. foreign exchange holdings stemmed from swap transactions with the Bank of England undertaken to provide funds required for the defense of the pound. Also, the increase of nearly $2 billion in the foreign exchange component of the reserves of continental "Industrial Europe" was influenced by the policies of countries prepared to hold U.S. dollar assets, rather than to present dollars to the United States for conversion into gold—as happened in 1966, when net U.S. gold sales to Europe

[4] For comment on these "supplements" to world reserves, see *Annual Report, 1967,* page 11.

banks under advantageous swap contracts. In 1967 the net increase in such swap commitments was only $42 million (Table 8). In order to counter a heavy flow of dollars to the Bank of Italy in the third quarter of 1967, the Federal Reserve System drew $0.5 billion in lire on its swap line with that Bank and used the lire to repurchase dollars. Similar drawings, although on a much smaller scale, were undertaken with the central banks of Belgium, the Netherlands, and Switzerland. All these transactions had the effect of providing an exchange guarantee on the European countries' holdings of the amounts of dollars involved in the swaps. The bulk of the addition to Germany's foreign exchange holdings was also in the form of U.S. dollars. However, under the U.S.-German agreements of May 1967 on the equalization of the foreign exchange cost of U.S. troops in Germany, the United States substituted $250 million in the form of 4½-year DM-denominated treasury notes for liquid dollars; further German purchases of two notes of $125 million each were

TABLE 10. COUNTRIES' OFFICIAL RESERVES, 1966 AND 1967 [1]

(In millions of U.S. dollars)

	Net Changes in Reserves [2]								Totals, End of 1967			
	Gold		Foreign exchange		Reserve position in IMF		Total					
	1966	1967	1966	1967	1966	1967	1966	1967	Gold	Foreign exchange	Reserve position in IMF	Total
Industrial Countries												
United States	−830	−1,170	540	1,024	−278	94	−569	−51	12,065	2,345	420	14,830
United Kingdom	−325	−649	420	245	—	—	96	−405	1,291	1,404	—	2,695
Total, reserve centers	−1,155	−1,819	960	1,269	−278	94	−473	−456	13,356	3,749	420	17,525
France	532	−4	−246	367	104	−102	390	261	5,234	874	886	6,994
Germany [3]	−118	−64	537	393	181	−205	600	124	4,228	2,872	1,052	8,152
Italy [4]	10	−14	−235	609	336	−43	110	553	2,400	2,221	842	5,463
Belgium-Luxembourg and Netherlands	−59	−64	−6	575	113	−100	48	411	3,197	1,338	683	5,218
Switzerland	−201	248	281	−17	—	—	80	231	3,089	466	—	3,555
Other Industrial Europe [5]	1	−2	60	63	79	−9	140	55	1,029	2,139	368	3,537
Total, Industrial Europe	165	100	390	1,990	811	−459	1,365	1,635	19,175	9,910	3,830	32,915
Canada	−105	−31	−324	61	93	−15	−334	16	1,015	1,260	433	2,709
Japan	1	9	−100	−15	68	−82	−33	−89	338	1,454	239	2,030
Total, industrial countries	−1,095	−1,740	925	3,305	694	−462	525	1,105	33,885	16,375	4,922	55,185
Other Developed Countries												
Other European countries [6]	85	47	−134	6	46	−186	−1	−132	1,906	1,562	59	3,529
Australia, New Zealand, South Africa	205	−47	14	−150	47	45	266	−153	814	1,263	265	2,341
Total, other developed countries	290	—	−120	−145	93	−141	265	−285	2,720	2,825	324	5,870
Less Developed Countries												
Western Hemisphere	−70	15	−135	245	77	36	−130	296	1,000	2,205	229	3,435
Africa	—	160	120	−120	13	8	135	48	295	1,360	95	1,750
Middle East	−55	95	190	330	32	−3	170	422	820	2,350	96	3,265
Other Asia	−25	60	430	90	44	−19	450	131	710	3,185	82	3,975
Total, less developed countries	−150	340	605	540	167	20	625	900	2,895	9,095	501	12,490
Grand Total	−950	−1,400	1,410	3,700	954	−582	1,415	1,715	39,505	28,295	5,748	73,545

Source: International Monetary Fund, *International Financial Statistics*.
[1] Excluding CMEA countries, mainland China, etc. Totals may not add because of rounding and because some area totals include unpublished data.
[2] Positive figures are credits; negative figures are debits.
[3] Includes the Bundesbank's investment in U.S. Treasury paper ($250 million in 1967) acquired in accordance with the U.S.-German agreements of May 1967.
[4] Includes swap claims and nonmarketable U.S. Government securities.
[5] Austria, Denmark, Norway, and Sweden.
[6] Finland, Greece, Iceland, Ireland, Portugal, Spain, Turkey, and Yugoslavia. Also includes unpublished gold reserves of Greece and an estimate of gold to be distributed by the Tripartite Commission for the Restitution of Monetary Gold.

made in the first and second quarters of 1968. In 1967 the Bundesbank sold a net amount of $632 million to commercial banks at concessional swap rates, and a further $226 million was sold in the first quarter of 1968. For France, the $367 million increase in foreign currency holdings during 1967 was mainly the reflection of a speculative inflow of dollars in November estimated at $330 million. The French authorities held the dollars although this meant a deviation from the earlier customary ratio of foreign exchange to gold in French reserves. U.K. holdings of U.S. dollars increased toward the end of the year, when dollars were acquired in exchange for gold in the London market and the United Kingdom liquidated the remaining $490 million of its dollar portfolio.

Full details of the swap transactions with the Bank of England are not available, but it is known that U.S. holdings of sterling, which had declined from $0.9 billion at the end of 1966 to $0.2 billion in March 1967 as a result of repayments by the Bank of England of indebtedness incurred during the 1966 sterling crisis, rose again to $0.5 billion at the end of June and to $1.1 billion by September, and reached $1.8 billion at the time of the devaluation of sterling. However, the dollar value of sterling held as official reserves—other than that acquired through official support of the pound—was reduced by some $0.6 billion by the devaluation, and for 1967 as a whole there was virtually no change in this component of world reserves.

The $0.6 billion decline during 1967 in members' reserve positions in the Fund—which contrasts with an increase of $1.0 billion in 1966, largely caused by gold subscriptions to the Fund—mainly reflected the repurchases totaling $655 million made by the United Kingdom in May and November.

The gold subscriptions to the Fund were the major factor in the 1966 decline of countries' gold holdings. Even in the absence of gold sales by the U.S.S.R., the supply of newly available gold roughly matched the private demand for industrial and hoarding purposes.

In 1967 and early 1968, however, the private demand for gold dramatically outstripped new supply for the first time in the postwar period. Gold production was of about the same magnitude as in 1966, but private demand for gold increased from $1.4 billion to $3.0 billion. As purchases of gold for industrial use may be assumed to have risen rather moderately, most of the increase in the drain on official reserves is attributable to purchases by private hoarders and speculators. Such purchases were heavily concentrated in the final quarter of the year, notably in the week following the devaluation of sterling in November and in the second week of December.

Most of the private demand in the last two months of 1967 and up to March 15, 1968 was met by the seven actively participating members of the gold pool who continued to make gold available at prices close to $35 an ounce. Their losses are estimated at about $1½ billion in 1967, and about the same amount in 1968. Of the total loss in 1967, roughly $0.8 billion was borne by the United States and the remainder by the European members of the pool. As a rule, the gold pool members settled a particular month's transactions with the Bank of England in the following month. However, the United States chose to make a transfer in December to cover its share of the losses sustained in both November and December, so that the $1,170 million decline shown for that country for 1967 includes in full its contribution to the year's operations. Details on other transactions affecting U.S. gold holdings in 1967 are given in Chapter 7.

The decline in U.K. gold holdings, shown as $649 million for 1967, overstates that country's loss (perhaps by some $0.2-0.3 billion) as it includes the share of other European members of the gold pool in the pool's losses in December, which remained to be settled in January 1968. The gold losses incurred by Germany, Belgium, and the Netherlands largely stemmed from sales undertaken through the gold pool. The effects in 1967 of similar sales on the gold holdings of Italy and Switzerland were reduced by purchases of $85 million and $30 million, respectively, from the United States.

The increase in Switzerland's gold holdings during 1967 reflected mainly temporary swap transactions. There were also increases in the gold holdings of a number of less developed countries. The net acquisition of gold by all less developed countries amounted to $340 million in 1967, and there have been further increases in 1968.

Official Transactions and the Euro-Dollar Market

Swap transactions were the principal technique employed during the summer and fall of 1967 in the effort to preserve the parity of sterling. Large-scale operations by the monetary authorities in industrial countries, together with the Bank for International Settlements (BIS), were required at the time of the Middle East crisis to counter speculative flows of funds stemming from heavy sales of sterling that coincided with precautionary shifts of funds from the Euro-dollar market to continental centers, notably to Switzerland. To this was added the seasonal increase in the liquidity needs of commercial banks, a factor which in several countries causes transfers of foreign assets to the monetary authorities at the middle and end of each year. Concerted action, largely based on the activation of swap lines, proved effective in neutralizing the influx of funds into official reserves and in relieving shortages in the Euro-dollar market. As on earlier occasions, the BIS supported the central banks' operations and drew dollars on its swap lines with the Federal Reserve System in order to place them in the market. The Federal Reserve System also cooperated with European central banks by offering forward cover through swap drawings of dollars. For Germany such drawings in the amount of $300 million were made in connection with the swap transactions between the Bundesbank and German commercial banks. Taken together, these central bank operations amounted to some $1.4 billion during late 1967 and went far toward calming the Euro-dollar market.

Chapter 5

Developments in the Industrial Countries

THE economic slowdown that had emerged in many industrial countries[1] in the latter part of 1966 became more pronounced during the first half of 1967, but there was a widespread recovery during the second half. These movements were dominated by developments in the United States and Germany. Upward pressures on prices and wages in most of the industrial countries tended to ease during 1967, especially in Europe; in the United States, such easing as occurred was short lived.

In contrast to previous years, the direction of fiscal policy in 1967 was distinctly anticyclical in most industrial countries, being basically expansionary throughout the year in some countries and switching from expansionary to contractionary in the latter part of the year in others. In most countries, the emphasis of expansionary policies was on increases in expenditure rather than on tax changes. Monetary policies also followed an anticyclical pattern. Discount rates were generally reduced during the first eight months. In the circumstances leading up to and following the 14.3 per cent devaluation of sterling in November 1967, there were sharp increases in discount rates in a number of countries, but an important feature of this period was the deliberate effort on the part of some major industrial countries to abstain from increasing discount rates or adopting other policies of restraint. Although 14 other countries devalued at the same time as the United Kingdom or shortly thereafter, this group did not include any of the industrial countries except Denmark.

After the devaluation of sterling the gold market came under intense speculative pressure. As a result, there was a substantial drain of gold from the reserves of the United States and the other six industrial countries actively participating in the London gold pool. The heavy deficit in the U.S. balance of payments during 1967, particularly during the fourth quarter, was associated with speculative pressures; these abated only briefly after the announcement by the United States of a new and comprehensive program of balance of payments measures on January 1, 1968. On March 17 the Governors of the seven central banks actively contributing to the gold pool announced decisions resulting in the creation of a two-price system for gold (see Chapter 7). On March 19, the United Kingdom adopted a stringent budget that reflected its determination to deal with its balance of payments problem. In the United States, the Administration encountered legislative delay in the adoption of a program of fiscal restraint, the need for which was highlighted by first-quarter developments; these included growth at a rate much greater than the estimated capacity rate, strong price pressures, and a sharply reduced level of the surplus on merchandise trade. A fiscal program including both increases in income taxes and reductions in federal expenditures was finally enacted late in June.

In France, the wave of strikes that erupted in May 1968, and the wage settlements reached in that connection, affected confidence in the franc and led to substantial outflows of funds and a large decline in reserves during May and June. The measures taken to deal with these developments, and with the threat of inflation, included an increase in the discount rate, the reintroduction of exchange controls, the imposition of restrictions on capital outflows, and measures to promote exports and curb imports, as well as proposals for tax increases.

Output and Demand

The tendency toward a slowing in the growth of output and demand that had developed in most of the industrial countries during the second half of 1966 continued and intensified during the first half of 1967. Particularly noteworthy were the declines in industrial production that occurred in the United States and Germany, together with

[1] See footnote 1, page 27.

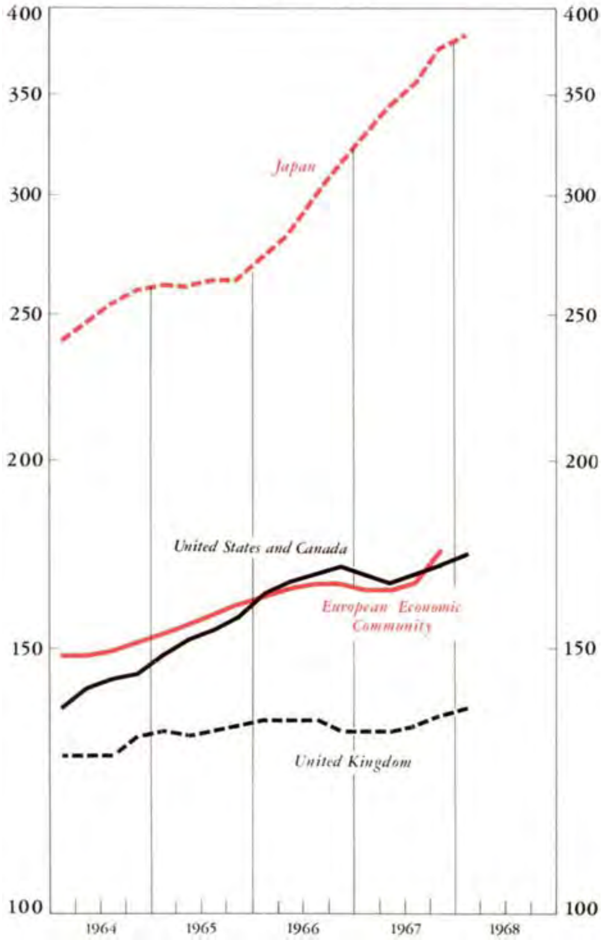
continued sluggishness in the United Kingdom (Charts 8 and 9).

From the second half of 1966 to the first half of 1967, seasonally adjusted real gross national product (GNP) increased at an annual rate of only about 1½ per cent in the United States and actually declined at a rate of about 3 per cent in Germany. These movements were influenced by sizable adjustments in business investment, primarily in inventories; such adjustments, along with a dampening of export growth, also occurred in some of the other industrial countries. Belgium-Luxembourg, Canada, France, the Netherlands, and Switzerland all sustained reductions in the rate of growth of total output during the period from late 1966 to early 1967.

The 1966-67 slowdown in many of the industrial economies—which in Europe was the most widespread and pronounced since the recession of 1957-58—stemmed in large degree from official actions. The object of these actions had been to curb price inflation and, in some countries, to correct balance of payments deficits.

CHART 8. SELECTED AREAS AND COUNTRIES: INDUSTRIAL PRODUCTION, SEASONALLY ADJUSTED, 1964–FIRST QUARTER 1968

(*1958 = 100*)

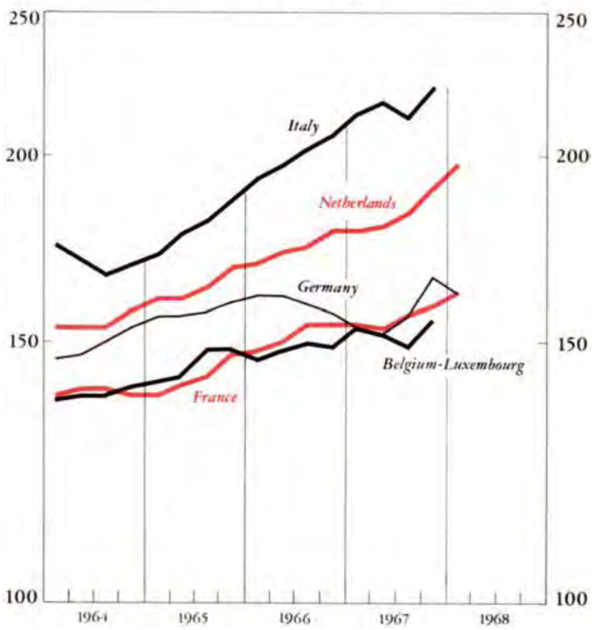


During the second half of 1967, there was a widespread recovery in the rate of growth of economic activity. In the United States, seasonally adjusted real GNP advanced at an annual rate of 4 per cent with a moderate rise in business fixed investment, a sharp increase in business inventory accumulation, and a further expansion of housebuilding, which had already recovered somewhat in the first half of the year from the severely depressed conditions of late 1966. In Germany, real GNP increased at an annual rate of approximately 5 per cent over the first half of 1967. In Belgium, Canada, France, and the Netherlands, similar recovery took place during the second half of 1967, although it started at different times and proceeded at different rates. Thus in France, although industrial production had been edging upward since July, the general slowdown probably persisted until late in 1967.

The main exceptions to this pattern of developments in 1967 were Italy and Japan. In both countries, there was a rapid expansion in output and demand during the year in continuation of the

CHART 9. EEC COUNTRIES: INDUSTRIAL PRODUCTION, SEASONALLY ADJUSTED, 1964–FIRST QUARTER 1968

(*1958 = 100*)

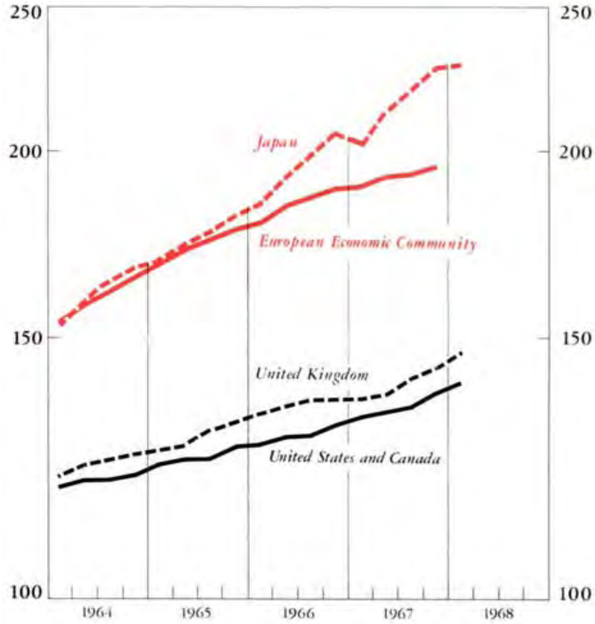


upswing which in Italy had begun in early 1966 and in Japan in late 1965. In Italy no serious problems appeared; but Japan faced increasing balance of payments difficulties and shifted from an expansionary to a contractionary fiscal and monetary policy over the year.

The course of output and demand in the United Kingdom was also rather different from that in other industrial countries. There was a slight recovery in the first quarter of 1967 that did not continue into the second. In the third quarter, consumer expenditures rose mainly under the stimulus of the relaxation of hire-purchase controls. During the fourth quarter consumer expenditures again rose substantially, partly in anticipation of restraints on consumer demand being imposed under the stabilization program following sterling devaluation and partly in anticipation of price increases reflecting the higher sterling values of imports.

CHART 10. SELECTED AREAS AND COUNTRIES: WAGE RATES, 1964–FIRST QUARTER 1968

(*1958 = 100*)



Employment, Wages, and Prices

In most of the industrial countries of Europe, unemployment increased substantially in 1967, and the rate of increase of prices was much smaller than in the previous year. In Germany seasonally adjusted unemployment rose from a low of about 0.5 per cent of the industrial labor force in the first quarter of 1966 to a high of about 2.3 per cent in the second and third quarters of 1967. In the Netherlands, seasonally adjusted unemployment rose from about 1.0 per cent to about 2.5 per cent of the total labor force over the same period. In France and Belgium the number of unemployed had been edging up in 1966 and continued to rise through much of 1967. The ease of demand for labor was reflected in the index of hourly earnings, which in most of these countries rose less in 1967 than in 1966 (Chart 10). In Italy, where the pace of economic activity remained strong, unemployment was reduced during the year and wages advanced at a faster rate than in 1966.

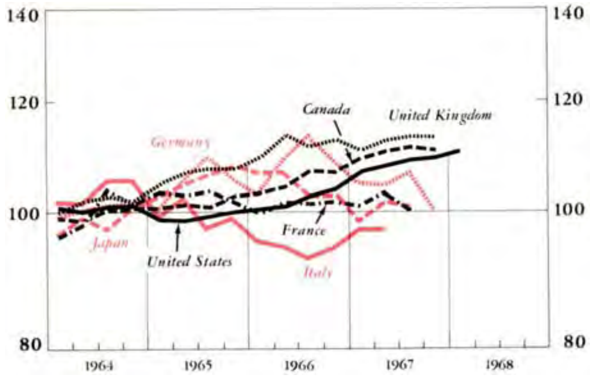
In the United States the unemployment rate remained at the reduced level of 3.8 per cent—the same as in 1966—although several other indicators (such as the insured unemployment rate, average hours worked per week in manufacturing, and the "help wanted" index) suggested that labor markets were somewhat less tight during 1967. In Canada unemployment rose and labor market pressure seemed on balance less than in 1966. The behavior of wages in both countries reflected mainly adjustments to the high demand conditions that had existed in 1965 and 1966.

In the United Kingdom unemployment rose throughout most of 1967, reaching its highest point in the postwar period, although it was only slightly higher than that recorded in 1963. Significant increases in wages did not occur until after June 1967, when the six-month period of "severe restraint" that followed the earlier six-month period of "prices and incomes standstill" came to an end.

In the United States hourly earnings in manufacturing again increased faster than output per manhour, and wage costs per unit of output (Chart 11) rose more from 1966 to 1967 than from 1965 to 1966. In Canada unit wage costs increased slightly more than in 1966. However, in Germany and the United Kingdom, unit wage costs in manufacturing increased by less than 1 per cent in the first nine months of 1967, compared with about 5 per cent in the same period of 1966. In Japan, with a sharp rise in productivity and with earnings increasing at about the same rate as in 1966, wage costs in manufacturing declined in the first nine months of 1967.

CHART 11. SELECTED COUNTRIES: WAGE COST PER UNIT OF OUTPUT IN MANUFACTURING, 1964–FIRST QUARTER 1968

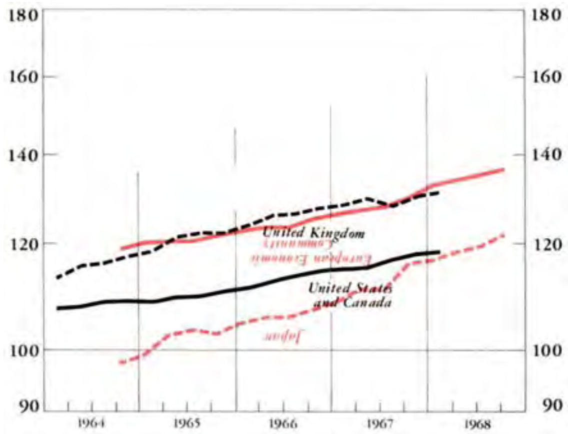
(1958 = 100)



In the United States the increase in the GNP deflator was slightly higher for 1967 as a whole than the 2.7 per cent increase recorded in 1966. However, following some moderation in the first half of the year, price increases accelerated in the second half.[2] Consumer prices increased at a slightly lower rate from 1966 to 1967 than in the previous year, with prices of services continuing to rise more than those of commodities. In Canada both the GNP deflator and the consumer price

CHART 12. SELECTED AREAS AND COUNTRIES: COST OF LIVING, 1964–FIRST QUARTER 1968

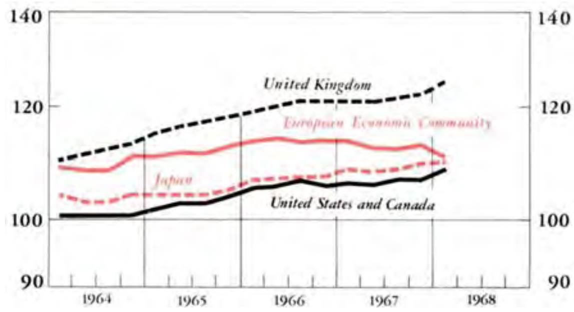
(1958 = 100)



index rose somewhat less than in 1966, primarily because of a sharp decline in the rate of increase in food prices, but upward pressures on prices remained intense. In Germany, the Netherlands, and the United Kingdom increases in consumer prices in 1967 were much less than in 1966 (Chart 12). Consumer prices also rose less in Belgium, Sweden, Switzerland, and Japan. In France these prices increased at about the same rate as in 1966. In Italy consumer prices increased at a faster rate. Wholesale prices in the industrial countries (Chart 13) generally increased less in 1967 than in 1966, in part because of the downward movement in the prices of imported commodities. There were, in fact, slight declines in the wholesale price indices of Belgium, France, and Germany.

CHART 13. SELECTED AREAS AND COUNTRIES: WHOLESALE PRICES, 1964–FIRST QUARTER 1968

(1958 = 100)



Fiscal Policy

In the circumstances prevailing during 1967, fiscal policy operated in an anticyclical manner in most industrial countries. In some countries it was expansionary through the year, while in others it was expansionary in the first half and contractionary in the second.

In Belgium, France, Germany, the Netherlands, and Sweden, fiscal policy was expansionary for the entire year, with deliberate programs being adopted in each country to promote an expansion of demand. In Germany two anticyclical programs were introduced during the year. The first, adopted in January 1967, called for an increase in depreciation allowances and the adoption of a special contingent investment budget of DM 2.5 billion. The second, adopted in the third quarter of 1967, called for additional government expenditures amounting to DM 5.3 billion and the provision of additional relief to holders of existing stocks from the turnover tax burden at the time of the transi-

[2] In the second half of 1967 and the first quarter of 1968, the increase in the GNP deflator approached the high annual rate of 4 per cent.

tion to the value-added tax system at the beginning of 1968. In France also, the budget was revised twice during 1967. While the original budget for 1967 was in balance, the first revision provided for borrowing of F 4.2 billion and the second for additional borrowing of F 3.0 billion. These reflected revenue shortfalls that were accepted for their automatically stabilizing effects. In January 1968 additional measures aimed at stimulating economic activity were adopted. These included a cut of about 5 per cent in the personal income tax on the 1967 incomes of taxpayers with less than F 50,000 of taxable income. Taxpayers were permitted to deduct the whole of the reduction in the tax from the installment due in February 1968. Provision was also made for increases in family allowances and pensions, and for additional construction of low-income housing. Following the wave of strikes in May and June 1968, it was recognized that the budgetary position would be adversely affected by increases in expenditures as well as by shortfalls in revenue. The French authorities have proposed tax increases to deal with this situation.

In the Netherlands, measures adopted to stimulate demand included supplementary government expenditures to relieve regional unemployment; for this purpose f. 600 million was made available during 1967 and 1968, of which f. 120 million was spent in 1967. In addition, revenue shortfalls were permitted to contribute to the desired stabilizing effects. In Belgium the Government obtained new powers in April to stimulate investment and industrial restructuring and to speed up regional development programs. It invoked these powers on several occasions during the year. In Sweden the authorities released for use by enterprises relatively large amounts of so-called investment funds for the financing of investment.

In the United Kingdom the direction of fiscal policy was changed during 1967. As the expected recovery of economic growth did not take place, fiscal measures of a marginal nature were adopted toward the middle of the year to stimulate economic activity. However, at the time of sterling devaluation certain measures of fiscal restraint were announced, although most of these were to become effective in 1968. These measures included an increase in the corporation tax, the termination of the export rebates, the withdrawal (except in the Development Areas) of the premiums paid to manufacturers under the Selective Employment Payments Act, and reductions in both defense expenditure and other public expenditure, including investment by nationalized industries. On January 16, 1968, an increase in the National Health Service contribution and a series of additional cuts in public expenditure, mainly on education, health and welfare, and housing and roads, were announced for 1968/69 and 1969/70. Later it was indicated that the rate of growth of public expenditure, which had been 13 per cent for public investment and 4 per cent for public consumption, would be cut to 2 per cent a year until the middle of 1969.

On March 19, 1968, the British Chancellor of the Exchequer presented the 1968/69 budget estimates, which reflected the previously announced plans for cuts in the rate of growth of public expenditure. A severe check was also imposed on private consumption. Consumer expenditure in real terms, which on a prebudget basis was expected to increase from mid-1967 to mid-1969 by about 1 per cent a year, was cut back 2 per cent per annum. A substantial part of the projected cut in consumption was to be effected through indirect taxation, including higher duties on betting and gaming; higher duties on alcoholic beverages, tobacco, and hydrocarbon oils; increased purchase taxes (up to 50 per cent for luxury goods); and higher rates for the selective employment tax. The total yield from all the increases in taxation was estimated at £775 million for the remainder of 1968/69 and at £923 million for a full year. The borrowing requirement of the Government during the fiscal year was put at £360 million, compared with £1,331 million in the fiscal year 1967/68. The Government also decided on a strengthening of the policy for prices, incomes, and dividends, backed by extended statutory powers. On the incomes side, its main feature would be a ceiling of 3½ per cent on increases in all the main forms of remuneration, excluding increases directly related to productivity.

In Canada also, the aim of fiscal policy was reversed during the year. Early in the year, tax measures that had been enacted in 1965 and in 1966 to restrain demand, especially investment, were abolished. In June the Government introduced measures that were expected to have a modest expansionary effect. However, by the beginning of the fourth quarter conditions had changed, so that new fiscal measures of an anti-inflationary nature were proposed on November 30 in a supplementary budget. These included downward adjustment of spending programs for the 1967/68 and 1968/69 fiscal years and restrictions on lending programs in order to reduce the Government's demands on the capital market. Tax measures proposed and approved included a 10 per cent rise in excise taxes on alcohol and cigarettes, and the acceleration of corporate tax payments. The proposal for a 5 per cent surcharge on personal income tax was, however, rejected by the Canadian Parliament in February 1968. Subsequently, new proposals calling for a 3 per cent surcharge on both personal and corporate income taxes were made and approved.

In the United States there was a special inflow of tax revenues during the first half of 1967 as a result of the schedule of accelerated tax payments adopted in earlier years. However, as the pace of economic activity was slow, some budgetary funds that were frozen for cyclical reasons in the autumn of 1966 were released. Also, during March there was an early restoration of the 7 per cent tax credit for investments in equipment and the accelerated depreciation on industrial and commercial building, which had been suspended for a period originally scheduled to run from October 1966 to the end of 1967.

Even at the beginning of the year, however, the U.S. authorities had anticipated a more rapid expansion of economic activity in the second half of 1967. Therefore, in presenting the 1967/68 budget estimates in January 1967, the Government declared its intention to propose some tax measures to take effect at mid-year; these included a 6 per cent surcharge on the income tax liabilities of individuals and corporations. In early August the Government proposed a surcharge at the rate of 10 per cent, as well as the postponement of the reductions in excise duties on automobiles and telephone services scheduled for April 1, 1968. These proposals remained under consideration for many months and were finally enacted on June 28, 1968 as part of a fiscal package that also included a $6 billion cut in federal expenditures.

In Japan during 1967, fiscal policies moved steadily away from the expansionary approach of the preceding year. In January and March 1967, the Government reduced its scheduled bond issues. The budget for fiscal 1967 was formulated at this time so as to have a more or less neutral effect on the economy, in contrast to the clearly expansionary effect planned for the budget for fiscal 1966. In September 1967 the Government decided to make the budgetary effect on the economy definitely contractionary by deferring 7 per cent of budgeted investment outlay.

Monetary Policy

During 1966, monetary policy in most of the industrial countries had been strongly directed toward the restraining of demand. Central bank discount rates, as well as other interest rates in money and capital markets, had risen quite sharply until the third quarter. Although market rates tended to drift downward from peak levels thereafter, they were still extremely high at the end of 1966.

The continuing economic slowdowns in the first half of 1967 led to successive declines in discount rates. All discount rate changes in the first eight months of the year were declines (Table 11 and Chart 14). During this period there were four such changes in Germany, three in Belgium and

CHART 14. DISCOUNT RATES, 1964–JULY 19, 1968

(In per cent per annum)

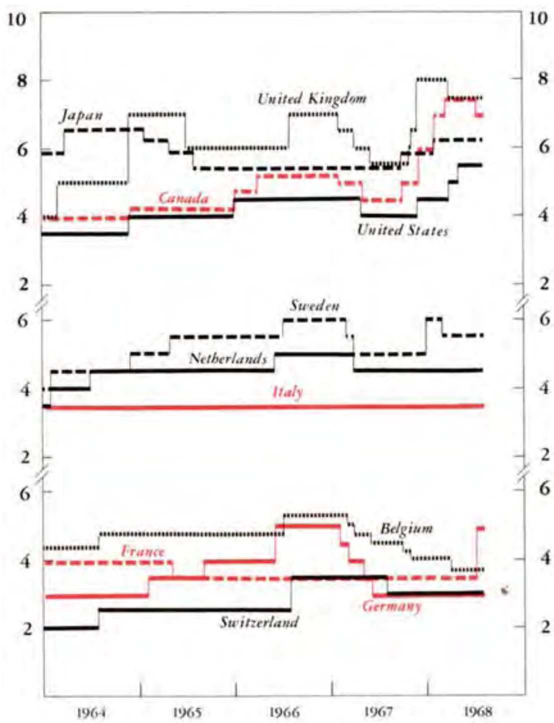


TABLE 11. SELECTED COUNTRIES: CHANGES IN DISCOUNT RATES, JANUARY 1967–JULY 19, 1968

	Date	Increase or Decrease[1] (Percentage Points)	New Rate (Per Cent Per Annum)
	January to December 1967		
Germany	January 6	−0.50	4.50
United Kingdom	January 26	−0.50	6.50
Canada	January 30	−0.25	5.00
Belgium	February 2	−0.25	5.00
Sweden	February 3	−0.50	5.50
Germany	February 17	−0.50	4.00
Sweden	March 10	−0.50	5.00
Netherlands	March 15	−0.50	4.50
United Kingdom	March 16	−0.50	6.00
Belgium	March 23	−0.25	4.75
United States	April 7	−0.50	4.00
Canada	April 7	−0.50	4.50
Germany	April 14	−0.50	3.50
Austria	April 18	−0.25	4.25
United Kingdom	May 4	−0.50	5.50
Belgium	May 11	−0.25	4.50
Germany	May 12	−0.50	3.00
Switzerland	July 10	−0.50	3.00
Japan	September 1	0.36	5.84
Belgium	September 14	−0.25	4.25
Canada	September 27	0.50	5.00
United Kingdom	October 19	0.50	6.00
Belgium	October 26	−0.25	4.00
Austria	October 27	−0.50	3.75
United Kingdom	November 9	0.50	6.50
United Kingdom	November 18	1.50	8.00
United States	November 20	0.50	4.50
Canada	November 20	1.00	6.00
Sweden	December 15	1.00	6.00
Denmark	December 19	1.00	7.50
	January to July 1968		
Japan	January 6	0.36	6.21
Canada	January 22	1.00	7.00
Sweden	February 9	−0.50	5.50
Belgium	March 7	−0.25	3.75
United States	March 15	0.50	5.00
Canada	March 15	0.50	7.50
Denmark	March 19	−0.50	7.00
United Kingdom	March 21	−0.50	7.50
United States	April 19	0.50	5.50
Denmark	June 13	−0.50	6.50
Canada	July 2	−0.50	7.00
France	July 3	1.50	5.00

Source: International Monetary Fund, *International Financial Statistics*.
[1] No sign indicates increase; minus sign indicates decrease.

the United Kingdom, two in Canada and Sweden, and one in Austria, the Netherlands, Switzerland, and the United States.

In addition to changes in discount rates, monetary and credit restraints were reduced in other ways. Thus, in the United States the Federal Reserve Board lowered reserve requirements against savings deposits and against the first $5 million of time deposits in individual member banks. In Germany the differential treatment of the foreign positions of banks for reserve requirements purposes was abolished early in 1967 and the minimum reserve requirements were themselves reduced in seven steps between December 1966 and September 1967. In the Netherlands the penalty on credit expansion over the prescribed ceilings was lowered in January and suspended in March 1967; quantitative restrictions on commercial bank loans to the private sector were removed in June. In Switzerland quantitative restrictions on expansion were lifted in September. In France terms for consumer credit were eased. The general easiness of credit during this period was reflected in some of these countries in substantial increases in bank liquidity that the central bank supported through appropriate measures, including open market operations or increases in resources provided directly to the banking system.

During the last few months of 1967 there was a sharp change in the direction of monetary policy in many industrial countries, primarily because of external considerations. In these countries discount rates were raised so that by the end of 1967 they were at, or higher than, their levels at the end of 1966. Toward the end of September 1967, in response to a rise in money market rates in sympathy with sharply rising interest rates in New York, the Bank of Canada increased the discount rate from 4½ per cent to 5 per cent. Most of the other changes in discount rates that occurred during this period were associated with the events leading up to and following the devaluation of sterling.

By May 1967 the covered differential between interest rates in international money markets and those in London had moved against the United Kingdom. As this differential continued to widen, and sterling came under pressure in exchange markets, the Bank of England raised its discount rate from 5½ per cent to 6 per cent on October 19 and to 6½ per cent on November 9. When sterling was devalued on November 18, 1967, the British discount rate was simultaneously raised to 8 per cent—the highest level since 1914. Other measures taken by the U.K. authorities at this time included the reimposition of ceilings on bank credit to the private sector (except for exports) and the tightening of hire-purchase terms.

Following sterling devaluation, the United States, Canada, and Sweden raised their discount rates and took other measures to tighten monetary policy. The United States raised the discount rate from 4 per cent to 4½ per cent on November 20 and brought about some increases in reserve requirements effective January 1968. Canada followed its end-of-September increase of the discount rate to 5 per cent by a sharp increase on November 20 to 6 per cent and again, on January 22, 1968, in the face of substantial short-term capital outflows and pressures on the exchange rate, to 7 per cent, the highest level ever reached. Earlier, on December 15, 1967, against the background of the November devaluation of sterling and the defensive actions taken by other countries not devaluing, the Swedish authorities raised the discount rate from 5 per cent to 6 per cent to meet speculative capital outflows. To counter its emerging balance of payments difficulties, Japan had started tightening monetary policy as far back as April 1967 and had raised the discount rate by 0.36 percentage point to 5.84 per cent in September 1967. As the balance of payments remained weak, the Bank of Japan raised the discount rate by a further 0.36 percentage point from January 6, 1968.

While these industrial countries acted to tighten domestic monetary conditions in defense of their currencies in the situation created by rising interest rates in the United States and by the sterling devaluation, a significant feature of this period was the continuation of monetary ease in some important industrial countries. Belgium, Germany, Italy, the Netherlands, and Switzerland maintained their existing easy money policies. Belgium, in fact, brought about two reductions in the discount rate before the U.K. devaluation, even after the upward tendency in interest rates in the United States had become apparent and while increases in discount rates were taking place in both Canada and the United Kingdom. In France, no change was made in the discount rate, although some monetary measures were taken that on balance appeared to have exerted a slightly restrictive influence on the money market. Sweden, which had raised the discount rate shortly after sterling devaluation, cut the rate from 6 per cent to 5½ per cent on February 9, 1968.

In order to strengthen the international position of the dollar and to curb inflationary pressures in the domestic economy, the United States raised the discount rate from 4½ per cent to 5 per cent on March 15, 1968, and to 5½ per cent on April 19. On March 15 Canada also raised the discount rate from 7 per cent to 7½ per cent. After the announcement of strong measures of fiscal policy in the budget, the United Kingdom on March 21 reduced Bank Rate from 8 per cent to 7½ per cent. On May 23 the U.K. authorities reorganized the ceilings on bank credit to include export credit as well. The new ceiling on bank lending to the private sector and overseas was fixed at 104 per cent of the level reached in November 1967. Canada cut the discount rate back to 7 per cent on July 2, 1968, in view of the improvement in its foreign exchange position. In France, as part of the measures taken to deal with the difficulties following the wave of strikes, the discount rate was raised on July 3 from 3½ per cent to 5 per cent, a level that had not been reached since 1958. Earlier, on June 26, the preferential discount rate on export credits had been reduced from 3 per cent to 2 per cent until June 1, 1969.

Sterling Devaluation

The devaluation of sterling in November 1967 was perhaps the most important single financial event of the year. It was undertaken because it became increasingly evident that a satisfactory rate of growth for the United Kingdom was difficult to reconcile with balance on the external accounts at the current exchange rate of sterling. The events leading up to sterling devaluation are briefly reviewed below.

By the early summer of 1966, unemployment in the United Kingdom had reached an extremely low level. Wage earnings continued to rise and the external trade deficit, aggravated by the seamen's strike in May and June 1966, remained large. Massive speculative pressure built up against sterling in June and July, and the authorities made extensive use of foreign short-term assistance. On July 20, 1966, measures were announced to eliminate excessive demand at home and check the rise in costs and prices in order to speed up the adjustment in the external accounts, and to restore confidence in sterling. These included a six-month period of "prices and incomes standstill" to be followed by a six-month period of "severe restraint." Throughout August sterling remained weak in the foreign exchange markets and the Bank of England was forced to support the exchange rate on a large scale. By September, however, confidence increased, and sterling came into demand after the announcement of a further extension of supporting facilities by foreign central banks. At the end of November 1966, the temporary surcharge on certain import duties, which had been imposed in October 1964 at the rate of 15 per cent on the c.i.f. value and reduced in April 1965 to 10 per cent, was abolished.

The United Kingdom's external position improved in the fourth quarter of 1966; this improvement continued into the first quarter of 1967, when there was some expansion in output and demand and the performance of exports was not unsatisfactory. At the beginning of the second quarter there was optimism about the course of events in the future. In presenting the budget in April, the Chancellor of the Exchequer anticipated that there would be an acceleration in the pace of economic activity. No major stimulating measures were introduced in the budget although ceilings on bank lending to the private sector were removed. Earlier in the year Bank Rate had been reduced in two equal steps from 7 per cent to 6 per cent. In May 1967 the rate was again reduced by 0.50 percentage point.

By the end of the second quarter, it was apparent that the expected acceleration in the pace of economic activity was not taking place. There was very little increase in seasonally adjusted real final demand between the first two quarters. Throughout this period, imports were high and rising and exports remained sluggish. Meanwhile, unemployment continued to grow. In order to stimulate demand, hire-purchase controls were relaxed in June and again in August 1967. Several times during the year, payments of investment grants were accelerated. When the period of "severe restraint" in prices and incomes came to an end at mid-1967, wages started to rise—sharply in July and more moderately afterward. In the third quarter, consumer expenditures increased and the rise in unemployment was checked.

In the meantime, other important developments had taken place affecting the position of sterling. In May 1967 disappointing foreign trade figures for April, rising interest rates in other financial centers, and disturbances in the Far East, together with the circumstances surrounding the British application for membership in the European Economic Community and the speculation this aroused about the future role of sterling, all tended to put pressure on sterling in exchange markets. As a result, the covered interest differential between Euro-dollars and three-month local authority deposits in the United Kingdom shifted in favor of Euro-dollars and an outflow of funds from London began. The outbreak of hostilities in the Middle East in June and the closing of the Suez Canal brought further pressure on the pound, and, as the covered interest rate differential widened, funds continued to flow out at an increasing rate.

During the third quarter of 1967, the weakening tendency in sterling continued. Dock strikes in London and Liverpool and sluggish demand conditions in Western Europe contributed to the weakening of British exports at this time. Throughout this quarter, there was a large outflow of funds from London. However, with unemployment high, the British authorities did not raise Bank Rate during this quarter. As sterling came under heavy pressure, the United Kingdom sustained large and growing losses of external reserves. The resources made available to the United Kingdom by other central banks and monetary authorities for the support of sterling became seriously depleted.

In view of the mild reflationary measures introduced during the third quarter, the growing labor disputes, the poor trade results of September, and rising interest rates in U.S. and Euro-dollar markets, pressures on sterling increased sharply in October. In an effort to stem the large foreign exchange losses, Bank Rate was increased on October 19 and then again on November 9, but these steps did not prove sufficient to restore confidence in sterling. Speculation increased and reached a climax just before devaluation took place on November 18. The pound was devalued by 14.3 per cent; its parity was reduced from £1 = US$2.80 to £1 = US$2.40.

Within ten days of the sterling devaluation, 14 other member countries also devalued.[3] Most of these were countries with close economic and financial ties with the United Kingdom; others with ties less close saw the time as opportune for taking steps that had previously become necessary. However, the U.K. action was not followed by anything like the general adjustment of exchange rates that followed the 30.5 per cent sterling devaluation in 1949.

The Short-Term Money Market

The successive reductions in official discount rates during the first three quarters of 1967, which in some countries were associated with reductions in official reserve requirements or removal of restraints on lending by certain financial institutions, presaged a general easing in the availability

[3] See Supplementary Note A, page 97, and Table 28.

of credit in most of the money markets in Europe and North America. Further, the comparatively large public sector cash deficits, and in continental European countries their substantial over-all balance of payments surpluses, also tended to increase domestic bank liquidity over the year as a whole. Consequently, commercial bank deposits in most countries rose at exceptionally rapid rates, particularly through the latter part of 1967 and early 1968. During the earlier part of 1967 in France and Germany, the growth in the money supply (currency and demand deposits) was modest, as in the United Kingdom. Nevertheless, for the year as a whole the supply of money increased markedly. In almost all the main industrial countries there was a substantially greater increase in quasi-money (largely time and savings deposits in the commercial banks). Considerably higher liquidity of households was a marked feature of monetary developments in 1967 and early 1968.

The rise in bank deposits led, however, to a substantial increase in bank liquidity, as the demand for commercial loans was, in most countries, comparatively slack. For example, in the United States business loans expanded by 10 per cent in 1967, compared with 13 per cent in the previous year, and a considerable amount of this borrowing was concentrated in the first half of the year and was associated with the accelerated corporate income tax payments. In Germany private demand for bank credit, after declining through the first half of the year in line with the recession in domestic activity, rose quickly only in the last two months of the year with the revival of activity. In Sweden the banks' net lending showed a pronounced decline in the latter part of 1966 that continued through the first half of 1967. After mid-year bank lending began to grow quickly, particularly in the form of building credits. In Belgium, also, the demand for bank credit remained sluggish particularly during the first half of the year, while in the Netherlands the demand for credit remained fairly buoyant throughout most of the year. In those countries that had initiated programs of expansion earlier, and maintained them through 1967—outstandingly Italy, and to a lesser extent France—the private demand for credit rose markedly throughout the year. In the United Kingdom, particularly after the removal of the ceiling on clearing bank advances, credit to the private sector rose steadily through the latter part of the year, and in Canada the private demand for credit was running considerably above that of the previous year.

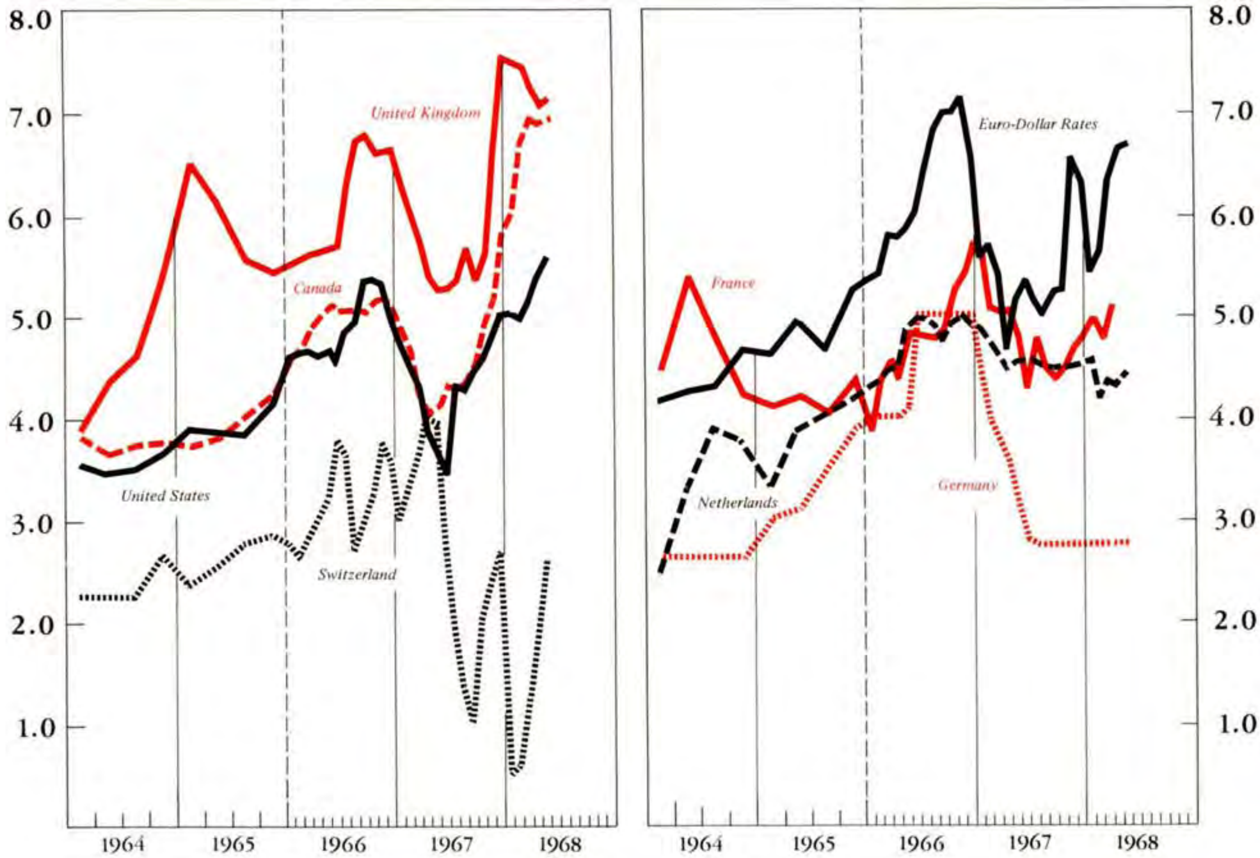
In almost all cases, however, the rise in deposits for the year as a whole outstripped the rise in bank credits to the private sector. Bank finance to the government sector, in the form of both new government issues on the securities markets and direct loans to government agencies and organizations, rose considerably during 1967. In almost all countries, with the particular exception of France, the rate of increase in financial resources to the government sector was considerably in excess of that in the previous year. In this sense the comparative ease in money market conditions (Chart 15) was an important adjunct to the growth of government expenditures, which was itself a significant element of anticyclical policy in most countries during the year.

Although the degree of variation in interest rate patterns among the various continental European countries was quite marked—reflecting in part domestic considerations and institutional differences—the general trend in rates was downward or comparatively stable. This is, perhaps, the outstanding contrast with the previous year and with developments in the reserve currency centers and in Canada and Japan. This marked pattern of interest rate movements between the two groups of countries was, nevertheless, accompanied in each by comparatively easy money supply conditions. Generally, there was a narrowing of international interest rate differentials between the two reserve currency centers and the other main industrial countries, but on a covered basis short-term interest rate differentials between the United Kingdom and the other countries widened considerably (Chart 16). The high cost of forward cover for sterling, reflecting the operation of the confidence factor, was important in this connection, particularly during the latter part of the year. The international movement of short-term funds was thus extremely complex during the year and presented the Euro-currency markets and the official network of swap arrangements and central bank intervention in the international money markets with their greatest challenges.

The Euro-currency markets bore the brunt of the movements of funds among the various international financial centers. The swap network was utilized in part to cushion the impact of private

CHART 15. SHORT-TERM INTEREST RATES, 1964–MAY 1968

(*In per cent per annum*)



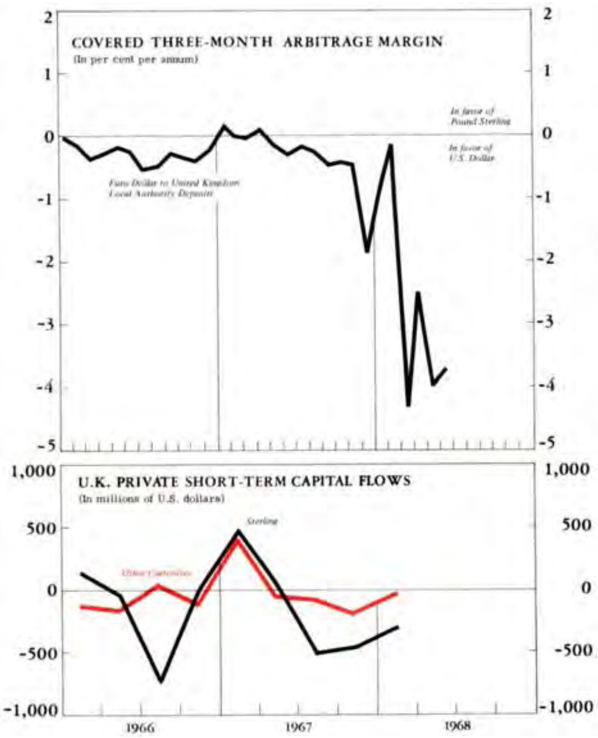
short-term capital movements on official reserves, while central bank intervention in the Euro-currency markets was an important factor in limiting the rise in interest rates in that market, which might otherwise have led to a generally higher structure of interest rates in domestic money markets.

Conditions in the international money markets—of which the Euro-currency markets are, perhaps, the most sensitive part—were generally complex during the year. Significant patterns can, however, be traced. The United Kingdom, which in the early months of 1967 experienced a large-scale inflow of funds, suffered for the year as a whole from a substantial withdrawal of short-term funds. By December 1967 the foreign currency position of U.K. banks was positive to an amount of £38 million; net liabilities in sterling to non-official holders fell by £250 million between March and December 1967. The continental Western European countries also, taken as a group, exported a considerable volume of short-term capital over the year, despite the large flow of funds into certain countries at the time of the Middle East crisis and of the devaluation of sterling. After mid-year Canada lost a considerable volume of funds, which, as in the case of the United Kingdom, went largely to the United States. The bulk of short-term funds exported by continental Western Europe was channeled through the London market [4] to the United States and Japan.

The flow of short-term funds from those countries of Europe in balance of payments surplus to the United States and Japan reflected to a considerable extent domestic interest rate developments. Despite the ample volume of credit in the United States, short-term interest rates rose relative to those in Europe and after mid-year U.S.

[4] Foreign currency liabilities of U.K. banks to Western Europe rose by £721 million in 1967, while their assets in the United States rose by £465 million and in Japan by £200 million. These figures include the effects of the appreciation of sterling values following devaluation.

CHART 16. COVERED THREE-MONTH ARBITRAGE MARGIN AND U.K. PRIVATE SHORT-TERM CAPITAL, 1966–JUNE 1968



banks were active bidders for funds in Europe; the tightening of credit conditions in Japan also pulled in funds from the rest of the world. In Canada and the United Kingdom, special factors, as well as interest rate structures that on a covered basis differed from the structure of rates in New York, led to a considerable outflow of funds.

Despite the pull of funds to New York, and the rise in interest rates there from about May onward, the rise in interest rates on Euro-dollar deposits was fairly modest until November 1967 (Chart 15). Indeed, such rates were no higher in October than they had been in February 1967—although in the course of that period they had fluctuated. To a considerable extent, the comparative stability during this period was due to the placing of substantial deposits by various central banks in the market, thus replacing funds that had been drawn out by private investors.

During the period starting shortly before the November 1967 sterling devaluation and continuing for some time, there were intense speculative movements of funds between the leading international money markets. Not only were there shifts of funds into certain currencies of Western Europe, but there was a massive demand for gold that drained substantial reserves from the active participants in the gold pool.[5] At first, rates on Euro-dollar deposits rose sharply; but the rise was short lived, partly because of the placing of official funds in the market and partly because of the fact that traditional year-end tightness was alleviated through various central banks undertaking swap transactions with their commercial banks that encouraged these banks to place funds in the market. These actions led to remarkable smoothness in the working of the market despite the confused nature of the flows of funds through it.

The Long-Term Capital Market

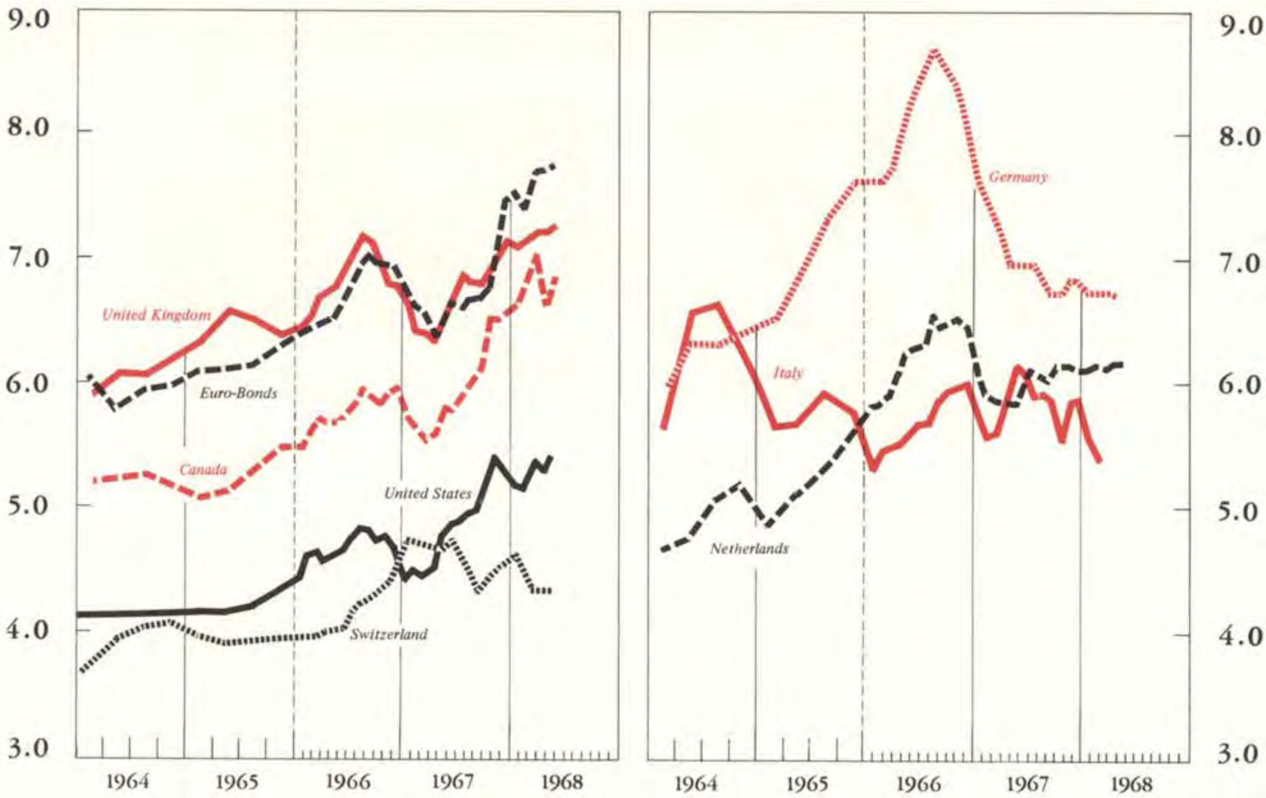
The extremely heavy pressures that were a marked characteristic of the securities markets of almost all the main industrial countries in 1966 were felt much less acutely in the first half of 1967. In general, the easing of pressures followed, and was in part caused by, the relaxation of monetary policy in some of the leading countries over the period. There was a sharp fall in short-term interest rates in the early months of 1967, as well as slight declines in the interest rate cost of long-term security issues in most of the industrial countries. Medium-term and long-term rates declined less and over a shorter period, so that the spread between long and short rates was unusually wide over much of the year.

In the United States, the Treasury's net borrowing in the second half of 1967 was exceptionally large. Private demand for funds also continued to be high as a result of uncertainty about the future movement of interest rates and of desires to restore the level of corporate liquidity lowered by the 1966 credit squeeze and accelerated 1967 corporate tax payments. At the same time, the large rise in savings by households was channeled mainly into the acquisition of short-term liquid assets rather than into the capital market proper. The securities markets were thus subjected to considerable pressure and long-term interest rates rose markedly from the second quarter of 1967 (Charts 17 and 18). Developments in the Canadian bond market tended to follow closely those in the United States. In the United Kingdom, the

[5] See Chapter 7.

CHART 17. LONG-TERM GOVERNMENT BOND YIELDS, 1964–MAY 1968

(*In per cent per annum*)



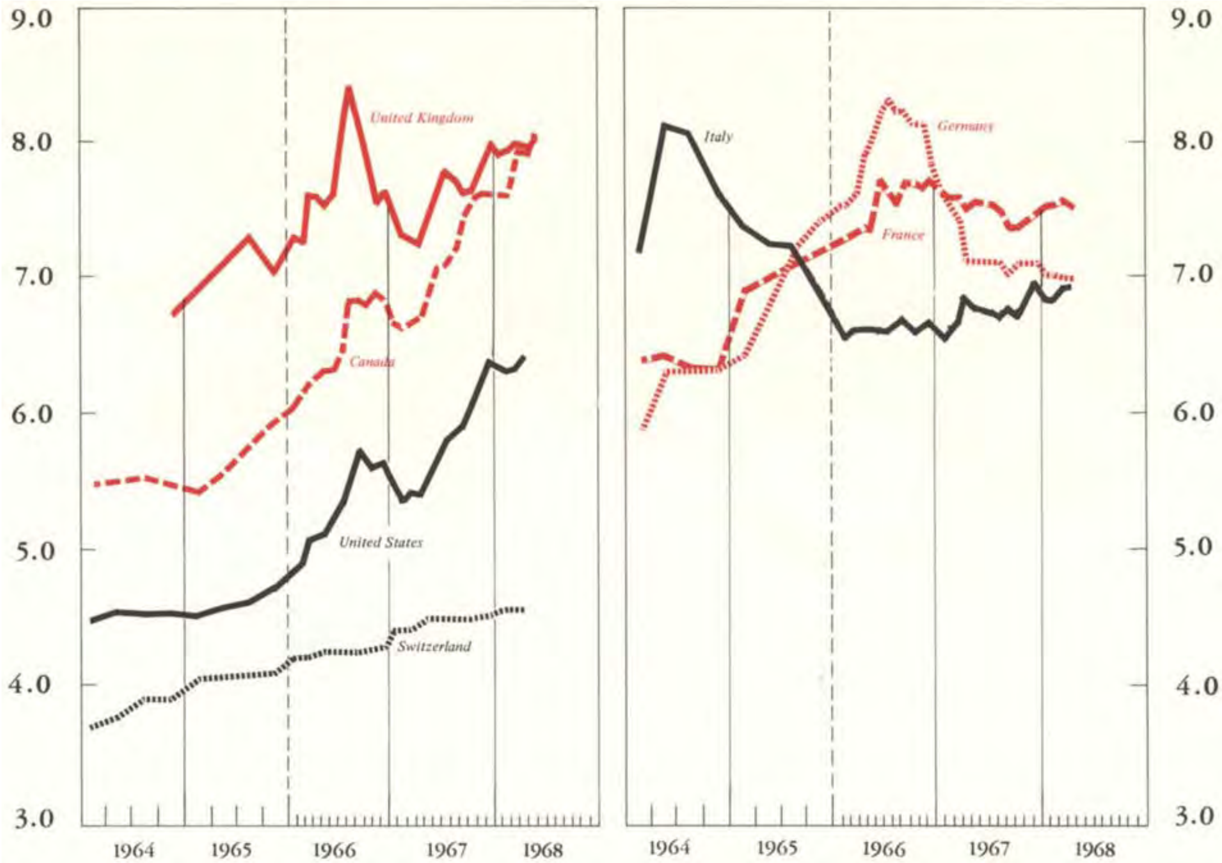
rise in rates during the second half of 1967 was dominated largely by the external situation—the rise of interest rates in North America, the weakness of the U.K. balance of payments, and the continued weakness of confidence in sterling through the summer and early autumn of 1967. The flow of new private securities to the market was considerably smaller than in the previous year. Although Exchequer borrowing was substantially higher, the fact that a considerable volume of government issues was placed with the banking system tended to mitigate the upward pressure on interest rates.

In the United States and the United Kingdom, medium-term and long-term rates were consistently higher than short-term rates until toward the end of 1967 (Chart 19) and, in contrast to most other countries, the trend in long-term rates was generally upward. In these two countries, along with Canada, the downward trend of interest rates was reversed sooner than in most other countries. Long-term rates in the United States rose from February onward; short-term rates advanced after mid-year and, by the beginning of 1968, yields on securities with two to three years to maturity were considerably above longer-term yields. In the United Kingdom, the yields on government securities reached their lowest levels in May 1967 and, thereafter, moved up steadily through the year. After the devaluation of sterling and the increase in Bank Rate to 8 per cent, long-term interest rates—which were still high—rose only slightly. The yield structure changed markedly, with short rates being considerably above long-term yields.

In continental Western Europe, bond rates declined during the first half of 1967 and remained at their reduced levels or rose slowly during the second half. Conditions in the long-term securities markets were essentially similar for this whole group of countries, with insistent demand for funds by the public sector and comparatively weak demand in the private sector. Long-term interest rates were held down by monetary policies that were deliberately aimed at preventing sharp increases in such rates at a time of comparatively

CHART 18. SELECTED COUNTRIES: INDUSTRIAL BOND YIELDS, 1964–MAY 1968

(In per cent per annum)



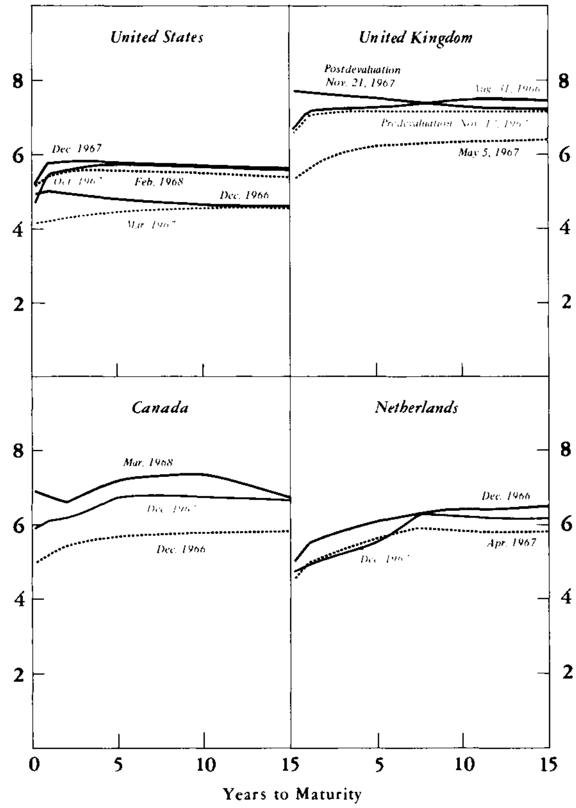
slack aggregate demand. In Germany, open market operations in 1967 were for the first time directed at the long-term end of the market. In continental European countries, the level of interest rates in the Euro-issues market indicated the floor below which any fall of domestic interest rates operated as a stimulus to an outflow of capital. Long-term interest rates were in fact maintained at comparatively low and stable levels in Italy and Switzerland, while they were falling, though still relatively high, in Germany and Belgium. As a result, there was a substantial outflow of long-term funds from these countries. In Germany, there was considerable switching out of German bonds held by foreigners into the Euro-issues market because German rates were falling and German securities became unattractive to foreigners after deduction of the 25 per cent withholding tax. In France, where yields on long-term bonds remained stable, the outflow of long-term funds was much smaller.

The international bond market in Europe has expanded rapidly in the last few years (Table 12). An important factor in this expansion since 1964 was increased borrowing by U.S. corporations for their overseas operations. In 1967, however, there was a large increase in issues by borrowers from other industrial countries, mainly on the Swiss market, and a notable growth in borrowing by primary producing countries. The increase in international issues on the U.S. securities market in 1967 was due almost entirely to larger borrowings by less developed countries and international institutions, although Canadian borrowing continued to account for a large proportion of such issues.

The large rise in U.S. corporation borrowing abroad was, of course, a direct result of the then voluntary balance of payments program of the U.S. Government. The inducement to borrow abroad was further enhanced by the rise in interest rates in the United States, so that the interest cost differential between the United States and the Euro-issues market narrowed considerably

CHART 19. TERM STRUCTURE OF INTEREST RATES

(*In per cent per annum*)



during the course of 1967. The increased flow of funds to the market resulted from the rise of interest rates in this market relative to rates in the domestic security markets of Europe, which has been discussed earlier.

New issues of international bonds reached record levels in the first half of 1968, when offerings were of much the same magnitude as recorded for the full year 1967. This growth was heavily concentrated in the European capital markets, which were called upon to absorb a massive increase in Euro-bond issues by U.S. companies and also a substantial volume of conventional foreign bond offerings by governments and international institutions.

The increased demands made by U.S. companies on the Euro-bond market stemmed, in large part, from the mandatory restraints imposed by the United States on direct investment outflows; these restraints had the effect of shifting borrowings by foreign affiliates of U.S. companies from the United States to European markets. Over the six months to June 1968, issues of Euro-bonds by U.S. companies approached $1.5 billion, contrasted with issues totaling about $0.3 billion in the corresponding period of 1967. At the same time, issues by non-U.S. companies on this market were less than half the amount recorded a year earlier.

Conventional foreign bonds offered on European markets in the six months to June 1968 totaled close to $0.5 billion, which was appreciably higher than a year earlier and about one third above the level reached in the latter half of 1967. Offerings on the German market by governments and international institutions were particularly heavy in May and June, totaling more than $0.2 billion. Switzerland was again an important market for these issues, and modest-sized offerings were placed on five other European markets.

Data available on the sources of these funds are meager, but Germany, Italy, and Switzerland seem to have been important suppliers of funds. In Germany and, to a lesser extent, Italy, official policy has encouraged long-term capital outflows to offset large current account surpluses. Over the five months to May 1968, the outflow on account

TABLE 12. NEW ISSUES OF INTERNATIONAL BONDS IN EUROPE AND NORTH AMERICA, 1963-67

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

Borrower	1963	1964	1965	1966	1967
Issued in Europe					
Industrial countries	387	603	975	1,175	1,620
EEC countries	*153*	*100*	*247*	*153*	*348*
Scandinavian countries	*125*	*258*	*237*	*102*	*197*
Japan	*59*	*199*	*35*	—	—
Other industrial countries	*23*	*33*	*60*	*78*	*151*
U.S. companies	—	—	*372*	*564*	*651*
Other international companies [1]	*27*	*13*	*24*	*278*	*273*
Primary producing countries	142	181	187	230	537
of which					
Australia, New Zealand, and South Africa	*90*	*59*	*138*	*109*	*245*
International institutions	56	175	221	657	532
of which					
European institutions	*56*	*150*	*122*	*247*	*200*
Total	585	959	1,383	2,062	2,689
of which					
Foreign bonds	*375*	*330*	*267*	*645*	*458*
Euro-bonds and other international bonds	*210*	*629*	*1,116*	*1,417*	*2,231*
Issued in the United States					
Canada	734	725	781	943	1,018
Other developed countries	581	51	108	24	15
Less developed countries	126	375	281	130	239
International institutions	—	5	200	175	510
Total	1,440	1,155	1,370	1,271	1,782
Issued in Canada	—	5	32	40	20
Grand Total	2,025	2,119	2,785	3,373	4,491

Sources: IBRD and Fund staff estimates for bonds issued in Europe; U.S. Department of Commerce for bonds issued in the United States.

[1] Including German and Italian investment companies incorporated in Luxembourg.

of portfolio investment (net) from Germany totaled $0.4 billion; German residents have taken up the great bulk of the bonds denominated in deutsche mark and in addition have purchased sizable amounts of Euro-bonds and other foreign offerings.

An important consequence of the rapid growth of the Euro-issue market has been to draw more closely together the long-term interest rate patterns of those markets that are comparatively free of controls on international capital flows. Capital markets in continental Western Europe, being comparatively free of such controls, tended to become more integrated during the year; the free flow of international capital has tended to equalize interest rates in those markets. In general, international flows of long-term capital during 1967 and early 1968 tended to be of an equilibrating nature.

Restraints on International Capital Movements

In 1967 progress in dismantling restraints on capital transfers or capital transactions was made by certain industrial countries. The United States, however, intensified its restraints on international capital transactions and the United Kingdom maintained most of its restraints.

In the United States, the voluntary capital outflow programs, first introduced in 1965, continued to operate in 1967 under generally more restrictive guidelines. The guidelines originally planned for 1968 as announced in November 1967 followed the pattern of increasing restrictiveness. In the balance of payments program announced on January 1, 1968, however, the restraints on capital outflows were strengthened and enlarged in scope. The most important change was the introduction of a mandatory program to curb direct investment abroad. It was also announced that the voluntary program for banks and other financial institutions, administered by the Federal Reserve System, was being tightened and that the Board of Governors of the System had been given stand-by authority to invoke mandatory controls should such controls become desirable or necessary. For the calendar year 1968, the new payments program as a whole was originally expected by the U.S. authorities to yield balance of payments "savings" totaling $3 billion, of which $1 billion would result from the measures to curb direct investment outflows and $0.5 billion from the tightening of the voluntary program for banks and other financial institutions.[6]

The mandatory direct investment program that became effective on January 1, 1968 provided for a moratorium on U.S. direct investment (apart from some reinvestment out of current earnings) in many developed countries in continental Europe and in South Africa (Schedule C), and limited such investment (including reinvestment out of earnings) in other countries—to 65 per cent of a base-period average in a group of developed countries outside continental Europe and some less developed countries (Schedule B) and to 110 per cent of the base-period average in most less developed countries as a group (Schedule A). In general, the "direct investment" subject to limitation includes both new capital outflows from U.S. resident direct investors to their foreign affiliates and reinvested earnings of those affiliates. Long-term funds raised abroad, however, can be invested outside the specified ceilings for the respective areas. In addition to the limitations on their investments in affiliated enterprises abroad, U.S. direct investors are subjected, by the same regulations, to mandatory repatriation of a prescribed share of total earnings and mandatory repatriation and limitation of short-term financial assets held abroad.

Under the revised program for financial institutions, the ceilings on foreign credits by banks were reduced from 109 per cent to 103 per cent of the amount outstanding at the end of 1964, except for those of banks having relatively small assets abroad. The banks were also asked (independently of their over-all ceilings) not to renew maturing term loans to developed countries of continental Europe and to reduce outstanding short-term loans to those countries by 40 per cent dur-

[6] In addition to the measures controlling capital outflows, the new U.S. payments program included a proposal for congressional action to reduce the balance of payments impact of foreign travel by U.S. residents; reductions of net government expenditures abroad partly through negotiations designed to minimize the foreign exchange costs of maintaining U.S. troops in Europe; consideration of possible legislative measures in the area of tax rebates on exports and special border tax charges, depending on the outcome of negotiations aimed at reducing the international trade impact of differences among national tax systems; more intensive efforts to promote exports; and the development of new incentives for foreign investment and travel in the United States.

ing 1968, at the rate of 10 per cent a quarter. As these reductions in loans to European countries took place, the guideline ceilings for individual banks would be reduced correspondingly. Under the new program, nonbank financial institutions were requested to reduce their holdings of covered foreign assets from the level of December 31, 1967 by at least 5 per cent. In addition, holdings of liquid funds abroad were to be reduced to zero, or to the minimum working balances required to conduct foreign business activities, even if this entailed a decline of more than 5 per cent in covered foreign assets. Nonbank financial institutions were also requested to refrain from making any new loans or investments in developed countries of continental Europe other than those to finance U.S. exports.

In March, Canada was granted exemption from these new capital-control measures, while itself undertaking (1) to insure that the exemption was not used to by-pass the U.S. program and (2) to invest its official reserve holdings of U.S. dollars (apart from necessary working balances) in nonliquid U.S. Government securities. In April, the U.S. direct investment program was amended to permit investors to carry forward into subsequent years any part of their investment quota not used up in 1968, and also to allow investors not desiring to carry unused quotas forward to shift them from Schedule C countries to countries listed in Schedules B and A, and from Schedule B countries to those in Schedule A.

During 1967 the U.S. Interest Equalization Tax was amended and extended for two years beyond July 31, 1967, and the Administration was given discretionary power to vary the effective rate of the tax within a range corresponding to interest-rate equivalents from zero to approximately 1.5 per cent per annum on the borrowed amount (or within a commensurate range on equity securities). On August 28, 1967 the rate for acquisition of equities was set at 18.75 per cent of their value, and the range of rates for acquisition of debt obligations with at least one year remaining to maturity was set at 1.31 per cent to 18.75 per cent of their value. The new rates, which applied to acquisitions made on or after August 30, 1967, correspond to an annual interest-rate equivalent of approximately 1.25 per cent, compared with 1 per cent prevailing earlier. During the year measures to prevent evasion of the tax were strengthened while the exemption granted to Japan was broadened.

In France the abolition of exchange control announced at the end of 1966 came into force in January 1967. The franc, which was externally convertible, became internally convertible. However, certain transactions, as opposed to payments, were still kept under control. For example, French direct investment abroad and foreign direct investment in France still had to be declared to the authorities, who had the right to request their postponement. However, in May 1968 France, as a temporary measure, reintroduced exchange control and restricted outward transfers on capital account.[7] Exempt from restrictions were transfers to Monaco and to the countries whose bank of issue is linked to the French Treasury by an Operations Account.[8]

In Japan measures were introduced, effective from July 1, 1967, to liberalize inward foreign investments. The new measures raised the limits under the automatic approval system applied by the Bank of Japan on stock purchased by foreigners in the securities market (for purposes other than participation in management) and also provided for an automatic approval system to be applied to direct foreign investment aimed at setting up subsidiaries or joint ventures in certain industries in Japan. The Netherlands issued various open general licenses permitting banks and nonbanks to engage freely in spot and forward transactions in foreign currencies, to deal in foreign money market paper, and to grant credit to nonresident banks. In Switzerland banks could again pay interest on all foreign funds in Swiss franc accounts and were no longer obliged to offset any net addition to foreign-held Swiss franc deposits.

[7] In addition, in June the French authorities announced certain temporary foreign trade measures. Measures to promote exports included the extension of "economic risk" insurance and the setting up of an export indemnity scheme. Measures to restrict imports included certain quota restrictions.

[8] Cameroon, Central African Republic, Chad, Congo (Brazzaville), Dahomey, Gabon, Ivory Coast, Malagasy Republic, Mali, Mauritania, Niger, Senegal, Togo, and Upper Volta.

Chapter 6

Developments in Primary Producing Countries

THE growth of output in the primary producing countries[1] was held down in 1966 by bad agricultural conditions in many areas. Weather conditions and crop prospects improved in the course of 1967 on the Indian subcontinent, in parts of South America, and in some more developed primary producing countries. Despite a worsening in some other areas, the growth of agricultural production in the primary producing regions as a whole accelerated in 1967 and early 1968. However, during 1967 this stimulus to total output was offset by the dampening effect of slower export growth and the necessity in many countries of limiting the expansion of domestic demand and curbing the growth of imports in order to protect external payments positions. Estimates of output in 1967 are not yet available for all the primary producing countries and are in any case subject to a considerable margin of error, but it seems unlikely that the increase from 1966 in these countries taken together was much different from the increase of 4 to 4½ per cent recorded from 1965 to 1966.

The exports of individual primary producing countries were influenced by a great variety of developments: changes in demand and commodity prices cut back the export earnings of many countries but were favorable to a limited number; wars and political disturbances interrupted the flow of goods, particularly petroleum, from some countries while others were able to export increased amounts; and, as usual, the weather was kinder to some parts of the world than to others. But underlying these important local influences, and conditioning the environment for virtually all primary producing countries, was the fact that the value of industrial countries' imports from them rose little from the third quarter of 1966 until late in 1967. Total exports from primary producing countries rose by only 4 per cent from 1966 to 1967, compared with 8 per cent from 1965 to 1966.

[1] See footnote 1, page 27, and footnote 1, Table 13.

Industrial Country Markets for Primary Producing Countries

In 1966, 70 per cent of exports from the primary producing regions was sold to industrial countries, roughly the same share as in 1962 (Table 13). The relative importance in 1966 of markets in industrial countries varied from 63 per cent for the less developed countries of Asia, which have substantial trade within their own region, to 82 per cent for the African countries. The movement toward closer trading relationships within various regions of the primary producing world has resulted in a rapid growth of trade within some regions: for instance, trade among Latin American countries rose by 80 per cent from 1962 to 1966 while their exports to industrial countries increased by only about 20 per cent. There has also been a striking increase in exports to CMEA countries, mainland China, etc., from most of the groups of primary producing countries shown in the table, and in total these exports were 80 per cent higher in 1966 than in 1962. (The trend for Australia, New Zealand, and South Africa is distorted by an unusually low level of Australian wheat sales to mainland China in 1966.) Nonetheless, these trade flows are still small compared with the flow of exports to industrial countries.

Imports of the United States and industrial Europe (including the United Kingdom) from primary producing countries showed a slower rise in 1966 and tended to decline during the first half of 1967 (Chart 20). Although European imports began to recover around mid-1967, those of the United States continued to decline in the third quarter and firm recovery of total U.S. imports of primary products was not established until the fourth quarter of the year. The weakness of these markets led to a marked reduction in growth, or actual reductions, of total industrial-country imports from most of the primary producing regions. The main exception to this pattern was eastern Asia, where a few countries that

TABLE 13. PRIMARY PRODUCING COUNTRIES: EXPORTS, 1962 AND 1966 [1]

(*Amounts in millions of U.S. dollars*)

	To Industrial Countries		To Primary Producing Countries: Same region		To Primary Producing Countries: Other		To CMEA Countries, Mainland China, etc.[2]		Unclassified Exports		
	Value	Percentage of total	Value	Percentage of total	Value	Percentage of total	Value	Percentage of total	Value	Percentage of total	Total Exports [3]
Exports from											
Western European countries											
1962	2,783	68.0	145	3.5	574	14.0	533	13.0	59	1.4	4,093
1966	4,092	64.6	255	3.7	863	13.6	1,075	17.0	45	0.7	6,330
Percentage increase	*47.0*		*75.9*		*50.3*		*101.7*		*−23.7*		*54.6*
Australia, New Zealand, and South Africa											
1962	3,188	71.0	203	4.5	751	16.7	164	3.7	181	4.0	4,487
1966	4,151	70.1	309	5.2	1,185	20.0	184	3.1	88	1.5	5,917
Percentage increase	*30.2*		*52.2*		*57.7*		*12.2*		*−51.4*		*31.9*
Latin America											
1962	6,541	75.6	648	7.5	1,093	12.6	199	2.3	167	1.9	8,648
1966	7,976	71.6	1,168	10.5	1,387	12.4	405	3.6	198	1.8	11,133
Percentage increase	*21.9*		*80.2*		*26.9*		*103.5*		*18.6*		*28.7*
Other Western Hemisphere											
1962	1,127	72.3	108	6.9	263	16.9	5	0.3	57	3.7	1,559
1966	1,344	78.8	117	6.9	191	11.2	—	—	54	3.2	1,706
Percentage increase	*19.3*		*8.3*		*−27.4*		—		*−5.3*		*9.4*
Africa											
1962	4,088	80.7	252	5.0	527	10.4	138	2.7	61	1.2	5,066
1966	6,280	82.1	344	4.5	739	9.7	235	3.1	51	0.7	7,648
Percentage increase	*53.6*		*36.5*		*40.2*		*70.3*		*−16.4*		*51.0*
Asia											
1962	3,820	60.0	1,226	19.3	939	14.8	318	5.0	58	0.9	6,361
1966	5,426	62.7	1,550	17.9	1,100	12.7	522	6.0	51	0.6	8,649
Percentage increase	*42.0*		*26.4*		*17.1*		*64.2*		*−12.1*		*36.0*
Middle East											
1962	3,568	67.0	332	6.2	1,075	20.2	239	4.5	113	2.1	5,326
1966	4,840	67.0	442	6.1	1,382	19.1	465	6.4	94	1.3	7,222
Percentage increase	*35.7*		*33.1*		*28.6*		*94.6*		*−16.8*		*35.6*
All primary producing countries											
1962	25,115	70.7	8,136	22.9			1,596	4.5	696	2.0	35,540
1966	34,109	70.2	11,032	22.7			2,886	5.9	581	1.2	48,605
Percentage increase	*35.8*		*35.6*				*80.8*		*−16.5*		*36.8*

Source: International Monetary Fund and International Bank for Reconstruction and Development, *Direction of Trade*.

[1] The coverage of each area in the table accords with the grouping used in *Direction of Trade* and in *International Financial Statistics*. That is to say, "Western Europe" includes Finland, Iceland, Greece, Portugal, Spain, Turkey, and Yugoslavia. "Africa" excludes the United Arab Republic as well as South Africa, and the Middle East includes Aden (South Yemen), Bahrain, Cyprus, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Muscat and Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Trucial States, United Arab Republic, Yemen, and other Arab states.

[2] Members of the Council for Mutual Economic Assistance are Albania, Bulgaria, Czechoslovakia, Eastern Germany, Hungary, Mongolia, Poland, Rumania, and the Union of Soviet Socialist Republics. In addition to these countries and mainland China, the group includes Cuba, North Korea, and North Viet-Nam.

[3] Differs from data on total trade in other tables in this Report, largely because of incomplete reporting for *Direction of Trade*.

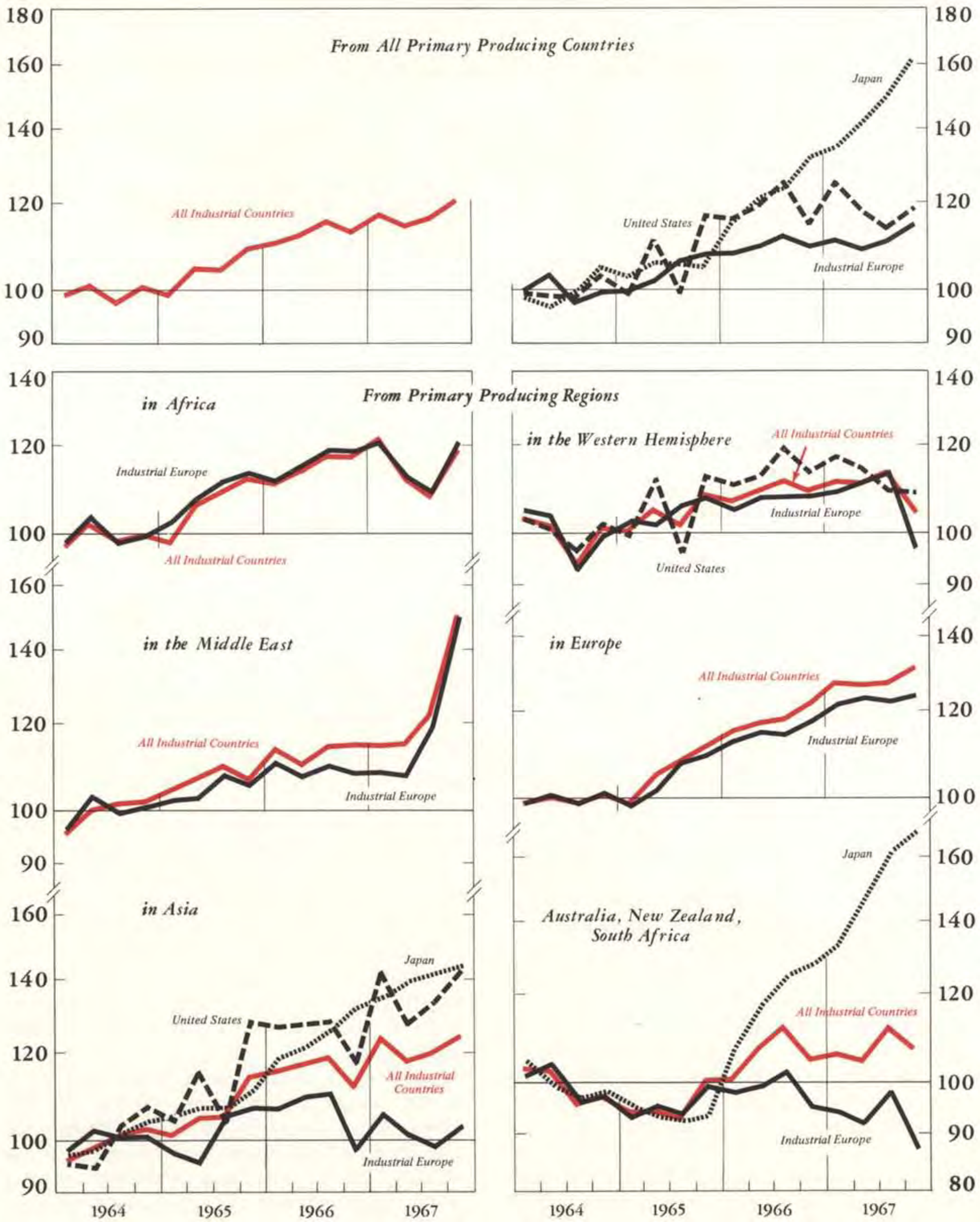
export a high proportion of manufactured goods and also trade heavily with Japan experienced continued rapid growth of their exports. Most other Asian countries did much less well in their industrial-country markets, but the strength in eastern Asia sustained a moderate upward trend in total Asian sales to industrial countries through most of 1966 and 1967.

There was a substantial decline in 1967 in the industrial countries' imports from Africa, despite a strong recovery in the fourth quarter. This area exports mainly to Europe and was severely affected by the European economic slowdown; also, the exports of a number of African countries were cut back as a result of local political developments. Industrial-country imports from the Middle East were greatly affected by the hostilities of mid-1967 and their aftermath, as well as by the slowing of aggregate demand, particularly in Europe. Total imports of industrial countries from the area were no higher in the second quarter of 1967 than a year earlier. After mid-1967, however, there was an extraordinarily rapid increase largely because of the building up of petroleum inventories in the industrial countries and of higher shipping costs.

The imports of the United States from many of the developing countries in the Western Hemisphere declined during 1967. Although the sales by these countries to Japan continued to rise steadily, and the petroleum producing countries of the region were able to ship substantial amounts

CHART 20. IMPORTS OF INDUSTRIAL COUNTRIES FROM PRIMARY PRODUCING COUNTRIES, 1964-67

(1964 = 100; quarterly, seasonally adjusted)



during the Middle East crisis, there was only a moderate increase in total industrial-country imports from the developing countries of the Western Hemisphere during 1966 and most of 1967. A decline in the fourth quarter of 1967 arose principally from the outbreak of foot and mouth disease in the United Kingdom as a result of which meat imports from countries where the disease was endemic were banned; Argentina and Uruguay were among the countries affected by the ban.

New Zealand's export receipts, suffering from the fall in wool prices, declined by about 8 per cent from 1966 to 1967. However, the exports of both Australia and South Africa rose more rapidly than from 1965 to 1966, benefiting from improved supplies of agricultural products and from substantial increases in sales to Japan, which is now Australia's largest export market. The industrial countries' imports from the European primary producing countries continued to rise until the first quarter of 1967 and then leveled out until the fourth quarter. The increase from 1966 to 1967 was 9 per cent, larger than for other primary producing areas but well below the increases recorded in 1965 and 1966.

In summary, the slower growth of demand in industrial countries, the associated declines in primary product prices, and adverse conditions in some areas had a pronounced impact on the total export receipts of most of the less developed countries in 1967. The export receipts of almost all of the more developed primary producing countries, and of a few less developed countries with substantial exports of manufactures to industrial markets (China, Korea, Hong Kong, and Israel), again expanded considerably from 1966 to 1967. There was one other major group of countries whose exports rose in value, namely, those petroleum exporting countries whose exports were enhanced as a consequence of the Middle East crisis. The value of exports of the other groups of less developed countries in Africa, Asia, the Western Hemisphere, and the Middle East declined (Table 14).

TABLE 14. PRIMARY PRODUCING COUNTRIES: CHANGES IN EXPORTS OF VARIOUS REGIONS AND GROUPS OF COUNTRIES, 1965-67

	Value of Exports (f.o.b.) in 1966 (million U.S. dollars)	Percentage Changes in Value of Exports	
		1965-66	1966-67 [1]
More Developed Countries			
Europe	6,318	13	7
Australia, New Zealand, and South Africa	5,946	8	8
Less Developed Countries			
Western Hemisphere			
Petroleum exporters [2]	3,826	—	6
All other countries	9,032	9	−2
Total, Western Hemisphere	12,858	6	—
Africa			
Petroleum exporters [3]	1,617	13	16
All other countries	5,969	6	−1
Total, Africa	7,586	7	3
Asia			
Republic of China, Hong Kong, and Korea [4]	2,110	19	17
All other countries	7,674	2	−2
Total, Asia	9,784	5	3
Middle East			
Petroleum exporters	6,257	9	10
Iran	*1,309*	—	*47*
Other countries [5]	*4,948*	*12*	*1*
Israel [4]	503	17	11
All other	1,012	4	−7
Total, Middle East	7,772	9	8
Total, All Primary Producing Countries [6]	50,570	8	4

Source: International Monetary Fund, *International Financial Statistics*.
[1] Preliminary.
[2] Netherlands Antilles, Surinam, Trinidad and Tobago, and Venezuela. Venezuela accounted for 71 per cent of the total exports of these petroleum exporters in 1966.
[3] Algeria and Libya.
[4] The exports of these countries include a high proportion of processed and manufactured goods.
[5] Aden (South Yemen), Bahrain, Kuwait, Iraq, Muscat and Oman, Saudi Arabia, Trucial States, and Qatar.
[6] Includes areas not covered above, principally in Oceania.

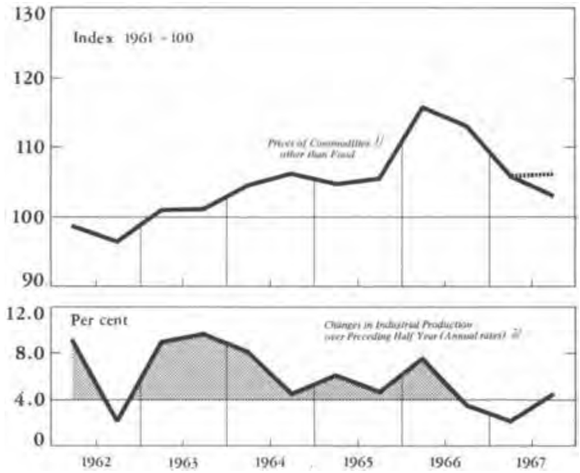
Developments in Commodity Markets

Variations in the rate of output expansion in the principal industrial countries during recent years have been reflected in the movement of prices for raw materials. Many factors influence the behavior of individual commodity prices but, as Chart 21 shows, during periods of particularly rapid growth in industrial production (weighted by each industrial country's imports) the index of prices of nonfood commodities other than petroleum has tended to rise.[2] Raw material prices increased steeply in the first half of 1966, when output in the industrial countries rose more rapidly than it had since 1964.[3] Conversely, in periods of slow growth of industrial production, such as the second half of 1966 and the first half of 1967, the

[2] Based on indices for metals and minerals and for nonfood agricultural commodities calculated by the National Institute of Economic and Social Research, London.

[3] Special circumstances in the period led to an unusually large increase in copper prices which accentuated the upward movement of the raw materials price index.

CHART 21. PRICES OF PRIMARY PRODUCTS AND CHANGES IN PRODUCTION IN INDUSTRIAL COUNTRIES, BY HALF YEARS. 1962-67



[1] Based on price indices in dollar terms, calculated by the National Institute of Economic and Social Research, London, shown in Chart 22. Dotted line shows movement in prices quoted, i.e., sterling prices are not adjusted for devaluation.

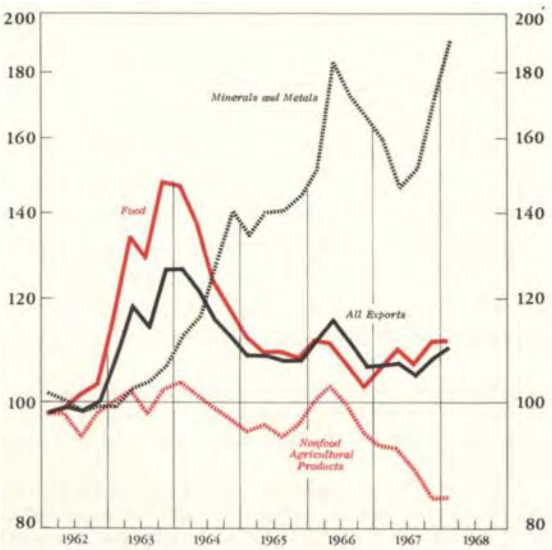
[2] Changes in production are based on industrial production indices for individual industrial countries weighted by the value of their imports in 1963.

index of raw material prices has declined. When more normal growth in the output of industrial countries has been maintained, as from mid-1964 through 1965, raw material prices have been more or less stable.

The cyclical movement in raw material prices over the last two years has been more pronounced for metals and minerals than for agricultural nonfood commodities (Chart 22). However, in recent years, the price fluctuations for minerals and metals have taken place around a rising trend, while prices of agricultural raw materials have been tending downward. Among the major raw materials traded internationally, the level of prices declined most severely from 1966 to 1967 for wool, rubber, sisal, and lead (Chart 23). Since December 1966 the maintenance of tin prices above the floor price has required intervention through the international buffer stock—for the first time since 1963. Copper prices rose steeply in 1966 when supplies were reduced by labor difficulties and political crises and, although they declined from late 1966 through the first half of 1967, they rose again thereafter largely as a result of the prolonged strike in the U.S. copper industry.

CHART 22. PRICES OF COMMODITIES EXPORTED BY PRIMARY PRODUCERS, 1962–FIRST QUARTER 1968

(1961 = 100)

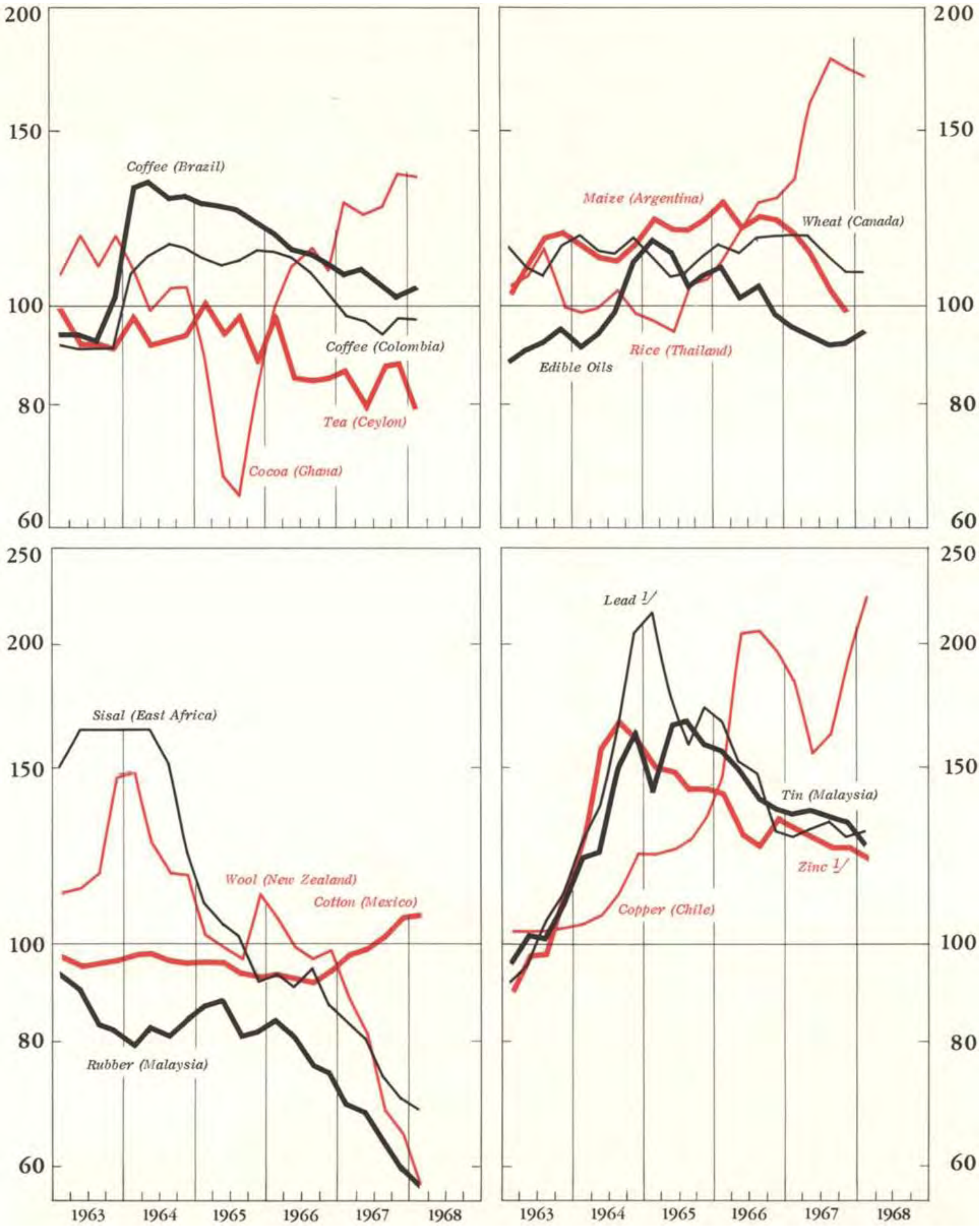


The price index of foodstuffs (which account for about one half of the value of exports other than petroleum from primary producing countries) also strengthened in the first half of 1966, and declined in the latter part of the year. Prices of coffees, with the exception of robusta, continued to fall during 1967 despite sharp reductions in quotas under the international agreement, and the prices of most other foodstuffs also moved down further. However, the combined index shown in Chart 22 was at its lowest level in the second half of 1966, rising somewhat during 1967 in consequence of the sharp increases in the prices of cocoa and rice and a recovery of sugar prices. The continued rise in cocoa prices resulted from a small crop for the second consecutive year in Ghana, and from speculative buying in the expectation of a fall in Nigerian supplies because of the civil war. For rice, the growing imbalance between rising demand and slowly growing supplies, coupled with poor crops in major producing countries in 1966/67 and the restriction of exports by Thailand, a leading exporter, drove prices up to a record level in 1967.

Table 15 shows the recent changes in export receipts from certain of the principal commodities entering into international trade that have resulted from the movements of prices and from changes in quantities traded. The value of primary producing countries' exports of rubber, wool, and cotton fell steeply, as a consequence of lower

CHART 23. SELECTED PRIMARY PRODUCTS: AVERAGE PRICES, 1963–FIRST QUARTER 1968

(1961 = 100)



[1] London Metal Exchange.

TABLE 15. PRIMARY PRODUCING COUNTRIES: CHANGES IN U.S. DOLLAR VALUE OF EXPORTS OF SEVEN PRIMARY COMMODITIES[1] FROM MAJOR PRODUCERS, 1963-67

	Value of Exports of the Commodity in 1966	Share in Total Exports of Country (Countries) in 1966	Changes in Dollar Value Over Preceding Year			
			1964	1965	1966	1967[2]
	(Million U.S. dollars)		*Per Cent*			
Wool (3.6)	**1,601**		**3**	**−13**	**5**	**−15**
Australia, New Zealand, and South Africa	1,389	23	7	−15	5	−15
Argentina and Uruguay	212	6	−20	3	5	−15
Cotton (3.2)	**1,393**		**−7**	**11**	**4**	**−14**
(including U.S. exports)	(1,825)		(1)	(−3)	(—)	(−9)
United Arab Republic	329	55	−4	25	−2	−15
Sudan	100	49	−29	−3	11	14
Syrian Arab Republic	89	51	−3	−18	22	−26
Mexico	221	18	−13	25	5	−35
Brazil	111	6	−5	−10	14	−18
Other Western Hemisphere countries[3]	213	15	10	7	−8	−23
East African countries[4]	97	15	4	13	13	−16
Other African countries[5]	47	5	−10	−12	−5	−9
Other countries[6]	186	16	−13	25	7	16
Rubber (2.2)	**938**		**2**	**—**	**−1**	**−25**
Malaysia	481	38	2	5	1	−14
Indonesia	223	33	−4	−6	—	−25
Other Asian countries[7]	176	16	8	−4	−5	−18
African countries[8]	58	7	10	−5	−2	−18
Tin (1.2)	**518**		**22**	**19**	**−4**	**2**
Malaysia	258	21	13	20	−9	−5
Bolivia	93	74	41	15	—	−3
Other Asian countries[9]	94	7	47	20	−2	47
African countries[10]	73	6	10	21	13	−24
Coffee (4.8)	**2,173**		**20**	**−8**	**7**	**−6**
Brazil	764	44	2	−7	8	−8
Colombia	328	64	30	−13	−5	−2
Other Western Hemisphere countries[11]	468	15	27	2	1	−10
East African countries[12]	285	39	35	−3	13	−8
Ivory Coast	122	40	30	−18	17	−16
Other African countries[13]	206	15	54	−23	26	7
Cocoa (1.0)	**397**		**6**	**−4**	**−11**	**27**
Ghana	144	59	—	—	−25	11
Nigeria	79	10	24	7	−34	93
Ivory Coast	53	17	29	−25	20	6
Other countries[14]	121	23	−9	−11	33	8
Copper (4.2)	**1,870**		**16**	**15**	**39**	**—**
(including Canadian exports)	(2,128)		(16)	(13)	(39)	(5)
Chile	641	73	7	20	33	8
Peru	186	24	18	18	54	15
Zambia	644	93	26	16	34	−9
Congo	266	57	32	−5	56	1
Other countries[15]	133	5	−8	20	39	−12

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

[1] Figures in parentheses against each commodity indicate the percentage share in total exports of primary producing countries outside Europe.
[2] Preliminary.
[3] El Salvador, Guatemala, Nicaragua, Paraguay, and Peru.
[4] Malawi, Kenya, Tanzania, and Uganda.
[5] Burundi, Cameroon, Central African Republic, Chad, Mali, Nigeria, and Togo.
[6] Afghanistan, Turkey, and Pakistan.
[7] Ceylon, Thailand, and Viet-Nam.
[8] Nigeria and Liberia.
[9] Indonesia and Thailand.
[10] Democratic Republic of Congo, Nigeria, and Rwanda.
[11] Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, and Peru.
[12] Ethiopia, Kenya, Malagasy Republic, Tanzania, and Uganda.
[13] Angola, Burundi, Democratic Republic of Congo, Cameroon, Central African Republic, Rwanda, and Togo.
[14] Cameroon and Togo; Brazil, Costa Rica, the Dominican Republic, Ecuador, and Panama.
[15] Cyprus, Mexico, the Philippines, and Uganda.

TABLE 16. LESS DEVELOPED COUNTRIES IN ASIA: CHANGES IN EXPORTS AND IMPORTS, 1960-67

(*Value of exports and imports and changes in trade balances in millions of U.S. dollars*)

	Value of Exports in 1966 [1]	Percentage Changes in Exports			Value of Imports in 1966 [1]	Percentage Changes in Imports			Changes in Trade Balance [1]	
		1960-65 [2]	1965-66	1966-67 [3]		1960-65 [2]	1965-66	1966-67 [3]	1965-66	1966-67 [3]
Exporters of Manufactures										
Korea	250	40	43	28	716	6	55	39	−178	−210
China, Republic of	536	22	19	18	622	13	12	26	20	−67
Hong Kong	1,324	11	16	15	1,767	9	13	3	−17	152
Total	2,110	15	19	17	3,105	9	20	15	−175	−125
Other Countries										
Cambodia	67	8	−36	27	111	1	8	−13	−46	32
Singapore	1,102	−3	12	3	1,328	−1	7	8	37	−70
Thailand [4]	678	9	9	1	884	11	20	13	−92	−108
India	1,606	5	−5	1	2,822	5	−3	−4	10	112
Pakistan	601	6	14	—	900	10	−14	22	216	−198
Ceylon	357	1	−13	−3	426	−6	37	−15	−168	57
Malaysia	1,256	1	2	−3	1,104	4	1	−2	12	−23
Philippines	857	7	12	−5	957	6	7	22	26	−260
Indonesia	679	−3	−4	−6	583	4	−19	20	106	−155
Burma	194	—	−13	−35	158	−1	−36	−10	59	−52
Viet-Nam	25	−10	−29	−36	496	9	34	9	−136	−52
Others [4]	251	1	2	4	613	7	20	1	−97	1
Total	7,674	2	2	−2	10,381	4	2	6	−73	−716
Grand Total	9,784	4	5	3	13,487	5	6	8	−248	−841

Sources: International Monetary Fund, *International Financial Statistics*, and staff estimates. Countries within each group are ranked in descending order of export expansion 1966-67.

[1] Derived from customs data, exports f.o.b., imports c.i.f.

[2] Percentage increases from 1960 to 1965 expressed as compound annual rates.

[3] Includes certain preliminary data.

[4] Data include staff estimates.

prices for rubber and wool and of reduced supplies of cotton not reflected in a commensurate rise in prices (Chart 23). The prices of most coffees declined in 1967, reducing the value of coffee exports by 6 per cent, whereas sharply higher cocoa prices led to an increase of 27 per cent in the value of exports, which more than made good the declines experienced in 1965 and 1966. Among the nonferrous metals there was little or no change in the value of exports of tin and copper between 1966 and 1967.

The seven commodities listed in the table account for about one fifth of the total exports of primary producing countries outside Europe, for more than one fourth of the value of their exports excluding petroleum, and for well over one half of the exports of large regions in Latin America, Africa, Southeast Asia, and the Middle East.[4] The table provides an indication of the sharp year-to-year fluctuations in export receipts to which many primary producing countries heavily dependent on one or two commodities are exposed.

[4] Among the countries whose exports consist predominantly of some of these commodities are Bolivia, Brazil, Chile, and Colombia in South America; Ghana, Ivory Coast, the Democratic Republic of Congo, Zambia, East Africa generally, and many of the smaller tropical countries in Africa; Malaysia, the United Arab Republic, the Syrian Arab Republic, and the Sudan. Almost one half of the exports of the Central American and Caribbean countries and of Indonesia also consist of these commodities.

Less Developed Countries

Trade and Output

Most of the Asian countries experienced stagnation or declines in export receipts in 1967 (Table 16). These were associated with adverse agricultural conditions in 1966 and the early months of 1967 in the Indian subcontinent, Indonesia, and the Philippines, and with declines in the prices for some of the major exports of the region, notably rubber, tea, tin, and fibers. However, for countries in and around the Indian subcontinent the recent improvement in the agricultural situation has led to a resumption of economic expansion and to a recovery of export earnings. In India, agricultural production has increased sharply, and a recovery in the industrial sector is foreseen as the food situation improves, imports of grains are cut back, and higher imports of raw materials and components become possible. It is now estimated that the improved situation has already led to an increase of 10 per cent or more in total national output in the fiscal year ended in March 1968, compared with 3 per cent in the previous fiscal year. In Pakistan, poor crops kept the increase of real gross national product (GNP) down to 4.5 per cent per annum in 1966 and 1967. Crops were reduced by storms and drought, necessitating substantially larger food imports during 1967, and, at the same time, the earlier rapid expansion of Pakistan's exports was checked by several factors in 1967: the slowdown of economic activity in Europe led to a marked decline in the value of Pakistan's exports to the European Economic Community; the growth of exports of manufactures to African countries was not maintained; and exports to Indonesia were reduced by changes in that country's trading policy. In Burma both output and exports were reduced in 1966 and in 1967 by highly unfavorable crop conditions and by the organizational problems encountered in the course of establishing a socialist system. The better rice harvest expected in 1968 should bring a recovery of growth. In Ceylon exports declined further in 1967, but there was some improvement in the domestic economic situation.

In Southeast Asia, Malaysia's export receipts in 1967 were reduced by declines in tin and rubber prices, and investment was curtailed because of the need to cut back imports. The growth of gross domestic production in 1967 fell to some 3 per cent, continuing the slowdown which had been under way since 1965. In Cambodia exports recovered from the low 1966 level as a result of strong demand and high prices for rice. In Thailand, however, the drought during 1967 reduced the 1967/68 rice crop and resulted in slower growth of exports and of gross domestic product in 1967 than in 1966. Imports of both capital equipment and consumer goods showed further increases. In Indonesia, rice production improved in 1967 but the output of agricultural commodities and minerals for export generally declined. Apart from a revival of textile production, a low level of activity still prevailed in the industrial sector. The rate of inflation slowed down during 1967 as a considerable expansion of imports was made possible by increased foreign aid and lending. In the Philippines, exports were reduced by a sharp fall in copra production, but GNP is estimated to have increased by about 5 per cent from 1966 to 1967, mainly as a result of a larger rice crop and increased activity in construction.

In contrast to developments elsewhere in Asia, a high rate of economic growth was maintained in the Republic of China and in Korea, GNP rising by 9 per cent and 8 per cent, respectively, against 8 per cent and 13 per cent from 1965 to 1966. Investment in manufacturing continued to rise in both countries and the production and export of manufactures increased rapidly. A severe drought affected the growth rate in Korea, but the rise in prices was restrained by the rapid increase in imports that resulted partly from an accelerated policy of import liberalization.

A number of adverse circumstances affected the production and trade of African countries during 1967, and it seems probable that there was little change in the aggregate output of the region from 1966. Among the unfavorable developments were the civil war in Nigeria; the continued dislocation of established trading and supply patterns as a result of Rhodesia's unilateral declaration of independence; difficulties for the trade of some East African countries when the Suez Canal was closed; and the effects of poor harvests in a number of northern countries in 1966 and 1967. These difficulties were compounded by the unfavorable demand situation for many of the region's primary products occasioned by the slower growth of output in industrial Europe. Stagnant or falling exports compelled a number of countries to hold down the level of economic activity and to curb the growth of imports (Table 17).

Ghana's exports recovered from their abnormally low level in 1966. Although the reported cocoa crop was the smallest in seven years, other agricultural output increased by about 8 per cent in 1967 and GNP is estimated to have risen by 3 per cent, after having changed little in the two preceding years. Economic conditions also tended to improve in 1967 in the equatorial African countries. Agricultural conditions were generally good and the value of exports from Gabon, Chad, and Congo (Brazzaville) increased sharply. Nigeria's exports rose sharply in the first half of 1967 but were then curtailed by the outbreak of civil war. Business confidence weakened, investment spending was cut back, and aggregate output barely increased from 1966 to 1967, following a 2 per cent rise in 1966 and an average growth rate of 5 per cent in preceding years. In Mali and Sierra Leone, economic activity was curbed as the weakness of exports intensified the need to redress the fiscal and payments imbalances associated with the heavy development outlays of recent years.

In East Africa the principal coffee exporters—Ethiopia, Kenya, Tanzania, and Uganda—experienced declines in the value of their coffee exports and of total exports. There was also a marked fall in the value of cotton exports from the area, but in the Sudan such exports increased consider-

TABLE 17. LESS DEVELOPED COUNTRIES IN AFRICA AND THE MIDDLE EAST: CHANGES IN EXPORTS AND IMPORTS, 1960-67

(*Value of exports and imports and changes in trade balances in millions of U.S. dollars*)

	Value of Exports in 1966 [1]	Percentage Changes in Exports			Value of Imports in 1966 [1]	Percentage Changes in Imports			Changes in Trade Balance [1]	
		1960-65 [2]	1965-66	1966-67 [3]		1960-65 [2]	1965-66	1966-67 [3]	1965-66	1966-67 [3]
Africa										
Petroleum exporters										
Libya	995	[4]	25	18	405	14	26	18	113	112
Algeria [5]	622	3	−2	12	639	−8	−5	10	18	17
Total	1,617	20	13	16	1,044	−5	5	12	131	129
Other Countries										
Ghana	244	—	−16	16	352	4	−21	−9	49	72
Equatorial Africa [6]	193	17	−5	15	203	5	9	15	−28	−2
Mozambique [5]	112	8	4	10	208	6	20	−4	−31	19
Angola	221	10	10	8	207	9	6	33	9	−51
Malagasy Republic	98	4	6	6	140	4	1	4	4	1
Tunisia	140	—	17	6	250	5	2	4	16	−2
Liberia [5]	150	10	11	6	114	9	10	10	5	−3
Sudan	203	1	4	5	222	3	7	−10	−6	33
Ivory Coast	311	13	12	4	258	15	9	—	12	14
Other West Africa [5, 7]	141	...	11	−1	176	...	−1	2	15	−5
Morocco	428	4	—	−1	477	2	6	8	−28	−40
Uganda	188	8	5	−2	120	9	5	−3	3	—
Kenya	174	5	20	−4	314	5	26	−5	−36	8
Rhodesia [5]	274	...	−38	−4	267	...	−29	10	−57	−40
Zambia [5]	691	8	30	−5	388	...	17	24	103	−131
Tanzania	235	3	34	−6	180	6	29	1	19	−15
Cameroon	131	4	10	−7	131	10	−2	35	15	−55
Senegal [5]	149	1 [8]	16	−8	161	2 [8]	−2	−1	24	−10
Ethiopia	111	9	−4	−9	162	12	8	−12	−17	9
Nigeria	793	10	6	−14	718	5	−7	−13	96	−21
Sierra Leone	83	1	−6	−16	100	8	−7	−10	3	−3
Others [5]	899	5 [8]	17	5	951	11 [8]	6	10	75	−48
Total	5,969	6	6	−1	6,099	7	2	4	245	−270
Total, Africa	7,586	9	7	3	7,143	4	2	5	376	−141
Middle East										
Exporter of manufactures										
Israel	503	15	17	11	833	11	—	−9	72	133
Exporters of petroleum										
Iran	1,309	9	—	47	930	7 [8]	8	21	−64	424
Saudi Arabia [5]	1,640	11	18	9	570	14	14	−4	182	160
Kuwait [5]	1,304	5	5	1	463	9	23	28	−25	−119
Iraq [5]	939	6	7	−17	493	2	9	−15	15	−86
Others [5, 9]	1,065	8	15	2	645	8	−1	1	148	15
Total	6,257	8	9	10	3,101	8 [8]	9	5	256	394
Other Countries										
Jordan	34	21	21	−6	191	6	22	−20	−28	36
United Arab Republic	605	1	—	−6	1,070	7	15	−26	−136	243
Syrian Arab Republic	173	7	2	−10	289	−2	34	−9	−70	7
Lebanon [5]	103	15	20	−13	533	9	10	−10	−31	40
Others	97	6	14	2	188	7	6	4	2	−6
Total	1,012	4	4	−7	2,271	6	15	−17	−263	320
Total, Middle East	7,772	8	9	8	6,205	8 [8]	10	−5	65	847

Sources: International Monetary Fund, *International Financial Statistics*, and staff estimates. Countries within each group are ranked in descending order of export expansion 1966-67.

[1] Derived from customs data, exports f.o.b., imports c.i.f.
[2] Percentage increases from 1960 to 1965 expressed as compound annual rates.
[3] Includes certain preliminary data.
[4] Exports increased from $11 million in 1960 to $797 million in 1965.
[5] Data include staff estimates.
[6] Equatorial Africa comprises Chad, Congo (Brazzaville), Gabon, and Central African Republic.
[7] Dahomey, Mali, Mauritania, Niger, and Upper Volta.
[8] 1961-65.
[9] Aden (South Yemen), Bahrain, Muscat and Oman, Trucial States, and Qatar.

ably both because the authorities adopted a flexible market policy and because reduced production in the United Arab Republic tended to strengthen the price of long-staple cotton. Economic growth appears to have slowed in 1967 in most of the East African countries.

The rate of economic growth in Zambia accelerated from the low pace of 1966, when events following Rhodesia's unilateral declaration of independence had severely disrupted the Zambian economy. Output continued to expand in the Democratic Republic of Congo despite the strife that affected certain regions in the second half of 1967. Conditions in most North African countries tended to improve during 1967. Petroleum exports from Libya continued to rise, although less rapidly than in 1966. The economy of Tunisia, which in 1966 suffered a setback as a result of poor crops, appears to have improved in 1967. Drought conditions prevailed in Morocco in 1966 and 1967, but improved weather conditions should lead to an economic recovery during 1968.

Hostilities in the area and the closing of the Suez Canal had a severe impact on many of the Middle East economies. With the exception of Iran, whose exports increased sharply in consequence of very high petroleum sales in the second half of 1967 when the Arab countries imposed an embargo on oil shipments to certain industrial countries, the exports of all the oil-producing countries rose much less rapidly than in the previous year, or declined. Iraq's petroleum exports had been reduced earlier in the year by the stoppage of pipeline shipments through the Syrian Arab Republic, and the total value of Iraq's exports declined by 17 per cent from 1966 to 1967. In most of the countries not producing petroleum, exports declined from 1966 to 1967, and only Israel achieved a substantial increase.

The United Arab Republic and Jordan suffered particularly severely from the hostilities. The balance of payments and financial problems that the United Arab Republic had encountered in earlier years were greatly aggravated by the loss of revenues from the Suez Canal and lower tourist receipts, by the loss of the Sinai oilfield and damage to the Suez refinery, and by other costs of the war. While agricultural production increased somewhat despite the reduced output of cotton, industrial production and imports were held down by restrictive policies, and the growth of total output appears to have slowed markedly. In Jordan the occupation of the West Bank of the Jordan River by Israel greatly reduced the country's production and exports of agricultural commodities, and eliminated the major source of tourist earnings. Economic activity on the East Bank slackened as a result of the general dislocation and uncertainty. The Syrian Arab Republic, which experienced a reduction of cotton output in 1966, had poor cereal crops in the 1966/67 season, and its exports in 1967 were further depressed when the closing of the Suez Canal blocked cotton shipments to Asian markets. Like the United Arab Republic and Jordan, the Syrian Arab Republic received special foreign exchange assistance from Kuwait, Saudi Arabia, and Libya.

In contrast to the situation in most Middle East countries, rapid economic growth was maintained in Iran during 1967. Successive good harvests of food crops during the years 1965-67 and unusually high oil revenues in 1967 have supported a substantial program of economic and social development. In Israel, where industrial activity had been growing slowly and considerable unemployment had prevailed at the outbreak of hostilities, the rate of economic expansion increased in the latter part of the year. Israel's exports, which consist largely of processed and manufactured goods, were scarcely affected by the weakness of commodity prices and their value again rose substantially in 1967, although by less than in earlier years.

In the Western Hemisphere, growth of output in 1967 is believed to have been somewhat higher than the 4¼ per cent increase estimated for 1966, principally because of substantial gains in agricultural output in Argentina and Brazil following declines in 1966. Manufacturing production in the region rose less rapidly than in 1966 but mining output accelerated and total investment appears to have been well maintained.

Few of the larger countries in the Western Hemisphere increased the value of their exports in 1967 (Table 18). Venezuela's exports increased as a result of the demand for its petroleum during the Middle East crisis, and the rise in Bolivia's exports also reflected a substantial increase in sales of petroleum. The exports of the other countries with substantial trade in minerals (Chile and Peru) remained at roughly the high 1966 levels as a consequence of the continued rise in the value of their exports of tin and copper. In Ecuador exports increased further, largely on the basis of higher agricultural production and more effective exploitation of foreign markets. In Paraguay a slight rise in exports following a decline in 1966 was associated with the recovery in agricultural output.

Brazil, Mexico, Argentina, and Uruguay experienced moderate to severe declines in export revenue from 1966 to 1967, while Colombia's export earnings were almost unchanged. Brazil and Colombia were affected by the lower prices for coffee, and Brazil's exports were further reduced by a fall in the volume of cotton exports. Cotton production in Mexico was seriously affected by weather conditions, and the value of its cotton exports fell by about 35 per cent (Table 15). The volume of Argentina's agricultural exports declined from the high level of 1966 because of a sharp reduction in exports of wheat, while Uruguay's livestock products were restricted by the heavy slaughterings during the 1964-65 drought and by frost and floods during 1967. In addition, the value of wool exports from both countries fell sharply, and both were affected toward the end of 1967 by the U.K. embargo on meat imports from countries where foot and mouth disease was endemic.

Growth of output in 1967 increased in Venezuela to about 6 per cent, and there was also a resumption of growth in Argentina. In Argentina, where a comprehensive program of domestic stabilization and trade liberalization was instituted early in 1967, manufacturing production was slightly lower than in 1966 but, as a result of more favorable conditions in the agricultural sector, total output increased by about 2.5 per cent in 1967 after declining by 1 per cent in the previous year. Prices rose somewhat less in 1967 as a whole than in 1966, with a substantial reduction in the rate of price increase occurring in the last quarter of 1967 and during the first quarter of 1968. A sharp rise in agricultural production was also

TABLE 18. LESS DEVELOPED COUNTRIES IN THE WESTERN HEMISPHERE: CHANGES IN EXPORTS AND IMPORTS, 1960-67

(*Value of exports and imports and changes in trade balances in millions of U.S. dollars*)

	Value of Exports in 1966 [1]	Percentage Changes in Exports			Value of Imports in 1966 [1]	Percentage Changes in Imports			Changes in Trade Balance [1]	
		1960-65 [2]	1965-66	1966-67 [3]		1960-65 [2]	1965-66	1966-67 [3]	1965-66	1966-67 [3]
Petroleum Exporters										
Surinam [4]	92	6	56	9	90	12	−5	11	38	−2
Netherlands Antilles [4]	592	−2	−2	8	745	−2	—	11	−10	−37
Venezuela [4]	2,713	2	−1	6	1,331	4	−8	10	92	28
Trinidad and Tobago	429	7	6	2	454	10	−4	−10	43	56
Total	3,826	2	—	6	2,620	3	−5	7	163	45
Other Countries										
Dominican Republic	137	−5	9	14	185	—	85	4	−74	13
Bolivia [4]	126	17	15	11	138	13	10	1	4	12
Ecuador [4]	185	4	4	8	147	6	−4	2	13	12
El Salvador	192	10	2	8	220	10	9	2	−16	11
Nicaragua	138	21	−4	6	182	17	14	12	−28	−14
Honduras	143	15	13	6	149	11	22	13	−11	−11
Panama	89	24	13	2	253	12	13	7	−19	−16
Paraguay	49	16	−14	2	58	6	12	16	−14	−8
Guyana	109	5	12	2	118	4	13	11	−2	−11
Peru	763	9	15	1	817	14	14	2	−1	−5
Chile [4]	877	7	28	1	755	3	25	1	41	8
Jamaica	228	6	7	—	327	6	13	7	−24	−23
Colombia	510	3	−5	—	674	10	48	−26	−247	177
Costa Rica	136	6	21	−1	178	12	—	8	24	−15
Mexico	1,228	9	7	−4	1,605	6	3	9	37	−199
Brazil	1,741	5	9	−5	1,496	−3	37	11	−254	−258
Argentina	1,593	7	7	−8	1,124	−1	−6	−3	175	−101
Guatemala [4]	228	10	22	−12	207	10	−10	16	63	−61
Martinique	45	4	18	−13	93	14	2	14	5	−19
Uruguay	186	8	−3	−15	164	−5	9	3	−19	−32
Others [4]	329	9	9	1	769	9	13	7	−62	−48
Total	9,032	7	9	−2	9,659	3	14	4	−409	−588
Grand Total	12,858	5	6	—	12,279	3	9	4	−246	−543

Sources: International Monetary Fund, *International Financial Statistics*, and staff estimates. Countries within each group are ranked in descending order of export expansion 1966-67.

[1] Derived from customs data, exports f.o.b., imports c.i.f.

[2] Percentage increases from 1960 to 1965 expressed as compound annual rates.

[3] Includes certain preliminary data.

[4] Data include staff estimates.

the main factor sustaining growth in Brazil. Total output is provisionally estimated to have risen by 5 per cent (compared with about 4.5 per cent from 1965 to 1966), and the rate of increase in prices declined considerably. Despite a sharp recovery in industrial production during the year, industrial output in 1967 was only 2 per cent higher than in 1966. The Mexican economy continued to expand in 1967, at a rate of about 6.5 per cent. Although agricultural production was reduced by unfavorable weather conditions and exports were lower than in 1966, Mexico's external position was supported by higher receipts from tourism and a substantial net inflow of private capital. There was a marked increase in public sector capital spending, and consequently imports of capital goods rose.

The year 1967 was one of reduced growth for most of the countries on the west coast of South America. In Peru, GNP rose by slightly over 4 per cent in real terms, somewhat less than in 1966, because of poor crop performance and financial uncertainties culminating in the September depreciation of the sol. Production of manufactured goods and fish meal rose strongly, the latter contributing to the continued decline of world fish-meal prices, but construction activity—a major expansionary force in previous years—slackened considerably. Growth of mining output was again sluggish, reflecting the full utilization of existing capacity and the continued absence of major new investments. In Colombia agricultural output rose by somewhat more than 4 per cent, and increasing supplies of staple foods, together with improved financial policies, helped to limit the upward movement of the cost of living and wages. There was, however, a sharp contraction in imports (following an increase of almost 50 per cent in 1966), and the output of the manufacturing, mining, and construction industries rose comparatively little. In Chile exports were almost unchanged from 1966 to 1967, following an increase of 28 per cent in 1966. Agricultural and manufacturing output rose considerably less than in 1966, and imports of raw materials and consumer goods remained about the same as in the preceding year. Sustained growth of the Bolivian economy at about the same 6 per cent rate as in 1966 was largely induced by the rapid growth of petroleum production. There was also an increase in construction activity, but output in the mining sector expanded less than in 1966.

With the exception of Panama, where the gross domestic product rose by 8 per cent, and of Costa Rica, where output rose somewhat less, the countries of Central America and the Caribbean experienced slower growth than in previous years, largely as a consequence of poor agricultural output. In El Salvador, Guatemala, Honduras, and Nicaragua, crop production, especially of cotton, was reduced by drought but industrial production continued to expand under the stimulus of rapidly growing intraregional trade in the Central American Common Market. In the Dominican Republic output had recovered in 1966 following the sharp drop associated with political developments in the previous year; there was a further increase in output in 1967.

Balance of Payments Developments

The broad lines of balance of payments developments in less developed countries are described in Chapter 4. Taking the group as a whole, the deficit on current account widened from 1966 to 1967 by about $1.5 billion, but an increase of almost $2 billion in the recorded capital inflow led to an increase of $0.5 billion in the over-all surplus [5] (Table 19). Receipts of official capital and aid rose substantially from 1966 to 1967. Most of the increase resulted from the recovery of aid flows to India, Pakistan, and Indonesia. These included substantial aid-financed food shipments. There was a small increase from 1966 to 1967 in the inflow of private long-term capital resulting from higher flows to a limited number of countries in Latin America and East Asia. About one half of the net increase in capital inflows was in short-term forms, and much of this reflected official borrowing by countries in balance of payments difficulties. Most of the Middle East countries increased their reserves in 1967, but elsewhere the increase in reserves was concentrated in a limited number of countries and the majority experienced some weakening in their external positions.

[5] Detailed balance of payments statements for the countries included in these totals are given in Supplementary Note B, Table 46. For definition of the over-all balance, see footnote 2, Table 19.

In many cases the pressure on countries' payments balances was attributable to the unsatisfactory performance of their exports, and during 1967 and early 1968 there was a marked increase in the use made of the Fund's facility for compensatory financing of export fluctuations. Details of the drawings are included in Supplementary Note A in a brief discussion of experience with the compensatory financing facility.

In most of the countries producing petroleum in the Middle East, the increases in export receipts from 1966 to 1967—despite the oil embargo—together with some declines in imports, tended to improve the trade balances and over-all payments positions. In Iraq, however, petroleum exports had been interrupted prior to the hostilities in the area in consequence of the pipeline dispute with the Syrian Arab Republic, and the over-all surplus in the balance of payments declined sharply. Israel's over-all position was improved by a substantial increase in exports and large transfers of funds from other countries. Among the other countries not producing petroleum, the improvements in over-all balances were caused not by

TABLE 19. LESS DEVELOPED PRIMARY PRODUCING COUNTRIES: SUMMARY OF CURRENT, CAPITAL, AND OVER-ALL BALANCES, 1965-67 [1]

(In millions of U.S. dollars)

	Balance on Goods, Services, and Private Transfers			Capital Balance			Over-All Balance [2]		
	1965	1966	1967	1965	1966	1967	1965	1966	1967
Middle East									
Israel	−214	−155	94	313	133	9	99	−22	103
Jordan	−68	−92	−74	131	119	176	63	27	102
Iran	−99	−137	−84	137	156	148	38	19	64
United Arab Republic	−252	−176	−269	235	167	282	−17	−9	13
Others	135	30	53	12	87	117	147	117	170
Total	−498	−530	−280	828	662	732	330	132	452
Africa									
Ghana	−226	−148	−84	246	97	56	20	−51	−28
Nigeria	−277	−283	−240	276	260	153	−1	−23	−87
Libya	87	101	180	−13	−7	−104	74	94	76
Others	−306	−360	−442	364	414	431	58	54	−11
Total	−722	−690	−586	873	764	536	151	74	−50
Asia									
India	−1,335	−969	−1,158	1,305	909	1,136	−30	−60	−22
Pakistan	−588	−404	−669	527	382	643	−61	−22	−26
Indonesia	−247	−123	−289	299	112	280	52	11	9
Philippines	111	136	−102	−35	−132	87	76	4	−15
China, Republic of	−81	−8	−97	84	45	176	3	37	79
Korea	−126	−225	−330	135	324	441	9	99	111
Others	−357	−409	−651	458	724	769	101	293	100
Total	−2,623	−2,002	−3,296	2,773	2,364	3,532	150	362	236
Western Hemisphere									
Argentina	220	257	187	−93	−231	354	127	26	541
Venezuela	−29	−45	−32	15	4	127	−14	−41	95
Peru	−159	−165	−247	174	145	219	15	−20	−28
Chile	−39	−68	−158	89	115	128	50	47	−30
Brazil	247	−67	−331	−14	16	157	233	−51	−174
Colombia	−20	−290	−64	50	282	36	30	−8	−28
Mexico	−397	−367	−463	351	395	485	−46	28	22
Others	−366	−413	−530	403	412	500	37	−1	−30
Total	−543	−1,158	−1,638	975	1,138	2,006	432	−20	368
Grand Total	−4,386	−4,380	−5,800	5,449	4,928	6,806	1,063	548	1,006

Sources: Data reported to the International Monetary Fund and staff estimates.
[1] For coverage see Table 46.
[2] Over-all balance measures the balance financed by changes in official gold and foreign exchange assets and in net Fund position. Figures for 1967 have been adjusted to exclude estimated losses arising from the devaluation of sterling.

increases in export receipts but by sharp cutbacks in imports, as well as the provision of considerable sums of foreign exchange support to the United Arab Republic, the Syrian Arab Republic, and Jordan from the oil-producing Arab countries.

Major countries in Africa other than Libya and the Democratic Republic of Congo did not gain reserves during 1967. Ghana and Tunisia, however, reduced both their current account and over-all deficits through increases in current receipts and, in Ghana, a continued reduction in imports. The Sudan's payments position did not improve for the year as a whole despite some improvement in the current balance. Among other major countries, Nigeria incurred a large payments deficit from a continued decline in capital receipts generally as a result of domestic instability, while Ethiopia also sustained a deterioration in the over-all balance because of a reduced inflow of long-term capital and aid.

In the Far East, Korea and the Republic of China continued to strengthen their reserve positions through increased current and capital receipts while at the same time they had a higher level of imports. In India exports were little changed from 1966 to 1967, while they declined moderately in Ceylon and Malaysia. Each country's imports were lower than in 1966, with a particularly large drop in Ceylon, and their over-all balances improved somewhat. India's external position was supported by an increase in the flow of capital and aid; the same was true of Pakistan and Indonesia, in both of which aid-financed shipments of food contributed much of the increase in imports. In the Philippines, imports also rose despite the weakness of exports, and the over-all balance was maintained close to the 1966 level by a substantial increase in official borrowing.

In the primary producing countries of the Western Hemisphere, the surplus position of the region as a whole stemmed principally from developments in Argentina and Venezuela. The large increase in Argentina's gross reserve position from 1966 to 1967 reflected official borrowings and a substantial inflow of private capital after the major depreciation of the exchange rate in the early part of the year. The improvement in Venezuela's over-all balance occurred when the flight of capital which started in the third quarter of 1966 was reversed in 1967, and that country's position benefited further from the gain in export receipts resulting from the Middle East crisis. In Mexico the trade balance deteriorated but higher tourist receipts and private capital inflows led to a small over-all surplus. Colombia's trade balance improved sharply as a result of a sizable reduction in imports, and, although the over-all balance was little changed from 1966, commercial payments arrears and other short-term liabilities were much reduced. Peru also recorded little change in its over-all deficit from 1966 to 1967, but in this case there was a large increase in the current account deficit and the over-all position was only maintained by a substantial rise in short-term liabilities. In Brazil and Chile both the current account and the over-all balances deteriorated from 1966 to 1967, although in early 1968 there was some strengthening in the over-all balance of Chile and a pronounced improvement in that of Brazil. Most of the Central American countries also experienced deteriorations in their current and over-all balances.

Some Recent Policy Developments

This section discusses the recent experience of a number of less developed countries in which difficult problems of economic policy management have been encountered. Although the circumstances of these countries are diverse, their difficulties have in general been associated with a weakening of external positions reflecting such factors as severe pressures on the budget and on resources, arising from expenditure programs; the effects of bad weather and political disturbances on production; and developments in the markets for principal export commodities.

Many less developed countries are subject to fluctuations in export earnings resulting from sharp changes in supply or demand conditions for the limited number of export commodities on which they depend. Such fluctuations affect the capacity to import and the pace of economic development, and changes in capital flows may accentuate the problem. In contrast to the situation in most less developed countries, oil exporters normally run trade surpluses and are freed from severe balance of payments constraints by the possession of ample foreign exchange reserves. There are also a few less developed countries that have succeeded in developing specialized agricultural and manufactured exports in strong demand, and have been able to realize a fairly steady expansion of export earnings. Where this has been coupled with appropriate domestic policies and with a satisfactory flow of capital and aid, countries have been able to sustain the growth of imports needed for development and to achieve fairly continuous economic growth while gradually relaxing their restrictions.

Most less developed countries experiencing fluctuations in the external sector and not possessing substantial foreign exchange reserves have encountered severe strains because of difficulties in making timely adjustments of economic policies to meet rapidly shifting circumstances, including the length of the period before new policy measures become fully effective. In times of strong demand for their exports, primary producing countries find their domestic economies bolstered by high export incomes, their balance of payments improved further by the effects on capital flows of growing confidence at home and abroad, and their fiscal positions strengthened by higher tax revenues. As the upsurge of export receipts continues, governments may tend to relax their restrictions, to ease their domestic policies, and to step up their development efforts. In so doing, they may encourage economic expansion at a pace that cannot be maintained, particularly if exports falter or decline. As government expenditures for infrastructure and social development are increased, the import demand for capital goods and for consumer goods rises rapidly. The increase in government spending and imports, however, tends to follow the rise in export receipts and to gain momentum in the optimistic atmosphere generated by a strong external position. If export receipts stagnate or decline, government receipts are similarly affected while domestic spending may not be restrained in time and imports continue at a high or even rising level. At this juncture, the governments are often forced to adopt stringent restrictive policies, including reductions in their development expenditures, and on occasion to reverse the liberalization of their trading systems.

Elements of this cyclical pattern have been present in the recent experience of a number of less developed countries. In Chile, for instance, the quite unusual and temporary increase in copper prices, together with improved fiscal, monetary, and exchange rate management, led to a remarkable improvement in the balance of payments position during 1965-66. This enabled the Chilean authorities to implement in 1966 a considerable liberalization of imports—by shortening the compulsory deferment period for import payments and the time lag between the application and approval of imports, removing the surcharges on certain machinery imports, and simplifying administrative procedures. Accordingly, imports rose sharply during 1966. In the meantime, a sizable increase in tax revenues, resulting from the combination of higher trade and internal economic activity and a substantial tax reform, encouraged the Government to expand considerably its expenditures on development projects—including economic infrastructure, school and low-cost housing construction, large-scale agricultural resettlement programs, and increased social security outlays as part of an income redistribution policy in favor of the lower-income classes. However, the lack of restraint of domestic demand, the leveling off of average copper prices from 1966 to 1967, an increase in transfers of funds abroad by the copper companies, and a reduction in external aid brought a sharp deterioration in Chile's payments position during 1967. The larger domestic financing of the public sector deficit—despite a slowdown in investment expenditures of the Central Government—led to an accelerated rate of credit expansion. The rate of inflation, which had steadily decelerated from 1964 onward, increased again during 1967, and the authorities found it difficult to limit wage and price adjustments. The exchange rate was depreciated in line with the rising domestic price level, and the authorities are tightening the management of fiscal and credit policies during 1968 in order to restrain inflation and to strengthen the external position.

In Peru, rising public sector investment, particularly for social capital, accompanied by a sharp expansion in current outlays, led to very substantial increases in the budget deficit from 1964 onward, and to higher imports. Although the external position was bolstered by a sizable increase in export earnings from 1963 to 1966, associated with unusually favorable conditions for fish-meal products and copper, there were recurrent pressures on the foreign exchange reserves. Beginning in 1966, capital outflows built up at an increasing pace. In 1967 there was a sharp increase in reliance on the monetary authorities for deficit financing. The external situation was aggravated by a leveling out of the value of exports from 1966 to 1967, following the 15 per cent increase in 1966. In September 1967 the authorities decided to retire from the exchange market and to allow the sol to fluctuate freely. In October they reintroduced on a temporary basis a system of exchange certificates similar to that in effect prior to 1960 and the Central Reserve Bank re-entered the exchange market. With reserve losses continuing, the Government in February 1968 prohibited imports of a large number of "nonessential" consumer goods for a period of 90 days. There was a further deterioration in the fiscal situation in the ensuing months.

In June 1968, however, the Government was granted special powers by Congress for a period of 60 days to deal by decree with Peru's financial difficulties. On the strength of this enabling legislation, the Government promptly introduced a package of fiscal measures including important tax increases and new taxes, as well as substantial expenditure cuts. At the same time, a temporary surcharge was imposed on a wide range of imports. These measures are expected to reduce substantially the budget deficit and to alleviate the balance of payments pressures.

Sharp declines in commodity prices pose severe problems for smaller countries that have deliberately encouraged production for export by supporting the prices paid to producers, in the knowledge that their production will not be large enough to affect world market prices. Marketing boards in these countries are apt to incur heavy losses in times of prolonged price declines. In Uganda the prices paid to producers of coffee and cotton in 1965 and 1966 were higher than realized export prices, and the excess was financed first by drawing on the price assistance funds and then by government borrowing. At the same time, a sizable increase in capital expenditures had been initiated in the previous years of rapidly rising export receipts and high government revenues. These developments led to severe strains and losses of foreign reserves during the 1965/66 fiscal year. Accordingly, capital spending was slowed down and procurement prices were reduced by one third for coffee in May 1965 and for cotton at the beginning of the 1966/67 season. In Sierra Leone the Produce Marketing Board also encountered serious financial difficulties in 1966 owing to overexpansion in plantation and processing activities. Coupled with a sharp increase of capital expenditure in 1965/66, this situation led to rapid deterioration in the fiscal and payments positions and the Fund approved a stand-by arrangement to support a program of stabilization measures. In June 1967 the authorities announced the liquidation of uneconomic plantations as well as the reduction by 17 to 28 per cent of procurement prices for palm kernels, cocoa, and coffee. The reduction in procurement prices, however, led to lower recorded exports of farm produce as more of them went to Liberia to take advantage of higher prices. In November and again in December, following the devaluation of the leone, procurement prices were raised. Similar upward adjustment of procurement prices also took place in Ghana during the 1966/67 and 1967/68 seasons, sizable unrecorded exports of cocoa into Togo and Ivory Coast having occurred after the sharp reduction of cocoa prices in 1965/66.

In contrast to the smaller less developed countries, larger ones can depend on a substantial and growing domestic market to support economic expansion. Some of these countries have a considerably more developed industrial base than the majority of less developed countries. However, the diversification of their exports lags well behind that of their production, despite notable progress in some countries in promoting a widening range of exports. Their export receipts are subject to considerable fluctuation as a result of changes in the circumstances affecting their principal commodities, and these fluctuations can add to the difficulties of economic management.

About mid-1964 the Brazilian authorities initiated a broad program of policies to reduce the rate of inflation and to lay the basis for stable economic growth. In the two following years considerable progress was achieved in improving the fiscal and monetary positions. A sharp drop in food production contributed to continued rapid price increases in 1966, but in the course of 1967 the rate of inflation slowed down markedly. Brazil's net foreign reserve position improved sharply in 1965 and there was a further, although more moderate, gain in 1966. Exports rose strongly in both 1965 and 1966, the recovery of coffee exports being an important factor in the latter part of 1965 and in 1966. Imports declined in 1965 and then rose steeply in 1966, although the upsurge of imports in 1966 only raised them to slightly above the level reached in 1963, the previous peak year. In 1967, the fiscal deficit and rate of monetary expansion increased, partly as a result of policies adopted to counter the downturn in industrial activity that began late in 1966 and deepened in the first quarter of 1967.

Despite the introduction of liberalization measures in March 1967, imports rose at a much slower rate than in 1966; much of the increase was in imports of capital goods. Exports fell, mainly because of the reduction in coffee prices. Brazil's dependence on coffee for its foreign exchange earnings has been reduced substantially in recent years, but coffee exports still account for approximately 45 per cent of total export receipts. As the gross and net foreign reserve positions worsened during 1967, steps were taken in August and September to restrain the outflow of capital. However, following the depreciation of January 1968, and a sharp fall in the fiscal deficit, there was a substantial reflux of capital that led to a strong recovery of the foreign exchange reserve position. In early 1968 both exports and imports were well above their levels in the same period of 1967.

The difficulties which India has encountered in recent years were greatly heightened by the severe drought which lasted into 1967, and also by the weakness of export markets in that year. Exports, although still lower than in 1965, showed a modest recovery compared with 1966. This occurred in the context of the drought and of the inadequate growth of many of India's nonagricultural exports, notwithstanding some notable exceptions. The effects of the export incentive provided by the major devaluation in June 1966 were yet to be realized, as the performance of exports in 1967 was affected by the smaller supply of agricultural raw materials, the weakening of import demand in the key industrial countries, and the closing of the Suez Canal. In this situation, India was faced with an urgent need to import foodstuffs and, with a reduction in the inflow of project aid, was obliged to cut back other imports, including those for important development purposes. Domestic demand for manufacturing output weakened seriously and industrial output stagnated.

The attempt to control the rise of nondevelopment government expenditures in India and to reduce deficit financing during the fiscal year ended in March 1968 appears to have been only moderately successful, because of higher administrative costs as a result of increases in cost of living allowances and the need to provide drought relief and food subsidies; in addition, budget receipts were lower than expected. The end of the drought has, however, brought renewed strength to the Indian economy. The Reserve Bank of India reduced Bank Rate from 6 per cent to 5 per cent in March 1968 and continues to follow a relatively easy policy in order to encourage the production and distribution of foodgrains and the revival of industrial activity.

In Pakistan, the balance of payments deteriorated from late 1966 through the first half of 1967 as a result of a sharp increase in imports and a slowing down in the growth of exports. The increase in imports was brought about by the combination of a substantial increase in grain imports necessitated by two years of crop shortfalls and the relaxation of import restrictions. At the same time, the burden of servicing foreign debt was mounting rapidly and by the middle of 1967 the pressures on internal and external resources prompted the authorities to restrict the expansion of credit to the private sector and to reverse the liberalization of imports. Deficit financing, which had been very high during the fiscal year ended in June 1966, was virtually eliminated during 1966/67, mainly by reduction of nondevelopment expenditures. The budget for 1967/68 remained restrictive, although development outlays were increased with an emphasis on foodgrain production and export-oriented industries. In the wake of sterling devaluation, the export bonus scheme, which had grown quite complex since its institution in January 1959, was simplified; the bonus percentages were raised, and the number of effective rates was reduced. At the same time, export duties on jute and cotton were eliminated and a 10 per cent surcharge was placed on most imports other than certain essentials.

In Indonesia the rate of inflation, as measured by consumer prices in Djakarta, came down to 112 per cent in 1967, compared with annual increases of about 600 per cent during 1965 and 1966. The rise in prices during the second half of 1967 was higher than in the first half owing to the worsened food supply situation. With emergency rice imports at the end of 1967 and in early

1968 and a good wet season harvest, price pressures have eased in recent months. Although the Government was able to exercise a greater degree of control over expenditures in 1967, there was a substantial increase in wage payments and rice allowances. Fiscal receipts derived from external trade increased as a result of changes in the exchange system, the imposition of a surcharge on import duties, and upward adjustments in the import duty valuation rate. However, domestic tax receipts did not increase sufficiently in 1967 and a sizable fiscal deficit was incurred. Some success was achieved in reducing the rate of monetary expansion, although the growth of bank credit did accelerate in the fourth quarter of 1967 and early 1968. The reform of the foreign exchange system, which was initiated in October 1966, was carried further in the course of 1967 in that the number of effective rates as well as the spread between them was reduced. The majority of exchange transactions are effected at freely fluctuating rates which have depreciated considerably. Licensing of exports and permissible imports was eliminated. In order to encourage foreign investment in Indonesia, the earlier order to place foreign oil companies under temporary government control was rescinded in 1967, and a number of foreign-owned plantations and enterprises were returned to their former owners.

The balance of payments difficulties that the United Arab Republic had encountered in earlier years deepened during 1966 and 1967. While exports were weak, largely because of the continued decline in cotton output, imports rose substantially from late 1965 through 1966, and the resultant worsening in the balance of payments situation compelled the U.A.R. authorities to reduce sharply the imports of capital goods, raw materials, and intermediate goods from the beginning of 1967. The situation was further aggravated by the outbreak of hostilities, the substantial loss of receipts from the Canal and from tourist spending, and the damage and dislocations caused by the conflict. Pressures on the U.A.R. reserve position were temporarily relieved by foreign exchange support received from the oil-producing Arab states, drawings on the Fund, and the rescheduling of external debts. The Government has also taken further steps to curtail imports and has adopted a broad program of fiscal and monetary restraint. Appropriations for development outlays in the revised 1967/68 budget were reduced substantially for the second consecutive year, government allowances to civil servants and subsidies for certain goods and services were lowered, and tax measures were taken, including the imposition of a surtax on incomes and the upward adjustment of stamp duties and indirect taxes.

More Developed Primary Producing Countries

The economic experience of the more developed primary producing countries in 1967 was rather mixed. In South Africa, where production in 1966 had been affected by drought conditions, and in Ireland, where the emphasis of economic policy shifted toward expansion, the rate of growth was considerably higher than in the previous year. The growth of output in Australia was rapid, although affected by the re-emergence of drought conditions. The economies of most other countries of this group were less buoyant than in 1966. In New Zealand, Finland, Iceland, and Spain, domestic policy was contractionary, largely in response to unfavorable external positions which had arisen in part from internal inflationary pressures, and which were exacerbated in New Zealand and Iceland by declining exports in 1967. In Yugoslavia restrictive policies were continued in order to facilitate adjustments consequent upon the economic reform introduced in mid-1965.

It has been noted that in 1967 the export experience of the more developed primary producing countries was generally more favorable than that of the less developed countries. The main exceptions were New Zealand and Iceland, whose foreign earnings were much reduced by the declines in the value of exports of their principal commodities, wool and fish products, respectively. The exports of Yugoslavia and Finland rose relatively little in 1967. In the other countries in the group, the rate of export growth in 1967 was well maintained relative to the average of recent years. Among the factors contributing to this relatively good export experience were the improved agricultural conditions in a number of countries; substantial increases in sales to Japan, a market of particular importance to Australia and South Africa; and the fact that the exports of many of the more developed primary producing countries in Europe are well diversified and include commodities such as specialized foodstuffs, tobacco, and wine for which demand was well maintained in 1967.

In Australia fiscal policy was moderately expansionary after mid-1966—the strong growth in defense outlays continued and there were no further tax increases—and monetary policy remained easy. Farm income recovered following the end of the severe drought; there was a larger increase in wages and salaries and stronger growth of private consumption. Real GNP in the year ended June 1967 was close to 6 per cent higher than in 1965/66, compared with a rise of only 1½ per cent in the previous year, and the economy continued to expand relatively strongly in the second half of 1967 despite the reappearance of drought conditions. Although lower world prices for wool prevailed, Australian exports increased rapidly in 1967 mainly because of a steep rise in mineral exports to Japan and increased sales of wheat following the record crop in 1966. But imports also climbed as domestic activity quickened, and the deficit on current account widened. Over 1967 as a whole, a favorable turn-around in the direction of official capital flows more than offset some reduction in the inflow of private funds. However, this decline was confined to the first half of the year; the inflow of private capital accelerated greatly in the second half of 1967 and increased even further in the first quarter of 1968.

In South Africa more favorable agricultural conditions in 1967 resulted in a somewhat higher rate of growth. Real gross domestic product increased by nearly 7 per cent from 1966 to 1967, compared with a rise of 6 per cent in the previous year. Anti-inflationary policies were pursued in 1966 and 1967 and included more stringent monetary measures, some tax increases, a dampening of government outlays, and successive relaxations of import controls. Domestic expenditure, which had risen fairly steadily from early 1966 until well into 1967, slackened in the latter part of the year as private consumption tapered off and stockbuilding slowed. Exports have shown considerable strength over the last two years; growth in 1967 was led by certain types of manufactures and, in the second half of the year, by agricultural products. The growth of imports, which had resumed sharply after the relaxation of restrictions in mid-1966, weakened by mid-1967, and during the second half of the year imports declined. Nonetheless, over the year as a whole imports were appreciably higher and the trade surplus was halved. The net inflow of capital declined moderately from 1966 to 1967, and the over-all payments position changed from a substantial surplus in 1966 to a small deficit in 1967.

In Ireland, partly as a result of restrictive measures taken in response to a marked deterioration in the balance of payments, both 1965 and 1966 were years of relatively slow growth. However, a faster rate was resumed in 1967, when real GNP increased by 4 per cent, more than double the gain recorded from 1965 to 1966. The change of policy to an expansionary direction in the latter part of 1966 contributed to more rapid growth, but the rise in demand was led by exports. Exports to the United Kingdom, which takes about 70 per cent of Irish exports, rose by nearly 20 per cent from 1966 to 1967. There was a substantial increase in shipments of meat, and exports benefited from the termination of the British import surcharge in late 1966 and from the establishment of a Free Trade Area with the United Kingdom. Imports to Ireland rose modestly in relation to the growth of the economy, and there was a further improvement in the current account position. The net capital inflow into Ireland had been relatively high in 1966, reflecting heavy official borrowing as well as an increased private capital inflow, but both components fell off sharply in 1967 and a modest outflow was recorded. Ireland has particularly close trading and financial links with the United Kingdom, and the Irish pound was devalued in November 1967 in step with the devaluation of sterling.

In New Zealand a tendency toward conditions of excess demand had prevailed earlier, but the pace of growth lessened in 1966 and slowed further in 1967 in response to restrictive policies as well as to lower export earnings. Since the latter part of 1966, there has been a sharp fall in prices for crossbred wool as a result of structural declines in foreign demand (which to some extent reflected increased substitution of synthetic fibers) and of cyclical factors abroad. The New Zealand

TABLE 20. MORE DEVELOPED PRIMARY PRODUCING COUNTRIES: CHANGES IN EXPORTS AND IMPORTS, 1960-67

(*Value of exports and imports in millions of U.S. dollars*)

	Value of Exports in 1966 [1]	Percentage Changes in Value of Exports: Average annual rate, 1960-65 [2]	1965-66	1966-67	Value of Imports in 1966 [1]	Percentage Changes in Value of Imports: Average annual rate, 1960-65 [2]	1965-66	1966-67
European Countries								
Finland	1,505	8	5	3	1,726	9	5	−1
Iceland	140	14	9	−31	159	9	16	2
Ireland	680	8	11	16	1,044	11	—	4
Greece	406	10	24	22	1,223	10	8	−3
Portugal	620	12	8	10	1,023	11	11	−1
Spain	1,254	6	30	10	3,574	33	19	−3
Turkey	490	8	6	7	725	4	26	−5
Yugoslavia	1,223	14	12	2	1,576	9	22	8
Total	6,318	9	13	7	11,050	14	13	—
Australia, New Zealand, and South Africa								
Australia	3,158	9	6	10	3,636	7	−3	6
New Zealand	1,076	4	7	−8	1,095	6	5	−13
South Africa	1,712	4	13	14	2,526	10	−6	17
Total	5,946	6	8	8	7,257	8	−3	7
Grand Total	12,264	8	10	8	18,307	11	6	3

Source: International Monetary Fund, *International Financial Statistics.*
[1] Derived from customs data, exports f.o.b., imports c.i.f.
[2] Percentage increases from 1960 to 1965 expressed as compound annual rates.

Wool Commission acquired substantial amounts until the floor price to buyers was lowered further in October 1967, and in 1967 as a whole the value of wool exports declined sharply. During the second half of 1967, however, there were increases in the value of exports of meat, timber products, and manufactures; moreover, the volume of wool exports revived somewhat after October. Largely as a result of weaker domestic activity, imports into New Zealand declined from 1966 to 1967, more than offsetting the decrease in exports. On a payments basis, however, the trade surplus deteriorated because a portion of shipments of meat and dairy products was added to unsold stocks held abroad. The New Zealand authorities again raised funds abroad from private sources in 1967, and also obtained assistance by drawing on the Fund both under the compensatory financing facility and under a stand-by arrangement. The New Zealand dollar was devalued by 19.4 per cent shortly after the devaluation of sterling.

Economic growth had also slowed down in Iceland during 1966, and there was a further slackening in 1967 under the impact of weak exports and policies of restraint. Iceland's export earnings, almost entirely derived from fish products, fell by 31 per cent in 1967 as a result of lower prices and supply difficulties, and use was made of the Fund's compensatory financing facility. In November the krónur was devalued by 24.6 per cent.

In Finland stabilization measures taken to deal with domestic inflation and a weak external position contributed to a slow growth of output in 1966 and 1967. There was a tapering off of imports and some improvement in the trade deficit in 1967, despite a further deceleration of export growth. The value of exports of wood, pulp, and paper, which account for nearly two thirds of Finnish exports, declined from 1966 to 1967, mainly because of slacker demand conditions in Germany and other markets. Finland drew on the Fund under its stand-by arrangement during the year and devalued the markka in October by 23.8 per cent. In April 1968 the Government abolished the widespread tying of increases in wages, prices, and financial contracts to price indices.

The growth of the Spanish economy also slowed down in 1967, partly in response to the stabilization measures first introduced in 1966. There

TABLE 21. MORE DEVELOPED PRIMARY PRODUCING COUNTRIES: SUMMARY OF TRADE, SERVICES AND PRIVATE TRANSFERS, AND CURRENT BALANCES, 1965-67

(In millions of U.S. dollars)

	Trade Balance [1]			Balance on Services and Private Transfers			Current Balance		
	1965	1966	1967	1965	1966	1967	1965	1966	1967
European Countries									
Finland	−232	−237	−179	38	35	17	−194	−202	−162
Iceland	4	−8	−55	1	—	−1	5	−8	−56
Ireland	−424	−366	−300	295	285	325	−129	−81	25
Greece	−702	−727	−673	423	489	482	−279	−238	−191
Portugal	−324	−391	−356	286	429	490	−38	38	134
Spain	−1,759	−1,992	−1,781	1,270	1,425	1,315	−489	−567	−466
Turkey	−26	−145	−78	17	71	27	−9	−74	−51
Yugoslavia	−200	−353	−455	235	301	353	35	−52	−102
Total	−3,663	−4,219	−3,877	2,565	3,035	3,008	−1,098	−1,184	−869
Australia, New Zealand, and South Africa									
Australia	−335	103	39	−619	−645	−730	−954	−542	−691
New Zealand	120	166	127	−256	−288	−276	−136	−122	−149
South Africa	22	406	185	−476	−483	−482	−454	−77	−297
Total	−193	675	351	−1,351	−1,416	−1,488	−1,544	−741	−1,137
Grand Total	−3,856	−3,544	−3,526	1,214	1,619	1,520	−2,642	−1,925	−2,006

Sources: Data reported to the International Monetary Fund and staff estimates.
[1] Derived from payments data, exports f.o.b. less imports partly f.o.b. and partly c.i.f. See Supplementary Note B, Table 46.

TABLE 22. MORE DEVELOPED PRIMARY PRODUCING COUNTRIES: SUMMARY OF CURRENT, CAPITAL, AND OVER-ALL BALANCES, 1965-67

(In millions of U.S. dollars)

	Current Balance			Capital Balance			Over-All Balance [1]		
	1965	1966	1967	1965	1966	1967	1965	1966	1967
European Countries									
Finland	−194	−202	−162	100	101	95	−94	−101	−67
Iceland	5	−8	−56	5	12	30	10	4	−26
Ireland	−129	−81	25	93	164	−14	−36	83	11
Greece	−279	−238	−191	248	260	204	−31	22	13
Portugal	−38	38	134	93	75	3	55	113	137
Spain	−489	−567	−466	384	364	309	−105	−203	−157
Turkey	−9	−74	−51	21	65	36	12	−9	−15
Yugoslavia	35	−52	−102	−41	78	34	−6	26	−68
Total	−1,098	−1,184	−869	903	1,119	697	−195	−65	−172
Australia, New Zealand, and South Africa									
Australia	−954	−542	−691	596	562	679	−358	20	−12
New Zealand	−136	−122	−149	36	120	115	−100	−2	−34
South Africa	−454	−77	−297	331	285	259	−123	208	−38
Total	−1,544	−741	−1,137	963	967	1,053	−581	226	−84
Grand Total	−2,642	−1,925	−2,006	1,866	2,086	1,750	−776	161	−256

Sources: Data reported to the International Monetary Fund and staff estimates.
[1] Over-all balance measures the balance financed by changes in official gold and foreign exchange assets, and in the net Fund position. Figures for 1967 have been adjusted to exclude estimated losses arising from the devaluation of sterling: Ireland, Australia, and New Zealand were the countries principally affected.

was an abrupt change of the trend in imports after mid-1966, and a decline occurred from 1966 to 1967 as a result of the weakening of domestic growth—particularly in investment—and of the plentiful harvest of 1966. The 10 per cent growth of exports from 1966 to 1967, while relatively satisfactory, was only one third of the rise recorded in 1966, when exports to Cuba, other Latin American countries, and Eastern Europe increased very rapidly. Over the period 1961-66 Spain had been able to finance a substantial portion of its expanding trade deficit from rapid increases in tourist receipts and workers' remittances, but in 1967 these receipts in total were lower than in 1966. Although the net inflow of private long-term capital was considerably higher in 1967, this was more than offset by an unfavorable turn-around in short-term flows. The Spanish peseta was devalued in November by the same percentage as the pound sterling; accompanying measures included a freeze on wages and many prices in 1968, a strengthening of the fiscal position, and a more stringent monetary policy.

Agricultural conditions in the other southern European primary producing countries were also favorable in 1967; except for Portugal, the same had been true in 1966. In Turkey industrial production continued to increase rapidly and investment remained strong, but industrial output was little changed from 1966 to 1967 in Portugal and Yugoslavia and was considerably less buoyant in Greece than in the previous year. In Yugoslavia exports increased little from 1966 to 1967 as sales to Germany and to some less developed countries fell off, while imports continued to rise, although at a much slower rate than in the previous year. The other southern European primary producing countries, like Spain, realized some reduction in their trade deficits from 1966 to 1967: the rate of export growth in Greece, Portugal, and Turkey was very close to that of the previous year, while their imports declined. Although the surge came somewhat later than in Spain, tourism and workers' remittances are an important source of foreign exchange for these countries. They had all derived support for their payments positions in 1966 from increased surpluses on account of services and private transfers, but in 1967 the slowdown in industrial countries contributed to reductions in these receipts in Greece and Turkey and a smaller increase than in the previous year in Portugal. The net inflows of capital to these countries also declined in 1967. As a result of these developments the pattern of reduced trade deficits was not reflected in correspondingly improved over-all balance of payments positions.

Chapter 7

Gold

DURING 1967 and early 1968, there was a continued and, in certain periods, exceptionally high nonmonetary demand for gold. This demand caused a heavy drain on the official gold reserves of the seven selling members of the gold pool and led to the closing of the London gold market on March 15, 1968. The Governors of the central banks of the countries concerned (Belgium, Germany, Italy, the Netherlands, Switzerland, the United Kingdom, and the United States) examined the operations of the pool at a meeting in Washington on March 16 and 17, 1968. As a result of their deliberations, the gold pool arrangements which had been devised in 1961 were effectively brought to an end. At the conclusion of their meeting in Washington they issued a communiqué in which it was stated, inter alia, that: "They noted that the U.S. Government will continue to buy and sell gold at the existing price of $35 an ounce in transactions with monetary authorities. . . . The Governors believe that henceforth officially held gold should be used only to effect transfers among monetary authorities and, therefore, they decided no longer to supply gold to the London gold market or any other gold market. Moreover, as the existing stock of monetary gold is sufficient in view of the prospective establishment of the facility for Special Drawing Rights, they no longer feel it necessary to buy gold from the market. Finally, they agreed that henceforth they will not sell gold to monetary authorities to replace gold sold in private markets."

At the same time the Managing Director of the Fund, who had attended the Washington meeting, issued a personal statement indicating that the decision not to supply gold from monetary reserves to the markets was readily understandable as a means of conserving the stock of monetary gold. The Managing Director went on to say that "The decision, of course, involves no departure from the obligation of these countries to maintain the par values of their currencies established with the International Monetary Fund. Countries adhering to the Articles of Agreement of the Fund undertake to collaborate with the Fund to promote exchange stability and to maintain orderly exchange arrangements with each other. It is most important that the monetary authorities of all member countries should continue to conduct gold transactions consistently with this understanding and that they should cooperate fully to conserve the stock of monetary gold. Such action will be an important contribution to the functioning of the international monetary system.

"In the longer run it will not be sufficient simply to conserve global reserves. In this connection it is to be noted that work on the establishment of the special drawing rights facility in the Fund is proceeding on schedule. It is to be hoped that this facility will enter into force with the least possible delay in order to make it possible to supplement existing reserve assets as and when needed."

A number of other central banks have in the meantime also announced that they would not buy or sell official gold on the free market, and some changes in gold regulations and marketing procedures have resulted. The main effect of the procedures outlined in the communiqué was that two prices for gold came into existence: an official price of $35 a fine ounce, plus or minus a margin not exceeding the margin of 1 per cent prescribed by the Fund, for dealings among monetary authorities, and a free market price, to fluctuate in accordance with supply and demand. The average price for gold in the London market has fluctuated substantially; between the beginning of April and the end of June, the price has ranged from $38 a fine ounce to a high point of $42.60 a fine ounce.

The U.S. Treasury announced that it would no longer purchase gold from any private source nor would it sell gold to licensed domestic industrial and artistic users. These consumers must satisfy their requirements at home or abroad at the free market price within the limits of their licenses. Since March 1968, a number of banks and commodity firms have obtained licenses to acquire gold from private sources for sale to licensed industrial users and also to export freely to foreign buyers. These authorized gold dealers quote various competitive daily prices based on the costs of obtaining supplies of gold.

The London market was closed from March 15 to April 1, 1968. On its reopening, the Bank of England issued revised instructions for marketing operations. Forward transactions in gold could take place only with the prior permission of the Bank of England, and authorized banks would not be permitted to finance purchases of gold by nonresidents by lending foreign currency or by accepting gold as collateral for foreign currency advances. At the same time the gold dealers announced that, henceforward, the price of gold in the London market would be quoted in terms of U.S. dollars; they also stated that they would waive commission charges on gold purchases and impose a charge of ¼ of 1 per cent on gold sales. In other respects the market continued under previously existing exchange control regulations and market conditions of operation.

South Africa suspended all sales of gold abroad following the closing of the London market. The Minister of Finance stated at the time of presentation of the budget that in the light of South Africa's balance of payments surplus there was no need to sell gold at that time. Newly mined gold would be purchased by the South African Reserve Bank for future sales to both the free and official markets.

On March 15 gold trading was suspended in Canada at the request of the Minister of Finance. Shortly thereafter the suspension was relaxed in respect of overseas dealings as brokers and in respect of sales for industrial and artistic purposes, and on April 3 the remaining temporary restrictions were removed. The Mint would continue to buy gold from producers at $35 an ounce converted into Canadian dollars at current exchange rates and would, for the time being, sell its gold in the free market.

After March 18, 1968 the daily turnover in the Zurich gold market increased markedly to a reported range of 7 tons to 20 tons, compared with a normal 3 tons or less before March 1968. The Zurich gold market is generally regarded as a retail market and offers a wide array of dealing facilities for such purposes. Of the major gold dealing centers, Zurich is the only one that, after April 1, 1968, offered unrestricted forward facilities for dealing in gold.

In other changes, trading in gold was freed from restriction in the Netherlands on March 20, 1968; free gold trading in Amsterdam, the traditional gold market, had been suspended in May 1940. The Austrian National Bank discontinued publication of its buying price for gold on March 20. The Bank of Italy announced on March 22 that it would no longer buy gold from private sellers. Japan took temporary measures to stop the buying of 5 per cent of domestically produced gold for foreign exchange reserves from April 1, 1968. In May 1968 the Indonesian Government banned routine imports of gold and silver to check domestic speculation in these metals.

On June 18, 1968 the Board of Directors of the Frankfurt Stock Exchange Association announced the opening of a fine metals market (with trading initially limited to gold). The market is organized by a group of important domestic commercial banks, including the three largest, and the leading gold processor and bullion dealer. Gold prices are determined at a daily fixing and are posted on the Frankfurt Stock Exchange.

Gold Holdings

Official Holdings

Official gold stocks declined sharply during the calendar year 1967. This was the second consecutive year that losses have been recorded—the equivalent of $1,580 million in 1967, compared with $45 million during 1966 (Table 23 and Chart 24). The total supply of gold coming to the market in 1967 (recorded and estimated production plus sales by the U.S.S.R. less purchases by mainland China) was slightly higher than in 1966, although, as in 1966, the total amount of gold supplies was lower than the average for some years past. Total recorded official gold stocks amounted to $41.6 billion at the end of 1967. Changes in the distribution of gold reserves during the year are discussed in Chapter 4.

Newly mined gold amounted to approximately $1,410 million in 1967 and this was supplemented

TABLE 23. GOLD: MARKETED STOCKS AND DISTRIBUTION BY USE, 1965–FIRST QUARTER 1968

(In millions of U.S. dollars)

	1965	1966	1967	1968 First Quarter
Production [1]	1,440	1,440	1,410	350 [2]
Sales by the U.S.S.R.	550	—	15	11
Purchases by mainland China	−150	−75	−20	—
Total new supplies	1,840	1,365	1,405	361
Change in countries' monetary gold stock [1]	1,005	−950	−1,400	−1,710
IMF gold transactions [3, 4]	−311	783	30	20
BIS and EF gold transactions [3]	−487	121	−209	279
Total added to official monetary gold stock [1] (rounded)	210	−45	−1,580	−1,410
Residual: consumption in industry and arts, and private hoarding	1,630	1,410	2,985	1,770

Sources: International Monetary Fund, *International Financial Statistics*, and staff estimates.
[1] Excluding CMEA countries, mainland China, etc.
[2] Estimated.
[3] Minus sign denotes net outflow of gold from the International Monetary Fund, the Bank for International Settlements, and the European Fund.
[4] Excluding gold placed on general deposit in London and New York amounting to $254 million in 1966, $23 million in 1967, and $8 million in the first quarter of 1968.

by sales of about $15 million from the U.S.S.R. on behalf of some Eastern European countries. Mainland China was again reported as a buyer of gold to the estimated value of $20 million, compared with some $75 million in 1966 and $150 million in 1965. Absorption of gold by industry and the arts and by private hoarding appears to have been of the order of $3.0 billion, $1.6 billion more than in 1966, and $1.4 billion more than in the previous peak year of 1965. Since 1951 it is estimated that $16.5 billion of gold has been used by industry and the arts or has gone into private holdings.

During the first quarter of 1968 countries' monetary gold stocks continued to fall sharply, the decline amounting to $1,710 million, which was $310 million larger than that recorded for the year 1967. Recorded official gold holdings (including those of the Fund, the Bank for International Settlements, and the European Fund) fell by $1,410 million, to $40.2 billion at the end of March 1968. After taking into account the output of newly mined gold, which can be estimated at $350 million during the quarter, and sales by the U.S.S.R. of $11 million, private absorption of gold appears to have reached $1,770 million—of which $210 million is estimated acquisition by industry and the arts.

Gold holdings of the Fund increased during calendar year 1967 by a net of $53 million to total $3,759 million. This total includes the equivalent of $800 million invested in U.S. Government short-term securities (recoverable in gold upon termination of the investment) and $278 million held under general deposit. The total amount of gold received by the Fund in respect of subscriptions amounted to the equivalent of $34 million, of which $23 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 Members—Fourth Quinquennial Review, dated February 26, 1965.[1] Gold received by the Fund in respect of charges amounted to $23 million, which was offset in part by interest paid in gold by the Fund, amounting to $15 million, in respect of borrowings by the Fund of members' currencies under the General Arrangements to Borrow (GAB) and through special arrangements with Italy. Repurchases of members' currencies from the Fund against gold amounted to $11 million.

During the first quarter of 1968 the gold holdings of the Fund increased by a net $28 million (including an increase of $8 million held under general deposit). Gold received in respect of subscriptions amounted to the equivalent of $21 million, of which as noted $8 million was placed on general deposit. The equivalent of $8 million in gold was received in respect of charges, while the Fund paid interest in gold of $3 million on borrowings under the GAB and the special arrangements with Italy. Repurchases of members' currencies against gold amounted to $2 million.

Private Absorption

In calendar year 1967 and in the period up to March 17, 1968, private absorption of gold reached new heights. The very sharp increase in total off-take from the gold markets on this account began in mid-October 1967 and, as explained elsewhere in this Report, was intensified by the devaluation of sterling in November 1967 and the subsequent loss of confidence in some currencies.

Efforts to improve information in the field of private absorption of gold have not yet yielded

[1] See *Annual Report, 1965,* pages 33-34.

CHART 24. GOLD: ESTIMATED NEW SUPPLIES AND ABSORPTION, 1951–FIRST QUARTER 1968

(In millions of U.S. dollars)

[1] Including purchases by mainland China amounting to the equivalent of $150 million in 1965, $75 million in 1966, and $20 million in 1967.
[2] Excluding CMEA countries, mainland China, etc.

TABLE 24. GOLD: MARKETED STOCKS AND DISTRIBUTION BY USE, 1956–FIRST QUARTER 1968

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

Year	(A) Newly Available Gold [1]	(B) Additions to World Monetary Stock [2]	(C) Estimated Industrial And Artistic Use [3]		(D) Estimated Private Hoarding [4]
			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	1,365	−45	500 [5]	225 [6]	685
1967	1,405	−1,580	805 [6]		2,180
1968 First Quarter	360 [6]	−1,410	210 [6]		1,560

[1] New production plus sales by the U.S.S.R. less purchases by mainland China.
[2] Data from International Monetary Fund, *International Financial Statistics.*
[3] Based on series published by the Bank for International Settlements (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.
[4] The residual amount, Columns A − (B+C) = D.
[5] BIS, *Annual Report, 1967.*
[6] Fund staff estimate.

positive results. A comparatively large number of countries have no controls over the use of gold by industry or ownership by private citizens and there is, consequently, no ready means of obtaining accurate statistics. Furthermore, in some of these countries, e.g., Switzerland, France, and Lebanon, important gold markets operate, complicating further the collection of accurate data regarding the private absorption of gold. Information presented in this Report must, therefore, still be regarded as highly tentative. Table 24 has been updated to cover 1967 and the first quarter of 1968 by assuming a slightly increased rate (of about 12 per cent per annum) of consumption for the "Estimated Industrial and Artistic Use." Previous figures have indicated that the annual rate of increase in such consumption might be of the order of 10 per cent. However, the disruption in the gold markets toward the end of 1967 has been reported as causing some build-up of industrial stocks. Estimated private hoarding, given in Column D, is again the residual amount. The increase over the 1966 figure demonstrates quite clearly the impact of the unsettled conditions which existed in the international gold and foreign exchange markets at the end of 1967 and early 1968.

Gold Production

Gold production declined during 1967 after having been stationary in 1966; the decline in 1967 was the first in 14 years. Output decreased by 2.3 per cent, excluding the production of CMEA countries, mainland China, etc.,[2] on which no reliable information is available. Total production was about 40.3 million ounces, worth (at $35 a fine ounce) approximately $1,410 million (Table 25). Of the 11 countries shown in the table, the total production increased in only three —Ghana, Japan, and the Philippines. In South Africa, production decreased for the first time in over 20 years. Production also declined in Canada, the United States, and Australia.

In South Africa gold production fell in 1967 by 1.1 per cent from the level recorded in 1966; nevertheless, South African output constituted more than 75 per cent of total production (of the area covered), compared with just over 50 per cent a decade ago.

For the first time in many years, the tonnage of ore milled by members of the Chamber of Mines of South Africa fell in 1967, and the average grade

[2] See footnote 1, page 27.

TABLE 25. GOLD: VALUE OF WORLD PRODUCTION, 1940, 1945, AND 1963-67 [1]

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

	1940	1945	1963	1964	1965	1966	1967
South Africa	492	428	961	1,019	1,069	1,081	1,068
Canada	186	95	139	133	126	115	104
United States	170	32	51	51	59	63	52
Australia	57	23	36	34	31	32	29
Ghana	31	19	32	30	27	24	27
Rhodesia	29	20	20	20	19	18	18
Japan [2]	30	3	15	16	18	19	24
Philippines	39	—	13	15	15	16	17
Colombia	22	18	11	13	11	10	9
Congo, Dem. Rep. of	20	12	8	8	2	6	5
Mexico	31	17	8	7	8	8	7
Other [3]	157	69	62	60	55	50	50
Total [3]	1,264	736	1,356	1,406	1,440	1,442	1,410

Source: International Monetary Fund, *International Financial Statistics.*
[1] Excluding the output of CMEA countries, mainland China, etc.
[2] Figures in the table include gold obtained in refining imported copper ore, which is returned to the ore-exporting countries. Excluding these re-exports of gold the figures would be 30, 3, 12, 12, 13, 16, and 18.
[3] These figures include estimates for data not available.

of ore also declined slightly. Combined working profits from gold, uranium, and other products fell further in 1967 to R 308 million ($431 million) after having fallen to R 326 million ($456 million) in 1966. Although only about 2 per cent of South African production is mined at a loss, 70 per cent of the total profits and about one third of production is accounted for by the 10 largest of the 44 gold mines operating as members of the Chamber of Mines. The profits of this group in 1967 were slightly lower than in 1966, and their output had risen by only 0.6 per cent, while working costs per ton milled increased by almost 3 per cent in 1967.

It is difficult to estimate the trend of South African gold production over the next few years. The start of production of two new mines in early 1968, the implementation of new subsidy arrangements (see p. 92), and further technological innovation, especially a new rock cutter which is being tested and, if successful, could reduce working costs up to 20 per cent, would all tend to a further increase in output of gold. But it is difficult at this stage to assess the impact of a higher free price of gold on the longevity of existing mine operations or on further exploration. Whether mining profits would increase as a result of higher prices on the free markets will be influenced, among other things, by the amount of gold that South Africa may sell on the free markets as well as by the structure of income taxation of the gold mines and by the amount of lease payments.

Canadian gold production, which totaled $104 million, fell by about 10 per cent in 1967 owing to the closing of four mines that had been particularly affected by labor shortages, rising production costs, and diminishing ore reserves. Gold production in the United States declined by 18 per cent from the previous year, primarily owing to the effects of the long strikes at major copper mining and smelting companies; about one third of the country's gold production is a by-product of copper mining. Total production was put at 1.5 million ounces, valued at $52 million. Gold production is likely to be favorably affected by the opening of a new mine project and resumption of activity in the copper industry.

Gold production in the other countries covered in Table 25, taken as a group, showed a slight increase in 1967. There has been a growth of gold exploration in the last few years and gold discoveries have been made in Afghanistan, Brazil, British Honduras, Ghana, India, and Rhodesia. The quantity of payable ore is thought to be small in most cases. New gold discoveries have been reported in the U.S.S.R., and a major reorganization of the Siberian gold industry is reported being prepared in order to reduce the high costs of Soviet gold production.

Gold Movements

United States

During 1967 official sales of gold abroad (including gold pool operations) by the U.S. Treasury totaled $1,009 million, net of U.S. purchases and domestic industrial use (Table 26). In the first quarter of 1968 the U.S. Treasury sold about $1,309 million net, surpassing the total for the entire year 1967. In addition, the equivalent of $160 million was sold from U.S. gold stock in 1967 and $52.5 million in the period January 1 to March 15, 1968 to cover demand for industrial, professional, and artistic use not met by new production and recovered gold. After March 15, 1968 the Treasury ceased sales of gold to licensed industrial users. On March 18, 1968 the United States formally removed the 25 per cent gold cover for Federal Reserve notes which had previously been a legal requirement, the congressional bill for this removal having been proposed in 1967.

Purchases of gold from abroad amounted to $204 million during 1967 and to $50 million in the first quarter of 1968. The bulk of the purchases, equivalent to $150 million in the last quarter of 1967 and $50 million in the first quarter of 1968, was made from Canada. During the first three quarters of 1967 Peru sold the equivalent of $35 million to the United States.

In the first quarter of 1967 the equivalent of $3 million (net) was purchased from the United Kingdom; however, over the year the figures show net sales to that country of $878 million. During the first quarter of 1968 net gold sales to the United Kingdom rose to $900 million. These sales to the United Kingdom include the U.S. share of gold pool losses during the year and up to March 15, 1968. The U.S. share in the pool was 50 per cent until June 1967, when the United States assumed France's contributing share of 9 per cent. The Bank of England, as agent for the gold pool, announced that the selling members of the pool sold over $3 billion of gold between the time of the devaluation of sterling on November 18, 1967, and their Washington meeting on March 16 and 17, 1968.

Other sales of gold by the U.S. Treasury included the equivalent of $30 million to Switzerland in the second quarter of 1967, and $25 million in the first quarter of 1968; the equivalent of $150 million was sold to Algeria in the last quarter of 1967; also $85 million was sold to Italy in the last quarter of 1967 and a further $184 million was sold in the first quarter of 1968. The equivalent of $48 million was sold to the Netherlands in the first quarter of 1968. In addition, certain Fund members purchased gold from the United States 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 net sales of $1,009 million and $1,309 million mentioned above, as the Fund has placed an equivalent amount of gold on general deposit with the Federal Reserve Bank of New York. On April 30, 1968, the Fund's general gold deposit with the Federal Reserve Bank of New York amounted to the equivalent of $245 million. Under a similar arrangement the Fund had placed the equivalent of $44 million on general deposit with the Bank of England.

TABLE 26. UNITED STATES: GOLD TRANSACTIONS, 1965–FIRST QUARTER 1968

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

	1965	1966	1967	1968 First Quarter
Purchases from				
Brazil	25.2	—	—	—
Canada	—	200.0	150.0	50
Italy	—	—	—	—
Peru	—	—	35.0	—
United Kingdom	149.7	79.8	—	—
Other countries	38.4	33.1	19.0	0.2
Total	213.3	312.9	204.0	50.2
Sales to				
Algeria	—	—	149.6	—
Austria	100.0	—	—	—
Belgium	82.7	—	—	25.0
France	884.2	600.9	—	—
Italy	80.0	60.0	85.0	184.0
Netherlands	35.0	—	—	48.5
Spain	180.0	—	—	—
Switzerland	50.0	2.0	30.0	25.0
Turkey	36.8	12.5	0.1	—
United Kingdom	—	—	878.5 [1]	899.6 [1]
Other countries	52.5	68.3	70.2	177.4
Industrial, professional, artistic	117.9	140.6	160.2	52.5
Total	1,619.1	884.3	1,373.6	1,412.0
Transfer to International Monetary Fund	258.8 [2]	—	—	—
Total	1,877.9	884.3	1,373.6	1,412.0
Net decrease in stocks	1,664.6	571.4	1,169.6	1,361.8

Source: U.S. Treasury Department, *Foreign Gold Transactions*.
[1] These totals largely reflect the U.S. share in the gold pool arrangements for which the Bank of England acted as agent.
[2] Since the increase in Fund quotas did not take effect until calendar 1966, this transfer to the Fund is recorded elsewhere in this Report as being effected by the U.S. Treasury during calendar 1966.

The amount of gold held under earmark by Federal Reserve Banks for accounts of foreign governments, central banks, and international organizations increased in 1967 by the equivalent of $307 million, to $13,253 million.

United Kingdom

The United Kingdom sold the equivalent of $649 million of gold during 1967, the bulk of the sales occurring in the last quarter of 1967. These sales reflected the United Kingdom's share of the gold pool losses and also its balance of payments deficit.[3] In the first quarter of 1968, the United Kingdom exported gold bullion equivalent to $1,070 million. A considerable proportion of these exports reflected the gold pool operations for the first ten weeks of the year; almost $450 million of bullion was exported to Switzerland and Liechtenstein during the quarter.

Gold Markets and Prices

London

During 1967 and up to the temporary closing of the London gold market on March 15, 1968, the demand for gold from the London market was comparatively strong and, at certain periods, became intense. Up to March 15, 1968, the price of gold was maintained below $35.20 a fine ounce through the operations of the gold pool, but for much of the period the price was on the high side of the pool's effective range of about $35.08 to $35.20 a fine ounce (Chart 25), and, except for short periods of time, the gold pool supplied the market with considerable quantities of gold to keep down the price. This was particularly apparent in the three-month period centering on the devaluation of sterling on November 18 when the demand for gold was very strong, and for many days during that period the "fixing" price for gold was $35.19⅞ a fine ounce. There were, however, short spells of relative calm in the market as, for example, following the Frankfurt meeting of the representatives of the central banks of the seven selling members of the gold pool on November 26, 1967. Demand was again only moderate in the latter part of December and in the first half of January 1968 following an announcement by the United States on December 16 that it stood firm in its determination to maintain the gold value of the dollar and that the operation of the London gold market would remain unchanged. Nevertheless, by the end of February demand increased to very high levels. The demand for gold was not allayed by an announcement of the selling members of the gold pool, meeting at the Bank for International Settlements in Basle on March 10, that "the central banks contributing to the London gold pool reaffirmed their determination to continue their support to the pool based on the fixed price of $35 per ounce of gold." Indeed, the increase in demand rose to panic proportions and a decision was made to close the London gold market on March 15, thus stopping the drain on official monetary reserves.

During their meeting in Washington on March 16 and 17, 1968, the selling members of the gold pool, as noted above, decided to stop supplying gold from monetary reserves to the London gold market or any other gold market. The London market remained closed until April 1, 1968 to allow the market to regain its stability. Upon reopening, the private purchase and sale of gold was carried out at free market rates, and two daily price fixings were established.

For most of the month following the reopening of the market, trading was light but prices tended to drift upward (Chart 26). The first fixing upon reopening was set at $38.00 a fine ounce, an increase of 8 per cent from the previous fixing on March 14. By mid-May comparatively heavy demand for gold was encountered and by May 21 the price of gold reached $42.60 a fine ounce. Thereafter, demand moderated and prices fell to about $41 a fine ounce in the last week of June.

Paris

The November 1967 gold rush also affected the Paris market, sending bar gold to a high equivalent price of $35.55 an ounce, sovereigns to $44.99 per ounce of gold, and napoleons to a record high of $59.01 a fine ounce on December 15. Sales reached 15 tons to 18 tons a day compared with previous sales which averaged less than 1 ton. By the end of December, bar and coin prices had fallen to their pre-November levels, about $43 a fine ounce for sovereigns and about $54.50 a fine ounce for napoleons.

[3] On these sales see further page 42.

CHART 25. GOLD: PRICE IN LONDON MARKET, MONTHLY AVERAGES, MARCH 1954–MARCH 14, 1968

(In U.S. dollars a fine ounce)

In March 1968 gold prices began to rise again. On March 15, when the Paris gold market remained open despite the closing of the London and Zurich markets, the kilogram ingot was fixed at the equivalent of $44.41 a fine ounce (26.9 per cent above the price of $35 a fine ounce); sales were reported to be about 45 tons or 65 times what had been considered normal.

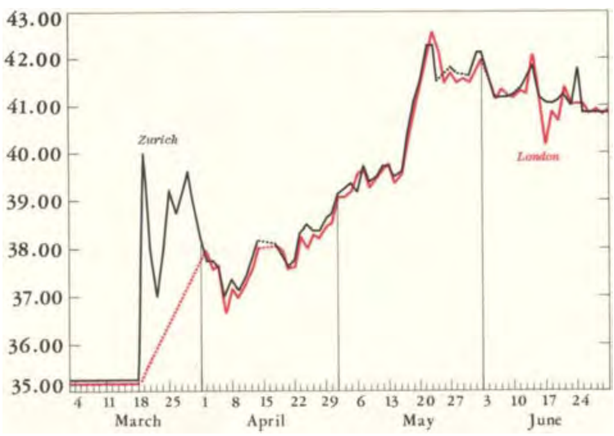
During April the Paris price moved parallel to the London price. In early May 1968 it was announced that the operational capacity of the market would be extended. Six banks would deal in gold, including 12.5 kilogram bars, and bullion prices would be established by these banks at a twice-daily fixing. However, at the end of May 1968 temporary foreign exchange control measures were introduced which, inter alia, affected the operation of the gold market. Imports and exports of gold became subject to prior government authorization, and, taken in conjunction with other exchange control regulations, this effectively closed the Paris gold market for international dealings. Gold prices in Paris rose above the levels ruling in London and Zurich, the spread reflecting the impossibility of effecting arbitrage operations.

Zurich

Zurich has always been a leading center for the trading of gold coins. Since sterling devaluation,

CHART 26: GOLD: PRICES IN LONDON AND ZURICH, MARCH–JUNE 1968

(In U.S. dollars a fine ounce)



however, bar gold trading in Zurich has become substantially heavier than what was considered normal in the past. In mid-March 1968, demand was extremely heavy, but this demand was reflected largely in the London figures. This market was also closed on March 15, and, at its reopening on March 18, demand was reported at about 20 tons, compared with demand of about 100 tons for a number of days preceding. Between March 18 and June 28, equivalent price quotations ranged from $36.88 to $42.25 a fine ounce.

Developments in Other Markets

The price for bar gold fluctuated within rather wide ranges in important free markets such as Beirut and Hong Kong. During the period May 1, 1967 to April 30, 1968, the price of bar gold in Beirut rose from $35.36 a fine ounce to $39.29 a fine ounce and rose by a further $2.50 a fine ounce by the end of June 1968. In Hong Kong, where gold prices are usually higher than in Europe and Beirut, because of transportation costs and the relatively small units traded, the price of bar gold rose from $40.23 a fine ounce in May 1967 to $43.48 in April 1968 and to $44.49 by the end of June 1968.

In the Bombay gold market prices were much steadier. Prices in this market, however, essentially reflect domestic demand and supply conditions in a closed market. The price of bar gold, which was $64.90 a fine ounce at the beginning of May 1967, rose to $65.11 a year later and, by the end of June 1968, was $65.73 a fine ounce.

On the basis of the 1945 Currency Act, the Netherlands Bank issued a general permit allowing a free gold market in Amsterdam on March 20, 1968. The volume of transactions has been and is expected to remain small. On March 29 and April 1, the equivalent prices quoted in this market were $39.00 and $38.25 a fine ounce, respectively.

Gold Subsidy Programs

The gold subsidy programs of Australia,[4] the Philippines,[5] and Rhodesia,[6] discussed in previous Annual Reports, have continued in operation during the past year.

Canada has consulted the Fund with regard to the extension for a period of three years, to December 31, 1970, of its present governmental assistance to gold producers.[7]

South Africa has also consulted the Fund with regard to changes in its gold subsidy scheme. The Government proposed to continue assistance to marginal mines for water pumping, introduced in 1963, to discontinue the granting of unsecured loans,[6] and to implement, effective April 1, 1968, a new scheme for marginal gold mines. This new scheme is open to mines that, without the benefit of assistance, are likely to close within eight years. These mines would have to lower their operating pay limit before qualifying for a tax reduction or for an actual grant ("negative tax"), each determined by a fixed formula.

The Fund has deemed the arrangements by Canada and South Africa to be not inconsistent with the objectives of the Fund's statement on gold subsidies dated December 11, 1947.

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[4] See *Annual Report, 1960,* page 144; *1963,* page 181; *1965,* page 103.
[5] See *Annual Report, 1962,* page 164; *1963,* page 181; *1967,* page 124.
[6] See *Annual Report, 1964,* page 109.
[7] See *Annual Report, 1959,* pages 149-50; *1961,* pages 125-26; *1964,* page 109.

SUPPLEMENTARY NOTES

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A. Activities of the Fund

THIS note presents more detail than contained in Chapter 3 on the activities of the Fund during the past year other than those related to the Proposed Amendment of the Fund's Articles of Agreement dealt with in Chapter 2. For some aspects of its work, the data cover the period since the Fund's inception.

Membership

The Gambia became a member of the Fund on September 21, 1967, with a quota of $5 million, bringing the Fund's total membership to 107. During the fiscal year 1967/68, the Board of Governors approved the terms and conditions for the admission of Botswana and Lesotho to membership. Applications for membership from Malta and Mauritius were also under consideration at the end of the fiscal year. With the additional member and the increases in quotas shown in Table 29, the aggregate of Fund quotas on April 30, 1968 was $21,119 million, compared with $20,921 million a year earlier.

Executive Directors

A list of the Executive Directors and Alternate Executive Directors and their voting power as of April 30, 1968 is given in Appendix II; changes in membership of the Executive Board during 1967/68 are shown in Appendix III.

Article VIII

Last year's Annual Report noted that three countries accepted the obligations of Article VIII, Sections 2, 3, and 4, of the Fund Agreement early in the fiscal year 1967/68. These were Denmark, with effect from May 1; Norway, with effect from May 11; and Bolivia, with effect from June 5, 1967. The 31 members that have rendered their currencies convertible under the Articles of Agreement are listed in Table 27.

TABLE 27. COUNTRIES THAT HAVE ACCEPTED ARTICLE VIII, APRIL 30, 1968

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

Two members established initial par values with the Fund and 17 members received the Fund's concurrence on changes in their par values during the fiscal year 1967/68. A list of these members and the par values agreed is given in Table 28.

New currency units affecting par values were introduced in two countries. The Government of New Zealand introduced a decimal unit—the New Zealand dollar—to replace the New Zealand pound, on July 10, 1967; and the Government of

Table 28. Initial Par Values Established and Changes in Par Values, Fiscal Year Ended April 30, 1968

Member	Currency Unit	Units of Currency Per U.S. Dollar of the Weight and Fineness in Effect on July 1, 1944			Effective Date
		Initial par value	Changes in par value: From	Changes in par value: To	
Ceylon	Rupee		4.76190	5.95237	Nov. 21, 1967
Cyprus	Pound		0.357143	0.416667	Nov. 20, 1967
Denmark	Krone		6.90714	7.50000	Nov. 21, 1967
Finland	Markka		3.20000	4.19997	Oct. 12, 1967
Ghana	New Cedi		0.714286	1.02041	July 8, 1967
Guyana	Dollar		1.71429	2.00000	Nov. 20, 1967
Iceland	Króna		43.0000	57.0000	Nov. 27, 1967
Ireland	Pound		0.357143	0.416667	Nov. 18, 1967
Israel	Pound		3.00000	3.50000	Nov. 19, 1967
Jamaica	Pound		0.357143	0.416667	Nov. 21, 1967
Malawi	Pound		0.357143	0.416667	Nov. 20, 1967
Nepal	Rupee	10.1250			Dec. 11, 1967
New Zealand	Dollar		0.359596[1]	0.719194	July 10, 1967
			0.719194	0.892857	Nov. 20, 1967
Sierra Leone	Leone		0.714286	0.833333	Nov. 21, 1967
Singapore	Dollar	3.06122			June 12, 1967
Spain	Peseta		60.0000	70.0000	Nov. 20, 1967
Trinidad and Tobago	TT Dollar		1.71429	2.00000	Nov. 22, 1967
United Kingdom	Pound Sterling		0.357143	0.416667	Nov. 18, 1967
Zambia	Kwacha		0.357143[2]	0.714286	Jan. 16, 1968
Separate Currencies in Nonmetropolitan Areas of the United Kingdom[3]					
Antigua, Dominica, Montserrat, St. Christopher-Nevis-Anguilla, St. Lucia, St. Vincent	East Caribbean Dollar (4.80 per pound sterling)		1.71429	2.00000	Nov. 18, 1967
British Honduras	Dollar (4.00 per pound sterling)		1.42857	1.66667	Nov. 18, 1967
Bermuda, Falkland Islands, Gibraltar	Pound (parity with sterling)		0.357143	0.416667	Nov. 18, 1967
Fiji	Pound (1.04500 per pound sterling)		0.396429	0.462500	Nov. 18, 1967
			0.462500	0.435417	Nov. 26, 1967
Hong Kong	Dollar (14.5455 per pound sterling)		5.71429	6.66667	Nov. 18, 1967
			6.66667	6.06061	Nov. 22, 1967
Mauritius[4], Seychelles	Rupee (13⅓ per pound sterling)		4.76190	5.55555	Nov. 18, 1967

[1] Par value of the New Zealand pound, former currency unit. The par value of the new currency unit did not involve any appreciation or depreciation of the currency.
[2] Par value of the Zambian pound, former currency unit. The par value of the new currency did not involve any appreciation or depreciation of the currency.
[3] There was no change in the par values of the Bahamian dollar, Bahrain dinar, Brunei dollar, Rhodesian pound, and Tongan pound.
[4] Mauritius became an independent country on March 12, 1968; consequently, its currency has had no par value agreed with the Fund since that date.

Zambia also established a decimal unit—the kwacha—to replace the Zambian pound, on January 16, 1968. The par values agreed by the member and the Fund for the New Zealand dollar and the Zambian kwacha, effective on the dates of their introduction, did not involve any appreciation or depreciation of the respective currencies. The Malaysian Government informed the Fund that, effective June 12, 1967, the name of its currency unit would be changed from Malayan dollar to Malaysian dollar. Concurrent with that change, the Singapore Government put into circulation in its territory a new currency, the Singapore dollar, to replace the Malayan dollar and agreed with the Fund an initial par value for the new currency; the Government of the United Kingdom notified the Fund that the Government of Brunei had introduced the Brunei dollar to replace the Malayan dollar on the same date. For none of the last three territories was there a change in par value.

The Democratic Republic of Congo, which had not established a par value for its currency with the Fund, informed the Fund that, effective June 23, 1967, a new monetary unit—the zaïre—would be introduced to replace the Congo franc and agreed with the Fund a new exchange rate of 1 zaïre per US$2.00.

On November 18, 1967, the Fund concurred in a proposal by the United Kingdom for a change in the par value of the pound sterling from US$2.80 to US$2.40 per pound sterling. The U.K. Government also proposed changes, in which the Fund concurred, in the par values of most of the separate currencies of nonmetropolitan areas in respect of which it accepted the Articles of Agreement.

Within ten days of the United Kingdom's devaluation, 13 other members altered their par values in agreement with the Fund, moves which generally reflected close economic ties between those countries and the British market or payments difficulties that already had been developing. Nine of these changes (devaluations by Cyprus, Guyana, Ireland, Israel, Jamaica, Malawi, Sierra Leone, Spain, and Trinidad and Tobago) were of the same proportion—14.3 per cent—as the U.K. devaluation; the other devaluations amounted to 7.9 per cent for Denmark, 19.45 per cent for New Zealand, 20 per cent for Ceylon, and 24.6 per cent for Iceland. The Gambia, which had not yet established a par value, proposed to the Fund a 14.3 per cent change in its exchange rate from 0.357143 Gambian pound per U.S. dollar to 0.416667 Gambian pound per U.S. dollar, to which the Fund agreed, effective November 20, 1967.[1] Somewhat similarly, the initial par value agreed by Nepal with the Fund on December 11, 1967 represented a devaluation of 24.75 per cent from the previous official exchange rate.

Quotas

By April 30, 1968, 94 members had increased their quotas under the two Resolutions of the Board of Governors relating to Increases in Quotas of Members—Fourth Quinquennial Review, adopted March 31, 1965, which provided for a general increase of 25 per cent for all members and special increases for 16 members.[2] In addition, another member—Burma—had consented to its authorized increase, which became effective on May 27, 1968 upon payment of the amount of the increased subscription, 25 per cent in gold and the remainder in the member's currency. The 95 members that consented to the increases represented 95.83 per cent of the total voting power of the membership on February 26, 1965, the date of the Executive Directors' Report to the Governors concerning these increases. Of the 19 members that had elected initially to increase their quotas in five equal annual installments, one decided during the fiscal year 1966/67 and three in 1967/68 to accelerate payment as provided under the Resolutions and completed their full authorized increases.[3] The Executive Directors extended the period for consent under the First Resolution of the Board of Governors (the 16 members that were entitled to special increases under the Second Resolution having already taken up their increases) to April 30, 1968, at which date the period lapsed. Six countries that were Fund members on February 26, 1965 had not formally consented to increases in their quotas under the above-mentioned Resolutions.

The Board of Governors, during the year under review, approved increases in quotas for 6 members—Korea, Nigeria, Peru, Trinidad and Tobago, Uruguay, and Viet-Nam—under the Compensatory Financing Decision. That Decision specifies that the Fund is willing to give sympathetic consideration to requests for adjustment of 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. Each member concerned formally consented to the increase, which became effective accordingly—for 5 of the countries before the end of the fiscal year and for Trinidad and Tobago on May 17, 1968.

Increases in quotas during 1967/68, shown in Table 29, aggregated $193 million.

Fund Transactions

Purchases

During the past fiscal year 36 members purchased currencies amounting to the equivalent of $1,348 million. This total, although below record levels attained in previous years, was 27 per cent

[1] The latter rate was agreed with the Fund as the initial par value for the currency of The Gambia on July 8, 1968.

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

[3] Possible apparent inconsistency of these data and those in Table 29 results from the fact that the table does not list two members that recorded two installments in 1966/67 and none in 1967/68.

TABLE 29. INCREASES IN QUOTAS, FISCAL YEAR ENDED APRIL 30, 1968

(In millions of U.S. dollars)

Member	Quota on May 1, 1967	New Quota in Accordance With		Effective Date of Change
		General increase in quotas	Compensatory Financing Decision	
Algeria	66.00	69.00[1]		Apr. 26, 1968
Chad	8.00	8.50[2]		June 24, 1967
Chile	100.00	125.00		Feb. 9, 1968
Congo (Brazzaville)	8.00	8.50[2]		June 3, 1967
Congo, Dem. Rep. of	47.40	57.00[3]		June 12, 1967
Dahomey	8.00	8.50[2]		June 16, 1967
Dominican Rep.	27.80	29.20[1]		Mar. 29, 1968
Gabon	8.00	8.50[2]		May 9, 1967
Ivory Coast	16.60	17.40[1]		Mar. 25, 1968
Jordan	13.75	14.50[1]		Mar. 22, 1968
		16.00[4]		Apr. 19, 1968
Korea	24.00		50.00	Mar. 23, 1968
Luxembourg	15.80	16.60[2]		Aug. 16, 1967
Malaysia	110.00	115.00[1]		Mar. 25, 1968
Mauritania	8.50	9.00[1]		Apr. 22, 1968
Morocco	79.20	82.80[1]		Apr. 15, 1968
Niger	8.00	8.50[2]		Aug. 29, 1967
Nigeria	63.00		100.00	Mar. 19, 1968
Peru	47.00		85.00	June 22, 1967
Rwanda	12.75	15.00[5]		Apr. 15, 1968
Upper Volta	8.00	8.50[2]		May 17, 1967
Uruguay	30.00	38.00		Jan. 25, 1968
			55.00	Feb. 23, 1968
Viet-Nam	29.00		39.00	July 31, 1967

[1] After payment of the third of five annual installments under the general increase in quotas.
[2] After payment of the second of five annual installments under the general increase in quotas.
[3] After completion of payment under the general increase in quotas, subsequent to earlier payment of first installment.
[4] After completion of payment under the general increase in quotas, subsequent to earlier payment of three installments.
[5] After completion of payment under the general increase in quotas, subsequent to earlier payment of two installments.

higher than that in 1966/67. Of the $1,348 million, the equivalent of $441 million was purchased by 23 members under the terms of stand-by arrangements, $220 million by 12 members under the Fund's Compensatory Financing Decision, $6 million by a member in connection with the increase in its quota under the First Resolution of March 31, 1965, and $682 million by 7 members in other transactions. Nigeria purchased currency from the Fund for the first time and Indonesia for the first time since resumption of membership. Purchases made by Canada and the United States represented almost one half the total drawings during the year.

Table 30 sets out members' purchases of currencies from the Fund during the fiscal year ended April 30, 1968.

The largest purchase, equivalent to $391 million, was made by Canada in February 1968. This drawing corresponded to the amount of Canada's gold subscription paid to the Fund and the amount of Canadian dollars purchased by other members from the Fund. At the same time the Fund also repaid its $35 million indebtedness to Canada under the General Arrangements to Borrow. The second largest purchase, equivalent to $200 million, also within the member's gold tranche, was made by the United States in March 1968. The amount of this drawing approximately equaled the total of U.S. dollars used in the above-mentioned Canadian operations.

Stand-By Arrangements

During the past fiscal year the Fund approved stand-by arrangements for 31 members, authorizing purchases equivalent to $2,352 million. The significant increase of 400 per cent in the amount not drawn over that at the end of the previous fiscal year was principally the result of the stand-by arrangement equivalent to $1,400 million approved for the United Kingdom in November 1967. By April 30, 1968 drawings of currencies equivalent to $211 million had been made by 14 members under these arrangements. Table 31 gives data on stand-by arrangements in effect during the past fiscal year. Some particulars of arrangements approved during 1967/68 and not following similar arrangements existing for the same countries in the previous year are given in the following paragraphs.

Argentina. In May 1967 the Fund approved a stand-by arrangement for Argentina, authorizing drawings up to $125 million. This arrangement was canceled on April 14, 1968 and a new arrangement, for the same amount, was agreed on April 15. Both stand-by arrangements were in support of Argentina's efforts directed at achieving financial stability and improving the rate of economic growth. No drawings were made under these arrangements during the fiscal year.

Chile. A stand-by arrangement for Chile, effective in March 1968, authorized drawings up to the equivalent of $46 million to support a program designed to ensure continuing progress toward the achievement of economic growth and the control of inflation. Under the arrangement $19 million had been drawn by April 30.

Democratic Republic of Congo. In July 1967 the Fund approved a stand-by arrangement for the Democratic Republic of Congo, the first for this member, authorizing drawings up to the equivalent of $27 million. It was intended to support a program designed to restore monetary stability and conditions of growth for the economy.

TABLE 30. PURCHASES OF CURRENCIES FROM THE FUND, FISCAL YEAR ENDED APRIL 30, 1968

(In millions of U.S. dollars)

Member Purchasing	Under Stand-By Arrangements	Under Decision on Compensatory Financing	In Connection With Quota Increase Under First Resolution	Other Purchase Transactions	Total
Afghanistan	2.00				2.00
Bolivia	12.00				12.00
Burma		7.50		7.50	15.00
Burundi	4.00				4.00
Canada				391.00	391.00
Ceylon		19.30			19.30
Chile	19.00		6.25		25.25
Colombia	35.60	1.90 [1]			37.50
Costa Rica	2.75				2.75
El Salvador	5.00				5.00
Finland	38.75				38.75
Ghana	25.00				25.00
Guatemala	3.75	6.25 [1]			10.00
Haiti		2.30			2.30
Iceland		3.75			3.75
India		90.00			90.00
Indonesia	16.00				16.00
Iran				31.25	31.25
Iraq		17.50 [2]		2.50	20.00
Liberia	4.05				4.05
Mali	3.00				3.00
New Zealand	60.00	29.20			89.20
Nigeria				9.25	9.25
Peru	42.50				42.50
Philippines	55.00				55.00
Rwanda	2.00				2.00
Sierra Leone	3.40				3.40
Somalia	6.50				6.50
Sudan	19.00				19.00
Syrian Arab Republic		9.50			9.50
Tunisia	12.50				12.50
Turkey	24.00				24.00
United Arab Republic		23.00		40.00	63.00
United States				200.00	200.00
Uruguay		9.50			9.50
Yugoslavia	45.00				45.00
Total	440.80	219.70	6.25	681.50	1,348.25

[1] Reclassified from purchases under stand-by arrangements.
[2] Reclassified from other purchase transactions.

No drawings were made under this arrangement during the fiscal year.

El Salvador. The arrangement for El Salvador, approved in December 1967, authorized drawings up to the equivalent of $10 million. The arrangement was to assist efforts by national authorities to restore equilibrium in the country's balance of payments by providing a secondary line of reserves. A drawing of $5 million was made under this arrangement during the fiscal year.

Honduras. The stand-by arrangement for Honduras, which became effective in January 1968, authorized purchases up to the equivalent of $11 million to provide a secondary line of reserves available in the event of temporary balance of payments difficulties. No drawings took place during the balance of the fiscal year.

Indonesia. An arrangement for Indonesia, the first after the member rejoined the Fund in February 1967, was approved in February 1968. It authorized drawings up to $51.75 million to support a program designed to stabilize and rehabilitate the country's economy. An amount equivalent to $16 million had been drawn by the end of the fiscal year.

Mali. In August 1967 the Fund approved a stand-by arrangement authorizing Mali to draw up to the equivalent of $6.5 million. The arrangement

TABLE 31. FUND STAND-BY ARRANGEMENTS FOR MEMBERS, FISCAL YEAR ENDED APRIL 30, 1968

(In millions of U.S. dollars)

Member	Date of Inception	Date of Expiration	Amount	New or Renewed in 1967/68	Amount Not Drawn April 30, 1968
Afghanistan	Aug. 3, 1966	Aug. 2, 1967	8.00	—	—
Argentina	May 1, 1967	Apr. 30, 1968	125.00 [1]	125.00	—
	Apr. 15, 1968	Apr. 14, 1969	125.00	125.00	125.00
Bolivia	Dec. 2, 1966	Dec. 1, 1967	18.00	—	—
	Dec. 2, 1967	Dec. 1, 1968	20.00	20.00	8.00
Brazil	Feb. 13, 1967	Feb. 12, 1968	30.00	—	—
	Apr. 29, 1968	Apr. 28, 1969	87.50	87.50	87.50
Burundi	Mar. 28, 1967	Mar. 27, 1968	6.00	—	—
	Mar. 28, 1968	Mar. 27, 1969	6.00	6.00	2.00
Ceylon	June 15, 1966	June 14, 1967	25.00	—	—
Chile	Mar. 1, 1968	Feb. 28, 1969	46.00	46.00	27.00
Colombia	Apr. 15, 1967	Apr. 14, 1968	60.00	—	—
	Apr. 19, 1968	Apr. 18, 1969	33.50	33.50	33.50
Congo, Dem. Rep.	July 6, 1967	July 5, 1968	27.00	27.00	27.00
Costa Rica	Aug. 17, 1967	Aug. 16, 1968	15.50	15.50	12.75
Ecuador	July 15, 1966	July 14, 1967	13.00	—	—
El Salvador	Dec. 5, 1967	Dec. 4, 1968	10.00	10.00	5.00
Finland	Mar. 6, 1967	Mar. 5, 1968	93.75	—	—
Ghana	May 17, 1966	May 16, 1967	36.40	—	—
	May 25, 1967	May 24, 1968	25.00	25.00	—
Guatemala	Apr. 1, 1967	Mar. 31, 1968	13.40	—	—
	Apr. 16, 1968	Apr. 15, 1969	10.00	10.00	10.00
Guyana	Feb. 15, 1967	Feb. 14, 1968	7.50	—	—
	Feb. 15, 1968	Feb. 14, 1969	4.00	4.00	4.00
Haiti	Oct. 1, 1966	Sept. 30, 1967	4.00	—	—
Honduras	Jan. 1, 1968	Dec. 31, 1968	11.00	11.00	11.00
Indonesia	Feb. 19, 1968	Feb. 18, 1969	51.75	51.75	35.75
Korea	Mar. 22, 1967	Mar. 21, 1968	18.00	—	—
	Apr. 11, 1968	Apr. 10, 1969	25.00	25.00	25.00
Liberia	June 1, 1966	May 31, 1967	6.00	—	—
	June 1, 1967	May 31, 1968	4.40	4.40	1.10
Mali	Aug. 21, 1967	Aug. 20, 1968	6.50	6.50	3.50
Morocco	Sept. 23, 1966	Sept. 22, 1967	50.00	—	—
	Oct. 27, 1967	Oct. 26, 1968	50.00	50.00	50.00
New Zealand	Oct. 25, 1967	Oct. 24, 1968	87.00	87.00	27.00
Nicaragua	Mar. 1, 1968	Feb. 28, 1969	19.00	19.00	19.00
Paraguay	Sept. 1, 1966	Aug. 31, 1967	7.50	—	—
	Jan. 1, 1968	Dec. 31, 1968	8.00	8.00	8.00
Peru	Aug. 18, 1967	Aug. 17, 1968	42.50	42.50	—
Philippines	Jan. 5, 1967	Jan. 4, 1968	55.00	—	—
	Mar. 27, 1968	Mar. 26, 1969	27.50	27.50	27.50
Rwanda	Apr. 20, 1967	Apr. 19, 1968	2.00	—	—
	Apr. 20, 1968	Apr. 19, 1969	3.00	3.00	3.00
Sierra Leone	Nov. 1, 1966	Oct. 31, 1967	7.50	—	—
	Jan. 17, 1968	Jan. 16, 1969	3.60	3.60	3.60
Somalia	Jan. 19, 1967	Jan. 18, 1968	5.00	—	—
	Jan. 19, 1968	Jan. 18, 1969	7.00	7.00	5.50 [2]
Sudan	Sept. 22, 1966	Sept. 21, 1967	28.50 [3]	—	—
	Sept. 14, 1967	Sept. 13, 1968	10.00	10.00	—
Tunisia	Dec. 5, 1966	Dec. 4, 1967	9.60	—	—
	Dec. 27, 1967	Dec. 26, 1968	9.61	9.61	4.11
Turkey	Feb. 15, 1967	Dec. 31, 1967	27.00	—	—
	Apr. 1, 1968	Dec. 31, 1968	27.00	27.00	27.00
United Kingdom	Nov. 30, 1967	Nov. 29, 1968	1,400.00	1,400.00	1,400.00
Uruguay	June 9, 1966	June 8, 1967	15.00	—	—
	Mar. 1, 1968	Feb. 28, 1969	25.00	25.00	25.00
Yugoslavia	Jan. 1, 1967	Dec. 31, 1967	45.00	—	—
Total				2,352.36	2,017.81

[1] Canceled by Argentina on April 14, 1968.
[2] Stand-by augmented $1 million by repurchase.
[3] Canceled by the Sudan on September 13, 1967.

was intended to support the efforts of the Malian authorities to improve the country's balance of payments position and to provide a secondary line of reserves during the implementation of the stabilization program designed to achieve internal and external equilibrium. Drawings under this arrangement totaled $3 million by April 30, 1968.

New Zealand. A stand-by arrangement for New Zealand, the first for this member, was approved in October 1967. It authorized drawings up to the equivalent of $87 million to support efforts by the national authorities to strengthen New Zealand's balance of payments position. The equivalent of $60 million was drawn under this arrangement during the fiscal year.

Nicaragua. An arrangement for Nicaragua, which became effective in March 1968, authorized drawings up to $19 million. It was designed to support a program aimed at restoring equilibrium in Nicaragua's payments position. No drawings under this arrangement were made during the fiscal year.

United Kingdom. In November 1967 the Fund approved a stand-by arrangement for the United Kingdom authorizing drawings up to the equivalent of $1,400 million. The arrangement was intended to assist the U.K. authorities in establishing confidence in the new parity for sterling, which, together with the fiscal, credit, and other measures, was expected to form the basis for a major improvement in the balance of payments position. No drawings under this arrangement had taken place by April 30, 1968.[4]

Stand-by arrangements approved during the fiscal year for Bolivia, Brazil, Burundi, Colombia, Costa Rica, Ghana, Guatemala, Guyana, Korea, Liberia, Morocco, Paraguay, Peru, the Philippines, Rwanda, Sierra Leone, Somalia, the Sudan, Tunisia, Turkey, and Uruguay provided financial support that the Fund had also made available to these members in the form of stand-by arrangements in the preceding year; those for Colombia, Ghana, Guatemala, Guyana, Liberia, the Philippines, Sierra Leone, and the Sudan were for smaller amounts; those for Bolivia, Brazil, Costa Rica, Korea, Paraguay, Peru, Rwanda, Somalia, Tunisia, and Uruguay were for larger amounts; and arrangements for Burundi, Morocco, and Turkey were authorized for the same amounts.

All stand-by arrangements approved during the year were for a period of one year except that for Turkey, which was for nine months.

Compensatory Financing of Export Fluctuations

The data presented in Table 32 indicate a striking growth in the use made by members of the facility for compensatory financing of export fluctuations during the past fiscal year, the first full year of operations under the relevant Decision as amended in September 1966.[5] Drawings under the Decision by nine members amounted to $194 million. One member availed itself of the extension of drawing limits from 25 per cent to 50 per cent of quota provided for in the amended Decision. In addition, three members took advantage of the provision permitting reclassification of part or all of other drawings as drawings under the facility when the requirements for a compensatory draw-

TABLE 32. USE OF FUND RESOURCES UNDER THE DECISION ON COMPENSATORY FINANCING OF EXPORT FLUCTUATIONS, FISCAL YEARS ENDED APRIL 30, 1967 AND 1968

(In millions of U.S. dollars)

Member	Date of Drawing	Amount of Drawing
Fiscal year 1966/67		
Dominican Republic	Dec. 1966	6.60
Ghana	Dec. 1966	17.25
Ceylon	Mar. 1967	19.50
Colombia	Mar. 1967	18.90
Total		62.25
Fiscal year 1967/68		
New Zealand	May 1967	29.20
Haiti	Aug. 1967	1.30
	Dec. 1967	1.00
Syrian Arab Republic	Sept. 1967	9.50
Burma	Nov. 1967	7.50
Iceland	Nov. 1967	3.75
Iraq	Nov. 1967	17.50 [1]
India	Dec. 1967	90.00
Guatemala	Feb. 1968	6.25 [1]
Uruguay	Feb. 1968	9.50
United Arab Republic	Mar. 1968	23.00
Ceylon	Apr. 1968	19.30
Colombia	Apr. 1968	1.90 [1]
Total		219.70

[1] Reclassification.

[4] On June 19, 1968 the United Kingdom drew the full amount under the stand-by arrangement, the equivalent of $1,400 million. In addition, under the arrangements for which particulars are given in the text, Indonesia drew the equivalent of $16 million and Nicaragua the equivalent of $10 million between May 1 and June 30, 1968.

[5] See *Annual Report, 1967*, pages 131-32 and 159-61.

ing of the same amount are met at the time of the reclassification. Taking into account reclassified drawings, the total use of Fund resources under the Decision amounted to $220 million. This compares with drawings of $62 million by four members during the seven months of fiscal year 1966/67 when the provisions of the amended Decision were applicable, and the rather infrequent use, amounting to three drawings totaling $87 million, made in the previous three and a half years.

Primary exporting countries in 1967-68 were affected by a decline in the general level of commodity prices. Depressed conditions in export sectors were attributable to pronounced decreases in prices for agricultural raw materials, while at the same time the general slackening of economic growth in major importing countries and stock adjustments by importers in reaction to high interest rates prevented any significant increase in the volume of demand for many commodities. Demand factors were not, however, the only cause of export shortfalls. The facility proved useful to several members whose capacity to export was adversely influenced by crop conditions, dislocations in transport or other export servicing industries, or the repercussions of the Middle East crisis. Another factor which contributed to export shortfalls was the temporary lag in an expansion of the volume of export shipments following currency devaluations, which reduced export prices in terms of U.S. dollars.

In the period under review, experience has been gained by the Fund and by members in the use of the facility as amended in September 1966. In addition to the employment of the reclassification procedure noted, members have also continued to make use of stand-by arrangements to mitigate balance of payments difficulties arising in part from commodity problems. Procedures were therefore elaborated for the avoidance of "double compensation," where members make use of other Fund resources in circumstances which eventually lead to recourse to the compensatory financing facility.

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 four purchases of currencies required waivers for this purpose: the purchases by Burma and Iraq; and two purchases by the United Arab Republic, one of which was under the Compensatory Financing Decision. Waivers were also required for all stand-by arrangements approved during the fiscal year, except for those for Brazil, Indonesia, Rwanda, and Turkey.

A waiver is also required for any drawing or stand-by arrangement, the use of which would increase the level of the Fund's holdings of a member's currency to more than 200 per cent of its quota. In 1967/68 a waiver for this purpose was granted to Ceylon, whose drawing equivalent to $19.3 million under the Compensatory Financing Decision brought the Fund's holdings of the member's currency to approximately 205 per cent of its quota.

Repurchases

During the fiscal year 1967/68, total repurchases made by 40 members amounted to the equivalent of $1,116 million. This represents the largest amount repurchased in any fiscal year since April 30, 1962. Sixty-three per cent of this amount, the equivalent of $705 million, represents repurchases made in respect of drawings under stand-by arrangements; the equivalent of $6 million was repurchased before the expiration of one year, $6 million at the expiration of two years, and the remainder of $693 million before or at the expiration of three years from the date of purchase. Of the last amount the equivalent of $655 million was in respect of two repurchases made by the United Kingdom, the equivalent of $405 million in May 1967 (when the Fund repaid the same amount, which it had borrowed under the General Arrangements to Borrow) and the equivalent of $250 million in November 1967. These repurchases, together with sales of sterling to other members, completely reversed the drawing of the equivalent of $1,000 million which the United Kingdom had made in December 1964.

The equivalent of $259 million was repurchased in accordance with schedules agreed by the Executive Directors which provided for repurchase within five years from the date of the drawing. Voluntary repurchases made by five members in accordance with Executive Board Decision No. 648 amounted to the equivalent of $46 million. Two of these members repurchased the Fund's holdings of their currencies on subscription account, thereby increasing their gold tranche positions, and the other three members repurchased in respect of gold tranche drawings. Furthermore, the equivalent of $16 million was repurchased as first, second, and third installments, reversing drawings made in connection with quota increases. Three members repurchased the equivalent of $64 million in respect of other drawings in the first credit tranche.

Total repurchases also included the equivalent of $26 million discharging obligations incurred under Article V, Section 7(*b*), of the Fund Agreement. This Article provides that, subject to certain limitations, 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.

Table 33 lists repurchases of currencies from the Fund during the fiscal year ended April 30, 1968.

The Executive Directors agreed to the requests of 13 members to schedule their repurchases over periods up to five years from the date of purchase. The Directors also agreed to one member's request for postponement of the discharge of its repurchase obligations, incurred under Article V, Section 7(*b*), of the Fund Agreement, to coincide with scheduled repurchases. Discussions with one member that had not repurchased at the agreed dates in 1966/67 have been successfully completed, and the member is meeting its current repurchase commitments in accordance with the agreed schedule.

Currency Composition of Drawings, Repayment of Borrowings, and Repurchases

During the fiscal year 1967/68 the Fund sold 19 members' currencies to other members of the Fund. These included the currencies of Ireland and South Africa which were drawn for the first time. Since the Fund's holdings of Argentine pesos, Brazilian new cruzeiros, Irish pounds, pounds sterling, and U.S. dollars were above 75 per cent of these members' quotas, sales of these currencies reduced the amounts to be repurchased by the members.

TABLE 33. REPURCHASES OF CURRENCIES FROM THE FUND, FISCAL YEAR ENDED APRIL 30, 1968

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

Member Repurchasing	Amount
Afghanistan	4.29
Argentina	34.00
Brazil	6.97
Burundi	5.19
Chile	26.00
Colombia	35.00
Congo, Dem. Rep. of	8.12
Costa Rica	2.75
Cyprus	1.16
Dominican Republic	4.50
Ecuador	3.25
El Salvador	5.02
Ghana	4.65
Guatemala	0.35
Haiti	1.59
Honduras	2.25
India	57.50
Indonesia	16.34
Iran	14.02
Iraq	39.96
Ireland	8.69
Liberia	3.20
Malaysia	—[1]
Mali	2.95
New Zealand	35.00
Nicaragua	5.65
Pakistan	1.90
Panama	0.10
Rwanda	3.00
Somalia	8.68
Sudan	8.55
Syrian Arab Republic	6.42
Tanzania	0.05
Tunisia	11.82
Turkey	19.06
United Arab Republic	53.20
United Kingdom	654.84
Uruguay	5.00
Yugoslavia	11.50
Zambia	3.00
Total	1,115.51

[1] Less than $5,000.

Table 34 shows a summary of purchases and repurchases during the year ended April 30, 1968, classified by currencies used. The drawings by Canada and the United States equivalent to $391 million and $200 million, respectively, as well as repurchases discharging obligations incurred under Article V, Section 7(*b*), of the Articles of Agreement and the repurchases by the United Kingdom,

TABLE 34. DRAWINGS AND REPURCHASES BY CURRENCY, FISCAL YEAR ENDED APRIL 30, 1968

(In millions of U.S. dollars)

	Drawings				Repurchases			
Currency	Canada	United States	Other countries	Total	Under Article V, Section 7(*b*) [1]	United Kingdom	Other	Total
Gold	—	—	—	—	21.5	—	2.7	24.1
Argentine pesos	—	—	30.5	30.5	—	—	—	—
Australian dollars	19.0	—	34.2	53.2	—	10.0	16.8	26.8
Austrian schillings	9.0	—	23.5	32.5	0.4	—	16.9	17.3
Belgian francs	27.0	15.0	28.0	70.0	0.5	47.0	34.9	82.3
Brazilian new cruzeiros	—	—	10.0	10.0	—	—	—	—
Canadian dollars	—	—	10.0	10.0	— [2]	30.0	19.0	49.0
Danish kroner	—	—	5.0	5.0	—	10.0	2.1	12.1
Deutsche mark	60.0	35.0	106.4	201.4	2.6	231.8	94.3	328.7
French francs	32.0	—	73.5	105.5	0.5	145.0	81.5	227.0 [3]
Irish pounds	—	—	22.5	22.5	—	—	—	—
Italian lire	23.0	50.0	28.0	101.0	0.6	45.0	91.3	136.9
Japanese yen	—	—	0.5	0.5	—	40.0	19.1	59.1
Mexican pesos	9.0	—	4.0	13.0	— [2]	—	3.4	3.4
Netherlands guilders	27.0	100.0	23.7	150.7	0.3	56.0	39.4	95.7
Norwegian kroner	—	—	18.8	18.8	—	10.0	—	10.0
Peruvian soles	—	—	—	—	— [2]	—	—	— [2]
South African rand	—	—	20.0	20.0	—	—	—	—
Swedish kronor	—	—	15.0	15.0	0.1	30.0	12.9	43.0
Pounds sterling	—	—	151.8	151.8	—	—	—	—
U.S. dollars	185.0	—	152.0	337.0	—	—	—	—
Total	391.0	200.0	757.3	1,348.3	26.5	654.8	434.2	1,115.5

[1] Including discharges of repurchase obligations incurred in previous years.
[2] Less than $50,000.
[3] In addition the equivalent of $2.5 million was received from the withdrawing member.

are presented in separate columns. Table 35 classifies by currencies used the repayments of borrowings under the General Arrangements to Borrow (GAB) during the fiscal year. The repayments totaling the equivalent of $405 million in May 1967 were to eight GAB participants in their own currencies; that of $35 million in February 1968 was to Canada.[6]

TABLE 35. REPAYMENTS BY CURRENCY UNDER THE GENERAL ARRANGEMENTS TO BORROW, FISCAL YEAR ENDED APRIL 30, 1968 [1]

(In millions of U.S. dollars)

	Date of Repayment	
Currency	May 25, 1967	February 28, 1968
Australian dollars	—	1
Austrian schillings	—	1
Belgian francs	30	3
Canadian dollars	15	—
Deutsche mark	180	5
French francs	100	3
Italian lire	5	2
Japanese yen	20	—
Mexican pesos	—	1
Netherlands guilders	40	3
Swedish kronor	15	—
U.S. dollars	—	16
Total	405	35

[1] The repayments in May 1967 were to eight GAB participants in their own currencies; that in February 1968 was to Canada.

Repurchases in Italian lire exceeded purchases and repayment of borrowings in that currency, but the Fund's holdings of Italian lire at 9 per cent of Italy's quota on April 30, 1968 were again at the lowest level of the Fund's holdings of any currency, in terms of percentage of the member's quota. The highest level of holdings on the same date was that of Ceylon rupees, equivalent to 205 per cent of the member's quota.

In accordance with the Decision of the Executive Directors regarding Currencies to Be Drawn and to Be Used in Repurchases, adopted on July 20, 1962, members are required to consult with the Managing Director on currencies to be drawn and to be used in repurchase.[7] The Managing Director bases his advice on consultations with Executive Directors representing members whose

[6] Further detail on the General Arrangements to Borrow is given on pages 107-108, below.
[7] See *Annual Report, 1962,* pages 36-41.

currencies could be used. These consultations take place at the end of each quarter of the Fund's fiscal year. An estimated target distribution of currencies to be used in drawings and repurchases, based on the Fund's anticipated requirements during a three-month period, serves as a guide. Large drawings and repurchases are not included in the quarterly target distribution; for these, the Managing Director consults with Executive Directors concerned on the currencies to be used whenever the need arises. In selecting currencies for drawings, account is taken of the balance of payments and reserve positions of the members whose currencies are considered for use, as well as of the level of the Fund's holdings of their currencies.

TABLE 36. SUMMARY OF FUND TRANSACTIONS, FISCAL YEARS ENDED APRIL 30, 1948-68

(In millions of U.S. dollars)

	Total Purchases by Members	Amounts Not Drawn Under Stand-By Arrangements in Effect 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
1968	1,348.25	2,017.81	1,115.51
Total	14,595.60 [1]		7,664.31 [2]

[1] Includes purchases that raised the level of the Fund's holdings of the drawing members' currencies to no more than 75 per cent of quota. These drawings are not subject to repurchase.

[2] Includes repurchases that reduced the Fund's holdings of members' currencies below the amounts originally paid on subscription account and repurchases of members' currencies paid in settlement of charges. Excludes sales of currencies of members held by the Fund in excess of 75 per cent of quota, as a result of previous drawings, and adjustments due primarily to settlement of accounts with countries that have withdrawn from the Fund; these sales and adjustments have the effect of repurchases.

The range of currencies to be used in repurchase is limited to those currencies that are convertible pursuant to Article VIII of the Fund Agreement and of which the Fund's holdings are below 75 per cent of the countries' quotas. In the selection of currencies for drawings and repurchases, an endeavor is made to equalize the ratios of a member's reserves position in the Fund to its holdings of gold and foreign exchange. During fiscal year 1967/68, 19 currencies were used in drawings (as noted above) and 14 currencies in repurchases.

Summary of Transactions, 1948-68

From the beginning of Fund operations to April 30, 1968, 65 members purchased currencies from the Fund; in addition, 5 members were granted a total of nine stand-by arrangements but did not make purchases under them. Total sales of currencies by the Fund amounted to the equivalent of $14.6 billion. Total purchases, stand-by arrangements in effect at the end of each fiscal year, and repurchases are summarized in Table 36. Drawings outstanding as of April 30 of each year and amounts not drawn under stand-by arrangements in effect on the same date are shown in Chart 27.

Drawings made by 60 members have been fully or partly repaid, either through repurchases in gold and convertible currencies or as a result of purchases of their currencies by other members. On April 30, 1968 the total amount of members' purchases still outstanding was equivalent to $4.6 billion. On that date the amounts drawn had been outstanding for the following periods:

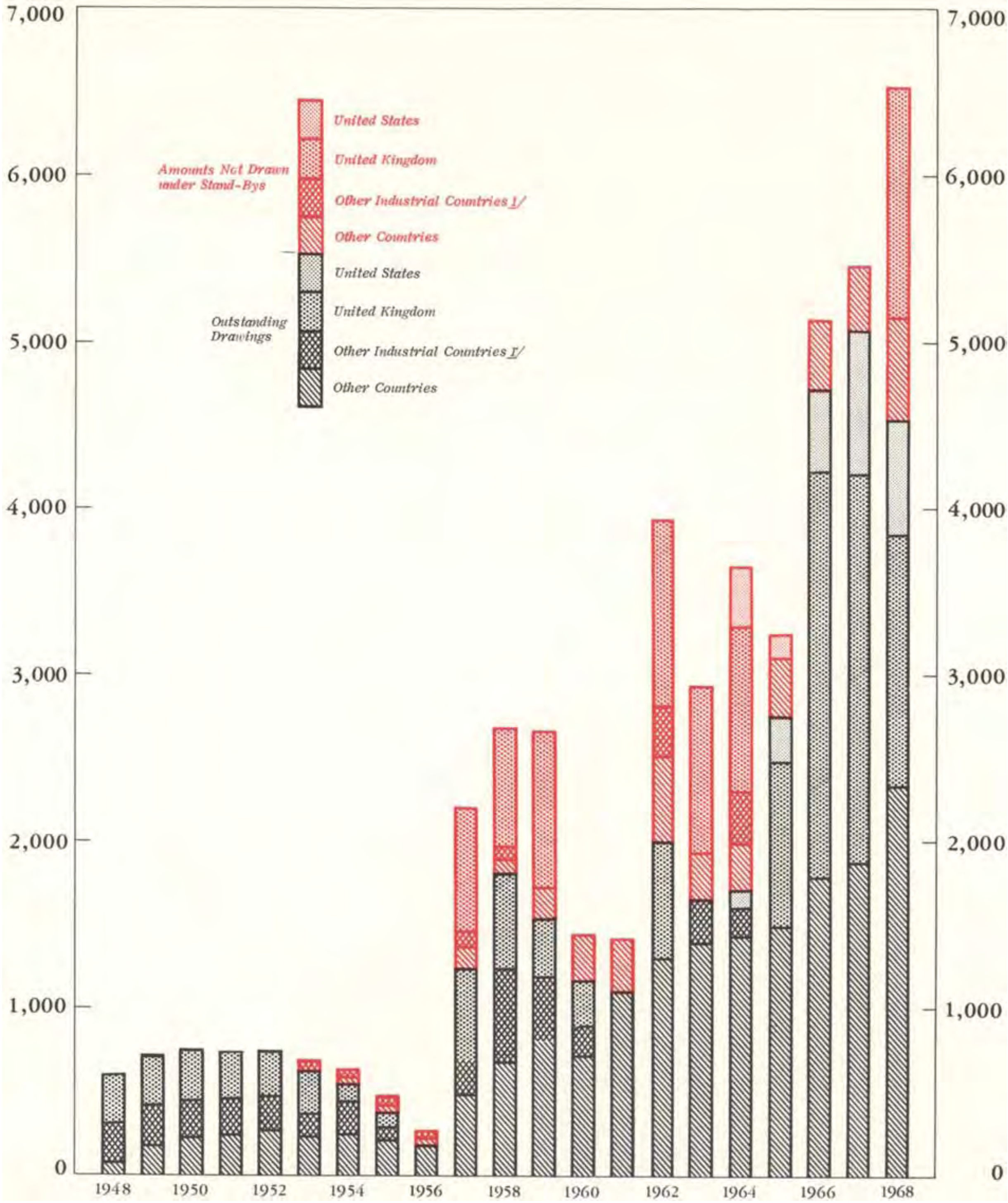
	Amount in millions of U.S. dollars	Number of members involved
12 months or less	1,121.1	35
13 to 18 months	339.7	16
19 to 24 months	621.7	19
25 to 30 months	550.8	25
31 to 36 months	1,640.1	16
37 to 42 months	199.8	11
43 to 48 months	55.8	8
49 to 54 months	8.0	2
55 to 60 months	23.0	5

Fund Charges and Interest Payments

As of April 30, 1968, 32 members were paying the charges levied by the Fund on its holdings of their currencies in excess of their quotas. The total of these charges incurred during the year amounted

CHART 27. OUTSTANDING DRAWINGS FROM THE FUND AND AMOUNTS NOT DRAWN UNDER EXISTING STAND-BY ARRANGEMENTS, ON APRIL 30, 1948-68

(In millions of U.S. dollars)



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

to the equivalent of $82 million, of which the equivalent of $61 million was paid in members' own currencies and the remainder in gold. During the preceding year similar charges amounted to the equivalent of $83 million. Since the beginning of the Fund's operations, 55 members have been subject to such charges. During the fiscal year 1967/68, 7 members paid all or part of these charges in their own currencies in accordance with Article V, Section 8(*f*), of the Fund Agreement. These provisions permit such payments if the 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 exceeding its quota has been in effect since May 1, 1963. A Decision taken by the Executive Directors in April 1966 provides for an annual review of the schedule of charges. Accordingly, the present schedule of charges was reviewed by the Executive Directors in April 1968 and continues to be in effect. The schedule is reproduced in each issue of *International Financial Statistics.*

Service charges on drawings amounted to a total of $7 million for the fiscal year ended April 30, 1968, compared with $5 million during 1966/67. Charges collected on stand-by arrangements totaled $5 million during the year under review; similar receipts in 1966/67 amounted to $0.9 million. These totals represent stand-by charges collected after deductions of amounts credited against service charges in the event of drawings under the stand-by 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 tranche. These charges are considered income only after the expiration or cancellation of the stand-by arrangement; the income derived from them in the fiscal year under review amounted to $0.6 million, the same amount as in 1966/67.

The Fund's interest payments in gold in accordance with paragraph 3(b) of the loan agreement with Italy[8] and paragraph 9(b) of the General Arrangements to Borrow amounted to a total of $12 million, compared with $17 million during 1966/67. The decrease was due mainly to the repayment by the Fund of the equivalent of $405 million in May 1967 in connection with the United Kingdom's repurchase of sterling from the Fund.

[8] See *Annual Report, 1967,* page 50.

Replenishment of Fund's Holdings of Currencies

From time to time the Fund has replenished its resources by selling gold or by borrowing currencies from its members in accordance with the provisions of Article VII of the Fund Agreement. No gold sales were made during the fiscal year 1967/68. However, in connection with the November 1967 stand-by arrangement for the United Kingdom, authorizing drawings up to the equivalent of $1,400 million, the Executive Directors approved the sale of gold up to the equivalent of $400 million at such time as drawings actually would take place.[9]

The General Arrangements to Borrow (GAB), which enabled the Fund to supplement its resources by borrowing up to $6 billion in currencies of ten industrial member countries (Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States) first went into effect on October 24, 1962, for a four-year term. On October 15, 1965 the Executive Directors approved a four-year renewal of these arrangements, which will be reviewed in the light of further experience prior to October 1968. In connection with drawings by the United Kingdom in December 1964 and May 1965, equivalent to $1,000 million and $1,400 million, respectively, the Fund borrowed the equivalents of $405 million and $525 million under the provisions of the GAB. In May 1967, when the United Kingdom repurchased the equivalent of $405 million, the Fund repaid the amounts borrowed in December 1964. Furthermore, at the request of Canada, the Fund repaid its indebtedness to this country in the equivalent of $35 million in February 1968. On the other hand, the value of the credit arrangement with the United Kingdom was reduced by 14.3 per cent, to the equivalent of $857 million, as a result of the devaluation of sterling in November 1967. These changes brought about a net increase equivalent to $297 million in the amount not borrowed under the GAB, from the equivalent of $5,070 million on April 30, 1967 to the equivalent of $5,367

[9] When the United Kingdom drew the full amount under the stand-by in June 1968, the Fund sold gold equivalent to $365 million to 12 member countries in exchange for their currencies. On the occasion of the drawing by France equivalent to $745 million during the same month, gold equivalent to $182 million was similarly sold to 11 members.

million on April 30, 1968. In connection with the stand-by arrangement for the United Kingdom authorizing drawings up to $1,400 million, agreed in November 1967, the Executive Directors approved a proposal for future calls under the GAB for the equivalent of $525 million.[10]

In June 1964 the Fund entered into an agreement with Switzerland which associated that country with the Fund's General Arrangements to Borrow. Under this agreement Switzerland undertook to give support directly to any participant in the GAB for whose benefit the Arrangements are activated, provided that the participant had entered into a bilateral implementing arrangement for that purpose with Switzerland. The total financial assistance under these arrangements outstanding at any one time was not to exceed the equivalent of $200 million. On November 22, 1967 the agreement was extended until October 23, 1970. At the time of the U.K. drawings equivalent to $1,000 million in December 1964 and equivalent to $1,400 million in May 1965, Switzerland made available to the United Kingdom the equivalent of $80 million and $40 million, respectively. The former amount was repaid by the United Kingdom in May 1967.

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 1967/68, 50 such consultations were completed with 48 countries; with others the procedures had been initiated but had not been completed by the end of the fiscal year. These consultations have continued to provide opportunities for the examination of the economic and financial problems of the members and of their efforts to reduce and simplify exchange restrictions. 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 19 members that have accepted the obligations of Article VIII, Sections 2, 3, and 4, of the Fund Agreement. Executive Board Decision No. 1034–(60/27) of June 1, 1960[11] 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.

Technical Cooperation

The Fund has continued to maintain a broad and flexible technical assistance program, which during the past fiscal year has provided the Fund's members with technical aid on an increasing scale in fields that are closely related to the work of the Fund. The programs carried on during the year have again covered advice on the preparation and carrying out of monetary, exchange, and fiscal policies, the improvement of fiscal systems, the drafting of central banking legislation, the organization and operational development of central banks, the reform of banking and credit systems, and the development of financial and balance of payments statistics. The Fund has also continued to send representatives to a number of countries to assist them in the implementation of programs related to stand-by arrangements. The greater part of the technical assistance program has been provided through the Fund's Central Banking Service and Fiscal Affairs Department, which were both established in 1964 for the specific purpose of meeting the mounting number of requests from members, particularly newly independent countries, for assistance in the fiscal and banking fields.

During the past year the Fiscal Affairs Department furnished technical assistance in response to 30 requests from 17 countries, with 20 of the requests involving assignments of six months or more. Some of this assistance was in response to requests received in the previous year. In most

[10] When the drawing took place in June 1968, the equivalent to $476 million was borrowed from five countries under the GAB. In connection with the drawing by France, the equivalent of $265 million was borrowed from the same countries. Further, the Fund consented to a proposal by France to transfer its GAB claim on the Fund, equivalent to $140 million, to four other participants in the Arrangements.

[11] *Selected Decisions of the Executive Directors and Selected Documents* (third issue, Washington, 1965) pages 81-83.

cases assistance was provided by members of the panel of experts. It covered the fields of tax policy, tax administration, and budgetary problems.

The Central Banking Service staff provided assistance to 14 countries on topics ranging from diagnostic surveys of central banks, banking systems, and credit problems to the drafting of financial legislation. In addition, during the year the Central Banking Service arranged for 60 experts to serve—mostly for initial periods of one year—in the central monetary institutions of 26 countries. In all, some 33 countries received technical assistance through the Central Banking Service during 1967/68.

As indicated above, only part of the technical expertise made available to member countries has been provided from the Fund's own staff. A large number of assignments has continued to be undertaken by outside experts with suitable experience in central banking or in financial or fiscal management. Although there are some signs that the rapid expansion since 1964 is coming to an end, the demand for qualified personnel remains high, and there is clearly a continuing need for technical assistance for some years to come. The developments outlined above suggest a need for the Fund to maintain a flexibility in its approach, so as to be able to meet the successive problems that seem likely to emerge as the process of economic development continues.

The IMF Institute

During the past fiscal year, the IMF Institute expanded its activities by adding a course in Spanish to those given in English and French, by lengthening the duration of some courses, and by presenting for the first time a course on public finance. As a consequence, the Institute is now running two simultaneous courses during most of the year.

The main task of the Institute remained the preparation and presentation of the courses on financial analysis and policy. These courses were given in English, in French, and in Spanish, and each lasted four and a half months. The first course, which started on October 9, 1967, was conducted in French, and was attended by 24 officials from 18 member countries, mostly French-speaking African countries. The course which began on November 20, 1967 was the first course on financial analysis and policy to be given in Spanish; of the 21 participants, 20 came from member countries in the Western Hemisphere. Both the French and the Spanish courses closely followed the outline of the English course which ended in July 1966. The third course, which began on March 11, 1968, was given in English to 24 participants from 23 member countries. The courses on financial analysis and policy focus on the elaboration and implementation of appropriate monetary, fiscal, and balance of payments policies, with special emphasis on developing countries. These courses draw extensively on the experience gained by the Fund in its contacts with member countries.

In addition, the Institute organized in 1967/68 two eight-week courses on balance of payments methodology, one in French, from September 11 to November 3, 1967, and the other in English, from April 15 to June 7, 1968. Each of these courses, which describe the principles and methods of compiling balance of payments statistics, was given in cooperation with the Fund's Balance of Payments Division. The new course on public finance lasted from May 15 to July 7, 1967 and was given in English with the collaboration of the Fiscal Affairs Department. It presented 20 participants with a survey of the field of public finance, with emphasis on the problems of developing countries.

The Institute plans to present five courses in the period September 1968 to June 1969: the three courses on financial analysis and policy in English, French, and Spanish; a course, in English, on balance of payments methodology; and an extended ten-week course, also in English, on public finance.

Relations with Other International Organizations

The Fund's continuing relations with other international and regional organizations on matters of common interest are reflected not only in direct working cooperation with their staffs and the exchange of appropriate information and documents but also in attendance by Fund staff at meetings of many of those organizations, both at the plenary level and at the committee, seminar, and working group level. In turn, these, and other, organizations were represented at the Fund's Annual Meeting, held jointly with that of the International Bank for Reconstruction and Development (IBRD) in Rio de Janeiro in September 1967.

Aside from the IBRD, with which the Fund has a special relationship, the Fund maintained close relations with the United Nations and its relevant organs, including the General Assembly, the Economic and Social Council (ECOSOC), the regional Economic Commissions, and other subsidiary bodies. At the request of a number of delegations, the Managing Director addressed the Forty-Third Session of the ECOSOC in July 1967; at the resumed session in November, he presented the Annual Report of the Fund. The Managing Director is a member of the Administrative Committee on Coordination, and staff members participated in the activities of its subcommittees and working groups. The Fund participated in the work of the Second Session of the United Nations Conference on Trade and Development (UNCTAD) held in New Delhi in February and March 1968. Considerable interest was expressed in the study being undertaken by the Fund and the IBRD, in response to the Resolutions adopted by their respective Boards of Governors in Rio de Janeiro on the stabilization of prices of primary products. Prior to the UNCTAD Conference, a mission representing a group of developing countries ("Group of 77") had met in December 1967 with the Managing Director and members of the staff of the Fund in Washington and had presented for information the "Charter of Algiers," containing the developing countries' program for action at the Conference.

In the field of publications covered in the final section of this Note, the Fund staff has initiated a revision of the *Balance of Payments Manual,* partly with the object of achieving concordance between the *Manual* and the recently revised United Nations system of national accounts. In this task the Fund is working closely with the secretariat of the United Nations.

Outside the UN family of agencies, the Fund has also maintained close relations with the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade (GATT); the Bank for International Settlements; the Organization for Economic Cooperation and Development (OECD), including its Economic Policy Committee and working parties, Economic Development and Review Committee, Development Assistance Committee, Board of Management of the European Monetary Agreement, and Committee on Invisible Transactions, with which the Fund is participating in a continuing study on the improvement of capital markets; the Organization of American States, particularly its Inter-American Economic and Social Council and Inter-American Committee on the Alliance for Progress (CIAP), in connection with CIAP's country reviews and other matters of mutual concern; and the African, Asian, and Inter-American Development Banks. In the field of commodities, staff members attended meetings of international bodies concerned with rubber, wheat, and cocoa.

In connection with the discussions on international liquidity, the Managing Director attended meetings of the Ministers and Governors of the Group of Ten participants in the General Arrangements to Borrow, in London in July and August 1967 and in Stockholm in March 1968, the meeting of the OECD Ministerial Council in Paris in December 1967, and participated in discussions with officials at the Bank for International Settlements in Basle.

As in previous years, the CONTRACTING PARTIES to the GATT consulted with the Fund in connection with their consideration of import restrictions and import surcharges maintained for balance of payments reasons by 15 countries. Representatives of the Fund attended the Twenty-Fourth Session and meetings of various subsidiary bodies of the GATT.

An important phase of the close collaboration between the Fund and the IBRD is their reciprocal participation in consultative groups and consortia convened for the coordination of aid. Fund representatives attended meetings of consultative and other groups convened by the Bank for certain developing countries and the consortia on India and Pakistan, while Bank representatives, as well as representatives from the OECD and the UN Development Program, attended the Ghana aid coordination meetings convened and chaired by the Fund. The Fund also participated in similar consultative groups and consortia for particular countries held by other sponsoring organizations or governments, including those sponsored by the OECD and the intergovernmental meetings convened by the Netherlands and France with respect to Indonesia. Fund staff members participated in the third general meeting conducted by the Bank to consider coordination of aid programs, which was held in Rio de Janeiro during the joint Annual Meetings. The two organizations also cooperated in holding seminars for Brazilian university professors of economics in Rio de Janeiro just prior to the Annual Meetings.

Staff

At the end of the fiscal year, the Fund staff numbered 858, compared with 778 a year earlier. In addition there were some on temporary appointment. During the year 174 new staff members were appointed from 45 member countries. Nationals of 76 countries were on the staff on April 30, 1968. These figures do not include Assistants to Executive Directors.

Income, Expenditure, and Reserves

During the fiscal year, the Fund's operating income, equivalent to $89,442,756, exceeded its total expenditure by $55,743,725. This amount was transferred provisionally to the General Reserve pending action by the Board of Governors. The General Reserve totaled $291,267,499 on April 30, 1968.

The Fund continued to invest a part of its gold holdings in U.S. Government securities, with the guarantee 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 $39,750,857 for the fiscal year; it was credited to a Special Reserve, which showed a balance of $262,892,557 on April 30, 1968.

The administrative budget approved by the Executive Directors for the period May 1, 1968–April 30, 1969 is presented in Appendix IV. Comparative income and expenditure figures for the fiscal years 1965/66, 1966/67, and 1967/68 are given in Appendix V.

The Executive Directors requested the Governments of Canada, Ethiopia, and Spain to nominate members of the Audit Committee for 1968. The following nominations were made and confirmed: Mr. George R. Long, Assistant Auditor General of Canada; Mr. Teferra Liben, Chief Auditor, Inland Revenue Department of Ethiopia; and Mr. Francisco Estevez Jimenez of the Accounting and Auditing Service of the Ministry of Finance, Spain. The report of the Committee is submitted separately. Appendix VI gives the Auditors' Certificate, together with the audited Balance Sheet as at April 30, 1968 and the audited Statement of Income and Expenditure for the fiscal year.

Publications

The Fund continued to issue its regular publications in 1967/68. These included *Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1967,* with shortened versions in French, German, and Spanish; *Eighteenth Annual Report on Exchange Restrictions; Balance of Payments Yearbook,* Volume 19, 1962-66; *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 1967/68 Issues; Schedule of Par Values,* 44th and 45th issues; *Staff Papers,* Volume XIV, Nos. 2 and 3, and Volume XV, No. 1; and *Summary Proceedings* of the Twenty-Second Annual Meeting of the Board of Governors.

In conjunction with the IBRD, the Fund published *Direction of Trade,* monthly, with an annual edition 1962-66; and *Finance and Development,* quarterly (English, French, and Spanish editions).

In April 1968 the Fund published the Report of the Executive Directors to the Board of Governors on the *Establishment of a Facility Based on Special Drawing Rights in the International Monetary Fund and Modifications in the Rules and Practices of the Fund.* This Report, proposing amendment of the Fund's Articles of Agreement, was also made available in unofficial translations in French and Spanish.

During 1967/68, the Fund also published one new pamphlet, *Balance of Payments Concepts and Definitions,* bringing the number of publications in the Pamphlet Series to ten. All these pamphlets are available, or are being made available, in English, French, and Spanish.

Among other publications in preparation is a series of surveys of African economies. These surveys will set out basic economic and financial data on member countries in Africa and provide a description of the various institutional and other arrangements for cooperation in the region. The first volume in the new series, dealing with five countries in equatorial Africa, will be published shortly, in both English and French editions.

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 a year to general subscribers. University libraries, faculty members, and students may subscribe at a reduced rate of $3.00 a year to any one of these publications or $10.00 a year for all four. With the exception of the surveys of African economies, all other publications of the Fund mentioned above are available free of charge.

B. Balance of Payments Statements

THE following tables 37-45 present balance of payments statements for Belgium-Luxembourg, Canada, France, Germany, Italy, Japan, the Netherlands, the United Kingdom, and the United States. Less detailed statements are presented in Table 46 for the primary producing countries.

TABLE 37. BELGIUM-LUXEMBOURG: BALANCE OF PAYMENTS SUMMARY, 1966–FIRST QUARTER 1968 [1]

(In millions of U.S. dollars)

			1967				1968 [2]
	1966	1967	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
A. Goods, Services, and Transfer Payments							
Exports [3]	5,648	5,992	1,454	1,560	1,412	1,566	1,574
Imports [3]	−5,742	−5,854	−1,390	−1,504	−1,384	−1,576	−1,600
Trade balance	−94	138	64	56	28	−10	−26
Services (net)	16	114	32	8	8	66	50
Transfer payments (net)	−18	−50	−10	−10	−14	−16	−12
Total	−96	202	86	54	22	40	12
Memorandum item: Goods, Services, and Private Transfers	*−46*	*282*	*100*	*68*	*44*	*70*	*42*
B. Long-Term Capital							
Private [4]	34	108	28	−20	36	64	−48
Official	−82	−102	−24	−28	−36	−14	−16
Total	−48	6	4	−48	—	50	−64
C. Total (A plus B)	−144	208	90	6	22	90	−52
D. Short-Term Capital, n.i.e. (including net errors and omissions)							
Treasury short-term certificates	32	−34	−34	−22	−12	34	4
Net errors and omissions	6	18	−2	28	4	−12	8
Total	38	−16	−36	6	−8	22	12
E. Commercial Bank Capital	140	56	−64	94	—	26	−30
F. Total (C through E)	34	248	−10	106	14	138	−70
G. Official Monetary Movements							
IMF accounts	−58	39	—	30	−2	11	−29
Foreign exchange (increase −) [5]	10	−324	2	−142	−100	−84	−10
Other claims (net)	−20	−7	8	2	82	−99	47
Monetary gold (increase −)	34	44	—	4	6	34	62
Total	−34	−248	10	−106	−14	−138	70

Source: National Bank of Belgium.
[1] Positive figures are credits; negative figures are debits.
[2] Preliminary.
[3] Partly f.o.b.; partly c.i.f.
[4] Includes short-term capital, appropriate to Group D.
[5] Includes holdings of nonmarketable U.S. Treasury bonds and notes.

TABLE 38. CANADA: BALANCE OF PAYMENTS SUMMARY, 1966–FIRST QUARTER 1968 [1]

(In millions of U.S. dollars)

			1967				1968
	1966	1967	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
A. Goods, Services, and Transfer Payments							
Exports f.o.b.	9,552	10,531	2,413	2,792	2,500	2,826	2,793
Imports f.o.b.	−9,344	−10,087	−2,324	−2,788	−2,420	−2,555	−2,574
Nonmonetary gold	116	104	30	26	24	24	25
Trade balance	324	548	119	30	104	295	244
Investment income (net)	−751	−803	−167	−199	−185	−252	−210
Other services (net)	−540	−89	−213	−35	269	−110	−242
Transfer payments (net)	−85	−49	−31	−25	19	−12	—
Total	−1,052	−393	−292	−229	207	−79	−208
Memorandum item: Goods, Services, and Private Transfers	*−902*	*−229*	*−244*	*−159*	*226*	*−52*	*−195*
B. Long-Term Capital							
Direct investment in Canada	657	500	116	134	130	120	5
Canadian direct investment abroad	−19	−46	−28	−9	−18	9	−69
Transactions in Canadian securities							
New issues	1,353	1,212	307	274	251	380	364
Retirements and other transactions	−686	−365	−110	−163	−37	−55	−145
Transactions in foreign securities	−391	−322	−52	−48	−115	−107	−63
Columbia River Treaty (net)	30	40	—	—	—	40	—
Other loans by Canadian Government (net)	−10	−4	8	—	−8	−4	−8
Other	9	267	43	50	76	98	14
Total	943	1,282	284	238	279	481	98
C. Total (A plus B)	−109	889	−8	9	486	402	−110
D. Short-Term Capital (including net errors and omissions)	−223	−872	−4	−60	−434	−374	−598
E. Total (C plus D)	−332	17	−12	−51	52	28	−708
F. Official Monetary Movements							
IMF accounts	−95	15	−20	17	−2	20	436
Gold and foreign exchange (increase −)	427	−32	32	34	−50	−48	22
Reciprocal swap facility with U.S. Federal Reserve System	—	—	—	—	—	—	250
Total	332	−17	12	51	−52	−28	708

Source: Dominion Bureau of Statistics.
[1] Preliminary. Positive figures are credits; negative figures are debits.

TABLE 39. FRANCE: BALANCE OF PAYMENTS SUMMARY, 1967 [1]

(In millions of U.S. dollars)

	With Countries Outside French Franc Area	With French Franc Area Countries	Total	Total, By Quarters			
				First quarter	Second quarter	Third quarter	Fourth quarter
A. Goods, Services, and Transfer Payments							
Exports f.o.b.	10,073	1,309	11,382	2,674	2,819	2,898	2,991
Imports f.o.b.	−9,890	−1,127	−11,017	−2,657	−2,806	−2,693	−2,861
Other merchandise	93	−31	62	10	22	23	7
Trade balance	276	151	427	27	35	228	137
Services (net)	−288	176	−112	25	23	−138	−22
Transfer payments (net)	40	−453	−413	−122	−106	−92	−93
Total	28	−126	−98	−70	−48	−2	22
Memorandum item: Goods, Services, and Private Transfers	*57*	*259*	*316*	*52*	*54*	*95*	*115*
B. Long-Term Capital							
Private							
Assets (increase —)	−381	1	−380	−49	−66	−98	−167
Liabilities	457	5	462	92	63	145	162
Official	−37	−5	−42	−5	−1	−12	−24
Total	39	1	40	38	−4	35	−29
C. Total (A plus B)	67	−125	−58	−32	−52	33	−7
D. Short-Term Capital, n.i.e. (including net errors and omissions)							
Private nonmonetary	−219	4	−215	−61	11	−9	−156
Net errors and omissions	87	112	199	60	129	−64	74
Multilateral settlements	32	−32	—	—	—	—	—
Total	−100	84	−16	−1	140	−73	−82
E. Commercial Bank Capital							
Liabilities	1,040	69	1,109	−14	114	478	531
Assets (increase —)	−671	—	−671	−5	−200	−360	−106
Total	369	69	438	−19	−86	118	425
F. Total (C through E)	336	28	364	−52	2	78	336
G. Official Monetary Movements							
IMF accounts	101	—	101	−27	98	1	29
Gold and foreign exchange (increase —)	−361	—	−361	36	−75	−59	−263
Other claims, net (increase —)	−76	−28	−104	43	−25	−20	−102
Total	−336	−28	−364	52	−2	−78	−336

Source: Data provided by the French authorities.

[1] Preliminary estimates, not exactly comparable with previously published figures, which showed transactions of Metropolitan France with countries outside the French franc area. The present table shows the transactions of France (including overseas departments and territories) with the rest of the world (including the independent countries of the French franc area). In addition, certain changes have been introduced in the methods used in the compilation of the estimates.

TABLE 40. FEDERAL REPUBLIC OF GERMANY: BALANCE OF PAYMENTS SUMMARY, 1966–FIRST QUARTER 1968 [1]

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

			1967 [2]				1968 [2]
	1966	1967 [2]	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
A. Goods, Services, and Transfer Payments							
Exports f.o.b.	20,138	21,741	5,191	5,471	5,169	5,910	5,825
Imports c.i.f.	−18,024	−17,352	−4,080	−4,324	−4,188	−4,760	−4,695
Other merchandise	−259	−249	−85	−80	−11	−73	−70
Trade balance	1,855	4,140	1,026	1,067	970	1,077	1,060
Paid services to foreign troops	1,240	1,315	291	335	337	352	321
Other services (net)	−1,422	−1,473	−259	−362	−574	−278	−226
Total goods and services	1,673	3,982	1,058	1,040	733	1,151	1,155
Transfer payments	−1,566	−1,568	−391	−413	−364	−400	−383
Total	107	2,414	667	627	369	751	772
Memorandum item: Goods, Services, and Private Transfers	*841*	*3,228*	*884*	*859*	*531*	*954*	*995*
B. Long-Term Capital							
Private liabilities	1,053	303	136	24	121	22	44
Private assets (increase −)	−631	−848	−185	−186	−247	−230	−465
Advance debt redemption	−235	—	—	—	—	—	—
Other government long-term capital	−398	−359	−49	−87	−79	−144	−70
Total	−211	−904	−98	−249	−205	−352	−491
C. Total (A plus B)	−104	1,510	569	378	164	399	281
Total, excluding advance debt redemption	*131*	*1,510*	*569*	*378*	*164*	*399*	*281*
D. Short-Term Capital, n.i.e. (including net errors and omissions)							
Government short-term capital	−42	48	−21	−65	101	33	64
Other short-term capital	427	−391	147	−70	−114	−354	16
Net errors and omissions	167	−265	223	−212	24	−300	484
Total	552	−608	349	−347	11	−621	564
E. Commercial Bank Short-Term Capital (net)							
Short-term credits (net)	−118	−117	−130	−21	24	10	−90
Foreigners' deposits	−8	304	−195	115	87	297	−21
Foreign exchange (increase −) [3]	29	−992	−494	−339	−157	−2	−351
Total	−97	−805	−819	−245	−46	305	−462
F. Total (C through E)	351	97	99	−214	129	83	383
G. Official Monetary Movements							
IMF accounts	−181	205	−3	169	10	29	−82
Bundesbank investment in U.S. Treasury paper [4]	—	−250	—	—	−125	−125	−125
Other claims (net) [5]	249	27	−108	−12	92	55	4
Freely usable assets (increase −) [3]	−537	−143	14	56	−115	−98	−436
Monetary gold (increase −)	118	64	−2	1	9	56	256
Total	−351	−97	−99	214	−129	−83	−383

Source: Deutsche Bundesbank, *Monthly Report.*

[1] Positive figures are credits; negative figures are debits.

[2] Preliminary.

[3] 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.

[4] Made in accordance with the U.S.-German agreements of May 1967.

[5] Covers other assets and liabilities of the Bundesbank and liabilities resulting from the sale of German money-market paper to foreign monetary authorities.

TABLE 41. ITALY: BALANCE OF PAYMENTS SUMMARY, 1966–FIRST QUARTER 1968 [1]

(In millions of U.S. dollars)

			1967 [2]				1968 [2]
	1966	1967 [2]	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
A. Goods, Services, and Transfer Payments							
Exports f.o.b.	7,929	8,601	2,093	2,167	2,037	2,304	2,351
Imports f.o.b.	−7,595	−8,468	−2,119	−2,123	−1,985	−2,241	−2,095
Trade balance	334	133	−26	44	52	63	256
Travel (net)	1,199	1,126	144	272	501	209	155
Other services (net)	236	157	−4	47	140	−26	−6
Transfer payments (net)	348	283	69	85	93	36	33
Total	2,117	1,699	183	448	786	282	438
Memorandum item: Goods, Services, and Private Transfers	*2,224*	*1,855*	*213*	*472*	*815*	*355*	*506*
B. Capital Movements (excluding Group D) and Net Errors and Omissions							
Foreign investments in Italy [3]	260	210	54	29	14	113	49
Italian investment abroad	−449	−318	−129	−22	−50	−117	−125
Repatriation of Italian banknotes [3]	−559	−801	−229	−204	−123	−245	−342
Trade credits, net	−543	−231	−65	−180	68	−54	−113
Net errors and omissions	−35	−106	−72	7	−79	38	−98
Advance debt redemption	−145	—	—	—	—	—	—
Other government capital	−70	−90	−11	−29	−28	−22	8
Total	−1,541	−1,336	−452	−399	−198	−287	−621
C. Total (A plus B)	576	363	−269	49	588	−5	−183
Total, excluding advance debt redemption	*721*	*363*	*−269*	*49*	*588*	*−5*	*−183*
D. Commercial Bank Capital							
Liabilities	426	484	−257	62	296	383	20
Assets (increase −)	−834	−289	385	81	−379	−376	−2
Total	−408	195	128	143	−83	7	18
E. Total (C through D)	168	558	−141	192	505	2	−165
F. Official Monetary Movements							
IMF accounts	−335	42	−25	10	6	51	−52
Short-term liabilities	−29	1	5	15	−33	14	−18
Foreign exchange (increase −)	235	−610	166	−212	−494	−70	193
Other claims (increase −)	−29	−5	−3	−9	5	2	18
Monetary gold (increase −)	−10	14	−2	4	11	1	24
Total	−168	−558	141	−192	−505	−2	165

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

[1] 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.

[2] Preliminary.

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

TABLE 42. JAPAN: BALANCE OF PAYMENTS SUMMARY, 1966–FIRST QUARTER 1968 [1]

(In millions of U.S. dollars)

	1966	1967 [2]	1967 [2] First quarter	1967 [2] Second quarter	1967 [2] Third quarter	1967 [2] Fourth quarter	1968 [2] First quarter
A. Goods, Services, and Transfer Payments							
Exports f.o.b.	9,639	10,228	2,225	2,495	2,673	2,835	2,569
Imports f.o.b.	−7,366	−9,070	−2,073	−2,325	−2,223	−2,449	−2,449
Trade balance	2,273	1,158	152	170	450	386	120
Government special receipts [3]	476	524	123	131	127	143	129
Other services and transfer payments (net)	−1,498	−1,874	−449	−475	−440	−510	−547
Total	1,251	−192	−174	−174	137	19	−298
Memorandum item: Goods, Services, and Private Transfers	*1,380*	*−39*	*−138*	*−125*	*167*	*57*	*−262*
B. Long-Term Capital							
Direct investment	−75	−78	1	−9	−18	−52	−21
Trade credits and loans extended	−550	−702	−146	−142	−196	−218	−181
Other	−183	−32	−37	−31	−9	45	105
Total	−808	−812	−182	−182	−223	−225	−97
C. Total (A plus B)	443	−1,004	−356	−356	−86	−206	−395
D. Short-Term Capital, n.i.e. (including net errors and omissions)							
Nonmonetary sectors	−64	507	131	186	77	113	104
Net errors and omissions	−44	−74	−58	−37	25	−4	44
Total	−108	433	73	149	102	109	148
E. Commercial Bank Capital							
Liabilities	−276	988	252	330	72	334	169
Assets (increase —)	−113	−478	49	−145	−135	−247	37
Total	−389	510	301	185	−63	87	206
F. Total (C through E)	−54	−61	18	−22	−47	−10	−41
G. Official Monetary Movements							
IMF accounts	−66	82	39	20	—	23	13
Official reserves (increase —)	99	7	−42	3	52	−6	29
Other	21	−28	−15	−1	−5	−7	−1
Total	54	61	−18	22	47	10	41

Sources: Bank of Japan, *Balance of Payments Monthly* and *Economic Statistics Monthly*.
[1] Positive figures are credits; negative figures are debits.
[2] Preliminary.
[3] Includes sales of goods and services to foreign military forces.

TABLE 43. NETHERLANDS: BALANCE OF PAYMENTS SUMMARY, 1966–FIRST QUARTER 1968[1]

(In millions of U.S. dollars)

	1966	1967[2]	1967[2] First quarter	1967[2] Second quarter	1967[2] Third quarter	1967[2] Fourth quarter	1968[2] First quarter
A. Goods, Services, and Transfer Payments							
Exports f.o.b.	6,461	6,843	1,591	1,707	1,728	1,817	1,798
Imports f.o.b.	−7,056	−7,415	−1,793	−1,889	−1,748	−1,985	−1,924
Trade balance	−595	−572	−202	−182	−20	−168	−126
Services (net)	462	531	123	95	157	156	90
Transfer payments (net)	−59	−63	−16	−17	−25	−5	−21
Total	−192	−104	−95	−104	112	−17	−57
Memorandum item: Goods, Services, and Private Transfers	*−147*	*−46*	*−80*	*−87*	*132*	*−11*	*−35*
B. Long-Term Capital, n.i.e.							
Private	69	−81	−15	−37	−20	−9	−10
Official	−25	−22	−5	−3	−9	−5	−6
Total	44	−103	−20	−40	−29	−14	−16
C. Total (A plus B)	−148	−207	−115	−144	83	−31	−73
D. Short-Term Capital, n.i.e. (including net errors and omissions)							
Private nonmonetary	−21	69	5	−4	28	40	−30
Net errors and omissions	116	181	61	85	−18	53	77
Total	95	250	66	81	10	93	47
E. Commercial Bank Capital							
Liabilities	427	140	−119	144	64	51	153
Assets (increase —)	−332	−12	146	−25	−151	18	−189
Total	95	128	27	119	−87	69	−36
F. Total (C through E)	42	171	−22	56	6	131	−62
G. Official Monetary Movements							
IMF accounts	−55	61	−10	46	6	19	−126
Short-term liabilities[3]	−4	1	1	2	−3	1	—
Other short-term assets (increase —)[3]	−9	−252	31	−103	−9	−171	131
Monetary gold (increase —)	26	19	—	−1	—	20	57
Total	−42	−171	22	−56	−6	−131	62

Source: Data provided by the Netherlands Bank.
[1] Positive figures are credits; negative figures are debits.
[2] Preliminary.
[3] Payments agreement liabilities are included with "Other short-term assets" of the central bank.

TABLE 44. UNITED KINGDOM: BALANCE OF PAYMENTS SUMMARY, 1966–FIRST QUARTER 1968 [1]

(In millions of U.S. dollars)

	1966	1967 [2]	1967 [2] First quarter	1967 [2] Second quarter	1967 [2] Third quarter	1967 [2] Fourth quarter	1968 [2] First quarter
A. Goods, Services, and Transfer Payments, seasonally adjusted							
Exports f.o.b.	14,325	13,882	3,805	3,584	3,550	2,943	3,542
Imports f.o.b.	−14,622	−15,332	−3,870	−3,906	−3,774	−3,782	−4,015
Payments for U.S. military aircraft	−115	−267	−64	−81	−56	−66	−55
Trade balance	−412	−1,717	−129	−403	−280	−905	−528
Services and transfer payments (net)	325	377	191	64	154	−32	206
Total	−87	−1,340	62	−339	−126	−937	−322
Memorandum item: Goods, Services, and Private Transfers, seasonally adjusted	*423*	*−850*	*185*	*−207*	*−14*	*−814*	*−195*
B. Long-Term Capital Movements, n.i.e., seasonally adjusted							
Official	−230	−137	−61	−8	−42	−26	−72
Private investment (net)							
Abroad (increase —)	−817	−997	−216	−247	−171	−363	−439
In United Kingdom	762	1,059	288	252	199	320	156
Total	−285	−75	11	−3	−14	−69	−355
C. Total (A plus B), seasonally adjusted	−372	−1,415	73	−342	−140	−1,006	−677
Total (A plus B), unadjusted	−372	−1,415	9	−171	−353	−900	−660
D. Net Errors and Omissions	−37	551	453	216	−216	98	−211
E. Short-Term Capital Movements, n.i.e.							
Miscellaneous capital	−339		56	146	−2		84
Foreign currency liabilities (net) of banks	−453		392	−62	−84		−34
Sterling liabilities (net) other than to central monetary institutions, BIS, and IMF		−424 [3]				−676 [3]	
Sterling area countries	67		70	−174	−67		41
Other	−434		361	73	−457		−331
Total	−1,159	−424	879	−17	−610	−676	−240
F. Total (C through E)	−1,568	−1,288	1,341	28	−1,179	−1,478	−1,111
G. Exchange Adjustments	—	. . . [3]	—	—	—	. . . [3]	−298
H. Official Monetary Movements							
IMF accounts	−41	−852	−59	−464	−14	−315	10
Gold deposit liability to IMF	34	1	1	—	—	—	—
Sterling liabilities (net) to central monetary institutions and BIS							
Sterling area countries	−75	820	146	−140	−112	802	204
Other	821		−1,231	151	1,204		918
Official liabilities in non-sterling currencies	39	424	−39	—	—	463	304
Transfer of securities from dollar portfolio to reserves	885	490	—	—	—	490	—
Convertible currency reserves (increase —)	−420	−244	−422	456	224	−502	175
Gold reserves (increase —)	325	649	263	−31	−123	540	−202
Total	1,568	1,288	−1,341	−28	1,179	1,478	1,409

Source: U.K. Central Statistical Office, Balance of Payments article in *Economic Trends* for June 1968, and estimates for fourth quarter of 1967 provided by Central Statistical Office.

[1] Positive figures are credits; negative figures are debits.

[2] Preliminary.

[3] Exchange adjustments are included in the figure for Group E.

TABLE 45. UNITED STATES: BALANCE OF PAYMENTS SUMMARY, SEASONALLY ADJUSTED, 1966–FIRST QUARTER 1968 [1]

(In millions of U.S. dollars)

	1966	1967 [2]	1967 [2] First quarter	1967 [2] Second quarter	1967 [2] Third quarter	1967 [2] Fourth quarter	1968 [2] First quarter
A. Goods, Services, and Transfers (excluding aid)							
Exports f.o.b.	29,176	30,468	7,661	7,703	7,626	7,478	7,924
Imports f.o.b.	−25,541	−26,991	−6,686	−6,605	−6,541	−7,159	−7,840
Export surplus	3,635	3,477	975	1,098	1,085	319	84
Net military expenditures	−2,906	−3,100	−737	−729	−853	−781	−802
Investment income	4,178	4,566	1,034	996	1,252	1,284	1,111
Other services, remittances, and pensions (excluding aid and military transfers)	−842	−1,449	−241	−488	−483	−237	−288
Total	4,065	3,494	1,031	877	1,001	585	105
B. Aid and Nonmonetary Sectors' Selected Capital							
Advance repayments on U.S. Government loans	429	5	—	—	5	—	42
Other government capital and grants	−3,873	−4,216	−1,176	−1,039	−993	−1,008	−1,205
Direct investment abroad	−3,623	−3,021	−653	−651	−902	−815	−468
Portfolio investment abroad	−256	−1,270	−174	−181	−506	−409	−160
Foreign direct and portfolio investment in United States	1,363	1,505	389	395	571	150	995
Total	−5,960	−6,997	−1,614	−1,476	−1,825	−2,082	−796
C. Total (A plus B)	−1,895	−3,503	−583	−599	−824	−1,497	−691
D. Net Errors and Omissions	−213	−535	−250	−458	207	−34	−148
E. Short-Term Capital, n.i.e.							
Foreign nonliquid capital	408	390	136	220	69	−35	−56
Foreign liquid capital	−313	195	60	−52	56	131	78
U.S. private assets (increase —)	−418	−1,214	−148	−272	−380	−414	−83
Total	−323	−629	48	−104	−255	−318	−61
F. Liquid Liabilities to Foreign Commercial Banks	2,697	1,262	−979	355	1,119	767	390
G. Total (C through F)	266	−3,405	−1,764	−806	247	−1,082	−510
H. "Official Settlements" [3]							
Liabilities to foreign official agencies							
Nonliquid liabilities	761	1,291	340	587	126	238	372
Liquid liabilities	−1,595	2,062	397	638	2	1,025	−766
IMF accounts	278	−94	−31	−10	−5	−48	−57
U.S. convertible currency holdings (increase —)	−540	−1,024	1,007	−424	−462	−1,145	−401
Gold sales	830	1,170	51	15	92	1,012	1,362
Total	−266	3,405	1,764	806	−247	1,082	510
Main Categories, without seasonal adjustment							
Export surplus			943	1,289	716	529	140
Services and transfers (excluding aid)			263	−216	−695	664	254
Aid and nonmonetary sectors' selected capital			−1,842	−1,800	−1,624	−2,475	−787
Subtotal			−636	−727	−1,603	−1,282	−393
Unrecorded transactions			−6	−342	163	−348	95
Short-term capital, n.i.e.			116	203	150	−355	−228
Liquid liabilities to foreign commercial banks			−753	161	1,265	589	616
Subtotal			−643	22	1,578	−114	483
"Official Settlements"			1,279	705	25	1,396	−90
Memorandum item: Change (increase —) in monetary reserve assets net of liquid liabilities							
Seasonally adjusted			505	522	802	1,742	606
Without seasonal adjustment	1,357	3,571	238	220	1,212	1,901	224

Source: U.S. Department of Commerce, *Survey of Current Business,* June 1968.

[1] Positive figures are credits; negative figures are debits.

[2] Preliminary.

[3] 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 46. PRIMARY PRODUCING COUNTRIES: BALANCE OF PAYMENTS SUMMARIES, 1966 AND 1967 [1]

(In millions of U.S. dollars)

	1966									
	Exports f.o.b. (1)	Imports f.o.b.[3] (2)	Trade Balance (Cols. 1 + 2) (3)	Services and Private Transfer Payments (4)	Goods, Services, and Private Transfer Payments (Cols. 3 + 4) (5)	Central Government Capital and Aid (6)	Private Long-Term Capital (7)	Basic Balance (Cols. 5 through 7) (8)	Other Short-Term Capital and Net Errors and Omissions (9)	Total[4] (Cols. 8 + 9) (10)
A. More Developed Primary Producers										
Australia	3,086	−2,983	103	−645	−542	−320	635	−227	280	53
Finland	1,494	−1,731[5]	−237	35	−202	−12	43	−171	45	−126
Greece	426	−1,153[5]	−727	489	−238	72	147	−19	42	23
Iceland	139	−147	−8	—	−8	3	9	4	—	4
Ireland	654	−1,020[5]	−366	285	−81	42	70	31	53	84
New Zealand	1,113	−947	166	−288	−122	47	−4	−79	24	−55
Portugal	684	−1,075	−391	429	38	28	87	153	−12	141
South Africa	2,754	−2,348	406	−483	−77	31	122	76	136	212
Spain	1,308	−3,300	−1,992	1,425	−567	39	302	−226	61	−165
Turkey	494	−639	−145	71	−74	116	20	62	−50	12
Yugoslavia	1,222	−1,575[5]	−353	301	−52	178	—	126	−81	45
Total, Group A	13,374	−16,918	−3,544	1,619	−1,925	224	1,431	−270	498	228
B. Less Developed Primary Producers										
Western Hemisphere										
Argentina	1,593	−1,124[5]	469	−212	257	51	−12	296	−190	106
Bolivia	133	−139	−6	−26	−32	31	4	3	−1	2
Brazil	1,741	−1,303	438	−505	−67	242	132	307	−35	272
Chile	865	−779[5]	86	−154	−68	134	−14	52	24	76
Colombia	534	−639	−105	−185	−290	54	95	−141	104	−37
Costa Rica	136	−162	−26	−22	−48	4	35	−9	2	−7
Dominican Republic	138	−161	−23	−45	−68	42	7	−19	−14	−33
Ecuador	187	−153	34	−55	−21	16	16	11	—	11
El Salvador	190	−202	−12	−32	−44	17	18	−9	−3	−12
Guatemala	229	−202	27	−44	−17	1	29	13	−22	−9
Haiti	35	−42	−7	−2	−9	3	1	−5	5	—
Honduras	145	−138	7	−30	−23	6	8	−9	6	−3
Jamaica	227	−283	−56	17	−39	10	...	−29	40[6]	11
Mexico	1,228	−1,619[5]	−391	24	−367	51	265	−51	30	−21
Nicaragua	143	−152	−9	−45	−54	14	17	−23	25	2
Panama	103	−218	−115	69	−46	13	20	−13	2	−11
Paraguay	54	−58	−4	−9	−13	5	8	—	1	1
Peru	789	−747	42	−207	−165	144	58	37	−58	−21
Trinidad and Tobago	425	−455[5]	−30	−19	−49	7	36	−6	3	−3
Uruguay	190	−132	58	−8	50	14	−4	60	−118	−58
Venezuela	2,342	−1,297	1,045	−1,090	−45	9	120	84	−121	−37
Subtotal, Western Hemisphere	11,427	−10,005	1,422	−2,580	−1,158	868	839	549	−320	229
Asia										
Burma	191	−176	15	−35	−20	30	—	10	−3	7
Ceylon	352	−424[5]	−72	−2	−74	29	−3	−48	−5	−53
China, Republic of	543	−586	−43	35	−8	−5	42	29	−7	22
India	1,531	−2,600[5]	−1,069	100	−969	964	13	8	−19	−11
Indonesia	714	−596	118	−241	−123	115	6	−2	20	18
Korea	250	−680	−430	205	−225	160	177	112	5	117
Malaysia	1,244	−1,065	179	−205	−26	20	64	58	−92	−34
Pakistan	569	−880	−311	−93	−404	337	64	−3	−25	−28
Philippines	863	−853	10	126	136	21	−12	145	−174	−29
Singapore	1,035	−1,250	−215	199	−16	−41	30	−27	42	15
Thailand	664	−879[5]	−215	208	−7	47	36	76	104	180
Viet-Nam	25	−656[5]	−631	365	−266	399	−2	131	−3	128
Subtotal, Asia	7,981	−10,645	−2,664	662	−2,002	2,076	415	489	−157	332
Middle East										
Cyprus	77	−134	−57	60	3	−1	11	13	2	15
Iran	1,392	−964[5]	428	−565	−137	92	87	42	−33	9
Iraq	934	−495[5]	439	−420	19	1	71	91	−14	77
Israel	475	−734	−259	104	−155	80	100	25	−58	−33
Jordan	29	−188[5]	−159	67	−92	101	1	10	18	28
Saudi Arabia	1,503	−604	899	−840	59	100	44	203	−90	113
Syrian Arab Republic	173	−291[5]	−118	67	−51	21	2	−28	20	−8
United Arab Republic	597	−953[5]	−356	180	−176	134	−13	−55	58	3
Subtotal, Middle East	5,180	−4,363	817	−1,347	−530	528	303	301	−97	204
Africa										
Ethiopia	112	−142	−30	−14	−44	26	18	—	1	1
Ghana	281	−337	−56	−92	−148	54	59	−35	19	−16
Ivory Coast	325	−278[5]	47	−96	−49	22	1	−26	27	1
Kenya	243	−313[5]	−70	43	−27	39	12	24	−2	22
Libya	1,002	−409[5]	593	−492	101	−2	−44	55	37	92
Malawi	47	−75	−28	−10	−38	24	4	−10	5	−5
Morocco	428	−443	−15	−30	−45	37	7	−1	−9	−10
Nigeria	786	−702[5]	84	−367	−283	27	184	−72	44	−28
Sierra Leone	78	−86	−8	−17	−25	4	9	−12	10	−2
Somalia	30	−45[5]	−15	−6	−21	19	2	—	2	2
Sudan	212	−236[5]	−24	−31	−55	43	1	−11	2	−9
Tanzania	248	−243[5]	5	−8	−3	7	13	17	6	23
Tunisia	138	−250	−112	−17	−129	56	53	−20	9	−11
Zambia	622	−368	254	−178	76	−58	3	21	−9	12
Subtotal, Africa	4,552	−3,927	625	−1,315	−690	298	322	−70	142	72
Total, Group B	29,140	−28,940	200	−4,580	−4,380	3,770	1,879	1,269	−432	837
C. Total Primary Producers	42,514	−45,858	−3,344	−2,961	−6,305	3,994	3,310	999	66	1,065

Source: International Monetary Fund, *Balance of Payments Yearbook*. [1] Positive figures are credits; negative figures are debits. [2] Preliminary and including Fund staff estimates. [3] F.o.b. unless otherwise noted.

Footnotes continued on page 123.

TABLE 46 (*concluded*). PRIMARY PRODUCING COUNTRIES: BALANCE OF PAYMENTS SUMMARIES, 1966 AND 1967 [1]

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

	1967 [2]									
	Exports f.o.b. (1)	Imports f.o.b.[3] (2)	Trade Balance (Cols. 1 + 2) (3)	Services and Private Transfer Payments (4)	Goods, Services, and Private Transfer Payments (Cols. 3 + 4) (5)	Central Government Capital and Aid (6)	Private Long-Term Capital (7)	Basic Balance (Cols. 5 through 7) (8)	Other Short-Term Capital and Net Errors and Omissions (9)	Total [4] (Cols. 8 + 9) (10)
A. More Developed Primary Producers										
Australia	3,389	−3,350	39	−730	−691	−37	604	−124	113	−11
Finland	1,515	−1,694[5]	−179	17	−162	1	75	−86	3	−83
Greece	488	−1,161[5]	−673	482	−191	16	160	−15	38	23
Iceland	100	−155	−55	−1	−56	5	13	−38	14	−24
Ireland	760	−1,060[5]	−300	325	25	—	20	45	−35	10
New Zealand	958	−831	127	−276	−149	85	−3	−67	−4	−71
Portugal	758	−1,114	−356	490	134	19	52	205	−43	162
South Africa	2,940	−2,755	185	−482	−297	22	200	−75	62	−13
Spain	1,419	−3,200	−1,781	1,315	−466	37	509	80	−204	−124
Turkey	530	−608	−78	27	−51	125	−9	65	−60	5
Yugoslavia	1,253	−1,708[5]	−455	353	−102	165	—	63	—	63
Total, Group A	14,110	−17,636	−3,526	1,520	−2,006	438	1,621	53	−116	−63
B. Less Developed Primary Producers										
Western Hemisphere										
Argentina	1,485	−1,120[5]	365	−178	187	−54	316	449	−73	376
Bolivia	148	−137	11	−45	−34	36[6]	. . .	2	−12	−10
Brazil	1,652	−1,441	211	−542	−331	142	185	−4	−96	−100
Chile	876	−822[5]	54	−212	−158	58	63	−37	10	−27
Colombia	552	−480	72	−136	−64	63	43	42	−6	36
Costa Rica	146	−171	−25	−25	−50	67[6]	. . .	17	−2	15
Dominican Republic	157	−172	−15	−52	−67	30	23	−14	3	−11
Ecuador	200	−177	23	−61	−38	13	33	8	2	10
El Salvador	208	−205	3	−29	−26	13	16	3	−4	−1
Guatemala	206	−230	−24	−48	−72	12	37	−23	16	−7
Haiti	32	−40	−8	4	−4	3	1	—	−2	−2
Honduras	151	−156	−5	−30	−35	7	10	−18	18	—
Jamaica	232	−352[5]	−120	50	−70	10	. . .	−60	54[6]	−6
Mexico	1,148	−1,749[5]	−601	138	−463	60	230	−173	213	40
Nicaragua	152	−172	−20	−46	−66	14	17	−35	18	−17
Panama	113	−232	−119	84	−35	11	3	−21	19	−2
Paraguay	57	−65	−8	−10	−18	17	4	3	−2	1
Peru	753	−802	−49	−198	−247	143	21	−83	52	−31
Trinidad and Tobago	431	−408[5]	23	−44	−21	1	25	5	−3	2
Uruguay	159	−171[5]	−12	18	6	5[6]	. . .	11	−2	9
Venezuela	2,462	−1,337	1,125	−1,157	−32	−11	119	76	24	100
Subtotal, Western Hemisphere	11,320	−10,439	881	−2,519	−1,638	640	1,146	148	227	375
Asia										
Burma	127	−136	−9	−22	−31	19	—	−12	−24	−36
Ceylon	338	−410[5]	−72	−5	−77	43	−1	−35	7	−28
China, Republic of	652	−769	−117	20	−97	1	124	28	19	47
India	1,648	−2,775[5]	−1,127	−31	−1,158	1,228	15	85	−116	−31
Indonesia	770	−796	−26	−263	−289	305[6]	. . .	16	−25	−9
Korea	320	−909	−589	259	−330	155	193	18	100	118
Malaysia	1,220	−1,078	142	−198	−56	15	44	3	−21	−18
Pakistan	570	−1,109	−539	−130	−669	550	63	−56	24	−32
Philippines	830	−1,054	−224	122	−102	48	−2	−56	−68	−124
Singapore	1,055	−1,351	−296	206	−90	−90	35	−145	154	9
Thailand	668	−991[5]	−323	280	−43	68	72	97	−1	96
Viet-Nam	33	−726[5]	−693	339	−354	383	−2	27	1	28
Subtotal, Asia	8,231	−12,104	−3,873	577	−3,296	2,725	541	−30	50	20
Middle East										
Cyprus	80	−141	−61	66	5	−1	10	14	3	17
Iran	1,747	−1,115[5]	632	−716	−84	110	49	75	−43	32
Iraq	810	−450[5]	360	−354	6	43	6	55	−48[6]	7
Israel	532	−669	−137	231	94	212	23	329	−110	219
Jordan	32	−155[5]	−123	49	−74	150	—	76	—	76
Saudi Arabia	1,516	−576	940	−886	54	118	95	267	−207	60
Syrian Arab Republic	155	−264[5]	−109	97	−12	50	—	38	2	40
United Arab Republic	596	−929[5]	−333	64	−269	200	—	−69	4	−65
Subtotal, Middle East	5,468	−4,299	1,169	−1,449	−280	882	183	785	−399	386
Africa										
Ethiopia	103	−126	−23	−19	−42	14	15	−13	−1	−14
Ghana	301	−284	17	−101	−84	−5	36	−53	1	−52
Ivory Coast	340	−278[5]	62	−120	−58	25	5	−28	36	8
Kenya	222	−322[5]	−100	55	−45	18	20	−7	19	12
Libya	1,178	−480[5]	698	−518	180	−79	−47	54	−6	48
Malawi	55	−69	−14	−15	−29	30	2	3	1	4
Morocco	424	−480	−56	−8	−64	43	12	−9	−12	−21
Nigeria	669	−595[5]	74	−314	−240	70	97	−73	−14	−87
Sierra Leone	70	−90[5]	−20	−3	−23	4	9	−10	6	−4
Somalia	29	−43[5]	−14	—	−14	12	2	—	−1	−1
Sudan	218	−239[5]	−21	−28	−49	28	−3	−24	−2	−26
Tanzania	248	−247[5]	1	3	4	9	—	13	−2	11
Tunisia	147	−251	−104	−19	−123	57	64	−2		−2
Zambia	651	−469	182	−181	1	53	6	60	−56	4
Subtotal, Africa	4,655	−3,973	682	−1,268	−586	279	218	−89	−31	−120
Total, Group B	29,674	−30,815	−1,141	−4,659	−5,800	4,526	2,088	814	−153	661
C. Total Primary Producers	43,784	−48,451	−4,667	−3,139	−7,806	4,964	3,709	867	−269	598

For footnotes 1-3, see page 122.

[4] Reflects net official reserve movements, i.e., changes in foreign liabilities of countries' central monetary institutions in addition to changes in their official gold holdings, Fund positions, and foreign assets. Positive figures indicate surpluses; negative figures indicate deficits.

[5] C.i.f. [6] Including private long-term capital.

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APPENDICES

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Appendix I. Executive Board Decisions and Report Proposing Amendment of Articles of Agreement

A. Repurchases: Small Amounts Included in Article V, Section 7 (*b*), Obligations

A. 1. If a provisional or final repurchase obligation includes an amount of gold or currency equivalent to $500 or less, such amount shall not be collected. No adjustments of repurchase obligations shall be made if they involve an amount of gold or currency equivalent to $500 or less.

2. This decision supersedes Executive Board Decision No. 705-(57/55).

B. Paragraph 1 of Executive Board Decision No. 1813-(65/4)[1] is amended to read as follows:

1. Where on any April 30 the Fund holds a member's currency in an amount that is in excess of 75 per cent of the member's quota by more than $500, the member shall make a provisional monetary reserves report to the Fund not later than May 31, preferably by cable.

Decision No. 2499-(68/77)
April 19, 1968

B. Report of the Executive Directors and Proposed Amendment to the Articles of Agreement

I. Pursuant to Resolution No. 22-8 of the Twenty-Second Annual Meeting, the Executive Directors:

(a) Adopt the Report entitled *Establishment of a Facility Based on Special Drawing Rights in the International Monetary Fund and Modifications in the Rules and Practices of the Fund;*

(b) Propose the introduction in the Articles of Agreement of the modifications set forth in the Proposed Amendment attached to the Resolution in Annex A to the Report; and

(c) Recommend the adoption by the Board of Governors of the Resolution in Annex A to the Report.

II. The Executive Directors note that the Secretary has been authorized and directed by the Chairman of the Board of Governors of the Fund to bring before the Board of Governors on his behalf by rapid means of communication the proposal of the Executive Directors introducing modifications in the Articles of Agreement pursuant to Resolution No. 22-8; pursuant to this request the Secretary is sending it to the Board with the Report. The Executive Directors authorize and direct the Secretary to send to each member of the Fund this Report with a request for a vote by its Governor on the Resolution in Annex A.

III. The Board of Governors is requested, pursuant to Section 13 of the By-Laws, to vote without meeting on the Resolution in Annex A of the Report. Pursuant further to this By-Law, the Executive Directors waive the requirement that Governors shall not

[1] See *Annual Report, 1965,* page 123.

vote on any motion presented by the Executive Directors until seven days after the dispatch of the motion. To be valid, the votes must be received at the seat of the Fund on or before May 31, 1968. Votes received after that date will not be counted.

IV. The effective date of the Resolution of the Board of Governors shall be the last day allowed for voting.

V. The Secretary is authorized to take such action as he shall deem necessary or appropriate to carry out the purpose of this decision.

Decision No. 2493-(68/74)
April 16, 1968

Establishment of a Facility Based on Special Drawing Rights in the International Monetary Fund and Modifications in the Rules and Practices of the Fund

A Report by the Executive Directors to the
Board of Governors Proposing Amendment of
the Articles of Agreement

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INTRODUCTION

At its Twenty-Second Annual Meeting at Rio de Janeiro in September 1967, the Board of Governors adopted the following Resolution:

WHEREAS the functioning of the international monetary system and its improvement, including arrangements to meet the need, as and when it arises, for a supplement to existing reserve assets, have been the subject of extensive study and international discussion resulting in the Outline of a Facility Based on Special Drawing Rights in the International Monetary Fund, which Outline is attached to this Resolution; and

WHEREAS studies are currently under way on possible improvements in the present rules and practices of the Fund;

NOW, THEREFORE, the Board of Governors hereby RESOLVES:

That the Executive Directors are requested to

1. Proceed with their work relating to both
   (a) the establishment in the Fund of a new facility on the basis of the Outline in order to meet the need, as and when it arises, for a supplement to existing reserve assets, and
   (b) improvements in the present rules and practices of the Fund based on developments in world economic conditions and the experience of the Fund since the adoption of the Articles of Agreement of the Fund; and
2. Submit to the Board of Governors as soon as possible but not later than March 31, 1968
   (a) a report proposing amendments to the Articles of Agreement and the By-Laws for the purpose of establishing a new facility on the basis of the Outline, and
   (b) a report proposing such amendments to the Articles of Agreement and the By-Laws as would be required to give effect to those modifications in the present rules and practices of the Fund that the Executive Directors will recommend.

As the Governors have been informed, it was not possible to complete by March 31, 1968 the work on the two subjects referred to in paragraph 1 of this Resolution. The Executive Directors are now submitting to the Board of Governors the present Report which combines the two reports envisaged in paragraph 2 of the Resolution. Part I constitutes the first and Part II the second of these two reports. The recommendations of the Executive Directors are presented together in Annex A to this Report.

Annex A submits for approval by the Board of Governors a Resolution proposing modifications in the Articles of Agreement of the International Monetary Fund for the purpose of (a) establishing in the Fund a facility for special drawing rights based on the Outline, and (b) giving effect to certain changes in the present rules and practices of the Fund that the Executive Directors have decided to recommend. They are not recommending modifications in the By-Laws at this time. It would not be possible for the Board of Governors to adopt By-Laws relating to the new facility until the participation requirement prescribed in Article XXIII, Section 1, has been met. Recommendations will be submitted in due course.

The modifications in the Articles of Agreement under both (a) and (b) above are set forth in the Proposed Amendment which appears in the attachment to the Resolution. The Executive Directors recommend to the Board of Governors the adoption of this Resolution.

The Outline referred to above is also annexed to this Report (Annex B).

While the modifications set forth in Annex A are for the most part self-explanatory, the Executive Directors believe that brief comments on various aspects of these modifications may be useful to Governors and to member governments. They are to be found in Parts I and II of the Report.

In addition, Part III of the Report describes the procedure to be followed in order to give effect to the proposed modifications.

The Executive Directors wish to take this opportunity to express their great appreciation of the outstanding contribution made by the Staff of the Fund at all levels in the implementation of the Governors' Resolution. Working under intense pressure, sustained for more than six months, they have at all times given the Executive Directors the benefit of their skill and experience.

PART I

The New Facility

1. *General Comments*

The Resolution adopted by the Board of Governors at its Rio de Janeiro Meeting envisaged the establishment in the Fund of a new facility based on special drawing rights to meet the need, as and when it arises, for a supplement to existing reserve assets. The changes in the Introductory Article and the addition of Articles XXI through XXXII and Schedules F, G, H, and I, which are included in the Proposed Amendment, will achieve this purpose, and under them the Fund will acquire an important new function in the international monetary system. The new provisions also deal with the relationship of the new facility to the present functions of the Fund. However, the provisions of the Articles of Agreement, as amended, will constitute a single legal document.

As requested by the Rio de Janeiro Resolution, the Executive Directors, in drafting the modifications in the Articles of Agreement that would establish the new facility, have worked on the basis of the Outline attached to that Resolution. The Outline sets forth the main features of the new facility and several of its more detailed characteristics. It was, however, intentionally less than a complete plan of the facility, and the Executive Directors have had to elaborate certain aspects of the facility that were treated in the Outline only in a very general way. This applied, for example, to the establishment of the General and the Special Drawing Accounts, the terms on which the General Account may hold and use special drawing rights, the provision relating to "other holders," the cancellation of special drawing rights, the payment of interest, the levying of charges, withdrawal from the facility, and its liquidation. It was also necessary to provide in detail for the effects on the organizational structure of the Fund that follow from the fact that, while all members are entitled to become participants in the new facility, they are not required to participate. However, it has not been felt necessary to include in the Proposed Amendment a provision corresponding to Paragraph III. 3(d) of the Outline under which the Executive Directors are to review the operations of the Special Drawing Account and the adequacy of global reserves as part of their Annual Report to the Board of Governors. On the analogy of Article XII, Section 7, and Section 10 of the By-Laws, this requirement will be included in the By-Laws.

2. *The Special Drawing Account*

Under the Articles of Agreement as amended, there will be maintained in the Fund two separate Accounts, a General Account and a Special Drawing Account. The Fund will carry on its present operations and transactions, including those of an administrative character, through the General Account, and its functions relating to special drawing rights through the Special Drawing Account. There will be a corresponding separation of assets and property as well as liabilities and obligations.

Operations and transactions involving the acceptance or holding of special drawing rights by the Fund in the General Account or the use of special drawing rights thus held will be carried out through and recorded in both Accounts.

The separation of the two Accounts does not create a new legal entity. The Fund will continue to be the same institution with a single international personality.

3. *Participation in the Special Drawing Account*

Participation in the Special Drawing Account will be open to members of the Fund and only to them. Each member of the Fund will continue to be entitled to take part in General Account operations and transactions, but in order to become a participant in the Special Drawing Account a member will have to deposit with the Fund an instrument setting forth that it undertakes all the obligations of a participant in the Special Drawing Account in accordance with its law and that it has taken all steps necessary to enable it to carry out all these obligations. No member will become a participant, however, before these instruments have been deposited by members that have at least 75 per cent of the total quotas in the Fund.

Participation in the Special Drawing Account will involve the assumption of both financial and nonfinancial obligations. The basic financial obligation that each participant will assume will be the obligation under Article XXV, Section 4, to provide currency convertible in fact, when the participant is designated by the Fund, to another participant using its special drawing rights, up to a total net amount equivalent to twice the net amount of special drawing rights allocated to the designated participant. The participant providing currency will receive an equivalent amount of special drawing rights. The circumstances in which a participant will be designated to provide currency are set forth in Article XXV, Section 5, and Schedule F.

A participant whose Governor did not vote in favor of a decision under which allocations of special drawing rights are being made will not have to receive allocations under that decision if it does not wish to do so. A participant will be required to receive special drawing rights allocated to it if its Governor voted in favor of the decision under which the allocations are made. Accordingly, a participant that wishes to receive special drawing rights to be allocated to it under a decision and that needs parliamentary or other legal authorization in order to be able to meet the financial obligation assumed under Article XXV, Section 4, should obtain, prior to the adoption of the relevant decision to make allocations, the necessary authorization.

The domestic legal steps that each member will need to take in order to enable it to carry out the obligations of a participant, both financial and nonfinancial, will have to be determined by the authorities of the member in accordance with its own constitutional and other legal requirements. One way in which a member will be able to put itself into a position to meet its obligations under Article XXV, Section 4, to provide currency will be to give its central bank the power to acquire and hold special drawing rights without limitation, thus obviating any need for further legal action from time to time. Central banks in many countries already have authority to acquire gold and some or all forms of foreign exchange.

An alternative course would be for a member to seek parliamentary or other legal authority, as may be necessary, for a specified amount, e.g., authority to receive allocations equal to not less than 50 per cent of quota with the consequent obligation to provide currency up to a total net amount at least equal to its quota.

4. *Holders of Special Drawing Rights Other than Participants*

Allocations of special drawing rights may be made only to participants, but the holding of such rights is not restricted to participants. Article XXIII, Section 2, authorizes the Fund itself to accept and hold special drawing rights in, and use them through, the General Account. Detailed provisions with respect to these operations and transactions are contained in Article XXV, Section 7.

Section 3 of Article XXIII foresees the possibility that the Fund may permit others to accept, hold, and use special drawing rights. Under this provision the Fund, by an 85 per cent majority of the total voting power, will be able to permit nonmembers and members that are not participants to engage in operations and transactions involving special drawing rights. Other holders that the Fund could authorize to engage in these operations and transactions would be institutions that perform one or more functions of a central bank for more than one member. Regional organizations in which members or their central banks pool some of their reserves and the Bank for International Settlements are considered to fall within this description. The expression "operations and transactions" in Article XXIII, Section 3, will cover the operations and transactions of a central banking character engaged in by the organizations referred to in this section.

The Fund has the power to prescribe, by an 85 per cent majority, the terms and conditions for the operations and transactions between participants and these other holders, but these terms and conditions must be consistent with the provisions of the Articles. In exercising this power the Fund will necessarily be guided by the nature of special drawing rights as a supplement to existing reserve assets and by the desirability of ensuring their proper use. Under this power the Fund will be able to prescribe, where it is found appropriate, that operations and transactions between participants and other holders will be subject to the requirement of need which is discussed in section 15 below. It is expected that normally the requirement of need will be prescribed as part of the terms and conditions for transactions in which participants use special drawing rights to obtain currency from other holders.

5. *Recording and Information*

Article XXII, Section 3, provides that all changes in holdings of special drawing rights, whether the result of allocations and cancellations or of operations and transactions, will become effective only when recorded by the Fund in the Special Drawing Account. This will apply not only to operations and transactions between participants but also to operations and transactions between other holders and participants. The Fund will record changes resulting from operations and transactions that are in conformity with the obligations of participants under the provisions of the Articles or any terms and conditions prescribed by the Fund under these provisions. To enable the Fund to carry out this task, participants are required to inform the Fund of any operation or transaction involving special drawing rights that they enter into and to indicate at the same time the provisions of the Articles under which the operation or transaction is entered into. The obligation falls on both parties to the operation or transaction if they are participants.

It is expected that a similar requirement will be included in the terms and conditions for other holders.

6. *Principles Governing Allocations and Cancellations*

Article XXIV, Section 1(a), states the basic principle which is to govern all decisions to allocate or cancel special drawing rights. This principle is that the Fund must seek to meet the long-term global need, as and when it arises, to supplement existing reserve assets, in a manner that will promote the attainment of the Fund's purposes as set forth in Article I, and will avoid economic stagnation and deflation as well as excess demand and inflation in the world.

7. *First Decision to Allocate Special Drawing Rights*

Article XXIV, Section 1(b), provides that the first decision to allocate special drawing rights shall be based on the principles that guide all decisions to allocate special drawing rights, and in addition, that it shall take into account certain special considerations. The first of these special considerations is a collective judgment that there is a global need to supplement reserves. The term "collective judgment" reflects the requirement of an 85 per cent majority of the total voting power for the adoption by the Board of Governors of decisions to allocate special drawing rights. The other special considerations are the attainment of a better balance of payments equilibrium and the likelihood of a better working of the adjustment process in the future. While the situation of all members is relevant to a judgment with respect to the attainment of a better balance of payments equilibrium, the judgment to be made at the time will necessarily be influenced predominantly by the situation of members that have a large share in world trade and payments.

8. *Allocation and Cancellation*

Special drawing rights will be allocated or cancelled over periods, referred to in the Articles as "basic" periods, which normally will be five years in duration and which will run consecutively. Allocations to participants will be made at yearly intervals and on the basis of their quotas on the date of the relevant decision to allocate, unless the Fund decides that allocations are to be made at different intervals or are to be based on quotas at different dates.

The concept of consecutive basic periods has been introduced for technical reasons and does not prejudice the exercise by the Fund of its discretion to allocate special drawing rights, or to cancel special drawing rights, or to do neither. The Fund will exercise its discretion on the basis of the judgment it forms on the need to supplement existing reserve assets. It will be possible to have basic periods in which there are neither allocations nor cancellations. A basic period can be an "empty period," either because the Governors have approved a proposal by the Managing Director that no allocation or cancellation should be made, or because the Managing Director, having ascertained that there is no broad support for a proposal that would be consistent with the requirements of the Articles, has been unable to make a proposal, or because a proposal by the Managing Director to allocate or to cancel has failed to command the required majority.

A member that becomes a participant after a basic period has started will not receive allocations during that basic period, unless the Fund decides that the member will start to receive allocations beginning with the next allocation after it becomes a participant. It is expected that normally the Fund will so decide.

9. *Decisions on Allocations and Cancellations*

Under Article XXIV, Section 4(a), and Article XXVII(a)(i), decisions to allocate or cancel special drawing rights may be made only by the Board of Governors and only by an 85 per cent majority of the total voting power. These decisions may be made by the Governors only on the basis of proposals of the Managing Director concurred in by a decision of the Executive Directors.

The Managing Director is required to make proposals at certain times and in certain circumstances. Whenever he is required to make proposals but he reaches a conclusion that there is no proposal that would be consistent with the principles and considerations governing allocation and cancellation that would have broad support among participants, he must submit a report to both the Board of Governors and the Executive Directors.

10. *Operations and Transactions in Special Drawing Rights*

As stated in Article XXV, Section 1, special drawing rights may be used only in the operations and transactions authorized by or under the provisions of the Articles. The term "transactions," as used in Articles XXI through XXXII, refers to uses of special drawing rights to obtain currency. The main examples are transactions under Article XXV, Section 2. The term "operations" refers to all other uses of special drawing rights authorized by or under the Articles, such as the payment of interest, charges, and assessments under Article XXVI.

11. *Receipt of Allocations*

Article XXIV, Section 2(e), requires each member that has become a participant to accept an allocation of special drawing rights unless its Governor voted against or did not vote on the decision under which the allocation is to be made and, prior to the first allocation under that decision, the participant has given the Fund notice that it does not wish to receive the allocation. In other words, a participant whose Governor did not vote affirmatively may "opt out" of allocations under a decision (i.e., may choose not to receive special drawing rights and incur the corresponding obligations) by giving notice to that effect.

A participant that has opted out with respect to a basic period may "opt back in" (i.e., resume receiving allocations) with the permission of the Fund, but the participant will receive only the allocations made after it has been permitted to opt back in. Opting back in is not possible with respect to allocations that were made previously during the basic period. It is expected that the Fund will give sympathetic consideration to a request by a participant to opt back in.

12. *Character of Special Drawing Rights*

Special drawing rights will be issued by the Fund but they will not confer on participants a claim against the Fund itself to provide currency, except as prescribed by the provisions of Articles XXX and XXXI and Schedules G and H relating to the termination of participation and liquidation. Participants will be able to use special drawing rights to obtain currency from other participants in accordance with the provisions of Article XXV. The provisions of Article XXV require the Fund to designate participants to provide currency to other participants using their special drawing rights in accordance with Section 2(a) of that Article, so that participants can be assured that at all times they will be able to use their special drawing rights in a manner consistent with the provisions of the Articles.

13. *Designation of Participants to Provide Currency*

The principles that will govern the designation of participants to provide currency to other participants using their special drawing rights in accordance with Article XXV, Section 2(a), are indicated in the three subsections of Section 5(a) of the same Article. However, this listing is not exhaustive; the Fund may supplement these principles with other principles.

As regards the order of priority between designations under subsections (a)(i) and (a)(ii) of Section 5 and among the three categories mentioned in subsection (a)(ii), subsection (a)(iii) prescribes that priority shall normally be given to those participants that need to acquire special drawing rights to meet the objectives of designation under subsection (a)(ii). Thus, it may be assumed that, as a general rule, the Fund will designate participants under subsection (a)(ii) if there are participants that need special drawing rights in order to comply with the reconstitution requirements of Schedule G, to reduce a negative balance (i.e., the amount of special drawing rights that the participant owes the Fund because, at the time of a cancellation, it did not hold an amount of rights equivalent to its share of the cancellation), or to offset the effect of a failure to fulfill the expectation referred to in Article XXV, Section 3(a), on the requirement of need for the use of special drawing rights.

The Outline contained two possible criteria to guide designation among participants with a sufficiently strong balance of payments and reserve position: (i) the ratios of these participants' holdings of special drawing rights to their gross reserves, and (ii) the ratios of such holdings in excess of net cumulative allocations to gross reserves.

The Executive Directors have examined the relative merits of these two criteria. The excess holdings criterion is expected, on balance, to offer significant advantages in its application and to give the new facility a broad basis for designation consistent with the universal approach of the scheme, thereby contributing to the confidence of participants in the new instrument of special drawing rights. At the same time the Executive Directors considered a certain flexibility to be desirable for the future, and they have therefore provided in Article XXV, Section 5(c), for a review of the rules for designation before the end of each basic period, in order to enable the Fund to adopt new rules if it deems this to be desirable. The Executive Directors have also considered that the results of a system of designation will depend not only on the choice of a criterion to determine the target distribution of holdings of special drawing rights among participants but also on the selection of the participants that should be subject to designation and on the particular formula used to aim over time at harmonization of individual ratios.

Accordingly, Schedule F envisages that participants shall be designated for such amounts as will promote over time equality in their ratios of excess holdings of special drawing rights to their holdings of gold and foreign exchange. Because initially these ratios will be zero for all participants, paragraph (b)(i) of the Schedule indicates that participants will be designated in amounts that are proportionate to their official holdings of gold and foreign exchange. With the passage of time situations are likely to arise in which such ratios for one or more participants subject to designation may be significantly below those of the majority of other participants in the group. Paragraph (b)(ii) therefore envisages a designation process which will tend to reduce gradually the difference between low and high ratios among participants subject to designation, in order to avoid sudden and massive designation of participants with relatively low ratios. The intention is that such participants, once their position permitted their being made subject to designation, would be designated, to the extent that the volume of designation permits, in amounts calculated to raise their ratios at a steady pace within approximately one year to the vicinity of the ratios that are relatively high. The formula for doing this will be determined from time to time by the Fund. Any amounts not designated in accordance with this formula would normally be assigned to the other participants subject to designation under subsection (a)(i) of Article XXV, Section 5, in a manner consistent with the objective of a harmonization of ratios.

The Fund will exercise its power of designation in a manner that will ensure that participants will be able to use their special drawing rights in order to obtain currency. Thus, if a designated participant were to fail to provide currency to a participant using its special drawing rights in accordance with Article XXV, Section 2(a), the Fund would make any necessary additional designations.

14. *Transactions not Requiring Designation*

Under Article XXV, Section 2(b)(ii), the Fund is given the power to prescribe transactions in which a participant may engage in agreement with any other participant whether designated or not. The provision contains a list of transactions that the Fund may prescribe. The prescription of these transactions may be made by a decision or by rules and regulations adopted by the Executive Directors. The Fund is given discretion to specify transactions from among those listed. It may specify all or none of the categories listed; or it may specify individual transactions in one or more of the categories. By an 85 per cent majority in the Board of Governors, additional transactions or categories of transactions outside the categories in the list may be prescribed. Under Article XXV, Section 2(b)(ii), a principle is established for the adoption of decisions under that provision. These decisions of the Fund must be consistent with the provisions of the Agreement and with the proper use of special drawing rights under the Agreement; participants will be expected to observe this principle and avoid engaging in transactions without designation which might prejudice basic features of the scheme such as the requirement of need.

Article XXV, Section 2(b)(i), expressly exempts certain transactions from designation. The Fund may prescribe any necessary rules and regulations under Article XII, Section 2(g), in order to implement this provision.

15. *Requirement of Need*

As a general rule, a participant will be expected to use special drawing rights in transactions with other participants only if it has a need as defined in Article XXV, Section 3(a). Section 4 of this Report deals with the requirement of need in operations and transactions in which participants obtain currency from other prescribed holders.

The definition of need given in Article XXV, Section 3(a), covers all balance of payments needs, whether these arise from current or capital transactions. Because these needs can be defined in various ways, reference is also made to "developments in its [a participant's] official holdings of gold, foreign exchange, and special drawing rights, and its reserve position in the Fund," to indicate that these developments, even if attributable to conversions of balances of the member's currency and not to a balance of payments deficit, may give rise to a need to use special drawing rights. Use of special drawing rights merely to reduce holdings of such rights while the total of holdings of gold and foreign exchange and the reserve position in the Fund is increasing or would increase as a result of such use would not be regarded as meeting the requirement of need. However, the use of rights to meet a payments need may have the incidental effect of changing the relative proportions in which a participant holds different reserve assets.

16. *Transactions without Requirement of Need*

Under Article XXV, Section 3(c), the Fund is authorized to prescribe transactions in which participants may use special drawing rights without fulfilling the requirement of need. The categories of transactions listed in that provision are the same as those listed in Article XXV, Section 2(b)(ii), but, in contrast to the exemptions from the requirement of designation, the list is exhaustive and the Fund cannot prescribe transactions that go beyond its scope. As in the case of the prescription of transactions that are not subject to designation, prescriptions under Article XXV, Section 3(c), may be made by a decision or by rules and regulations adopted by the Executive Directors, and may relate to individual transactions or categories of transactions falling within the listed categories. The transactions exempted by prescription from the requirement of need do not have to coincide at any given time with those that are exempted from the requirement of designation. In prescribing transactions or categories of transactions that are exempted from the requirement of need the Fund will take into account the extent to which a participant has to obtain special drawing rights for the purpose of meeting the objectives of Section 3(c) of Article XXV.

17. *Reconstitution*

Under the reconstitution principles set forth in Article XXV, Section 6, and Schedule G, a participant's net use of its special drawing rights must be such that the average of its daily holdings of special drawing rights over a five-year period will not be less than 30 per cent of the average of its daily net cumulative allocations of special drawing rights over the same period. It is envisaged that the Fund will assist participants to comply with this requirement through designation under Article XXV, Section 5(a)(ii), and rules to that effect will be adopted by the Fund. If a participant is unable to obtain sufficient special drawing rights through designation, it must obtain them from the General Account or from another participant specified by the Fund for this purpose to the extent that the General Account is unable to supply them.

The reconstitution rules set forth in Schedule G will be reviewed by the Fund before the end of each basic period. The Board of Governors by an 85 per cent majority of the total voting power may adopt, modify, or abrogate rules for reconstitution.

18. *Operations and Transactions through the General Account*

The principal provisions governing the acceptance and use of special drawing rights by the Fund in operations and transactions conducted through the General Account are set forth in Article XXV, Section 7. These provisions impose an obligation on the Fund to accept special drawing rights in two specified cases in which the provisions of the Articles require payments to be made to the Fund in special drawing rights. However, the Fund will have authority to accept, to the extent that it may decide, special drawing rights in the General Account in the cases indicated in subsection (c) of Section 7.

Subsections (d), (e), and (f) describe the circumstances in which the Fund will be authorized to use special drawing rights held in the General Account to obtain currencies from participants. Under subsection (d) the Fund may require a participant to provide its currency to the Fund for special drawing rights, if the Fund deems it appropriate to replenish its holdings of the participant's currency in the General Account and has consulted the participant on alternative ways of replenishment under Article VII, Section 2. Under subsection (f) the Fund may use special drawing rights only by agreement with the participant involved in the operation or transaction.

In order to assist a participant to meet its need for special drawing rights to carry out the objective of reconstitution, to eliminate any negative balance, or to reverse the effects of a transaction engaged in inconsistently with the rule of need, subsection (e) authorizes the Fund to provide this participant with special drawing rights from the General Account for gold or currency acceptable to the Fund.

19. *Exchange Rates*

Under Article XXV, Section 8, the exchange rates for operations and transactions are to be such as will ensure that a participant using its special drawing rights will receive the same value, on the basis of the exchange rates prevailing at the time the transaction takes place, whatever the currencies that might be provided and whichever the participant that provides the currency. The Fund will have to adopt regulations to give effect to this principle, and will consult a participant on the procedure for determining rates of exchange for its currency.

The rates prescribed under Article XXV, Section 8, will not apply to operations and transactions in special drawing rights with the General Account. Those operations and transactions will be executed at the rate at which the Fund holds the currency involved, which normally is the par value of the currency.

20. *Interest and Charges*

Under the provisions of Article XXVI, the rate of interest and the rate of charges will be the same. The net effect of these provisions will be the payment of interest by the Fund to a participant on the excess of its holdings of special drawing rights over its net cumulative allocation, and the payment of charges by a participant on the amount by which its holdings of special drawing rights are less than its net cumulative allocation. As a matter of accounting practice, the amount of interest to be paid to a participant and the amount of charges to be paid by that participant will be offset and only the balance will be paid or collected, as the case may be, by the Fund. Interest and charges will be payable in special drawing rights.

Section 3 of Article XXVI sets the rate at 1½ per cent per annum, but the Fund is given authority to apply a different rate within maximum and minimum levels. Under this authority, the Fund could set the rate at the same level as the remuneration to be paid to members under Article V, Section 9, but it will not be required to do so.

If a participant does not have sufficient special drawing rights to meet the payment of charges, it will be able to obtain special drawing rights from the General Account or from another participant specified by the Fund for this purpose to the extent that the General Account is unable to supply them.

21. *Expenses of the Special Drawing Account*

The expenses of conducting the business of the Special Drawing Account are to be met by the Fund from the resources held in the General Account. However, under Article XXII, Section 2, the Fund will be reimbursed periodically on the basis of a reasonable estimate of these expenses. For the purpose of such reimbursement, the Fund will levy assessments under Article XXVI, Section 4, on all participants in proportion to their net cumulative allocations. The amounts assessed will be paid directly into the General Account and, like interest and charges, will be payable in special drawing rights.

22. *Administration of the Special Drawing Account*

Because participation may not be coextensive with membership in the Fund, Article XXVII contains special rules for calling meetings, determining quorums, and voting majorities for the Board of Governors and the Executive Directors of the Fund when these organs consider matters pertaining to the Special Drawing Account. There is no change in the composition of these two organs of the Fund. All Governors and Directors remain entitled to attend and participate in all meetings and in the discussion of any item on the agenda. However, if a decision is to be taken on an item that pertains exclusively to the Special Drawing Account, for example, on a proposal by the Managing Director to allocate or cancel special drawing rights, only Governors for members that are participants may vote and each Director will be able to cast only the votes of the Fund members appointing or electing him that are participants. It is, therefore, possible that a Director will not have any votes to cast. Similarly, whether a Governor or Director may cast votes on an item pertaining exclusively to the Special Drawing Account will determine whether he may put an item on the agenda, whether he may request that a meeting be called, and whether there is a quorum for any meeting.

There is no special provision in Article XXVII regarding the voting power of members that are participants for the purpose of decisions on matters relating to the Special Drawing Account. There is no need for such a provision because the voting power of these members will be determined for all purposes by the present provisions of Article XII, Section 5. Accordingly, for the purposes of the Special Drawing Account as well, each participating member will have 250 votes plus one vote for each part of its quota equivalent to one hundred thousand U.S. dollars.

Decisions on certain important issues that require an 85 per cent majority of the total voting power as well as a decision to liquidate the Special Drawing Account can be taken only by the Board of Governors. These issues are those relating to the prescription of other holders, the allocation and cancellation of special drawing rights, the prescription of additional transactions not requiring designation, and the amendment or abrogation of reconstitution rules.

23. *Suspension of Participants' Use of Special Drawing Rights*

Article XXIX, Section 2(f), makes it clear that the suspension of a participant's use of special drawing rights pursuant to the provisions of that Article will not affect, in any way, its right as a member to make use of the resources of the Fund in the General Account, and conversely, any limitation of this right of a member that is a participant will not affect, in any way, the participant's right to use its special drawing rights.

24. *Definition of Currency Convertible in Fact for Transactions in Special Drawing Rights*

The provisions of Article XXXII(b) are designed to ensure that any participant using special drawing rights to obtain "currency convertible in fact" from a designated participant can obtain, directly or indirectly, any one of a number of convertible currencies that he may choose, in amounts determined by the exchange rates prescribed under Article XXV, Section 8, in accordance with the principle of equal value.

This objective is to be achieved by establishing a group of currencies which will be interconvertible at appropriate rates of exchange for balances arising in connection with the use of special drawing rights. Only currencies with respect to which there are procedures designed to ensure this interconvertibility to the satisfaction of the Fund and which in addition are convertible in the sense that they are the currencies of participants that freely buy and sell gold under Article IV, Section 4(b), or have accepted the obligations of Article VIII, Sections 2, 3, and 4, will qualify for inclusion in this group.

In addition to the currencies mentioned in the preceding paragraph, currency convertible in fact will also include balances of any other currency for which suitable arrangements exist for conversion, at rates of exchange prescribed by the Fund, into any of the currencies in the group that are interconvertible. Through one or more conversions, such balances can in fact be converted into any of the currencies in the group.

25. *Definition of Reserve Position in the Fund*

Article XXXII(c) defines a participant's "reserve position in the Fund" as the sum of the gold tranche purchases that the participant could make and the amount of any Fund indebtedness to the participant which is "readily repayable" under a loan agreement. Examples of the latter are the indebtedness of the Fund to participants in the General Arrangements to Borrow and the indebtedness to Italy under the 1966 Loan Agreement, both of which have been entered into under Article VII, Section 2. Members that have made loans to the Fund under these agreements may obtain early repayment by representing to the Fund that there is a balance of payments need for repayment and requesting such repayment.

26. *Termination of Participation*

The principles governing termination of participation in the Special Drawing Account, which are set forth in Article XXX and Schedule H, are generally the same as those governing the settlement of accounts on withdrawal of a member from membership in the Fund. A participant may terminate its participation in the Special Drawing Account at any time without withdrawing from membership in the Fund. Withdrawal from the Fund automatically terminates participation in the Special Drawing Account.

27. *Liquidation*

The principal issue in devising any procedure for liquidation is the distribution of the burden of any default. Article XXXI and Schedule I distribute the burden of default among all participants on the basis of their net cumulative allocations. This is accomplished by a system of liquidation under which the Fund redeems special drawing rights first from the participant that holds the largest amount in proportion to its net cumulative allocation until this proportion is reduced to that of the participant with the second highest proportion. The Fund then redeems special drawing rights held by these two participants until the proportion held by each is reduced to that of the participant with the third highest proportion and so on until all amounts paid in the Fund by participants have been distributed. Thus a participant's share of any possible default does not increase as its holdings of special drawing rights increase above its net cumulative allocation.

PART II

Modifications in Rules and Practices of the Fund

28. *General Comments*

Board of Governors Resolution No. 22-8, which called on the Executive Directors to propose amendments to the Articles and the By-Laws of the Fund for the purpose of establishing the new facility based on special drawing rights, also requested the Executive Directors to consider at the same time and report on possible improvements in the present rules and practices of the Fund based on developments in world economic conditions and the experience of the Fund since the adoption of its Articles of Agreement. The Executive Directors have considered various suggestions for improvements and have decided to recommend the introduction of certain changes in the present rules and practices of the Fund, all of which would be made by amending the Articles. These changes relate to: certain quota increases and associated matters; uniform proportionate changes in par values and the maintenance of the gold value of the Fund's assets in the event that such changes in par values are made; the use of the Fund's resources in the gold tranche, including use for capital transfers; a limitation on the Fund's power to introduce new facilities in the General Account for the unconditional use of the Fund's resources; the rules on repurchase under Article V, Section 7; the payment of a remuneration to members whose currencies are held by the Fund in amounts less than 75 per cent of quota; the distribution of net income; and the interpretation of the Articles of Agreement. The modifications in Articles I, III, IV, V, VI, XII, XVIII, and XIX, and in Schedule B, which are included in the Proposed Amendment, are intended to give effect to these changes.

Three general points should be made in connection with these modifications. First, some of them represent no more than a clarification or codification of practices developed over the years and followed currently by the Fund on the basis of the Articles of Agreement in their present form. Secondly, some modifications are intended to adapt the Articles to the fact that there will be a facility which will make it possible to allocate special drawing rights of an unconditional character. Finally, while one of the effects of these modifications will be to prevent the establishment of new facilities for the unconditional use of the Fund's resources, they are not intended to make the rules and practices relating to the use of the Fund's resources more restrictive than they are at the present time.

29. *Quota Changes and Related Matters*

Under Article III, Section 2, in its present form, all changes in quotas require a four-fifths majority of the total voting power. Under the Proposed Amendment decisions on changes in quotas, including special increases and increases by installments, proposed as the result of a general review will require a new special majority, i.e., 85 per cent of the total voting power. The general reviews referred to in the amended provision are those that have as their purpose an examination of the appropriateness of the quotas of all members, and they will include not only the reviews of the quotas of all members which the Fund is required to conduct at intervals of five years but also any reviews of this kind conducted at other times. All other changes in quotas will continue to require a four-fifths majority of the total voting power.

The majority of 85 per cent will also apply to decisions specifying conditions precedent to the effectiveness of quota increases proposed as a result of a general review. The adoption of these conditions is subject at present to the four-fifths majority which is applicable to quota increases. Examples of such conditions drawn from past practice are the requirement of a minimum total participation in a general increase and the payment of the additional subscriptions before the increases become effective. As at present, the power to adopt these conditions will be exercised by the Board of Governors as a reserved power.

Under a new provision, Article III, Section 4(c), an 85 per cent majority will be required for decisions on other matters that are related to quota increases proposed as the result of a general quota review even though they do not involve conditions precedent to the effectiveness of the increases. These decisions include any decision pursuant to Article III, Section 4(a), under which a member may be permitted to pay less than 25 per cent of its additional subscription in gold. The new provision will also apply to any decision intended to mitigate the effects of the payment of additional subscriptions. At present, the Articles provide that all of these decisions are to be made by the Executive Directors by a majority of the votes cast. After the Proposed Amendment enters into force the power to make such decisions will be reserved to the Board of Governors.

The special majority of 85 per cent of the total voting which will be required as the result of various changes in the rules and practices of the Fund is analogous to the majority required for a number of important decisions under the new facility based on special drawing rights.

30. *Uniform Proportionate Changes in Par Values and Maintenance of Gold Value*

Under the modifications in Article IV, Section 7, a decision to make a uniform proportionate change in par values also will require an 85 per cent majority of the total voting power. This changes the present provision in two respects. It replaces the simple majority with a special majority and eliminates the requirement that the uniform proportionate change be approved by those members that have 10 per cent or more of the total of Fund quotas. The power to make a uniform proportionate change in par values will continue to be reserved to the Board of Governors.

Under the modifications in Article IV, Section 8(d), and Article XII, Section 2(b)(iii), a decision to waive the maintenance of the gold value of the Fund's assets in the event of a uniform proportionate change in par values will require an 85 per cent majority of the total voting power, and the power to make the decision will be reserved to the Board of Governors. At present the power to make a decision of this kind is not reserved to the Board of Governors and a special majority is not required.

31. *Temporary Character of Use of the Fund's Resources*

The modifications in Article I and the inclusion in Article V of a new Section 3(c) state expressly what is regarded as implicit in the present Articles, i.e., that use of the Fund's resources must be of a temporary character and that the Fund must adopt policies intended to encourage members to take measures that will help them to avoid a use which is not of such a character. In this way the Fund safeguards the revolving character of its resources. Therefore, no changes in the established policies and practices of the Fund, as set forth in the Fund's decision of February 13, 1952, and in other decisions would be called for by the entry into force of the Proposed Amendment. The resources of the Fund referred to in Article I(v) and in other provisions of the Articles are those that will be held by the Fund in the General Account.

32. *Legal Automaticity of Gold Tranche Purchases*

Requests for gold tranche purchases now enjoy *de facto* automaticity. One of the effects of the modifications in Article V, Section 3, will be to make the use of the Fund's resources in the gold tranche legally automatic.

After the amendment, the use of the Fund's resources in the gold tranche will continue to be subject to the provisions of Article V, Section 3(a). Accordingly, members making requests for purchases in the gold tranche will still be required to make the representation of need prescribed by Article V, Section 3(a)(i). However, the Fund will not have the legal power to challenge this representation.

Article V, Section 3(a)(iii), will be amended to eliminate the necessity for a waiver that might have been required for a gold tranche purchase in certain circumstances. Furthermore, Article VI, Sections 1(a) and 2, as amended, will remove the present limitation on making gold tranche purchases for meeting capital transfers. A member will be able to make gold tranche purchases even though they are to meet what might be regarded as a large or sustained outflow of capital. The established legal position will be maintained in respect of requests for purchases other than gold tranche purchases. Accordingly, a member will be able, as at present, to use the Fund's resources to meet capital outflows subject to Article VI, Section 1.

The legal automaticity of gold tranche purchases will not prejudice the application of the Fund's policies on the currencies to be used in purchases. These policies are set forth in the Fund's Decision of July 20, 1962 and are applicable to all purchases including gold tranche purchases.

The legal automaticity of gold tranche purchases raises the question of possible misuse by a member of its right to make such purchases without challenge by failing to observe the principle of need set forth in Article V, Section 3(a)(i). The Executive Directors believe that if the question should arise it could be met by an adjustment, in due time, of the Fund's policies with respect to the currencies to be used in purchases in order to bring about a correction of the effects of any misuse by a member of the kind referred to above.

The Fund will continue to have authority under the Articles of Agreement to declare a member ineligible to use the Fund's resources even in the gold tranche if the member makes gold tranche purchases without observing the principle of need.

33. *Definition of Gold Tranche Purchases*

The changes in the Articles commented upon in sections 32, 34, and 36 of this Report should be understood in the light of the definition of gold tranche purchases in a new provision, Article XIX(j). This definition is somewhat different from the definition of gold tranche purchases which prevailed in Fund practice until less than two years ago and according to which a gold tranche purchase was understood as a purchase which did not cause the Fund's holdings of a member's currency to exceed 100 per cent of its quota. By permitting the exclusion of purchases under the compensatory financing facility and the holdings of currency acquired by the Fund as a result of those purchases, the definition in Article XIX(j) will make it possible for the Fund to continue the present practice of treating the compensatory financing facility as separate for the purpose of applying the Fund's policies on the use of its resources. This practice was introduced by the amendments to the Decision on Compensatory Financing of Export Fluctuations adopted on September 20, 1966, under which the Fund applies "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 drawing outstanding under paragraph (5)" of that decision.

Under the definition in Article XIX(j), a purchase under paragraph (5) of the compensatory financing decision will not be regarded as a gold tranche purchase even if it does not raise the Fund's holdings of a member's currency above the level of the member's quota. Conversely, a purchase not under the compensatory financing facility which raises the Fund's holdings above that level will be regarded as a gold tranche purchase,. provided that the amount by which the quota level is exceeded will not be larger than the amount of any purchases outstanding under the compensatory financing decision.

In view of the possibility that, under the definition of gold tranche purchases in Article XIX(j), a gold tranche purchase may increase the Fund's holdings above the quota level and in order to preserve the legal automaticity of requests to make gold tranche purchases under Article V, Section 3(d), the text of Article V, Section 3(a)(iii), is amended so that a waiver under Article V, Section 4, will not be necessary. Under the amended text of Section 3(a)(iii), however, a purchase under the compensatory financing decision which, together with any other net increases in the Fund's holdings of the member's currency, causes these holdings to increase by more than 25 per cent of quota during the period of 12 months ending on the date of the purchase, will require a waiver under Article V, Section 4, even though it does not raise the Fund's holdings above the quota level. At present, any purchase below the quota level, including a purchase under the compensatory financing decision, does not require a waiver.

34. *Termination of Power to Establish New Unconditional Facilities in the General Account*

As a result of the adoption of Article V, Section 3(d), the Fund will not have the power to create any new facility in the General Account for the unconditional use of its resources. This provision reflects the view that, with the establishment of the new facility based on special drawing rights, any need for additions to existing reserve assets will be met, as and when it arises, through allocations of special drawing rights. The provision makes it explicit that a member's representation under Article V, Section 3(a), must be examined in order to determine that the requested purchase would be consistent with the provisions of the Articles and the policies on the use of the Fund's resources adopted under Article V, Section 3(c). This means that the Fund will not grant *de facto* automaticity (i.e., "the overwhelming benefit of any doubt" or treatment having the same effect) to requests for purchases other than gold tranche purchases. The Fund will continue to be able to adapt its policies governing purchases other than gold tranche purchases in all other respects.

The changes in Article V, Section 3, will be without prejudice also to the Fund's compensatory financing facility and the adjustment of that policy if this should be considered desirable. In addition, as already indicated, these changes are not intended to make the rules and practices relating to the use of the Fund's resources more restrictive than they are at present.

35. *Rules on Repurchase*

The modifications in Article V, Section 7, Article XII, Section 2(b), Article XIX(a) and (e), and Schedule B, will introduce the following changes in the present rules on repurchase:

(a) At present, the amounts of a member's currency that are held by the governmental agencies and other official institutions of other members, as well as by banks within the territories of the latter, are deducted from the member's official holdings of gold and convertible currencies under Article XIX(e). The deduction of these currency liabilities will be abolished, thereby introducing a gross concept of monetary reserves as the basis of the calculation of members' repurchase obligations and for certain other purposes.

This change is effected through the modifications in Article XIX(a) and (e). The new paragraph 6 of Schedule B sets forth a transitional rule designed to prevent the accrual of repurchase obligations solely because of the elimination of the deduction of currency liabilities during a financial year of the Fund. It will apply only in the year in which the Proposed Amendment enters into force and, thereafter, no deductions will be made for currency liabilities.

(b) The abatement of repurchase obligations calculated in a member's currency, which the Fund may not accept because the acceptance would increase the Fund's holdings of that currency above 75 per cent of the member's quota, will be eliminated. Under paragraph 1(d) of Schedule B the amounts that would be abated for this reason will have to be discharged in other convertible currencies as determined by the Fund.

(c) The present paragraph 2 of Schedule B, which will be retained as paragraph 2(a), prohibits the Fund from acquiring the currency of any nonmember by way of repurchase but does not indicate how repurchase obligations that accrue in specified nonmember currencies are to be treated. The proposed paragraph 2(b) of Schedule B provides that repurchase obligations that accrue in specified nonmember currencies will be paid in the convertible currencies of members as determined by the Fund. The Fund has never specified a nonmember currency for the purposes of repurchases but would be likely to do so if it found that members held appreciable amounts of a nonmember currency.

(d) The present Article V, Section 7(c)(i), provides that a repurchase shall not be carried out to the extent that it would reduce the repurchasing member's monetary reserves, as presently defined on a net basis, below an amount equal to its quota. Under the amended Article V, Section 7(c)(i), a level of monetary reserves, defined on a gross basis, equivalent to 150 per cent of quota will be substituted for the quota level. If a repurchase obligation accrues which would exceed this limit, the excess will be abated.

(e) Under the proposed Article V, Section 7(c)(iv), there will be an annual limit on repurchases under Article V, Section 7(b), equal to 25 per cent of a member's quota. Under the new paragraph 1(e) of Schedule B, if an obligation accrues which exceeds this amount, the excess will be postponed to the end of the subsequent financial year or years, but not more than 25 per cent of the member's quota will have to be repurchased in any one year under postponed and other repurchase obligations accruing under Article V, Section 7(b). This new rule will not affect repurchases made outside Article V, Section 7(b).

(f) A change will be introduced in the formula on the basis of which repurchase obligations are calculated. The present formula takes account of increases in the Fund's holdings of a member's currency and increases or decreases in its monetary reserves during a year. Under the modified formula in Article V, Section 7(b)(i), account will also be taken of decreases in the Fund's holdings of the member's currency during the year. This change will reduce a member's repurchase obligation under Article V, Section 7(b), at the end of a financial year by the full amount of other repurchases made during that year, whereas at present they reduce the obligation only by one half of the full amount. It should be noted that, in respect of repurchases outside Article V, Section 7(a) or (b), the Fund has legal authority to specify the acceptable convertible currencies that the repurchasing member may use.

(g) In accordance with paragraph 5 of Schedule B, the Fund, in its discretion, will be able to accede to a member's request that in the calculation of its monetary reserves a deduction be made for its outstanding obligations resulting from swap transactions with other members.

(h) The Fund will have the power to revise the percentage of quota below which repurchases may not reduce a repurchasing member's monetary reserves and the annual limit on repurchases under Article V, Section 7(b). In addition, the Fund will be able to revise and supplement, in a manner consistent with the other repurchase provisions of the Articles, the newly introduced rules in paragraph 1(c), (d), and (e) and paragraph 2(b) of Schedule B. The Fund is granted this power under Article V, Section 7(d). Under this provision and Article XII, Section 2(b)(ix), the power is reserved to the Board of Governors which can exercise it by an 85 per cent majority of the total voting power.

(i) Under Article XXV, Section 7(a) and (b), special drawing rights are to be included in the monetary reserves of members for the purposes of the Articles. As a result of these provisions and of the modifications in the introductory parts of Article V, Section 7(b), and in paragraph 1 of Schedule B, repurchase obligations may accrue in special drawing rights, and the Fund will accept special drawing rights in repurchase under Article V, Section 7(b). However, the Fund may decide that no account be taken of any increase or decrease in monetary reserves during a financial year which is due to allocations or cancellations of special drawing rights during the same year.

36. *Service Charge*

Article V, Section 8(a), as amended, will maintain the existing maximum rate of the service charge that the Fund can levy on exchange transactions. The present minimum rate for exchange transactions will be unaffected, except that the Fund will be authorized to levy a lower charge or no charge on gold tranche purchases. The Executive Directors believe that initially no service charge should be levied on gold tranche purchases, subject to any change in this policy that would be appropriate in the light of subsequent developments.

37. *Remuneration*

A new provision, Article V, Section 9, will require the Fund to pay a return to members on the excess of 75 per cent of a member's quota over the average of the Fund's holdings of the member's currency, or, in other words, on the Fund's net use of a member's normal currency subscription. The rate of remuneration will be 1½ per cent per annum. However, the Executive Directors would be able to specify other rates within the limits of 1 to 2 per cent per annum by a majority of the votes cast. The Executive Directors would be able to make changes beyond these limits by a three-fourths majority of the total voting power, but it is not expected that this would be done unless it were necessary in the light of developments in international money markets.

The remuneration will be payable in gold or in the member's own currency or partly in gold and partly in that currency. The Executive Directors believe that the Fund's policy should be to pay remuneration in gold to the extent that receipts of gold from members in payment of charges under Article V, Section 8, would permit, subject again to any change in this policy that would be appropriate in the light of subsequent developments.

38. *Distribution of Net Income*

Article XII, Section 6, in its present form, requires that, before any distribution of the net income of any year is made by the Fund to all members on the basis of quotas, a 2 per cent noncumulative payment be made to each member on the amount by which 75 per cent of its quota exceeded the Fund's average holdings of the member's currency during the year. Under the amended provision, instead of the 2 per cent preferential payment, the Fund will have to distribute first to members eligible to receive remuneration under Article V, Section 9, an amount of net income which will raise to 2 per cent the return paid to them as remuneration for the year for which net income is distributed.

Under Article XII, Section 6(c), the Fund will be able to transfer to general reserve all or part of its special reserve to which the yield of its investment is placed. The yield of the investment is not net income in the sense of, and cannot be distributed under, Article XII, Section 6. Moreover, it can be used only for the limited purpose of meeting administrative deficits. Amounts transferred from special to general reserve, however, will be available to meet a deficit of any character, whether operational or administrative, including a deficit resulting from the payment of remuneration under Article V, Section 9, but they will continue to be unavailable for distribution as net income under Article XII, Section 6.

The power to make transfers to general reserve from the existing or any other special reserve will be without prejudice to any future decisions on the maintenance or termination of the Fund's investment. The power to make transfers will be exercised by the Board of Governors, and a provision reserving it to the Board of Governors is inserted as Article XII, Section 2(b)(x).

39. *Interpretation*

Article XVIII, as amended, will require the establishment of a standing Committee on Interpretation of the Board of Governors. A question of interpretation of the Articles, on which the Executive Directors have given a decision under Article XVIII and which, at the request of a member made within three months from the date of that decision, is referred to the Board of Governors, will have to be considered first by this Committee. The decision of this Committee will be regarded as the decision of the Board of Governors, and therefore final, unless the Board of Governors decides otherwise by an 85 per cent majority of the total voting power. Article XVIII(b) prescribes that each member of the Committee on Interpretation shall have one vote. Other matters, such as the membership, procedures, and voting majorities of the Committee, are left for later determination by the Board of Governors by means of a By-Law. In addition, under Article XXVII(c), the Board of Governors will have the power to determine whether all members of the Committee will be entitled to vote on a question of interpretation pertaining exclusively to the Special Drawing Account.

PART III

Procedure

40. *Applicable Legal Provisions*

The procedure for the adoption of modifications in the Articles of Agreement is set forth in Article XVII which reads:

> (a) Any proposal to introduce modifications in this Agreement, whether emanating from a member, a governor or the Executive Directors, shall be communicated to the chairman of the Board of Governors who shall bring the proposal before the Board. If the proposed amendment is approved by the Board the Fund shall, by circular letter or telegram, ask all members whether they accept the proposed amendment.

When three-fifths of the members, having four-fifths of the total voting power, have accepted the proposed amendment, the Fund shall certify the fact by a formal communication addressed to all members.

(b) Notwithstanding (a) above, acceptance by all members is required in the case of any amendment modifying

(i) the right to withdraw from the Fund (Article XV, Section 1);
(ii) the provision that no change in a member's quota shall be made without its consent (Article III, Section 2);
(iii) the provision that no change may be made in the par value of a member's currency except on the proposal of that member (Article IV, Section 5(b)).

(c) Amendments shall enter into force for all members three months after the date of the formal communication unless a shorter period is specified in the circular letter or telegram.

41. *Resolution of Board of Governors*

Annex A contains the text of a Resolution, and there is attached to it a Proposed Amendment to the Articles of Agreement. The Chairman of the Board of Governors has requested that on his behalf the Secretary of the Fund bring the Resolution and Proposed Amendment before the Board of Governors for its approval. Pursuant to this request the Secretary is transmitting them to the Board with this Report.

In the judgment of the Executive Directors the action requested of the Board of Governors should not be postponed until the next regular meeting of the Board and does not warrant the calling of a special meeting of the Board. For this reason, the Executive Directors, pursuant to Section 13 of the By-Laws, request Governors to vote without meeting. In accordance with established practice, the Executive Directors have also decided to waive the requirement that no Governor shall vote until seven days after the dispatch of the motion. To be valid votes must be received at the seat of the Fund on or before May 31, 1968.

For the adoption of the Resolution it will be necessary that replies be received from a majority of the Governors exercising two-thirds of the total voting power and that a majority of the votes cast be in favor of the Resolution. The Resolution must be voted on as a whole.

42. *Acceptance of Proposed Amendment by Members*

By adopting the annexed Resolution the Board of Governors will grant its approval to the Proposed Amendment of the Articles of Agreement. Members will then be asked, by circular letter or telegram, to notify the Fund whether they accept the Proposed Amendment. The Proposed Amendment can be accepted only in its entirety. That is to say, members will not be able to accept part only of the Proposed Amendment.

In accordance with Article XVII(a) the Proposed Amendment must be accepted by three-fifths of the members, having four-fifths of the total voting power, before it can enter into force.

43. *Entry into Force of Proposed Amendment*

When the Proposed Amendment has been accepted by the necessary majority, the Fund will certify the fact by a formal communication to be sent by the Secretary of the Fund to all members. Pursuant to Article XVII(c), the Executive Directors recommend that the Proposed Amendment enter into force on the date of the formal communication instead of three months after that date. In accordance with that provision and paragraph 3 of the Resolution, the circular letter or telegram by which members will be asked whether they accept the Proposed Amendment will specify the date of the formal communication referred to above as the date of the entry into force of the Proposed Amendment.

The Proposed Amendment will enter into force for all members on the date of the formal communication, whether they accepted the Amendment or not. Presumably, members accepting the Proposed Amendment will have taken any legislative and other action that may be necessary to enable them to carry out their obligations under the Articles of Agreement as amended. Other members that have not accepted the Proposed Amendment will need to consider whether any action is necessary in order to enable them to carry out their obligations under the Articles of Agreement as amended.

44. *Notification to Depositary of Articles of Agreement*

Upon certification of the entry into force of the Proposed Amendment it is intended to notify that fact to the Government of the United States, which is the depositary of the Articles of Agreement of the Fund, so that it may record the Amendment. It is also intended to ask the Government of the United States to register the Amendment with the Secretary-General of the United Nations, pursuant to Article 102 of the United Nations Charter.

ANNEX A

RESOLUTION

WHEREAS the Executive Directors have completed their work relating to the establishment in the International Monetary Fund of a new facility based on special drawing rights in order to meet the need, as and when it arises, for a supplement to existing reserve assets, and on improvements in the present rules and practices of the Fund, pursuant to Resolution No. 22-8 of the Board of Governors of the International Monetary Fund at its Twenty-Second Annual Meeting in Rio de Janeiro; and

WHEREAS the Executive Directors have prepared a Report setting forth proposals for modifications in the Articles of Agreement of the International Monetary Fund for the purpose of establishing the new facility and giving effect to certain modifications in the present rules and practices of the Fund; and

WHEREAS the Chairman of the Board of Governors has requested the Secretary of the Fund to bring the proposals of the Executive Directors before the Board of Governors; and

WHEREAS the Report of the Executive Directors setting forth their proposals has been submitted to the Board of Governors by the Secretary of the Fund; and

WHEREAS the Executive Directors have requested the Board of Governors to vote on the following Resolution without meeting, pursuant to Section 13 of the By-Laws of the Fund;

NOW, THEREFORE, the Board of Governors, noting the said Report of the Executive Directors, hereby RESOLVES that:

1. The Proposed Amendment to the Articles of Agreement of the International Monetary Fund set forth in the attachment to this Resolution is approved.
2. The Secretary of the Fund is directed to ask, by letter or telegram, all members of the Fund whether they accept, in accordance with the provisions of

Article XVII, the Proposed Amendment to the Articles of Agreement as set forth in the attachment to this Resolution.

3. The circular letter or telegram to be sent to all members in accordance with 2 above shall specify that the Proposed Amendment to the Articles of Agreement set forth in the attachment to this Resolution shall enter into force for all members as of the date on which the Fund certifies, by formal communication addressed to all members, that three-fifths of the members, having four-fifths of the total voting power, have accepted the modifications.

Proposed Amendment to the Articles of Agreement of the International Monetary Fund Prepared Pursuant to Board of Governors Resolution No. 22-8

A

INTRODUCTORY ARTICLE

The Introductory Article shall read:

"(i) The International Monetary Fund is established and shall operate in accordance with the provisions of this Agreement as originally adopted, and as subsequently amended in order to institute a facility based on special drawing rights and to effect certain other changes.

(ii) To enable the Fund to conduct its operations and transactions, the Fund shall maintain a General Account and a Special Drawing Account. Membership in the Fund shall give the right to participation in the Special Drawing Account.

(iii) Operations and transactions authorized by this Agreement shall be conducted through the General Account except that operations and transactions involving special drawing rights shall be conducted through the Special Drawing Account."

B

ARTICLE I

PURPOSES

1. Article I(v) shall read:

"(v) To give confidence to members by making the Fund's resources temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity."

2. The last sentence of Article I shall read:

"The Fund shall be guided in all its policies and decisions by the purposes set forth in this Article."

C

ARTICLE III

QUOTAS AND SUBSCRIPTIONS

1. Section 2 shall read:

"Section 2. *Adjustment of quotas*

The Fund shall at intervals of not more than five years conduct a general review, and if it deems it appropriate propose an adjustment, of the quotas of the members. It may also, if it thinks fit, consider at any other time the adjustment of any particular quota at the request of the member concerned. An eighty-five percent majority of the total voting power shall be required for any change in quotas proposed as the result of a general review and a four-fifths majority of the total voting power shall be required for any other change in quotas. No quota shall be changed without the consent of the member concerned."

2. The following subsection (c) shall be added to Section 4. *Payments when quotas are changed:*

"(c) A majority of eighty-five percent of the total voting power shall be required for any decisions dealing with the payment, or made with the sole purpose of mitigating the effects of the payment, of increases in quotas proposed as the result of a general review of quotas."

D

ARTICLE IV

PAR VALUES OF CURRENCIES

1. Section 7 shall read:

"Section 7. *Uniform changes in par values*

Notwithstanding the provisions of Section 5(b) of this Article, the Fund by an eighty-five percent majority of the total voting power may make uniform proportionate changes in the par values of the currencies of all members. The par value of a member's currency shall, however, not be changed under this provision if, within seventy-two hours of the Fund's action, the member informs the Fund that it does not wish the par value of its currency to be changed by such action."

2. In Section 8. *Maintenance of gold value of the Fund's assets,* subsection (d) shall read:

"(d) The provisions of this Section shall apply to a uniform proportionate change in the par values of the currencies of all members, unless at the time when such a change is made the Fund decides otherwise by an eighty-five percent majority of the total voting power."

E

ARTICLE V

TRANSACTIONS WITH THE FUND

1. In Section 3. *Conditions governing use of the Fund's resources,* subsection (a)(iii) shall read:

"(iii) The proposed purchase would be a gold tranche purchase, or would not cause the Fund's holdings of the purchasing member's currency to increase by more than twenty-five percent of its quota during the period of twelve months ending on the date of the purchase or to exceed two hundred percent of its quota;"

2. The following subsections (c) and (d) shall be added to Section 3:

"(c) A member's use of the resources of the Fund shall be in accordance with the purposes of the Fund. The Fund shall adopt policies on the use of its resources that will assist members to solve their balance of payments problems in a manner consistent with the purposes of the Fund and that will establish adequate safeguards for the temporary use of its resources."

"(d) A representation by a member under (a) above shall be examined by the Fund to determine whether the proposed purchase would be consistent with the provisions of this Agreement and with the policies adopted under them, with the exception that proposed gold tranche purchases shall not be subject to challenge."

3. In Section 7. *Repurchase by a member of its currency held by the Fund,* the first sentence of subsection (b) shall read:

"(b) At the end of each financial year of the Fund, a member shall repurchase from the Fund with each type of monetary reserve, as determined in accordance with Schedule B, part of the Fund's holdings of its currency under the following conditions:

(i) Each member shall use in repurchases of its own currency from the Fund an amount of its monetary reserves equal in value to the following changes that have occurred during the year: one-half of any increase in the Fund's holdings of the member's currency, plus one-half of any increase, or minus one-half of any decrease, in the member's monetary reserves, or, if the Fund's holdings of the member's currency have decreased, one-half of any increase in the member's monetary reserves minus one-half of the decrease in the Fund's holdings of the member's currency."

4. In Section 7, subsection (c) shall read:

"(c) None of the adjustments described in (b) above shall be carried to a point at which
(i) the member's monetary reserves are below one hundred fifty percent of its quota, or
(ii) the Fund's holdings of its currency are below seventy-five percent of its quota, or
(iii) the Fund's holdings of any currency required to be used are above seventy-five percent of the quota of the member concerned, or
(iv) the amount repurchased exceeds twenty-five percent of the quota of the member concerned."

5. The following subsection (d) shall be added to Section 7:

"(d) The Fund by an eighty-five percent majority of the total voting power may revise the percentages in (c)(i) and (iv) above and revise and supplement the rules in paragraph 1(c), (d), and (e) and paragraph 2(b) of Schedule B."

6. In Section 8. *Charges,* subsection (a) shall read:

"(a) Any member buying the currency of another member from the Fund in exchange for its own currency shall pay, in addition to the parity price, a service charge uniform for all members of not less than one-half percent and not more than one percent, as determined by the Fund, provided that the Fund in its discretion may levy a service charge of less than one-half percent on gold tranche purchases."

7. The following Section shall be added to Article V:

"Section 9. *Remuneration*

(a) The Fund shall pay remuneration, at a rate uniform for all members, on the amount by which seventy-five percent of a member's quota exceeded the average of the Fund's holdings of the member's currency, provided that no account shall be taken of holdings in excess of seventy-five percent of quota. The rate shall be one and one-half percent per annum, but the Fund in its discretion may increase or reduce this rate, provided that a three-fourths majority of the total voting power shall be required for any increase above two percent per annum or reduction below one percent per annum.

(b) Remuneration shall be paid in gold or a member's own currency as determined by the Fund."

F

ARTICLE VI

CAPITAL TRANSFERS

1. In Section 1. *Use of Fund's resources for capital transfers,* subsection (a) shall read:

"(a) A member may not use the Fund's resources to meet a large or sustained outflow of capital except as provided in Section 2 of this Article, and the Fund may request a member to exercise controls to prevent such use of the resources of the Fund. If, after receiving such a request, a member fails to exercise appropriate controls, the Fund may declare the member ineligible to use the resources of the Fund."

2. Section 2 shall read:

"Section 2. *Special provisions for capital transfers*

A member shall be entitled to make gold tranche purchases to meet capital transfers."

G

ARTICLE XII

ORGANIZATION AND MANAGEMENT

1. In Section 2. *Board of Governors,* subsection (b)(ii) and (iii) shall read:

"(ii) Approve a revision of quotas, or to decide on the payment, or on the mitigation of the effects of payment, of increases in quotas proposed as the result of a general review of quotas."

"(iii) Approve a uniform change in the par values of the currencies of all members, or to decide when such a change is made that the provisions relating to the maintenance of gold value of the Fund's assets shall not apply."

2. The following shall be added to Section 2(b):

"(ix) Revise the provisions on repurchase or to revise and supplement the rules for the distribution of repurchases among types of reserves."

"(x) Make transfers to general reserve from any special reserve."

3. The title of Section 6 shall read:

"Reserves and distribution of net income"

4. In Section 6, subsection (b) shall read:

"(b) If any distribution is made of the net income of any year, there shall first be distributed to members eligible to receive remuneration under Article V, Section 9, for that year an amount by which two percent per annum exceeded any remuneration that has been paid for that year. Any distribution of the net income of that year beyond that amount shall be made to all members in proportion to their quotas. Payments to each member shall be made in its own currency."

5. The following subsection (c) shall be added to Section 6:

"(c) The Fund may make transfers to general reserve from any special reserve."

H

ARTICLE XVIII

INTERPRETATION

Article XVIII(b) shall read:

"(b) In any case where the Executive Directors have given a decision under (a) above, any member may require, within three months from the date of the decision, that the question be referred to the Board of Governors, whose decision shall be final. Any question referred to the Board of Governors shall be considered by a Committee on Interpretation of the Board of Governors. Each Committee member shall have one vote. The Board of Governors shall establish the membership, procedures, and voting majorities of the Committee. A decision of the Committee shall be the decision of the Board of Governors unless the Board by an eighty-five percent majority of the total voting power decides otherwise. Pending the result of the reference to the Board the Fund may, so far as it deems necessary, act on the basis of the decision of the Executive Directors."

I

ARTICLE XIX

EXPLANATION OF TERMS

1. Article XIX(a) shall read:

"(a) A member's monetary reserves means its official holdings of gold, of convertible currencies of other members, and of the currencies of such non-members as the Fund may specify."

2. Article XIX(e) shall read:

"(e) The sums deemed to be official holdings of other official institutions and other banks under (c) above shall be included in the member's monetary reserves."

3. The following shall be added to Article XIX:

"(j) Gold tranche purchase means a purchase by a member of the currency of another member in exchange for its own currency which does not cause the Fund's holdings of the member's currency to exceed one hundred percent of its quota, provided that for the purposes of this definition the Fund may exclude purchases and holdings under policies on the use of its resources for compensatory financing of export fluctuations."

J

ARTICLE XX

FINAL PROVISIONS

The title of Article XX shall read:

"INAUGURAL PROVISIONS"

K

The following Articles XXI through XXXII shall be added after Article XX:

"ARTICLE XXI

SPECIAL DRAWING RIGHTS

Section 1. *Authority to allocate special drawing rights*

To meet the need, as and when it arises, for a supplement to existing reserve assets, the Fund is authorized to allocate special drawing rights to members that are participants in the Special Drawing Account.

Section 2. *Unit of value*

The unit of value of special drawing rights shall be equivalent to 0.888 671 gram of fine gold.

ARTICLE XXII

GENERAL ACCOUNT AND SPECIAL DRAWING ACCOUNT

Section 1. *Separation of operations and transactions*

All operations and transactions involving special drawing rights shall be conducted through the Special Drawing Account. All other operations and transactions of the Fund authorized by or under this Agreement shall be conducted through the General Account. Operations and transactions pursuant to Article XXIII, Section 2, shall be conducted through the General Account as well as the Special Drawing Account.

Section 2. *Separation of assets and property*

All assets and property of the Fund shall be held in the General Account, except that assets and property acquired under Article XXVI, Section 2, and Articles XXX and XXXI and Schedules H and I shall be held in the Special Drawing Account. Any assets or property held in one Account shall not be available to discharge or meet the liabilities, obligations, or losses of the Fund incurred in the conduct of the operations and transactions of the other Account, except that the expenses of conducting the business of the Special Drawing Account shall be paid by the Fund from the General Account which shall be reimbursed from time to time by assessments under Article XXVI, Section 4, made on the basis of a reasonable estimate of such expenses.

Section 3. *Recording and information*

All changes in holdings of special drawing rights shall take effect only when recorded by the Fund in the Special Drawing Account. Participants shall notify the Fund of the provisions of this Agreement under which special drawing rights are used. The Fund may require participants to furnish it with such other information as it deems necessary for its functions.

ARTICLE XXIII

PARTICIPANTS AND OTHER HOLDERS OF SPECIAL DRAWING RIGHTS

Section 1. *Participants*

Each member of the Fund that deposits with the Fund an instrument setting forth that it undertakes all the obligations of a participant in the Special Drawing Account in accordance with its law and that it has taken all steps necessary to enable it to carry out all of these obligations shall become a participant in the Special Drawing Account as of the date the instrument is deposited, except that no member shall become a participant before Articles XXI through XXXII and Schedules F through I have entered into force and instruments have been deposited under this Section by members that have at least seventy-five percent of the total of quotas.

Section 2. *General Account as a holder*

The Fund may accept and hold special drawing rights in the General Account and use them, in accordance with the provisions of this Agreement.

Section 3. *Other holders*

The Fund by an eighty-five percent majority of the total voting power may prescribe:

(i) as holders, non-members, members that are non-participants, and institutions that perform functions of a central bank for more than one member;

(ii) the terms and conditions on which these holders may be permitted to accept, hold, and use special drawing rights, in operations and transactions with participants; and

(iii) the terms and conditions on which participants may enter into operations and transactions with these holders.

The terms and conditions prescribed by the Fund for the use of special drawing rights by prescribed holders and by participants in operations and transactions with them shall be consistent with the provisions of this Agreement.

ARTICLE XXIV

ALLOCATION AND CANCELLATION OF SPECIAL DRAWING RIGHTS

Section 1. *Principles and considerations governing allocation and cancellation*

(a) In all its decisions with respect to the allocation and cancellation of special drawing rights the Fund shall seek to meet the long-term global need, as and when it arises, to supplement existing reserve assets in such manner as will promote the attainment of its purposes and will avoid economic stagnation and deflation as well as excess demand and inflation in the world.

(b) The first decision to allocate special drawing rights shall take into account, as special considerations, a collective judgment that there is a global need to supplement reserves, and the attainment of a better balance of payments equilibrium, as well as the likelihood of a better working of the adjustment process in the future.

Section 2. *Allocation and cancellation*

(a) Decisions of the Fund to allocate or cancel special drawing rights shall be made for basic periods which shall run consecutively and shall be five years in duration. The first basic period shall begin on the date of the first decision to allocate special drawing rights or such later date as may be specified in that decision. Any allocations or cancellations shall take place at yearly intervals.

(b) The rates at which allocations are to be made shall be expressed as percentages of quotas on the date of each decision to allocate. The rates at which special drawing rights are to be cancelled shall be expressed as percentages of net cumulative allocations of special drawing rights on the date of each decision to cancel. The percentages shall be the same for all participants.

(c) In its decision for any basic period the Fund may provide, notwithstanding (a) and (b) above, that:

(i) the duration of the basic period shall be other than five years; or
(ii) the allocations or cancellations shall take place at other than yearly intervals; or
(iii) the basis for allocations or cancellations shall be the quotas or net cumulative allocations on dates other than the dates of decisions to allocate or cancel.

(d) A member that becomes a participant after a basic period starts shall receive allocations beginning with the next basic period in which allocations are made after it becomes a participant unless the Fund decides that the new participant shall start to receive allocations beginning with the next allocation after it becomes a participant. If the Fund decides that a member that becomes a participant during a basic period shall receive allocations during the remainder of that basic period and the participant was not a member on the dates established under (b) or (c) above, the Fund shall determine the basis on which these allocations to the participant shall be made.

(e) A participant shall receive allocations of special drawing rights made pursuant to any decision to allocate unless:

(i) the governor for the participant did not vote in favor of the decision; and
(ii) the participant has notified the Fund in writing prior to the first allocation of special drawing rights under that decision that it does not wish special drawing rights to be allocated to it under the decision. On the request of a participant, the Fund may decide to terminate the effect of the notice with respect to allocations of special drawing rights subsequent to the termination.

(f) If on the effective date of any cancellation the amount of special drawing rights held by a participant is less than its share of the special drawing rights that are to be cancelled, the participant shall eliminate its negative balance as promptly as its gross reserve position permits and shall remain in consultation with the Fund for this purpose. Special drawing rights acquired by the participant after the effective date of the cancellation shall be applied against its negative balance and cancelled.

Section 3. *Unexpected major developments*

The Fund may change the rates or intervals of allocation or cancellation during the rest of a basic period or change the length of a basic period or start a new basic period, if at any time the Fund finds it desirable to do so because of unexpected major developments.

Section 4. *Decisions on allocations and cancellations*

(a) Decisions under Section 2(a), (b), and (c) or Section 3 of this Article shall be made by the Board of Governors on the basis of proposals of the Managing Director concurred in by the Executive Directors.

(b) Before making any proposal, the Managing Director, after having satisfied himself that it will be consistent with the provisions of Section 1(a) of this Article, shall conduct such consultations as will enable him to ascertain that there is broad support among participants for the proposal. In addition, before making a proposal for the first allocation, the Managing Director shall satisfy himself that the provisions of Section 1(b) of this Article have been met and that there is broad support among participants to begin allocations; he shall make a proposal for the first allocation as soon after the establishment of the Special Drawing Account as he is so satisfied.

(c) The Managing Director shall make proposals:

(i) not later than six months before the end of each basic period;
(ii) if no decision has been taken with respect to allocation or cancellation for a basic period, whenever he is satisfied that the provisions of (b) above have been met;
(iii) when, in accordance with Section 3 of this Article, he considers that it would be desirable to change the rate or intervals of allocation or cancellation or change the length of a basic period or start a new basic period; or
(iv) within six months of a request by the Board of Governors or the Executive Directors;

provided that, if under (i), (iii), or (iv) above the Managing Director ascertains that there is no proposal which he considers to be consistent with the provisions of Section 1 of this Article that has broad support among participants in accordance with (b) above, he shall report to the Board of Governors and to the Executive Directors.

(d) A majority of eighty-five percent of the total voting power shall be required for decisions under Section 2(a), (b), and (c) or Section 3 of this Article except for decisions under Section 3 with respect to a decrease in the rates of allocation.

ARTICLE XXV

OPERATIONS AND TRANSACTIONS IN SPECIAL DRAWING RIGHTS

Section 1. *Use of special drawing rights*

Special drawing rights may be used in the operations and transactions authorized by or under this Agreement.

Section 2. *Transactions between participants*

(a) A participant shall be entitled to use its special drawing rights to obtain an equivalent amount of currency from a participant designated under Section 5 of this Article.

(b) A participant, in agreement with another participant, may use its special drawing rights:

(i) to obtain an equivalent amount of its own currency held by the other participant; or

(ii) to obtain an equivalent amount of currency from the other participant in any transactions, prescribed by the Fund, that would promote reconstitution by the other participant under Section 6(a) of this Article; prevent or reduce a negative balance of the other participant; offset the effect of a failure by the other participant to fulfill the expectation in Section 3(a) of this Article; or bring the holdings of special drawing rights by both participants closer to their net cumulative allocations. The Fund by an eighty-five percent majority of the total voting power may prescribe additional transactions or categories of transactions under this provision. Any transactions or categories of transactions prescribed by the Fund under this subsection (b)(ii) shall be consistent with the other provisions of this Agreement and with the proper use of special drawing rights in accordance with this Agreement.

(c) A participant that provides currency to a participant using special drawing rights shall receive an equivalent amount of special drawing rights.

Section 3. *Requirement of need*

(a) In transactions under Section 2 of this Article, except as otherwise provided in (c) below, a participant will be expected to use its special drawing rights only to meet balance of payments needs or in the light of developments in its official holdings of gold, foreign exchange, and special drawing rights, and its reserve position in the Fund, and not for the sole purpose of changing the composition of the foregoing as between special drawing rights and the total of gold, foreign exchange, and reserve position in the Fund.

(b) The use of special drawing rights shall not be subject to challenge on the basis of the expectation in (a) above, but the Fund may make representations to a participant that fails to fulfill this expectation. A participant that persists in failing to fulfill this expectation shall be subject to Article XXIX, Section 2(b).

(c) Participants may use special drawing rights without fulfilling the expectation in (a) above to obtain an equivalent amount of currency from another participant in any transactions, prescribed by the Fund, that would promote reconstitution by the other participant under Section 6(a) of this Article; prevent or reduce a negative balance of the other participant; offset the effect of a failure by the other participant to fulfill the expectation in (a) above; or bring the holdings of special drawing rights by both participants closer to their net cumulative allocations.

Section 4. *Obligation to provide currency*

A participant designated by the Fund under Section 5 of this Article shall provide on demand currency convertible in fact to a participant using special drawing rights under Section 2(a) of this Article. A participant's obligation to provide currency shall not extend beyond the point at which its holdings of special drawing rights in excess of its net cumulative allocation are equal to twice its net cumulative allocation or such higher limit as may be agreed between a participant and the Fund. A participant may provide currency in excess of the obligatory limit or any agreed higher limit.

Section 5. *Designation of participants to provide currency*

(a) The Fund shall ensure that a participant will be able to use its special drawing rights by designating participants to provide currency for specified amounts of special drawing rights for the purposes of Sections 2(a) and 4 of this Article. Designations shall be made in accordance with the following general principles supplemented by such other principles as the Fund may adopt from time to time:

(i) A participant shall be subject to designation if its balance of payments and gross reserve position is sufficiently strong, but this will not preclude the possibility that a participant with a strong reserve position will be designated even though it has a moderate balance of payments deficit. Participants shall be designated in such manner as will promote over time a balanced distribution of holdings of special drawing rights among them.

(ii) Participants shall be subject to designation in order to promote reconstitution under Section 6(a) of this Article; to reduce negative balances in holdings of special drawing rights; or to offset the effect of failures to fulfill the expectation in Section 3(a) of this Article.

(iii) In designating participants the Fund normally shall give priority to those that need to acquire special drawing rights to meet the objectives of designation under (ii) above.

(b) In order to promote over time a balanced distribution of holdings of special drawing rights under (a)(i) above, the Fund shall apply the rules for designation in Schedule F or such rules as may be adopted under (c) below.

(c) The rules for designation shall be reviewed before the end of the first and each subsequent basic period and the Fund may adopt new rules as the result of a review. Unless new rules are adopted, the rules in force at the time of the review shall continue to apply.

Section 6. *Reconstitution*

(a) Participants that use their special drawing rights shall reconstitute their holdings of them in accordance with the rules for reconstitution in Schedule G or such rules as may be adopted under (b) below.

(b) The rules for reconstitution shall be reviewed before the end of the first and each subsequent basic period and new rules shall be adopted if necessary. Unless new rules are adopted or a decision is made to abrogate rules for reconstitution, the rules in force at the time of the review shall continue to apply. An eighty-five percent majority of the total voting power shall be required for decisions to adopt, modify, or abrogate the rules for reconstitution.

Section 7. *Operations and transactions through the General Account*

(a) Special drawing rights shall be included in a member's monetary reserves under Article XIX for the purposes of Article III, Section 4(a), Article V, Section 7(b) and (c), Article V, Section 8(f), and Schedule B, paragraph 1. The Fund may decide that in calculating monetary reserves and the increase in monetary reserves during any year for the purpose of Article V, Section 7(b) and (c), no account shall be taken of any increase or decrease in those monetary reserves which is due to allocations or cancellations of special drawing rights during the year.

(b) The Fund shall accept special drawing rights:

(i) in repurchases accruing in special drawing rights under Article V, Section 7(b); and

(ii) in reimbursement pursuant to Article XXVI, Section 4.

(c) The Fund may accept special drawing rights to the extent it may decide:

(i) in payment of charges; and

(ii) in repurchases other than those under Article V, Section 7(b), in proportions which, as far as feasible, shall be the same for all members.

(d) The Fund, if it deems such action appropriate to replenish its holdings of a participant's currency and after consultation with that participant on alternative ways of replenishment under Article VII, Section 2, may require that participant to provide its currency for special drawing rights held in the General Account subject to Section 4 of this Article. In replenishing with special drawing rights, the Fund shall pay due regard to the principles of designation under Section 5 of this Article.

(e) To the extent that a participant may receive special drawing rights in a transaction prescribed by the Fund to promote reconstitution by it under Section 6(a) of this Article, prevent or reduce a negative balance, or offset the effect of a failure by it to fulfill the expectation in Section 3(a) of this Article, the Fund may provide the participant with special drawing rights held in the General Account for gold or currency acceptable to the Fund.

(f) In any of the other operations and transactions of the Fund with a participant conducted through the General Account the Fund may use special drawing rights by agreement with the participant.

(g) The Fund may levy reasonable charges uniform for all participants in connection with operations and transactions under this Section.

Section 8. *Exchange rates*

(a) The exchange rates for operations or transactions between participants shall be such that a participant using special drawing rights shall receive the same value whatever currencies might be provided and whichever participants provide those currencies, and the fund shall adopt regulations to give effect to this principle.

(b) The Fund shall consult a participant on the procedure for determining rates of exchange for its currency.

(c) For the purpose of this provision the term participant includes a terminating participant.

ARTICLE XXVI

SPECIAL DRAWING ACCOUNT INTEREST AND CHARGES

Section 1. *Interest*

Interest at the same rate for all holders shall be paid by the Fund to each holder on the amount of its holdings of special drawing rights. The Fund shall pay the amount due to each holder whether or not sufficient charges are received to meet the payment of interest.

Section 2. *Charges*

Charges at the same rate for all participants shall be paid to the Fund by each participant on the amount of its net cumulative allocation of special drawing rights plus any negative balance of the participant or unpaid charges.

Section 3. *Rate of interest and charges*

The rate of interest shall be equal to the rate of charges and shall be one and one-half percent per annum. The Fund in its discretion may increase or reduce this rate, but the rate shall not be greater than two percent or the rate of remuneration decided under Article V, Section 9, whichever is higher, or smaller than one percent or the rate of remuneration decided under Article V, Section 9, whichever is lower.

Section 4. *Assessments*

When it is decided under Article XXII, Section 2, that reimbursement shall be made, the Fund shall levy assessments for this purpose at the same rate for all participants on their net cumulative allocations.

Section 5. *Payment of interest, charges, and assessments*

Interest, charges, and assessments shall be paid in special drawing rights. A participant that needs special drawing rights to pay any charge or assessment shall be obligated and entitled to obtain them, at its option for gold or currency acceptable to the Fund, in a transaction with the Fund conducted through the General Account. If sufficient special drawing rights cannot be obtained in this way, the participant shall be obligated and entitled to obtain them with currency convertible in fact from a participant which the Fund shall specify. Special drawing rights acquired by a participant after the date for payment shall be applied against its unpaid charges and cancelled.

ARTICLE XXVII

ADMINISTRATION OF THE GENERAL ACCOUNT AND THE SPECIAL DRAWING ACCOUNT

(a) The General Account and the Special Drawing Account shall be administered in accordance with the provisions of Article XII, subject to the following:

(i) The Board of Governors may delegate to the Executive Directors authority to exercise any powers of the Board with respect to special drawing rights except those under Article XXIII, Section 3, Article XXIV, Section 2(a), (b), and (c), and Section 3, the penultimate sentence of Article XXV, Section 2(b), Article XXV, Section 6(b), and Article XXXI(a).

(ii) For meetings of or decisions by the Board of Governors on matters pertaining exclusively to the Special Drawing Account only requests by or the presence and the votes of governors appointed by members that are participants shall be counted for the purpose of calling meetings and determining whether a quorum exists or whether a decision is made by the required majority.

(iii) For decisions by the Executive Directors on matters pertaining exclusively to the Special Drawing Account only directors appointed or elected by at least one member that is a participant shall be entitled to vote. Each of these directors shall be entitled to cast the number of votes allotted to the member which is a participant that appointed him or to the members that are participants whose votes counted towards his election. Only the presence of directors appointed or elected by members that are participants and the votes allotted to members that are participants shall be counted for the purpose of determining whether a quorum exists or whether a decision is made by the required majority.

(iv) Questions of the general administration of the Fund, including reimbursement under Article XXII, Section 2, and any question whether a matter pertains to both Accounts or exclusively to the Special Drawing Account shall be decided as if they pertained exclusively to the General Account. Decisions with respect to the acceptance and holding of special drawing rights in the General Account and the use of them, and other decisions affecting the operations and transactions conducted through both the General Account and the Special Drawing Account shall be made by the majorities required for decisions on matters pertaining exclusively to each Account. A decision on a matter pertaining to the Special Drawing Account shall so indicate.

(b) In addition to the privileges and immunities that are accorded under Article IX of this Agreement, no tax of any kind shall be levied on special drawing rights or on operations or transactions in special drawing rights.

(c) A question of interpretation of the provisions of this Agreement on matters pertaining exclusively to the Special Drawing Account shall be submitted to the Executive Directors pursuant to Article XVIII(a) oniy on the request of a participant. In any case where the Executive Directors have given a decision on a question of interpretation pertaining exclusively to the Special Drawing Account only a participant may require that the question be referred to the Board of Governors under Article XVIII(b). The Board of Governors shall decide whether a governor appointed by a member that is not a participant shall be entitled to vote in the Committee on Interpretation on questions pertaining exclusively to the Special Drawing Account.

(d) Whenever a disagreement arises between the Fund and a participant that has terminated its participation in the Special Drawing Account or between the Fund and any participant during the liquidation of the Special Drawing Account with respect to any matter arising exclusively from participation in the Special Drawing Account, the disagreement shall be submitted to arbitration in accordance with the procedures in Article XVIII(c).

ARTICLE XXVIII

GENERAL OBLIGATIONS OF PARTICIPANTS

In addition to the obligations assumed with respect to special drawing rights under other Articles of this Agreement, each participant undertakes to collaborate with the Fund and with other participants in order to facilitate the effective functioning of the Special Drawing Account and the proper use of special drawing rights in accordance with this Agreement.

ARTICLE XXIX

SUSPENSION OF TRANSACTIONS IN SPECIAL DRAWING RIGHTS

Section 1. *Emergency provisions*

In the event of an emergency or the development of unforeseen circumstances threatening the operations of the Fund with respect to the Special Drawing Account, the Executive Directors by unanimous vote may suspend for a period of not more than one hundred twenty days the operation of any of the provisions relating to special drawing rights, and the provisions of Article XVI, Section 1(b), (c), and (d), shall then apply.

Section 2. *Failure to fulfill obligations*

(a) If the Fund finds that a participant has failed to fulfill its obligations under Article XXV, Section 4, the right of the participant to use its special drawing rights shall be suspended unless the Fund otherwise determines.

(b) If the Fund finds that a participant has failed to fulfill any other obligation with respect to special drawing rights, the Fund may suspend the right of the participant to use special drawing rights it acquires after the suspension.

(c) Regulations shall be adopted to ensure that before action is taken against any participant under (a) or (b) above, the participant shall be informed immediately of the complaint against it and given an adequate opportunity for stating its case, both orally and in writing. Whenever the participant is thus informed of a complaint relating to (a) above, it shall not use special drawing rights pending the disposition of the complaint.

(d) Suspension under (a) or (b) above or limitation under (c) above shall not affect a participant's obligation to provide currency in accordance with Article XXV, Section 4.

(e) The Fund may at any time terminate a suspension under (a) or (b) above, provided that a suspension imposed on a participant under (b) above for failure to fulfill the obligation under Article XXV, Section 6(a), shall not be terminated until one hundred eighty days after the end of the first calendar quarter during which the participant complies with the rules for reconstitution.

(f) The right of a participant to use its special drawing rights shall not be suspended because it has become ineligible to use the Fund's resources under Article IV, Section 6, Article V, Section 5, Article VI, Section 1, or Article XV, Section 2(a). Article XV, Section 2, shall not apply because a participant has failed to fulfill any obligations with respect to special drawing rights.

ARTICLE XXX

Termination of Participation

Section 1. *Right to terminate participation*

(a) Any participant may terminate its participation in the Special Drawing Account at any time by transmitting a notice in writing to the Fund at its principal office. Termination shall become effective on the date the notice is received.

(b) A participant that withdraws from membership in the Fund shall be deemed to have simultaneously terminated its participation in the Special Drawing Account.

Section 2. *Settlement on termination*

(a) When a participant terminates its participation in the Special Drawing Account, all operations and transactions by the terminating participant in special drawing rights shall cease except as otherwise permitted under an agreement made pursuant to (c) below in order to facilitate a settlement or as provided in Sections 3, 5, and 6 of this Article or in Schedule H. Interest and charges that accrued to the date of termination and assessments levied before that date but not paid shall be paid in special drawing rights.

(b) The Fund shall be obligated to redeem all special drawing rights held by the terminating participant, and the terminating participant shall be obligated to pay to the Fund an amount equal to its net cumulative allocation and any other amounts that may be due and payable because of its participation in the Special Drawing Account. These obligations shall be set off against each other and the amount of special drawing rights held by the terminating participant that is used in the setoff to extinguish its obligation to the Fund shall be cancelled.

(c) A settlement shall be made with reasonable dispatch by agreement between the terminating participant and the Fund with respect to any obligation of the terminating participant or the Fund after the setoff in (b) above. If agreement on a settlement is not reached promptly the provisions of Schedule H shall apply.

Section 3. *Interest and charges*

After the date of termination the Fund shall pay interest on any outstanding balance of special drawing rights held by a terminating participant and the terminating participant shall pay charges on any outstanding obligation owed to the Fund at the times and rates prescribed under Article XXVI. Payment shall be made in special drawing rights. A terminating participant shall be entitled to obtain special drawing rights with currency convertible in fact to pay charges or assessments in a transaction with a participant specified by the Fund or by agreement from any other holder, or to dispose of special drawing rights received as interest in a transaction with any participant designated under Article XXV, Section 5, or by agreement with any other holder.

Section 4. *Settlement of obligation to the Fund*

Gold or currency received by the Fund from a terminating participant shall be used by the Fund to redeem special drawing rights held by participants in proportion to the amount by which each participant's holdings of special drawing rights exceed its net cumulative allocation at the time the gold or currency is received by the Fund. Special drawing rights so redeemed and special drawing rights obtained by a terminating participant under the provisions of this Agreement to meet any installment due under an agreement on settlement or under Schedule H and set off against that installment shall be cancelled.

Section 5. *Settlement of obligation to a terminating participant*

Whenever the Fund is required to redeem special drawing rights held by a terminating participant, redemption shall be made with currency or gold provided by participants specified by the Fund. These participants shall be specified in accordance with the principles in Article XXV, Section 5. Each specified participant shall provide at its option the currency of the terminating participant or currency convertible in fact or gold to the Fund and shall receive an equivalent amount of special drawing rights. However, a terminating participant may use its special drawing rights to obtain its own currency, currency convertible in fact, or gold from any holder, if the Fund so permits.

Section 6. *General Account transactions*

In order to facilitate settlement with a terminating participant the Fund may decide that a terminating participant shall:

(i) use any special drawing rights held by it after the setoff in Section 2(b) of this Article, when they are to be redeemed, in a transaction with the Fund conducted through the General Account to obtain its own currency or currency convertible in fact at the option of the Fund; or

(ii) obtain special drawing rights in a transaction with the Fund conducted through the General Account for a currency acceptable to the Fund or gold to meet any charges or installment due under an agreement or the provisions of Schedule H.

ARTICLE XXXI

LIQUIDATION OF THE SPECIAL DRAWING ACCOUNT

(a) The Special Drawing Account may not be liquidated except by decision of the Board of Governors. In an emergency, if the Executive Directors decide that liquidation of the Special Drawing Account may be necessary, they may temporarily suspend allocations or cancellations and all transactions in special drawing rights pending decision by the Board. A decision by the Board of Governors to liquidate the Fund shall be a decision to liquidate both the General Account and the Special Drawing Account.

(b) If the Board of Governors decides to liquidate the Special Drawing Account, all allocations or cancellations and all operations and transactions in special drawing rights and the activities of the Fund with respect to the Special Drawing Account shall cease except those incidental to the orderly discharge of the obligations of participants and of the Fund with respect to special drawing rights, and all obligations of the Fund and of participants under this Agreement with respect to special drawing rights shall cease except those set out in this Article, Article XVIII(c), Article XXVI, Article XXVII(d), Article XXX and Schedule H, or any agreement reached under Article XXX subject to paragraph 4 of Schedule H, Article XXXII, and Schedule I.

(c) Upon liquidation of the Special Drawing Account, interest and charges that accrued to the date of liquidation and assessments levied before that date but not paid shall be paid in special drawing rights. The Fund shall be obligated to redeem all special drawing rights held by holders and each participant shall be obligated to pay the Fund an amount equal to its net cumulative allocation of special drawing rights and such other amounts as may be due and payable because of its participation in the Special Drawing Account.

(d) Liquidation of the Special Drawing Account shall be administered in accordance with the provisions of Schedule I.

ARTICLE XXXII

EXPLANATION OF TERMS WITH RESPECT TO SPECIAL DRAWING RIGHTS

In interpreting the provisions of this Agreement with respect to special drawing rights the Fund and its members shall be guided by the following:

(a) Net cumulative allocation of special drawing rights means the total amount of special drawing rights allocated to a participant less its share of special drawing rights that have been cancelled under Article XXIV, Section 2(a).

(b) Currency convertible in fact means:

(1) a participant's currency for which a procedure exists for the conversion of balances of the currency obtained in transactions involving special drawing rights into each other currency for which such procedure exists, at rates of exchange prescribed under Article XXV, Section 8, and which is the currency of a participant that

(i) has accepted the obligations of Article VIII, Sections 2, 3, and 4, or

(ii) for the settlement of international transactions in fact freely buys and sells gold within the limits prescribed by the Fund under Section 2 of Article IV; or

(2) currency convertible into a currency described in paragraph (1) above at rates of exchange prescribed under Article XXV, Section 8.

(c) A participant's reserve position in the Fund means the sum of the gold tranche purchases it could make and the amount of any indebtedness of the Fund which is readily repayable to the participant under a loan agreement."

L

SCHEDULE B

PROVISIONS WITH RESPECT TO REPURCHASE BY A MEMBER OF ITS CURRENCY HELD BY THE FUND

1. Paragraph 1 shall read:

"1. In determining the extent to which repurchase of a member's currency from the Fund under Article V, Section 7(b), shall be made with each convertible currency and each of the other types of monetary reserve, the following rule, subject to 2 below, shall apply:

(a) If the member's monetary reserves have not increased during the year, the amount payable to the Fund shall be distributed among all types of reserves in proportion to the member's holdings thereof at the end of the year.

(b) If the member's monetary reserves have increased during the year, a part of the amount payable to the Fund equal to one-half of the increase, minus one-half of any decrease in the Fund's holdings of the member's currency that has occurred during the year, shall be distributed among those types of reserves which have increased in proportion to the amount by which each of them has increased. The remainder of the sum payable to the Fund shall be distributed among all types of reserves in proportion to the member's remaining holdings thereof.

(c) If after the repurchases required under Article V, Section 7(b), had been made, the result would exceed either of the limits specified in Article V, Section 7 (c)(i) or (ii), the Fund shall require such repurchases to be made by the member proportionately in such manner that these limits will not be exceeded.

(d) If after all the repurchases required under Article V, Section 7(b), had been made, the result would exceed the limit specified in Article V, Section 7(c)(iii), the amount by which the limit would be exceeded shall be discharged in convertible currencies as determined by the Fund without exceeding that limit.

(e) If a repurchase required under Article V, Section 7(b), would exceed the limit specified in Article V, Section 7(c)(iv), the amount by which the limit would be exceeded shall be repurchased at the end of the subsequent financial year or years in such a way that total repurchases under Article V, Section 7(b), in any year would not exceed the limit specified in Article V, Section 7(c)(iv)."

2. Paragraph 2 shall read:

"2. (a) The Fund shall not acquire the currency of any non-member under Article V, Section 7(b) and (c).

(b) Any amount payable in the currency of a non-member under 1(a) or 1(b) above shall be paid in the convertible currencies of members as determined by the Fund."

3. The following paragraphs 5 and 6 shall be added to Schedule B:

"5. In calculating monetary reserves and the increase in monetary reserves during any year for the purpose of Article V, Section 7(b) and (c), the Fund may decide in its discretion, on the request of a member, that deductions shall be made for obligations outstanding as the result of transactions between members under a reciprocal facility by which a member agrees to exchange on demand its currency for the currency of the other member up to a maximum amount and on terms requiring that each such transaction be reversed within a specified period not in excess of nine months."

"6. In calculating monetary reserves and the increase in monetary reserves for the purpose of Article V, Section 7(b) and (c), Article XIX(e) shall apply except that the following provision shall apply at the end of a financial year if it was in effect at the beginning of that year:

'A member's monetary reserves shall be calculated by deducting from its central holdings the currency liabilities to the Treasuries, central banks, stabilization funds, or similar fiscal agencies of other members or non-members specified under (d) above, together with similar liabilities to other official institutions and other banks in the territories of members, or non-members specified under (d) above. To these net holdings shall be added the sums deemed to be official holdings of other official institutions and other banks under (c) above.' "

M

The following Schedules shall be added after Schedule E:

"SCHEDULE F

DESIGNATION

During the first basic period the rules for designation shall be as follows:

(a) Participants subject to designation under Article XXV, Section 5(a)(i), shall be designated for such amounts as will promote over time equality in the ratios of the participants' holdings of special drawing rights in excess of their net cumulative allocations to their official holdings of gold and foreign exchange.

(b) The formula to give effect to (a) above shall be such that participants subject to designation shall be designated:

(i) in proportion to their official holdings of gold and foreign exchange when the ratios described in (a) above are equal; and

(ii) in such manner as gradually to reduce the difference between the ratios described in (a) above that are low and the ratios that are high.

SCHEDULE G

RECONSTITUTION

1. During the first basic period the rules for reconstitution shall be as follows:

(a) (i) A participant shall so use and reconstitute its holdings of special drawing rights that, five years after the first allocation and at the end of each calendar quarter thereafter, the average of its total daily holdings of special drawing rights over the most recent five-year period will be not less than thirty percent of the average of its daily net cumulative allocation of special drawing rights over the same period.

(ii) Two years after the first allocation and at the end of each calendar month thereafter the Fund shall make calculations for each participant so as to ascertain whether and to what extent the participant would need to acquire special drawing rights between the date of the calculation and the end of any five-year period in order to comply with the requirement in (a)(i) above. The Fund shall adopt regulations with respect to the bases on which these calculations shall be made and with respect to the timing of the designation of participants under Article XXV, Section 5(a)(ii), in order to assist them to comply with the requirement in (a)(i) above.

(iii) The Fund shall give special notice to a participant when the calculations under (a)(ii) above indicate that it is unlikely that the participant will be able to comply with the requirement in (a)(i) above unless it ceases to use special drawing rights for the rest of the period for which the calculation was made under (a)(ii) above.

(iv) A participant that needs to acquire special drawing rights to fulfill this obligation shall be obligated and entitled to obtain them, at its option for gold or currency acceptable to the Fund, in a transaction with the Fund conducted through the General Account. If sufficient special drawing rights to fulfill this obligation cannot be obtained in this way, the participant shall be obligated and entitled to obtain them with currency convertible in fact from a participant which the Fund shall specify.

(b) Participants shall also pay due regard to the desirability of pursuing over time a balanced relationship between their holdings of special drawing rights and their holdings of gold and foreign exchange and their reserve positions in the Fund.

2. If a participant fails to comply with the rules for reconstitution, the Fund shall determine whether or not the circumstances justify suspension under Article XXIX, Section 2(b).

SCHEDULE H

TERMINATION OF PARTICIPATION

1. If the obligation remaining after the setoff under Article XXX, Section 2(b), is to the terminating participant and agreement on settlement between the Fund and the terminating participant is not reached within six months of the date of termination, the Fund shall redeem this balance of special drawing rights in equal half-yearly installments within a maximum of five years of the date of termination. The Fund shall redeem this balance as it may determine, either (a) by the payment to the terminating participant of the amounts provided by the remaining participants to the Fund in accordance with Article XXX, Section 5, or (b) by permitting the terminating participant to use its special drawing rights to obtain its own currency or currency convertible in fact from a participant specified by the Fund, the General Account, or any other holder.

2. If the obligation remaining after the setoff under Article XXX, Section 2(b), is to the Fund and agreement on settlement is not reached within six months of the date of termination, the terminating participant shall discharge this obligation in equal half-yearly installments within three years of the date of termination or within such longer period as may be fixed by the Fund. The terminating participant shall discharge this obligation, as the Fund may determine, either (a) by the payment to the Fund of currency convertible in fact or gold at the option of the terminating participant, or (b) by obtaining special drawing rights, in accordance with Article XXX, Section 6, from the General Account or in agreement with a participant specified by the Fund or from any other holder, and the setoff of these special drawing rights against the installment due.

3. Installments under either 1 or 2 above shall fall due six months after the date of termination and at intervals of six months thereafter.

4. In the event of the Special Drawing Account going into liquidation under Article XXXI within six months of the date a participant terminates its participation, the settlement between the Fund and that government shall be made in accordance with Article XXXI and Schedule I.

SCHEDULE I

ADMINISTRATION OF LIQUIDATION OF THE SPECIAL DRAWING ACCOUNT

1. In the event of liquidation of the Special Drawing Account, participants shall discharge their obligations to the Fund in ten half-yearly installments, or in such longer period as the Fund may decide is needed, in currency convertible in fact and the currencies of participants holding special drawing rights to be redeemed in any installment to the extent of such redemption, as determined

by the Fund. The first half-yearly payment shall be made six months after the decision to liquidate the Special Drawing Account.

2. If it is decided to liquidate the Fund within six months of the date of the decision to liquidate the Special Drawing Account, the liquidation of the Special Drawing Account shall not proceed until special drawing rights held in the General Account have been distributed in accordance with the following rule:

> After the distribution made under 2(a) of Schedule E, the Fund shall apportion its special drawing rights held in the General Account among all members that are participants in proportion to the amounts due to each participant after the distribution under 2(a). To determine the amount due to each member for the purpose of apportioning the remainder of its holdings of each currency under 2(c) of Schedule E, the Fund shall deduct the distribution of special drawing rights made under this rule.

3. With the amounts received under 1 above, the Fund shall redeem special drawing rights held by holders in the following manner and order:

(a) Special drawing rights held by governments that have terminated their participation more than six months before the date the Board of Governors decides to liquidate the Special Drawing Account shall be redeemed in accordance with the terms of any agreement under Article XXX or Schedule H.

(b) Special drawing rights held by holders that are not participants shall be redeemed before those held by participants, and shall be redeemed in proportion to the amount held by each holder.

(c) The Fund shall determine the proportion of special drawing rights held by each participant in relation to its net cumulative allocation. The Fund shall first redeem special drawing rights from the participants with the highest proportion until this proportion is reduced to that of the second highest proportion; the Fund shall then redeem the special drawing rights held by these participants in accordance with their net cumulative allocations until the proportions are reduced to that of the third highest proportion; and this process shall be continued until the amount available for redemption is exhausted.

4. Any amount that a participant will be entitled to receive in redemption under 3 above shall be set off against any amount to be paid under 1 above.

5. During liquidation the Fund shall pay interest on the amount of special drawing rights held by holders, and each participant shall pay charges on the net cumulative allocation of special drawing rights to it less the amount of any payments made in accordance with 1 above. The rates of interest and charges and the time of payment shall be determined by the Fund. Payments of interest and charges shall be made in special drawing rights to the extent possible. A participant that does not hold sufficient special drawing rights to meet any charges shall make the payment with gold or a currency specified by the Fund. Special drawing rights received as charges in amounts needed for administrative expenses shall not be used for the payment of interest, but shall be transferred to the Fund and shall be redeemed first and with the currencies used by the Fund to meet its expenses.

6. While a participant is in default with respect to any payment required by 1 or 5 above, no amounts shall be paid to it in accordance with 2 or 5 above.

7. If after the final payments have been made to participants each participant not in default does not hold special drawing rights in the same proportion to its net cumulative allocation, those participants holding a lower proportion shall purchase from those holding a higher proportion such amounts in accordance with arrangements made by the Fund as will make the proportion of their holdings of special drawing rights the same. Each participant in default shall pay to the Fund its own currency in an amount equal to its default. The Fund shall apportion this currency and any residual claims among participants in proportion to the amount of special drawing rights held by each and these special drawing rights shall be cancelled. The Fund shall then close the books of the Special Drawing Account and all of the Fund's liabilities arising from the allocations of special drawing rights and the administration of the Special Drawing Account shall cease.

8. Each participant whose currency is distributed to other participants under this Schedule guarantees the unrestricted use of such currency at all times for the purchase of goods or for payments of sums due to it or to persons in its territories. Each participant so obligated agrees to compensate other participants for any loss resulting from the difference between the value at which the Fund distributed its currency under this Schedule and the value realized by such participants on disposal of its currency."

ANNEX B

Outline of a Facility Based on Special Drawing Rights in the Fund

Introduction

The facility described in this Outline is intended to meet the need, as and when it arises, for a supplement to existing reserve assets. It is to be established within the framework of the Fund and, therefore, by an Amendment of the Fund's Articles. Provisions relating to some of the topics in this Outline could be included in By-Laws adopted by the Board of Governors or Rules and Regulations adopted by the Executive Directors rather than in the Amendment.

I. Establishment of a Special Drawing Account in the Fund

(a) An Amendment to the Articles will establish a Special Drawing Account through which all the operations relating to special drawing rights will be carried out. The purposes of the facility will be set forth in the introductory section of the Amendment.

(b) The operations of and resources available under the Special Drawing Account will be separate from the operations of the present Fund which will be referred to as the General Account.

(c) Separate provisions will be included in the Amendment for withdrawal from or liquidation of the Special Drawing Account; Article XVI, Section 2 and Schedules D and E on withdrawal and liquidation will continue to apply as they do at present to the General Account of the Fund.

II. Participants and Other Holders

1. *Participants.* Participation in the Special Drawing Account will be open to any member of the Fund that undertakes the obligations of the Amendment. A member's quota in the Fund will be the same for the purposes of both the General and the Special Drawing Accounts of the Fund.

2. *Holding by General Account.* The General Account will be authorized to hold and use special drawing rights.

III. Allocation of Special Drawing Rights

1. *Principles for decisions.* The Special Drawing Account will allocate special drawing rights in accordance with the provisions of the Amendment. Special considerations applicable to the first decision to allocate special drawing rights, as well as the principles on which all decisions to allocate special drawing rights will be based, will be included in the introductory section of the Amendment and, to the extent necessary, in a Report explaining the Amendment.

2. *Basic period and rate of allocation.* The following provisions will apply to any decision to allocate special drawing rights:

(i) The decision will prescribe a basic period during which special drawing rights will be allocated at specified intervals. The period will normally be five years in length, but the Fund may decide that any basic period will be of different duration. The first basic period will begin on the effective date of the first decision to allocate special drawing rights.

(ii) The decision will also prescribe the rate or rates at which special drawing rights will be allocated during the basic period. Rates will be expressed as a percentage, uniform for all participants, of quotas on the date specified in the decision.

3. *Procedure for decisions.*

(a) Any decision on the basic period for, timing of, or rate of allocation of special drawing rights will be taken by the Board of Governors on the basis of a proposal by the Managing Director concurred in by the Executive Directors.

(b) Before formulating any proposal, the Managing Director after having satisfied himself that the considerations referred to in III.1 have been met, will conduct such consultations as will enable him to ascertain that there is broad support among participants for the allocation of special drawing rights at the proposed rate and for the proposed basic period.

(c) The Managing Director will make proposals with respect to the allocation of special drawing rights: (i) within sufficient time before the end of a basic period; (ii) in the circumstances of III.4; (iii) within six months after the Board of Governors or the Executive Directors request that he make a proposal. The Managing Director will make a proposal for the first basic period when he is of the opinion that there is broad support among the participants to start the allocation of special drawing rights.

(d) The Executive Directors will review both the operations of the Special Drawing Account and the adequacy of global reserves as part of their annual report to the Board of Governors.

4. *Change in rate of allocation or basic period.* If there are unexpected major developments which make it desirable to change the rate at which further special drawing rights are to be allocated for a basic period, (i) the rate may be increased or decreased, or (ii) the basic period may be terminated and a different rate of allocation adopted for a new basic period. Paragraph III.3 will apply to such changes.

5. *Voting majority.*

(a) For decisions on the basic period for, timing of, amount and rate of allocation of special drawing rights, an 85 per cent majority of the voting power of participants shall be required.

(b) Notwithstanding (a) above, the decisions to decrease the rate of allocation of special drawing rights for the remainder of the basic period will be taken by a simple majority of the voting power of participants.

6. *Opting out.* The Amendment will include provisions that will prescribe to what extent a participant will be required initially to receive special drawing rights, but will stipulate that beyond any such amount a participant that does not vote in favor of a decision to allocate special drawing rights may elect not to receive them under that decision.

IV. Cancellation of Special Drawing Rights

The principles set forth in III relating to the procedure and voting for the allocation of special drawing rights will be applicable, with appropriate modifications, to the cancellation of such rights.

V. Use of Special Drawing Rights

1. *Right to use special drawing rights.*

(a) A participant will be entitled, in accordance with the provisions of V, to use special drawing rights to acquire an equivalent amount of a currency convertible in fact. A participant which thus provides currency will receive an equivalent amount of special drawing rights.

(b) Within the framework of such rules and regulations as the Fund may adopt, a participant may obtain the currencies referred to in (a) either directly from another participant or through the Special Drawing Account.

(c) Except as indicated in V.3(c), a participant will be expected to use its special drawing rights only for balance of payments needs or in the light of developments in its total reserves and not for the sole purpose of changing the composition of its reserves.

(d) The use of special drawing rights will not be subject to prior challenge on the basis of this expectation, but the Fund may make representations to any participant which, in the Fund's judgment, has failed to observe the expectation, and may direct drawings to such participant to the extent of such failure.

2. *Provision of currency.* A participant's obligation to provide currency will not extend beyond a point at which its holdings of special drawing rights in excess of the net cumulative amount of such rights allocated to it are equal to twice that amount. However, a participant may provide currency, or agree with the Fund to provide currency, in excess of this limit.

3. *Selection of participants to be drawn upon.* The Fund's rules and instructions relating to the participants from which currencies should be acquired by users of special drawing rights will be based on the following main general principles, supplemented by such principles as the Fund may find desirable from time to time:

(a) Normally, currencies will be acquired from participants that have a sufficiently strong balance of payments and reserve position, but this will not preclude the possibility that currency will be acquired from participants with strong reserve positions even though they have moderate balance of payments deficits.

(b) The Fund's primary criterion will be to seek to approach over time equality, among the participants indicated from time to time by the criteria in (a) above, in the ratios of their holdings of special drawing rights, or such holdings in excess of net cumulative allocations thereof, to total reserves.

(c) In addition, the Fund will, in its rules and instructions, provide for such use of special drawing rights, either directly between participants or through the intermediary of the Special Drawing Account, as will promote voluntary reconstitution and reconstitution under V.4.

(d) Subject to the provisions of V.1(c), a participant may use its special drawing rights to purchase balances of its currency held by another participant, with the agreement of the latter.

4. *Reconstitution.*

(a) Members that use their special drawing rights will incur an obligation to reconstitute their position in accordance with principles which will take account of the amount and the duration of the use. These principles will be laid down in rules and regulations of the Fund.

(b) The rules for reconstitution of drawings made during the first basic period will be based on the following principles:

(i) The average net use, taking into account both use below and holdings above its net cumulative allocation, made by a participant of its special drawing rights calculated on the basis of the preceding five years, shall not exceed 70 per cent of its average net cumulative allocation during this period. Reconstitution under this subparagraph (i) will be brought about through the mechanism of transfers, by the Fund directing drawings correspondingly.

(ii) Participants will pay due regard to the desirability of pursuing over time a balanced relationship between their holdings of special drawing rights and other reserves.

(c) Reconstitution rules will be reviewed before the end of the first and of each subsequent period and new rules will be adopted, if necessary. If new rules are not adopted for a basic period, the rules for the preceding period shall apply unless it is decided to abrogate reconstitution rules. The same majority as is required for decisions on the basic period, timing of, or rate of allocation of special drawing rights will be required for decisions to adopt, amend, or abrogate reconstitution rules. Any amendment in the rules will govern the reconstitution of drawings made after the effective date of the amendment, unless otherwise decided.

VI. Interest and Maintenance of Gold Value

(a) *Interest.* A moderate rate of interest will be paid in special drawing rights on holdings of special drawing rights. The cost of this interest will be assessed against all participants in proportion to net cumulative allocations of special drawing rights to them.

(b) *Maintenance of gold value.* The unit of value for expressing special drawing rights will be equal to 0.888 671 grams of fine gold. The rights and obligations of participants and of the Special Drawing Account will be subject to an absolute maintenance of gold value or to provisions similar to Article IV, Section 8 of the Fund's Articles.

VII. Functions of Fund Organs and Voting

1. *Exercise of powers.* The decisions taken with respect to the Special Drawing Account, and the supervision of its operations, will be carried out by the Board of Governors, the Executive Directors, the Managing Director, and the staff of the Fund. Certain powers, and in particular those relating to the adoption of decisions concerning the allocation, cancellation, and certain aspects of the use of special drawing rights, will be reserved to the Board of Governors. All other powers, except those specifically granted to other organs, will be vested in the Board of Governors which will be able to delegate them to the Executive Directors.

2. *Voting.* Except as otherwise provided in the Amendment, all decisions pertaining to the Special Drawing Account will be taken by a majority of votes cast. The precise formula for the voting power of participants, which will include basic and weighted votes, and possibly the adjustment of voting power in relation to the use of special drawing rights, will be the subject of later consideration.

VIII. General Provisions

1. *Collaboration.* Participants will undertake to collaborate with the Fund in order to facilitate the proper functioning and effective use of special drawing rights within the international monetary system.

2. *Nonfulfillment of obligations.*

(a) If the Fund finds that a participant has failed to fulfill its obligations to provide currency in accordance with the Amendment, the Fund may suspend the right of the participant to use its special drawing rights.

(b) If the Fund finds that a participant has failed to fulfill any other obligation under the Amendment, the Fund may suspend the participant's right to use any special drawing rights allocated to, or acquired by, it after the suspension.

(c) Suspension under (a) or (b) above will not affect a participant's obligation to provide currency in accordance with the Amendment.

(d) The Fund may at any time terminate a suspension under (a) or (b) above.

3. *Accounts.* All changes in holdings of special drawing rights will take effect when recorded in the accounts of the Special Drawing Account.

IX. Entry into Force

The Amendment would enter into force in accordance with the terms of Article XVII of the Fund's Articles.

Appendix II. Executive Directors and Voting Power on April 30, 1968

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes [1]	Per Cent of Total
APPOINTED				
William B. Dale *John S. Hooker*	United States	51,850	51,850	22.03
E. W. Maude *Guy Huntrods*	United Kingdom	24,650	24,650	10.48
Ernst vom Hofe *Horst Ungerer*	Germany	12,250	12,250	5.21
Georges Plescoff *Paul Mentré*	France	10,100	10,100	4.29
B. K. Madan *Arun K. Banerji*	India	7,750	7,750	3.29
ELECTED				
Ahmed Zaki Saad (United Arab Republic) *Albert Mansour (United Arab Republic)*	Afghanistan	540		
	Ethiopia	440		
	Iran	1,500		
	Iraq	1,050		
	Jordan	410		
	Kuwait	750		
	Lebanon	340		
	Pakistan	2,130		
	Philippines	1,350		
	Saudi Arabia	1,150		
	Somalia	400		
	Syrian Arab Republic	630		
	United Arab Republic	1,750	12,440	5.29
Francesco Palamenghi-Crispi (Italy) *Costa P. Caranicas (Greece)*	Greece	1,250		
	Italy	6,500		
	Portugal	1,000		
	Spain	2,750	11,500	4.89
Hideo Suzuki (Japan) *Seitaro Hattori (Japan)*	Burma	550		
	Ceylon	1,030		
	Japan	7,500		
	Nepal	350		
	Thailand	1,200	10,630	4.52
S. J. Handfield-Jones (Canada) *Patrick M. Reid (Canada)*	Canada	7,650		
	Guyana	400		
	Ireland	1,050		
	Jamaica	550	9,650	4.10
J. O. Stone (Australia) *A. M. de Villiers (South Africa)*	Australia	5,250		
	New Zealand	1,820		
	South Africa	2,250	9,320	3.96

Appendix II (*continued*). EXECUTIVE DIRECTORS AND VOTING POWER on April 30, 1968

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Per Cent of Total
Pieter Lieftinck (Netherlands)	Cyprus	400		
H. M. H. A. van der Valk	Israel	1,150		
(Netherlands)	Netherlands	5,450		
	Yugoslavia	1,750	8,750	3.72
André van Campenhout (Belgium)	Austria	2,000		
Herman Biron (Belgium)	Belgium	4,470		
	Luxembourg	416		
	Turkey	1,330	8,216	3.49
Jorge González del Valle (Guatemala)	Costa Rica	500		
Alfredo Phillips O. (Mexico)	El Salvador	500		
	Guatemala	500		
	Honduras	440		
	Mexico	2,950		
	Nicaragua	440		
	Venezuela	2,750	8,080	3.43
Torben Friis (Denmark)	Denmark	1,880		
Jorma Aranko (Finland)	Finland	1,500		
	Iceland	400		
	Norway	1,750		
	Sweden	2,500	8,030	3.41
Alexandre Kafka (Brazil)	Brazil	3,750		
Eduardo da S. Gomes, Jr.	Colombia	1,500		
(Brazil)	Dominican Republic	542		
	Haiti	400		
	Panama	362		
	Peru	1,100	7,654	3.25
Paul L. Faber (Guinea)	Burundi	400		
Leonard A. Williams (Trinidad	Guinea	440		
and Tobago)	Kenya	570		
	Liberia	450		
	Malawi	362		
	Mali	420		
	Nigeria	1,250		
	Sierra Leone	400		
	Sudan	820		
	Tanzania	570		
	Trinidad and Tobago	500		
	Uganda	570		
	Zambia	750	7,502	3.19

Appendix II (*concluded*). EXECUTIVE DIRECTORS AND VOTING POWER on April 30, 1968

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes [1]	Per Cent of Total
Adolfo C. Diz (Argentina)	Argentina	3,750		
Yamandú S. Patrón (Uruguay)	Bolivia	540		
	Chile	1,500		
	Ecuador	500		
	Paraguay	400		
	Uruguay	800	7,490	3.18
Beue Tann (China)	China	5,750		
C. L. Chow (China)	Korea	750		
	Viet-Nam	640	7,140	3.03
Amon Nikoi (Ghana)	Algeria	940		
Vacant	Ghana	940		
	Laos	325		
	Libya	440		
	Malaysia	1,400		
	Morocco	1,078		
	Singapore	550		
	Tunisia	600	6,273	2.67
Antoine W. Yaméogo (Upper Volta)	Cameroon	416		
Léon M. Rajaobelina	Central African Republic	335		
(Malagasy Republic)	Chad	335		
	Congo (Brazzaville)	335		
	Congo, Democratic Rep. of	820		
	Dahomey	335		
	Gabon	335		
	Ivory Coast	424		
	Malagasy Republic	440		
	Mauritania	340		
	Niger	335		
	Rwanda	400		
	Senegal	500		
	Togo	362		
	Upper Volta	335	6,047	2.57
			235,322[2]	100.00

[1] Voting power varies on certain matters with use by members of the Fund's resources.
[2] This total does not include the votes of Indonesia, which rejoined the Fund after the 1966 Regular Election of Executive Directors, or of The Gambia, which joined the Fund after that Election.

Appendix III. CHANGES IN MEMBERSHIP OF EXECUTIVE BOARD

Changes in the membership of the Executive Board between May 1, 1967 and April 30, 1968 were as follows:

Gérard Teyssier (France) resigned as Alternate Executive Director to René Larre (France), effective July 30, 1967.

Paul Mentré (France) was appointed Alternate Executive Director to René Larre (France), effective July 31, 1967, and to Georges Plescoff (France), effective September 1, 1967.

Sir John Stevens (United Kingdom) resigned as Executive Director for the United Kingdom, effective August 8, 1967.

E. W. Maude (United Kingdom) was appointed Executive Director by the United Kingdom, effective August 9, 1967.

Douglas W. G. Wass (United Kingdom), formerly Alternate Executive Director to Sir John Stevens (United Kingdom), was appointed Alternate Executive Director to E. W. Maude (United Kingdom), August 9, 1967. He resigned, effective October 27, 1967.

René Larre (France) resigned as Executive Director for France, effective August 31, 1967.

Georges Plescoff (France) was appointed Executive Director by France, effective September 1, 1967.

Guy Huntrods (United Kingdom) was appointed Alternate Executive Director to E. W. Maude (United Kingdom), effective October 28, 1967.

Sergio Siglienti (Italy) resigned as Executive Director for Greece, Italy, Portugal, and Spain, effective November 30, 1967.

Francesco Palamenghi-Crispi (Italy) was elected Executive Director by Greece, Italy, Portugal, and Spain, effective December 1, 1967.

Costa P. Caranicas (Greece), formerly Alternate Executive Director to Sergio Siglienti (Italy), was appointed Alternate Executive Director to Francesco Palamenghi-Crispi (Italy), effective December 1, 1967.

Muhamad Barmawie Alwie (Indonesia) resigned as Alternate Executive Director to Amon Nikoi (Ghana), effective February 16, 1968.

Paulo H. Pereira Lira (Brazil) resigned as Alternate Executive Director to Alexandre Kafka (Brazil), effective March 4, 1968.

Eduardo da S. Gomes, Jr. (Brazil), was appointed Alternate Executive Director to Alexandre Kafka (Brazil), effective March 29, 1968.

Eiji Ozaki (Japan) resigned as Alternate Executive Director to Hideo Suzuki (Japan), effective April 26, 1968.

Seitaro Hattori (Japan) was appointed Alternate Executive Director to Hideo Suzuki (Japan), effective April 27, 1968.

Ernst vom Hofe (Germany) resigned as Executive Director for Germany, effective April 30, 1968.

Guenther Schleiminger (Germany) was appointed Executive Director by Germany, effective May 1, 1968.

Horst Ungerer (Germany), formerly Alternate Executive Director to Ernst vom Hofe (Germany), was appointed Alternate Executive Director to Guenther Schleiminger (Germany), effective May 1, 1968.

The following served at certain times as Temporary Alternate Executive Directors to the Executive Directors indicated during 1967/68:

Temporary Alternate Executive Director	Executive Director for whom Temporary Alternate Served
Javier Aljovín Swayne (Peru)	Alexandre Kafka (Brazil)
Ricardo Héctor Arriazu (Argentina)	Adolfo C. Diz (Argentina)
T. J. Bartley (Australia)	J. O. Stone (Australia)
J. M. Chona (India)	B. K. Madan (India)
José Juan de Olloqui (Mexico)	Jorge González del Valle (Guatemala)
P. D. Fells (Australia)	J. O. Stone (Australia)
Daniel Fernández (Argentina)	Adolfo C. Diz (Argentina)
Dieter Frommel (Germany)	Ernst vom Hofe (Germany)
Felice Gianani (Italy)	Sergio Siglienti (Italy)
Carlos Gibson (Peru)	Alexandre Kafka (Brazil)
G. Malcolm Gill (United Kingdom)	E. W. Maude (United Kingdom) Sir John Stevens (United Kingdom)
J. Grooters (Netherlands)	Pieter Lieftinck (Netherlands)
R. Guarnieri (Venezuela)	Jorge González del Valle (Guatemala)
S. Guhan (India)	B. K. Madan (India)
Joaquín Gutiérrez Cano (Spain)	Sergio Siglienti (Italy)
Gabriel Oyaletor Ijewere (Nigeria)	Paul L. Faber (Guinea)
Mohamed Nassim Kochman (Mauritania)	Antoine W. Yaméogo (Upper Volta)
Craig T. MacDonald (Canada)	S. J. Handfield-Jones (Canada)
Jean Malaplate (France)	René Larre (France)
Guillermo Márquez (Venezuela)	Jorge González del Valle (Guatemala)
Paul Mentré (France)	René Larre (France)
Erwin Schmidbauer (Austria)	André van Campenhout (Belgium)

Temporary Alternate Executive Director	Executive Director for whom Temporary Alternate Served
H. G. Schneider (Austria)	André van Campenhout (Belgium)
Iddi Simba (Tanzania)	Paul L. Faber (Guinea)
Taoufic Smida (Tunisia)	Amon Nikoi (Ghana)
Erich Stoffers (Germany)	Ernst vom Hofe (Germany)
Willy Stoop (Belgium)	André van Campenhout (Belgium)
Tetsuo Tanaka (Japan)	Hideo Suzuki (Japan)
Jean R. Vallet (France)	René Larre (France)
	Georges Plescoff (France)

Appendix IV. ADMINISTRATIVE BUDGET

Letter of Transmittal

July 19, 1968

My dear Mr. Chairman:

The administrative budget of the Fund approved by the Executive Board for the Fiscal Year ending April 30, 1969 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, 1969, COMPARED WITH ACTUAL EXPENDITURES FOR THE FISCAL YEARS 1966-67 AND 1967-68

Category of Expenditure	F.Y. 1968-69 Budget	F.Y. 1967-68 Budget	F.Y. 1967-68 Actual Expenditures	F.Y. 1966-67 Actual Expenditures
I. BOARD OF GOVERNORS	$ 617,000	$ 850,000	$ 835,961	$ 509,243
II. EXECUTIVE DIRECTORS				
Salaries and allowances	1,390,000	1,340,000	1,324,075	1,242,497
Other compensations and benefits	351,000	339,000	294,829	256,608
Travel	437,000	386,000	333,076	336,182
Total	$ 2,178,000	$ 2,065,000	$ 1,951,980	$ 1,835,287
III. STAFF				
Salaries	9,970,000	8,980,000	8,955,035	7,651,328
Other compensations and benefits	3,546,000	3,153,000	3,080,731	2,551,226
Travel	2,440,000	2,410,000	2,226,981	2,034,929
Total	$15,956,000	$14,543,000	$14,262,747	$12,237,483
IV. SPECIAL SERVICES TO MEMBER COUNTRIES	$ 2,199,000	$ 1,948,000	$ 1,774,917	$ 1,242,350
V. OTHER ADMINISTRATIVE EXPENSES				
Communications	572,000	627,000	626,683	445,079
Office occupancy expenses	630,000	500,000	478,960	559,479
Books and printing	526,000	479,000	351,673	394,088
Supplies and equipment	610,000	517,000	494,556	445,488
Miscellaneous	712,000	571,000	521,962	413,838
Total	$ 3,050,000	$ 2,694,000	$ 2,473,834	$ 2,257,972
TOTAL	$24,000,000	$22,100,000	$21,299,439	$18,082,335

Appendix V. COMPARATIVE STATEMENT OF INCOME AND EXPENDITURE

	Year Ended Apr. 30, 1966	Year Ended Apr. 30, 1967	Year Ended Apr. 30, 1968
INCOME [1]			
Service charges			
Received in gold	$ 2,129,791	$ 2,488,125	$ 4,843,963
Received in members' currencies	11,956,646	2,818,250	1,897,287
Total	$14,086,437	$ 5,306,375	$ 6,741,250
Charges on Fund's holdings of members' currencies and securities in excess of quotas			
Received in gold	$25,539,963	$19,599,214	$21,110,652
Received in members' currencies	40,201,724	62,925,472	60,918,029
Total	$65,741,687	$82,524,686	$82,028,681
Other operational income	$ 1,484,572	$ 1,780,394	$ 663,353
Miscellaneous income	3,904	7,101	9,472
TOTAL INCOME	$81,316,600	$89,618,556	$89,442,756
EXPENDITURE			
Administrative	$15,035,587	$18,082,335	$21,299,439
Operational	16,074,373	17,804,327	11,945,077
Fixed property	5,661,158	3,305,352	454,515
TOTAL EXPENDITURE	$36,771,118	$39,192,014	$33,699,031

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

1966	$33,907,383
1967	40,959,870
1968	39,750,857

Appendix VI. FINANCIAL STATEMENTS OF INTERNATIONAL MONETARY FUND AND STAFF RETIREMENT FUND

Letter of Transmittal

July 19, 1968

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, 1968, 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, Ethiopia and Spain nominated auditors to serve on this Committee. They respectively nominated Mr. George R. Long, Assistant Auditor General of Canada; Mr. Teferra Liben, Chief Auditor, Inland Revenue Department of Ethiopia, and Mr. Francisco Estevez Jimenez, Accounting and Auditing Service of the Ministry of Finance, Spain. The Auditors thus nominated were confirmed by the Executive Directors.

It will be noted that, in the period under review, ordinary income amounted to $89,442,756 and expenditure amounted to $33,699,031, resulting in a net income of $55,743,725, which has been transferred provisionally to General Reserve pending Board of Governors' action. In addition, income of $39,750,857 from the Fund's Investment program has been transferred to the Special Reserve.

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

Yours sincerely,
/s/
P.-P. SCHWEITZER
Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

Memorandum by the Audit Committee

June 21, 1968

To the Managing Director
and the Executive Directors
International Monetary Fund

The report of the Audit Committee, dated June 21, 1968, 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, 1968, includes the following paragraphs relating to the scope of the audit and the audit certificate given:

Scope of the Audit

The audit was conducted in accordance with 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 considering 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 establish the adequacy of the system of accounting and internal control. In determining the Committee's program of test examination, consideration was given to the work carried out by the Internal Auditor, as reported by him, and to the standard of his work as observed by the Committee.

Audit Certificate

We have examined the Balance Sheet of the International Monetary Fund as at April 30, 1968, the Statement of Income and Expenditure and the Statement of Reserves for the year then ended, and the schedules related to these statements. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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, 1968, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Audit Committee:

/s/ G. R. Long, Chairman (Canada)

/s/ Teferra Liben (Ethiopia)

/s/ F. Estevez (Spain)

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)			
(*86,182,177.767 fine ounces at $35 per ounce*)			
Bars	$2,727,238,948		
General deposits	289,137,274		
	$3,016,376,222		
Less: 5,718.657 fine ounces held in suspense for the account of Botswana and Lesotho pending completion of the formalities of membership	200,153	$ 3,016,176,069	
Investments (See Note 2)			
U.S. Government securities maturing within 12 months, at cost (face amount $831,740,000)	$799,886,302		
Funds awaiting investment	105,209	799,991,511	$ 3,816,167,580
CURRENCIES AND SECURITIES (See Note 3)			
With depositories			
Currencies		$ 3,283,373,511	
Securities		14,512,445,314	17,795,818,825
(*nonnegotiable, noninterest-bearing demand obligations, payable at face value by members in their currencies*)			
SUBSCRIPTIONS TO CAPITAL—RECEIVABLE			
Balances of original quotas—not due		$741,152,827	
Balances of increases in quotas:			
Due	$27,750,000		
Not due (Contra)	51,200,000	78,950,000	820,102,827
WITHDRAWING MEMBER'S CURRENCY (See Note 4)			2,499,965
OTHER ASSETS (See Note 5)			39,517,952
TOTAL ASSETS			$22,474,107,149

NOTES:

1. Excludes 11,994.698 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. Total outstanding drawings of members amount to $4,560 million. Currency holdings in excess of members' quotas subject to Fund charges amount to $2,442 million.
4. Redeemable by Cuba in gold, or convertible currencies acceptable to the Fund, not later than July 1, 1968.
5. The assets and liabilities of the Staff Retirement Fund are not included in this Balance Sheet.
6. Represents currencies borrowed under Article VII, Section 2(i), of the Articles of Agreement.
7. The charge for a stand-by arrangement is credited against the service charge for funds drawn under that arrangement which raise the Fund's holding of currency above 100 per cent of the member's quota. 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, 1968

basis of established parities or provisional rates

CAPITAL, RESERVES, AND LIABILITIES

CAPITAL		
Subscriptions of members		$21,119,350,000
RESERVES (Exhibit C)		
Special reserve	$262,892,557	
General reserve	291,267,499	554,160,056
SUBSCRIPTIONS IN RESPECT OF INCREASES IN QUOTAS CONSENTED TO BUT NOT YET EFFECTIVE		
Balances not due (Contra)	$51,200,000	
Partial payments	700,000	51,900,000
INDEBTEDNESS (See Note 6)		
To Participants under General Arrangements to Borrow	$490,000,000	
Other	250,000,000	740,000,000
PROVISION FOR POTENTIAL REFUNDS OF STAND-BY CHARGES (See Note 7)		4,764,356
OTHER LIABILITIES (See Note 5)		3,932,737
TOTAL CAPITAL, RESERVES, AND LIABILITIES		$22,474,107,149

/s/ OSCAR L. ALTMAN
Treasurer

/s/ FRANK A. SOUTHARD, JR.
Acting Managing Director

Appendix VI (*continued*)
Exhibit B

Statement of Income and Expenditure

for the year ended April 30, 1968

Income

Operational charges		$ 7,404,603	
Charges on balances in excess of quotas		82,028,681	
Other		9,472	
TOTAL INCOME (See Note 1)			$89,442,756

Expenditure

Administrative expenditure			
Board of Governors		$ 835,961	
Executive Directors			
Salaries and expense allowances	$1,324,075		
Other compensations and benefits	294,829		
Travel	333,076	1,951,980	
Staff			
Salaries	$8,955,035		
Other compensations and benefits	3,080,731		
Travel	2,226,981	14,262,747	
Special services to member countries		1,774,917	
Other administrative expenses			
Communications	$626,683		
Office occupancy expenses	478,960		
Books and printing (See Note 2)	351,673		
Supplies and equipment	494,556		
Miscellaneous (See Note 3)	521,962	2,473,834	
Total administrative expenditure		$21,299,439	
Operational expenditure			
Interest on indebtedness			
Under General Arrangements to Borrow	$8,188,125		
Other	3,750,000		
Gold handling and sundry other costs (net)	6,952		
Total operational expenditure		11,945,077	
Fixed property expenditure		454,515	
TOTAL EXPENDITURE			33,699,031
NET INCOME (Transferred provisionally to General Reserve pending Board of Governors' action) (Exhibit C)			$55,743,725

NOTES:
1. Excludes income from investments amounting to $39,750,857 transferred to Special Reserve (Exhibit C).
2. After deduction of $79,649 for sales of Fund's publications.
3. After deduction of $252,909 for food service sales.

STATEMENT OF RESERVES

for the year ended April 30, 1968

SPECIAL RESERVE (See Note)		
Balance, April 30, 1967	$223,141,700	
Add		
Income from investments in U.S. Government securities	39,750,857	
Balance, April 30, 1968		$262,892,557
GENERAL RESERVE		
Balance, April 30, 1967	$236,783,492	
Deduct		
Transfer to Staff Retirement Fund for past service costs relating to previous years	1,259,718	
	$235,523,774	
Add		
Net income (Exhibit B), transferred provisionally pending Board of Governors' action	55,743,725	
Balance, April 30, 1968		291,267,499
TOTAL RESERVES (per Balance Sheet)		$554,160,056

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

Staff Retirement Fund

Memorandum by the Audit Committee

June 21, 1968

To the Managing Director
and the Executive Directors
International Monetary Fund

The report of the Audit Committee, dated June 21, 1968, 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, 1968, 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, 1968. 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 at April 30, 1968 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Investments

A change in the General Rules on Investment was made by the Pension Committee during the year in order to lower the floor on the holdings of obligations of the U.S. Government from 25 per cent to 20 per cent.

Holdings of the various classes of investments at April 30, 1968 were within the limiting percentages, stated in original investment values, prescribed by the Pension Committee, as follows:

	Percentage Authorized	*Percentage Held*
Bonds		
U.S. Government	Minimum 20	24.18
International Bank for Reconstruction and Development and Inter-American Development Bank	Maximum 20	13.85
Corporate (other than convertible)	Maximum 25	22.99
Corporate (convertible)	Maximum 5	0.13
Total bonds		61.15
Corporate stocks	Maximum 50	38.85
Total portfolio		100.00

The Audit Committee received directly from the depository confirmation of the investments held as at April 30, 1968.

AUDIT COMMITTEE:

s/ G. R. Long, Chairman (Canada)

/s/ Teferra Liben (Ethiopia)

/s/ F. Estevez (Spain)

Appendix VI (*concluded*)
Exhibit I

STAFF RETIREMENT FUND

BALANCE SHEET

as at April 30, 1968

ASSETS

CASH AT BANKS			$ 82,422
INVESTMENTS			
Bonds, at amortized cost			
United States Government (*market value, $4,221,849*)	$5,480,865		
International Bank for Reconstruction and Development and Inter-American Development Bank (*market value, $2,657,835*)	3,182,533		
Corporate (*market value, $4,667,883*)	5,392,405		
Corporate convertible (*market value, $31,950*)	30,000	$14,085,803	
Stocks (common), at cost (*market value $13,563,717*)		10,784,530	24,870,333
ACCRUED INTEREST ON BONDS AND CONTRIBUTIONS FROM PARTICIPANTS AND EMPLOYER			215,077
TOTAL ASSETS			$25,167,832

LIABILITIES AND RESERVES

PARTICIPANTS' ACCOUNT	$ 4,968,805
ACCUMULATION ACCOUNT	15,662,877
RETIREMENT RESERVE ACCOUNT	3,358,071
RESERVE AGAINST INVESTMENTS	1,178,079
TOTAL LIABILITIES AND RESERVES	$25,167,832

/s/ OSCAR L. ALTMAN
Treasurer

/s/ FRANK A. SOUTHARD, JR.
Acting Managing Director

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Numbers refer to pages. An asterisk (*) denotes a table, a dagger (†) denotes a chart.