FOR RELEASE
September 7, 1970
AT 6:00 P.M.
WASHINGTON TIME

1970 ANNUAL REPORT

INTERNATIONAL MONETARY FUND

ANNUAL REPORT
1970

This page intentionally left blank

INTERNATIONAL MONETARY FUND

ANNUAL REPORT

OF THE
EXECUTIVE DIRECTORS FOR THE
FISCAL YEAR ENDED APRIL 30, 1970

WASHINGTON, D.C.

This page intentionally left blank

CONTENTS

SUPPLEMENTARY NOTES

APPENDICES

LIST OF TABLES

LIST OF CHARTS

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., 1966–69 or January–June) to indicate the years or months covered, including the beginning and ending years or months;

(/) is used between years (e.g., 1969/70) to indicate a fiscal year or a crop year;

"Billion" means a thousand million.

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

The classification of countries employed in the Report may be found in footnote 1 on page 42.

This page intentionally left blank

Pierre-Paul Schweitzer

Managing Director and Chairman of the Executive Board

Frank A. Southard, Jr.

Deputy Managing Director

Executive Directors	Alternate Executive Directors
William B. Dale	
Derek Mitchell	R. H. Gilchrist
Guenther Schleiminger	Lore Fuenfgelt
Georges Plescoff	Bruno de Maulde
B. K. Madan	S. S. Marathe
Francesco Palamenghi-Crispi	Carlos Bustelo
Ahmed Zaki Saad	Albert Mansour
Hideo Suzuki	Koichi Satow
Robert Johnstone	Maurice Horgan
J. O. Stone	G. P. C. de Kock
Byanti Kharmawan	Malek Ali Merican
Pieter Lieftinck	Tom de Vries
Leonard A. Williams	Maurice Peter Omwony
André van Campenhout	Jacques Roelandts
Alfredo Phillips O.	Marcos A. Sandoval
Eero Asp	Sigurgeir Jónsson
Alexandre Kafka	Eduardo da S. Gomes, Jr.
Luis Escobar	Ricardo H. Arriazu
Beue Tann	Nguyên Huu Hanh
Antoine W. Yaméogo	Léon M. Rajaobelina

Senior Officers

The General Counsel	Joseph Gold
The Economic Counsellor	J. J. Polak
Administration Department	Phillip Thorson, Director
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	Walter O. Habermeier, 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 22, 1970

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

This page intentionally left blank

LETTER OF TRANSMITTAL
TO THE BOARD OF GOVERNORS

July 22, 1970

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, 1970.

Yours sincerely,

/s/

PIERRE-PAUL SCHWEITZER

Chairman of the Executive Board

Chairman of the Board of Governors

International Monetary Fund

This page intentionally left blank

Part I

THE WORLD ECONOMY AND THE FUND

This page intentionally left blank

Chapter 1

General Economic Survey

Introduction

THE performance of the world economy during 1969 and early 1970 was marked by severe inflationary pressures and, at the same time, by a series of developments serving to improve the adjustment of payments imbalances in several major countries and to strengthen the international monetary system. World output and trade expanded vigorously, and, in a setting of high demand pressures, rapid price increases, and heavy use of monetary policy in the main industrial countries, interest rates soared to extraordinary levels. Analysis of this mixed performance, and of the conditions essential for sustained improvement in the future, points to the central need for restoration of financial stability in the major industrial economies, and particularly in the United States.

During 1968 the rapidity of expansion in world economic activity had stemmed in large degree from the continuation of excess demand conditions in the United States. But in 1969, as the rates of advance in U. S. production and imports tapered sharply in response to a tightening of financial policies to cool off the economy, the expansion gathered momentum on the continent of Europe and was maintained at a high level in Japan. The renewed surge of activity in the industrial world that followed the 1966–67 economic slowdown provided a sharp stimulus to the trade of primary producing countries, which attained historically high rates of economic growth in both 1968 and 1969. These countries as a group realized another balance of payments surplus in 1969, although many of them were affected by the higher cost and restricted availability of credit in international financial markets.

Inflationary pressures became more acute in all industrial countries during the course of 1969. In the United States the rise in prices continued to accelerate, notwithstanding the progressive deceleration in the growth of real gross national product (GNP). Prices advanced rapidly during 1969 in Canada, France, Japan, the Netherlands, and the United Kingdom; and in a number of other countries in continental Europe inflationary strains reappeared and intensified as the economic slack that had been created by the 1966–67 slowdown of activity was progressively absorbed.

Notwithstanding the problem of inflation, the year 1969 brought some progress in the area of balance of payments adjustment as the external positions and prospects of several European countries improved markedly. During the first three quarters of the year foreign exchange markets continued to be dominated by uncertainty and recurrent crises. Heavy flows of speculative funds were related primarily to the strength of the deutsche mark and to the relative weakness of some other currencies, notably the French franc. In the last quarter of 1969, however, a marked change in the international financial situation took place. This stemmed both from developments in several major countries and from international actions which, it was widely recognized, would improve the functioning of the international monetary system. In the former category were devaluation of the French franc in August, revaluation of the deutsche mark in October, a shift of the U.K. balance of payments into substantial surplus, and rapid improvement of the French external position. Throughout 1969, although the basic external position of the United States remained unsatisfactory, the U.S. dollar was strong in foreign exchange markets as the stringency of monetary conditions in the United States attracted a massive inflow of short-term funds through the Euro-dollar market, producing an over-all surplus in the balance of payments. As described in Chapter 3, there were three international actions that, along with the realignment of European currencies, contributed to a calming of financial markets. One was the establishment of the Special Drawing Account within the Fund, a historic move aimed at assuring appropriate growth of international liquidity through a rational process of international consultation and decision. The second was provision for another substantial increase in Fund quotas and, hence, in conditional liquidity. The third was the reaching of agreement on South African gold sales to the Fund and related matters.

In the first part of 1970, a dominant feature of world economic developments was the continuation of rapid and widespread inflation in industrial countries, where prices advanced at an average rate even higher than during 1969 and wage settlements were far in excess of the trend growth in productivity. At the same time, the over-all growth of real GNP in the industrial countries showed a further deceleration; this was attributable to a small decline of output in the United States and some slowing of the pace of expansion in a number of other countries because of the narrowing or disappearance of spare capacity and the effects of restrictive financial policies. The U.S. balance of payments on the official settlements basis, after a year and a half of surplus, shifted into a large deficit in the first half of 1970—a shift which, stemming partly from some easing of U. S. short-term interest rates, drew renewed attention to the existence of a current account surplus still much too small to cover the outflows of U. S. private long-term capital and government expenditures abroad. However, the first part of 1970 also witnessed a continuation of the U.K. payments surplus, a further strengthening of France's balance of payments, and movement toward a more sustainable payments structure in Germany.

Output, Prices, and International Trade

The volume of total output on a world-wide basis increased by about 5½ per cent from 1968 to 1969, even though the growth rate of the large U. S. economy fell to less than 3 per cent under the impact of restrictive financial policies intended to check the upward spiral of prices and costs. For the group of developed countries except the United States, as well as for the less developed countries, the expansion of real GNP accelerated to some 7 per cent in 1969—a rate markedly above the trend growth of 5½ per cent over the 1960's for each of those groups of countries. It is especially noteworthy that the rate of increase in real GNP of the less developed countries from 1968 to 1969 matched that of the developed countries on a per capita basis, in contrast to the considerable lag for the 1960's as a whole.

For perspective on growth and inflation in 1969, it is necessary to trace developments back at least to the 1966–67 slowdown of economic activity in the industrial countries. That slowdown, stemming primarily from the tightening of monetary policies in a number of industrial countries in late 1965 and early 1966 in order to ease the pressure on domestic resources, had an impact in Europe very different from that in the United States. In many European countries, especially Germany, there was a marked softening of economic activity in 1966–67; the ensuing cyclical upswing through 1968 led to a gradual using up of excess capacity, but not until the latter part of the year and early 1969 did upward pressures on prices and costs become clearly apparent. In the United States, however, the 1966–67 economic slowdown was reflected in only a limited and temporary abatement of inflationary forces; the continued rapid expansion of demand throughout 1968 occurred under conditions of full employment, and price and cost pressures were intense. Failure of the U. S. economy to cool off in 1968 was a major setback from an international, as well as from a domestic, standpoint inasmuch as it imparted an inflationary stimulus to the international economy. Meanwhile, some other countries were already pursuing expansionary policies in reaction to the 1966–67 slowdown.

The acceleration of price and cost increases in the United States continued during 1969, notwithstanding the shift to a firmer monetary policy that became highly restrictive in the course of the year. Although the expansion of aggregate demand slowed to the point where the volume of national output had stopped rising by the fourth quarter, the cooling-off process in 1969 did not open up any marked degree of economic slack or make a real dent in the prevailing inflationary trends and psychology. In the United Kingdom, also, economic stabilization policy reduced the growth of total output well below that of capacity, while the increase in prices accelerated. But in other industrial countries output growth in

1969 matched or exceeded the previous year's high rate—reaching 8 per cent in Germany, almost double the economy's long-term rate of growth, as demand expansion and productivity improvement greatly exceeded all expectations. Growth was also exceptionally high in France, and in Japan the longest postwar boom, extending since 1965, continued without any apparent signs of slackening. Price increases were uniformly larger in 1969 than in 1968 in the industrial countries; taken together, these countries experienced an over-all price rise [1] from 1968 to 1969 of nearly 5 per cent, roughly double the yearly average for the period 1958–67. In the first half of 1970, the corresponding price rise reached an annual rate of close to 6 per cent.

Chart 1 summarizes key data on changes in total output and prices in the industrial countries since 1961. Particular attention may be drawn to (1) the deceleration of output growth for industrial countries as a group since 1968, a movement determined to a major extent by developments in the United States; (2) the actual decline (though modest) of U. S. output in the first half of 1970; (3) the marked slowing down of Germany's output growth in the same period, after exceptional gains during 1968 and 1969, as the effects of physical limits on capacity became evident; and (4) the acceleration of price increases in industrial countries during the past few years.

Inflation can thus be seen to be a widespread problem among industrial countries. Without determined and mutually reinforcing counter efforts, especially on the part of the larger industrial countries, the international spreading of inflationary tendencies would inevitably handicap or frustrate domestic stabilization programs among developed and developing countries alike. The Fund has encountered this problem at first hand in its consultations and other relationships with member countries.

In industrial countries, efforts to bring inflation under control and to eliminate inflationary expectations have been under way longest in the United States and Canada, although in neither of these countries had an abatement in the rate of cost increase as yet become evident by mid-1970 in response to the elimination of excess demand conditions and the emergence of relatively high unemployment.[2] The task before the U. S. authorities is clearly difficult—to restore a reasonable degree of price and cost stability while preventing a substantial recession and guiding economic growth back to its long-run trend line, and also avoiding an undue deterioration of the external capital account as the domestic stabilization program serves gradually to strengthen the current account. On the domestic side, the Canadian authorities confront the same kind of task, with the outcome bound to be heavily affected by developments in the United States. Many other industrial countries have come to a position where they may have to reduce demand pressures considerably if inflation is to be restrained. But in almost all of the industrial countries the stage has been reached where the control of inflation is rendered particularly difficult by strong cost-push forces, with wage settlements substantially in excess of normal productivity growth having become commonplace. Among such countries, wages generally increased at higher rates—usually at much higher rates—from the first quarter of 1969 to the first quarter of 1970 than during prior periods back to 1962.

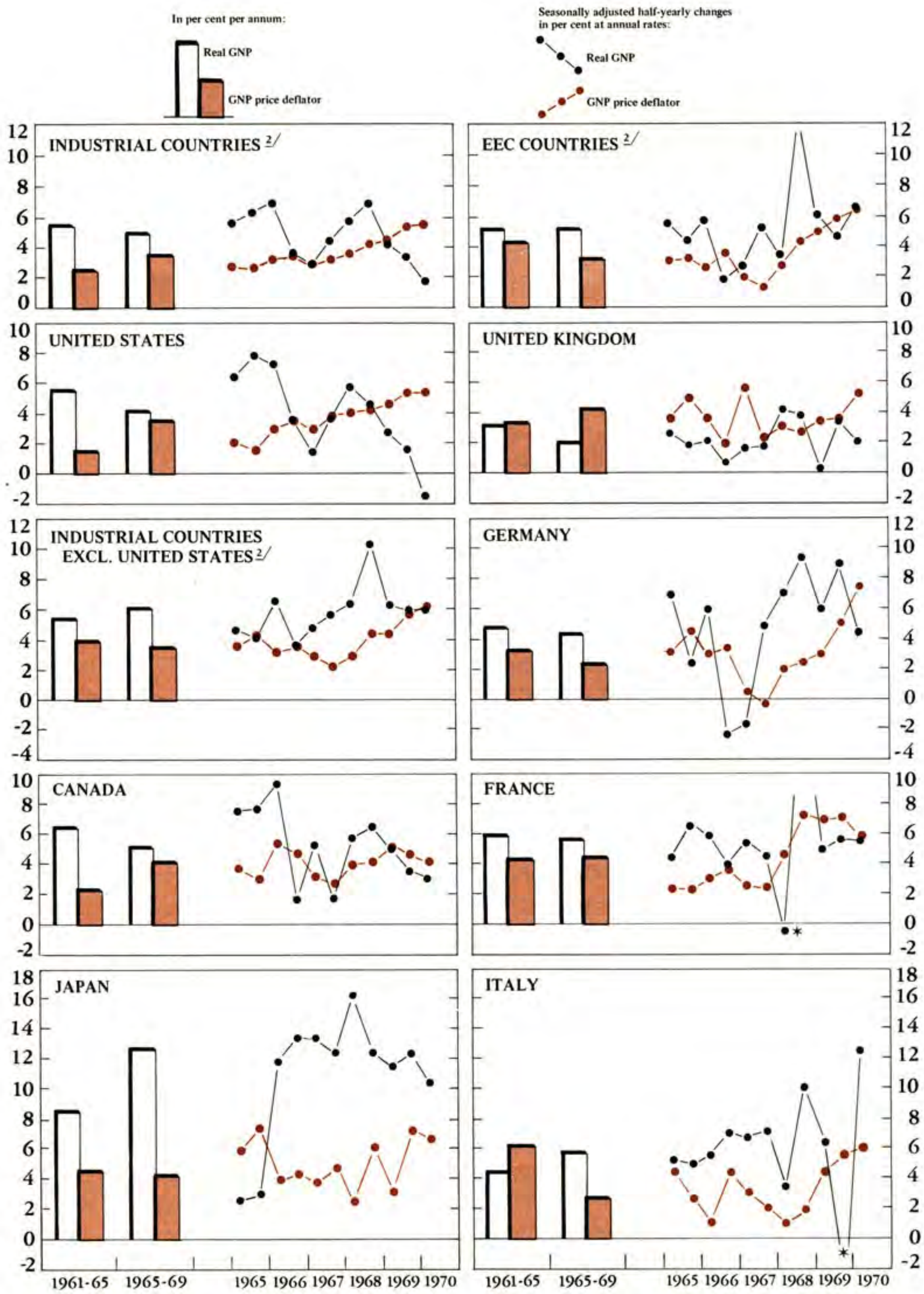
Crucial to any assessment of the world economic outlook is the situation of the United States. At this juncture, the domestic stabilization plan developed by the authorities early in 1969 is clearly behind schedule in slowing the pace of price and cost increases and, at the same time, it has had a more severe impact on the real economy than was expected or hoped for. In essence, the record can be depicted in two statistics: the average annual rate of increase of about 5½ per cent in the GNP deflator in the first half of 1970, and the rise in the unemployment rate to nearly 5 per cent in the second quarter. These figures obviously connote a difficult problem for economic management: avoiding prolonged and unacceptably high unemployment while bringing about a reduction in price and cost increases in response to the policies of financial restraint.[3] The importance of

[1] As measured by the GNP deflator.

[2] In Canada, a marked slowing in the rise of the monthly index of consumer prices occurred in the first part of 1970. In the United States, prices continued to advance rapidly at the retail level during this period but the increase in wholesale prices slackened.

[3] Such policies were initiated in mid-1968 with the enactment of fiscal legislation to raise income taxes and control expenditures.

CHART 1. CHANGES IN OUTPUT AND PRICES IN INDUSTRIAL COUNTRIES, 1961–FIRST HALF 1970 [1]



*Strike.

[1] First-half 1970 partly estimated.

[2] Coverage is limited to the countries shown individually. Semiannual data are not available for most other industrial countries.

arresting the U. S. inflationary spiral and restoring price and cost stability can hardly be exaggerated. At stake are the checking of the inflationary trend on a world-wide basis, the long-run stability and efficiency of the U. S. economy, the much-needed strengthening of the U. S. balance of payments position (especially on current account), and the sound functioning of the international monetary system.

For the United States as well as other industrial countries, the external aspects of inflation in the second half of the 1960's are summed up in Chart 10 (pages 56–57). The top panels show clearly that over this period the United States lost considerable ground in international price competitiveness as measured by unit labor costs and export unit values in manufacturing. Canada, it may be observed, had a somewhat similar record. In the United Kingdom, the rapid increase in labor costs during the latter part of 1969 and early 1970 exerted pressure on both domestic and export prices. Particularly striking are the strong records of international price competitiveness achieved over a period of years by Italy and Japan.

The strength of demand and production in the world economy in 1969 was clearly reflected in the flow of international trade. The value of world exports expanded by an extraordinary 14 per cent from 1968 to 1969. This was attributable in marked degree to higher prices, as the unit value of global exports increased (in dollar terms) by about 4 per cent. Such an increase in foreign trade prices, signifying primarily the generality and intensity of inflationary forces in the industrial countries, was an unusual development. For many years the unit value of total exports from these countries had risen by less than 1 per cent a year on average. In volume terms, expansion of world exports from 1968 to 1969, at 10 per cent, was still well above the trend rate prevailing over the 1960's.

A slowing down of the rate of expansion in world trade is indicated by import trends of the industrial countries in the first several months of 1970. Some moderation in trade expansion from the hectic pace of 1968 and 1969 indeed seems inevitable, in view of the sluggishness of total output in the U. S. economy and the slower economic growth that seems likely to occur in the major European countries under the impact of capacity limitations and of restraining financial policies.

The sharp increase of world trade in 1969 was an extension of the cyclical upsurge that began in the latter part of 1967, after trade growth had been brought to a virtual standstill by the yearlong economic slowdown in the industrial countries. Through the summer of 1968, this increase in trade was dominated by a steep rise of imports into the United States as aggregate demand expanded rapidly under full-employment conditions; also important as a stimulus to international trade in that earlier stage was the vigorous cyclical advance of the German economy, with its particularly expansive effects on exports and business activity in the EEC countries. Since the summer of 1968, however, the underlying strength of Europe's import trend has been markedly greater than that of the United States. This has reflected the development of a widespread European boom, spurred by the large and dynamic German economy, as the rate of GNP expansion in the United States gradually slowed down. Actually, the rise of imports (relative to GNP) in the United States during 1969 and early 1970 was greater than that which might have been expected on the basis of previous experience—suggesting that the inflation of the past several years has enhanced the competitive strength of foreign suppliers in the U. S. market.

The differential pattern of growth in industrial markets in 1969, as well as disparate movements in commodity markets, had effects on the export sales of particular primary producing countries and areas that are traced in Chapter 4. In general terms, the further rapid expansion of import demand in industrial countries in 1969 provided a strong and extensive boost to the exports of primary producers. Gains in export volume were much above the average rates for the 1960's, and export unit values exhibited a marked upturn. With metal prices at record levels and the downward trend in agricultural prices reversed, over-all export prices of primary producing countries went back to the peak reached in 1964. By late 1969 the collective terms of trade of the less developed countries were more favorable than at any time since the late 1950's.

Higher exports contributed directly and indirectly to the 1968–69 acceleration of output growth, noted above, in the less developed countries. Another factor was the further improvement in agricultural supply conditions in some areas, especially South Asia. Moreover, in a number of less developed countries faster growth of domestic demand was facilitated by an easing of reserve positions and balance of payments restraints, permitting the prudent application of somewhat more expansionary fiscal and monetary policies.

Imports of primary producing countries responded dramatically in 1969 to the continued upsurge in export earnings and to the higher rates of economic growth. After having lagged behind the pace of advance in exports from late 1967 through mid-1968, the imports of primary producers increased thereafter at a faster pace—a development that helped to sustain the boom in international trade. Some of the highest rates of increase in imports from 1968 to 1969 were registered by the more developed primary producers and by certain of the less developed countries—such as China, Hong Kong, and Korea—that are rapidly achieving a more diversified industrial base.

International Payments

Rapid trade expansion, with its varying geographic effects, was clearly one feature of developments in the international payments field during 1969. Also of importance was the pressure of monetary stringency in the United States on money and capital markets throughout the world; this led to a steep escalation of interest rates as European countries raised their domestic rates—initially, for the most part, to stem capital outflows and protect official reserves and later to control expanding demand and to counter inflation. Sensitivity of capital movements to the changes in interest rates, along with periodic heavy speculation in foreign exchange markets, generated huge flows of funds across national boundaries. This high mobility of capital was facilitated by the Eurodollar market, which expanded very sharply. Another feature of the international payments situation in 1969 was the changing of two important parities—devaluation of the French franc and revaluation of the deutsche mark.

For many primary producing countries, the stringent conditions prevailing in the main financial centers during 1969 had noticeable adverse effects in the form of very high interest rates and limited availability of external credit. The further sharp rise in interest rates that occurred in 1969 aggravated the problem of debt servicing, which for a number of these countries has become serious. The net flow of capital of all types (including official aid) from industrial to primary producing countries seems to have been reduced considerably from 1968 to 1969 but, because of asymmetries and other discrepancies in balance of payments statistics, the magnitude of the decline is uncertain.[4]

The shrinkage in capital inflow from the industrial world in 1969 affected numerous countries but was particularly evident among the developed primary producers, such as Australia, South Africa, and Finland. Most of the primary producing countries in Europe sustained a weakening of the current account position because of the emergence of high pressures of demand and rapidly expanding imports. Very few of the more developed primary producers experienced improvements in their over-all payments positions in 1969; deteriorations were largest in Finland, South Africa, Australia, and Spain, with the last two incurring substantial deficits. Collectively, the more developed primary producing countries were close to balance in 1969 after a record surplus of \$1.5 billion in 1968.

For the less developed countries as a group, rising demand for their exports by industrial countries led to a considerable reduction in the current account deficit from 1968 to 1969, while the volume of net capital inflow was approximately unchanged. The over-all surplus of \$1.7 billion, following one of \$1.1 billion in 1968, was the highest on record, and the strong growth of these countries' international reserves over the 1960's was thereby extended. (See page 23.) However, balance of payments surpluses in 1969 were concentrated in a limited number of the less developed countries; Brazil, the Libyan Arab Republic, India, Malaysia, Chile, Korea, and China had surpluses that in total were equal to

[4] This decline amounted to roughly \$3 billion (in relation to a 1968 level of \$11½ billion) in terms of the industrial countries' records but is probably overstated there. (See footnote 1, page 74.) According to the present preliminary data reported by primary producing countries, the decline in question was about \$1 billion.

the over-all surplus for all less developed countries, and they accounted for considerably more than the increase in this over-all surplus from 1968 to 1969. A common factor for many less developed countries whose payments positions improved was the predominance in their exports of certain commodities, such as oil or metals, for which world demand was particularly strong. In a number of other instances, a major factor was the achievement of increases in agricultural output sufficient to permit curtailment of imports. Finally, certain of the less developed countries improved their over-all positions chiefly through successful stabilization programs or realistic exchange rate adjustments.

With respect to payments developments in the industrial countries, the reported change in the over-all balance (from a deficit of $2½ billion in 1968 to approximately zero in 1969) masked some large fluctuations in the outturn for individual countries—fluctuations that were largely offsetting because of major shifts in capital flows (Chart 2). These shifts stemmed both from changing expectations regarding exchange rate adjustments and from changing relationships among interest rates and credit conditions in various national financial markets. From 1968 to 1969, net capital movements involving France, the United Kingdom, and the United States exhibited positive swings (either reductions in outflows or increases in inflows) amounting to some $8 billion, while net outflows from Germany rose by nearly $4 billion. For each of these countries except the United States, the 1968–69 change in net capital movements represented a striking reversal of the previous year's change.

Despite the volatility of capital movements and the sharp fluctuations in over-all balances during the past year or so, some underlying improvement in the payments positions of several large industrial countries has become clearly discernible. Although important problems remain, as indicated in the following summary, the current situation is appreciably better than that described in last year's Annual Report (pages 8–11).

The external accounts of the United Kingdom registered a remarkable improvement from 1968 to 1969, as depicted in Chart 2. This reflected three main factors: the tightening and coordination of financial policies, delayed effects of the November 1967 devaluation, and the impetus to British exports from the strong 1968–69 growth of world trade. In the first quarter of 1970, the surplus on current account was virtually maintained at the improved level of the second half of 1969, and the inflow of short-term capital that began late in 1969 continued unabated. In the second quarter the current account surplus was reduced substantially. From the standpoint of its possible future implications, a disquieting recent development has been the sharp advance in the United Kingdom's internal costs and prices.

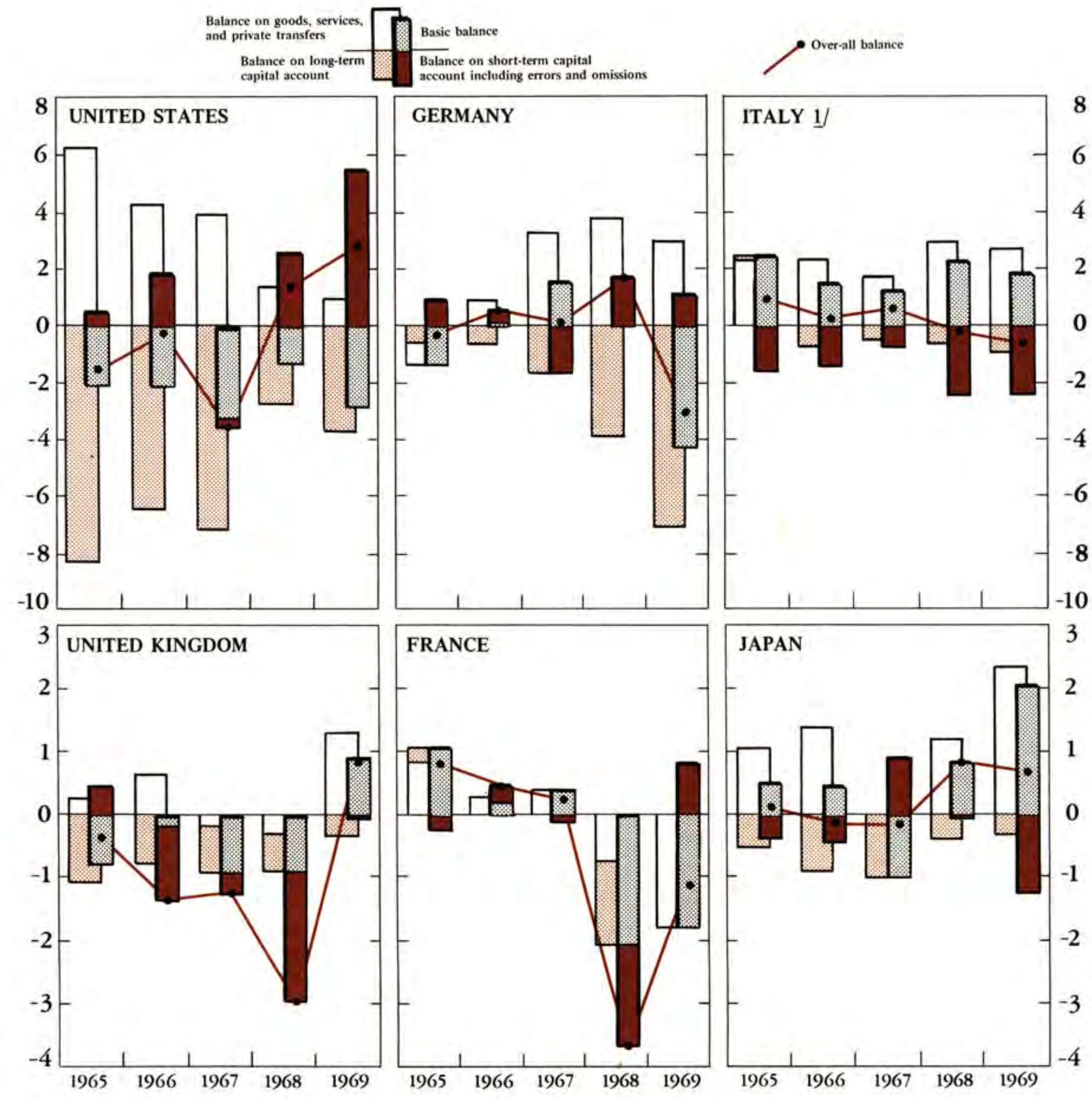
The recent strengthening of the balance of payments of France has been remarkable. In the first half of 1969 the current account was in record deficit, chiefly as an aftermath of the events of May–June 1968. It then recovered quickly and reached equilibrium in the opening quarter of 1970. Post-devaluation action by the authorities to bring about this turnaround was helped by developments such as the subsidence of domestic demand pressures by the summer of 1969 as a result of earlier policy measures; a reversal of speculative transactions in the merchandise trade accounts, following the devaluation in August; and the effects of the international boom on French exports. By the fourth quarter of 1969, the over-all balance of payments had swung into surplus as sizable capital inflows replaced the speculative outflows prior to devaluation. Capital inflows continued to benefit the French balance of payments in the first half of 1970.

For Germany the structure of the balance of payments is apparently in a state of change. In 1969 there was a very large outflow of long-term capital, attributable to relatively easy monetary conditions in Germany during much of the year; however, the differential between interest rates in Germany and other countries has been eliminated. Also in 1969, the exceptional surplus in Germany's current account remained high, but this surplus is expected to decline substantially as the effects of the October revaluation and of the build-up in domestic demand pressures become manifest.

Italy's balance of payments in 1968 and 1969 featured a structure—large current account surplus and large net capital outflow—that was less than satisfactory from either a domestic or an

CHART 2. BALANCES OF PAYMENTS IN SELECTED INDUSTRIAL COUNTRIES, 1965–69

(In billions of U.S. dollars)



Note: Definitions and explanations of the balances are given in Table 23.

[1] To the extent that the repatriation of Italian banknotes has its counterpart in long-term investment abroad, the outflow of short-term capital is overstated, while the opposite is true of the long-term capital deficit.

international point of view.[5] In 1969 the scale of capital outflows, together with the impact of widespread strikes on the external trade balance in the second half of the year, brought the over-all payments position under pressure and led to a sizable deficit. By early 1970, the domestic economic situation and its balance of payments implications had changed sharply. Under the buoyant demand

[5] The practical difficulties faced by the Italian authorities in managing domestic demand and the balance of payments with the limited range of policy instruments at their disposal are discussed in Chapter 5.

conditions emerging after the strike settlements, and with cost and price increases accelerating, the tightening of monetary conditions and raising of interest rates that ensued became appropriate from an internal as well as an external standpoint. At the same time, the greater intensity of demand in Italy put considerable downward pressure on the current account surplus. In a situation of labor unrest and political uncertainty, there was a further deficit in the balance of payments during the first part of 1970.

By 1969 the U. S. balance of payments had assumed an unprecedented structure, featuring an abnormally low current account surplus and an extremely large net inflow of foreign capital (Chart 2). The surplus on current transactions shrank severely over the past five years, principally under the impact of excess demand and inflation, and its restoration to a more normal level is a key objective of economic policy. Meanwhile, in view of the sizable deficit in "basic" transactions, it is necessary for the monetary authorities to pay particular attention to the implications of domestic credit policy for the level of U. S. short-term interest rates in relation to those abroad. The stringency of U. S. monetary policy that attracted an inflow of more than $8 billion through the commercial banks during 1969 was a very special and temporary development.

In reflection of the domestic slowdown, the U. S. current account improved noticeably in the second half of 1969 and continued to recover in the first part of 1970. Nevertheless, the over-all balance on the official settlements basis shifted into heavy deficit over this period. With U.S. monetary policy less restrictive, and financial restraint abroad generally intensified, the exceptional capital inflows that had sustained the surplus during 1969 receded or were reversed. If a substantial U.S. balance of payments deficit were to prevail in 1970, this could be viewed as an acceptable transitional situation only if the Government was proving effective in its efforts to bring inflation under control. The need to rectify the U. S. payments position without imposition of restrictions on current transactions—the most urgent remaining task in the field of international payments—underscores the importance of the current program to stabilize the domestic economy.

Balance of payments developments in two other countries also warrant comment. In Japan, the situation has not changed materially over the past year; in Canada, it clearly has.

The current account of Japan's balance of payments strengthened in 1968 and 1969 (Chart 2), in contrast to the weakening that had occurred in past periods of rapid economic growth. The authorities took measures to stimulate exports of capital, but the over-all balance of payments was in substantial surplus both years; the basic surplus in 1969 was very large. Although demand pressures have strengthened continuously during the past year, and price increases have become a problem, the surplus on current account remained large in the first part of 1970. The association of a strong current account position and pressure on resources makes it difficult for the Japanese authorities to reconcile the domestic and external objectives of policy, inasmuch as measures to restrain excessive domestic demand will tend to maintain or increase the size of the current account surplus unless countered by other measures such as tariff cuts and abolition of import quotas.

Canada's balance of payments in both 1968 and 1969 featured unusually large surpluses in the basic accounts, attributable chiefly to a large net inflow of long-term capital as capital markets in Canada tightened relative to those abroad. However, there were exceptional countervailing outflows of short-term funds. Such outflows were induced, especially in 1969, by features of the international financial market that made it attractive for Canadian residents to enlarge their holdings (chiefly through the Canadian commercial banks) of financial claims denominated in foreign currency. In the early part of 1970 the basic balance of payments improved substantially as a result of a very strong trade performance. At the same time, declining yields on Euro-dollar and other foreign money market investments induced repatriation of short-term funds by Canadians despite some easing of Canadian interest rates. The changed circumstances led to marked upward pressure on the exchange rate and accelerating increases in official reserves. At the end of May 1970, the Government announced that it had decided not to maintain the exchange rate for the Canadian dollar within the prescribed margins around the parity of US$0.925 established with the Fund. The exchange rate then appreciated, and through most of June and the first three weeks of July it fluctuated narrowly within a US$0.96–0.97 range, or about 4–5 per cent above parity.

Some Policy Issues

The heightening of inflationary pressures in the past few years raises the most serious questions about the adequacy of the economic policies pursued by the main industrial countries. It is the policies of these countries that, because of their economic weight, primarily determine how effectively the whole international system operates. For that reason, the following comments relate to the industrial countries, although much of what is said about the problems of policy formulation in those countries is also applicable to the primary producing countries.

Economic management in the industrial countries over the past 25 years has, of course, been vastly better than that in the interwar period. This has been evident most directly in the avoidance of serious recession and prolonged high unemployment. With this improvement, however, standards of performance have been raised successively. As described in this and previous annual surveys, the record for the second half of the 1960's indicates scope for further substantial improvement in the economic and financial policies of industrial countries.

Particularly needed is a greater adaptability of policy to changing circumstances. In general, the policy mix in industrial countries could be improved through a strengthening of fiscal policy, so that monetary policy could be geared relatively more to the external position than has proved feasible in the past. Because of institutional and political factors, the instruments of fiscal policy are relatively inflexible and an improvement of these instruments would be highly desirable; but it would seem that even within the existing framework a more active and timely use of fiscal policy should prove feasible. Without this, an undue burden will continue to be placed upon monetary policy; and, given the volatility of capital movements, inflows or outflows of funds may be induced that are disequilibrating to the balance of payments and also limit the effectiveness of monetary policy for domestic purposes. More generally, better fiscal policies would contribute materially to the performance of demand management, enabling the national authorities to cope more successfully with changes in domestic conditions and the balance of payments.

Failure to make timely adaptations of fiscal policy was evident during the widespread boom in the industrial countries during late 1965 and early 1966. The net result was a tendency for measures of financial restraint to be applied belatedly and to take the form primarily of a more severe tightening of monetary policy than would otherwise have been called for. These tardy and unbalanced measures failed to prevent an inflationary upsurge and in some countries had sharp impacts, with varying time lags, on the general level of activity, on particular sectors of the domestic economy, and on financial markets. Again, the heavy reliance on monetary policies for domestic restraint in more recent years has reflected the necessity of compensating for the insufficiency of restraint being exercised by fiscal policies. As in 1969, the lead in tightening monetary policy was taken by the United States, where fiscal policy has proved particularly slow in adjusting to changes in the domestic economic situation. In continental European countries a certain degree of fiscal restraint was introduced in the course of 1969, but in most instances the measures were belated and relatively weak. One reason for the lag in adjustment of fiscal positions in Europe during 1968 and 1969 was an underestimation of the cyclical strength of business and consumer spending.

An improvement in domestic financial policies has become more urgent because of the increased integration of international money and capital markets. This has limited the extent to which countries have been able to pursue independent monetary policies. In dealing with this difficulty in the recent period, some countries to a certain degree adopted measures to exert direct influence over capital movements, to that extent serving to counteract the trend toward integration of financial markets. In general, however, the international community has favored putting more emphasis on international cooperation in the formulation of domestic financial policies. During the past decade great strides were made in the development of international cooperation, which played a crucial role in buttressing the world monetary system at times of strain and crisis. However, valuable though it has been, this cooperation has so far turned out to be more effective in the financing of balance of payments deficits than in promoting the adjustment of balance of payments positions. The latter purpose would be served by a further strengthening of international collaboration with respect to economic policies in general and monetary policy in particular.

In addition to the need for better fiscal and monetary policies, the record of the industrial countries since the mid-1960's also contains another clear lesson for policy—the desirability of coming to grips with inflation and balance of payments disequilibria at an early stage. The financial instabilities that emerged from time to time were generally exacerbated by delays in the application of corrective policies, and in many instances the authorities were then impelled to adopt stabilization measures that had severely adverse effects on employment and growth. Errors in forecasting were partly responsible, but there was also an evident tendency for industrial countries at times to shade policy risks on the side of growth and employment and to push toward their short-term objectives in those areas beyond a point that was prudent. The experience of industrial countries in the recent period seems fully consistent with, and bears out, the well-known proposition that the maintenance of financial stability in the short run will make for a better growth and employment record over the longer run.

Better demand management, stemming from an improvement in the mix of fiscal and monetary policies and from appropriate emphasis on the broad objective of financial stability, is a basic prerequisite for a satisfactory economic performance by the industrial countries in the years ahead. However, those countries face a continuing task of seeking compatibility between stable prices and low unemployment, and experience indicates that the proper handling of this and other structural problems is likely to require the development and use of additional specific policy instruments supplementary to the broad instruments of financial policy.

In this area, particular attention focuses on what has come to be called incomes policy, consisting of a wide variety of possible measures—ranging from moral suasion to direct controls—to affect the movement of wages and prices in the public interest. Such measures have been tried, often only intermittently, by many of the industrial countries; their record of effectiveness until now has at best been mixed. Most governments have not as yet put very much emphasis on various other measures to influence wages and prices (such as import policy and efforts to enhance competition) or on measures relating to job training, labor mobility, and the like—all of which in due course could lower the level of unemployment compatible with price stability and generally facilitate the task of demand management.

The need for incomes policy that has been felt by many of the industrial countries stems from the capacity of business firms and labor groups in many instances, because of imperfect competition, to push up money incomes at rates exceeding the economy's long-term productivity growth. This feature of current economic life often makes it very difficult for fiscal and monetary policies, used by themselves, to stop a strong wage-price spiral without costly economic and social effects. Because this problem has become more acute in the current inflationary environment, there appears to be increased awareness of the basic issues, together with a renewed interest in the possibility that incomes policy could prove very useful as an adjunct to basic fiscal and monetary policies. On the question of the form which an incomes policy should take and how it might operate, there is obviously a very wide range of possibilities essentially dependent on the social and political setting in individual countries—on the attitudes of labor and industry, the prevailing institutional arrangements, and the scope for government leadership in the rationalization of price and wage movements.

Measures of the kind embraced under incomes policy, it must be emphasized, cannot be successful unless their essentially supportive or supplementary nature is kept fully in mind. No incomes policy can compensate for an inadequacy of basic fiscal and monetary policies. In this connection, there is a particular need to ensure that the very presence of an incomes policy does not induce an overreliance on it to the neglect of fiscal and monetary policies. If these fundamental principles are carefully observed, incomes policy, maintained over time, could at least foster a better public understanding of the relationship between increases in incomes and price stability and, hence, have a salutary effect on the character of wage and price decisions.

Strengthening of the instruments of domestic economic policy would constitute an invaluable aid to the national authorities. Meanwhile, a continued and vigorous application of the available instruments is called for in the current fight against inflation. It has moreover to be borne in mind that the appropriate policies of restraint must be carried out against the background of the strong tendency toward the international propagation of inflationary tendencies that has become so apparent. In the preceding sections attention has already been focused on the crucial importance of the economic policy of the U.S. authorities and the developments in the U.S. economy for the world economic climate. At the same time other industrial countries must make their contribution through simultaneous action designed to eliminate domestic inflationary tendencies. The importance of a simultaneous approach resides in its mutually reinforcing character and in the psychological effects that such an approach would evoke.

Improvements in domestic policy instruments and in their application, together with the recent developments on the international liquidity front, could contribute substantially to the working of the balance of payments adjustment process. But the efficient working of that process also depends on timely adjustment in the event that an exchange rate has become inappropriate. Such adjustment is indicated whenever countries, whether in deficit or surplus, are no longer able to maintain over time a satisfactory payments equilibrium—one not encumbered by trade and payments restrictions—without incurring an undue degree of unemployment or price inflation. As stated in Chapter 2 of last year's Annual Report, it was contemplated in the Bretton Woods system that changes in par values would be one of the instruments of adjustment policy and provisions for such changes were written into the Fund's Articles of Agreement. In this connection, it is to be noted that in the last few years there have been successful adjustments of the par values of three important European currencies. The Executive Directors during the past year have continued their study of the mechanism of exchange rate adjustment that was referred to in last year's Annual Report.[6]

As a final note, it is strongly to be hoped that the period ahead will witness a major improvement in the volume, quality, and effectiveness of development assistance. During the 1960's, as is well known, the flow of capital and official aid to the developing countries failed by a substantial margin to keep pace with the relative growth of GNP in the industrial countries. Over that decade, per capita GNP of the developing nations, already at a far lower level, grew much less than that of the industrial countries on a percentage basis, and the widening of the gap in absolute terms was very substantial. Industrial countries should endeavor to give a higher priority to their economic assistance to the developing nations not only because of the sheer immensity of the problems and needs of those nations, but also because of the broad interests of the industrial countries themselves.

[6] *Annual Report, 1969,* page 32.

Chapter 2

Developments in International Liquidity

General Survey

THE year 1969 and the first quarter of 1970 witnessed a number of new developments affecting both the quantity and the composition of international liquidity. In part, these developments resulted from deliberate actions specifically directed to adjusting the quantity or to improving the quality of international liquidity. The most important of these actions was the allocation of 3.4 billion of special drawing rights (SDR's) [1] on January 1, 1970 to 104 participant countries; this allocation was made in accordance with the Resolution of the Board of Governors of the Fund to allocate the equivalent of approximately SDR 9.5 billion for the first basic period covering the three years 1970–72. Developments with respect to accrual of gold to monetary reserves also entered a new phase at the end of 1969, when agreement was reached on the terms under which the Fund would purchase gold from South Africa. In the field of conditional liquidity, action has been taken in the past year to initiate an important increase in Fund quotas under the Fifth General Review. In February 1970 the Board of Governors adopted a Resolution providing for increases in quotas of Fund members totaling $7.6 billion, thereby increasing the potential size of the Fund to approximately $28.9 billion. These three developments are each discussed at greater length in Chapter 3.

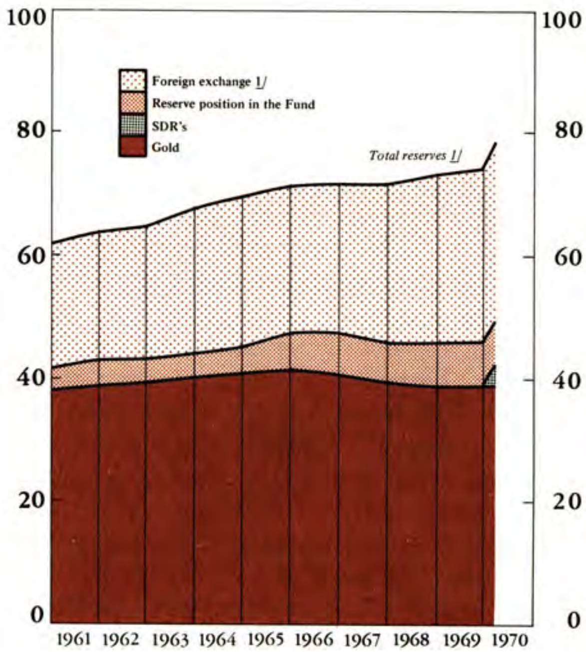
Aside from these actions directed specifically to the area of international liquidity, international reserve developments have also been affected by policy actions and economic developments in a number of major countries. The successful adjustment of payments imbalances of three countries—the United Kingdom, France, and Germany—resulted in a notable improvement in the distribution of reserves and permitted substantial progress to be made by the first two countries in repaying credit assistance to which they had earlier had recourse. These repayments were sufficient, in the six months to March 31, 1970, to effect an important net reduction in the credits outstanding under swap arrangements and related short-term credit facilities of central banks and treasuries. Further repayments of swap credits took place in the second quarter of 1970. The strengthening in the position of sterling, in association with the arrangements providing a dollar value guarantee for the major portion of official balances held in sterling by overseas members of the sterling area,[2] also contributed to a sizable increase in 1969 in reserves held by these countries in the form of sterling balances; a further increase in these balances took place in the first quarter of 1970.

Official holdings of U. S. dollars in 1969–70 were subject to very substantial fluctuations, which reflected in part unusually large movements in dollar balances of private external holders. These flows were in turn attributable partly to currency speculation and the unwinding of such speculation and, more generally, to foreign borrowing and repayments by U. S. banks, induced by differences in interest rates and in other relevant conditions between money markets in the United States and other countries. In 1969 as a whole, official holdings of U. S. dollars declined, even after allowing for an increase in official balances held in the Euro-dollar market. In the first few months of 1970, official holdings of dollars expanded again in amounts considerably exceeding the earlier decline. In the first quarter of 1970, this increase in reserves held in dollars, together with the allocation of SDR's, the modest expansionary impetus provided by sales of gold to the Fund, and the increase in official sterling balances, considerably outweighed the contractionary influence of the net repayment of

[1] The unit of value of special drawing rights is equivalent to 0.888671 gram of fine gold. This is equivalent to one U.S. dollar of the weight and fineness in effect on July 1, 1944.

[2] See *Annual Report, 1969,* page 75.

Chart 3. Composition of Reserves, End of Period, 1960–First Quarter 1970
(*In billions of U. S. dollars*)



[1] Adjusted reserves; see Table 1.

swap credits,[3] and global reserves expanded sharply (Chart 3). It is too early to judge the significance of these developments over a single quarter. The developments also need to be judged in the context of the experience of the extended earlier period in which the growth in international reserves had been unusually small.

Growth in Total Reserves

In the calendar year 1969, growth in reserves continued at the slow pace experienced in 1964–68, although the sources of reserve growth changed markedly. World holdings of gold, foreign exchange, and reserve positions in the Fund rose by only $0.2 billion on balance, to $76.9 billion. In Table 1, following the treatment in the 1969 Annual Report, these holdings are adjusted to exclude U. S. holdings of foreign exchange (which for the most part represent the counterpart of the use of swaps by other countries and can be drawn on to finance a U. S. payments deficit only where the deficit is a counterpart of a surplus of the country against which the claims are held). Since U.S. holdings of foreign exchange fell by $0.7 billion to $2.8 billion in 1969 as a result of repayments by other countries of short-term assistance, total reserves adjusted to exclude these holdings rose by $0.9 billion to $74.1 billion, or by 1.2 per cent. This was broadly in line with the average growth in adjusted reserves over the four previous years from the end of 1964, but well below the average annual rate of reserve growth in earlier periods, e.g., 3.4 per cent in the period 1960–64 and 2.5 per cent in the period 1951–64.

Official reserve totals fluctuated exceptionally sharply in the course of 1969. Thus, adjusted reserves[4] fell by about $2 billion in the first quarter of the year; they then rose by about $2 billion in the second quarter and by a further $3 billion in the third quarter; and they declined by almost $2 billion in the fourth quarter. These fluctuations reflected, in the main, large flows of dollars between private and official holders in response both to uncertainties concerning exchange rates and to differences in conditions in national money markets. The reduction in global reserves in the fourth quarter of 1969 reflected to a predominant degree the reflux of funds from Germany following the appreciation of the deutsche mark. The speculative funds that had flowed into Germany in earlier months had stemmed in part from the Euro-dollar market and other private holdings, thereby increasing global official reserve holdings; only a relatively small portion of the subsequent reflux of funds accrued to official reserves of other countries, thereby reversing the earlier increase in official reserves.

Apart from Germany and the United States, the industrial countries generally experienced some degree of reserve strain in the course of the first nine months of 1969; these strains were manifested by the widespread recourse in this period to drawings on swaps and other short-term credits. Subsequently, these pressures eased, in

[3] Such repayments reduce global reserves to the extent that the claims held by the creditors were counted as reserve assets. The criterion used in this context is whether there is reasonable assurance that the claims can be mobilized in case of balance of payments need. In this Report, swap credits granted by countries other than the United States are classified in this way.

[4] Subsequent references in this chapter to reserve totals apply to reserves adjusted to exclude U. S. holdings of foreign exchange.

TABLE 1. RESERVES, CREDIT TRANCHE POSITIONS, AND OTHER UNUSED CREDIT FACILITIES, END OF YEARS, 1951–69

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

End of Year	Gold	Foreign Exchange [1]	Reserve Positions in Fund	Total Reserves Adjusted [1]	Credit Tranche Positions in Fund	Other Unused Credit Facilities [2]
1951	33.9	15.1	1.7	50.8	6.5	—
1952	33.9	15.6	1.8	51.3	6.5	—
1953	34.3	17.0	1.9	53.2	7.1	—
1954	34.9	18.1	1.8	54.9	7.9	—
1955	35.4	18.4	1.9	55.7	7.9	—
1956	36.1	19.2	2.3	57.5	7.5	—
1957	37.3	18.4	2.3	58.0	7.2	—
1958	38.0	18.5	2.6	59.1	7.2	—
1959	37.9	17.9	3.3	59.0	12.8	—
1960	38.0	20.3	3.6	61.9	13.6	—
1961	38.9	20.8	4.2	63.9	12.8	1.7
1962	39.3	21.3	3.8	64.4	13.4	1.4
1963	40.2	23.6	3.9	67.7	13.5	2.0
1964	40.8	24.8	4.2	69.8	13.8	5.8
1965	41.9	24.0	5.4	71.2	12.5	3.8
1966	40.9	24.1	6.3	71.3	17.3	4.5
1967	39.5	26.3	5.7	71.5	18.3	5.2
1968	38.9	27.8	6.5	73.2	17.2	13.1
1969	39.1 [3]	28.3	6.7	74.1	17.0	14.5
		Annual percentage changes				
1952	—	3.3	5.9	1.0	—	—
1953	1.2	9.0	5.6	3.7	9.2	—
1954	1.7	6.5	−5.3	3.2	11.3	—
1955	1.4	1.7	5.6	1.5	—	—
1956	2.0	4.3	21.1	3.2	−5.1	—
1957	3.3	−4.2	—	0.9	−4.0	—
1958	1.9	0.5	13.0	1.9	—	—
1959	−0.3	−3.2	26.9	−0.2	77.8	—
1960	0.3	13.4	9.1	4.9	6.3	—
1961	2.4	2.5	16.7	3.2	−5.9	[4]
1962	1.0	2.4	−9.5	0.8	4.7	−17.6
1963	2.3	10.8	2.6	5.1	0.7	42.9
1964	1.5	5.1	7.7	3.1	2.2	190.0
1965	2.7	−3.2	28.6	2.0	−9.4	−34.5
1966	−2.4	0.4	16.7	0.1	38.4	18.4
1967	−3.4	9.1	−9.5	0.3	5.8	15.6
1968	−1.5	5.7	14.0	2.4	−6.0	151.9
1969	0.5	1.8	3.1	1.2	−1.2	10.7
Annual average percentage change	0.8	3.7	8.5	2.1	6.9	[4]

Source: *International Financial Statistics.*

[1] Excluding U.S. holdings of foreign exchange and including throughout the period amounts incorporated in published U. K. reserves in 1966 and 1967 from proceeds of liquidation of U. K. official portfolio of dollar securities.

[2] Unutilized drawing facilities under swap arrangements and related credit arrangements between central banks and treasuries.

[3] Partly estimated.

[4] A percentage change cannot be calculated for 1960 to 1961, the base number being zero.

response not only to the reflux of funds from Germany but also to a narrowing of interest differentials between the United States and Europe and some net repayment of borrowings of U. S. banks from their foreign branches. During the first quarter of 1970 official claims on the United States increased sharply, by $2.4 billion; together with the allocation of SDR 3.4 billion on January 1, this contributed to a large increase in global reserves in the first quarter, by a net amount of $4.4 billion, or 6 per cent.

Components of Reserve Growth

An analysis of the components of adjusted global reserves is provided in Table 2 for each year from 1960 through 1969. Table 3 summarizes these data and compares the components of reserve changes in 1969 with the annual average figures for the periods covering the four years to the end of 1968 (1964–68) and the four years to the end of 1964 (1960–64). The period 1964–68 had experienced, as noted in previous

TABLE 2. COMPONENTS OF ADJUSTED GLOBAL RESERVES, 1960–69

(In billions of U. S. dollars)

	End of Year										Change, End of 1960 to End of 1964	Change, End of 1964 to End of 1969
	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969		
1. Reserve Positions in the Fund	3.6	4.2	3.8	3.9	4.2	5.4	6.3	5.7	6.5	6.7	0.6	2.5
(a) Reserve creation in the Fund	1.2	2.1	1.6	1.6	2.0	3.5	3.7	3.1	4.2	4.4	0.8	2.4
(b) Fund gold holdings	2.4	2.1	2.2	2.3	2.2	1.9	2.6	2.7	2.3	2.3	−0.2	0.1
2. Gold Holdings (countries)	38.0	38.9	39.3	40.2	40.8	41.9	40.9	39.5	38.9	39.1[1]	2.8	−1.7[1]
3. Foreign Exchange	20.3	20.8	21.3	23.6	24.8	24.0	24.1	26.3	27.8	28.3	4.5	3.5
(a) Official claims on United States												
(i) Liquid	11.1	11.8	12.7	14.4	15.4	15.4	13.7	15.7	12.5	12.0	4.3	−3.4
(ii) Certain nonliquid liabilities [2]	—	—	0.3	0.2	0.4	0.5	1.3	2.6	5.0	4.0	0.4	3.6
(iii) U. K. portfolio	1.4	1.4	1.4	1.4	1.4	1.4	0.5	—	—	—	—	−1.4
(iv) Total	12.5	13.2	14.4	16.0	17.2	17.3	15.5	18.3	17.5	16.0	4.7	−1.2
of which												
(v) Payable in foreign currencies [3]	—	—	0.5	1.1	1.4	1.4	1.2	3.0	2.5	2.2	1.4	0.8
(vi) Payable in dollars	12.5	13.2	13.9	14.9	15.8	15.9	14.3	15.3	15.0	13.8	3.3	−2.0
(b) Official claims on United Kingdom												
(i) Claims arising from the use of credit facilities, excluding U.S. credits	—	—	—	—	0.4	0.1	0.8	1.6	2.5	1.6	0.4	1.2
(ii) Claims held by rest of sterling area countries	5.7	5.9	5.0	5.3	5.4	5.3	5.2	4.2	4.0	4.9	−0.3	−0.5
(iii) Sterling claims held by others	1.4	1.2	1.2	1.2	1.0	1.0	0.9	0.6	0.3	0.2	−0.4	−0.8
(c) Other												
(i) Official holdings of Euro-dollars [4]	...	...	...	...	0.7	0.7	1.2	1.4	2.3	2.8	...	2.1
(ii) Official claims arising from the use of credit facilities (excluding U. S. credits) by France	—	—	—	—	—	—	—	—	0.5	1.0	—	1.0
(iii) Official holdings of currencies other than U. S. dollars and sterling [5]	...	...	...	...	0.7	0.8	1.0	1.3	1.5	2.2	...	1.5
(iv) Residual [6]	0.7	0.5	0.7	1.1	−0.6	−1.2	−0.4	−1.1	−0.8	−0.5	−0.9	0.1
4. Adjusted Level of Reserves	61.9	63.9	64.4	67.7	69.8	71.2	71.3	71.5	73.2	74.1	7.9	4.3

Sources: *International Financial Statistics* and Fund staff information and estimates.

[1] Partly estimated.

[2] Liabilities other than liquid that enter into U. S. calculations of official settlements deficit.

[3] Covers U. S. Treasury securities, foreign currency series (mainly Roosa bonds), and outstanding Federal Reserve System swap commitments.

[4] Fund staff information and estimates, covering 38 countries.

[5] Fund staff information and estimates, covering 47 countries; see also footnote 6.

[6] Includes important holdings of French francs by countries in the franc area. The negative entries reflect, in the main, differences in coverage and timing; the coverage of the data for U. K. and U. S. liabilities tends to be wider than that of official foreign exchange holdings as shown in *International Financial Statistics.*

Annual Reports, some important changes from earlier trends in both the growth and the composition of reserves. Broadly, accruals to reserves from traditional sources had ceased and become negative on balance; as a result, the increase in global reserves slowed down and became dependent on new reserve sources stemming essentially from credits granted in connection with balance of payments assistance. Official holdings of gold in the four years to the end of 1968 fell by an annual average of $0.5 billion, and official claims on the United Kingdom other than those arising from credit arrangements fell by an average of $0.5 billion. Official claims on the United States, which had increased by an annual average of $1.2 billion in 1960–64, showed virtually no growth in the subsequent four years, although official holdings of dollars outside the United States in the Euro-dollar market increased by an annual average of $0.4 billion in this period for a group of 38 countries for which data are available.[5] The average increase of $0.9 billion in global reserves in 1964–68 was more than accounted for by an increase averaging $1.2 billion a year in reserves arising from credit operations, as reflected in lines 5 and 6 of Table 3; of this, about one half represented reserve positions in the Fund arising from use of Fund credit, and one half took the form of claims under swap credits extended by countries other than the United States.

TABLE 3. SOURCES OF RESERVE CHANGES, END OF 1960–END OF 1969: SUMMARY
(In billions of U. S. dollars)

	Annual Average		
	End of 1960 to end of 1964	End of 1964 to end of 1968	1969
1. Gold: country holdings	0.7	−0.5	0.2
2. Official claims on the United States	1.2	0.1	−1.5
3. Official holdings of Euro-dollars [1]	. . .	0.4	0.5
4. Official claims on the United Kingdom other than those arising from credit arrangements	—	−0.5	0.8
5. Reserve positions in the Fund	0.1	0.6	0.2
6. Creditor positions arising from non-U.S. credit arrangements	0.1	0.6	−0.4
7. Official holdings of currencies other than U. S. dollars and sterling [2]	. . .	0.2	0.7
8. Residual [3]	. . .	−0.1	0.3
Total	2.1	0.9	0.9

Sources: *International Financial Statistics* and Fund staff information and estimates.

[1] Fund staff information and estimates, covering 38 countries.

[2] Fund staff information and estimates, covering 47 countries; see also footnote 3.

[3] Includes important French franc holdings by countries in the franc area.

In the year 1969, in which the aggregate addition to reserves was unchanged from the 1964–68 average, there was a sharp change in the components of reserve growth. Countries' holdings of gold increased by $0.2 billion, following three successive years of decline. This shift reflected the cessation of sales of gold from official stocks to the private sector after March 1968. The change of trend is more apparent if measured from March 31, 1968. In the 12 months preceding that date, countries' official gold stocks were reduced on balance by $2.6 billion. In the subsequent 12 months, to March 31, 1969, countries' gold holdings rose by some $0.85 billion, the bulk of this increase being in the reserves of South Africa. In the following 12 months, ended March 31, 1970, countries' gold stocks rose by a further $0.2 billion; in this last period, an increase of $0.2 billion in gold holdings of the Fund was offset by a corresponding increase in the negative spot gold position of the Bank for International Settlements. In the calculations underlying the proposal by the Managing Director for the allocation of special drawing rights for the first basic period, which were made in the summer of 1969, allowance was made for some modest increase in official gold holdings (which for purposes of estimation was placed in a category including reserve creation through the General Account of the Fund and various minor sources of reserve creation); the arrangements referred to on pages 34–35 of this Report should help contribute to such an increase and, together with the arrangements of March 1968, provide assurance against a renewed decline in gold stocks of monetary authorities.

Official claims on the United States declined by $1.5 billion in 1969; if adjusted for a further increase of $0.5 billion in identified official holdings of Euro-dollars, the net reduction of $1 billion compares with a net increase averaging $0.5

[5] Private short-term claims held by nonresidents on the United States increased by an annual average of $0.9 billion in 1960–64 and by $2.1 billion in 1964–68.

billion a year in the period 1964–68 (Table 3). The tendency toward a reduction in official dollar balances was apparent at the time of the formulation of the Managing Director's proposal. Since this tendency stemmed from a switch of externally held dollar balances from official to private hands in response to extremely tight monetary conditions in the United States, and in a period in which total dollar balances held by nonresidents of the United States were growing substantially as a result of a large U. S. payments deficit on the "liquidity" basis, this decline in official holdings of dollars appeared unlikely to continue. In the first three quarters of 1969, as indicated later in this chapter, head offices of U.S. banks increased their borrowings from their foreign branches by almost $9 billion; this resulted in an exceptional increase, of broadly the same magnitude, in external private claims on the United States. A considerable reflux of externally held dollars from private into official hands occurred in the first quarter of 1970, and, as noted earlier in this chapter, official claims on the United States increased by almost $2½ billion.

The fluctuations that have taken place in recent years in the U. S. balance of payments, as measured by the balance on official settlements, have to some extent been reflected in fluctuations in U.S. holdings of reserve assets, as well as in U. S. official liabilities. Thus, in 1969, when the United States incurred an official settlements surplus of $2.7 billion (if allowance were to be made for official holdings of Euro-dollars the adjusted figure would be $2.2 billion), the U. S. gold stock increased by about $1 billion, and the U. S. reserve position in the Fund increased by a similar amount. In the two years to March 1970, the United States increased its gold stock by $1.2 billion, to $11.9 billion, and its reserve position in the Fund by $2 billion, to about $2½ billion. The increase in Fund position, reflecting a corresponding reduction in the Fund's holdings of U. S. dollars, helped to balance and offset the depletion of dollar holdings of Fund members other than the United States which was the counterpart of the U. S. surplus on official settlements account.

These increases in U. S. reserve assets, which resulted from an inflow of short-term funds to the United States rather than from an improvement in its underlying payments position, would enable the United States to limit the increase in its official liabilities in connection with the cessation or reversal of the earlier movements in short-term capital. In the Managing Director's proposal, an allowance was made for a possible rise in official holdings of U. S. dollars over the ensuing three to five years of some $0.5 billion to $1 billion on average. The recent sharp movements need to be seen in the perspective of the shift in the other direction in 1968 and 1969, and it is too early to form any considered view of the significance of these recent tendencies for the medium-term period. Moreover, to the extent that a substantial proportion of any large official settlements deficit were financed by a reduction in U. S. reserve assets, this would help to avoid an excessive expansion of official holdings of dollars of other countries and of international reserves in general.

The largest single source of reserve growth in 1969, which almost equaled the net change of $0.9 billion in world reserves, was in the form of reserves held in sterling, i.e., official claims on the United Kingdom other than those arising from credit arrangements. The sharp upturn in these balances, which made good about two fifths of the cumulative reduction that had taken place in their dollar value in the four years to the end of 1968, was attributable in part to gains in aggregate reserves by members of the overseas sterling area that hold substantial amounts of sterling in their reserves. In addition, these countries increased the proportion of their reserves held in sterling in 1969, reflecting the improved confidence in sterling, as well as the arrangements concluded in September 1968 providing a value guarantee in U. S. dollars for the major portion of these balances. In the first quarter of 1970, reserves held in sterling rose by a further $0.4 billion, to $5.6 billion. The Managing Director's proposal had made no specific provision for increases in these reserves, and the U. K. authorities have indicated on a number of occasions that a continuing increase in these balances is not expected.

Credit creation through the General Account of the Fund, as reflected in reserve positions in the Fund adjusted for Fund gold holdings (Table 2), amounted to $0.2 billion in 1969, about in line with its trend value. Creditor positions under swaps granted by countries other than the United States declined by $0.4 billion. Thus, reserve creation as a by-product of credit operations exerted a net contractionary force of about $0.2 billion in 1969, contrasting with net credit creation from this source averaging $1.2 billion in 1964–68 (Table 3, lines 5 and 6). In the early months of 1970, exceptionally large repayments of inter-central-bank credits were made by both France and the United Kingdom. In the six months to March 31, 1970, these repayments reached some $4.4 billion; of this, some $2.2 billion reduced reserves held in the form of swap claims by countries other than the United States.[6] Further details of transactions under swap facilities are given at the end of this chapter.

Aside from the increase in reserves held in sterling in 1969, the other large positive component of reserve changes in that year was in the item comprising miscellaneous holdings and residual adjustments, which increased by $1.0 billion (lines 7 and 8 of Table 3). Identified official holdings of currencies other than sterling or dollars rose by $0.7 billion to $2.2 billion in 1969 (line 3c(iii) of Table 2) and included the effect of the appreciation in value of balances held in deutsche mark. The residual item (line 3c(iv) of Table 2 and line 8 of Table 3) includes important holdings of French francs by countries in the franc area, as well as certain official holdings of Euro-dollars and of other foreign exchange assets not separately identified in Table 2.[7]

The assumption adopted as a basis for the Managing Director's proposal for the allocation of special drawing rights for the first basic period was predicated on an estimate of future reserve growth from other sources of $1–1.5 billion per annum; $0.5 billion was allowed for a composite item of accrual of official gold holdings, reserve creation through the General Account of the Fund and various minor sources, and the remainder was allowed for official holdings of U.S. dollars. This assumption made no provision for reductions in global reserves arising from net repayments of swap credits or from reduced use of Fund credit. In 1969 aggregate reserve creation was somewhat lower than the projection in the proposal, which related to a three-year to five-year average commencing in 1970; and, in the special circumstances of 1969, the composition of the increase differed markedly from the projection for subsequent years. The main divergences lay in the reduction in official holdings of dollars (which was reversed in the early months of 1970), in the increase in official sterling reserves, and in the reduction in international credit claims. It is, of course, too early to assess these developments and the preliminary indications of developments in 1970 in the light of the eventual outcome in the three-year to five-year period to which the assumptions underlying the Managing Director's proposal related.

Composition and Distribution of Reserves

At the end of 1969 countries' gold holdings accounted for 52.8 per cent of world reserves; reserve positions in the Fund represented a further 9.0 per cent of the total, while the remaining 38.2 per cent was held in the form of foreign exchange (Table 4).[8] These shares were not significantly different from those of a year earlier; the share of gold declined fractionally in 1969, compared with relatively large falls in each of the three previous years. The shares at the end of 1969 were appreciably changed from those at the end of 1964, when gold accounted for 58.5 per cent, reserve positions in the Fund for 6.0 per cent, and foreign exchange for 35.5 per cent. The

TABLE 4. PERCENTAGE COMPOSITION OF ADJUSTED GLOBAL RESERVES, END OF 1960, 1964, 1968, 1969, AND FIRST QUARTER 1970

	1960	1964	1968	1969	First Quarter 1970
Gold	61.4	58.5	53.1	52.8	49.8
SDR's	—	—	—	—	4.2
Reserve positions in the Fund	5.8	6.0	8.9	9.0	9.1
Foreign exchange	32.8	35.5	38.0	38.2	36.9
Total	100.0	100.0	100.0	100.0	100.0

Source: *International Financial Statistics.*

[6] The remaining $2.2 billion of repayments of swap credits in this period were made to the United States; it may be recalled that claims arising from these credits are not included in reserves as adjusted for analytical purposes in this chapter.

[7] The residual item of Table 2 has in recent years been persistently negative, reflecting the underreporting of foreign exchange assets compared with the coverage of foreign exchange liabilities. The miscellaneous holdings of foreign exchange assets referred to above have reduced the size of this negative entry.

[8] As noted earlier, the references to reserve totals in this chapter apply to reserves adjusted to exclude U.S. holdings of foreign exchange.

composition of the foreign exchange element showed a shift in 1969 away from dollars toward sterling and other currencies. The allocation of 3.4 billion of special drawing rights on January 1, 1970 added 4.6 per cent to world reserves. On March 31, 1970, SDR's accounted for 4.2 per cent of world reserves; largely as a consequence of this addition, the share of countries' gold holdings had dropped to 49.8 per cent; reserve positions in the Fund's General Account amounted to 9.1 per cent, and foreign exchange holdings to 36.9 per cent.

There were marked changes in the distribution of reserves among countries in 1969. Reserves of the less developed countries, which have been rising steadily since 1962, increased by $1.3 billion, or 9.5 per cent. The increases in 1969 were concentrated among relatively few countries. In contrast, over the longer period from the end of 1960 to the end of 1969, increases in reserves were spread over a wide range of less developed countries, being shared by all geographic areas (Table 5). Less developed countries as a group increased their reserves by 56 per cent in this nine-year period; from the low point at the end of 1962, the increase was about 74 per cent. On March 31, 1970 less developed countries accounted for 21.3 per cent of world reserves, compared with 13.6 per cent at the end of 1962. This group of countries accounted for 8.8 per cent of world holdings of gold; for 21.4 per cent of special drawing rights; for 8.7 per cent of reserve positions in the Fund; and for 41.4 per cent of world holdings of foreign exchange, the latter comprising over 70 per cent of the reserves of less developed countries.

Reserves of the more developed primary producing countries at the end of 1969 were of much the same magnitude as a year earlier. This group accounted for almost 10 per cent of global reserves at the end of 1969, much the same share as five years earlier. Gold holdings as a percentage of their total reserves declined from 51 per cent at the end of 1968 to 49 per cent a year later, as a result mainly of a decline in South Africa's reserves, which have a high gold component.

The share of the industrial countries in world reserves continued to decline in 1969. Reserves of these countries at the end of that year totaled $51.8 billion, equivalent to about 70 per cent of the world total and not greatly different from the level of five years earlier when this group accounted for about 75 per cent of world reserves. Reserves for the group declined marginally in 1969, and there were marked changes in distribution among individual countries. As noted earlier in this chapter, the United States' holdings of gold, together with its reserve position in the Fund, increased by $2.0 billion; Japan's official reserves rose by $0.7 billion, and a further increase in the first quarter of 1970 brought its total reserves above $4 billion, double the level of two years earlier. In counterpart, Germany's reserves fell by $2.8 billion in 1969 as a whole, while the reserves of France and Italy each declined by more than $0.3 billion.

These movements in aggregate reserves entailed a substantial redistribution of gold and of reserve positions in the Fund. The exceptionally large German deficit in the final quarter of 1969 and the relatively strong improvement in the official reserve positions of the United States, Canada, and Japan were the main factors accounting for a large shift of Fund positions from Germany to the other three countries. Similarly, the increase in U. S. gold holdings had its main counterpart in sales by Germany and France to finance their external deficits. Canada's total reserves showed virtually no change over 1969 as a whole; its reserve position in the Fund rose by $270 million, largely at the expense of its holding of U.S. dollars. Canada's reserves rose at an accelerating rate in the early months of 1970. The major improvement in the net reserve position of the United Kingdom in 1969 and in the first quarter of 1970 was reflected mainly in repayments of central bank credits, discussed below.

As noted earlier in this chapter, the course of official reserves in 1969 was influenced still more markedly than in earlier years by flows to and from commercial bank holdings of foreign exchange. The very large increase in borrowings by the head offices of U.S. banks from their foreign branches, of almost $9 billion over the first three quarters of the year, induced substantial flows from money market assets denominated in European currencies for investment in the Euro-dollar market. These flows caused strains on official reserves and on domestic liquidity in several European countries. In a number of these

TABLE 5. COUNTRIES' OFFICIAL RESERVES, ADJUSTED, 1960, 1964, AND 1968–FIRST QUARTER 1970 [1]

(In millions of U. S. dollars)

	Total at End of Period					Composition of Reserves at End of March 1970			
	1960	1964	1968	1969	March 1970	Gold	SDR's	Reserve positions in the Fund	Foreign exchange
Industrial Countries									
United States	19,359	16,240	12,182	14,183	15,400	11,903	920	2,577	—
United Kingdom	5,094	3,691	2,422	2,527	2,710	1,469	305	—	936
Total	24,453	19,931	14,604	16,710	18,110	13,372	1,225	2,577	936
France	2,272	5,724	4,201	3,833	4,126	3,544	166	—	417
Germany [2]	7,032	7,882	9,948	7,129	7,366	4,079	222	302	2,763
Italy [3]	3,251	3,824	5,342	5,005	5,080	2,978	120	885	1,097
Belgium and Netherlands	3,369	4,571	4,650	4,917	5,200	3,250	176	666	1,108
Switzerland	2,324	3,120	3,932	3,995	3,587	2,659	—	—	928
Other industrial Europe [4]	1,838	3,313	3,476	3,391	3,287	1,054	126	369	1,741
Total, industrial Europe	20,093	28,444	31,559	28,280	28,659	17,570	812	2,221	8,054
Canada	1,991	2,890	3,046	3,106	3,598	879	133	515	2,070
Japan	1,949	2,019	2,906	3,654	4,058	469	133	684	2,773
Total, industrial countries	48,484	53,284	52,115	51,750	54,425	32,290	2,303	5,998	13,833
Primary Producing Countries									
Other European countries [5]	2,358	3,909	4,220	4,414	4,475	2,158	113	134	2,074
Australia, New Zealand, and South Africa	1,312	2,686	2,990	2,771	2,920	1,272	152	425	1,071
Total, more developed areas	3,670	6,595	7,210	7,185	7,395	3,430	265	559	3,145
Western Hemisphere	2,955	2,855	3,960	4,500	5,150	1,115	306	356	3,380
Africa [6]	2,170	1,590	2,425	2,915	3,370	420	156	111	2,675
Middle East [7]	1,415	2,320	3,250	2,940	3,080	1,015	31	68	1,965
Other Asia	3,090	3,085	4,090	4,695	4,985	735	206	86	3,960
Total, less developed areas	9,730	9,910	13,895	15,210	16,750	3,450	699	621	11,985
Grand Total	61,885	69,788	73,222	74,144	78,570	39,170	3,267	7,178	28,960

Source: *International Financial Statistics.*

[1] Excluding CMEA countries, mainland China, etc.; also excludes U. S. holdings of foreign exchange but includes U. K. dollar portfolio. Totals may not add because of rounding and because some area totals include unpublished data.

[2] Includes the Bundesbank's investment in U. S. and U. K. Treasury paper acquired in accordance with the U. S.-German agreements of 1967 and 1968 and the 1968 U. K.-German agreement. On March 31, 1970 these investments totaled $601 million.

[3] Includes swap claims and nonmarketable U. S. Government securities.

[4] Austria, Denmark, Luxembourg, Norway, and Sweden.

[5] Finland, Greece, Iceland, Ireland, Malta, 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.

[6] Excluding South Africa and the United Arab Republic.

[7] Cyprus, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Saudi Arabia, the Syrian Arab Republic, and the United Arab Republic.

TABLE 6. SWAP FACILITIES AND RELATED CREDIT FACILITIES OF CENTRAL BANKS AND TREASURIES, 1961–69

(In millions of U. S. dollars)

	1961	1962	1963	1964	1965	1966	1967	1968	1969	Total, 1961–69	Memorandum Item, First Quarter 1970
I. Ceilings at the end of period [1]											
U.S. Treasury arrangements (1961) and Federal Reserve System swap network (1962–69)	575	900	2,050	2,350	2,800	4,500	7,080	10,505	10,980		11,230
Other facilities (excluding credit lines under the regular FRS network)											
EEC mutual short-term support fund											1,000 [2]
In support of the pound [3]	900		(250)	(3,330)	1,710	1,980	3,455	5,775	5,500		3,975
In support of the Canadian dollar		(500)						(900)			
In support of the Italian lira				925				90	260		510
In support of the French franc								2,300	2,250		800
In support of the Belgian franc									(100)		—
In support of the Danish krone									(200)		—
In support of the Spanish peseta									300		300
U. S. Treasury ad hoc swap line with the Netherlands Bank							126				
Nordic swap facility (Denmark, Finland, Iceland, Norway, Sweden)		40	40	40	40	40	81	81	81		81
U. S. Treasury foreign exchange agreements with Latin American countries and Philippines	232	220	85	96	141	188	225	230	225		225
Total	1,707	1,660	2,425	6,741	4,691	6,708	10,967	19,881	19,896		18,121
II. Utilization											
U. S. Treasury arrangements of 1961											
Drawings	46	150								196	
Repayments	−46	−150								−196	
Federal Reserve System swap network											
Drawings by System		420	767	475	690	710	2,046	1,207	695	7,010	30
Repayments by System		−190	−613	−564	−835	−565	−565	−2,551	−797	−6,680	−145
Drawings by United Kingdom			25	1,370	1,765	625	1,350	2,045	795	7,975	—
Repayments by United Kingdom			−25	−1,170	−1,490	−750	−650	−1,945	−1,295	−7,325	−650
Drawings by other countries		250	95	180		302	571	1,949	1,612	4,959	900
Repayments by other countries		−250	−45	−230		−102	−425	−1,777	−2,130	−4,959	−100
Total drawings		670	887	2,025	2,455	1,637	3,967	5,201	3,102	19,944	930
Total repayments		−440	−683	−1,964	−2,325	−1,417	−1,640	−6,273	−4,222	−18,964	−895
Net drawings		230	204	61	130	220	2,327	−1,072	−1,120	980	35

Facilities in support of pound (excluding regular swaps with FRS)[3]											
Drawings	904		250	905	837	1,433	2,015	2,510	566	9,420	—
Repayments	−904		−250	−500	−957	−330	−1,000	−715	−1,670	−6,326	−1,524
Net drawings	—		—	405	−120	1,103	1,015	1,795	−1,104	3,094	−1,524
Facilities in support of Canadian dollar (1962), Italian lira (1964), French franc (1968 and 1969), and Danish krone (1969) (all excluding regular swaps with FRS)											
Drawings		100		250				600	1,790	2,740	—
Repayments		−100		−250				−150	−1,090	−1,590	−900
Net drawings		—		—				450	700	1,150	−900
Other facilities[4]											
Drawings							126	3	335	464	—
Repayments							—	−126	−203	−329	—
Net drawings							126	−123	132	135	—
Total facilities[4]											
Drawings	950	920	1,137	3,180	3,292	3,070	6,108	8,314	5,793	32,764	930
Repayments	−950	−690	−933	−2,714	−3,282	−1,747	−2,640	−7,264	−7,185	−27,405	−3,319
Net drawings	—	230	204	466	10	1,323	3,468	1,050	−1,392	5,359	−2,389
of which											
Drawings by United States	—	230	154	−89	−145	145	1,607	−1,470	−102	330	−115
Drawings by United Kingdom	—	—	—	605	155	978	1,715	1,895	−1,604	3,744	−2,174
on U. S. arrangements[3]				*238*	*401*	*266*	*950*	*960*	*−665*	*2,150*	*−1,450*
on non-U. S. arrangements[3]				*367*	*−246*	*712*	*765*	*935*	*−939*	*1,594*	*−724*
Drawings by other countries	—	—	50	−50	—	200	146	625	314	1,285	−100
on U. S. arrangements			*50*	*−50*	—	*200*	*146*	*172*	*−183*	*335*	*800*
on non-U. S. arrangements			—	—	—	—	—	*453*	*497*	*950*	*−900*

Sources: U. S. Federal Reserve, *Bulletins* and *Annual Reports*; U. S. Treasury Department, *Bulletins* and *Annual Reports*; Bank of England, *Quarterly Bulletins*; United Kingdom, *Financial Statement and Budget Report 1970/71*; Deutsche Bundesbank, *Monthly Bulletins* and *Annual Reports*; Banca d'Italia, *Annual Reports*; Conseil National du Crédit, *Annual Report;* Banque de France, *Balance Sheets;* official announcements; and other central bank reports and balance sheets.

[1] Parentheses indicate that part of the maximum ceiling represented by the figure in parentheses had been canceled before the end of the year; the entire amounts are included in the totals.

[2] Subject to negotiation, drawing rights can be increased by $1,000 million to $2,000 million.

[3] Fund staff estimates compiled from data available in the sources indicated. Since the data on utilization are derived in a number of cases from amounts outstanding at the end of quarterly periods, gross drawings and repayments may be subject to a significant margin of error.

[4] Excluding transactions between the United States and the Latin American countries and the Philippines.

instances, the monetary authorities replenished their holdings of foreign exchange by drawing on swap facilities. The authorities of a number of European countries also sought to counter the pressures created by the Euro-dollar market by regulating the net foreign asset position of their commercial banks. (See page 92.)

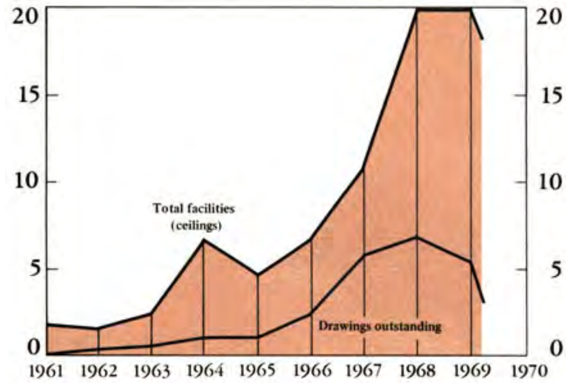
In the course of 1969 as a whole, the net spot foreign currency positions of commercial banks in the leading industrial countries other than the United States were reduced on balance; a further reduction took place in the first quarter of 1970. In the course of 1969, banks in most European countries, and particularly those in France, Germany, and Italy, reduced their net foreign positions in response either to directives from the monetary authorities or to meet domestic liquidity needs. In contrast, banks in Japan and, to a lesser extent in Canada, increased their net foreign positions. In Japan the authorities encouraged the banks to repay foreign borrowings, which had the effect of limiting the increase of official reserves.

Complementary to holdings of reserves, which may be used to finance payments deficits without policy conditionality, Fund members had available at the end of May 1970 conditional drawing rights in the form of unutilized credit tranches in the Fund to a total of over $17 billion. These conditional credit facilities will be increased for members to the extent of the increases in quotas taken up under the Fifth General Review. For those Fund members that are currently making use of the Fund's resources in the credit tranches, the increase in quotas will add further to credit tranche positions, since a part or all of the gold subscription to the quota increase will reduce outstanding purchases in the credit tranches rather than, as for other members, increasing the member's gold tranche position. To the extent that gold payments by members are alleviated (see pages 33–34), the effect of the initial impact of the increase in quotas in increasing countries' reserve positions in the Fund or their credit tranche positions at the expense of countries' gold holdings will be reduced.

In addition to these conditional credit facilities with the Fund, industrial countries at the end of 1969 had credit facilities with national central banks and treasuries of $19.9 billion. This

CHART 4. SWAP FACILITIES AND RELATED CREDIT FACILITIES OF CENTRAL BANKS AND TREASURIES, 1961–FIRST QUARTER 1970

(In billions of U. S. dollars at end of period)



total of ceilings under swap arrangements was virtually unchanged compared with the total at the end of 1968, following a series of sharp increases in earlier years (Table 6 and Chart 4). In 1969 repayments of swap credits utilized exceeded drawings of these credits by $1.4 billion. As a result, unutilized swap facilities increased by a similar amount and reached $14.5 billion at the end of 1969.

New credit facilities were established among the central banks of major countries; special credits were granted by Germany in May for the recycling of short-term speculative funds, and new credits of $0.6 billion were extended in August 1969 to France by the other members of the European Economic Community and by the Bank for International Settlements. Early in 1970 the central banks of the EEC countries established a mutual short-term support fund of $1 billion, which could be increased to $2 billion under certain conditions. In the spring of 1970 negotiations were in progress on the establishment of additional arrangements among these countries under which credits up to a further $2 billion could be made available on conditional terms for periods up to two or three years. In the first quarter of 1970 Italy arranged additional credit facilities with the United States totaling $0.5 billion, in part under the reciprocal swap network centered in the Federal Reserve.

Drawings outstanding under inter-central-bank credit arrangements at the end of March 1970 had been reduced to about $3.0 billion compared with the peak levels of $6.8 billion, which were reached in December 1968 and in September 1969. This reduction reflected substantial repayments in the six months to March 31, 1970 by both the United Kingdom ($3.0 billion) and by France ($1.3 billion) which more than offset net drawings of $0.5 billion by Italy. Repayments continued on a substantial scale in the second quarter of 1970. By April 1970 France had repaid all individual central bank indebtedness. The United Kingdom in the second quarter reduced its indebtedness by $0.4 billion, reducing its total short-term and medium-term debts to $3.5 billion, compared with a peak of $8 billion at the end of 1968.

Chapter 3

Activities of the Fund

THE period under review was one of the most eventful both for the Fund and for the future of the international monetary system, marked as it was by an important extension of the Fund's responsibilities in the field of international liquidity. The Amendment to the Articles of Agreement, which established the Special Drawing Account and made other changes in the Articles, became effective on July 28, 1969. With the amendment of the By-Laws and Rules and Regulations and the approval by the Board of Governors of the Managing Director's proposal for the first allocation of special drawing rights (SDR's) in September and October, the stage was set for the activation of the new Account at the beginning of 1970.

At the same time, the Fund's General Account transactions and its other activities were again substantial. During the fiscal year ended April 30, 1970, members' purchases of currencies from the Fund and repurchases both reached new high levels, and stand-by arrangements were approved for a larger total amount than ever before. Important decisions by the Executive Directors bearing on Fund transactions included one in December 1969 relating to South Africa's sales of gold to the Fund and another in June 1969 in connection with the study of the problem of the stabilization of prices of primary products; the latter was described in last year's Annual Report,[1] and both decisions are reproduced in Appendix I below.

Two major industrial countries, France and Germany, established new par values for their currencies in August and October 1969, respectively. At the end of May 1970 the Canadian authorities notified the Fund that Canada would, for the time being, not maintain the exchange rate of the Canadian dollar within the existing margins. All of these developments had a bearing on the examination of the mechanism of exchange rate adjustment, which has preoccupied the Executive Directors during much of the period.

Following a report by the Executive Directors in December 1969, the Board of Governors adopted a Resolution authorizing a substantial increase in members' quotas, aimed at adjusting the size of the Fund to the growth of the world economy. Four countries joined the Fund during 1969/70 and one in May 1970, bringing total membership to 116.

Other Fund activities were also maintained at high levels, as described in Supplementary Note A. The number of Article VIII and Article XIV consultations with member countries continued to increase; training activities, as well as technical assistance in the fiscal, banking, and statistical fields, continued to expand; and cooperation with the World Bank and other international organizations was extended and strengthened.

In February 1970 the Fund published a three-volume history, providing a comprehensive account of the Fund's origins and formation and of the development of its policies and activities over the first 20 years.

The Special Drawing Account

The Amendment to the Articles of Agreement entered into force on July 28, 1969, when it had been accepted by the requisite three fifths of the Fund's members, having four fifths of the total voting power. The required level of participation in the Special Drawing Account was achieved on August 6, 1969 when instruments of participation had been deposited by members having at least 75 per cent of the total of quotas in the Fund.

The Managing Director's proposal to allocate special drawing rights for the first basic period, adopted as Resolution No. 24-12 by the Board of Governors of the Fund on October 3, 1969, pro-

[1] *Annual Report, 1969,* pages 38–40.

vided for the creation of approximately SDR 9.5 billion [2] over the three years 1970–72.[3] By December 31, 1969, 105 members with total quotas of $20,872 million (97.8 per cent of total Fund quotas) had deposited instruments of participation. The first allocation of special drawing rights was made on January 1, 1970 to 104 participants [4] at a rate equal to 16.8 per cent of their quotas. The total allocation amounted to SDR 3,414 million (Table 7). Allocations of special drawing rights to individual participants in the Account were determined, as provided in the Articles, by the relative size of their Fund quotas; the amounts ranged from SDR 867 million for the United States down to SDR 504,000 for countries with the smallest quotas.

Transactions and Operations

Before operations of the Special Drawing Account began on January 1, 1970, the Executive Directors adopted several decisions to enable two important types of transactions to take place. Two of these decisions [5] related to transactions under Article XXV, Section 2(*a*), in which participants use special drawing rights to obtain currency convertible in fact from other participants that are designated by the Fund. A third decision authorized participants to use special drawing rights in the payment of charges to and in repurchases from the General Account (other than repurchases under Article V, Section 7(*b*), which are provided for separately in the Articles).[6]

In addition to these uses, participants may use special drawing rights under Article XXV, Section 2(*b*)(i), which permits a participant, in agreement with another participant, to use its special drawing rights to obtain an equivalent amount of its own currency held by the other.

During the period January to June 1970, 46 participants used a total of SDR 549 million. As shown in Table 8, SDR 287 million was used by 26 participants in transactions involving other participants, SDR 206 million was used by 22 participants to make repurchases from the Fund's General Account, and SDR 56 million was used by 25 participants to pay charges due to the General Account.

In the period, 24 participants informed the Fund that they desired to use special drawing rights to obtain currency to be provided by other participants designated by the Fund. There were also three transactions by mutual agreement (without designation) in which participants used special drawing rights to obtain balances of their own currency from other participants. The United Kingdom transferred SDR 20 million to Germany to obtain an equivalent amount of sterling, and the United States transferred SDR 10 million each to Belgium and the Netherlands to obtain U. S. dollars.

All such transactions between participants are subject to the "requirement of need" as stated in Article XXV, Section 3(*a*), of the Fund Agreement. This states that a participant will be expected to use special drawing rights in such transactions "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."

Designation

Article XXV, Section 5, provides that the Fund shall ensure that participants can use their special drawing rights under Section 2(*a*) of this Article by designating other participants to provide currency for specified amounts of special drawing rights. A participant shall be subject to designation if its balance of payments and gross reserve position is sufficiently strong, but this does 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. The designation system pro-

[2] The unit of value of special drawing rights is equivalent to 0.888671 gram of fine gold. This is equivalent to one U.S. dollar of the weight and fineness in effect on July 1, 1944.

[3] *Summary Proceedings of the Twenty-Fourth Annual Meeting of the Board of Governors,* pages 326–27.

[4] One participant, China, exercised its option not to receive an allocation.

[5] Executive Board Decisions No. 2909-(69/124) S, adopted December 22, 1969, entitled "Special Drawing Account—First Designation Plan" and No. 2918-(69/128) S, adopted December 31, 1969, entitled "Currency Convertible in Fact—The U.S. Dollar." See below, pages 29–31.

[6] Executive Board Decision No. 2901-(69/122) G/S, adopted December 18, 1969 and reproduced in Appendix I. (This decision is subject to review before the end of 1970.)

TABLE 7. ALLOCATIONS OF SPECIAL DRAWING RIGHTS RECEIVED BY PARTICIPANTS, JANUARY 1, 1970

Participant	SDR	Participant	SDR
Afghanistan	4,872,000	Kenya	5,376,000
Algeria	12,600,000	Korea	8,400,000
Argentina	58,800,000	Laos	1,680,000
Australia	84,000,000	Lesotho	504,000
Austria	29,400,000	Liberia	3,360,000
Belgium	70,896,000	Luxembourg	3,192,000
Bolivia	4,872,000	Malagasy Republic	3,192,000
Botswana	504,000	Malawi	1,890,000
Brazil	58,800,000	Malaysia	21,000,000
Burma	8,064,000	Mali	2,856,000
Burundi	2,520,000	Malta	1,680,000
Cambodia	3,192,000	Mauritania	1,680,000
Cameroon	3,057,600	Mauritius	2,688,000
Canada	124,320,000	Mexico	45,360,000
Central African Republic	1,596,000	Morocco	15,120,000
Ceylon	13,104,000	Netherlands	87,360,000
Chad	1,680,000	New Zealand	26,376,000
Chile	21,000,000	Nicaragua	3,192,000
Colombia	21,000,000	Niger	1,680,000
Congo, Democratic Republic of	15,120,000	Nigeria	16,800,000
Congo, People's Republic of the	1,680,000	Norway	25,200,000
Costa Rica	4,200,000	Pakistan	31,584,000
Cyprus	3,360,000	Panama	4,704,000
Dahomey	1,680,000	Paraguay	2,520,000
Denmark	27,384,000	Peru	14,280,000
Dominican Republic	5,376,000	Philippines	18,480,000
Ecuador	4,200,000	Rwanda	2,520,000
El Salvador	4,200,000	Senegal	4,200,000
Equatorial Guinea	1,008,000	Sierra Leone	2,520,000
Finland	21,000,000	Somalia	2,520,000
France	165,480,000	South Africa	33,600,000
Gabon	1,596,000	Southern Yemen	3,696,000
Gambia, The	840,000	Spain	42,000,000
Germany	201,600,000	Sudan	9,576,000
Ghana	11,592,000	Swaziland	1,008,000
Greece	16,800,000	Sweden	37,800,000
Guatemala	4,200,000	Syrian Arab Republic	6,384,000
Guinea	3,192,000	Tanzania	5,376,000
Guyana	2,520,000	Togo	1,890,000
Haiti	2,520,000	Trinidad and Tobago	7,392,000
Honduras	3,192,000	Tunisia	5,880,000
Iceland	2,520,000	Turkey	18,144,000
India	126,000,000	Uganda	5,376,000
Indonesia	34,776,000	United Arab Republic	25,200,000
Iran	21,000,000	United Kingdom	409,920,000
Ireland	13,440,000	United States	866,880,000
Israel	15,120,000	Upper Volta	1,680,000
Italy	105,000,000	Uruguay	9,240,000
Ivory Coast	3,192,000	Venezuela	42,000,000
Jamaica	6,384,000	Viet-Nam	6,552,000
Japan	121,800,000	Yugoslavia	25,200,000
Jordan	2,688,000	Zambia	8,400,000

vided for in the Articles envisages that participants may 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. The excess holdings are those above the net cumulative allocations.[7]

[7] A participant's "net cumulative allocation" is the total amount of SDR's allocated to it less any cancellation.

During December 1969 the Fund established a first designation plan, consisting of a list of participants and the maximum amounts of special drawing rights for which each could be designated to provide currency convertible in fact without further decision. A second designation plan was established in March for the second calendar quarter, and a third plan early in July 1970. Further designation plans will be decided by the Executive Directors at quarterly intervals, subject to any interim amendment found necessary.

The first plan included 23 participants, and the maximum amounts for which they could be designated totaled SDR 350 million. While this amount was expected to cover the use of special drawing rights in designated transactions for the quarter, there was no basis for reliable estimation, and actual use with designation came to SDR 133 million. No participant was designated for more than 42 per cent of the maximum amount to which it was subject under the plan; for the majority of participants in the plan, actual designation came to less than 0.5 per cent of their holdings of gold and foreign exchange at the beginning of the plan. The second quarterly designation plan involved 22 participants for a total of SDR 342.5 million. Actual use during the second quarter of 1970 totaled SDR 114 million. Participants designated during the first six months of 1970 included both developing and industrial countries (Table 8). The third plan involved 26 participants for a total of SDR 201 million.

Currencies and Conversions

A participant designated by the Fund is obliged to provide "currency convertible in fact" in exchange for special drawing rights. Article XXXII (*b*)(1) and (2) defines the term currency convertible in fact, and the Fund decides whether a currency is convertible in fact in accordance with this Article. The initiative for seeking such a decision—which has significance only for operations involving designation—lies solely with the participant that issues the currency. Whether or not the Fund decides that a currency is convertible in fact does not in any way affect the status of a currency's convertibility under Article VIII.

There are two categories of currencies convertible in fact. One consists of the so-called (*b*)(1) or interconvertible currencies of certain participants in the Special Drawing Account. Such currency obtained in a transaction involving special drawing rights is convertible into any other interconvertible currency that the transferor of the special drawing rights wants. The Fund has decided, after a statement by the respective countries, that the French franc, the pound sterling, and the U. S. dollar are convertible in fact in this sense. The other, or (*b*)(2), category comprises currencies of participants in the Account, of which the issuer has stated that it will convert particular balances obtained in a transaction involving SDR's into at least one interconvertible currency. Balances of Belgian francs, deutsche mark, Italian lire, Mexican pesos, and Netherlands guilders have been established as currency convertible in fact of this second category. All of the foregoing currencies are convertible into U. S. dollars. While any currency convertible in fact may be provided by a designated participant, a participant using special drawing rights may only request an interconvertible currency.

For each of the currencies, arrangements for the prompt conversion were agreed with the participants concerned, and procedures were also agreed for determining the representative rates applicable to transactions in special drawing rights and associated currency conversions. The applicable exchange rate is derived from market rates and is established as of the date of dispatch of the Fund's instructions, which normally is two days before the value date of the transaction or currency conversion.

In the period January to June 1970, the participants that used special drawing rights in designated transactions generally requested U. S. dollars. Most designated participants elected to provide U. S. dollars in such transactions, but relatively small amounts of French francs, Belgian francs, and sterling were also provided on occasion. There were two conversions from U. S. dollars into French francs and one from sterling into U. S. dollars. In all transactions involving designation the procedures operated smoothly, and currency was provided to the participants that used special drawing rights within two or three working days after the Fund had received a communication indicating an intended use.

Quotas—Fifth General Review

At the Annual Meeting in September–October 1969, the Board of Governors adopted a Resolution providing "that the Executive Directors proceed promptly with the consideration of the ad-

TABLE 8. USE AND ACQUISITION OF SPECIAL DRAWING RIGHTS, JANUARY 1–JUNE 30, 1970

(In thousands of special drawing rights)

	Transactions Between Participants		Operations Between Participants and the General Account	
Participants	Acquired	Used	Repurchases	Charges
Afghanistan	—	1,500	—	—
Algeria	1,500	—	—	—
Australia	4,000	—	—	—
Austria	8,760	—	—	—
Belgium	23,000	—	—	—
Bolivia	—	—	—	48
Brazil	2,900	—	—	—
Burma	—	7,951	—	103
Burundi	—	—	187	80
Cambodia	—	1,596	—	—
Canada	16,800	—	—	—
Ceylon	—	6,000	7,000	23
Chad	—	—	—	14
Chile	1,000	—	—	—
Colombia	—	—	20,900	—
Congo, Dem. Rep. of	500	—	—	—
Costa Rica	—	—	1,000	—
Dominican Republic	—	2,850	2,475	—
Ecuador	—	3,600	250	94
Finland	1,000	—	—	—
Germany	42,951	—	—	—
Greece	—	16,800	—	—
Guatemala	—	—	3,000	—
Guinea	—	2,000	—	21
Guyana	—	1,000	—	—
Haiti	—	300	1,300	60
India	—	—	35,000	12,592
Indonesia	—	31,000	3,157	476
Iran	—	20,000	—	—
Ireland	3,000	—	—	—
Israel	—	15,120	—	—
Italy	19,000	50,000	—	—
Japan	18,676	—	—	—
Korea	2,000	—	—	50
Laos	—	1,176	—	—
Lesotho	—	—	500	—
Liberia	—	—	1,350	96
Malaysia	2,300	—	—	—
Mali	—	1,860	950	2
Mauritius	—	—	—	37
Mexico	2,000	—	—	—
Morocco	—	—	14,200	215
Netherlands	22,984	—	—	—
Nicaragua	—	—	—	122
Norway	2,000	—	—	—
Pakistan	—	—	19,400	178
Panama	—	—	1,396	51
Philippines	—	18,480	—	—
Rwanda	—	1,400	—	90
Senegal	—	3,000	—	—
Sierra Leone	—	—	2,000	30
Somalia	—	—	—	10
South Africa	5,500	—	—	—
Sudan	—	6,300	3,100	—
Swaziland	—	—	1,000	—
Syrian Arab Republic	—	6,384	—	—
Tunisia	—	5,694	—	186
Turkey	—	18,000	—	—
United Arab Republic	—	25,000	—	—
United Kingdom	—	20,000	65,000	39,903
United States	101,140	20,000	—	—
Uruguay	—	—	5,000	88
Venezuela	5,500	—	—	—
Yugoslavia	—	—	17,750	1,294
Zambia	500	—	—	—
	287,011	287,011	205,915	55,866
General Account Position on June 30, 1970			*244,428* [1]	

[1] This total not only reflects SDR's received in respect of repurchases and charges but also receipts on account of assessments and interest, disbursements resulting from sales to participants under Article XXVI, and the transfer of SDR's in payment of remuneration. (See pages 38, 144, and 152.)

justment of the quotas of members of the Fund and submit an appropriate proposal to the Board of Governors not later than December 31, 1969."[8]

Proposals for Quota Increases

On December 24, 1969 the Executive Directors approved a proposed Resolution for submission to the Board of Governors, entitled "Increases in Quotas of Members—Fifth General Review." This proposed Resolution made provision for increases in quotas of Fund members totaling about $7.6 billion, thereby increasing the potential size of the Fund to approximately $28.9 billion. The Executive Directors also approved a report on the increase in quotas of members, which was submitted to the Governors with the proposed Resolution. The Board of Governors adopted the Resolution (No. 25-3) on February 9, 1970 by more than the required majority of 85 per cent of the total voting power of the Fund. The texts of the Resolution and report are reproduced in Appendix I.

If all members consent to the maximum quotas offered to them, the resources of the Fund will increase by about 35.5 per cent. This compares with an increase in the size of the Fund of about 33 per cent on the occasion of the Fourth Quinquennial Review in 1965 and an increase of about 54 per cent on the occasion of the adjustment of quotas in 1959.

The periodic general review of quotas provides an occasion for adjusting the size of the Fund to the growth of the world economy. It also offers an opportunity to adjust individual quotas in relation to one another to take account of relative changes in economic and financial positions of members.

The comparatively large growth in the world economy since the last review of quotas in 1965 is reflected in the economic variables used in quota calculations. In these calculations allowance is made for members' exports, imports, and invisible trade (and the variability of members' exports and invisible earnings), as well as for the level of members' external reserves and national income.

[8] Resolution No. 24-15; see *Summary Proceedings of the Twenty-Fourth Annual Meeting of the Board of Governors,* page 329.

While the individual quota adjustments proposed in the Resolution were determined by considerations similar to those that have been applied by the Fund in the past, the Executive Directors stated in their Report to the Board of Governors that these considerations were to be reviewed for the purpose of future adjustments.

The statistical calculations are only a part of the process of adjusting quotas. Further important considerations include various developments affecting the need for conditional liquidity, the availability of unconditional liquidity, and the maintenance of a balanced distribution of quotas within the whole membership of the Fund.

It is indicative of the exceptional developments during the past five years that, although nearly all members were offered an increase in quotas of at least 25 per cent, about 75 members were offered increases in excess of 30 per cent. On the occasion of the Fourth Quinquennial Review, 16 members were offered increases in quotas in excess of 25 per cent.[9]

Gold Payments and Their Alleviation

Before an increase in a member's quota can become effective, the member is required to pay an additional subscription equal to the increase in its quota, of which 25 per cent must be paid in gold and the remainder in its currency. In the past the Board of Governors has approved a number of different arrangements for mitigating the impact on members' reserves of gold payments to the Fund arising from increases in quotas. To alleviate the primary impact on their reserves, members have been permitted to increase their quotas by installments and also to make special unconditional drawings. In order to alleviate the secondary impact for those members that had sold gold to other members for their gold subscriptions, the Fund has sold gold to the members so affected and also made provision (in

[9] Under the Fund's Decision on Compensatory Financing of Export Fluctuations, which was adopted in 1963, 26 members were also eligible for special increases in their quotas. By the end of 1969, 6 members had not taken the increases to which they were entitled under that decision and this was taken into account during the Fifth General Review. Accordingly, the policy on special adjustment of quotas under the Compensatory Financing Decision is regarded as having been superseded by the terms of Resolution No. 25-3, where increases under the Compensatory Financing Decision had not been approved by the Board of Governors before December 24, 1969.

the Fourth Quinquennial Review) for gold to be placed on general deposit with the United States and United Kingdom up to a total amount not exceeding the equivalent of $350 million.[10]

During the Fifth General Review the question again arose whether the burden of gold payments to the Fund should be alleviated. In order to reduce the impact of such payments on members' reserves, the Governors made provision for three main forms of gold mitigation.[11] First, members could consent to an increase in quotas by installments. Second, the Board of Governors decided to exercise the discretion given in Article III, Section 4(*a*), to reduce the portion of the increase in quota subscriptions payable in gold. In accordance with that Article a member is permitted to pay in gold only that proportion of 25 per cent of the increase in quota that the member's monetary reserves bear to the increased quota to which the member has consented, and to pay the balance of the increase in quota in the member's currency. However, it was also decided that any member paying less than 25 per cent of its quota increase in gold must undertake to repurchase the additional currency subscription beyond 75 per cent of the increase in quota, unless the Fund's holdings of that currency have otherwise been reduced, in five equal annual installments commencing one year after the date on which the quota increase becomes effective.

These two measures of primary mitigation, taken in conjunction with an allocation of special drawing rights in January 1970, should materially ease the strain of direct losses of external reserves that would otherwise arise from payment of gold subscriptions.

The third form of gold mitigation decided by the Governors was that the Fund sell gold up to the equivalent of $700 million to those members that sold gold to other members to enable the latter to pay the gold portion of their quota increases. In so doing, the Fund would be continuing a practice undertaken at the time of the Fourth Quinquennial Review.

[10] See *Annual Report, 1959,* pages 185–89; *Annual Report, 1963,* pages 196–99; *Annual Report, 1964,* page 135; and *Annual Report, 1965,* pages 124–32.

[11] These did not include provision for special drawings; under the amended Articles of Agreement unconditional drawings in the credit tranches for this purpose would not be permitted.

Consent to Quota Increases

An annex to the Board of Governors' Resolution contains a list of the proposed maximum quotas to which individual members may consent; a member may, however, consent to a smaller increase than the amount shown. Members may consent on or before November 15, 1971 to increases in their quotas up to the maximum offered; the period of consent may, however, be extended by the Executive Directors. Each increase will take effect when the member has consented to the increase and has paid the increase in subscription, provided, however, that no increase can take place before October 30, 1970. It may be expected that most increases in quotas will become effective between October 30 and December 31, 1970.

Gold Policy

On December 30, 1969 the Executive Directors took important actions related to the purchase of gold from members. They decided that the Fund will purchase gold from South Africa in accordance with the terms of a letter from the Minister of Finance of South Africa to the Managing Director of the Fund. The text of this letter, along with a letter from the Acting Secretary of the Treasury of the United States and the Fund decision, is reproduced in Appendix I. This decision, including an understanding that members generally did not intend to initiate official gold purchases directly from South Africa, was adopted as a policy of the Fund and without attempting to interpret the obligations of the Fund or of members. It provides that South Africa may sell gold to the Fund (1) up to an amount to meet current foreign exchange needs when the market price of gold falls to $35 an ounce or below and (2), regardless of the market price, up to the extent that South Africa has a need for foreign exchange over a semiannual period that exceeds the amount that South Africa is able to satisfy by the sale of all of its current new gold production in the private market or by sales to the Fund under (1) above. In addition, South Africa may sell gold to the Fund up to $35 million quarterly beginning January 1, 1970 from the stock of gold it held on March 17, 1968, less sales made to monetary authorities (including Fund-related transactions) in the intervening period and less such future sales to monetary authorities as it may make to finance deficits or as a result of Fund-related transactions. Sales of gold to the Fund by South Africa under the terms described here are subject to a handling charge of ¼ of 1 per cent.

It is also envisaged that South Africa may sell gold to the Fund up to the amount that South Africa has been designated to acquire special drawing rights in order to provide currency convertible in fact to the user of special drawing rights, and in normal transactions with the Fund, e.g., the repurchase of its currency from the Fund. These transactions will not be subject to the charge of ¼ of 1 per cent. It is further understood that South African rand drawn by other members under normal Fund procedures may be converted into gold. All these Fund-related transactions will be without regard to market prices, and will not affect the volume of sales of newly mined gold in the market.

South Africa expressed its intention to sell current gold production in an orderly manner on the private market to the full extent of current payments needs during periods when the private market price for gold exceeds $35 a fine ounce and, when selling gold other than in the private market, in practice normally to offer such gold to the Fund. The Fund decision is to be reviewed whenever requested because of a major change in circumstances and in any event after five years.

During the first six months of 1970, the Fund purchased the equivalent of $307 million of gold from South Africa, of which the equivalent of $34.8 million was in respect of a request previously made by South Africa to obtain £14.5 million from the Fund's currency holdings.

In another decision taken on December 30, the Executive Directors decided that the Fund would not levy a handling charge on the sale of gold to it by a participant in the Special Drawing Account for the purpose of obtaining currency to provide to a user of special drawing rights.[12] In this connection, the Fund has bought $6.26 million of gold under Article V, Section 6(*a*), from Austria. Included in the gold purchased from South Africa was $4 million sold to the Fund for the same purpose.

[12] Executive Board Decision No. 2916-(69/127), adopted December 30, 1969, reproduced in Appendix I.

The General Account

By far the larger proportion of the record level of financial assistance extended by the Fund in the year ended April 30, 1970 went to industrial countries and reflected, as in previous years, the payments imbalance among these countries and uncertainties in the foreign exchange markets. Some of these countries, especially Belgium, Denmark, Germany, and Ireland, met the strains by using reserve positions in the Fund to supplement their other reserves. Purchases by developing countries continued to decline, reflecting to some degree a general improvement in the balance of payments positions of these countries as a group and their use of special drawing rights.

While the volume of net purchases (purchases minus repurchases) was larger in 1969/70 than in the preceding year, a considerable portion of it represented the drawing down of super gold tranche positions by creditor countries. These drawings represented a shift in the distribution of members' reserve positions in the Fund rather than a net increase. Reflecting this development, the net addition to members' reserves during the year, as a result of General Account operations, amounted to $593 million, compared with $761 million in the preceding year.

Under the amended Articles of Agreement, members purchasing from the Fund must continue to represent that they have a balance of payments need, but for gold tranche purchases this representation is no longer subject to challenge by the Fund. In the light of this change in the status of the gold tranche, the Executive Directors decided in September 1969 that gold tranche purchases should not await their prior approval but should be effected automatically and as promptly as practicable. The Executive Directors also decided to abolish the service charge of ½ of 1 per cent on gold tranche purchases made after July 27, 1969. (The relevant decision is reproduced in Appendix I.) A decision of the Executive Directors adopted in March 1970 provided that the procedure for purchases under stand-by arrangements be simplified, similar to the revised procedure for executing gold tranche purchases.

Purchases

During the fiscal year 1969/70, 33 members purchased currencies from the Fund, amounting to \$2,996 million and exceeding the previous year's record by \$157 million.[13] The figure of \$2,996 million includes \$2,261 million purchased by 22 members under the terms of stand-by arrangements;[14] 2 countries, France and the United Kingdom, each accounted for about 44 per cent of total purchases under such arrangements. Purchases under the Decision on Compensatory Financing, totaling \$9 million, were made by 2 members—Ecuador and El Salvador.

There were 14 other purchase transactions by 13 members amounting to \$726 million, compared with \$919 million purchased by 9 members in the previous year. Of these, 9 were gold tranche purchases, of which those by Germany and Ireland were in the super gold tranche. Three large super gold tranche purchases took place after the end of the fiscal year. In May 1970 purchases of \$100 million and \$150 million were made by South Africa and the United States, respectively, and in July a purchase of \$133 million was made by Italy.

Stand-By Arrangements

During the year ended April 30, 1970, the Fund approved 23 stand-by arrangements authorizing purchases up to \$2,381 million, the largest amount approved in any fiscal year. A summary of the stand-by arrangements in effect during 1969/70 is shown in Table 43.

Repurchases

During the past fiscal year, repurchases reached a record \$1,671 million, 8 per cent more than the 1968/69 figure of \$1,542 million. Of the total amount repurchased during 1969/70, repurchases of \$934 million by the United Kingdom accounted for 56 per cent of the total. The United Kingdom repurchased its May 1965 drawing, thereby enabling the Fund to repay completely the amounts borrowed at that time under the General Arrangements to Borrow (GAB). Part of these repurchases and a number of those by other members were made prior to the latest date under the commitments or on a voluntary basis, reflecting balance of payments improvements of the members concerned.

During the year, several members repurchased in terms of recommendations made under the amended Compensatory Financing Decision. India's repurchases, totaling \$187 million, included \$49.5 million in this category. Colombia repurchased \$61 million, of which \$20.8 million (\$11 million more than the amount recommended) was in respect of its outstanding compensatory financing purchases. Guatemala, whose purchase under a stand-by arrangement was partially reclassified as having been effected under the Compensatory Financing Decision, repurchased the recommended amount of \$1.6 million. Ceylon, the Dominican Republic, and Ghana proposed schedules for repurchasing within a three-year to five-year period from the dates of purchases; these schedules were agreed by the Executive Directors.

Other repurchases included those by Belgium and South Africa, which reduced the Fund's holdings of the currencies of these members to 75 per cent of their quotas.

Of total repurchases during the fiscal year, 77 per cent was under schedules approved by the Fund; repurchases in accordance with Article V, Section 7(*b*), of the Fund Agreement accounted for 11 per cent; repurchases in respect of purchases under stand-by arrangements (made within three years of the dates of purchases) and voluntary repurchases accounted for 5 per cent and 6 per cent, respectively. (See Table 45.)

Resources Available for Financing Fund Transactions

The selection of currencies for purchases and repurchases is based on the principles set forth in a statement entitled "Currencies to Be Drawn and to Be Used in Repurchases" approved by the Executive Directors in a decision taken in July

[13] In this Report, data on transactions are expressed in terms of U.S. dollars, regardless of the currencies in which they took place.

[14] Four of these members also made purchases outside the stand-by arrangements.

1962.[15] Table 46 shows the amounts and media used in purchases and repurchases effected during 1969/70, with separate columns for large transactions and for the discharge of repurchase obligations incurred under Article V, Section 7(*b*), of the Fund Agreement.

In accordance with the statement of July 1962, the currencies of 17 members were purchased from the Fund during 1969/70, compared with 20 currencies in the previous fiscal year. The equivalent of $289 million was purchased from the Fund for gold by Austria and South Africa. In repurchases, the currencies of 13 members were used, compared with those of 11 members in the previous fiscal year. Special drawing rights were used by members to effect 11 per cent of their total repurchases or 29 per cent of repurchases over the period January–April 1970 during which SDR's were available.

The Fund's holdings of usable currencies need augmenting from time to time, and Article VII of the Fund Agreement permits the Fund both to sell gold for currency and, with the agreement of a member, to borrow its currency, if it deems such action appropriate. On occasion, the Fund has replenished its holdings of currencies by the sale of gold. In the past fiscal year sales of $250 million were made in connection with purchases by France and the United Kingdom. The GAB, which first went into effect on October 24, 1962, enables the Fund to supplement its resources by borrowing up to $5.89 billion in the currencies of 10 industrial member countries.[16] A total equivalent to $2,155 million had actually been borrowed under the GAB, and repayments had amounted to $1,340 million, leaving the equivalent of $5,074 million unutilized as of April 30, 1970. The Arrangements were activated three times during the past year, for purchases by the United Kingdom in June 1969 and by France in September 1969 and February 1970.[17]

In June 1970 the Fund consented to the transfer to Japan of Italy's claim on the Fund equivalent to $250 million. This claim had been acquired by Italy in August 1966 when it lent the equivalent amount in lire to the Fund.

In July 1970 the Fund agreed to a request by the Government of Italy for repayment of the Fund's indebtedness to Italy under the GAB. The repayment, totaling the equivalent of $330 million, was made in the currencies of five member countries.

The Fund's gold holdings showed a net increase of $192 million during 1969/70, compared with a net decrease of $445 million in the previous year. The increase reflected not only the gold purchases of $289 million and sales of $250 million noted above but also receipts of $24 million in connection with quota subscriptions, $81 million in discharge of repurchases, and $68 million in payment of charges levied by the Fund. Partly offsetting this were interest payments of $17 million in gold under the GAB and the borrowing arrangement with Italy, and transfer charges of $2 million paid on new borrowings during the year.

The Fund's General Account also received a net amount equivalent to $212 million in special drawing rights during the last four months of the fiscal year. These special drawing rights can be used to replenish the Fund's currency holdings in accordance with Article XXV, Section 7(*d*).

Payment of Remuneration and Net Income

Under Article V, Section 9, of the Fund Agreement as amended effective July 28, 1969, the Fund is required to pay a return to members on the amount by which 75 per cent of a member's quota exceeds the average of the Fund's holdings of its currency (any holdings in excess of 75 per cent of the quota being excluded in the calculation). The rate of remuneration is to be a uniform 1½ per cent a year, but in its discretion the Fund may increase or reduce this rate, provided that the rate shall be uniform for all members. A three-fourths majority of the total voting

[15] Details were provided in the *Annual Report, 1969*, pages 150–53.

[16] Commitments to lend are expressed in national currency. Thus, the U.K. commitment fell from $1,000 million to $857 million with the devaluation of sterling in November 1967, the French commitment fell from $550 million to $489 million with the devaluation of the franc in August 1969, and the commitment of the Deutsche Bundesbank rose from $1,000 million to $1,093 million with the revaluation of the deutsche mark in October 1969. The net effect of these changes was to reduce the total commitment of participants in the GAB from $6,000 million to $5,889 million.

[17] For details of transactions see pages 143–44 and 146.

power shall be required for every increase in the rate above 2 per cent per annum or reduction below 1 per cent per annum. In April 1970 the Executive Directors decided that the Fund could offer to pay participants, at their option, in special drawing rights for any amount of gold or currency payable as remuneration on their creditor positions, provided that the General Account's holdings of special drawing rights at the end of a financial year exceed the amount of remuneration payable for that year.[18]

For the fiscal period July 28, 1969 through April 30, 1970, remuneration at 1½ per cent amounted to $27.2 million and was paid to 32 members in May 1970, $18.4 million being paid in special drawing rights, $8.7 million in gold, and $0.01 million in members' own currencies.

After payment of remuneration, the Fund's net income for the fiscal year ended April 30, 1970 amounted to $57.6 million.

[18] Executive Board Decision No. 3033-(70/38), adopted April 29, 1970, reproduced in Appendix I.

Part II

REVIEW OF THE YEAR

This page intentionally left blank

Chapter 4

Developments in World Trade

Principal Changes

AFTER increasing at the impressive rate of 12 per cent in 1968, the value of world trade rose even faster—by about 14 per cent—from 1968 to 1969. During 1969 there were few signs of any abatement of the boom. In the early months of 1970, a moderation in the growth of imports of several major industrial countries was signaling a possible slowing down in the rapid pace of world trade expansion.

The accelerated rise in the value of world trade in 1969 stemmed in considerable part from an increase in unit values of exports and imports, as inflationary pressures intensified in most industrial countries and primary commodity prices rose sharply. In terms of volume, world trade did not increase as much from 1968 to 1969 as it had in the previous year (Table 9). However, the 1969 volume increase of 10 per cent, reflecting the continued cyclical strength of demand and production in the world economy as a whole, was well

TABLE 9. GROWTH OF WORLD TRADE AND OUTPUT, 1960–69
(In per cent)

			Trend	Change from Preceding Year		
		Weight [1]	1960–69 [2]	1967	1968	1969
Exports						
World [3]	Value	100.0	8½	5	12	14½
	Volume		7½	5	13	10
United States and Canada [4]	Value	22.1	8	6½	12½	9½
	Volume		6½	3½	10	5
Japan	Value	4.0	15½	7	24	23½
	Volume		16	3½	24	18
EEC countries	Value	27.7	10	6½	14½	18½
	Volume		9½	7	16	13½
EFTA countries [5]	Value	16.4	7	2	8	15
	Volume		6	2	12½	11½
Primary producing countries: more developed areas [6]	Value	6.6	8½	7½	4½	15½
	Volume		6½	10½	8	13
Primary producing countries: less developed areas [6]	Value	23.2	6	2½	9½	11½
	Volume		6	4	10½	7
GNP in Volume						
World [3]		100.0	5	4	5½	5½
Industrial and more developed primary producing countries		83.7	5	3½	5½	5
Excluding United States		41.0	5½	4½	6½	7
Less developed primary producing countries		16.3	5½	5½	6	6½

Sources: Trade data: United Nations, *Monthly Bulletin of Statistics*, and *International Financial Statistics*; GNP data: U.S. Agency for International Development, Office of Program and Policy Coordination, *Gross National Product*.

[1] Based on trade or gross national product in 1963.
[2] Annual rate of change, derived by fitting annual data to an exponential trend function.
[3] All countries except the CMEA countries, mainland China, etc. See footnote 1, page 42.
[4] Data exclude U.S. Department of Defense grant-aid shipments.
[5] Not including Portugal.
[6] For country coverage, see footnote 1 on page 42. Figures for less developed primary producing countries in 1969 are partly estimated.

above the trend rate prevailing during the 1960's. The unit value of global exports showed an increase (in U.S. dollar terms) of about 4 per cent from 1968 to 1969. This change contrasted with the sluggish or downward movements of 1967 and 1968 which had reflected the scope for noninflationary expansion in the aftermath of the 1966–67 economic slowdown, as well as the devaluations of 1967.

The pattern of moderated growth in export volumes, combined with larger increases in export unit values, was evident in the experience of all major industrial areas.[1] For example, the rate of increase in the volume of U.S. exports (excluding military-aid shipments) dropped from 10 per cent in 1968 to only 5 per cent in 1969, while the increase in export unit values went up from 2½ per cent to about 4 per cent. For most other industrial countries, the moderation in the rate of export growth was less pronounced in 1969, but the upturn in the movement of export unit values was sharper. Unit values of Japanese, EEC, and EFTA exports all increased markedly in 1969.

For the primary producing countries[1] as a group, the growth of both exports and output (in real terms) from 1968 to 1969 was above the trend rate over the decade of the 1960's. The volume of exports from the more developed primary producing countries rose particularly rapidly in 1969, but the gains in export volumes were sizable also among less developed countries. For both groups, substantial increases in export unit-value indices in 1969 contrasted notably with declines in those indices in each of the two preceding years.

The cyclical pattern of world trade developments during 1969 continued to be dominated by the advance of industrial countries' imports. These reached an annual rate of increase (seasonally adjusted) of about 17 per cent in the second half of 1968, and this rate was approximately sustained throughout 1969 aside from the effects of the U. S. dock strike and of a temporary lull in Japan's import activity in the early part of the year (Table 10).

From mid-1968 through 1969, the underlying strength of Europe's import trend was the main factor behind the sharp expansion of world trade. Imports of the European industrial countries rose at an average annual rate of some 17 per cent over the three half years of this period, while the corresponding average for the combined imports of the United States and Canada was about 11 per cent. Within the EEC, where imports rose by 22 per cent in value from 1968 to 1969, the rate of increase was relatively uniform; all but one of the member countries increased their imports by somewhat more than 20 per cent. (For the Netherlands the rise was 18 per cent.) U. S. imports advanced by 8½ per cent from 1968 to 1969; Canadian imports, by 15 per cent. In the six months ended March 1970, Europe's import expansion seemed to moderate somewhat (Table 10), while imports into North America, after adjustment for the U.S. dock strike, continued to increase at about the same rate as in 1969.

In the early phases of the 1968–69 boom, exports of primary producing countries quickened noticeably but did not by any means keep pace with the expansion of imports into the industrial countries. As the upswing continued, however, the discrepancy became smaller. By the second half of 1969, the value of exports of primary producing countries appeared to be increasing about as rapidly as the value of total imports into the industrial countries, or as world trade generally. The value of exports from all less developed

---

[1] For convenience of analysis this Report employs the classification of countries set out below.

Classification of Countries

1. Industrial countries—Austria, Belgium, Canada, Denmark, France, Federal Republic of Germany, Italy, Japan, Luxembourg, Netherlands, Norway, Sweden, Switzerland, United Kingdom, United States.
2. Primary producing countries
   a. In more developed areas—Australia, Finland, Greece, Iceland, Ireland, Malta, New Zealand, Portugal, South Africa, Spain, Turkey, Yugoslavia.
   b. In less developed areas—All countries not included in 1 and 2.a above or in 3 below.
3. CMEA countries, mainland China, etc. (countries generally not covered in this Report because of the absence of data).
   a. Members of the Council for Mutual Economic Assistance—Albania, Bulgaria, Czechoslovakia, Eastern Germany, Hungary, Mongolia, Poland, Rumania, Union of Soviet Socialist Republics.
   b. Mainland China.
   c. Cuba, North Korea, North Viet-Nam.

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 countries classified in less developed areas may have relatively high per capita incomes.

TABLE 10. CYCLICAL PATTERN OF WORLD TRADE: CHANGES IN VALUE, 1966–FIRST QUARTER 1970

(Percentage changes from preceding six months, at annual rates, based on seasonally adjusted data)

	Six Months Ended									
	June 1966	Dec. 1966	June 1967	Dec. 1967	June 1968	Dec. 1968	June 1969	Sept. 1969	Dec. 1969	Mar. 1970
World imports [1]	9	9	5	2	13	15	12(14)	19(12)	16(14)	10(12)
Imports of industrial countries	11	8	4	5	14	17	14	22	16	10
Europe	7	4	4	4	9	19	17	21	15	11
United States and Canada [1]	18	16	1	5	29	13	8(11)	26(10)	13(9)	3(9)
Japan	20	21	24	17	7	14	6	21	34	25
Exports of primary producing countries [2]	10	5	2	5	8	11	11	...	16	...
Imports of primary producing countries [2]	5	10	7	−6	10	11	7	...	17	...
Exports of industrial countries [3]	8	10	6	—	16	19	11	23	17	11

Sources: *International Financial Statistics*; U.S. Department of Commerce, *Overseas Business Reports* (for seasonal adjustment of U.S. data); and Fund staff seasonal adjustments of other data.

[1] Figures in parentheses incorporate U.S. Commerce Department adjustments for the strikes at East and Gulf Coast ports which began December 20, 1968 and lasted through most of the first quarter of 1969. Strike-adjusted figures for series in this table other than "world imports" and imports of the United States and Canada would necessarily be highly speculative because such figures would require estimation of the geographic distribution of the effects of the strike on U.S. trade.

[2] Figures for changes during 1969 are partly estimated.

[3] Excludes U.S. Department of Defense grant-aid shipments.

primary producing countries increased by about 11 per cent from 1968 to 1969, compared with a 6 per cent annual rate of increase for the decade as a whole. Imports of the primary producers also showed considerable buoyancy throughout the 1968–69 expansion of world trade.

The rise in export prices of the primary producing countries as a group carried them back to the previous peak, reached in 1964, as metal prices hit record levels and the earlier downward movement in agricultural prices was reversed. By late 1969 the terms of trade of the less developed primary producing countries were more favorable than in any year since 1960, and the over-all trade deficit of these countries was the smallest for any year in the decade.

Trade of Industrial Countries

Economic Activity and Trade Flows

The economic upswing in the industrial countries, which started in the second half of 1967 and gathered momentum during 1968, continued through 1969, raising the total real gross national product (GNP) of those countries by 5 per cent from 1968 to 1969 (Table 11). This increase was somewhat less rapid than the one recorded for 1968, mainly because of a slowing down in the United States and the United Kingdom. For industrial countries on the European continent, the combined growth rate advanced from slightly less than 5½ per cent in 1968 to almost 7 per cent in 1969.

As physical limitations on further rapid expansion were more widely and closely approached in the course of 1968 and 1969, pressures on wages and prices in the industrial countries intensified. The implicit GNP deflator for these countries—the broadest available measure of price developments—rose by about 4¾ per cent from 1968 to 1969. This represented a further acceleration of the rates of increase in the preceding few years—an acceleration owing much, when viewed in a longer-term context, to developments in the United States. After experiencing relative price stability in the first half of the 1960's, the United States has been going through a period in which price increases have become rather similar to those recorded during boom periods in Western European countries. (See Table 16.) However, the acceleration of price increases in 1968–69 was widespread, reflecting the intensifying pressures on productive resources not only in the United States but also in other industrial countries.

The demand pressures in industrial countries

TABLE 11. INDUSTRIAL COUNTRIES: TRENDS IN REAL GROSS NATIONAL PRODUCT, 1960–69
(Percentage changes; figures rounded to nearest half)

	United States	United Kingdom	Canada	Japan	France	Germany	Italy	All Industrial Countries
1960–69 [1]	4	2½	5½	11	6½	4½	5½	5
Change from previous year								
1967	2½	1½	3	13	4½	—½	6½	3½
1968	5	3½	5	15	4	7	5½	5½
1969	3	2	5	13	8½	8	5	5
Change from previous half year [2]								
1968—I	5½	4	5½	16	—½	7	3½	6
—II	4½	4	6½	12	16½	9½	10	7
1969—I	2½	—	5	11½	5	6	8	4
—II	1½	3½	3½	12	5½	9	−1½	3½

Sources: National publications and Fund staff estimates.
[1] Compound annual rates.
[2] Based on seasonally adjusted data and expressed at annual rates.

in 1969 caused a further large expansion of their imports. In terms of value, this expansion amounted to 15 per cent, a record surpassing even the extraordinary increase of the previous year (Table 12). As in earlier cyclical swings in activity and trade, the rates of import growth in 1968 and 1969 were more than proportionate to the concurrent growth of demand and output, whereas in the 1967 slowdown the imports of industrial countries had risen at a lower rate than GNP (both measured at current prices).

Apart from the short-term cyclical aspects of the upsurge in imports, there has also been a rise in the ratio of imports to GNP in the industrial countries over the longer run. While the growth in the value of these countries' aggregate GNP in the period 1965–69 (8½ per cent per annum) was similar to that over the years 1960–65, the

TABLE 12. INDUSTRIAL COUNTRIES: GROWTH OF GROSS NATIONAL PRODUCT AND OF IMPORTS, 1960–69 [1]
(Percentage changes; based on data expressed in U.S. dollars)

Countries (Ranked by Growth Rates for Imports in Relation to GNP, 1960–69)	1960 to 1969 [2]			1966 to 1967			1967 to 1968			1968 to 1969		
	GNP	Imports	Imports relative to GNP [3]	GNP	Imports	Imports relative to GNP [3]	GNP	Imports	Imports relative to GNP [3]	GNP	Imports	Imports relative to GNP [3]
United States	7	10¼	2.9	5¾	5	−0.8	9	23½	13.3	7¾	8½	0.7
Belgium-Luxembourg [4]	8	10¾	2.6	7	—	−6.5	6½	16	8.9	10¾	19½	7.9
France	9½	12	2.3	7½	4½	−2.9	9½	12½	3.0	11	24½	12.3
Canada	7½	9¾	2.2	6¾	7¾	0.9	9	13½	4.1	9½	15½	5.6
Germany	8¾	10½	1.7	¾	−3½	−4.2	9	15¾	6.2	14¼	23¾	8.2
Italy	10	11½	1.4	9½	14½	4.5	7	4¼	−2.5	9	21½	11.5
Average, all industrial countries [5]	**8½**	**9¾**	**1.0**	**7**	**5¼**	**−1.5**	**9**	**13½**	**4.0**	**10¾**	**15¼**	**4.0**
Switzerland	9	10	1.0	6½	4¾	−1.7	7¼	9¼	2.0	8½	17	8.0
Netherlands	10¼	10¼	0.1	10	4	−5.5	10	11½	1.3	12	18¼	5.5
Austria	8	8	—	6½	−¾	−6.9	5¾	8	2.3	9½	13¼	3.3
Sweden	9	8¼	−0.7	8	2½	−5.0	6½	9	2.3	8¾	15	5.9
Norway [6]	9	8	−0.7	10	14¼	3.9	7½	−1½	−8.4	7½	8¾	1.4
United Kingdom [7]	5¾	5	−0.9	3½	6¼	1.9	−6½	6	13.5	7	5¼	−2.0
Denmark	10	8¾	−1.2	10	5	−4.5	9	2½	−6.0	13	17¾	4.2
Japan	16¼	14½	−1.5	18	22½	3.9	18½	11½	−6.0	17½	15¾	−1.5

Sources: Organization for Economic Cooperation and Development, *Main Economic Indicators, National Accounts of OECD Countries, 1958–67*; national publications; and *International Financial Statistics.*
[1] GNP at current market prices. Value of total imports on customs basis. Growth rates rounded to nearest quarter.
[2] Compound annual rates.
[3] Percentage by which an index of the value of imports (base year = 100) exceeds or falls short of the growth of GNP, also expressed in index form (base year = 100).
[4] GNP data cover only Belgium.
[5] GNP growth is average of national changes, weighted by imports of each country.
[6] Import data include ships.
[7] Import data exclude U.S. military aircraft and missiles.

growth in total imports of the same countries accelerated from 8½ per cent per annum in the earlier period to 11 per cent per annum in the later one. If calculated in volume terms, the apparent increase in industrial countries' import propensity was even more striking. Some of this increase in the import/GNP ratio was attributable to the surge in imports of the United States as the U. S. economy moved away from the low rates of capacity utilization prevailing in the early 1960's; and the 1965 automotive agreement between the United States and Canada was a significant special factor. However, the trade-creating effects of the older customs unions and similar trade arrangements were probably not growing stronger over the particular periods discussed here. It would seem, therefore, that the tendency toward increased openness in most economies and accelerating international integration of a generalized character, spurred by further dismantling of tariffs, have contributed to the faster rise of imports relative to GNP in the industrial countries.

In the course of the expansion of the last three years, the prime sources of growth in the world economy have shifted gradually. The upswing in the latter part of 1967 and early 1968 was touched off principally by renewal of rapid economic expansion in the United States and by the initial phase of recovery in Germany from the 1966–67 recession. While the steep rise of imports into the United States soon moderated, import demand in Germany continued to increase sharply, thus stimulating exports and output in other European countries. A widespread economic expansion in Europe, spurred at first mainly by growing exports and private investment but later reflecting also a strong rise in consumer expenditures, thus became the principal sustaining factor in the international boom during 1969. While the increase in U. S. imports was reduced from 23½ per cent in 1968 (compared with 1967) to 8½ per cent in 1969, the EEC countries raised their combined import expansion from 13 per cent to 21½ per cent in those two years. Another such acceleration in import expansion—from about 11 per cent to 16 per cent—occurred in Japan.

In Germany—the outstanding source of economic dynamism in Europe over the last few years—the rise in production proved to be surprisingly large. Both from 1967 to 1968 and from 1968 to 1969, the increase in real GNP exceeded all projections by wide margins; the 1968–69 increase was fully 8 per cent, almost twice the long-term rate of growth (Table 11). This unusually high rate of expansion was made possible partly by the elastic supply of labor, reflecting a substantial movement of foreign workers into Germany, and partly by substantial gains in productivity.

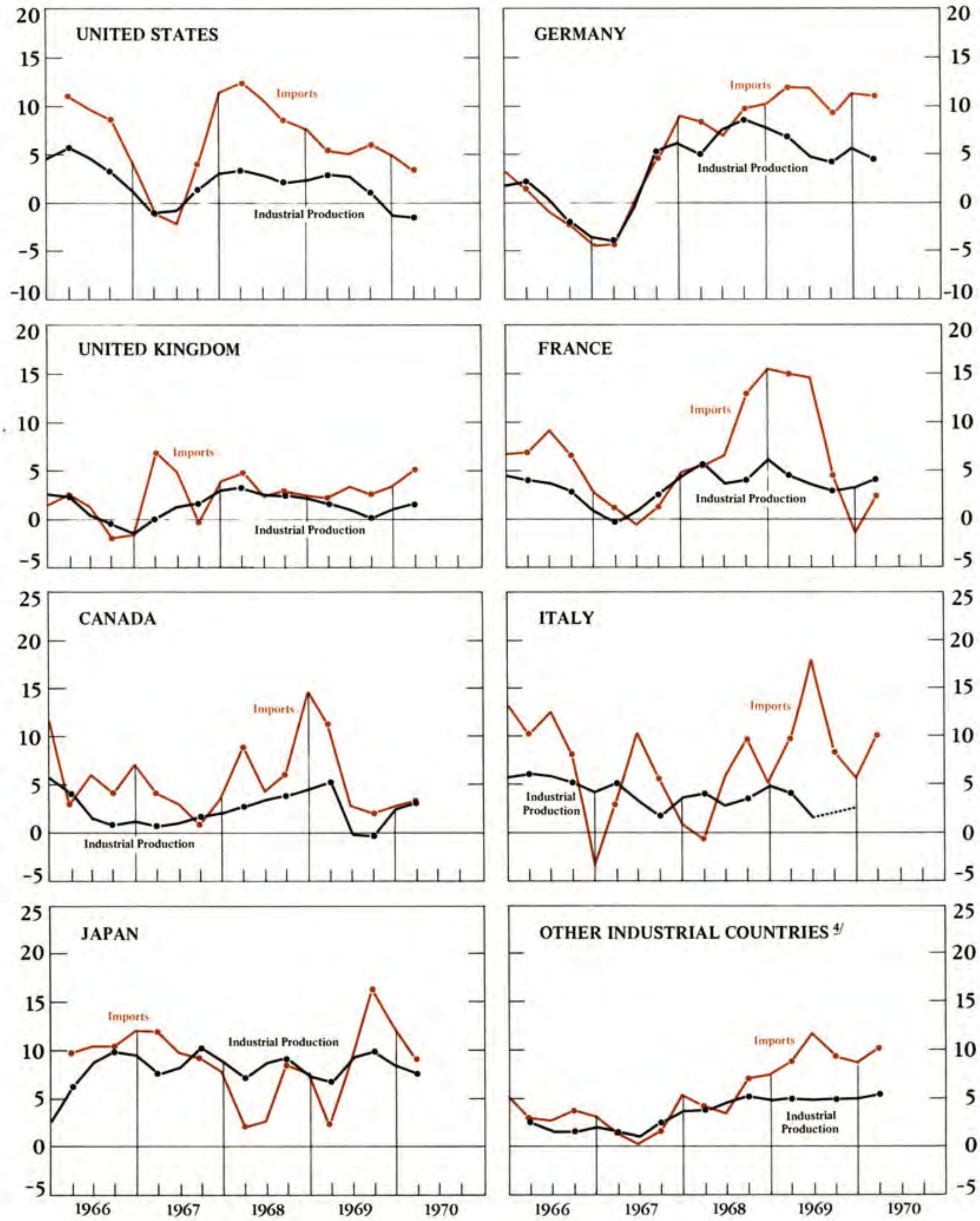
The striking growth of the German economy in the last few years and the concomitant increase in pressure on productive resources had relatively modest effects on costs and prices until late in 1969. However, the boom conditions generated a very high demand for imports, the dollar value of which was increasing at an annual rate of about 25 per cent during 1969 and the first part of 1970. In relation to changes in current output, import demand in 1968 and 1969 was higher than in previous periods of strong economic activity. (See Table 12 and Chart 5.)

The value of German trade flows after the revaluation of the deutsche mark in October 1969 was influenced by the initial price shifts induced by the change in parity. The value of exports (as measured in U. S. dollars) rose sharply in the latter part of 1969 as the dollar prices of German goods were raised substantially. During the first half of 1970 there was some tendency for the growth of exports to slow down, possibly reflecting the first signs of a cutback in volume of demand. German imports, however, continued to rise at a rapid pace as domestic demand pressures continued unabated.

The German economic expansion in 1968 and 1969, with the accompanying rise in import demand, created a rapidly growing market for exports of other countries. (See Chart 6.) It exerted a particularly sharp stimulus on the smaller and very open neighboring economies, i.e., those of Austria, Belgium-Luxembourg, the Netherlands, and Switzerland. The Scandinavian countries experienced a revival in the growth of their export markets in 1968 and 1969 (although on a smaller scale than the industrial countries as a group). Actual export growth in 1969 was roughly in line with market growth. All three of the industrialized Scandinavian economies continued to expand rapidly in 1969, raising their import levels considerably (Table 12).

CHART 5. INDUSTRIAL COUNTRIES: CHANGES IN INDUSTRIAL PRODUCTION AND IN VALUE OF IMPORTS,[1] 1966–FIRST HALF 1970 [2]

(Percentage changes from previous two quarters based on two-quarter moving averages of seasonally adjusted data) [3]



[1] Industrial production in France and Italy is adjusted for estimated effects of strikes. Imports are based on national data converted to U. S. dollars; U. S., U. K., and French imports are adjusted for estimated effects of dock strikes (U. S. imports in addition, for effects of threatened strikes in 1968). Adjustment is also made for the estimated shift between 1968 and 1969 in German imports owing to the border tax adjustments in 1968.

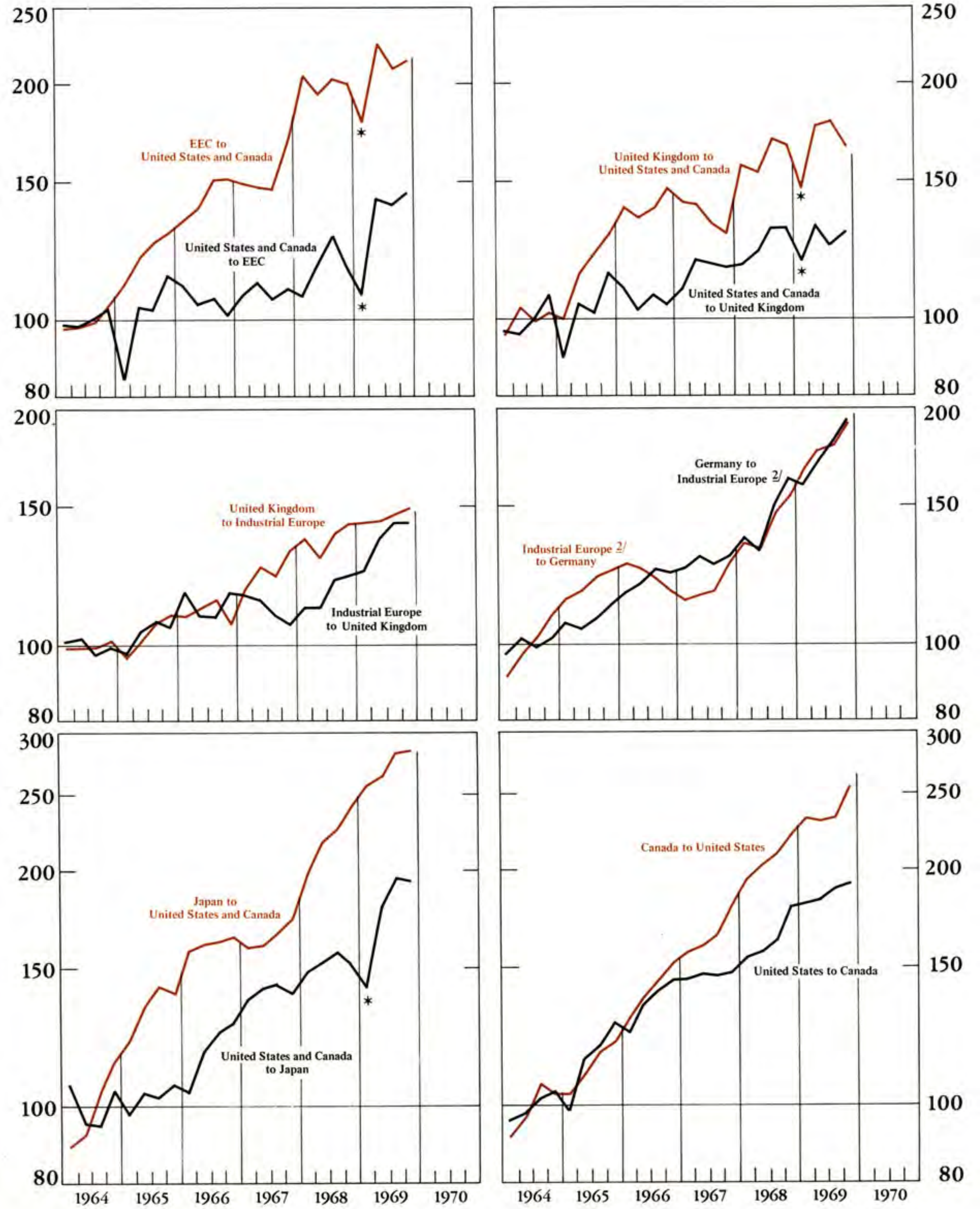
[2] First-half 1970 changes are based on partially estimated data.

[3] Plotted at midpoint; percentage changes for calendar half years are indicated by ball marks.

[4] Austria, Belgium-Luxembourg, Netherlands, Norway, Sweden, and Switzerland. Denmark is excluded due to lack of an industrial production index.

CHART 6. SELECTED TRADE FLOWS BETWEEN INDUSTRIAL COUNTRIES AND AREAS, 1964–69 [1]

(Index, 1964 = 100; seasonally adjusted)



* Dock strike in the United States.
[1] Based on export data.
[2] Here includes the United Kingdom.

In France rising export demand contributed substantially to the expansion of activity in 1968 and 1969. The sharp rise of demand and output in late 1968 was also spurred by income changes in the aftermath of the strikes earlier in that year. Output continued to increase at a high rate in 1969, with GNP in volume terms up 8½ per cent over 1968. The earlier phase of this domestic expansion gave rise to an extraordinary surge of imports (Chart 5), probably associated to some extent with speculation about a change in the exchange rate. In the second half of 1969, the rate of increase in imports was abruptly reduced as, following the parity change in August, speculative positions of importers were unwound and as the stabilization program introduced in August and September became effective.

Italy, although also affected by rapidly growing demand abroad, was not able in 1969 to take full advantage of the rise in its export markets. After a strong increase of output in the first half of the year (Table 11), a series of strikes in the September–December period seriously affected production and interfered with the availability of supplies for export. At the same time, imports soared in the course of 1969 and registered a record annual increase of 21½ per cent over 1968. This increase probably was associated with the strikes and may also have reflected the rapid increase in wages and disposable incomes.

Imports into the United States, after their extraordinarily strong surge in 1968, rose at a more moderate pace in 1969. The recorded increase of 8½ per cent in 1969, however, understates the rise in import demand as a dock strike in the early part of the year held back imports considerably.[2] After adjustment for the estimated impact of strikes, the 1968–69 increase in the value of imports was about 12½ per cent—still substantially below the adjusted increase of 21 per cent from 1967 to 1968 (Chart 5). This slowing down may be seen largely as a delayed and relatively moderate response to the anti-inflationary policies pursued by the U. S. authorities. However, despite the cessation of growth in real output by the end of 1969, the continuing sharp rise in unit labor costs exerted pressure on prices and the pace of inflation remained high through the first part of 1970. This background of persisting inflation must have had an appreciable influence on U. S. imports. On the basis of earlier experience, it might have been assumed that the sluggish growth in real output would have led to substantially lower import levels late in 1969 and in the first half of 1970 than those recorded. The failure of imports to decline may be indicative of increasing competitive strength of foreign suppliers in the U. S. market.

Canada and Japan, which both rely heavily on exports to the United States, experienced a similar growth in their export markets in 1969. Although this growth was smaller than in 1968, Japan's actual exports advanced as rapidly (about 24 per cent) in 1969 as in 1968, again outpacing the growth of its markets by a wide margin. Canadian exports benefited in 1969, as in other years since 1965, from the automotive trade agreement with the United States, but their rate of increase was reduced from 19 per cent to 9½ per cent, partly because of strikes in Canadian copper and nickel mines. During the latter part of 1969 and the first half of 1970, exports again rose rapidly. Over the past several years, the imports of both Canada and Japan have shown large fluctuations, partly in connection with domestic inventory cycles. In 1969 Canadian imports went up somewhat faster than in the preceding year but their growth was almost halted during the final quarter and in the first few months of 1970.

The rapid expansion in world trade, as well as the shifting geographic sources of demand expansion over the last few years, have been clearly reflected in the development of the United Kingdom's trade. The international boom in 1969 benefited U. K. exports substantially, thus facilitating the balance of payments adjustment that was initiated by the devaluation late in 1967. These exports, partly in reflection of the effects of the devaluation but mainly in response to the buoyancy of demand abroad, increased by some 14 per cent from 1968 to 1969 (Table 13). This was a record annual gain for the postwar period. The major stimulus for expansion of U. K. exports came from the rising demand on the European continent; the United Kingdom's export markets in the EEC[3] grew by about 22½ per cent from 1968 to 1969. While U. K.

[2] Moreover, strikes and threats of strikes had raised the 1968 import level, thus reducing further the percentage change from 1968 to 1969.

[3] That is, the growth of all industrial countries' exports to individual EEC countries weighted by U. K. exports to those countries. (See Table 13, footnote 3.)

TABLE 13. INDUSTRIAL COUNTRIES: GROWTH OF EXPORT MARKETS AND OF EXPORTS, 1960–69

(Percentage changes; based on export values in U.S. dollars)

Countries (Ranked by Growth Rates for Exports in Relation to Markets, 1960–69)	1960 to 1969 [1]			1966 to 1967			1967 to 1968			1968 to 1969 [2]		
	Export markets [3]	Exports	Exports relative to markets [4]	Export markets [3]	Exports	Exports relative to markets [4]	Export markets [3]	Exports	Exports relative to markets [4]	Export markets [3]	Exports	Exports relative to markets [4]
Japan	9½	16½	6.3	4½	6¾	2.1	14¾	24¼	8.3	11½	23¾	10.9
Italy	10¼	14	3.3	3¾	8	4.0	14¼	17¼	2.5	17½	15¼	−1.9
Norway	9	10¾	1.7	5	11	5.8	11½	11½	−0.1	14½	13¾	−0.7
Germany	10	11	0.9	6½	8	1.3	12	14¼	2.1	16½	17	0.4
Belgium-Luxembourg	11	11½	0.5	4½	3	−1.5	14½	16	1.4	18½	23	3.7
Switzerland	10½	10½	0.3	5	6¾	1.6	13	13½	0.3	16½	16½	—
Netherlands	10½	10½	0.2	4½	8	3.2	13½	14½	0.9	19	19½	0.3
France	9	9	—	4¼	4½	0.2	12¾	11½	−1.2	16½	18¼	1.5
Sweden	9¼	9¼	—	6½	6	−0.4	9¼	8½	−0.6	15	16	0.8
All industrial countries	9½			5			13			15		
Canada	11¼	10½	−0.6	4¾	10½	5.4	21½	19¼	−1.8	11	9½	−1.4
Denmark	9	8	−0.7	7	3½	−3.2	10	4	−5.6	13½	14½	0.8
Austria	10	9	−1.1	5¾	7½	1.5	10¾	10	−0.6	17½	21¼	3.2
United States [5]	8½	7½	−1.1	5¾	5¼	−0.6	11½	9¾	−1.4	14	9½	−3.9
United Kingdom	9	5¾	−2.9	5	−2¼	−7.0	12	7½	−3.9	15	14	−0.8

Sources: International Monetary Fund and International Bank for Reconstruction and Development, *Direction of Trade*; for 1968–69, national trade publications.

[1] Compound annual rates.

[2] Preliminary and partly estimated by Fund staff.

[3] The growth rate that each industrial country's total exports would have achieved, had that country exactly maintained its share in total industrial countries' exports to each of the 32 geographic markets into which the world (excluding CMEA countries, mainland China, etc.) has been divided for the purpose of these calculations. The growth of each industrial country's market in the CMEA countries, mainland China, etc., is taken to be the actual growth of that country's exports to the areas in question.

[4] Percentage by which the index of the value of exports (preceding year = 100) exceeds or falls short (−) of the growth of export markets, with the latter also expressed in index form (preceding year = 100). This is equivalent to the percentage change in a country's export market share.

[5] Export data exclude U.S. Department of Defense shipments.

exports increased rapidly, domestic demand was curtailed through restrictive financial policies, and the 1968–69 rise in the value of imports was only about 5 per cent. The modest size of this increase partly reflected the imposition late in 1968 of an import deposit scheme, but the main factor was the relatively moderate growth of total domestic demand. Gross domestic product, at constant prices, increased from 1968 to 1969 by about 2 per cent, a rate slower than that of the preceding year and one well below the rate of increase in potential output. Toward the end of 1969 and in the first half of 1970, imports began to rise at a faster pace.

Export Performance and Trade Balances

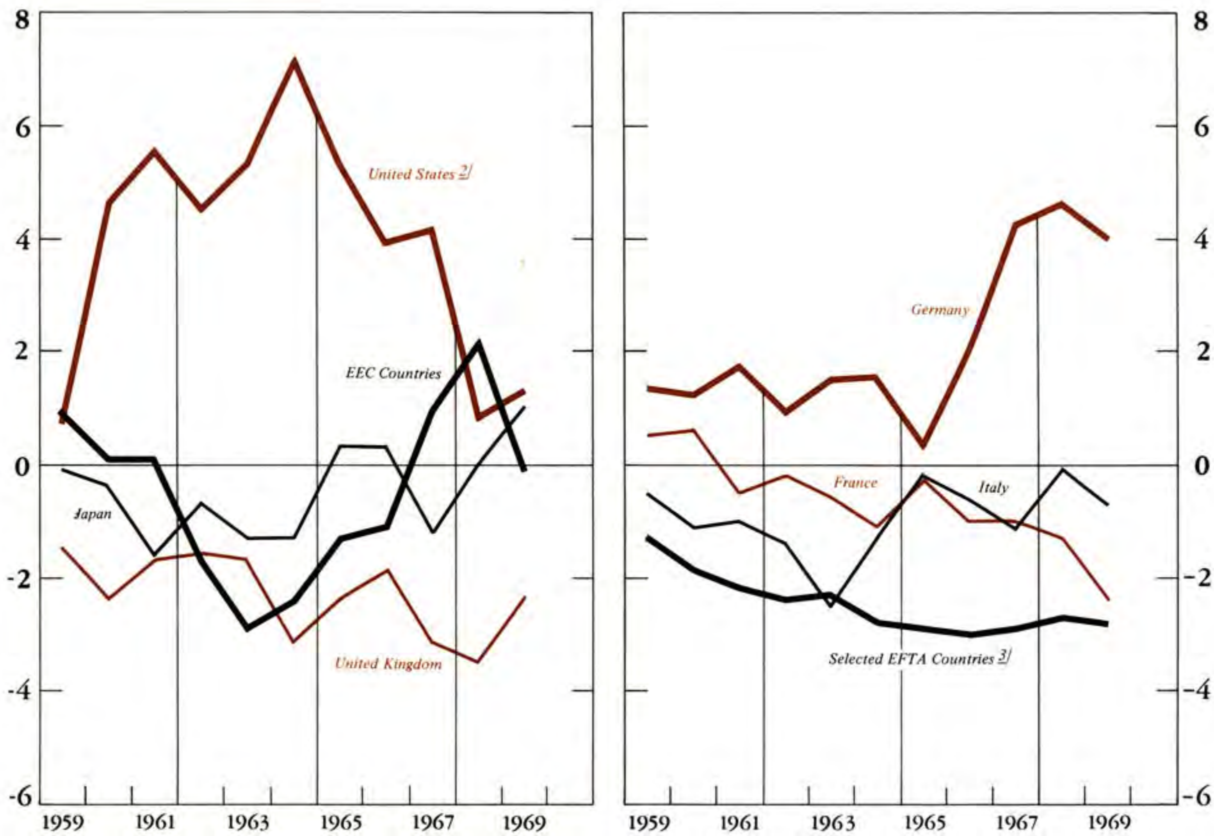
The growth in export markets of individual countries from 1968 to 1969 varied widely, with increases ranging from about 11 per cent for the Canadian and Japanese markets to about 19 per cent for those of the Benelux countries (Table 13). The EEC countries enjoyed a higher-than-average rate of increase in export demand in 1969, while U. S. export markets expanded at a rate slightly below that for all industrial countries.

The collective trade balance of the EEC countries, after several years of substantial gains, declined from 1968 to 1969 (Chart 7). France, in particular, experienced a weakening in its trade balance as French imports increased by a higher percentage from 1968 to 1969 than the imports of any other industrial country. The downward tendency in France's trade balance was sharply reversed, however, in the latter part of 1969 and in the first several months of 1970. The German trade surplus, which rose substantially during 1967 in a setting of weakened domestic demand, persisted at a high level in 1968 and 1969, despite strongly rising imports. A reduction in the trade surplus since the revaluation of October 1969 has been rather slow to emerge, partly because of the way in which Germany's terms of trade have developed.

Most of the major industrial countries outside the EEC recorded gains in their trade balances from 1968 to 1969. The United Kingdom secured an improvement of more than $1 billion as the increase in its imports, under the influence of policy restraints, was held to about the same moderate pace as in the two preceding years,

CHART 7. TRADE BALANCES[1] OF SELECTED INDUSTRIAL COUNTRIES AND AREAS, 1959–69

(In billions of U.S. dollars)



[1] Exports f.o.b. minus imports c.i.f. on a customs basis.
[2] Exports, excluding U.S. Department of Defense shipments; imports f.o.b.
[3] Austria, Denmark, Norway, Sweden, and Switzerland.

while its exports accelerated quite sharply. In the United States, the continuing inflation and the adverse effects of the long dock strike were largely responsible for the failure of the U. S. trade surplus to show any substantial increase for 1969 as a whole, after a drop of more than $3 billion in 1968. During the course of 1969, however, and continuing into 1970, signs of some strengthening in the U. S. trade position became apparent. The trade surplus increased by roughly $½ billion, at an annual rate, from the last two quarters of 1969 to the first five months of 1970.

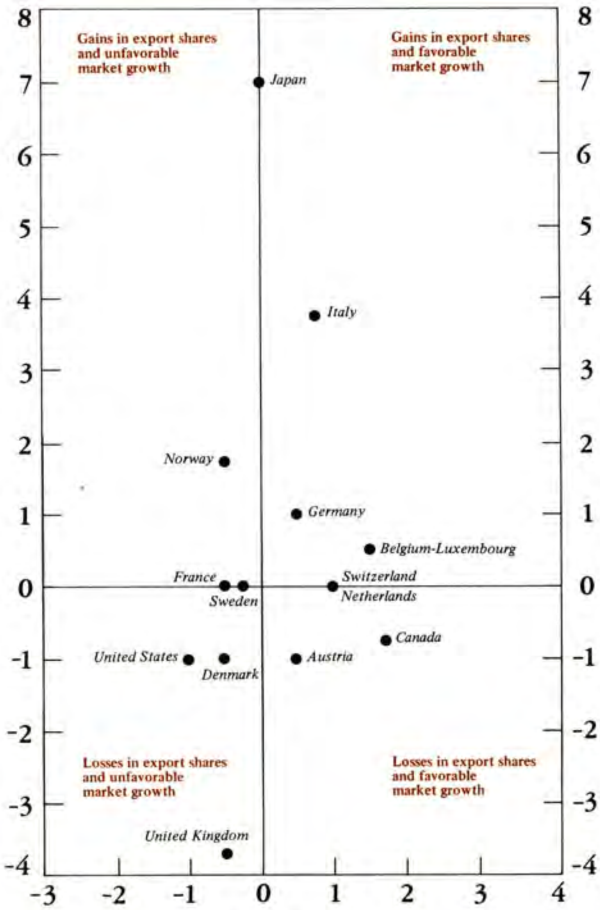
Differences among the industrial countries in rates of export market growth over the period 1960–69, in contrast to those during the recent cyclical upswing, were rather limited (Table 13 and Chart 8). They ranged only from 8½ per cent to 11 per cent in terms of compound annual rates, whereas the corresponding annual increases in 1968 and 1969 were in the ranges of about 9–21 per cent and 11–19 per cent, respectively.

Differences in actual export growth rates over the decade as a whole thus reflected mainly gains or losses in shares of export markets. Such changes in shares ranged from an average annual gain of more than 6 per cent for Japan to losses averaging about 3 per cent a year for the United Kingdom.[4] The United Kingdom not only suffered this substantial share loss but was also selling its exports in markets that were expanding at a rate somewhat lower than average. In contrast, Italy, with its markets expanding faster than the average, as a reflection of the high concentration of its exports in the rapidly growing EEC market,

[4] Losses for the United Kingdom were large in most years of the decade. However, a substantial improvement in the U.K. export performance became apparent in 1969, reflecting in part the effects of the 1967 devaluation.

CHART 8. CHANGES IN EXPORT SHARES AND EXPORT MARKETS OF INDUSTRIAL COUNTRIES, 1960–69

(Percentage changes at compound annual rates)



Horizontal scale: Difference between the growth of a country's export markets and the average export growth of all industrial countries.
Vertical scale: Difference between the growth of a country's exports and of its export markets.

also gained substantially in terms of its share of export markets. The United States and Canada have both been losing export shares since 1960, while the opposite is true of Germany and several other continental countries except France and Sweden, whose exports grew at rates virtually identical with those of their respective markets.

Countries whose exports have grown more rapidly than the expansion of their export markets have also generally developed strong balance of trade positions. For example, Japan's gains in export shares have been coupled with below-average import elasticities to produce an exceptional strengthening of its trade balance. As illustrated in Table 14, the strengthening of the Japanese trade balance can be viewed as the combined result of Japan's gains in export shares—adding a hypothetical $6.8 billion over the decade as a whole—and a marginal import/GNP relationship far below the average for all industrial countries, hypothetically contributing a further $3.9 billion to the improvement of the Japanese trade balance. Similar numerical examples suggest that Italy's trade balance would have weakened substantially (by $2.2 billion), and that of Germany would have improved less than it actually did (by $1.9 billion instead of the recorded $2.8 billion), if their respective exports had increased only in line with pertinent export markets and if their imports had grown in the same relationship to GNP as the average for all industrial countries. The Italian trade balance, like the Japanese balance, has benefited particularly from large gains in export shares, accounting for the preponderant part of the increase in actual exports. Italy gained roughly $2.9 billion in export earnings over the period from 1960 to 1969, reflecting its favorable export performance.

With respect to the United States, on the other hand, losses in export shares from 1960 to 1969 were very large, and imports grew at a markedly faster rate than GNP. The actual deterioration in the trade balance was therefore substantial, in contrast with the sizable improvement that would have occurred if it had been possible for the United States to hold its 1960 share of export markets while increasing its imports in the same relationship to GNP as the average for all industrial countries. For France an exceptionally sharp rise of imports in relation to output was mainly responsible for the marked weakening of its trade balance over the 1960's. The United Kingdom, whose actual trade balance was virtually unchanged from 1960 to 1969, lost substantial amounts of hypothetical export earnings ($5.4 billion) over that period as a result of declining export market shares; however, $3.7 billion of that "loss" was offset by a slow growth of imports relative to gross domestic product (GDP).

The calculated relative "gains" and "losses" in trade balances [5] over the period 1960–69 are, of course, merely suggestive of the direction and manner in which trade balances of industrial countries have deviated from those based on the

[5] As defined in the last column of Table 14.

TABLE 14. ANALYSIS OF CHANGES IN THE TRADE BALANCES OF SELECTED INDUSTRIAL COUNTRIES, 1960–69 [1]

(In billions of U. S. dollars)

	Actual Changes in Balances from 1960 to 1969	Hypothetical Changes from 1960 to 1969			Shortfall (−) or Excess (+) of Actual Changes Compared with Hypothetical Changes		Total Net "Loss" (−) or "Gain" (+) in Trade Balances [4]
		In exports, based on constant shares [2]	In imports, based on growth of GNP [3]	In balances	In exports	In imports	
United States [5]	**−3.3**	21.7	15.4	**6.3**	−4.0	5.5	**−9.6**
France	**−3.0**	8.2	9.3	**−1.1**	−0.1	1.8	**−1.9**
United Kingdom	**0.1**	12.4	10.6	**1.7**	−5.4	−3.7	**−1.7**
Germany	**2.8**	15.6	13.6	**1.9**	2.1	1.3	**0.8**
Italy	**0.4**	5.2	7.4	**−2.2**	2.9	0.4	**2.5**
Japan	**1.5**	5.2	14.5	**−9.3**	6.8	−3.9	**10.7**

Sources: Fund staff calculations based on *International Financial Statistics*; *Direction of Trade*; Organization for Economic Cooperation and Development, *National Accounts of OECD Countries, 1958–67* and *Economic Surveys*; and national reports.

[1] Data are based on trade balances as reported in customs returns, exports f.o.b. and imports c.i.f. Countries are ranked according to data in the last column.

[2] Changes in exports that would have been recorded if exports had increased at the same rate as export markets. (See Table 13.)

[3] Changes in imports that would have been recorded if the growth of each country's imports, relative to the (actual) growth of GNP (or GDP), had been the same as that relationship for all industrial countries as a group. (See Table 12.)

[4] Difference between figures in fifth and sixth data columns, or between figures in first and fourth columns.

[5] Imports are valued f.o.b.

necessarily oversimplified relationships assumed here; such relationships cannot purport to yield realistic estimates of alternative outcomes under different conditions. The computed "gains" and "losses" ignore completely, for example, such questions as how Japan could have financed a trade balance more than $10 billion inferior to the one actually achieved (as would be implied by the calculations), or how a U.S. trade surplus nearly $10 billion larger than the actual 1969 surplus could have been absorbed by other countries. Nevertheless, the figures are illustrative of some important factors underlying the changes in trade balances.

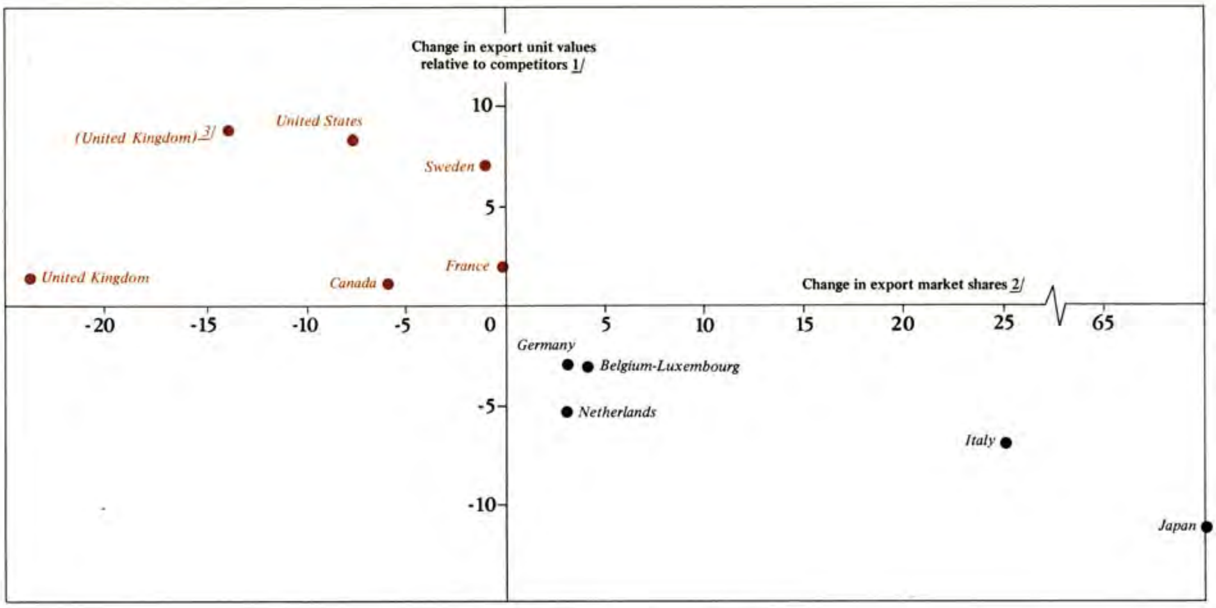
The relevant factors are complex, interrelated, and difficult to isolate. One factor, which undoubtedly influenced the comparative export and import growth rates and which lends itself to somewhat meaningful measurement and observation, is that relating to differential rates of increase in prices discussed in the next section. Certain countries that registered gains in their trade balances over the decade—notably, Japan, Italy, and Germany—had a distinctly better price performance than their competitors and improved their shares of export markets (Chart 9). For other countries, such as the United States and the United Kingdom before the devaluation, deteriorating trade positions were associated with relative weakening of external price positions. Relative changes in prices, although important determinants of trade flows, were of course only one of a series of factors that influenced trade balances in the 1960's. Other factors, such as pressures of demand, commodity composition of trade flows, and supply conditions in exporting industries, also exerted an influence on countries' trade positions.

International Price Movements

Prices of internationally traded goods increased sharply in 1969, raising the average unit value of total world trade by 4 per cent from its 1968 level (Table 15). This increase, most of which occurred in the second half of the year, was in marked contrast to developments in the previous year, when the average unit value of trade declined by roughly 1 per cent. In 1968 international price increases (as measured in U.S. dollars) had been held down by the effects of the U. K. devaluation and related par value adjustments in a number of primary producing countries. Moreover, price movements were probably still under some lingering influences stemming from the economic slowdown in industrial countries that had occurred in 1966–67. In 1969, however, the intensification of cost and price pressures in most industrial countries raised prices not only in domestic markets but also for internationally traded goods. Moreover, in the buoyant economic conditions of 1969, the prices

CHART 9. SELECTED INDUSTRIAL COUNTRIES: CHANGES IN EXPORT UNIT VALUES RELATIVE TO COMPETITORS, AND CHANGES IN EXPORT MARKET SHARES, 1961–69

(In per cent)



[1] See Chart 10.
[2] See Table 13.
[3] Covers 1961–66; the pound sterling was devalued by 14.3 per cent in November 1967.

of many primary commodities increased sharply and the export unit values of primary producers registered an average increase of about 4 per cent from the 1968 level. Additional upward influences on export unit values came into play toward the end of the year, through the initial effects of the German revaluation.[6]

Developments in Industrial Countries

The rise in the prices of internationally traded goods over the past few years has been largely a reflection of increasing inflationary pressures in industrial countries. As measured by the comprehensive GNP deflator, prices in industrial countries as a group increased by about 4¾ per cent in 1969 (Table 16); this was the sharpest annual increase since the Korean war period. It is likely that the high degree of cyclical parallelism among the industrial economies in recent years has reinforced the upward thrust of price increases in each of them. In many European countries, it was not until late in 1969 and early in 1970 that rates of inflation started to exceed those recorded in previous periods of strong demand pressure. By contrast, the price increases in the United States over the past several years have been unusually large for that country.

The high rates of price increase in the United States during recent years were clearly associated with intensive pressures of demand on resources. During the course of 1969, however, the nature of the predominant inflationary pressures shifted in character. "Demand-pull" influences, subsiding as the economy slowed down, tended to be superseded by "cost-push" factors as unit labor costs in manufacturing increased at a faster rate. Their annual rate of advance averaged nearly 4 per cent during 1969 and accelerated somewhat in the early part of 1970. In Canada price increases in recent years were similar to those in the United States, despite the prevalence of a wider margin of unutilized capacity, but in the first half of 1970 there was some improvement in Canada's price record vis-à-vis the United States.

[6] These effects were more pronounced than the corresponding price-reducing effects of the French devaluation. Such asymmetric price reactions to par value changes can probably be seen as reflecting the generally inflationary climate of the world economy in 1969.

TABLE 15. UNIT VALUES OF EXPORTS, 1956–69

(*Index, 1963=100; measured in terms of U.S. dollars* [1])

	Annual Average					
	1956–60	1961–65	1966	1967	1968	1969
Industrial countries	99	101	106	106	105	109
United States	97	101	107	110	111	115
United Kingdom	94	100	108	108	101	105
Continental Europe	101	101	105	104	102	106
Japan	107	100	101	101	102	106
Other developed areas	98	98	105	100	96	98
Less developed areas	106	101	104	103	103	107

Sources: *International Financial Statistics* and United Nations, *Monthly Bulletin of Statistics*.

[1] I.e., in terms of national currency indices adjusted for changes in par values of currencies.

In Western Europe, following the first stages of cyclical recovery in the second half of 1967 and the first half of 1968, price increases began to accelerate. For European countries as a group, the combined GNP deflator increased by nearly 5 per cent from 1968 to 1969. This was almost the same rate of increase as that recorded for 1966, the previous peak year.

To a certain extent, the recent upsurge in European prices reflected special factors such as heavier reliance on indirect taxes in a number of countries. However, in the course of 1969 capacity limitations were becoming a major source of price increases. In virtually all countries, wage claims began to outrun the increase in productivity, and the inflation of unit labor costs thus became both pronounced and widespread.

Although rising price levels in individual countries usually tend to spill over into higher average export and import prices, recent domestic inflationary pressures seem to have been reflected only partially in the available indices of export and import unit values. For instance, whereas the combined GNP deflator for all industrial countries rose by 4¾ per cent from 1968 to 1969, the combined index of export unit values for these same countries increased by less than 4 per cent. The relative stability of international trade prices was even more pronounced in earlier years of the past decade. Over the whole period from 1960 to 1969, the combined GNP deflator for the industrial countries increased by close to 35 per cent (or 3.1 per cent per annum), while export unit values rose by barely one fourth as much over the same period.

The relationship between domestic and export price developments has varied widely from country to country. Over the past decade as a whole, increases in domestic prices in the EEC countries and Japan were accompanied by very small or negligible increases in export unit values. In the United States and the United Kingdom, domestic prices and export prices moved along nearly parallel paths.

The factors influencing the relationship between domestic prices and export prices are very complex, and no simple explanation seems possible. Attention can only be drawn to a few of the relevant considerations. One important factor contributing to the general spread between export and GNP price movements, and to the differences among countries as regards the degree of that spread, is the contrast between the product com-

TABLE 16. MAJOR INDUSTRIAL COUNTRIES: CHANGES IN GNP PRICE DEFLATORS, 1958–69

(*Percentage increases over previous year*)

	1958–67 [1]	1966	1967	1968	1969 [2]
United States	1.8	2.7	3.2	4.0	4.7
Canada	2.4	4.5	3.4	3.5	4.7
United Kingdom	3.0	4.2	2.7	3.7	5.0
France	4.0	2.7	2.9	4.7	6.9
Germany	2.9	3.8	0.7	1.5	3.4
Italy	3.8	2.1	2.7	1.5	4.0
Japan	4.6	4.3	4.6	4.0	4.4
EEC	3.4	2.8	2.7	2.6	4.7
Europe	3.6	4.6	2.7	3.4	4.9
Total, industrial countries	2.5	2.8	3.0	3.6	4.8

Sources: Organization for Economic Cooperation and Development, *National Accounts of OECD Countries, 1958-67*; national publications; and Fund staff estimates.

[1] Average annual rates of increase.

[2] Partly estimated.

position of countries' exports and that of their total outputs. Generally speaking, the products entering international trade tend to be less susceptible to price increases than many of the goods and services figuring in the GNP deflators, because exports are typically produced by industries achieving larger productivity gains than those achieved in more sheltered or purely domestic sectors (especially the service industries) and because exports are frequently sold under more intensely competitive conditions than those prevailing in domestic markets. Moreover, some of the discrepancies between domestic and international price movements over the past several years were probably the result of increases in indirect tax rates in several important countries, where they tended to exert a direct influence on domestic price levels without similarly affecting export prices (because of the rebates of such taxes on goods exported). The principal increases in indirect tax rates have taken place in the United Kingdom and in the EEC countries (in the latter, through the gradual switch to a value-added tax).

International Price Competitiveness

Although heavily influenced by developments in the United States, the global rise in international trade prices in 1969 also reflected widespread increases elsewhere. Even in such countries as Japan and Italy, where unit labor costs and export prices in manufacturing had been either stable or declining over many years, the period of stability appeared to have come to an end before the turn of the year. While this recent emergence of stronger pressures on cost and prices in Japan and Italy did not immediately diminish the competitive advantage that they had gained in earlier years, because of the acceleration of price advances in other countries, it does appear to have arrested any further widening of that advantage (Chart 10).[7]

For the United States and Canada, a series of years characterized by cost and price stability in the first half of the 1960's was followed by a period of mounting pressures on wage costs and on prices. For part of this second period, and especially during 1967 and 1968, the effects of the price increases in these two countries on their international competitiveness were exacerbated by the cyclical stability of costs and prices in Europe. Consequently, the surge of export prices in the United States and Canada during the second half of the 1960's more than offset the competitive gains resulting from relative stability in the earlier years of the decade; and unit labor costs and export unit values increased by some 5–8 per cent more than those of competing countries over the decade as a whole.

By contrast, the latest economic expansion in Germany was accompanied by remarkably little increase in costs and prices during 1968 and much of 1969. Germany's relative cost and price position had strengthened markedly during 1967 and 1968, reflecting first the recession and then the marked productivity gains during the cyclical upswing. Despite the imposition of border taxes late in 1968, export unit values increased only slightly relative to those of competitors in the first half of 1969. However, the mounting pressure of demand, together with the prospect of escalating wage increases and possibly also slower productivity gains, pointed toward a more inflationary climate in the second half of 1969 and 1970. The 9.3 per cent revaluation of the deutsche mark in October 1969 was designed, of course, to deal with this situation, as well as to facilitate achievement of a sustainable external payments balance. However, the intended impact on domestic prices —movement toward lower deutsche mark prices for imports and exports—was not immediately forthcoming. In the first several months following the revaluation, prices of imports in domestic currency remained relatively unchanged[8] and export prices in domestic currency rose slowly.

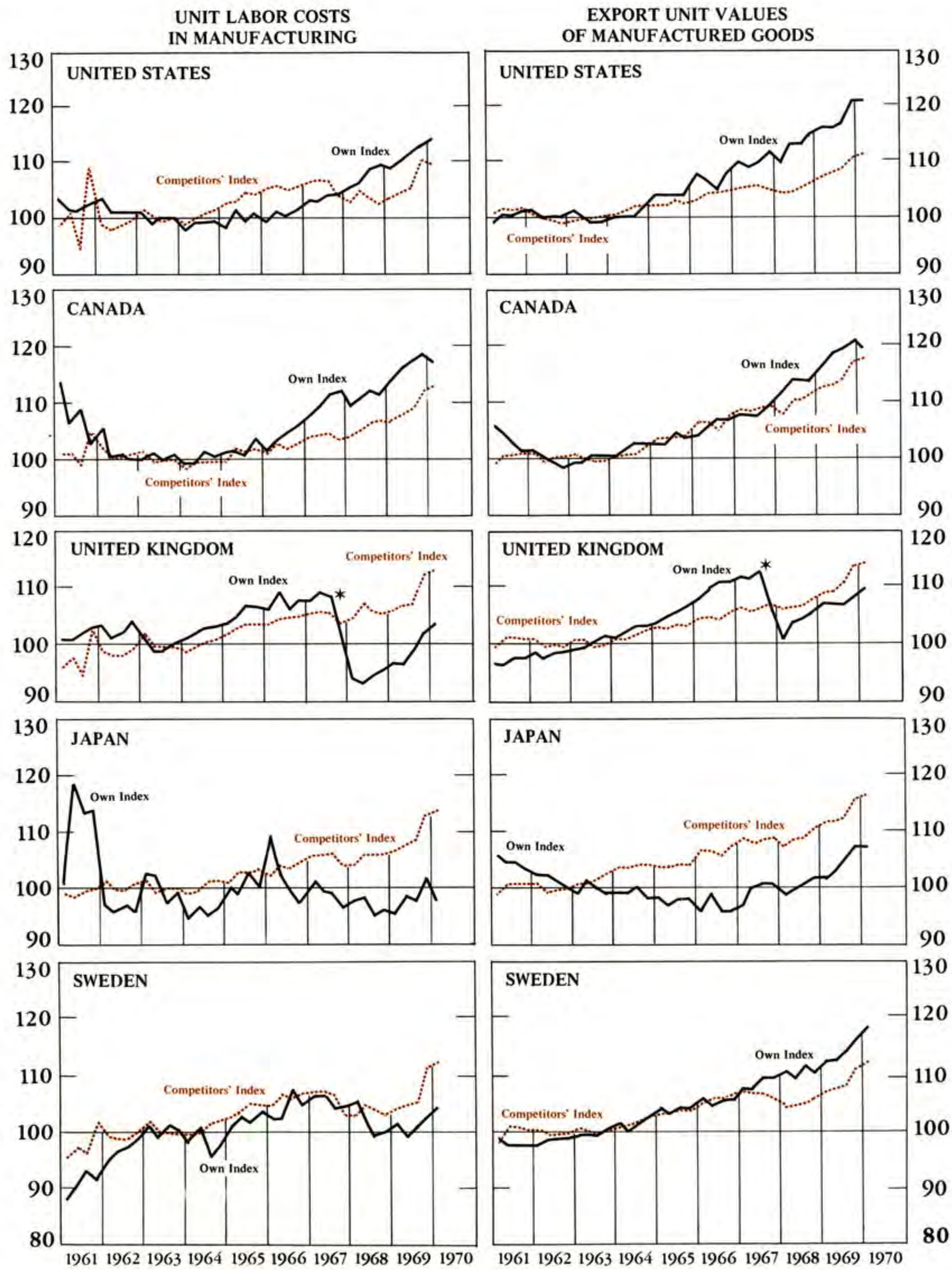
Export prices of the United Kingdom rose rapidly in the period prior to devaluation in 1967 (Chart 10). Slow growth of productivity was putting pressure on unit labor costs, and increases in such costs, in turn, were being quickly translated into higher export prices. The devaluation of sterling in November 1967 brought a substantial ini-

[7] Whereas the text of the preceding section was based on export unit value data for total exports, this section discusses developments with respect to individual countries' export unit values (and unit labor costs) in the manufacturing industries. It should be emphasized that the price and cost data used in these sections—in particular the export unit values—are subject to various conceptual and statistical weaknesses.

[8] The revaluation would, by itself, tend to lower import prices in domestic currency. However, these price reducing effects were partly offset by the abolition of the import subsidy in October 1969.

CHART 10. SELECTED INDUSTRIAL COUNTRIES: COMPARATIVE COST-PRICE MOVEMENTS, 1961–FIRST QUARTER 1970

(Index, 1963 = 100; in U. S. dollars)

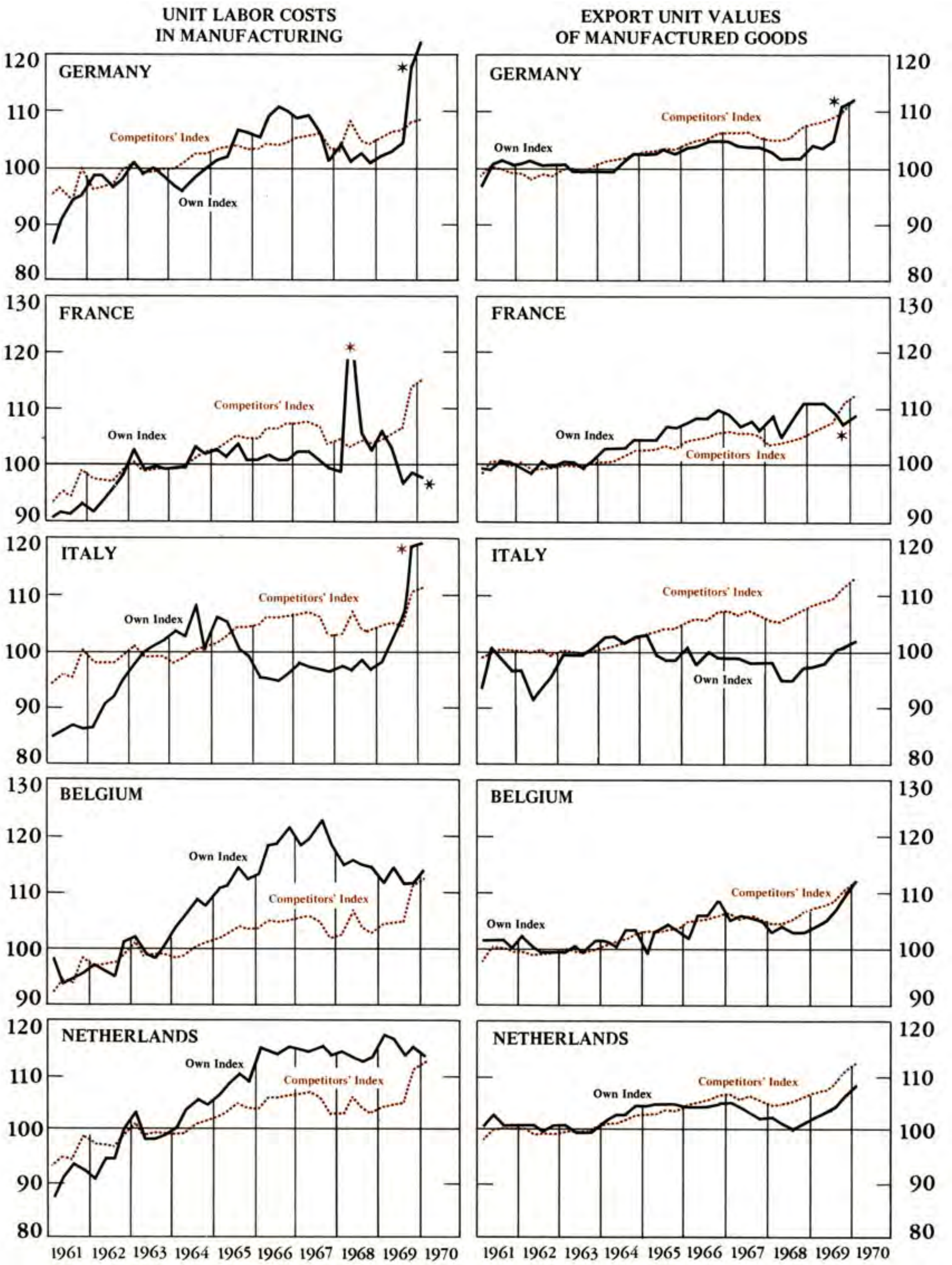


* Change in par value.

Note: Indices of competitors are weighted according to the total size and geographic distribution of their trade in manufactures.

CHART 10 *(concluded)*. SELECTED INDUSTRIAL COUNTRIES: COMPARATIVE COST-PRICE MOVEMENTS, 1961–FIRST QUARTER 1970

(Index, 1963 = 100; in U. S. dollars)



* Change in par value.

* Strikes.

Note: Indices of competitors are weighted according to the total size and geographic distribution of their trade in manufactures.

tial improvement in the United Kingdom's relative price position, with export prices of manufactured products of the United Kingdom falling by some 11 per cent in relation to those of other countries. During the postdevaluation period, U.K. export prices have risen broadly in line with those in competitor countries. However, the rapid increase in labor costs during the latter part of 1969 and the first half of 1970 has put increased pressure on both domestic and export prices.

In France unit labor costs and export prices advanced sharply in the course of 1968 and the first half of 1969. The devaluation of the franc in August 1969 had only a moderate effect on export prices in dollar terms, indicating that a relatively large part of the devaluation might have been absorbed into exporters' profit margins. The strong demand abroad and the high level of capacity utilization in French exporting industries were two factors tending to keep up export prices. However, the continued rise in export prices of other countries, together with the effects of the revaluation of the deutsche mark, raised export prices of France's competitors. As a result, there was a relative price change of almost 8 per cent in France's favor from the first quarter of 1969 to the fourth; this gain was broadly maintained in the early part of 1970.

The net effect of the three major par value changes was a moderate appreciation of the relative exchange rates of most other industrial countries, with the exact impact depending on the particular geographical pattern of each country's trade.

Commodity Price Developments

Prices of most commodities exported by primary producing countries increased throughout 1969, thus continuing the upward movement that had started in the latter part of 1968 (Chart 11). The average increase in the general commodity price index from 1968 to 1969 was 10 per cent, the largest annual increase since 1963. By the end of the year, this index had almost reattained

CHART 11. PRICES OF COMMODITIES EXPORTED BY PRIMARY PRODUCING COUNTRIES, 1962–FIRST QUARTER 1970

(Index, 1961 = 100)

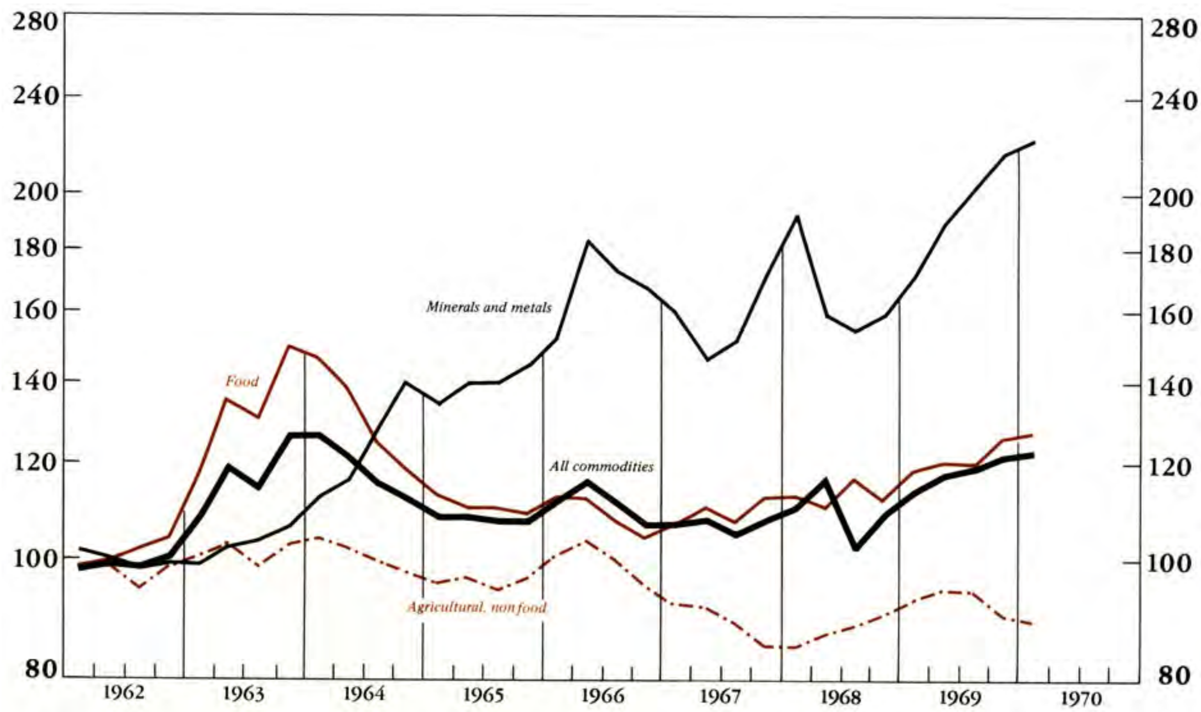


TABLE 17. PRIMARY PRODUCING COUNTRIES: UNIT VALUES OF EXPORTS AND TERMS OF TRADE, 1956–69 [1]
(Index, 1963 = 100)

	Unit Values of Exports						Terms of Trade					
	Annual average						Annual average					
	1956–60	1961–65	1966	1967	1968	1969	1956–60	1961–65	1966	1967	1968	1969
More Developed Areas												
Northern Europe [2]	100	103	110	108	101	107	100	102	106	105	104	102
Southern Europe [2]	97	98	108	108	103	103	93	97	100	103	100	98
Australia, New Zealand, and South Africa	97	97	101	93	91	93	99	96	97	89	89	89
Less Developed Areas	106	101	104	103	103	107	104	100	102	101	102	104
Middle East	108	101	101	101	100	100	109	100	99	99	95	94
Asia	105	101	101	100	98	102	105	101	99	99	99	101
Africa	108	101	108	109	109	115	110	101	104	103	104	109
Western Hemisphere	103	101	108	107	108	110	102	99	105	103	103	104

Source: United Nations, *Monthly Bulletin of Statistics.*
[1] For the classification of countries, see footnote 1, page 42.
[2] See footnotes 2 and 3 to Table 21, page 69.

its level at the previous peak in 1963–64. Continued supply limitations in certain commodity markets and strong demand in many industrial countries raised commodity prices further in the first half of 1970, although the rate of increase was more moderate than in 1969.

A feature of commodity price developments throughout the past decade was the divergence between the trend of mineral and metal prices, on the one hand, and that of agricultural prices, on the other. Developments in 1969 were partly in line with this general pattern. Metal prices reached new peaks in 1969, reflecting not only strong demand from industrial countries but also local bottlenecks and special factors restricting supplies of nickel, tin, and copper. Meanwhile, prices of agricultural products (especially products other than foodstuffs) were less buoyant.

In 1969 there was a striking recovery of tropical agricultural prices, reflecting in some cases the efforts of producing countries to limit the production of exportable goods. For many foodstuffs, production fell short of consumption and stocks were reduced at times to very low levels. This adjustment was partly the result of the implementation of commodity stabilization programs, but in the short run stemmed perhaps more importantly from a series of bad crops for several important tropical commodities, such as coffee, cocoa, and sugar. Surpluses that had overhung trade in these commodities for decades were reduced substantially.

In contrast to the development of food prices, agricultural raw material prices started to weaken during the second half of 1969, after a moderate increase dating only from early 1968. In a longer perspective, increasing competition from synthetics has weakened the prices of such commodities as cotton, jute, and rubber. As a result, prices of agricultural raw materials have been sagging since about 1963.

With respect to the relationship between commodity price developments and export earnings of primary producing countries, it should be noted that, because of time lags and other factors, substantial differences may arise between changes in quotations on commodity exchanges and changes in export unit values. A large volume of trade in such commodities as sugar, rice, and a number of minerals and metals is carried out on the basis of preferential arrangements or long-term bilateral or multilateral contracts. Consequently, free market prices are not necessarily representative of the transaction prices associated with trade in any given period. Moreover, the bulk of some countries' sales of primary products may be concentrated within short periods, and receipts may thus be only marginally affected by market price movements between periods of contract negotiations.

Factors such as these probably account for the fact that export unit values of primary producing countries, despite the sharp increase in market quotations of commodity prices, rose only moderately in 1969 (Table 17) when the average level of the composite unit-value index exceeded the 1968 average by roughly 3½ per cent. Most of the increase occurred toward the end of the year. Meanwhile, import unit values of all primary producing countries were rising by about 2 per cent from 1968 to 1969. As a consequence, the combined terms of trade of this large group of countries improved somewhat from 1968 to 1969.

There were marked differences, with respect to external price developments, between the more developed and the less developed primary producing countries. In part, these differences reflected dissimilarities in the commodity composition of trade. Many of the more developed primary producers experienced deterioration in their terms of trade, mainly as a result of sharp increases in their import prices. For the less developed countries as a group, the terms of trade improved from 1968 to 1969, though the extent of the gain was not uniform among areas. Over all, the 1969 improvement in the collective terms of trade for the less developed primary producing countries brought them back to the level prevailing in the late 1950's.

Trade of Primary Producing Countries

Exports and Export Markets

The value of exports from primary producing countries increased by 13 per cent from 1968 to 1969, compared with 8 per cent in 1968 and 4 per cent in 1967 (Table 18). The acceleration was most pronounced for the more developed of these countries. Those in Europe, as a group, increased their exports by 17 per cent from 1968 to 1969, with most of the individual countries sharing in the upsurge. Exports of Australia and New Zealand each increased by 20 per cent, after a slack year in 1968, while South Africa's exports leveled off after three years of very rapid growth. Primary producing countries in Africa and Asia enjoyed another year of rapidly increasing exports, although the experience of individual countries was mixed. While India's exports increased by only 5 per cent in 1969, and those of Pakistan declined, several of the larger countries in East Asia raised their exports by more than 20 per cent. For Africa, the total was strongly influenced by an increase of more than 50 per cent in Nigeria's exports, after large declines in the two preceding years. Exports from Western Hemisphere countries and from the Middle East increased relatively less than those from other areas.

The principal fact conditioning the trade of primary producing countries in 1969 was the sustained pace of demand expansion in industrial countries. Demand for the output of primary producing countries continued to rise strongly from 1968 to 1969, as the composite rate of increase in industrial production in industrial countries reached 9½ per cent [9] (Chart 12). In two previous peak years, 1964 and 1966, this indicator had reached 8 per cent and 6½ per cent, respectively. With the volume of demand thus increasing vigorously and with commodity prices buoyant, the rise in the value of exports of primary producing countries to industrial countries accelerated to an annual rate of 12 per cent in 1969.[10] This rate rivaled the one recorded for 1963–64 and exceeded the increase occurring during the upswing of 1966. As was the case in both of those earlier periods of rapid expansion, exports of primary producers to industrial countries advanced more rapidly from 1968 to 1969 than the import-weighted index of industrial production in those countries.

Annual changes in the over-all index of commodity prices [11] have exhibited in recent years a cyclical pattern quite similar to that of the import-weighted index of industrial production. Against the background of this historical relationship, commodity price movements seemed weaker in 1968 than might have been expected; in the final quarters of 1969, however, they swung sharply upward and the price index for 1969 as a whole was almost 10 per cent above its average 1968 level.

One general factor influencing the relative growth of exports of various primary producing countries and areas was the geographic pattern of growth in industrial markets in 1969, as more of

[9] According to a calculation weighting the changes in industrial production in individual countries by their imports from primary producing countries, in order to obtain a broadly meaningful measure of demand in industrial countries for primary producers' exports.

[10] Throughout the rest of this chapter, references to trade of primary producing countries with industrial countries are based on data collected by the latter, because such data are generally more complete and up to date. To simplify the exposition, the data are referred to as exports (or imports) of primary producing countries to (or from) industrial countries, although it is recognized that marked asymmetries in the recording of such trade are frequently observed.

[11] As computed by the National Institute of Economic and Social Research (London)

TABLE 18. PRIMARY PRODUCING COUNTRIES: CHANGES IN VALUE OF TOTAL EXPORTS, 1966–69 [1]

	1969	1966	1967	1968	1969
	Billion U.S. dollars	←——*Percentage change from preceding year*——→			
Area totals [2]					
Western Hemisphere	14.8	6	1	4	9
Middle East	10.1	9	9	10	8
Asia	12.8	5	3	10	14
Africa	10.4	8	3	16	16
Europe	8.3	13	7	4	17
Australia, New Zealand, and South Africa	7.6	8	8	4	14
Selected individual countries [3]					
Mexico	1.4	7	−5	10	14
Netherlands Antilles	0.6	−2	3	−1	1
Venezuela	2.9	−1	6	−1	—
Argentina	1.6	7	−8	−7	18
Brazil	2.3	9	−5	14	22
Chile	1.2	28	4	3	26
Colombia	0.6	−5	—	9	6
Peru	0.9	15	1	12	—
Iran	2.1	—	47	−3	12
Iraq	1.0	6	−12	26	—
Kuwait	1.5	5	1	6	6
Saudi Arabia	2.1	18	8	9	6
Israel	0.7	17	10	15	13
United Arab Republic	0.7	—	−6	10	20
India	1.8	−5	1	9	5
Pakistan	0.7	14	7	12	−6
Indonesia	0.8	−4	−3	5	12
Malaysia	1.6	2	−3	10	23
Singapore	1.5	12	3	11	22
Thailand	0.7	9	1	−4	8
China	1.0	19	20	25	31
Korea	0.6	43	28	42	37
Hong Kong	2.2	16	15	14	25
Philippines	0.9	8	−1	3	1
Algeria	0.9	−3	17	5	16
Libyan Arab Republic	2.2	25	18	59	16
Congo, Democratic Republic of	0.6	38	−5	16	16
Nigeria	0.9	6	−14	−14	54
Zambia	1.1	30	−5	15	40
Finland	2.0	5	2	7	21
Greece	0.6	24	22	−5	18
Ireland	0.9	11	15	1	11
Portugal	0.8	8	13	4	12
Spain	1.9	30	10	15	19
Turkey	0.5	6	7	−5	8
Yugoslavia	1.5	12	2	1	16
Australia	4.2	6	10	1	20
New Zealand	1.2	7	−8	2	20
South Africa	2.2	14	13	10	2
Total of selected countries	52.8	9	5	8	14
All primary producing countries [4]	64.3	8	4	8	13

Source: *International Financial Statistics.*

[1] Based on customs data, f.o.b. Figures for 1969 are partly estimated.

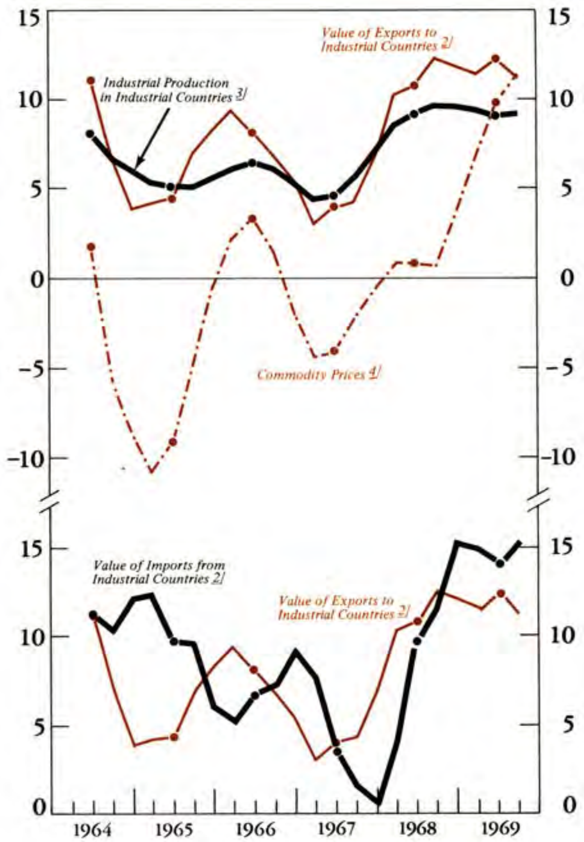
[2] For the country coverage of the broad areas listed, as well as various subareas employed elsewhere in this section, see the footnotes to Table 21.

[3] All countries whose exports in value exceeded $500 million in 1969.

[4] Includes, in addition to the primary producing areas shown at the top of the table, various small islands whose exports in 1969 were $0.4 billion.

CHART 12. PRIMARY PRODUCING COUNTRIES: TRADE WITH INDUSTRIAL COUNTRIES AND RELATED VARIABLES, 1964–69

(Four-quarter periods compared with previous four quarters, expressed in percentage changes) [1]



[1] The observation pertaining to any four-quarter period is plotted at midpoint. Calendar-year changes are indicated by ball marks.
[2] As reported by industrial countries.
[3] Weighted by imports from primary producing countries.
[4] As compiled by the National Institute of Economic and Social Research (London).

the stimulus came from countries in continental Europe and less from the United States. While the total exports of primary producing countries to the industrial countries increased by about 12 per cent from 1968 to 1969, exports to the United States and Canada taken together increased at only half that rate (Table 19). In part, this difference reflected the U. S. dock strike. More importantly, however, it stemmed from the substantially slower rate of real economic growth in the United States than in Europe and Japan. Exports of primary producers to the United Kingdom also increased relatively slowly—by 6 per cent—as the rise in U. K. demand was held back by restrictive economic policies. In contrast, exports to EEC countries and Japan increased by 16 per cent and 18 per cent, respectively, from 1968 to 1969. This differential pattern of growth in industrial markets undoubtedly played a role in constraining the growth of exports from certain countries, notably in the Western Hemisphere and in Asia, that depend heavily on the U. S. or U. K. market, and in enhancing the export performance of other countries, especially in Africa, whose trade ties run predominantly to continental Europe.

Of greater importance than geographic patterns in explaining intercountry differences in growth of exports were disparate developments in world commodity markets. One reason why some primary producing countries were in better position than others to expand their sales abroad was the relatively favorable commodity composition of their exports. Imports of developed countries[12] in various major commodity classes increased at widely different rates from the first three quarters of 1968 to the first three quarters of 1969; and trade in some commodities even declined (Table 20). Changes in the value of trade in certain markets in 1969 reflected movements in commodity prices (Chart 13). Examples include the declines in imports of coffee (in the first half of the year) and tea, as well as the increases in imports of rubber, tin, and copper. However, developments with respect to trade values in some commodity markets were not closely linked to price changes, in part because sharp fluctuations in market prices were not fully reflected in concurrent movements of export or import unit values. (See pages 59–60.)

To obtain indicators of "market growth" that can be used as standards of reference in gauging the extent to which individual less developed primary producing countries were able to take advantage of the prosperous conditions in developed countries in 1969, rates of change in total trade of less developed countries in individual commodities or commodity categories (percentage changes shown in Table 20) have been multiplied by weights representing the commodity composition of the export trade of each individual country or group of countries listed in

[12] Developed countries in this context comprise the members of the Organization for Economic Cooperation and Development (OECD)—i.e., all industrial countries and most of the primary producing countries in Europe. (See Table 20, footnote 1.)

TABLE 19. PRIMARY PRODUCING COUNTRIES: PATTERN OF GROWTH IN EXPORT MARKETS BY INDUSTRIAL AREAS, 1966–69

Exports from All Primary Producing Countries to [1]	1969	1966	1967	1968	1969	1969 Second half [2]
	Billion U.S. dollars	*Percentage change from preceding year*				
United States	**11.2**	**11**	—	**16**	**5**	**8**
Canada	**1.3**	**1**	**11**	**12**	**13**	**13**
Industrial Europe	**29.7**	**6**	**2**	**8**	**13**	**12**
EEC	18.1	8	1	8	16	14
Germany	*5.9*	*5*	*−4*	*15*	*17*	*17*
France	*4.5*	*8*	*−2*	*1*	*15*	*4*
United Kingdom	8.6	—	2	6	6	6
Japan	**8.0**	**18**	**19**	**15**	**18**	**24**
All industrial countries	**50.3**	**8**	**4**	**11**	**12**	**13**

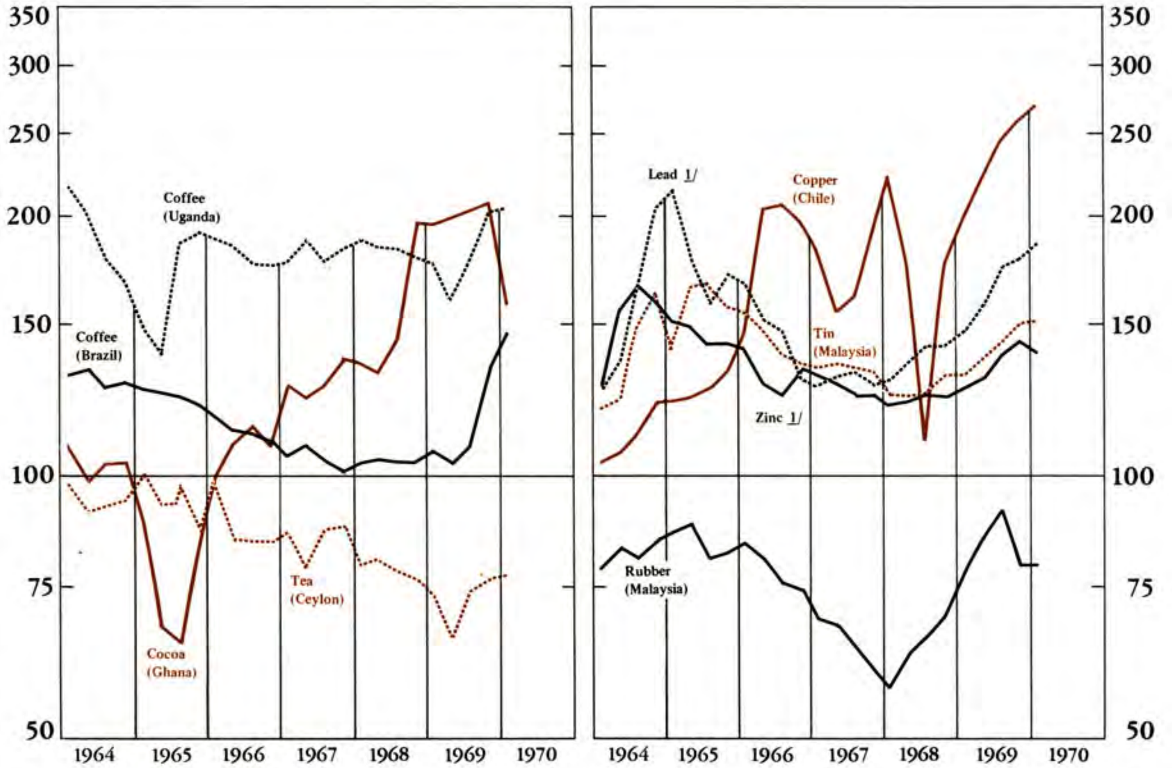
Source: *Direction of Trade.*
[1] Data as reported by industrial countries.
[2] Change from second half of 1968.

Chart 14. The appropriately weighted average rate of change in the market for each exporting country or group of countries permits a rough distinction between the role of underlying market forces and that of more specific factors in determining an area's export growth. For example, export market growth tended to be strong in 1969 for primary producing countries that are highly dependent on international markets for tin and rubber; and this tendency obviously helped exports from those countries to increase more than the average for all primary producing countries.

A number of similar comparisons are shown in Chart 14, where rates of change in exports to OECD countries from various less developed primary producing countries or country groups from 1968 to 1969 are plotted against corresponding measures of average growth in OECD markets for the relevant categories of commodities. The 45-degree line in the chart divides countries for which actual exports outpaced the computed market potential from those for which they lagged behind the market's growth. Deviations from this line reflect, of course, numerous special factors and influences. One of these is the geographic pattern of import demand in industrial countries, discussed above, and another is the existence of differences in supply conditions among the various primary producing countries.

Sales of most primary producing countries in the Western Hemisphere, reflecting the relatively slow growth of the U. S. market in which they are concentrated, increased somewhat less in 1969 than could have been expected on the basis of developments in world commodity markets (Plot No. 5 in Chart 14). Major exceptions were Brazil, Argentina, and Mexico. Despite stagnation in exports of coffee, total exports from Brazil increased by 22 per cent from 1968 to 1969 (Table 18), as shipments of cotton, iron ore, cocoa, and manufactured products soared. The increases were mainly in volume, reflecting new productive capacity. The share of coffee in the value of Brazil's exports fell from 41 per cent in 1968 to 34 per cent in 1969. Argentina's exports are oriented more closely toward European markets than are those of most countries in Central and South America, and very large increases from 1968 to 1969 were recorded for several categories of products. However, this development reflected in part the recovery of meat exports to the United Kingdom, which had been banned during the first four months of 1968 because of the outbreak of foot-and-mouth disease. Exports from Mexico also increased relatively rapidly despite the fact that more than half of its exports are sold to the United States. Since much of this trade moves overland or through Pacific coast ports, Mexico's exports were generally unaffected by the U. S. dock strike. The rise in Mexican exports in 1969, 14 per cent, reflected large increases in shipments of agricultural products (particularly tomatoes and cotton), as well as in those of a wide variety of manufactured goods, with an increasing share going to Mexico's partners in the Latin American Free Trade Association. Among the countries in the Western Hemisphere whose exports were less buoyant in 1969 than the ones just discussed were Colombia and Peru. The former increased its exports by only 6 per cent,

CHART 13. SELECTED PRIMARY PRODUCTS: AVERAGE PRICES, 1964–FIRST QUARTER 1970
(Index, 1961 = 100)



[1] London Metal Exchange.

as the weakness of coffee prices in the first half of 1969, together with a lower volume of coffee exports, precluded a stronger gain; and Peru's exports were depressed by a decline in the volume of sugar and fishmeal shipments.

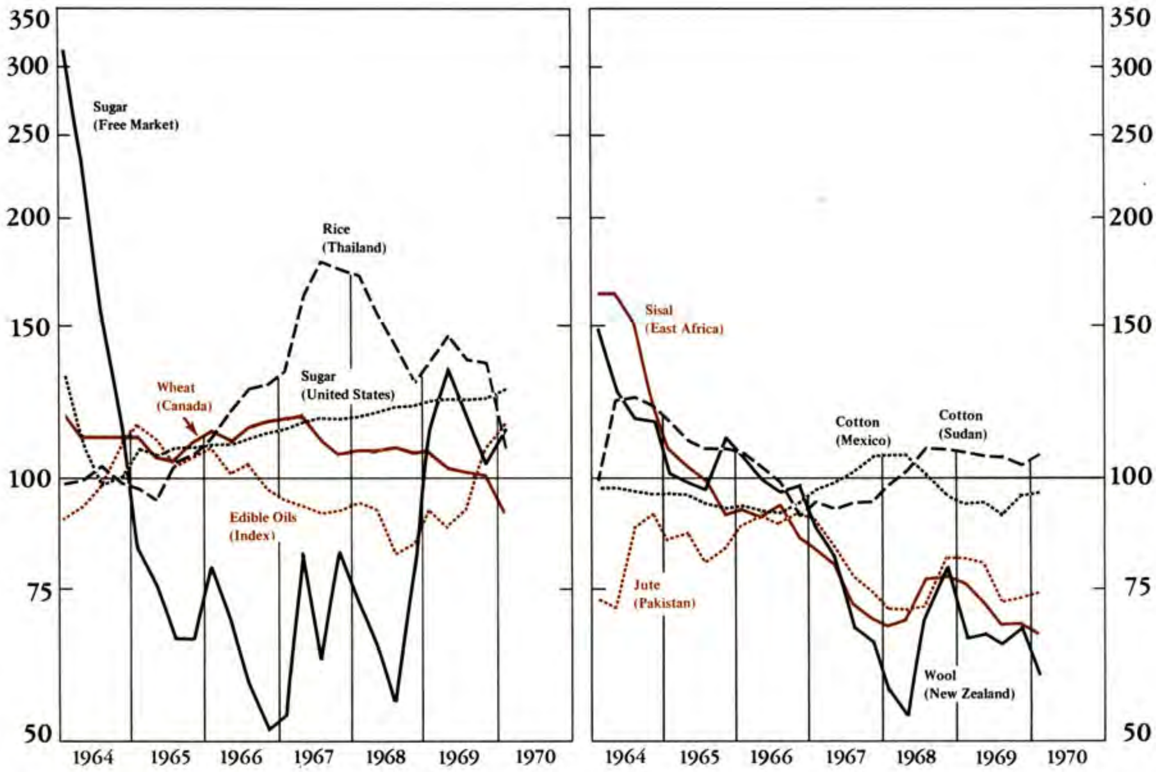
Exports of less developed primary producing countries in Africa increased substantially more from 1968 to 1969 than could be explained on the basis of the average growth in relevant commodity markets (Plots No. 8 and No. 9 in Chart 14). While this fact undoubtedly owed part of its explanation to the relatively high dependence of these countries on the expanding EEC markets, it also reflected such special factors as the recovery of oil shipments from Nigeria. In the Democratic Republic of Congo a restoration of order, together with a monetary reform, provided the basis in 1968 for a revival of investment and production that continued strongly in 1969. This development, combined with very buoyant market conditions for copper, led to an increase of 16 per cent in Congo's exports from 1968 to 1969. Conditions in the world copper market were also the main factor inducing large increases in exports from Zambia (up 40 per cent) and from Chile (up 26 per cent). In Zambia, copper production and export volume continued to contribute importantly to the increase in receipts, whereas the gain for Chile was almost entirely a reflection of price movements.

The dynamic factor in exports from countries in North Africa continued to be petroleum. This was true not only of the Libyan Arab Republic, whose exports increased by 16 per cent in 1969 after an increase of almost 60 per cent in 1968, but also of Algeria and Tunisia. In the United Arab Republic, commodities other than petroleum accounted for most of the increase in exports from 1968 to 1969. Exports of the Sudan, as well as those of the United Arab Republic, benefited from good crops and firm prices for long-staple cotton, while Morocco increased its sales of phosphates and of a variety of agricultural products.

Reflecting the continued growth of oil production in Africa and Southeast Asia, as well as the

CHART 13 *(concluded)*. SELECTED PRIMARY PRODUCTS: AVERAGE PRICES, 1964–FIRST QUARTER 1970

(Index, 1961 = 100)



closing of the Suez Canal, exports from traditional oil-producing countries in the Middle East, as well as those from Venezuela, lost market shares in 1969 (Plots No. 6 and No. 4 in Chart 14). In Venezuela and Iraq the failure of over-all export earnings to rise in 1969 was the result of stagnation of petroleum output and hence of petroleum exports. Production and export of petroleum from Kuwait and Saudi Arabia increased about 6 per cent from 1968 to 1969; for Saudi Arabia this was substantially below the growth in most other recent years. Iran's exports, which soared at the time of the 1967 Suez crisis but slowed down in 1968, moved ahead strongly again in 1969; oil exports rose by 18 per cent, while nonoil exports (e.g., carpets, textiles, and leather products) increased markedly under the stimulus of export promotion measures.

The primary producing countries in Asia confronted a wide range of export market conditions in 1969, and rates of increase in their exports were highly divergent. On the one hand, for India, Pakistan, and Ceylon commodity markets tended to be relatively unfavorable, partly because of the persistent weakness in demand for tea and for vegetable fibers such as jute. These countries, which are dependent largely on the United Kingdom for their export sales, were also adversely affected by the sluggishness in growth of the U. K. market in 1969 (Chart 14 and Table 19); imports of the United Kingdom from India actually fell by 21 per cent from 1968 to 1969.

On the other hand, Asian countries that export large quantities of rubber and tin—notably, Indonesia, Malaysia, and Thailand—faced very buoyant export markets in 1969. Malaysia, in particular, increased its total exports by a large percentage in that year. Much of the gain in Indonesia's exports was due to a sharp rise in oil shipments. For the Philippines, the small size of the increase in exports in 1969 reflected a decline in some of its export prices, especially those of coconut products.

The Republic of China, Hong Kong, and Korea, which for many years have sustained rates

TABLE 20. LESS DEVELOPED PRIMARY PRODUCING COUNTRIES: GROWTH IN EXPORT MARKETS BY COMMODITY CLASS, 1967–68 AND 1968–69 (JANUARY–SEPTEMBER)

Exports from Less Developed Primary Producing Countries to OECD Countries [1]

Commodity Class	Value in Billion U.S. Dollars, 1968	Percentage Changes [2] 1967 to 1968	Percentage Changes [2] 1968 to 1969 (Jan.-Sept.)
Meat	0.7	−5	25
Maize	0.4	−23	9
Sugar	1.1	3	2
Coffee	2.3	12	−14
Cocoa	0.6	10	30
Tea	0.4	−6	−18
Fish and preparations	0.4	12	22
Fruit and vegetables	1.8	4	11
Oilseeds, oilnuts, and oil kernels	0.6	6	−2
Fixed vegetable oils			
Soft	0.1	−10	8
Other	0.3	22	−9
Feed for animals	0.6	3	11
Alcoholic beverages	0.1	−12	28
Tobacco	0.2	−2	10
Wool	0.2	−3	−4
Cotton	0.9	12	10
Other vegetable fibers	0.3	−13	−3

Commodity Class	Value in Billion U.S. Dollars, 1968	Percentage Changes [2] 1967 to 1968	Percentage Changes [2] 1968 to 1969 (Jan.-Sept.)
Hides, skins	0.2	7	29
Rubber	0.6	−1	46
Wood, lumber	1.0	13	22
Petroleum	12.2	14	8
Crude fertilizers	0.2	4	−2
Iron ore	1.1	5	14
Other ores	1.0	6	9
Copper	2.0	19	19
Tin	0.3	8	11
Iron and steel	0.2	12	3
Pearls, precious stones, and silver	0.8	51	−5
Textile yarn, fabrics	0.8	10	12
Clothing and footwear	0.9	34	40
All other products			
Primary	1.3	3	12
Manufactured [3]	2.7	27	27
Total, all products	36.4	11	11

Source: Organization for Economic Cooperation and Development, *Commodity Trade, Series B.*

[1] Data as reported by OECD countries. In the accompanying analysis of exports from the less developed primary producing countries, OECD countries are taken together as an industrial importing unit, despite the inclusion among them of a few nonindustrial countries, because of the ready availability of the necessary data in adequate area-by-commodity detail. In 1968, nonindustrial OECD members accounted for only 4 per cent of total OECD imports from primary producing countries.

[2] An average of these percentage changes, appropriately weighted in terms of the commodity composition of exports (to the OECD countries) from a particular primary producing country or area, can be used as a measure of growth in the OECD market potential for that country or area. See Chart 14, where such averages for each of a number of countries or groups of countries are plotted on the horizontal axis for comparison with actual changes (plotted on the vertical axis of the same chart) in exports from the same countries or areas of origin to OECD destinations.

[3] Including commodities and transactions not classified according to kind.

of export growth far above the average for the less developed countries, increased their exports by 31 per cent, 25 per cent, and 37 per cent, respectively, from 1968 to 1969. These rates reflected the buoyancy of demand in industrial countries for certain competitively priced manufactured products, including textiles. China, Hong Kong, and Korea together supplied more than one third of industrial countries' imports of manufactures (excluding processed metals) from less developed primary producing countries. The fact that the growth of exports from these countries was higher than could be attributed to market factors alone undoubtedly reflected their rapid industrialization, as well as the indirect effects on their trade of military activities in Southeast Asia.

Imports and Trade Balances

Imports of primary producing countries responded dramatically in 1969 to the continuing upsurge in their export earnings and, more broadly, to the accelerated pace of their real economic growth. Real GNP in the less developed countries, which had risen by about 5 per cent per annum from 1960 through 1967, increased by more than 6 per cent in 1968 and, according to preliminary data, by almost 7 per cent in 1969. This acceleration of growth was broadly based; for each of the major areas, growth in real GNP from 1968 to 1969 appears to have been substantially higher than the trend over the period 1965–69 or over the past decade as a whole.

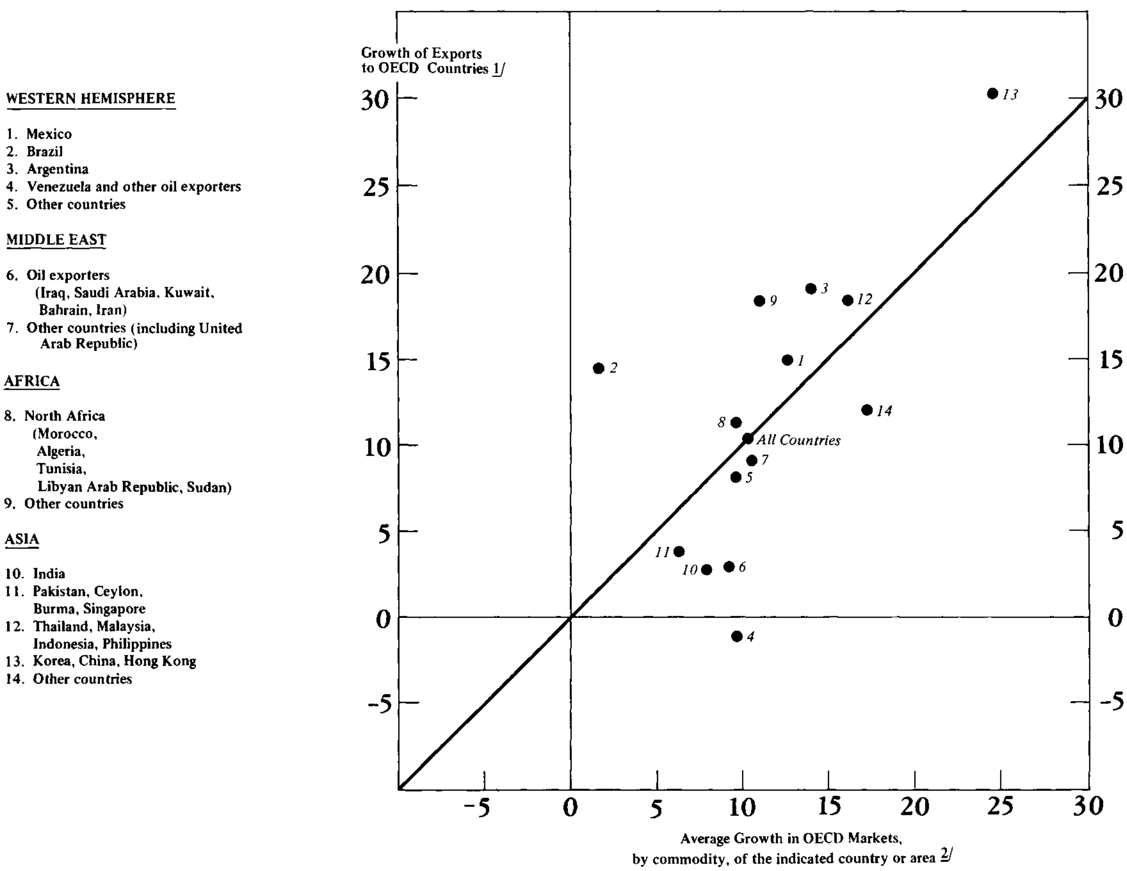
Imports of primary producing countries from industrial countries, which account for about three fourths of primary producers' imports, have borne a close cyclical relationship in recent years to their exports to industrial countries (Chart 12). The growth of imports from the industrial countries appears to have lagged considerably, but variably, behind changes in the reverse flow, with corresponding turning points in recent cycles separated by about three to five quarters.

The most recent period of accelerated exports from primary producers to industrial countries has been of long duration, beginning with the fourth quarter of 1967. During 1968 and 1969, this export expansion proceeded fairly steadily at a rate of more than 10 per cent per annum. Meanwhile, primary producers' imports from industrial countries were growing less rapidly through mid-1968. Thereafter, they began to increase at a much faster pace, reaching a rate of about 15 per cent for the year ended June 1969, and this high rate was broadly sustained through March 1970.

Some of the highest rates of increase in imports from 1968 to 1969 were recorded by the more developed primary producing countries and by other countries rapidly achieving a more diversified industrial base (Chart 15 and Table 21). Among the European countries, Finland, Ireland, Portugal, Spain, and Yugoslavia all increased imports by about 20 per cent or more. The imports of Greece rose less rapidly, while those of Turkey declined. Bolstered by a much-improved volume of export earnings in 1969, New Zealand increased its imports sharply in that year after two years of decline, and South Africa's imports also rose steeply. Among other relatively industrialized primary producing coun-

CHART 14. LESS DEVELOPED PRIMARY PRODUCING COUNTRIES: CHANGES IN EXPORTS AND EXPORT MARKETS, 1968–69

(In per cent)



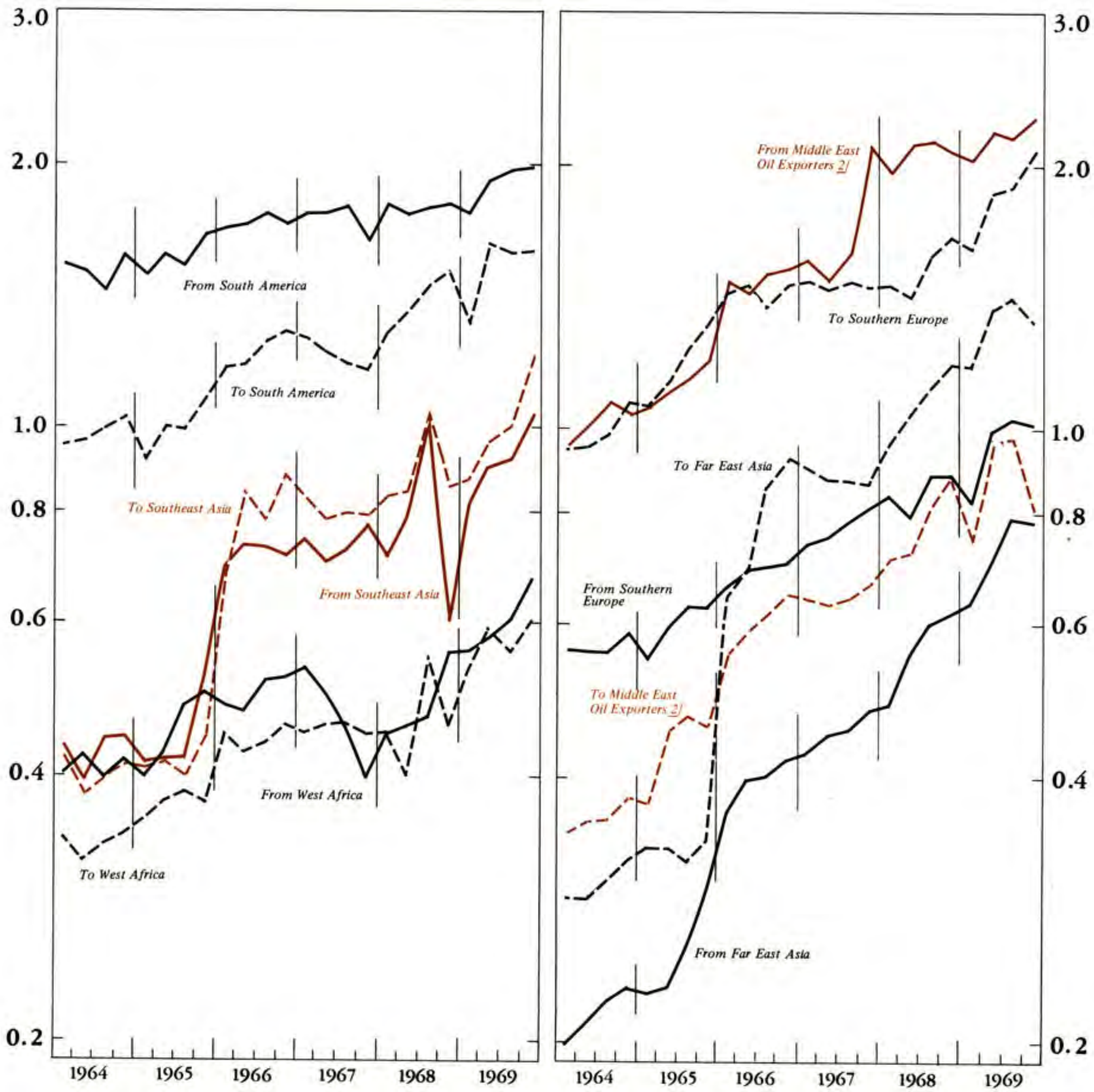
¹ Data as reported by OECD countries.
² Estimates based on data for January–September 1969. See Table 20, footnote 2, for explanation.

tries outside Europe, those in which imports advanced especially strongly included Israel, China, Hong Kong, and Korea. In these countries, rapid economic growth in recent years was reflected in large increases in imports, especially of capital goods.

Among less industrialized countries in Asia, Indonesia increased its imports by 15 per cent from 1968 to 1969. An important factor behind this increase was the strong rise in export earnings, which facilitated an acceleration of development expenditures, rehabilitation of fixed assets, and increased industrial production. In the Philippines, however, virtually stable exports after 1966 had led to balance of payments difficulties, and the small decline in imports in 1969 was

CHART 15. SELECTED PRIMARY PRODUCING AREAS: TRADE WITH INDUSTRIAL COUNTRIES, 1964–69 [1]

(In billions of U. S. dollars; seasonally adjusted)



[1] Data as reported by industrial countries. For the country coverage of selected areas, see footnotes to Table 21.
[2] Including Libyan Arab Republic.

TABLE 21. PRIMARY PRODUCING COUNTRIES: CHANGES IN VALUE OF TOTAL IMPORTS, 1966–69 [1]

	1969	1966	1967	1968	1969
	Billion U.S. dollars	←——*Percentage changes*——→			
Countries in Europe	**13.6**	**13**	**—**	**3**	**18**
North [2]	3.6	4	1	−1	22
of which, Finland	*2.0*	*5*	*−2*	*−6*	*27*
South [3]	10.1	17	—	5	17
of which, Spain	*4.2*	*19*	*−3*	*1*	*20*
Yugoslavia	*2.1*	*22*	*8*	*5*	*19*
Australia, New Zealand, and South Africa	**8.9**	**−3**	**8**	**5**	**8**
of which, South Africa	*3.3*	*−6*	*17*	*−2*	*14*
Countries in Asia	**17.3**	**6**	**8**	**7**	**10**
Far East [4]	5.5	20	17	22	24
of which, China, Republic of	*1.2*	*12*	*30*	*12*	*34*
Korea	*1.8*	*55*	*39*	*47*	*24*
Southeast [5]	8.3	7	8	8	12
of which, Indonesia	*0.8*	*−4*	*−6*	*10*	*15*
Malaysia	*1.2*	*1*	*−2*	*7*	*1*
Philippines	*1.3*	*7*	*23*	*9*	*−2*
South [6]	3.5	−3	3	−9	−10
of which, India	*2.0*	*−3*	*−1*	*−11*	*−19*
Pakistan	*1.0*	*−14*	*22*	*−10*	*1*
Countries in Africa	**8.7**	**2**	**2**	**9**	**9**
West Africa [7]	2.1	−6	−5	−1	17
of which, Nigeria	*0.7*	*−7*	*−13*	*−14*	*28*
Equatorial Africa [8]	0.9	5	—	9	17
of which, Congo, Democratic Republic of	*0.4*	*7*	*−22*	*26*	*24*
Southern and East Africa [9]	3.1	7	5	11	2
of which, Zambia	*0.5*	*17*	*25*	*6*	*−1*
North Africa [10]	2.7	5	6	16	9
of which, Algeria	*0.9*	*−4*	*−1*	*23*	*16*
Libyan Arab Republic	*0.7*	*27*	*18*	*37*	*5*
Countries in Middle East	**7.5**	**11**	**−4**	**11**	**12**
Mainly exporting oil [11]	3.9	13	11	8	11
of which, Iran	*1.4*	*8*	*21*	*23*	—
Other countries [12]	3.6	10	−17	14	13
of which, Israel	*1.3*	—	*−10*	*41*	*22*
United Arab Republic	*0.8*	*15*	*−26*	*−13*	*13*
Countries in Western Hemisphere	**15.0**	**9**	**4**	**9**	**7**
South America [13]	8.4	9	7	9	10
of which, Argentina	*1.5*	*−6*	*−3*	*7*	*33*
Brazil	*2.3*	*37*	*11*	*28*	*7*
Venezuela	*1.8*	*−9*	*10*	*16*	*5*
Mexico, Central America, and Caribbean [14]	6.6	9	5	6	4
of which, Mexico	*2.1*	*3*	*9*	*12*	*6*
Netherlands Antilles and Trinidad and Tobago	*1.2*	*−2*	*2*	*1*	—
All Primary Producing Countries [15]	**71.0**	**7**	**4**	**7**	**11**

Source: *International Financial Statistics.*
[1] Based on customs data, c.i.f.
[2] Iceland, Ireland, and Finland.
[3] Greece, Portugal, Spain, Turkey, and Yugoslavia.
[4] China, Hong Kong, and Korea.
[5] All primary producing countries in Asia except those listed in footnotes 4 and 6.
[6] Ceylon, India, and Pakistan.
[7] Dahomey, Ghana, Ivory Coast, Liberia, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo, and Upper Volta.
[8] Cameroon, Central African Republic, Chad, Democratic Republic of Congo, People's Republic of the Congo, and Gabon.
[9] Territory of the Afars and the Issas, Angola, Burundi, Comoro Islands, Ethiopia, Kenya, Malagasy Republic, Malawi, Mauritius, Mozambique, Réunion, Rwanda, Somalia, Tanzania, Uganda, Zambia, and other areas in Africa except South Africa, the United Arab Republic, and countries listed in footnotes 7, 8, and 10.
[10] Algeria, Libyan Arab Republic, Morocco, Sudan, and Tunisia.
[11] Iran, Iraq, Kuwait, Saudi Arabia, and some smaller Arab states.
[12] Cyprus, Israel, Jordan, Lebanon, Southern Yemen, Syrian Arab Republic, and United Arab Republic.
[13] All countries on the South American continent except Guyana, Surinam, and French Guiana.
[14] All primary producing countries in the Western Hemisphere except those indicated in footnote 13.
[15] Includes, in addition to the countries in the regions noted above, various small islands whose imports in 1969 were $0.7 billion.

attributable to trade and exchange controls that were intensified during the second half of the year. In Malaysia, imports increased only slightly despite a sharp rise in exports. Favorable crops, especially of rice, served to reduce imports; moreover, the political unrest in May 1969 led to a decline in foreign investment and there was a slowdown in the imports of investment goods and raw materials. Despite these developments, countries in Southeast Asia as a group increased their imports by about 12 per cent from 1968 to 1969.

In the South Asian countries, import activity in 1969 was very weak. The drop of nearly 20 per cent in India's imports followed one of 11 per cent in 1968. These declines resulted largely from substitution of domestic supplies for imports. Such substitution was most clearly evident for foodgrains, the domestic production of which increased markedly after the severe droughts of 1965 and 1966. Import substitution was also evident in a variety of manufactures, and especially in investment goods, where it had been spurred by the price effects of the devaluation of the rupee in 1966 and by the policy of banning imports of a commodity once its domestic production is well established.

In Pakistan the drop in exports from 1968 to 1969 was accompanied by a stagnation of imports. Trade flows were held back by uncertainties associated with the social and political unrest in late 1968 and early 1969; import demand was also reduced as a result of the slow growth rate of the economy.

Among the larger importers in Africa, Nigeria showed one of the sharpest advances in 1969, when its imports increased by 28 per cent, almost regaining their 1966 level. Imports into the Democratic Republic of Congo in both 1968 and 1969 reflected a general boom in domestic consumption and investment, spurred by copper exports and by expansionary policies. However, imports into much of the rest of Africa were not very buoyant in 1969; indeed, those of a large group of countries in the southern and eastern portions of Africa, taken together, increased very little from 1968 to 1969. In large part, this reflected a drop in imports into Zambia, where anti-inflationary measures, higher taxation of luxury imports, and increased production of import substitutes were the major factors depressing imports. Import substitution was also a particularly important factor in Morocco, where good crops in 1968 tended to restrain the growth of imports in 1969, despite a high and fairly steady rate of increase in export earnings.

The import behavior of oil exporters in 1969 was mixed. In Venezuela, a slowdown of imports went hand-in-hand with slower economic growth, which in turn reflected chiefly the absence of growth in petroleum output and a slowing of investment. The general slowdown may also have been affected by uncertainty regarding the future course of government policy. Similarly, in Kuwait imports leveled out with the slowdown of domestic economic activity and, especially, of development spending. Iran's imports were unchanged in 1969. In the Libyan Arab Republic imports increased by only 5 per cent in 1969, after having doubled from 1965 to 1968. On the other hand, imports of Algeria increased strongly, as did its exports, while the value of imports into Iraq also expanded under the influence of rising import prices and internal demand.

Among countries in the Western Hemisphere, Argentina expanded its imports by about one third in 1969. Raw materials, capital goods, and consumer goods accounted about equally for the increase, which reflected an acceleration in the annual growth of real GNP, bottlenecks in some domestic sectors, and rising import prices. Imports of Brazil and Mexico were much less buoyant, increasing by only about 7 per cent. Partly because of a drop in imports of petroleum products, resulting mainly from an expansion of domestic production, the growth of total imports in Brazil was lower than might have been expected in view of the rapid growth of domestic demand. In Mexico slower growth of imports in 1969 followed an exceptionally large increase in 1968. However, the leveling out of imports of investment goods in 1969 reflected a slower growth of total investment outlays, measured against the high rate of the preceding year, and some reduction in the rate of growth in GNP. In Peru, real growth of GNP continued to be very slow in 1969, as a recession stemming from a drop in domestic and foreign investment was compounded by adverse developments in agriculture and fishing. One result was a further decline in imports, which in 1969 stood only a little above their 1963–64 level.

While imports of individual primary producing

TABLE 22. PRIMARY PRODUCING COUNTRIES: TRADE BALANCES, 1965–69[1]
(In millions of U.S. dollars)

	1965	1966	1967	1968	1969
Northern Europe	−650	−600	−530	−390	−580
Southern Europe	−3,570	−4,200	−3,820	−4,030	−4,730
Total, Europe	−4,220	−4,800	−4,350	−4,420	−5,310
Australia, New Zealand, and South Africa	−2,000	−1,300	−1,400	−1,470	−1,220
of which, South Africa	*−1,180*	*−800*	*−990*	*−730*	*−1,090*
Far East Asia	−820	−1,000	−1,130	−1,430	−1,650
Southeast Asia	−990	−1,230	−1,820	−2,060	−2,170
South Asia	−1,650	−1,590	−1,660	−1,060	−650
Total, Asia	−3,460	−3,820	−4,610	−4,550	−4,470
West Africa	−200	−10	30	160	270
Equatorial Africa	10	100	120	170	190
Southern and East Africa	−80	−100	−270	−360	−30
North Africa	280	390	560	1,010	1,270
Total, Africa	10	380	440	980	1,700
Middle East, oil	3,010	3,190	3,650	4,030	4,110
Middle East, nonoil	−1,500	−1,680	−1,160	−1,410	−1,540
Total, Middle East	1,510	1,510	2,490	2,620	2,570
South America	2,210	2,170	1,740	1,420	1,600
Mexico, Central America, and Caribbean	−1,440	−1,630	−1,840	−1,870	−1,810
Total, Western Hemisphere	770	540	−100	−450	−210
Total, primary producing countries [2]	−7,700	−7,700	−7,900	−7,600	−7,200

Source: *International Financial Statistics.*
[1] Exports f.o.b. less imports c.i.f., customs basis. Figures for 1969 are partly estimated. For the country coverage of the primary producing areas, see footnotes to Table 21.
[2] Includes various small islands not included in the primary producing areas shown above.

countries thus moved erratically under the influence of diverse and particular circumstance, the trade of somewhat broader geographical areas showed more stable and systematic tendencies, especially with respect to the balance between imports and exports (Table 22). Annual data from 1965 through 1969 reveal quite steady trends of improvement in the collective trade balances of countries in West Africa and Equatorial Africa, as well as in the balances of North Africa and the Middle East oil exporters. In contrast, there was a steady deterioration from 1965 through 1968 in the collective trade balances of countries in South America, Central America and the Caribbean, and in the southeastern portions of Africa and Asia. For most of these areas, however, the weakening in the trade balance was halted or reversed by 1969. The trade deficit of South Asia showed drastic reductions in both 1968 and 1969, reflecting mainly declines in India's imports. Thus, the collective trade deficit of the primary producing countries as a group declined by about $0.4 billion from 1968 to 1969; the continuation of favorable medium-term trends in the balances of certain areas, combined with a cyclical or short-term improvement in the balances of other areas, more than offset large deteriorations in the balances of some of the more industrialized countries, notably in Europe and the Far East.

Chapter 5

Economic Policies and Balance of Payments Adjustment

Introduction

ALL industrial countries pursued restrictive domestic economic policies in 1969, primarily to ease the pressure on resources and combat inflation but also, in many instances, to protect their balance of payments positions. The active use of monetary policy for these purposes, in a situation of strong demands for credit, led to a rapid rise in interest rates to their highest level in the postwar period. (See Charts 23 and 25.) The general setting for economic policies was complicated by the imbalances in the payments system and the unsettled nature of financial and exchange markets during most of the year. The escalation of interest rates, especially in late 1968 and the first part of 1969, reflected largely the stringent monetary policy in the United States, with the Euro-dollar market functioning as an important channel through which changes in U. S. monetary conditions were spread internationally.

Major elements of economic policy in the United States and the United Kingdom had been shifted toward restraint even before the middle of 1968. In the United States inflationary pressures initially generated by spiraling government expenditures, but sustained and reinforced by surging business investment outlays and strong consumer demands, led the authorities to adopt during 1968 and 1969 a series of restraining measures including increases in tax rates, cutbacks in planned public expenditures, and restrictive monetary policies. Throughout 1969 especially heavy reliance was placed on monetary policy to restrain the expansion of aggregate demand. In the United Kingdom the prime purpose of the stabilization program initiated in 1968 was to supplement the 1967 devaluation in strengthening the external balance. Strong fiscal action in 1968, comprising tax increases and firmer control of public expenditure, was supported in 1969 by a comprehensive policy of monetary restraint. Thus, monetary conditions were unusually tight during 1969 in the United Kingdom, as in the United States, and interest rates rose to extraordinary levels in both countries.

The vigor of the economic upswing in continental Europe in the second half of 1968 was so unexpected that shifts of policy to deal with it generally came too late and were too limited in scope to curb demand and avoid inflation. In that context, comparatively little reliance was placed on fiscal policy. Budgets had been framed in expectation of a rather moderate upswing, and such countercyclical influence as they exerted in 1969 was largely the result of automatic increases in tax revenues as incomes expanded. As the year progressed, countries in Europe came to rely increasingly on monetary policies to restrain the growth of domestic demand, as well as to deal with a particularly troubled international payments environment.

The monetary policies applied by various European countries during 1968 and 1969 not only reflected differences in their domestic economic situations but also were influenced by the degree to which the balance of payments was affected by shifts in international capital flows and by the ability or willingness of the authorities to draw down reserves. Thus, France, the United Kingdom, and certain other countries were forced or induced to raise interest rates, to impose ceilings on bank credit, to establish or tighten controls over the foreign operations of commercial banks, and to take other measures to discourage capital outflows; Germany, on the other hand, maintained relatively low interest rates during most of 1969 in order to discourage inflows of speculative funds and adopted measures to encourage capital outflows.

Initially, the rise of interest rates in European countries occurred primarily as a response to the tightening of monetary conditions in the United States, which attracted large volumes of capital from European financial centers through the

Euro-dollar market. However, as the expansion in Europe gathered momentum, monetary measures that had initially been used to defend official reserves became increasingly important as a means of slowing the growth of domestic demand. By the fall of 1969 most European countries had imposed restraints on bank credit, and the high level of interest rates in Europe had come to reflect predominantly the supply and demand conditions prevailing in European money and capital markets themselves rather than indirect effects of the U. S. monetary situation.

By the end of 1969, the speculative capital movements associated with the year's currency realignments had largely abated. The adjustment of the French and German exchange rates, the return flow of short-term capital from Germany, and the strengthening of the United Kingdom's payments position had greatly improved the prospect for reducing the imbalance in international payments. Moreover, in part as a reflection of these developments, the marked differences in monetary conditions that had prevailed during 1968 and most of 1969 had become less pronounced, as attested by generally much smaller spreads among interest rates in the various major financial centers.

The combined over-all payments position of the industrial countries was close to balance in 1969, in contrast to a deficit of $2.6 billion in the previous year (Table 23). The improvement mainly reflected favorable developments in the external accounts of the United Kingdom, the United States, and France, only partly offset by the exceptionally large swing of the German payments position into deficit (Table 24 and Chart 16). In Germany, as well as in a number of other industrial countries, over-all balances of payments during 1969 were strongly influenced by short-term capital flows (Table 25) in response to international differences in credit conditions and to speculation concerning exchange rates of major currencies. By the end of the year, however, these forces seemed largely spent, and short-term flows had subsided to more normal levels. On long-term capital account, by far the most dramatic development in 1969 was the huge increase in outflows from Germany; chiefly because of this increase, the recorded net outflow of long-term capital from the industrial countries as a group rose from about $9 billion in 1968 to over $11½ billion in 1969 (Table 26).

The 1968–69 improvement in the over-all payments position of the industrial countries vis-à-vis

TABLE 23. BALANCE OF PAYMENTS SUMMARY, 1967–69 [1]

(In billions of U. S. dollars)

	Current Balance [2]			Capital Balance			Over-All Balance [3]		
	1967	1968	1969	1967	1968	1969	1967	1968	1969
Industrial countries	**9.1**	**8.9**	**8.2**	**−12.4**	**−11.5**	**−8.1**	**−3.2**	**−2.6**	—
Primary producing countries	**−8.3**	**−8.7**	**−8.4**	**9.2**	**11.3**	**10.1**	**0.8**	**2.6**	**1.7**
Australia, New Zealand, and South Africa	−1.2	−1.1	−1.0	1.1	1.9	0.8	−0.1	0.8	−0.2
European countries	−0.9	−0.8	−1.2	0.8	1.5	1.4	−0.1	0.7	0.3
Total, more developed areas	−2.1	−1.9	−2.2	1.9	3.4	2.3	−0.2	1.5	0.1
Africa	−0.8	−0.5	—	0.7	0.8	0.7	−0.1	0.3	0.6
Asia	−3.2	−3.2	−2.8	3.5	3.5	3.6	0.3	0.3	0.8
Middle East	−0.4	−0.8	−1.1	0.8	0.9	0.8	0.4	0.1	−0.3
Western Hemisphere	−1.8	−2.4	−2.3	2.2	2.8	2.8	0.4	0.4	0.6
Total, less developed areas	−6.2	−6.9	−6.2	7.3	8.0	7.9	1.0	1.1	1.7
Excess of surpluses	0.8	0.2	−0.2	−3.2	−0.2	2.0	−2.4	—	1.8
Change in monetary gold							−1.6	−0.7	0.1
Treatment of U. K. portfolio liquidation [4]				−0.5	—	—	−0.5	—	—
Other asymmetries and errors							−0.3	0.7	1.7

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

[1] For balance of payments details, see Supplementary Note B, Tables 52–66.

[2] Balance on goods, services, and private transfers; unrequited government transfers 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*. Generally, 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 J of Table 63 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 France and Germany the constituent figures comprise the official monetary movements as given in item G and item I of Tables 56 and 57, respectively.

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 as 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.

TABLE 24. INDUSTRIAL COUNTRIES: BALANCE OF PAYMENTS SUMMARIES, 1967–69 [1]

(In billions of U. S. dollars)

	Current Balance			Capital Balance			Over-All Balance		
	1967	1968	1969	1967	1968	1969	1967	1968	1969
United Kingdom	−0.2	−0.3	1.4	−1.1	−2.7	−0.5	−1.3	−3.0	0.9
United States	4.0	1.4	0.8	−7.4	—	2.0	−3.4	1.4	2.8
Total	3.8	1.1	2.2	−8.5	−2.7	1.5	−4.7	−1.6	3.7
Germany	3.3	3.9	2.9	−3.2	−2.2	−5.9	0.1	1.7	−3.0
France	0.7	−0.8	−1.8	−0.4	−2.9	0.8	0.3	−3.7	−1.1
Italy	1.8	2.9	2.6	−1.2	−3.0	−3.3	0.6	−0.1	−0.6
Belgium-Luxembourg	0.3	0.1	0.2	−0.1	−0.5	—	0.2	−0.4	0.2
Netherlands	—	0.1	—	0.2	−0.2	0.1	0.2	−0.1	0.1
Total EEC countries	6.0	6.2	4.0	−4.7	−8.7	−8.4	1.3	−2.5	−4.4
Canada	−0.3	0.1	−0.5	0.3	0.3	0.6	—	0.3	0.1
Japan	—	1.2	2.3	−0.1	−0.3	−1.6	−0.1	0.9	0.7
Switzerland	0.3	0.6	0.5	−0.2	−0.2	−0.5	0.1	0.4	—
Austria	−0.1	−0.1	0.1	0.3	0.1	−0.1	0.2	—	—
Denmark	−0.3	−0.2	−0.4	0.2	0.1	0.4	−0.1	−0.1	—
Norway	−0.2	0.2	0.1	0.4	−0.2	−0.1	0.2	—	—
Sweden	—	—	−0.1	−0.2	—	—	−0.2	—	−0.1
All industrial countries	9.1	8.9	8.2	−12.4	−11.5	−8.1	−3.2	−2.6	—

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

[1] The classification of items differs in some instances from that used in national publications and other sources. For definitions of "current," "capital," and "over-all" balances, see notes to Table 23. Detailed balance of payments statements are given in Supplementary Note B.

the rest of the world was apparently to a large extent the result of a reduction in the capital outflow to certain of the more developed primary producing countries, probably reflecting the widespread stringency of monetary conditions in the industrial countries.[1] The over-all payments position of the more developed primary producing countries shrank from a record surplus of some $1.5 billion in 1968 to near balance in 1969. The less developed countries had a combined over-all surplus of $1.7 billion, a postwar record well above the 1968 outturn. The current account deficit of these countries, taken as a group, was reduced considerably in 1969, mainly as a result of a surge in their export earnings. (See Table 9.)

For many less developed countries, the higher export earnings and better payments situation in 1969 had the effect of easing balance of payments constraints on their policies and of facilitating a faster rate of growth in total output. Another significant factor contributing to output growth was the improvement in agricultural supply conditions in many countries, especially in Asia. Preliminary data show that the total real gross national product (GNP) of the less developed countries rose by almost 7 per cent from 1968 to 1969, a rate substantially above the long-term average. In 1969, for the first time in many years, their real per capita output increased at roughly the same pace as that of industrial countries.

[1] However, the extent of the reduction in the capital outflow, and of the improvement in the payments position, suggested by these figures is probably overstated because of biases in the statistical records. The excess of recorded surpluses over recorded deficits due to asymmetries and errors in the basic data for over-all balances amounted to $1.7 billion in 1969 and reflected, among other factors, the placement of officially owned dollar balances in the Euro-dollar market. Such placements have the effect of improving the U. S. over-all position without a corresponding deterioration in the positions of the other countries concerned (or in the combined position for all other countries together). Because data on capital flows in Table 23 have been derived as residuals between the over-all and the current account payments balances as reported to the Fund by member countries, outflows of capital from the industrial countries are understated.

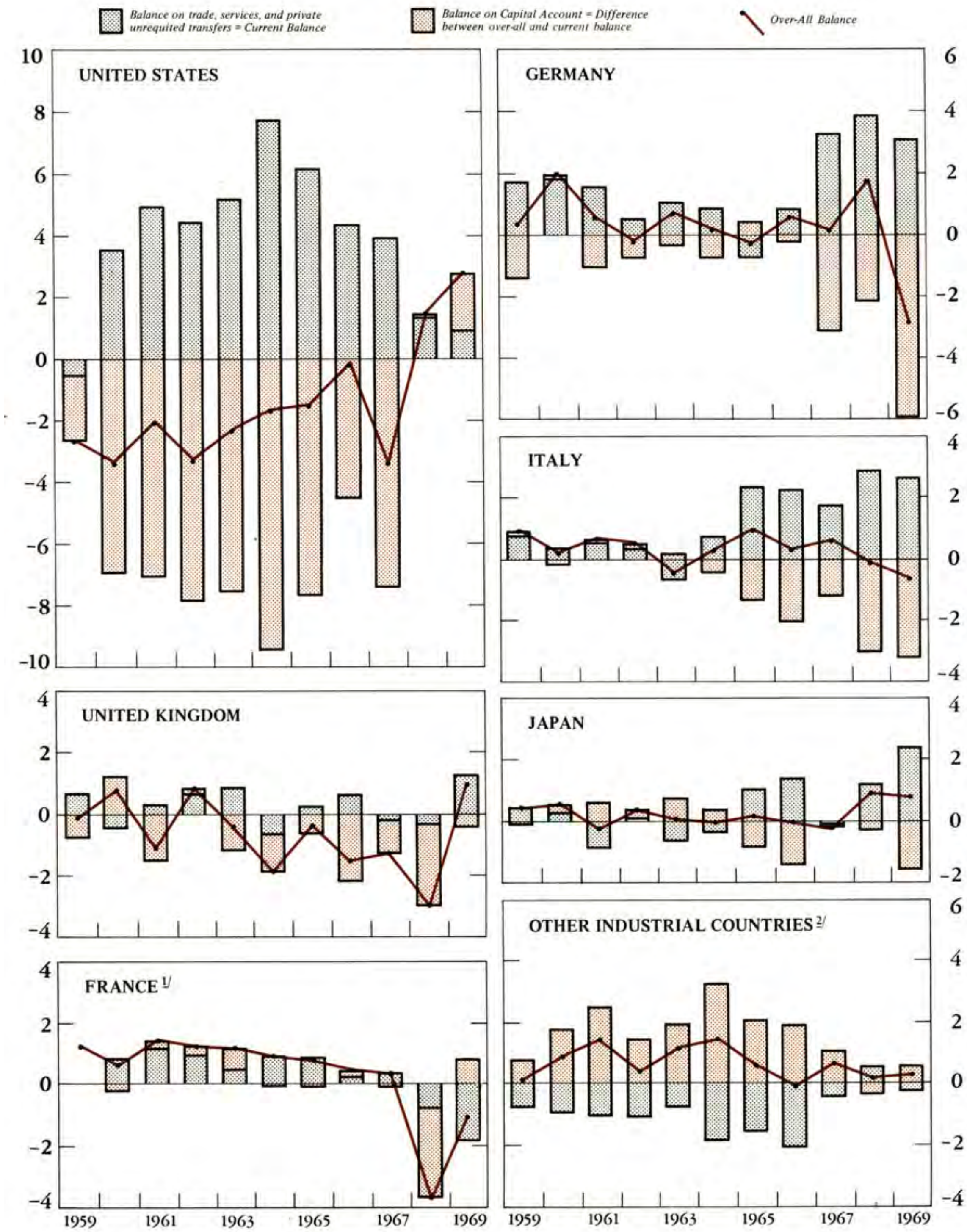
Developments in Industrial Countries

United States

The dominant features of the U. S. economic situation during 1969 and early 1970 were the inflationary momentum generated by develop-

CHART 16. INDUSTRIAL COUNTRIES: TOTAL TRANSACTIONS ON CURRENT AND CAPITAL ACCOUNT, AND OVER-ALL BALANCES OF PAYMENTS, 1959–69

(In billions of U.S. dollars)



[1] Transactions and payments with countries outside the French franc area.
[2] Austria, Belgium, Canada, Denmark, Luxembourg, Netherlands, Norway, Sweden, and Switzerland.

TABLE 25. INDUSTRIAL COUNTRIES: PRIVATE SHORT-TERM CAPITAL FLOWS (INCLUDING ERRORS AND OMISSIONS), 1967–FIRST QUARTER 1970

(In millions of U. S. dollars)

	1967	1968	1969	1968 Fourth quarter	1969 First quarter	1969 Second quarter	1969 Third quarter	1969 Fourth quarter	1970 First quarter
United Kingdom [1]	−200	−2,021	−6	−729	405	−392	−746	727	1,473
of which Commercial banks	...	*−795*	*777*	*−490*	*−244*	*−220*	*−336*	*23*	*321*
United States	−328	3,075	5,691	−640	1,615	3,411	1,266	−601	−1,705
of which Commercial banks	*876*	*3,693*	*8,126*	*−588*	*3,225*	*4,097*	*1,599*	*−795*	*−1,290*
Germany [2]	−1,566	1,810	1,210	280	−664	2,414	2,247	−2,787	1,281
of which Commercial banks	*−1,206*	*614*	*1,186*	*430*	*−1,179*	*90*	*1,044*	*1,231*	*417*
France	115	−1,551	747	449	676	−124	198	−3	...
of which Commercial banks	*438*	*−559*	*478*	*848*	*726*	*−108*	*−81*	*−59*	...
Italy	−666	−2,409	−2,399	−815	−695	−558	−851	−295	−1,007
of which Commercial banks	*195*	*−688*	*686*	*−223*	*−26*	*560*	*−63*	*215*	*−131*
Banknotes	*−801*	*−1,128*	*−2,256*	*−317*	*−484*	*−550*	*−616*	*−606*	*−436*
Japan	942	55	−1,220	−11	95	−731	−404	−180	643
of which Commercial banks	*511*	*−238*	*−1,483*	*−68*	*41*	*−731*	*−490*	*−303*	*299*
Canada	−766	−1,089	−1,273	147	−297	−214	−610	−152	−276
of which Commercial banks	*−241*	*−314*	*−1,432*	*−102*	*−154*	*−503*	*−579*	*−196*	*251*
Other industrial countries [3]	278	−542	185	−276	−327	140	−164	536	...
of which Commercial banks	*−29*	*−634*	*50*	*−196*	*−429*	*138*	*−107*	*348*	...

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] For 1967 and 1968, includes exchange adjustments.
[2] Includes some official short-term capital flows.
[3] Excludes Switzerland.

ments of the preceding several years, the maintenance of a much more restrictive fiscal position than had prevailed from mid-1965 through mid-1968, application of a tight monetary policy, and a gradual, long-lagged response of real economic activity to the financial restraint being applied. Both the persistent inflationary momentum and the restrictive policies followed to deal with it were reflected strongly in the balance of payments, as well as in various crosscurrents in the domestic economy (Chart 17).

Internally, the strength of inflationary forces was manifested in the largest price and unit labor cost increases in almost two decades. The

TABLE 26. INDUSTRIAL COUNTRIES: BALANCES ON LONG-TERM CAPITAL ACCOUNT, 1967–69

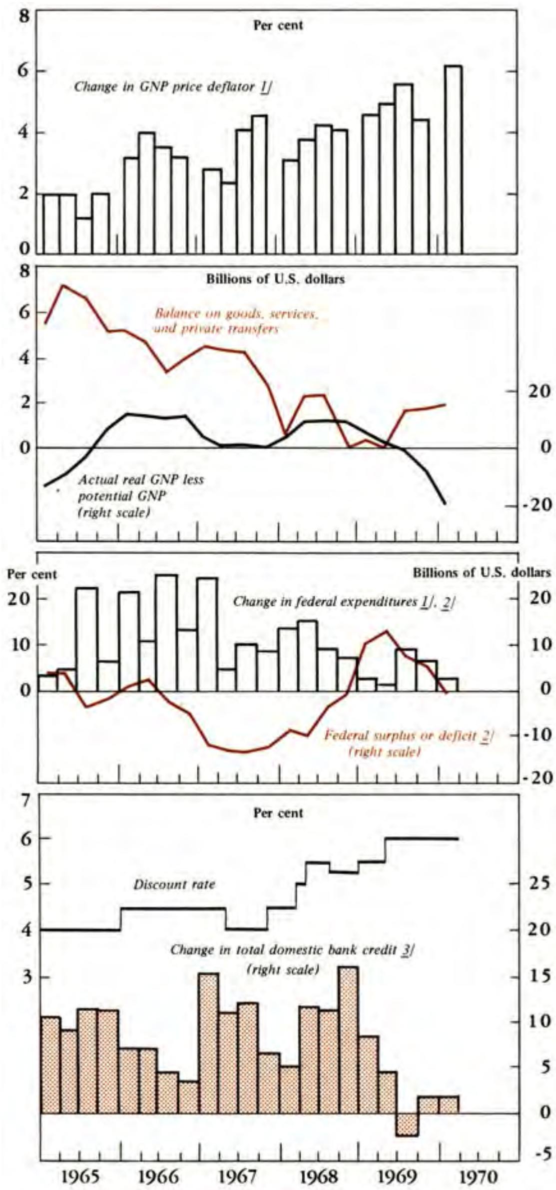
(In billions of U. S. dollars)

	Private 1967	Private 1968	Private 1969	Official [1] 1967	Official [1] 1968	Official [1] 1969	Total 1967	Total 1968	Total 1969
United Kingdom	−0.2	−0.3	0.2	−0.7	−0.4	−0.7	−0.9	−0.7	−0.5
United States	−2.9	1.2	0.1	−4.2	−4.0	−3.8	−7.1	−2.8	−3.7
Germany	−0.4	−2.5	−5.5	−1.2	−1.4	−1.7	−1.6	−3.9	−7.2
France	0.1	−0.8	0.4	−0.6	−0.5	−0.4	−0.5	−1.3	—
Italy	−0.2	−0.1	−0.6	−0.3	−0.5	−0.1	−0.5	−0.6	−0.7
Belgium-Luxembourg	0.1	−0.1	0.2	−0.2	−0.1	0.2	−0.1	−0.2	—
Netherlands	−0.1	−0.1	—	−0.1	−0.1	—	−0.2	−0.2	—
Canada	1.3	1.3	2.1	−0.2	0.1	−0.2	1.1	1.4	1.9
Japan	−0.6	−0.1	0.1	−0.4	−0.3	−0.5	−0.9	−0.4	−0.3
Switzerland	−0.4	−0.7	−1.2	—	—	—	−0.5	−0.8	−1.2
Other industrial countries	0.8	0.3	—	—	0.1	−0.1	0.8	0.5	−0.1
Total	−2.6	−2.0	−4.1	−7.8	−7.2	−7.6	−10.4	−9.1	−11.7

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

Chart 17. United States: Economic and Policy Indicators, 1965–70

(Seasonally adjusted quarterly data at annual rates)



[1] From previous quarter.
[2] On a national accounts basis.
[3] From end of previous quarter, based on *International Financial Statistics* data.

increase in the GNP deflator from 1968 to 1969 was nearly 5 per cent, higher than expected by most observers; and the annual rate of increase in the first quarter of 1970 was even higher, amounting to some 6 per cent inclusive of a federal pay raise and to more than 5 per cent apart from that factor. However, despite the continued spiraling of prices and costs, current demand pressures were gradually subsiding. Real output expanded at progressively slower rates during 1969 and then declined at an annual rate of 3 per cent in the first quarter of 1970. A significant margin of slack was thus opened in the economy, and the seasonally adjusted unemployment rate rose to a monthly average of 4.8 per cent of the labor force in the second quarter, compared with less than 3.5 per cent early in 1969.

In the recent slowdown of economic activity, the financial policies of the U. S. authorities played a leading role.[2] Principal restraining measures included the 10 per cent income tax surcharge imposed in mid-1968 and a statutory ceiling on federal expenditures for the fiscal year ended June 30, 1969, contributing to a budgetary swing from a deficit of $25 billion in fiscal 1968 to a surplus of $3 billion in fiscal 1969; a marked firming of monetary policy in December 1968 and intensification of such restraint after the middle of 1969; and the adoption of non-expansionary budgetary plans for the 1970 fiscal year.

To maintain stringent monetary conditions throughout 1969, the Federal Reserve System used all of the major tools available to it, conducting open market operations in such fashion as to hold the volume of cash reserves available to member banks constantly under restraint, raising the minimum reserve requirements on all demand deposits in April, lifting the discount rate in the same month, and imposing a reserve requirement on marginal Euro-dollar borrowing in September. Moreover, the authorities relied to an exceptional extent upon regulatory powers over maximum interest rates payable by banks on time deposits[3] to limit the resources available for bank loans and investments, and they took a number of technical steps to curb the access of banks to certain nondepository sources of funds

[2] The authorities early decided against the use of "incomes policy," such as wage and price guidelines, as an anti-inflation measure. In June 1970, however, the Government announced three specific actions in this field: appointment of a National Committee on Productivity; plans for a periodic "inflation alert" to spotlight and analyze significant areas of wage and price increases; and establishment of a review board to assess the impact of federal regulations, purchasing, and import policy on costs and prices.

[3] Under Federal Reserve Regulation Q.

toward which they were turning in resourceful efforts to escape the impact of policy restraint.

The combination of these restrictive financial policies with the persisting inflationary momentum of the U. S. economy produced a striking mixture of balance of payments results in 1969—generally disappointing in the current account but favorable in the capital account. During much of the year, the weakness of the current account already evident in 1968 was aggravated by further increases in imports induced by domestic demand pressures and probably also by shifts in price differentials favorable to foreign suppliers. Despite some recovery in the fourth quarter, the merchandise export surplus for the year as a whole was less than $0.7 billion,[4] scarcely exceeding the 1968 figure. However, foreign capital flowed to the United States in unprecedented amounts because of the sustained prevalence of exceptionally tight domestic credit conditions.

This enlarged 1969 inflow came predominantly in the form of short-term banking funds channeled through the Euro-dollar market—a pattern reflecting both the general severity of U. S. monetary restraint and the use of interest rate ceilings to curb access of the commercial banks to domestic depository funds. With those ceilings held throughout 1969 at levels significantly below current yields on short-term money market paper, the banks were confronted with massive withdrawals of time deposit funds, and a number of them turned to the Euro-dollar market, where their branches could bid freely for funds and transfer them to the home offices as nondepository advances not subject to the usual cash reserve requirements.

The rapid expansion of these Euro-dollar advances in the first half of 1969 (when they rose by almost $8 billion, more than doubling the amount outstanding at the beginning of the year) not only resulted in a shifting of the burden of monetary restraint among domestic banks and their customers but also exerted an impact on money and credit markets abroad. In order to arrest further developments of these types, the U. S. authorities imposed a new 10 per cent marginal reserve requirement on Euro-dollar borrowing by U. S. banks, and its growth soon ceased. Nevertheless, owing to the heavy influx of banking funds that had already occurred, the rise in total inflows of foreign capital for the calendar year as a whole was more than sufficient to offset a moderate increase in the outflow of U. S. capital. Despite the weakness of the current account, the surplus in the U. S. balance of payments on the official settlements basis was thus raised from $1.6 billion in 1968 to the record total of $2.7 billion in 1969. (See Table 64.) In contrast, the balance on the "liquidity" basis (in which inflows of foreign banking funds are counted as financing items, rather than capital movements) showed a huge swing in the opposite direction, from a small surplus in 1968 to a record deficit of some $7 billion in 1969.

Under the circumstances prevailing in 1969, neither of the two measures of the over-all balance represented, in itself, a valid gauge of the external payments position. The liquidity deficit reflected sizable "circular flows" of U. S. capital into the Euro-dollar market and back again via the U. S. banking system, while the official settlements surplus stemmed in large part from inflows of banking funds induced by domestic financial conditions and policies that were not indefinitely sustainable. Indeed, these were already being relaxed cautiously in the spring of 1970 for domestic purposes, and partly for this reason the over-all balance of payments was in substantial deficit in the first quarter according to either of the two definitions.

Policy measures addressed specifically to the balance of payments, such as the mandatory controls on U. S. direct investment abroad and the voluntary restraints on bank lending to foreign borrowers, were not substantially altered during the past year. The changes introduced had the purpose of liberalizing the regulations or correcting inequities and had only marginal influence on the broad developments outlined above.

Canada

In 1969, as in several previous years, the Canadian economy produced sizable gains in real output but suffered from excessive increases in costs and prices. Even though the country's balance of payments position was strong during 1969 and

[4] Trade balance with exports and imports adjusted to balance of payments basis. As shown in Chart 7, the unadjusted balance—equal to exports excluding military aid shipments minus general imports, both on a customs return basis—improved moderately, from $0.8 billion in 1968 to $1.2 billion in 1969.

the early months of 1970, longer-run balance of payments considerations, as well as domestic aims, led the Canadian authorities to persist in the efforts begun in 1968 to restrain both governmental and private demands upon the economy and thus to establish conditions favorable to a reduction in the rate of increase in costs and prices. Toward that end, they relied not only on a marked tightening of fiscal and monetary policies but also on progressively more concrete steps to develop an incomes policy workable in the Canadian setting.

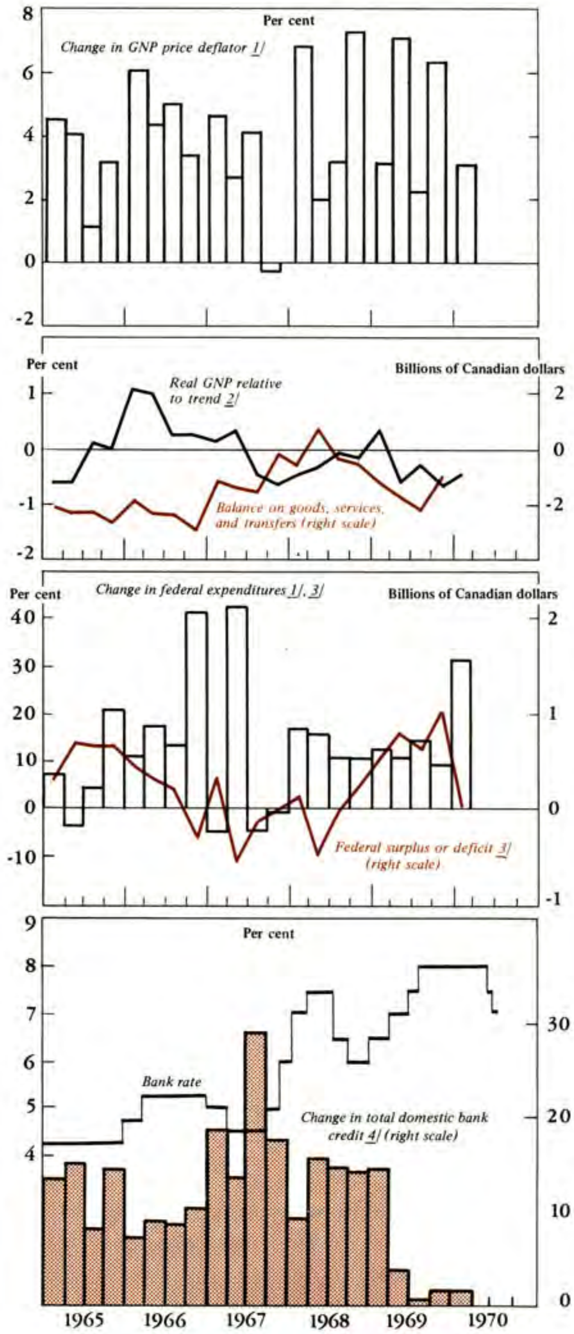
The wave of renewed economic expansion on which Canada entered 1969 subsided during the year in response to both the restrictive policy measures applied and the progressive slowdown of the U. S. economy. The seasonally adjusted unemployment rate was at a level of about 5 per cent in late 1969 and rose sharply in the spring of 1970, reaching about 6 per cent in May. The first five months of 1970 featured a rate of increase in consumer prices appreciably below the 1969 average of some 5 per cent. However, the slowing of growth in real output during 1969 and the early part of 1970 brought little or no moderation of the rapid cost increases already under way.

A key element in the program of restraint was a major swing in the fiscal position of the Federal Government (Chart 18). Reflecting both cutbacks in the growth of spending and significant increases in taxation, it resulted in a cash surplus (apart from foreign exchange operations) of some $0.2 billion for the 1969/70 fiscal year,[5] compared with a deficit of about $0.9 billion, or well over 1 per cent of GNP, for the previous fiscal year. This fiscal shift was accompanied by a tight monetary policy, implemented chiefly through pressure of the central bank's market operations in government securities on the cash reserves and general liquidity positions of the commercial banks but also involving several increases of the Bank Rate and an increase in the banks' minimum secondary reserve ratio in order to impound liquid assets that otherwise might have been sold off to finance loan expansion. In addition, the Bank of Canada enlisted the voluntary cooperation of banks and other financial institutions with respect to a number of matters considered important for effective

[5] Ended March 31, 1970.

CHART 18. CANADA: ECONOMIC AND POLICY INDICATORS, 1965–70

(Seasonally adjusted quarterly data at annual rates)



[1] From previous quarter.
[2] Trend of 5 per cent a year corresponding to actual average growth in 1965–69. Trend line intersecting index of actual GNP (1965 = 100) in the fourth quarter of 1965.
[3] On a national accounts basis.
[4] From end of previous quarter, based on *International Financial Statistics* data.

implementation of monetary policy, including a limitation on interest rates paid on short-term Canadian dollar certificates of deposit (in order to limit competition for large blocks of such funds) and a temporary ceiling on swapped deposits denominated in foreign currency (to limit the impact of high Euro-dollar interest rates on the Canadian money market).

In an effort to supplement the force of general fiscal and monetary policy in constraining price and cost advances, Canada's new Prices and Incomes Commission has been attempting to enlist widespread public support for voluntary restraint of price and wage increases. It has obtained from business and professional leaders a general agreement to minimize price increases through partial cost absorption. More recently, the Commission has proposed a guideline of 6 per cent as a desirable upper limit for first-year wage and salary increases in present circumstances. This guideline has received the general support of the Federal and Provincial Governments, but organized labor continues to oppose proposals involving guidelines for wage advances.

Primarily because of the steady maintenance of tight monetary conditions, the Canadian balance of payments remained in over-all surplus in 1969, despite a sizable adverse swing in the current account. Long-term capital inflows rose enough to cover not only the resurgent current account deficit but also an enlarged outflow of short-term capital in response to exceptionally high interest rates abroad, plus some further growth in official reserves. The rise in the current account deficit reflected the depressed state of the world market for wheat and the impact of major industrial disputes on Canadian exports of other products, as well as changes in the pace of U. S. and Canadian economic activity.

In the early months of 1970, the current account improved very substantially as seasonally adjusted exports rose sharply above the fourth-quarter level in January and continued near the January rate through May, while imports held steady at roughly the fourth-quarter rate. These developments coincided with further strong inflows of capital. The continued influx of long-term funds was accompanied by a repatriation by Canadians of liquid balances held abroad.

In late March the Bank of Canada removed the ceiling on swapped deposits, and in mid-May it announced that the banks' minimum secondary reserve ratio was to be increased by one percentage point, the maximum increase permitted by law for any one month. The latter move was designed to offset the addition to the surplus liquidity available to banks as a result of financing of the accumulation of official international reserves. At the same time, the Bank Rate was reduced from the peak level in effect since mid-1969. By May 1970 interest rates in Canada were generally well below those prevailing at the turn of the year, and differentials between Canadian and U. S. rates had narrowed appreciably after more than two years of unusually wide average spreads in favor of Canada.

However, accumulation of reserves continued at an accelerated pace. In the first four months of 1970, the official international reserves excluding the allocation of SDR's rose by almost US$600 million, and in May there was a further increase of US$260 million. In addition, as a result of official swaps and forward transactions, US$360 million was acquired by the authorities in May for future delivery. The Canadian authorities decided, effective May 31, not to maintain the exchange rate for the Canadian dollar within the prescribed margins around the parity established with the Fund, and the rate rose in the first days after the decision to about US$0.97 per Can$1.00, compared with US$0.93 immediately before the change in policy. Through most of June and the first half of July, the rate fluctuated narrowly within the US$0.96–0.97 range.

Meanwhile, the restrictiveness of fiscal policy was eased somewhat in March and again in June. The latest budget estimates for the fiscal year that began in April project an over-all cash deficit—aside from foreign exchange operations—of nearly $0.8 billion, in contrast to the surplus in fiscal 1969/70.

Japan

Contrary to earlier experience in Japan, the cyclical expansion of 1968 and 1969 was accompanied by a pronounced strengthening of the current account of the balance of payments, in which a record surplus of about $2.3 billion was recorded in 1969. Although the authorities took measures to offset this surplus by stimulating exports of capital, and there was a widening net deficit on capital transactions, the over-all balance of payments showed a substantial surplus in both 1968 and 1969 (Table 24). During the course of those years and the early part of 1970, official international reserves rose sharply, approximately doubling over the two years to March 1970, when their level exceeded $4 billion.

Real output in Japan rose at an average rate of more than 13 per cent per annum in the period from 1967 to 1969. The combination of a marked strengthening of the external position with such an extremely rapid pace of growth was unusual and reflected several important factors. One of them was the prevalence of strong demand elsewhere in the world, and especially in the United States, which is a particularly important market for Japanese exports. In part, too, the buoyancy of exports had reflected some reorientation of Japanese producers toward foreign sales during a preceding period (late 1967 and early 1968), when financial restraint in Japan had damped down domestic demand. The resultant shift in the demand pattern had been instrumental not only in causing a turnaround in the current account position but also in providing stimulus for the more recent upswing of Japanese economic activity. Another factor contributing to the recent strength of the current account was the rapid growth in the productive capacity of Japan's exporting and import-competing industries in the period since the recession in 1965. That expansion of productive capacity, along with very rapid productivity gains, helped to keep Japanese export prices relatively stable and contributed greatly to the improvement of Japan's competitive position in international markets.

In the two years to mid-1969, Japanese economic expansion proceeded without endangering domestic stability. However, in the course of 1969 price advances began to accelerate, and policies were shifted in order to control the rapid rise in demand before inflationary expectations became deeply rooted. With that purpose, the authorities introduced in September 1969 a set of monetary measures, including increases in the official discount rate and related interest rates, increases in reserve requirements for commercial banks, and a strengthening of "guidelines" for both bank borrowings from the Bank of Japan and the lending policies of the commercial banks.

With respect to the balance of payments, policies designed to encourage a net outflow of both long-term and short-term capital had been followed. Especially with regard to short-term capital, a substantial outflow was recorded for 1969, owing in part to an increased volume of export financing and in part to a decrease in foreign borrowing. The reduction in foreign borrowing reflected special monetary measures taken by the authorities as well as relatively low interest rates in Japan in comparison with those in other countries.

However, following the adoption of restrictive monetary policies in the fall of 1969 and the consequent growing shortage of domestic liquidity, short-term foreign borrowing stopped declining. In the early part of 1970, while export credit continued to expand, the inflow of foreign credit to finance imports increased markedly, reflecting a strong expansion of imports during the period. In June 1970 the authorities introduced new measures to provide special funds to finance imports, with a view to preventing a further increase in foreign borrowing and keeping the increase in foreign exchange reserves at a moderate pace.

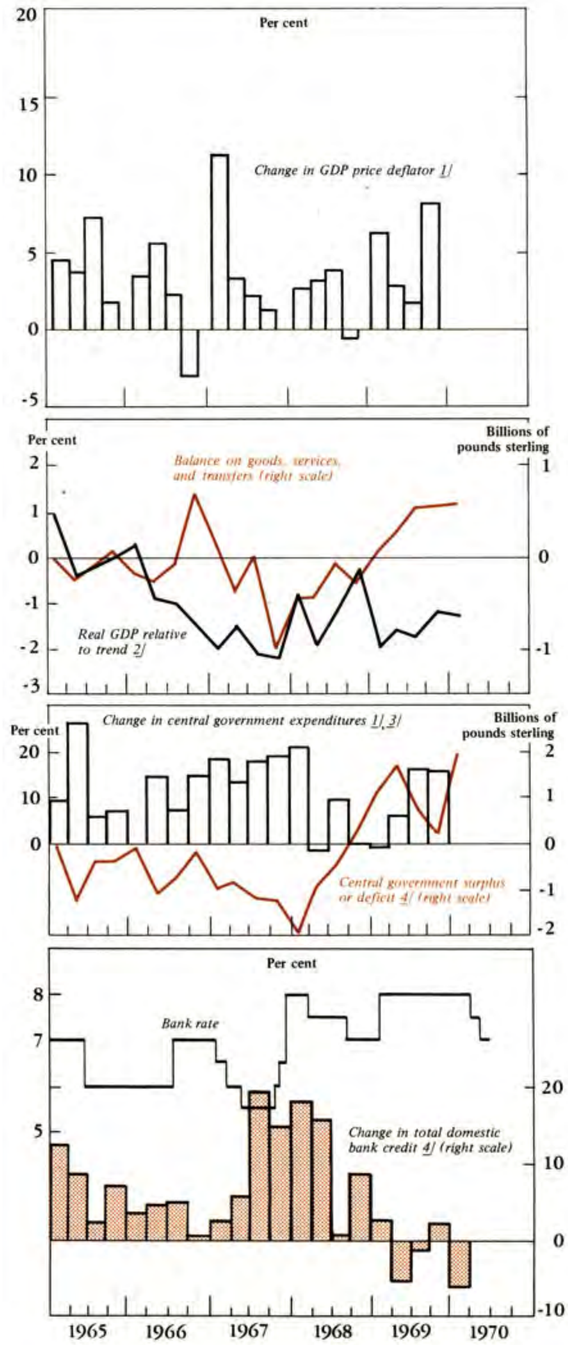
United Kingdom

Recent balance of payments developments in the United Kingdom have illustrated vividly the influence of a determined pursuit of stabilization policies upon both the current account and the capital account. Particularly striking is the manner in which capital movements, after playing a heavily destabilizing role in earlier periods of weakness in the current account, have more recently amplified the balance of payments effects of the marked improvement in the current account position.

From 1968 to 1969, the United Kingdom's over-all balance showed a favorable swing of almost $4 billion, from a deficit of $3.0 billion to a surplus of $0.9 billion. As a reflection of increasing confidence in sterling, especially after the French and German exchange rate adjustments, and of the maintenance of tight financial policies, the net short-term capital flow was close to zero for 1969 as a whole, compared with an outflow of $2.0 billion in the previous year. Underlying

CHART 19. UNITED KINGDOM: ECONOMIC AND POLICY INDICATORS, 1965–70

(Seasonally adjusted quarterly data at annual rates)



[1] From previous quarter.
[2] Trend of 2½ per cent a year roughly corresponding to actual average growth in 1965–69. Trend line intersecting index of actual GDP (1965 = 100) in the fourth quarter of 1965.
[3] On a national accounts basis.
[4] From end of previous quarter, based on *International Financial Statistics* data.

this turnaround in confidence, and essential to it, was the shift in the current account balance from a deficit of $0.3 billion in 1968 to a surplus of $1.4 billion in 1969 (Chart 19).

Three main factors accounted for this remarkable improvement in the United Kingdom's external accounts. These were the strong expansion of international trade in 1968 and 1969, which sharply raised demand for British exports; the devaluation of sterling in November 1967, which shifted relative prices in the United Kingdom's favor; and the active use of fiscal and monetary policy in 1968 and 1969 to hold back domestic demand, thereby both dampening the rise in imports and improving the capital balance in the external accounts.

The program of financial restraint initiated in 1968 and pursued even more vigorously in 1969 was based on a marked tightening of fiscal policy. The central government budget became restrictive in the course of 1968, and a substantial surplus developed in 1969 (Chart 19). Over the whole span from 1967 to 1969, the budget swung from a deficit of more than £1.3 billion to a surplus of somewhat over £1 billion—a change equivalent to about 4.5 per cent of GNP (or more than 2 per cent a year).

This development was complemented, from the second quarter of 1969 onward, by effectively coordinated steps with respect to other aspects of financial policy, in particular debt management. The authorities allowed selling pressures in securities markets to be fully reflected in yields, thus discouraging private liquidation of government debt. Moreover, once yields had been allowed to rise and the trade accounts had moved into surplus, buyers reappeared and the authorities were able to sell massive amounts of government securities in 1969. The authorities also controlled bank lending to the private sector through a quantitative ceiling on the expansion of credit by commercial banks. Such domestic credit (to both private and public sectors) declined marginally during 1969, in sharp contrast to the rise of more than 10 per cent during the preceding year.

The implementation of tighter fiscal and monetary policies, together with the delayed effects of the 1967 devaluation and the strong growth of world trade, thus had a powerful impact on the United Kingdom's external accounts in the course of 1969. Moreover, that impact was supplemented by the imposition in November 1968 of an import deposit scheme, which helped to reduce the liquidity position of the business sector. Under these influences, the current account of the balance of payments moved into surplus in the second quarter of 1969, and that surplus reached an annual rate of $1.5 billion in the second half of 1969. It was maintained at almost that level in the first quarter of 1970.

The restrictive financial policies had a considerable impact on capital flows. In contrast to U. K. experience in earlier periods of unrest in international financial markets, such policies helped limit the outflow of funds from London during the upheavals in currency markets in the first three quarters of 1969. Then, with the dramatic improvement in the current account of the U. K. balance of payments, the calming of financial markets in the last few months of the year, and the continuation of stringent financial policies in the United Kingdom, short-term capital began to flow into London on a large scale. This inflow continued unabated in the first quarter of 1970, despite the fact that interest differentials between U. K. rates and similar rates abroad were unfavorable to London throughout most of this period.

The improvement of the U. K. balance of payments enabled the authorities to repay international debts in very large amounts in the course of 1969 and early 1970. During the 15 months to the end of March 1970, short-term and medium-term foreign obligations were reduced from more than $8 billion to less than $4 billion, of which $2.4 billion represented the outstanding balance of net drawings from the Fund.

The impact of the restrictive financial policies of the past two years on domestic demand fell mainly on the housing sector, on stockbuilding, and perhaps also to some extent on private consumption. However, there is no clear evidence that private investment in machinery and equipment was greatly affected. Moreover, the impact of policies on economic activity in 1969 was mitigated by the sharp rise of exports.

It is difficult to distinguish any clear effects of the stringent financial policies on wages and prices, as these were influenced also by certain special factors in the last few years. In the latter part of 1967 and in 1968, prices rose at a rate above the long-term trend, reflecting higher indirect taxes and higher cost of imports. Partly in response to these price increases, the level of wage settlements has risen strongly since mid-1969, causing further price increases and presenting a serious problem to the authorities in a situation of relatively severe financial restraint and moderate growth of output.

France

France's balance of payments went through a pronounced cycle in the course of 1968 and 1969. Touched off by the social unrest in the spring of 1968 and magnified by the subsequent upswing in economic activity, a marked weakening of the current balance of payments during the second half of 1968 developed into a record deficit in the first half of 1969 (Chart 20). In August of the latter year, the French franc was devalued by 11.1 per cent, and a program of financial restraint was adopted, reinforcing policies that were already in effect. Then followed a remarkably quick recovery of the external balance in late 1969, bringing the current account back into equilibrium by the first quarter of 1970. This experience, like that of the United Kingdom, demonstrated the impact of determined fiscal and monetary management in restoring external equilibrium.

For France, as for the United Kingdom, fluctuations in the current account were exacerbated by speculative capital flows. A substantial outflow of short-term funds was added to the current account deficit, thus putting considerable strain on official reserves in late 1968 and in the first half of 1969; during the subsequent recovery, reserves were bolstered by such a sizable capital inflow that the over-all balance of payments swung into surplus in the fourth quarter, reducing the deficit for the full year 1969 to $1.1 billion, compared with $3.7 billion in 1968 (Table 24).

The sudden turnaround in the French current account in the latter part of 1969 came at a time when the devaluation of August 1969 could not yet have had a major impact on the underlying trends of exports and imports. However, one factor closely related to the devaluation that did play an important role, both in enlarging the deficit before the devaluation and in reducing it afterward, was the prevalence of speculative transactions in the merchandise trade accounts. In particular, the high level of imports before devaluation reflected a sizable volume of purchases abroad for stockpiling in anticipation of increases in French prices of imported goods, while the depletion of these redundant stocks after devaluation helped to explain the sudden decline in the value of imports in late 1969 and early 1970.

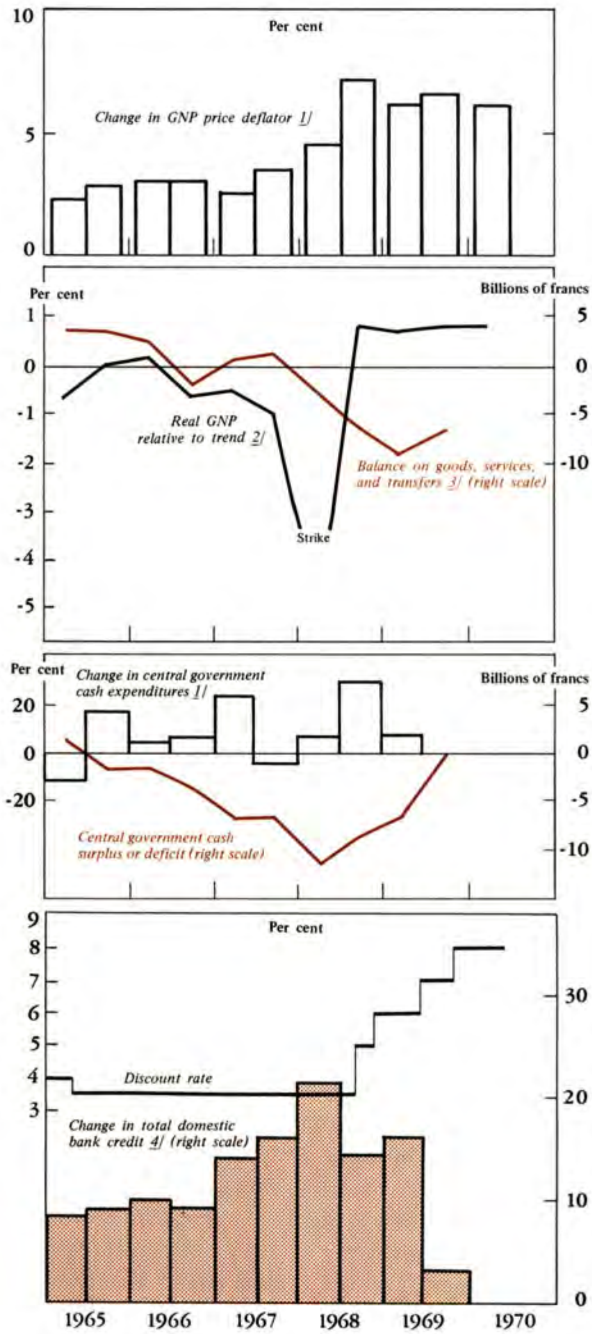
A second factor contributing to the rapid improvement in the external position immediately after devaluation was the continued buoyancy of demand for French exports, which enabled exporters to keep the dollar prices of their goods relatively close to predevaluation levels. During the second half of 1969, the surge of import demand in Germany, which takes some 20–25 per cent of French exports, was a particularly important factor behind the postdevaluation spurt in French exports.

Third, the devaluation came at a time when restrictive policies had already been in force for some time (Chart 20); by the summer of 1969, the pressure of domestic demand had probably begun to subside, thus creating room for an early improvement in the external current account. Fiscal policies had shifted in the direction of restraint in late 1968, and budgetary developments in the course of 1969 were exerting a marked contracyclical influence. The budget deficit was reduced from about F 9.5 billion in 1968 to F 1.5 billion in 1969—a change equivalent to nearly 1 per cent of GNP. Moreover, the imposition of ceilings on commercial bank lending to the private sector in late 1968, together with a rapid decline in foreign reserves, led to a situation of financial restraint through most of 1969. Policies already in effect were reinforced during August and September 1969 by the program adopted to support the devaluation, including a comprehensive ceiling on total domestic credit and measures to eliminate the budget deficit entirely by 1970. These new actions contributed importantly to the rapidity of the recovery in the foreign balance.

While the external improvement in late 1969 was due in part to factors other than the devaluation itself, the continued strengthening of the balance of payments on current account in the first half of 1970 may have reflected some of the initial results of the relative price shifts induced by

CHART 20. FRANCE: ECONOMIC AND POLICY INDICATORS, 1965–70

(Seasonally adjusted half-yearly data at annual rates)



[1] From previous half year.
[2] Trend of 5⅓ per cent a year corresponding to actual average growth in 1965–69. Trend line intersecting index of actual GNP (1965 = 100) in the second half of 1965.
[3] With non-franc countries on a transactions basis.
[4] From end of previous half year, based on *International Financial Statistics* data.

the depreciation of the franc, together with those stemming from the appreciation of the deutsche mark. The current account showed a small surplus in the first half of 1970, one or two quarters earlier than had been projected when the devaluation took place. At the same time, capital flows continued to benefit the French balance of payments in the first half of 1970, and by mid-year the authorities had repaid all short-term external debts, as well as the borrowing of foreign exchange from the French commercial banks.

The economic adjustments in the aftermath of the devaluation occurred without much sacrifice in terms of foregone output. Real GNP continued to grow throughout 1969, although at a somewhat slower rate toward the end of the year, and continuing substantial growth of output during 1970 was anticipated in the official projections for that year.

Germany

By the beginning of 1969, the German economy had completed its rapid recovery from the recession of 1966–67 and was embarked upon an unexpectedly strong expansion, led by buoyant exports and surging domestic investment demand. Unemployment had again receded to about 1 per cent of the labor force, and production was close to effective capacity. As the year progressed, rising incomes generated by these expansionary forces were supplemented by more rapid increases in wages, bringing an increase of unforeseen proportions in private consumption.

Against this background of accelerating economic momentum, the management of financial policy was intermittently complicated in 1969, as in 1968, by waves of speculation in anticipation of a possible revaluation of the deutsche mark. Following the second of these waves, the Bundesbank in September 1969 ceased to ensure the maintenance of exchange rates for the deutsche mark within the limits previously observed; and subsequently a new par value, representing a revaluation of 9.3 per cent, was established on October 26.

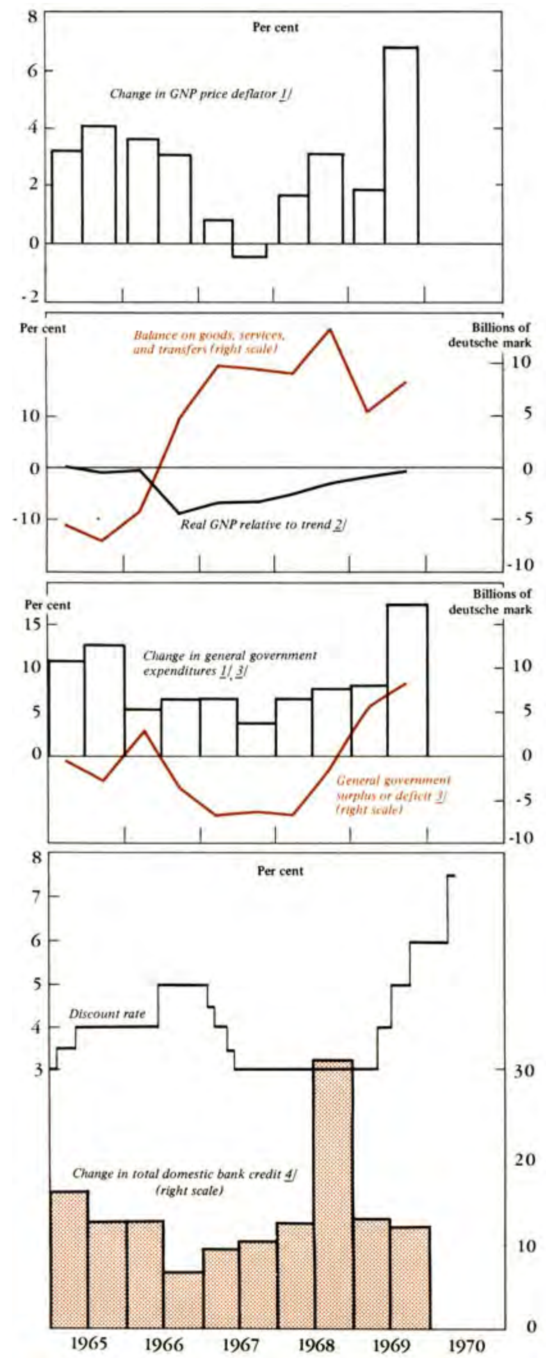
During the period of economic recovery, an easy stance of monetary policy was dictated not only by domestic considerations but also by efforts of the authorities to stimulate exports of long-term capital and to discourage the inflow of speculative short-term funds; in particular, interest rates were kept well below the levels prevailing in other industrial countries. In the early phase of the recovery, there was thus no conflict between external objectives and the desire to maintain internal balance, and expansionary policies could be pursued without the risk of generating inflation. However, the recovery proceeded at a very rapid rate. As the prospect of excessive demand and inflationary pressures emerged, the task facing the authorities became more complex. A series of measures was taken in late 1968 and in the first three quarters of 1969 in order to reconcile the aim of discouraging capital inflows with the aim of restraining the growth of demand and reducing the risk of inflation. These measures included the adjustment of border taxes in November 1968 and the use of minimum reserve requirements on banks' external liabilities; in addition, the swap rate offered to banks on spot purchases of foreign currency against forward resale was altered to discourage banks from recalling funds invested abroad in order to gain domestic liquidity. Meanwhile, a succession of moves toward greater monetary restraint had included several increases in minimum reserve requirements on domestic deposits, as well as in the discount rate and in the rate on collateral advances.

Upon revaluation of the deutsche mark, a number of earlier measures to curtail the current account surplus or to fend off excessive inward movements of foreign capital were reversed. The previous year's border tax adjustments were suspended, and the special reserve requirements on bank liabilities to foreigners were removed. At the same time, minimum reserve ratios were lowered to compensate for the effects on bank liquidity of the immediate postrevaluation outflow of capital. In order to reduce interest-sensitive capital outflows, the central bank's rate for collateral advances was raised sharply.

By the beginning of 1970 it was clear that the targets of stabilization policy had been missed by a rather wide margin during 1969. With prices and wages rising much faster than had been expected, the Government proposed in January a set of new measures—including limitation or deferment of planned outlays, postponement of scheduled tax cuts, and accumulation of "busi-

CHART 21. FEDERAL REPUBLIC OF GERMANY: ECONOMIC AND POLICY INDICATORS, 1965–70

(Seasonally adjusted half-yearly data at annual rates)



[1] From previous half year.
[2] Trend of 4½ per cent a year roughly corresponding to actual average growth in 1965–69. Trend line intersecting index of actual GNP (1965 = 100) in the first half of 1965.
[3] On a national accounts basis.
[4] From end of previous half year, based on *International Financial Statistics* data.

ness cycle equalization" deposits at the central bank—to complement the price-stabilizing effects of the revaluation in calming the overheating economy. These fiscal steps were followed in March by further increases in the discount rate (Chart 21) and related interest rates, as well as by the reimposition of special marginal reserve requirements on external liabilities of banks to discourage them from turning to foreign sources of funds as domestic credit became more expensive. With effect from July 1, minimum reserve requirements were raised by 15 per cent. To dampen the still overheated economy, new restrictive tax measures were announced in early July. These measures included a temporary refundable surcharge on income and corporation taxes and a temporary suspension of the system of declining depreciation allowances for most capital investments. The shift in the stance of fiscal policy permitted a small reduction in the discount rate and related interest rates to bring them more in line with those in other industrial countries.

In order to supplement the general fiscal and monetary restraints, the German authorities, in response to sharply rising wage claims, intensified their efforts to define an acceptable framework for wage bargaining and price setting, chiefly through the "concerted action" program involving representatives of the trade unions, the employers' associations, and the Government.

The surplus in Germany's current balance of payments continued large throughout 1969, reflecting not only buoyant foreign demand but also the very strong competitive position of German producers, which had been enhanced by the manner in which productivity gains during the first phase of the cyclical upswing had outpaced the moderate wage and salary advances of that period. In the early months of 1970 signs of some reduction in the external surplus on current account appeared. However, it remained too early to gauge the degree to which the revaluation of October 1969—designed to relieve demand pressures in Germany by reducing the export surplus—was bringing progress toward that objective.

Notable features of the German balance of payments during 1969, aside from the export surplus, included a greatly enlarged outflow of long-term capital, reflecting the relatively low average level of German long-term interest rates in comparison with those abroad. There was also a highly variable pattern of short-term capital movements and reserve changes, powerfully influenced by swings in speculative sentiment and responsive also to international differentials in money market conditions. The net short-term capital flow was strongly inward during the spring and again in the early fall, when anticipation of deutsche mark revaluation dominated the exchange market, but outward in other periods, particularly toward the end of the year, when speculative positions were being unwound. Over the year as a whole, therefore, the volume and direction of the net short-term capital movement did not differ greatly from that of 1968. The late-1969 outflows of short-term funds were reversed once more in the first quarter of 1970, when the flow turned inward in response to the sharp tightening of German money market conditions.

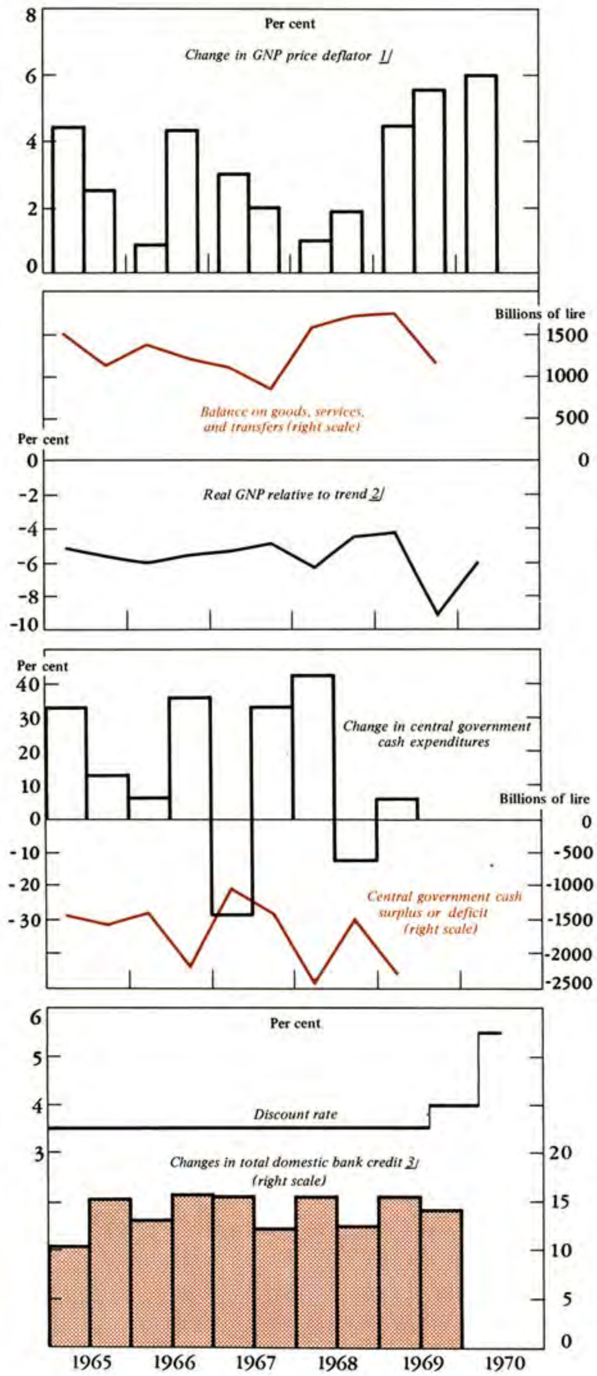
Italy

For several years prior to 1969, the Italian economy had expanded rather steadily at a rate averaging about 6 per cent per annum in real terms. While that rate was closely in line with the estimated growth of the economy's potential, the expansion had started, following the 1964 recession, from a level of output representing less than full utilization of available resources (Chart 22). Italian unemployment, particularly in the southern part of the country, had therefore remained high by European standards throughout the period from 1965 through 1968. Associated features of that period included a remarkable stability of prices, an exceptionally favorable trend of unit labor costs, and a massive surplus in the current account, including a generally very strong trade balance. Although outward movements of nonbank capital were also consistently quite large, liquid assets abroad were accumulated in sizable volume every year after 1964, either by the commercial banking system or in the official exchange reserves or both.

In the second half of 1968 and during 1969, the authorities took a number of steps to stimulate an acceleration of economic activity and reduce unemployment. Plans to increase government spending were adopted, and special tax

CHART 22. ITALY: ECONOMIC AND POLICY INDICATORS, 1965–70

(Seasonally adjusted half-yearly data at annual rates)



[1] From previous half year.
[2] Trend of 6 per cent a year corresponding to actual average growth in 1960–69. Trend line intersecting index of actual GNP (1965 = 100) at the end of 1963.
[3] From end of previous half year, based on *International Financial Statistics* data.

allowances or reductions were introduced to encourage private investment and to provide direct stimulus for private consumption through increases in household incomes. These expansionary fiscal policies were supported through early 1969 by a relatively easy monetary policy. Such a policy tended, in combination with other factors, to encourage unduly large outflows of long-term capital. The authorities countered this tendency by raising the cost of forward cover for foreign currency assets of the commercial banks, by requesting the banks to liquidate their net foreign asset positions (totaling about $0.8 billion in March 1969), and by raising domestic short-term interest rates, including the bank rate.

Through the summer of 1969 the economy responded strongly to the earlier expansionary policy moves and to the stimulus of rapid growth in foreign markets. Although this trend was seriously interrupted in the last four months of the year by a wave of major labor disputes, the immediate prospect in early 1970 was one of considerable buoyancy. Indeed, the large magnitude of the income gains resulting from recently negotiated wage settlements seemed sure to bring increases in prices, which had already turned sharply upward in the spring of 1969, and in unit costs, at rates not witnessed in Italy for many years.

The surge of aggregate domestic demand had already tended to narrow the substantial excess of exports over imports in the first half of 1969 (Chart 22). Then, during the strike-ridden second half of the year, many domestic demands were met to a significant extent by drawing on foreign supplies. The impact of the strikes on export capabilities also contributed, of course, to the shrinkage of Italy's external trade surplus.

Even prior to that shrinkage, the surplus had been outweighed during the first half of the year by exceptionally large outflows of nonbank capital, reflecting the emergence of a sizable differential between Italian interest rates and those abroad, as well as persistent institutional or structural characteristics of Italy's capital market and fiscal situation, such as widespread tax evasion and lack of an adequate range of readily negotiable domestic financial instruments. The financing of the nonbank capital outflow required, in addition to the officially requested liquidation of net foreign assets of the Italian banking system, a substantial drain on official reserves.

Italy's experience during the past two years appears to have demonstrated the difficulty of making effective application of a monetary stimulus for domestic purposes in an international environment of powerful demands for credit under pressure of restrictive monetary policies in key countries abroad. Even before 1969 the large capital outflow from Italy was equilibrating the balance of payments only by diverting sizable amounts of investment funds into foreign outlets during a period of chronic underutilization of resources in Italy. With the unprecedented 1969 upsurge of interest rates in the Euro-dollar market and elsewhere, the Italian monetary authorities were virtually forced to adopt defensive measures.

Both the domestic situation and its balance of payments implications appeared to be changing rapidly during and following the wave of labor-management problems in late 1969. Under the buoyant demand conditions emerging after the strike settlements, and against a background of enlarged imports and greatly accelerated cost and price increases, firmer monetary conditions appeared to have become suitable from a domestic, as well as an external, point of view. They were signaled by a sharp increase in the bank rate in March 1970, and the general level of interest rates, which had advanced modestly in the second half of 1969, was raised further. At the same time, the increased pressure of demand in Italy pointed to a further reduction, beyond the temporary effects of the late-1969 work stoppages, in the surplus on current external transactions.

Other Industrial Countries

The smaller industrial countries in Europe were all affected in various degrees by the pressures and uncertainties in international money markets in 1969. Most of them suffered relatively large outflows of short-term capital before the German revaluation, and all reacted by tightening monetary conditions and raising interest rates. In some countries with weakening current and basic balance of payments positions, such as Denmark and Sweden, the reflux of funds after the deutsche mark revaluation was either of limited size or of a temporary nature, and weakness continued to characterize their over-all payments positions throughout 1969 and into 1970. In other countries, whose current balances of payments were strong or improving, there was a large-scale reflow of speculative funds in the aftermath of the German exchange crisis. Austria, Belgium, the Netherlands, and Switzerland were the most notable members of this group, for most of which annual changes in over-all payments balances were relatively small, despite the large short-term variations occurring within the year (Table 24).

The course of economic activity in the Scandinavian countries during the period 1967–69 tended to parallel that elsewhere in continental Europe. In Denmark and Sweden the high levels of activity reached by 1969 were accompanied by deteriorating current account positions. In Denmark the current account deficit almost doubled, and Sweden's external position became a matter of concern for the first time in many years.

The Danish authorities had followed the U. K. devaluation in late 1967 with a smaller devaluation of the krone; however, new elections delayed the adoption of strong stabilization policies. Restraining measures were eventually introduced in the spring of 1968, but a rise in unemployment led to an early reversal of those policies, and economic growth continued at a fairly substantial pace. After a temporary improvement in 1968, the current account position once again deteriorated sharply, reflecting a steep rise in imports. This deterioration was compounded by outflows of short-term capital for arbitrage or speculative reasons. In May 1969, at a time of unrest in foreign exchange markets, interest rates were raised to exceptionally high levels, and after the revaluation of the deutsche mark there was a modest reflux of funds that gave temporary relief to the external position. However, both the increasing current account deficit and the strong upward pressure on wages and prices required restraining action additional to that emanating from the introduction of a pay-as-you-earn tax in January 1970. The additional measures adopted in the spring of 1970 included the imposition of ceilings on bank advances and increases in indirect taxes, as well as cutbacks in planned expenditure.

The weakening of Sweden's balance of payments in 1969 added considerably to the need for restrictive economic policies. Consequently, the choice of policy instruments and the timing of policy actions were governed in large measure by external considerations. Partly for that reason, the burden of restraint was carried almost entirely by monetary policy. The deterioration in the balance of payments, which reduced the foreign assets of the banking system by over $300 million in 1969, resulted from both a weakening in the current account of the balance of payments and an outflow of capital. While the drain on reserves itself contributed to a tightening of domestic liquidity, further defensive actions by the monetary authorities were also important in bringing a rapid shift of policy toward restraint in 1969, after two years of expansionary demand management. Stringent quantitative limitations were placed on bank lending to the private sector, as well as on the banks' recourse to the central bank, and these measures were supplemented by a tightening of restrictions on foreign capital transactions. The stricter policy caused interest rates to rise, approaching international levels.

In early 1970 the continuation of boom conditions and persisting weakness in the external accounts led the Swedish authorities to take new and stronger measures to curb demand. These included a further lowering of the credit ceilings for the commercial banks and the imposition of an investment fee on certain types of construction.

In Norway economic policies in late 1968 were designed to provide a stimulus to demand in order to counteract the modest slack that had developed during the year. From mid-1969 through early 1970, however, monetary policy was tightened progressively. Reserve requirements were increased in order to curb excessive bank lending, to help solve the financing problem in the bond market, and to counteract the liquidity accruing to the private sector in early 1970 as a result of a tax reform. In addition, the discount rate was raised in September 1969 (for the first time since 1955) and a price freeze was imposed at the same time to limit anticipatory price increases prior to the introduction of a value-added tax in January 1970. After increasing very modestly in 1969 by international standards, prices rose sharply in January 1970 because of an increase in rates of indirect taxes. With the revival of economic activity in 1969, the trade balance (excluding ships) started to weaken; but a shift from net imports to net exports of ships ensured a current account surplus for the year, although on a smaller scale than in 1968. Norway's reserve position remained strong in 1969.

In the Netherlands, where the cyclical slowdown in 1966–67 had been both moderate and short lived, rapid export-induced growth in 1968 and 1969 led the economy back to full capacity. Inflationary pressures became the principal focus of stabilization policies in late 1968 and early 1969, when price increases assumed extraordinary proportions. While fiscal policy was slow to respond to this new situation, monetary conditions were tightened successively, both to meet the domestic problem and in reflection of financial developments abroad. To deal more directly with the escalation of prices in early 1969, a temporary price freeze was imposed. Although price increases slowed down in the course of 1969, the threat of overheating remained imminent, especially in view of the expansionary effects of the German revaluation on the Dutch economy. The external position of the Netherlands remained strong throughout this latest boom period, largely because of considerable growth in exports. Although there was a marginal weakening in the current balance of payments from 1968 to 1969, this was more than offset by a large influx of funds, mainly toward the end of the latter year.

The cyclical recovery in Belgium was rather late to emerge, and economic policies remained strongly expansionary until early 1969, when monetary policy was tightened to help safeguard reserves. A very sharp economic upswing developed during 1969, soon leading to bottlenecks in industrial capacity and shortages of skilled labor. However, the rate of increase in prices remained relatively small by comparison with price advances in neighboring EEC countries. Partly for that reason, the current account position remained in comfortable surplus, but large-scale outflows of short-term capital led the authorities to impose ceilings on the foreign and domestic operations of the commercial banks and to reinforce the controls on capital movements. Immediately after the devaluation of the French franc, the Belgian franc came under heavy speculative pressure for a brief period. Following the revaluation of the deutsche mark, however, a large-scale reflux of short-term capital took place, enabling the Belgian authorities to repay outstanding drawings on the swap line with the Federal Reserve System and to restore the reserve position. By late 1969 the expansion of the domestic economy had proceeded to the point where further restrictive actions were necessary to dampen the increase in aggregate demand. Such actions in the last quarter of the year included a tightening of credit and rediscount ceilings, as well as adoption of a moderately restrictive budget.

The Austrian economy, after a strong recovery in 1968, achieved in 1969 the highest rate of growth in any year since 1960. Despite this rapid expansion, price increases remained very moderate in 1969, and the balance of payments on current account strengthened. As in Germany, interest rates were kept relatively low through most of 1969, but actions were taken to cope with volatile capital movements. In the latter part of the year, however, stronger domestic demands were emerging and external pressures, especially those emanating from revaluation of the deutsche mark, were also threatening the maintenance of relative price stability. In these circumstances, the authorities decided to reduce import duties in an effort, which proved successful, to relieve some of the prevailing demand pressures.

In Switzerland a relatively high degree of price stability was maintained in 1969, despite the attainment of full capacity utilization in an environment of continuing inflationary tendencies abroad. The current account surplus was virtually unchanged from its 1968 level. Economic policies were essentially neutral until mid-1969, but in the second half of 1969 and in early 1970 apprehension concerning the emergence of inflationary pressures prompted steps toward monetary restraint. Credit ceilings were introduced and interest rates, after a temporary reduction in October and November to fend off speculative capital inflows, were raised cautiously.

International Financial Markets

The existence and rapid growth of the Euro-currency market and the international bond market have raised or sharpened several key international financial policy issues. The impact of these relatively new markets, and especially of the Euro-currency market, on the mobility of capital flows among countries has brought a high degree of integration to the international credit market as a whole and has enhanced the sensitivity of capital movements to interest rate differentials. At the same time, mechanisms have been provided for new forms of official intervention to influence both domestic banking activities and balance of payments positions.

Management of central banking operations has undoubtedly been complicated by the accentuated volatility of short-term capital flows and the existence of huge amounts of funds that can move during periods of currency crises. At the same time, the existence of a market in which such large amounts of liquidity are so readily available can at times enable a country to finance a basic balance of payments deficit with little or no effect on its official reserves; and countries in basic balance of payments surplus can often use the market as a means of absorption for funds that might otherwise contribute to an unwanted accumulation of reserves. The operation of the international monetary system is bound to be affected by actions of monetary authorities to avoid the new hazards, or to seize the new opportunities, presented by the Euro-currency market. Similarly, the new channels for longer-term capital movements that have been opened up by the evolution of the international bond market may sometimes encourage undesired capital outflows, as well as outflows fully compatible with the objectives of all the authorities concerned. Also, these developments would need to be taken into account in the complex task of estimating the future global need for international reserves.

Perhaps the most important implications of the increased mobility of capital permitted and facilitated by the Euro-currency market and the international bond market are to be found in the challenges that they present to both the effectiveness and the independence of national monetary policies, except perhaps in the United States, where resort to the Euro-dollar market by the domestic banking system or other domestic borrowers does not ordinarily expand the monetary base.[6] In countries other than the United States, the potential for frustrating monetary policy actions through Euro-currency borrowing (or lending) is more serious, since such borrowing (or lending) does tend to exert a direct influence on the domestic monetary base. During a credit squeeze, banks may obtain funds from the Euro-currency market, convert them into local currency and domestic cash reserves, and thus expand their domestic lending operations. Alternatively, nonbank residents who are denied funds from the domestic banking system may obtain them by liquidating positions in the Euro-currency market or increasing their borrowings there, especially when interest rates are lower in that market. Conversely, during an expansionary phase of a country's monetary policy, liquid funds that otherwise would have been available for lending to domestic borrowers may be diverted into the Euro-currency market. In all of these instances, monetary policy actions may tend to prove self-defeating to the extent that they induce undesired capital inflows or outflows instead of the intended changes in total domestic borrowing and spending.

The impact of the Euro-currency and international bond markets on the effectiveness of national monetary policies has aggravated the problem of maintaining the independence of such policies. Effects of changes in monetary policy by the larger industrial countries, and particularly by the United States, are quickly transmitted to the other industrial countries, with wide repercussions throughout the world. When, for example, the United States adopts a severely restrictive monetary policy, as it did in 1969, major policy dilemmas can be created for other countries whose own levels of economic activity and financial conditions are considered satisfactory, or whose own policy requirements run in the opposite direction. For such a country, outflows of

[6] Prior to the imposition of reserve requirements on Euro-dollar liabilities of U. S. banks, resort to borrowing in the Euro-dollar market did tend to provide some marginal relief from pressure on the banks' cash reserves, to the extent that it reduced reserve requirements by shifting liabilities from depository form into Euro-dollar advances from branches abroad, which were exempt from reserve requirements. It also tended to enhance the portfolio positions of the banks by permitting them, under a given degree of Federal Reserve pressure on their cash reserves, to retain earning assets, such as government securities, that otherwise would have had to be sold off to bring deposit liabilities into line with cash reserve requirements. However, the Euro-dollar source of relief from liquidity pressure, always subject to neutralization by the Federal Reserve System through its open market operations, was largely cut off by the subjection of Euro-dollar borrowing (above a base-period average) to a marginal reserve requirement.

TABLE 27. GEOGRAPHIC BREAKDOWN OF EXTERNAL LIABILITIES AND CLAIMS, DENOMINATED IN NON-STERLING CURRENCIES, OF BANKS IN THE UNITED KINGDOM, 1967–69

(In billions of U. S. dollars; end of year)

	Liabilities			Assets			Net (Liability –)		
	1967	1968	1969	1967	1968	1969	1967	1968	1969
Western Europe									
Austria	0.38	0.34	0.34	0.16	0.22	0.18	−0.22	−0.12	−0.16
Belgium-Luxembourg	0.34	0.73	1.40	0.34	0.49	1.02	—	−0.24	−0.38
France	0.74	1.06	1.77	0.33	0.58	1.34	−0.41	−0.48	−0.43
Germany	0.64	0.81	1.06	0.52	0.96	1.55	−0.12	0.15	0.49
Italy	0.77	1.59	2.37	0.46	0.69	1.48	−0.31	−0.90	−0.89
Netherlands	0.27	0.52	1.24	0.31	0.36	0.49	0.04	−0.16	−0.75
Switzerland (including BIS)	1.98	3.17	6.29	0.39	0.69	1.08	−1.59	−2.48	−5.21
Other	0.67	1.19	1.72	0.98	1.19	1.41	0.31	—	−0.31
Total	5.79	9.41	16.19	3.49	5.18	8.55	−2.30	−4.23	−7.64
United States	1.41	2.69	3.05	4.10	7.34	13.47	2.69	4.65	10.42
Canada	0.78	1.21	2.60	0.35	0.48	0.64	−0.43	−0.73	−1.96
Japan	0.04	0.06	0.30	1.08	1.67	1.62	1.04	1.61	1.32
Latin America	0.48	0.66	1.38	0.42	0.82	1.47	−0.06	0.16	0.09
Middle East	0.55	0.56	0.69	0.21	0.30	0.31	−0.34	−0.26	−0.38
Overseas sterling area	0.73	1.30	2.38	0.23	0.43	1.31	−0.50	−0.87	−1.07
Other non-sterling countries	0.60	0.97	1.42	0.59	0.82	1.14	−0.01	−0.15	−0.28
Nonterritorial organizations and unallocated	0.14	0.25	0.71	0.02	0.02	0.26	−0.12	−0.23	−0.45
Total	10.52	17.11	28.72	10.49	17.06	28.77	−0.03	−0.05	0.05
of which									
U.S. dollars	*9.69*	*15.36*	*25.65*	*9.21*	*14.98*	*25.21*	*−0.48*	*−0.38*	*−0.44*
Other non-sterling (Euro-currencies)	*0.83*	*1.75*	*3.07*	*1.28*	*2.08*	*3.56*	*0.45*	*0.33*	*0.49*

Source: Bank of England, *Quarterly Bulletin*, March 1970.

capital responsive to the tightening of credit conditions in the United States will mean that the domestic monetary base and the money supply will tend to fall. On the one hand, allowing this tendency to operate, while helping to minimize the impact on the country's international reserves, is likely to reduce domestic economic activity below the desired level; on the other hand, an attempt to immunize the domestic impact by neutralizing the effects on the country's monetary base and money supply may expose the official exchange reserves to severe depletion.

In the circumstances of 1969, it is hardly surprising to find that many countries intensified the use of such measures as restrictions on the net foreign investment positions of their banks, special reserve requirements on foreign currency positions, and official actions to influence costs of forward cover for investments denominated in foreign currency. Such measures were all designed, under the conditions prevailing in 1969, to minimize reserve changes, or the domestic impact of financial developments abroad, or both. Equally difficult problems of an opposite nature could arise, of course, during a period of marked ease in U. S. monetary policy.

The Euro-Currency Market

It is estimated that the Euro-currency market grew during 1969 by something like 50 per cent. As measured by total banking liabilities [7] denominated in currency other than that of the country of residence of the banking institution, there was an increase from about \$30 billion at the end of 1968 to about \$45 billion at the end of 1969.[8] The Euro-dollar component of this total—by far the predominant element—expanded by a similar proportion, from about \$25 billion to about \$37.5 billion. This change exceeded the corresponding growth rate during 1968, which itself was already very high at 43 per cent. The non-dollar component of the Euro-currency market, of which the Swiss franc and the deutsche mark account for

[7] Net of interbank deposits.

[8] Estimates of the Euro-currency market are taken from the Fortieth Annual Report of the Bank for International Settlements. They are based on data for eight European countries: Belgium-Luxembourg, France, Germany, Italy, the Netherlands, Sweden, Switzerland, and the United Kingdom.

roughly 80 per cent, rose from the equivalent of about $5 billion to the equivalent of some $8 billion during 1969.

As in 1968 but on a much larger scale, the main factor behind the very substantial growth of the Euro-currency market in 1969 was the heavy demand for Euro-dollars by foreign branches of U. S. commercial banks, especially in the first half of the year. This demand was the most important single factor in the generation of an extraordinarily steep increase in Euro-dollar interest rates. (See Chart 23.) The higher rates, in turn, attracted a responsive supply of dollars, which came mainly from Western Europe but also from other areas, including the United States itself. The bulge in the U. S. balance of payments deficit on the liquidity basis in 1969 apparently stemmed in part from unidentified movements of U. S.-owned funds, under the inducement of exceptional yields, into the deposit side of the Euro-dollar market. The same yield inducements, causing many Western European investors to switch funds out of claims denominated in European currencies and into Euro-dollar forms, also tended to draw official dollar reserves away from some European countries and thus to improve the U. S. balance of payments on the official settlements basis.

Banks in the United Kingdom continued to be the main intermediaries in the Euro-dollar market, accounting for about one half of all non-sterling assets and liabilities of banks in the European countries for which data are reported regularly to the Bank for International Settlements (BIS). Table 27, giving data on the geographic distribution of the non-sterling external liabilities of the U. K. banks,[9] shows that the outstanding volume of non-sterling funds that had moved through this channel (as measured from the liability side of the U. K. banks' accounts) rose in 1969 by $11.6 billion, an amount considerably in excess of the previous year's growth of $6.6 billion. The table also shows the sharp increase in net demand from the United States for funds channeled through U. K. banks,[10] whose net position in the United States increased from $4.7 billion in 1968 to $10.4 billion in 1969.

[9] Including branches in the United Kingdom of U.S. banks.

[10] Mainly branches in the United Kingdom of U.S. banks.

TABLE 28. LIABILITIES OF U. S. BANKS TO THEIR FOREIGN BRANCHES, DECEMBER 1968–MAY 1970

(In millions of U. S. dollars)

	All Banks
1968	
December 31	6,039
1969	
March 26	9,621
June 30	13,729
September 24	14,349
October 29	13,649
November 26	14,903
December 31	13,032
1970	
January 28	13,863
February 25	13,403
March 25	12,356
April 29	12,483
May 27	13,022

Source: U. S. Federal Reserve System.

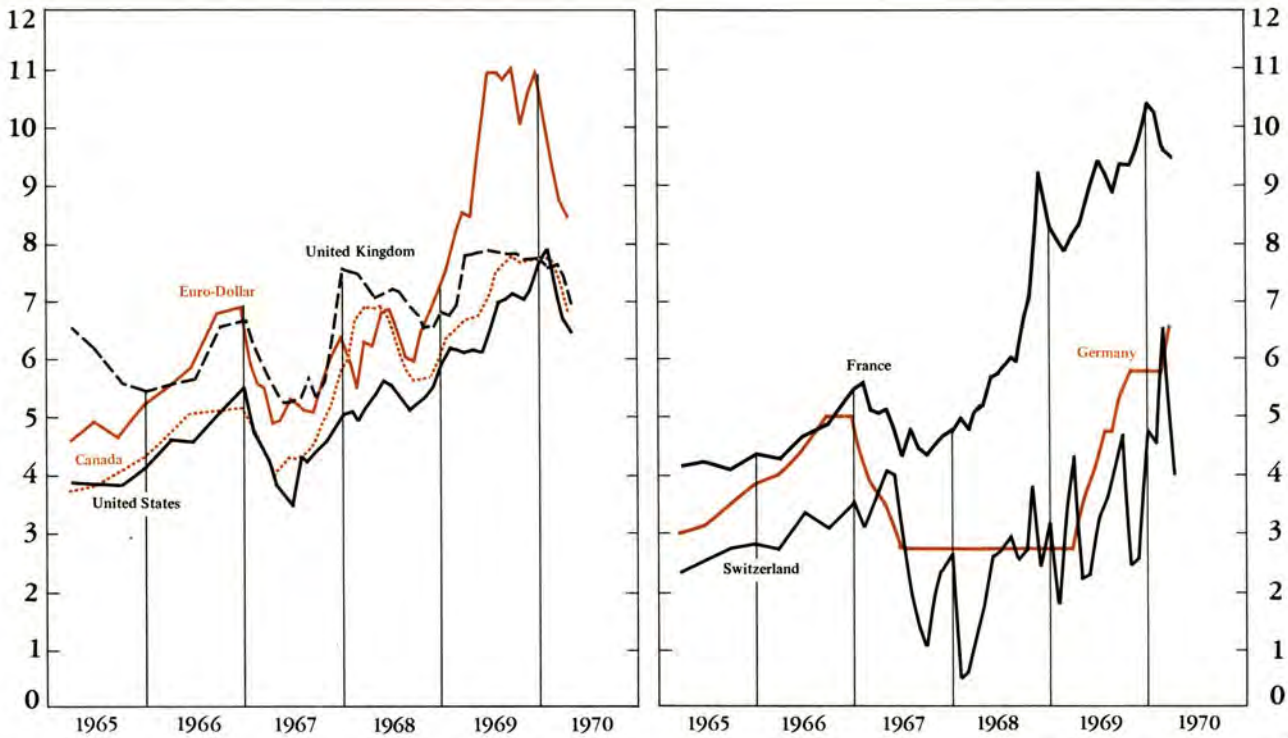
Western Europe was the main source of supply for these funds, the increase in its net claims on U. K. banks in 1969 being equivalent to roughly three fourths of the net absorption by the United States during that year. A high proportion of the European supply originated in Switzerland (with which the Euro-currency position of the BIS is included). The other main net suppliers of funds channeled through the U. K. banks were residents of Canada and of the overseas sterling area, while the principal net use of such funds outside of the United States was made by Japanese residents.

Of the $12.5 billion increase in Euro-dollar liabilities in 1969, $8.5 billion occurred in the first half of the year, with much of this supply being channeled to the U. S. commercial banks. Inasmuch as rates for certificates of deposit at those banks were being held down by Federal Reserve Regulation Q while market rates of interest were advancing, the large city banks experienced a sharp fall in deposits. At the same time, the demand for loans was very strong. The banks responded by seeking funds from nondepository sources,[11] including the commercial paper market and, more importantly, the Euro-dollar market. Resort to the Euro-dollar market was not a new development, as these banks had previously turned to that market in periods of monetary

[11] Sources not involving liabilities officially defined as bank deposits, and hence not subject, during most of 1969, to reserve requirements or to Regulation Q ceilings on time-deposit interest rates.

CHART 23. SELECTED COUNTRIES: SHORT-TERM INTEREST RATES, 1965–MAY 1970[1]

(In per cent per annum)



[1] Switzerland and France—call money rates; United Kingdom, Germany, United States, Canada—treasury bill rates.

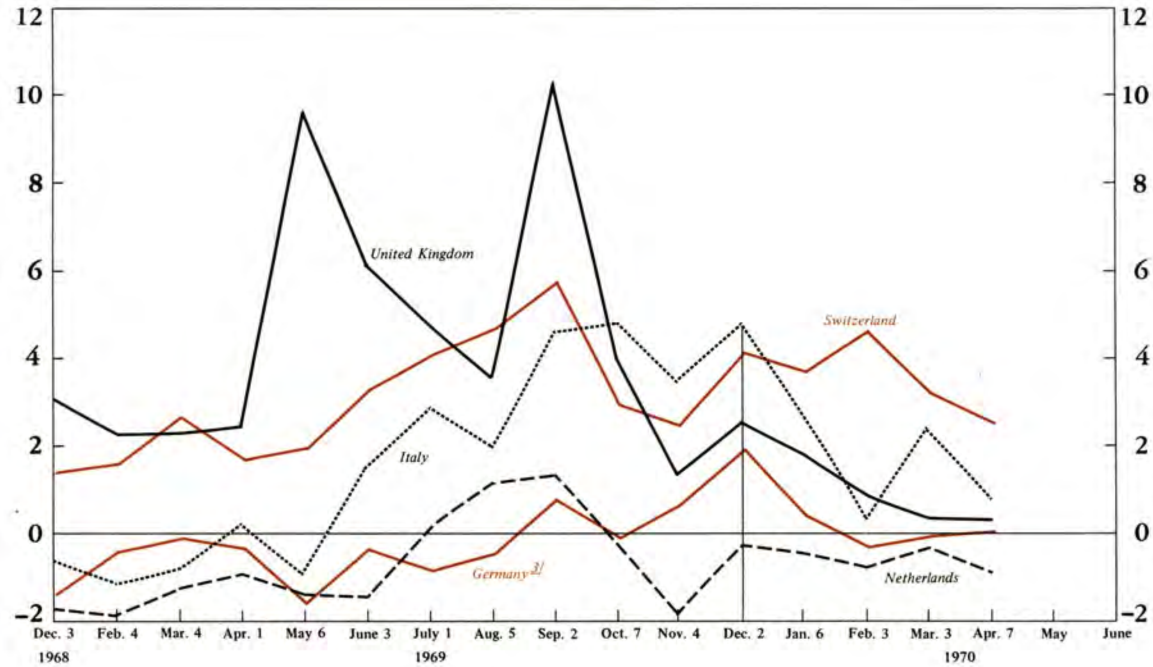
stringency; but the extent of its use on this occasion was unprecedented. Table 28, showing the gross liabilities of U. S. banks to their foreign branches, gives an indication of the movement in the demand for Euro-dollars over the year, with the increase concentrated in the first half. After a $3.2 billion increase in June and mounting criticism of U. S. credit policies abroad, the Federal Reserve Board announced a number of revisions of Regulations D and M, which govern the amount of reserves that commercial banks must maintain. In particular, with effect from September, a 10 per cent reserve requirement was imposed on U. S. bank liabilities to foreign branches above the average outstanding in the four weeks ended May 28, 1969. Partly as a result of this, the rate of increase in outstanding Euro-dollar borrowing was sharply curtailed in the months following June, and the amount outstanding declined in late 1969 and early 1970. More recently, on June 23, 1970, the Federal Reserve Board suspended the ceilings on interest rates payable by member banks on certificates of deposit and other single-maturity time deposits in denominations of $100,000 or more with maturities of 30 through 89 days. Combined with the marginal reserve requirement, this suspension, if it is maintained, may be expected to act as a brake on the future growth of Euro-dollar borrowings by U. S. banks.

Chart 23 shows selected short-term interest rates in the Euro-dollar market and in a number of industrial countries. Differentials among these rates are important for the movement of funds on an uncovered basis, but the covered differentials are also relevant to investment decisions involving different currencies whose exchange rates are subject to change. These covered differentials are shown in Chart 24 for investments in five currencies. The two charts show roughly similar movements, with the differential in favor of the Euro-dollar increasing during most of 1969 and leveling out or declining in the later months of the year.

The interest rate in the Euro-dollar market is

CHART 24. COVERED INTEREST ARBITRAGE BETWEEN THREE MONTHS' EURO-DOLLAR DEPOSITS AND LOCAL SHORT-TERM INVESTMENTS, DECEMBER 1968–APRIL 1970 [1,2]

(In per cent per annum)



[1] United Kingdom: Euro-dollar deposits in London less covered U. K. local authority rate.
Switzerland: Euro-dollar deposits in London less covered Swiss interbank loans.
Italy: Euro-dollar deposits in London less covered Italian advance loans.
Netherlands: Euro-dollar deposits in London less covered Dutch advance loans.
Germany: Euro-dollar deposits in London on market swap basis less covered German interbank lending.
[2] Positive sign indicates in favor of Euro-dollars.
[3] On official swap, September 2, 1969.

highly sensitive to demand and supply considerations. During 1969 the dominant elements in the market were the tight credit conditions, especially in the United States, the various currency crises that reflected varying expectations of exchange rate changes, and the intensification of restrictions on commercial bank operations in the market.

During the first half of 1969 demand by U. S. banks in the Euro-dollar market continued to be very strong. At the same time, because of deteriorating reserve positions only partly related to developments in the Euro-currency market, central banks in Belgium, Denmark, France, and Italy took measures to restrict the availability of supplies to the market.[12] Both of these sets of influences contributed importantly to the sharp rise in interest rates in the first six months; an additional factor in May was the heavy speculative demand for Euro-dollars for conversion into deutsche mark.

Despite some withdrawals by German banks during February and March 1969 and the increase in the cost of forward currency swaps announced in April, these banks remained major net suppliers of funds to the Euro-currency market in the first six months, increasing their net foreign asset position by nearly $500 million. In the same period Canadian banks also continued to be major net suppliers, increasing their net foreign asset position by about $350 million. In Japan, because of the strength of its balance of payments and the high cost of Euro-borrowing, the monetary authorities encouraged banks to finance import trade from domestic sources instead of having it financed through borrowings of foreign currency. Partly for that reason, the Japanese banks substantially increased their net sup-

[12] For details see above and *Annual Report, 1969*, pages 85–86.

plies of funds to the Euro-currency market during the first six months of 1969.

In August and September 1969 U. S. commercial banks virtually ceased to increase their borrowings from the Euro-dollar market. Nevertheless, interest rates in the market remained very high in these months. The reasons for this outcome included the rise in European domestic interest rates (particularly in Belgium, the Netherlands, and Germany) and the various measures taken to limit supplies of funds to the market. In addition, during September there were large withdrawals from the market to support speculative flows of short-term capital into Germany and a number of other countries, including Austria, Belgium, the Netherlands, and Switzerland.

In October a sharp fall of interest rates in the market reflected sizable repayments of borrowings by the U. S. banks during the second half of the month and, following the revaluation of the deutsche mark, the substantial outflows from Germany, the bulk of which, at least temporarily, found their way into the market. An additional factor was the decline of interest rates in many domestic markets. In November interest rates climbed again, the dominant element then being an upsurge of renewed bidding by U. S. banks.

Around the turn of the year, however, Euro-dollar rates began a steady decline that continued through April 1970. From the end of December to the end of May, the three-month deposit rate fell by about 2.5 percentage points. U. S. banks continued to repay their borrowings during these months. In the early months of 1970 there was also a considerable drop in interest rates in the New York market, encouraging a large outflow of short-term funds from that center. At the same time, high and rising interest rates in European countries led to some switching out of Euro-dollars into domestic markets. With interest rates rising in Germany and Euro-dollar rates easing, there was heavy borrowing by German industry in the market during March.

During the second half of 1969 the monetary authorities in the Netherlands and Canada took measures to restrict the outflow of funds. In the Netherlands, after a decline of about $185 million in official net foreign assets in the period from January to June, owing predominantly to the increase in the asset position of Dutch banks, directives were issued to those banks to reduce their net asset position. In September these restrictions were strengthened and the banks were asked to make substantial reductions in their net asset positions by the end of February 1970. Following a massive influx of funds after the Bundesbank ceased to intervene in the foreign exchange markets, the restrictions on the net asset position of Dutch banks were relaxed in November 1969, and in April 1970 they were suspended altogether. In Canada, after a period during which capital outflows through the banks had increased, the banks were asked in July 1969 not to increase the level of their swapped deposits (residents' foreign currency deposits placed with banks under reconversion commitments). This arrangement was terminated in March 1970.

Discount rates continued to climb in a number of countries during the latter part of 1969, partly to limit capital outflows and partly to counter domestic inflation. During September alone official discount and/or associated rates were raised in six industrial countries (Austria, Belgium, Germany, Japan, Norway, and Switzerland).

In the latter part of 1969 the sharpest swing in the net foreign asset position of any country's banks was the one that occurred in Germany, where a net asset position of about $1.5 billion at the end of June was converted into a nearly balanced position at the end of December. This swing, while in part due to a strong demand in Germany for credit to relieve liquidity strains, was mainly connected with window-dressing operations toward the end of the year. At the other extreme, Japanese banks continued to increase their net asset position in the same period. Banks in the other industrial countries recorded far less dramatic changes over the last six months of 1969. Among these changes were small increases in net lending by banks in Canada, France, and the Netherlands, together with some decreases in net lending by Belgian, Italian, and Swiss banks.

The International Bond Market

Over the course of 1969 flotations of international bonds [13] on all capital markets totaled $6.7 billion, about $1 billion less than in the preceding year (Table 29). Foreign issues in the United States were below the 1968 total by less

TABLE 29. NEW ISSUES OF INTERNATIONAL BONDS IN EUROPE AND NORTH AMERICA, 1963–69

(In millions of U. S. dollars)

Borrower	1963	1964	1965	1966	1967	1968	1969
Issued in Europe							
Industrial countries	387	603	975	1,175	1,620	4,142	3,615
EEC countries	153	100	247	153	348	829	846
Scandinavian countries	125	258	237	102	197	158	225
Japan	59	199	35	—	—	179	261
Canada	—	—	—	—	—	340	315
Other industrial countries	23	33	60	78	151	478	503
U. S. companies	—	—	372	564	651	2,122	1,416
Other international companies [1]	27	13	24	278	273	33	50
Primary producing countries	142	181	187	230	537	546	370
of which							
Australia, New Zealand, and South Africa	*90*	*59*	*138*	*109*	*245*	*224*	*180*
International institutions	56	175	221	657	532	1,167	970
of which							
European institutions	*56*	*150*	*122*	*247*	*200*	*259*	*105*
Total	585	959	1,383	2,062	2,689	5,855	4,956
of which							
Foreign bonds	*375*	*330*	*267*	*645*	*458*	*1,738*	*1,570*
Euro-bonds and other international bonds	*210*	*629*	*1,116*	*1,417*	*2,231*	*4,115*	*3,386*
Issued in the United States							
Canada	734	725	781	943	1,018	1,132	1,456
Other developed countries	581	51	108	19	15	—	12
Less developed countries	126	375	281	130	239	285	250
International institutions	—	5	200	175	510	470	—
Total	1,440	1,155	1,370	1,266	1,782	1,887	1,717
Issued in Canada	—	5	32	40	20	17	1
Grand Total	2,025	2,119	2,785	3,368	4,491	7,757	6,675

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

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

than $0.2 billion, while flotations in Europe declined by $0.9 billion, with most of the drop being accounted for by reduced Euro-bond issues.

In 1969 foreign bond issues in the United States were $1.7 billion, against $1.9 billion in 1968. Less developed countries borrowed approximately the same aggregate amount as in 1968, and international organizations, which had borrowed about $0.5 billion a year in the United States in 1967 and 1968, sold no issues there in 1969. Such organizations (especially the IBRD) resorted instead to direct placements with national monetary authorities. Canada, however, substantially increased its flotations in the United States, to nearly $1.5 billion. Moreover, Canada also borrowed $315 million in Europe, slightly less than in the previous year, mainly from the German market. The 1969 flotations of foreign bonds in Europe, at $1.6 billion, were about $150 million less than in 1968; as in that year, a substantial part of such flotations was accounted for by the borrowing requirements of governments and international organizations.

Issues of international bonds in Europe totaled only $5 billion in 1969, compared with nearly $6 billion in 1968. The decline was partly a result of the historically record interest rates in the Euro-currency markets, which diverted funds that might otherwise have been available for invest-

[13] International bonds are bonds sold outside the country in which the borrower is domiciled; they are classified into Euro-bonds and foreign bonds. An issue of Euro-bonds is one underwritten by an international syndicate and sold in a number of countries. An issue of foreign bonds is generally one underwritten by a national banking syndicate outside the issuer's country and sold mainly in the country to which that syndicate belongs. In 1969, however, syndicates selling foreign bonds on the German capital market often included non-German underwriters.

ment in the international bond market. Concomitantly, high Euro-dollar rates reflected heavy short-term borrowing in lieu of offerings of bonds, on which rates were also at peak levels. Offerings by U. S. corporations were limited to $1.4 billion, against $2.1 billion in 1968; of this amount only about half was in convertible bonds, the attractiveness of which was seriously impaired by the downward slide in the U. S. stock market. Denmark, France, and Italy greatly increased their borrowings on the international bond market in response to official encouragement prompted by the desire to strengthen the balance of payments. Similarly, U. K. issues doubled to about $300 million as the authorities attempted to offset the traditional deficit on long-term capital movements, providing cover for the foreign exchange risks involved in borrowing in deutsche mark and introducing legislation that allowed local authorities and state enterprises to borrow in the international bond market. The increase of almost 50 per cent in Japanese flotations, however, was not intended to improve the balance of payments of that country, where a substantial surplus already prevailed.

Euro-bond yields in 1969 were higher than yields on comparable domestic bonds in most markets, major exceptions being those of Canada and the United Kingdom (Chart 25). The interest differentials narrowed toward the end of the year, reducing the supply of funds coming into the international bond market. In the first half of the year, yields on dollar-denominated long-term government issues on the international market oscillated around the 7 per cent mark; thereafter the continued interest rate rise in the United States, coupled with the more restrictive monetary policy pursued by a number of major countries, caused yields to increase steadily to about 7.75 per cent in December 1969.

Yields on DM-denominated issues in the international market before the October revaluation were as much as 1.25 percentage points below those on dollar-denominated bonds because of expectations of a deutsche mark revaluation; the differential was more than halved, however, in the closing months of 1969. Throughout 1969 yields on such issues were substantially above those on German domestic bonds. Placements of foreign DM-denominated bonds on the German capital market in 1969, at $1.1 billion, were about the same as in the preceding year.

More Developed Primary Producing Countries

The combined over-all payments position of the more developed primary producing countries, after a marked improvement in 1968, weakened again in 1969, when it returned to virtual balance. (See Table 23.) In large part, these fluctuations were attributable to movements in capital account balances, as changes in current account balances, taken together, were moderate. The 1968–69 weakening of the combined capital account of these countries undoubtedly reflected to a considerable extent the tight credit conditions prevailing in the major financial centers and the consequent difficulties of obtaining capital.

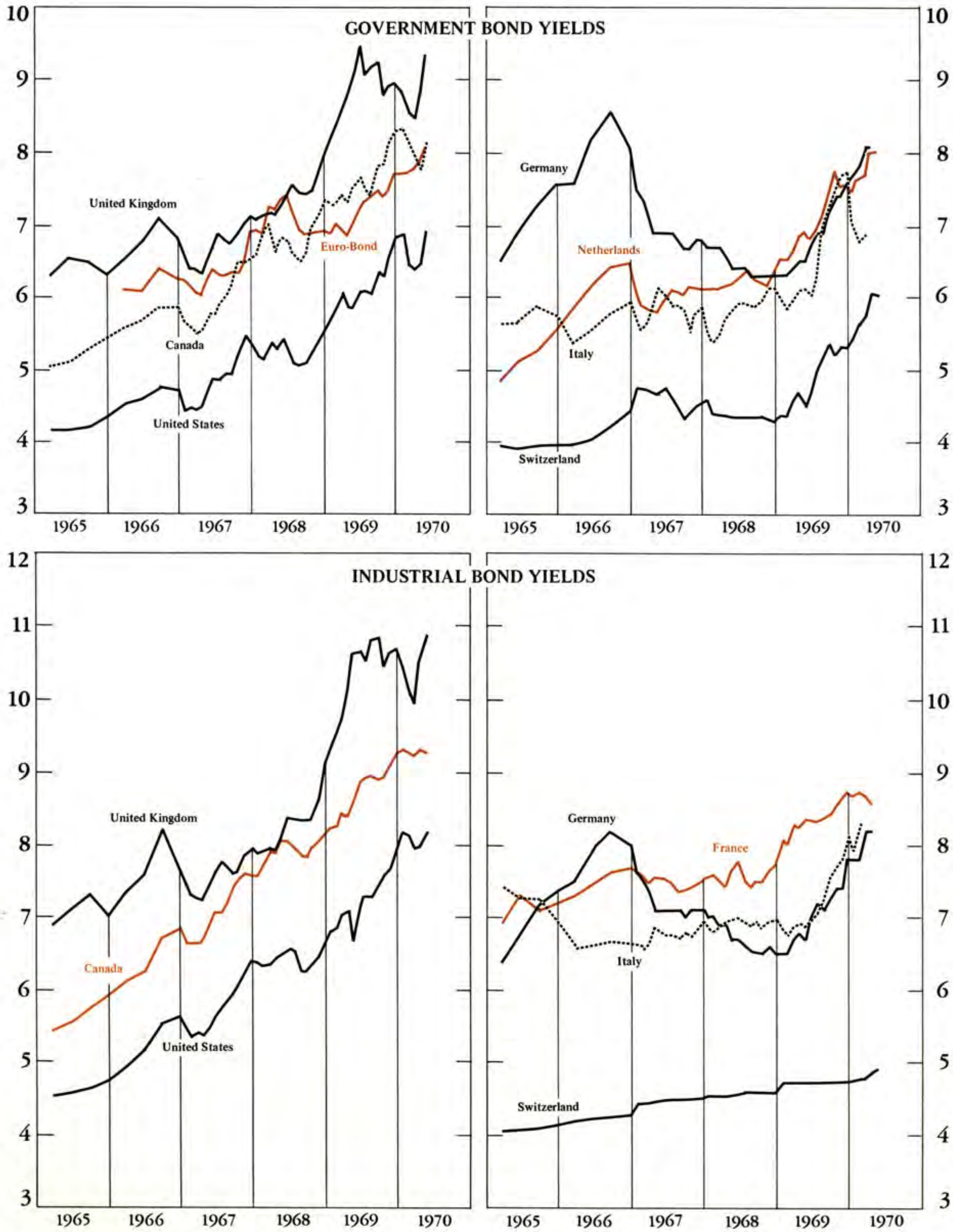
Recent developments in the trade and current accounts of the more developed primary producing countries were influenced by two main factors. First, cyclical developments in demand and activity, which tend to follow those of the larger European countries with some lag, were such as to benefit the current balances of payments of the countries under review during the first stages of upswing in 1968; by 1969, most of these countries were themselves experiencing strong or excessive demand pressure and rapidly rising import demand. Second, several of the countries in this group devalued their currencies along with sterling in late 1967, and the relative price shifts induced by these devaluations and concurrent restrictive financial policies had a favorable effect on their current external transactions in 1968. However, relaxation of policies in most of these countries during 1969, together with the development of stronger demand pressures, again weakened their current balances of payments.

Most of the countries that devalued in 1967, including Finland,[14] Iceland, Ireland, and New Zealand, are relatively dependent on the U. K. market. The parity changes in these countries were partly offset by devaluations in other countries that are important trading partners. With account taken of such offsets, the largest effective devaluations were those of Finland (20 per

[14] The devaluation of the Finnish markka, in October 1967, preceded that of sterling by about a month.

CHART 25. SELECTED COUNTRIES: LONG-TERM BOND YIELDS, 1965–MAY 1970

(In per cent per annum)



cent), New Zealand (13 per cent), and Spain (12 per cent). The effective devaluation of Ireland, on the other hand, was small (about 4 per cent).

Payments developments in this group of countries during 1968 and 1969 were influenced not only by the effective changes in exchange rates but also by the cyclical position at the time of devaluation and by the timing and strength of policies influencing domestic demand. In those countries, such as Finland and New Zealand, where over-all demand had been curbed in the course of 1967 and where policies were eased only gradually in the postdevaluation period, resumption of growth proved compatible with a strengthening of the current balance of payments.

In Finland, where a substantial over-all payments surplus of $232 million in 1968 virtually disappeared in 1969 (Table 30), the adverse developments of the latter year stemmed mainly from a weakening on capital account, although the current account position also deteriorated moderately. These developments followed a successful payments adjustment by Finland in the period 1967–68. The devaluation in October 1967 had been well prepared by earlier measures to tighten financial policy, and these had opened some slack in the economy, facilitating the shift of resources into exporting and import-competing sectors. Export performance was very strong in 1968 and again in 1969. In both years Finland gained export market shares, whereas it had lost ground in foreign markets during the period 1964–67. Imports declined from 1967 to 1968, because of continued sluggishness of domestic demand. There was, therefore, a sharp improvement in the current balance of payments in 1968 and official reserves rose steeply, bolstered also by large inflows of capital.

A cautious easing of monetary policy began five months after the devaluation, and fiscal policy was relaxed in 1969. These moves away from restrictive economic policies served to supplement the strong stimulus deriving from rapid export growth. In the course of 1969 all components of aggregate demand contributed to a pronounced acceleration in output expansion, following several years of relatively modest advances. By early 1970, a high level of capacity utilization had been reached, and the current balance of payments showed a small deficit. However, the rate of increase in prices remained moderate, reflecting the continued application of incomes policy measures originally adopted in March 1968. Later than most other European countries, Finland entered a period when restrictive demand management was needed to control the growth of domestic demand. Monetary policy was gradually tightened in 1969 to protect the balance of payments. Steps were also taken to enable the Government to pursue a more flexible policy of demand management; thus, a special system of countercyclical deposits for industry and commerce was established, certain modifications were made in the law concerning investment reserve funds, and government countercyclical funds were set up.

In Spain the devaluation in 1967 and the subsequent boom in international trade gave a boost to the external payments position, and the over-all balance of payments was approximately in equilibrium in 1968. However, failure to support the devaluation with demand-restraining policies limited the payments improvement, and when total demand rose sharply in 1969 the balance of payments again deteriorated. At the time of devaluation, Spain, like most other countries in Europe, had been going through a period of cyclical adjustment; inflationary pressures were subsiding and the current account deficit was lessening. By the middle of 1968, a new upswing had begun, based partly on rising exports but also reflecting fairly substantial increases in domestic demand, stimulated by an easing of policies. With the resumption of rapid growth and with easy financial policies, imports accelerated in 1969 and the current account deteriorated. As this development was accompanied by continued large outflows of short-term capital, the over-all balance of payments position weakened sharply.

Such capital outflows were a characteristic feature of Spain's balance of payments in recent years. To a considerable extent, they can be related to international differences in interest rate levels. In order to spur productive investment the Spanish authorities kept interest rates well below those in most other European countries. Spanish interest rates were raised moderately in 1969, but the outflow of short-term capital continued, even after the ending of international currency disturbances. However, with the imposition of restrain-

TABLE 30. SELECTED MORE DEVELOPED PRIMARY PRODUCING COUNTRIES: BALANCE OF PAYMENTS SUMMARIES, 1960–69

(In millions of U. S. dollars)

		Current Balance [1]	Long-Term Capital	Short-Term Capital and Net Errors and Omissions	Over-All Balance [2]
Australia	Average 1960–66	−466	85	430 [3]	49
	1967	−745	640	109	4
	1968	−1,189	1,025	243	79
	1969	−824	579	63	−182
Finland	Average 1960–66	−115	57	46	−12
	1967	−140	86	−13	−67
	1968	68	111	53	232
	1969	−1	38	−32	5
Greece	Average 1960–66	−158	172	34	48
	1967	−191	178	26	13
	1968	−236	207	65	36
	1969	−352	204	143	−5
Ireland	Average 1960–66	−68	60	32	24
	1967	33	78	−100	11
	1968	−72	57	121	106
	1969	−145	90	201	146
New Zealand	Average 1960–66	−69	25	22	−22
	1967	−145	88	23	−34
	1968	78	19	−56	41
	1969	105	1	−49	57
South Africa	Average 1960–66	30	−16	38	52
	1967	−333	288	−5	−50
	1968	34	497	161	692
	1969	−316	207	35	−74
Spain	Average 1960–66	−100	236	14	150
	1967	−461	540	−236	−157
	1968	−261	586	−279	46
	1969	−528	542	−276	−262

Source: Data reported to the International Monetary Fund and staff estimates.
[1] Balance on goods, services, and private transfers; unrequited government transfers are included in long-term capital and aid.
[2] Over-all balance is balance financed by changes in official gold and foreign exchange assets, and in the net Fund position.
[3] Includes long-term capital for 1960–65.

ing measures and with rising interest rates in late 1969 and early 1970, the outflow of short-term capital diminished and there was even a substantial increase in official reserves during the first half of 1970.

In Ireland strong expansion of domestic activity in 1968 and 1969 raised import demand sharply. At the same time wages and prices increased at an accelerated pace. Exports rose at a relatively slow rate in 1969, largely reflecting the modest growth in the U. K. market, which still takes about 70 per cent of Irish exports. As a result, there was a sharp deterioration in the current balance of payments, which in 1969 showed a deficit of about $145 million, equivalent to more than 4 per cent of GNP. However, a large net capital inflow more than offset the deterioration in the current balance of payments in 1969. Official reserves were also bolstered by a large-scale shift of foreign exchange holdings from the commercial banks to the Central Bank, a move that was aimed at bringing the country's stock of external assets better under control and facilitating the task of the Central Bank in playing an active role on the domestic money market.

Concern about inflationary pressures and about developments in the external accounts caused some shift toward monetary restraint in Ireland in the course of 1969. However, the over-all borrowing requirement of the Central Government remained large, and part of it had to be financed abroad. In the early part of 1970 continued sharp wage and price increases and the likelihood of another large current account deficit prompted the Irish authorities to increase indirect taxation to finance rising public expenditure, to tighten certain hire-purchase restrictions, and to set tighter and more extensive guidelines for bank lending.

All three of the more developed primary producing countries outside Europe—Australia, New Zealand, and South Africa—experienced marked acceleration of economic growth in 1969, but their individual balance of payments positions moved rather differently. In these three countries, the upswing of economic activity in 1969 was accompanied by the emergence of bottlenecks in the supply of skilled labor, but the over-all rise in prices remained moderate in comparison with the price increases in industrial countries. Externally, Australia and New Zealand registered improvements on current account, particularly reflecting improved supplies of agricultural exports, but South Africa's current account deteriorated sharply, mainly as a result of a strong increase in imports. South Africa and Australia registered sharp reductions in the inflow of capital from the peak levels of the preceding year. This reflected the effects of tightening monetary policies in the United States and the United Kingdom, as well as, for South Africa, changed expectations regarding the prices of gold mining shares.

New Zealand experienced a successful balance of payments adjustment in the period 1967–69, although at the cost of a modest recession. In contrast to most of the other countries that devalued their currencies with sterling in late 1967, New Zealand succeeded in further consolidating the gains in the payments position during 1969.

Part of the explanation for the strong external improvement in New Zealand may be found in the fact that the devaluation had been preceded by a comprehensive and stringent stabilization program adopted at the beginning of 1967. The program included sharply increased taxation, public expenditure curbs, and tight credit policies. As a result, there was a sharp fall in investment and economic growth came to a halt. By the second half of 1967 imports were declining and the current account was improving. The devaluation in November 1967 imparted a strong impetus to exports, which at the same time were boosted both by the recovery in world demand and the related improvement in the prices for meat exports. As a result, the New Zealand current account position swung from a deficit of $145 million in 1967 to a surplus of $78 million in 1968, a change equivalent to 4½ per cent of GNP. Although a new upswing in economic activity began in the second half of 1968, the growth of demand was restrained by cautious policies pursued throughout the first half of 1969. With exports continuing their strong rise, the authorities were able to relax policies in the latter part of 1969.

The sharp contraction in the flow of capital into Australia in 1969 was offset by an improvement in the trade balance. Exports grew rapidly on the strength of increased sales of minerals, manufactures, and traditional rural commodities, while imports increased only moderately despite a sizable growth in aggregate demand.

During the course of 1969 Australian monetary policy was tightened somewhat as the authorities increased the statutory reserve deposits ratio and raised interest rates. Even so, by the early part of 1970 the economic upswing had led to strong pressures in the labor market and the pace of wage increases was accelerating. At the end of the first quarter of the year, a tightening of policies was presaged by the decision to allow a further increase in interest rates.

In South Africa the strong rise in domestic activity in 1969 boosted imports, while poor harvests held back the growth of exports. The current account moved from a moderate surplus to a deficit almost as large as that recorded in 1967. At the same time, there was a slowdown in capital inflow. Economic growth was generally well balanced, fostered by relatively easy policies. Budget expenditures grew rapidly, and monetary policies were less cautious than in 1968. The ceilings on bank credit to the private sector were raised substantially after mid-1969, and such credit rose sharply. However, as a result of the reversal in the balance of payments position, the liquidity of the banking system began to tighten.

Less Developed Primary Producing Countries

International trade developments were the key to changes in the balance of payments of the less developed countries in 1969. The further expansion of demand in the industrial world, together with efforts on the part of many developing countries to secure financial stability and balanced growth, reduced the combined deficit in these countries' current transactions from $6.9 billion in 1968 to $6.2 billion in 1969. As the volume of capital inflow remained approximately unchanged from the 1968 level, there was a record over-all balance of payments surplus of $1.7 billion in 1969. (See Table 23.)

A part of the combined over-all balance of payments surplus for the less developed countries in 1969 was absorbed by a net reduction in their outstanding use of Fund credit, which had increased moderately in 1968. Accordingly, the rise in reserve accumulation from 1968 (when it amounted to $1.1 billion) to 1969 ($1.3 billion) was less striking than the concurrent improvement in the over-all balance. The increases in international reserves of the less developed countries in both 1968 and 1969 were larger than the average long-term growth in these reserves. Even if the long-term comparison is confined to the period after 1962, which as a whole has been relatively favorable in terms of reserve increases in the less developed countries, the reserve increases during 1968 and 1969 stand out as unusually large. (See page 23.)

This recent strengthening of the payments position of the less developed countries occurred at a time when growth of their output was accelerating; as measured in constant prices, their combined gross output, which had increased by slightly more than 6 per cent from 1967 to 1968, rose by about 7 per cent from 1968 to 1969. In both these years, expansion of total output in the less developed countries exceeded the average annual growth rate of about 5 per cent over the period 1960–67. Similarly, per capita growth rates accelerated—from an average of about 2½ per cent in the seven years to 1967 to 3½ per cent in 1968 and 4 per cent in 1969. Indeed, 1969 was one of the few years in the postwar period when the average per capita growth rate in the less developed countries was roughly in line with that in developed countries as a group.

Three broad sets of factors contributed to the 1968–69 acceleration of output growth. One was the emergence of more favorable supply conditions in certain primary producing areas, and particularly of the "green revolution" in Asia. Another factor was the direct impact of strong demand in industrial countries on exports, and thus on economic activity, in the less developed countries. And finally, an easing of reserve positions and payments restraints in a number of less developed countries permitted application of somewhat more expansionary fiscal and monetary policies—and hence stronger increases in domestic demand—than had been feasible for several preceding years.

The acceleration of output growth in South Asia from 1968 to 1969 (Table 31) was predominantly a manifestation of improvements in supply conditions, while the high rate of increase in output in Far East Asia was spurred largely by strong demands abroad for the manufactured products of countries in that area. The high growth rates recorded for several Latin American countries in 1968 and 1969 reflected the direct impact on economic activity of stronger foreign demand and possibly some easing of economic policies in certain countries as balance of payments constraints became less acute.

The balance of payments surpluses of the group of less developed countries in the past few years have reflected highly favorable developments in a relatively limited number of countries (Tables 32 and 66). Among the major areas, *Africa* probably showed the most widespread payments improvements in 1968 and 1969. These occurred in countries as different in their economic structures as the Democratic Republic of Congo, Kenya, the Libyan Arab Republic, Morocco, Nigeria, and Zambia. One common factor behind the improvements in the external payments positions of these countries was the predominance among their exports of certain commodities (mainly oil or metals) for which world demand was strong; another common factor was their orientation toward European markets, where demand increased at a rapid pace in both 1968 and 1969. In *Asia,* there were marked improvements in a relatively small number of countries, including India, Korea, and Malaysia. A few relatively industrialized countries in East Asia benefited from the boom in world trade in manufactured goods, while India and certain other countries were able to reduce their imports as a result of substantial increases in agricultural output. However, Burma, Ceylon, and the Philippines continued to lose reserves, and Thailand drew on its accumulated reserves for the first time in a decade. Among the less devel-

TABLE 31. SELECTED LESS DEVELOPED COUNTRIES:
GROWTH RATES OF GNP AT CONSTANT PRICES, 1960–69

(Increases in per cent)

	Annual Averages		Changes from Previous Year		
	1960–65	1965–69	1967	1968	1969
Far East Asia	**8.0**	**11.6**	**9.4**	**11.9**	**13.0**
China, Republic of	10.0	9.9	10.1	10.1	10.0
Korea	6.5	12.8	8.9	13.3	15.5
Southeast Asia	**4.5**	**5.8**	**3.9**	**7.1**	**6.0**
Indonesia	2.0	3.5	1.6	6.6	3.5
Malaysia	5.8	6.9	4.1	5.8	9.0
Philippines	5.6	6.3	6.2	6.5	6.0
Thailand	7.0	8.8	5.1	9.5	8.0
South Asia	**3.7**	**4.8**	**7.7**	**3.5**	**6.5**
Ceylon	3.7	6.1	6.2	6.7	7.0
India [1]	3.2	4.4	7.7	1.8	5.5
Pakistan [2]	5.7	6.0	7.8	5.0	5.5
Middle East	. . .	**5.7**	**5.3**	**5.9**	**6.0**
Iran [3]	6.6	9.3	11.8	10.3	9.0
Iraq	. . .	4.6	−3.5	13.8	2.5
United Arab Republic [2]	6.2	1.4	0.3	−2.7	3.5
Africa	**3.5**	**4.9**	**5.0**	**5.5**	**5.5**
Congo, Democratic Republic of	. . .	4.3 [4]	−1.0	8.0	6.0
Ethiopia	4.9 [5]	4.6	5.6	3.6	3.5
Ghana	2.9	2.0	1.5	0.8	3.0
Kenya	. . .	7.6	3.8	6.6	5.5
Libyan Arab Republic	. . .	24.4 [6]	11.6	50.1	. . .
Morocco	3.5	4.3	8.2	11.7	−0.4
Tunisia	4.7	2.9	−0.7	7.3	4.5
Zambia	7.5	10.8	10.9	9.0	10.0
Western Hemisphere	**4.9**	**5.4**	**4.4**	**6.1**	**6.5**
Central American Common Market	5.6	5.2	5.2	5.5	4.5
Argentina	3.5	3.4	2.1	4.6	6.9
Brazil	4.5	6.8	4.8	8.4	9.0
Chile	4.9	3.6	2.0	2.6	4.5
Colombia	4.5	5.4	4.1	5.5	6.5
Mexico	6.6	6.9	6.7	7.1	6.5
Peru	6.6	3.4	4.6	1.4	2.0
Venezuela	4.9	4.3	4.4	5.8	3.5

Sources: U. S. Agency for International Development and Fund staff estimates. Regional totals are weighted according to the GNP of the individual countries of the group.
[1] Fiscal year beginning April 1.
[2] Fiscal year beginning July 1.
[3] Solar year beginning March 21.
[4] 1967–69 average.
[5] 1962–65 average.
[6] 1966–68 average.

oped countries in the *Western Hemisphere,* major features in 1969 were the extraordinary improvements in the over-all balances of Brazil and Chile, continuing tendencies already noticeable in 1968; most other Latin American countries showed moderate surpluses in their external payments, although Argentina registered a large deficit. In the *Middle East,* the aftermath of the 1967 war continued to play an important role in determining payments developments. The tendency toward diversification of Western Europe's oil imports resulted in further gains by the North African oil producers, while most of the countries in the Middle East raised their oil exports only moderately. None of these countries showed major changes in reserve position during 1969.

The countries that derived the greatest advantages, in terms of export earnings and reserve gains, from the boom in world trade during 1968 and 1969 were predominantly those whose exports had already been growing rather rapidly over a longer period (Table 33). That characterization is applicable to the rapidly industrializing economies in Far East Asia, such as China and Korea; to tin producers, such as Bolivia and Thailand; and to Iran and the Libyan Arab

TABLE 32. SELECTED LESS DEVELOPED COUNTRIES: BALANCE OF PAYMENTS SUMMARIES, 1960–69[1]

(In millions of U. S. dollars)

		Current Balance[2]	Long-Term Capital and Aid	Short-Term Capital and Net Errors and Omissions	Over-All Balance[3]
Asia					
China, Republic of	Average 1960–66	−60	78	13	31
	1967	−45	116	8	79
	1968	−119	116	−33	−36
	1969	−49	136	9	96
India	Average 1960–66	−962	939	−38	−61
	1967	−1 165	1,256	−122	−31
	1968	−680	926	−145	101
	1969	−250	...	...	377
Korea	Average 1960–66	−220	233	—	13
	1967	−326	384	53	111
	1968	−561	548	65	52
	1969	−654	699	96	141
Malaysia	Average 1961–66	45	111	−136	20
	1967	−17	33	25	41
	1968	53	72	−66	59
	1969	224	102	−160	166
Philippines	Average 1960–66	48	47	−81	14
	1967	97	34	−145	−14
	1968	−304	184	47	−73
	1969	−285	148	96	−41
Middle East					
Iran	Average 1962–66	−13	77	−51	13
	1967	−134	176	8	50
	1968	−366	418	−65	−13
	1969	−252	460	−188	20
Iraq	Average 1960–66	24	9	−29	4
	1967	58	32	−37	53
	1968	162	2	−59	105
	1969	105	4	−97	12
Saudi Arabia	Average 1960–66	142	42	−102	82
	1967	83	113	−182	14
	1968	68	−93	−75	−100
	1969	50	...	...	−79
United Arab Republic	Average 1960–66	−225	153	43	−29
	1967	−286	216	110	40
	1968	−245	253	−38	−30
	1969	−307	296	3	−9
Africa					
Congo, Democratic Republic of	Average 1964–66	−66	71	−8	−3
	1967	−23	64	6	47
	1968	−38	90	18	70
	1969	5	49	5	59
Kenya	Average 1963–66	−13	31	−9	9
	1967	−58	48	20	10
	1968	−63	77	10	24
	1969	−41	88	23	70
Libyan Arab Republic	Average 1960–66	−1	20	20	39
	1967	122	−59	13	76
	1968	336	−167	−16	153
	1969	413	−52	17	378
Nigeria	Average 1960–66	−218	201	−13	−30
	1967	−267	199	−19	−87
	1968	−272	213	62	3
	1969	−165	51	122	8
Western Hemisphere					
Argentina	Average 1960–66	−46	157	−113	−2
	1967	184	−86	443	541
	1968	−17	−34	85	34
	1969	−189	156	−189	−222
Brazil	Average 1960–66	−178	244	−58	8
	1967	−304	281	−155	−178
	1968	−520	233	357	70
	1969	−173	557	17	401
Chile	Average 1960–66	−164	106	55	−3
	1967	−117	123	−36	−30
	1968	−133	294	−90	71
	1969	−46	194	6	154
Mexico	Average 1960–66	−309	268	68	27
	1967	−627	512	189	74
	1968	−738	547	262	71
	1969	−729	704	40	15
Venezuela	Average 1960–66	249	−156	−85	8
	1967	−32	108	19	95
	1968	−221	237	35	51
	1969	−244	195	60	11

Sources: Data reported to the International Monetary Fund and staff estimates.
[1] For certain countries, data are not available for the early years of the 1960's (see under each country).
[2] Balance on goods, services, and private transfers; unrequited government transfers are included in long-term capital and aid.
[3] Over-all balance is balance financed by changes in official gold and foreign exchange assets, and in the net Fund position.

TABLE 33. SELECTED LESS DEVELOPED COUNTRIES: GROWTH OF EXPORTS AND IMPORTS OF GOODS AND SERVICES, 1960–69 [1]

(Average annual increase; in per cent)

	Exports			Imports			Coefficient of Foreign Trade Dependency [2]
	1960–69	1960–65	1965–69	1960–69	1960–65	1965–69	
Countries with the highest rates of export growth, 1960–69							
Libyan Arab Republic	54.6	75.7	28.2	44.1	59.8	24.6	108
Korea	29.1	21.7	28.3	23.1	7.5	42.5	30
China, Republic of	24.0	22.9	25.3	17.8	14.3	22.0	42
Bolivia	14.1	17.4	10.1	11.9	13.8	9.5	61
Iran	11.7	8.4	15.9	12.0	7.7	17.5	40
Thailand	11.2	11.5	10.9	12.2	10.6	14.6	38
Central America [3]	10.6	12.7	8.1	10.3	13.3	6.6	...
Chile	10.0	7.7	12.9	5.1	2.8	7.9	31
Countries with the intermediate rates of export growth, 1960–69							
Peru	8.9	9.8	7.9	10.2	15.3	3.8	38
Nigeria	8.8	10.4	6.8	5.7	9.5	0.9	37
Ethiopia	8.5	12.5	3.6	8.2	12.8	3.4	25
Mexico	8.0	7.8	8.3	9.1	7.3	11.5	20
Brazil	7.4	4.6	10.9	3.9	−4.9	15.0	15
Philippines	6.3	10.4	1.1	7.9	6.4	9.9	37
Pakistan	6.3	6.4	6.3	7.8	15.5	−1.7	16
Argentina	6.3	7.0	5.5	6.3	4.2	9.0	16
Tunisia	5.5	−5.8	13.0	4.9	12.5	2.1	57
Malaysia	5.0	3.6	6.8	3.7	4.1	3.3	83
Countries with the lowest rates of export growth, 1960–69							
Colombia	4.5	4.3	4.8	6.4	2.3	11.5	22
Ghana	4.5 [4]	7.2	5.2 [5]	5.1 [4]	13.5	−10.5 [5]	28
United Arab Republic	4.3	1.7	7.6	2.8	4.7	0.4	39
Sudan	4.2	3.4	5.2	5.1	6.3	3.6	37
Morocco	3.8	2.8	4.9	5.3	4.0	7.0	42
India	3.8 [4]	4.4	2.7 [5]	2.5 [4]	7.1	−5.0 [5]	10
Indonesia	1.1	−5.9	9.8	4.4	−0.1	10.0	22
Venezuela	1.0	0.4	1.8	4.2	4.4	4.0	52
Ceylon	−1.4	0.7	−4.1	0.8	−1.7	3.9	53
Burma	−5.6	1.8	−15.0	−3.5	−0.9	−5.9	32

Sources: International Monetary Fund, *Balance of Payments Yearbook*, various issues, and United Nations, *Monthly Bulletin of Statistics*, February 1970.

[1] Data include unrequited private transfers.
[2] The sum of imports and exports of goods and services as a percentage of gross domestic product; data refer to 1965.
[3] Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua as a group.
[4] 1960–68.
[5] 1965–68.

Republic among the oil exporters. Economic policies in most of these countries were adjusted to moderate the expansionary effects of buoyant export earnings on incomes and demand, and thus to avoid domestic imbalances. Several countries found this task difficult under the prevailing circumstances.

The problem of securing balanced growth under conditions of rapid export-led industrialization has been acute in certain countries of Far East Asia. In Korea rapid growth of demand, stemming from the strong expansion in exports and in domestic investment, resulted in shortages of trained labor and in wage and price pressures. Productive resources were strained also by expansionary financial policies. An extremely rapid rise in domestic credit contributed to a 45 per cent increase in money supply during 1969. In November 1969 the Korean authorities adopted a financial program that limited the rise in domestic credit, tightened reserve requirements for the commercial banks, and discontinued approvals of foreign cash loans. The Government also took steps to limit the extension by the central bank of preferential credits to the export and agricultural sectors.

Recent developments in the Republic of China, whose economy in certain respects resembles that of Korea, illustrate how sharp increases in exports and rapid industrialization can be combined with domestic economic stability. Timely countercyclical adjustments in monetary and fiscal policies were made, and prices remained relatively stable in 1968 and 1969, despite output growth of approximately 10 per cent per annum. One important factor behind the financial stability in China has been a very high propensity to save, reflected in a steady growth of longer-term savings channeled through the banking system. Economic policies in China during 1968 and 1969 were geared primarily toward elimination of supply bottlenecks in particular sectors. Measures to improve the mobility and the quality of the labor force, for example, played a prominent role.

In the Middle East and Africa, oil and metal exporting countries whose export earnings rose rapidly in 1969 included Iran, Algeria, the Democratic Republic of Congo, the Libyan Arab Republic, Nigeria, and Zambia. Most of these were successful during 1969 in raising growth rates without jeopardizing payments positions. The main policy issue in many of these countries was that of achieving effective diffusion of the growth process throughout the economy. The domestic effects of rapid export increases, as well as the policy responses to accelerated growth of demand and output, varied from country to country.

Certain countries, such as Iran, found it difficult to restrain the rapid increases in aggregate demand. Such increases, resulting mainly from strong growth in the petroleum sector and from rising levels of public and private investment, raised Iran's imports substantially in recent years. However, that country's large current account deficits in recent years also reflected steeply rising interest payments on foreign debt. After many years of pronounced credit expansion, the Iranian Government tightened monetary and fiscal policies in 1969 to check the rise in demand. The growth of nondefense public expenditures was cut back, interest rates were raised, and bank reserve requirements were increased.

Developments in the Democratic Republic of Congo since the mid-1960's offer an interesting example of rapid export-led expansion immediately following a period of domestic stabilization. A comprehensive stabilization program was initiated in June 1967 and supported by a stand-by arrangement approved by the Fund. The authorities introduced a new currency with an exchange rate tantamount to a substantial devaluation of the previous currency. Government finances were strengthened, while restrictions on imports and other current transactions were relaxed. A noticeable decline in private consumption under the influence of tighter fiscal and monetary policies, together with the liberalization of imports, contributed to the achievement of price stability. The boom in copper exports further strengthened the external position and helped to bring about a sharp rise in foreign exchange reserves. It also cushioned the impact of the decline in consumer demand on economic activity. In view of the success of the stabilization program, the Government adopted more expansionary policies in 1969. The rise of exports in that year led to a further large increase in budget revenues, permitting the Government's expenditure to rise by nearly 30 per cent without straining its financial resources. In addition, the monetary authorities relaxed policies with respect to bank lending to the private sector. However, the monetary expansion, together with a substantial increase in wages, soon had an impact on prices and imports. Consumer prices in the capital city rose by some 13 per cent during 1969, and imports increased by about 25 per cent. Nevertheless, Congo's trade surplus widened further, and the current account achieved a surplus. Official reserves thus rose again despite a decline in net receipts on capital account.

While fluctuations in demand for exports are important determinants of the balance of payments, and thus also of the need for stabilization policies, in many less developed countries, changes in domestic supply conditions can sometimes have an even stronger impact on the external trade position. Developments of recent years in Tunisia and Morocco illustrate this point. In Tunisia several years of balance of payments deficits had led the authorities in 1968 to adopt a series of stabilizing measures. The effects of those measures, while useful in contributing to a restoration of domestic and external balance, were relatively small in comparison with the effects of improved weather conditions in the 1968/69 season. These led to a recovery of output in the agricultural sector, to reduced imports of foodstuffs, and to increased exports of agricultural products. In late 1969, however, domestic supply conditions again changed abruptly because of devastating floods, and the balance of payments position once more weakened markedly. In Morocco, the strengthening of the payments position in 1969 was also largely a result of good weather, reflected in reduced imports of wheat. With the help of a marked rise in net receipts from travel and from private transfers, a surplus in the balance of payments—a major aim of policy since the launching of a series of stabilization programs in 1965—was thus finally achieved. For stabilization purposes, the authorities had relied on tight credit and fiscal measures, including increased taxation and expenditure curbs; these had resulted in a rise in public sector savings. However, not until the stabilization policies were augmented by favorable supply conditions did the desired balance of payments results materialize.

Changes in supply conditions also played an important role in strengthening the payments situations of some countries in South Asia in the period 1968–69. In these countries, the slow growth of exports has traditionally acted as a severe constraint on their development efforts. In 1969, their balances of payments improved sharply mainly as a result of increased agricultural output, which reduced the need for imports of food products. The spreading use of new high-yielding and fast-maturing varieties of food plants (rice, wheat, and maize) has raised the prospect for transformation of traditional agriculture in these countries into a dynamic sector of the economy; and it has made the problem of assuring adequate food supplies appear less intractable than at any time for a great many years.

India's over-all balance of payments, which had already shown a marked improvement from 1967 to 1968, continued to strengthen in 1969. Altogether, the current account deficit was reduced from nearly $1.2 billion in 1967 to $0.3 billion in 1969. (See Table 32.) The gains in the over-all payments position were less striking, however, as the inflow of aid tended to shrink during this period, and the problems of debt servicing remained acute. The first stages of external recovery in 1968 had reflected both a devaluation and recessionary tendencies at home. In 1969, however, the further strengthening of the external position was accompanied by an acceleration of output growth, from slightly less than 2 per cent in 1968/69 to more than 5 per cent in 1969/70. The expansion of agricultural output had the effect of both raising exports and reducing imports. Recovery of the rural economy in 1969 also brought about a significant increase in the potential for mobilization of savings. These were tapped more widely and effectively, not only through extension of the banking system but also through tax increases, especially those affecting the agricultural sector. As the growth rate of exports tended to level out during the course of the year, policy emphasis turned toward more vigorous export promotion and assurance of financial stability. Monetary policy began to be tightened in early 1970 as some pressure on prices became evident.

The year 1969 marked a turning point in Indonesia's economy. The former rapid inflation was brought under much closer control and the Government was able to direct its attention increasingly to the promotion of economic growth and development. The main factors responsible for this favorable turn of events were the successful implementation of a comprehensive stabilization program starting in 1967 and the availability of substantial amounts of foreign assistance, including relief in the servicing of Indonesia's large external debts. The sharp deceleration in the rate of inflation and the restoration of confidence in the rupiah, together with strong world demand for Indonesian exports, contributed to an improvement in the balance of payments. Favorable developments in certain crops, including a record rice harvest in 1968, were also important to the success of the stabilization program.

Despite the "green revolution" and the buoyancy of foreign demand, some Asian nations still faced severe balance of payments difficulties—as, for example, the Philippines, whose exports have risen very slowly in recent years (Table 33). Intensified exchange controls have checked the rise in imports and thus avoided a further weakening of the trade account. But with a deterioration in the capital account the situation became increasingly difficult in the course of 1969, and a comprehensive stabilization program, including the adoption of a floating exchange rate, was initiated in early 1970. At the same time measures to free foreign transactions from controls were introduced.

The agricultural breakthrough, while helping the balance of payments in some countries, had an adverse effect on that of certain others, particularly the main rice exporters. As a result of higher self-sufficiency in certain countries of South and East Asia, international trade in rice declined further in 1969, continuing a trend that began in 1966. And the problems for rice exporters can be expected to intensify. Particularly important in this respect is the growing rice surplus of Japan, where rice stocks rose sharply in 1969. Disposal of this surplus on world markets, even as aid or with the support of long-term credits, would further jeopardize the position of traditional rice exporters.

Although external conditions in 1968 and 1969 were favorable in many less developed countries and areas, and, as a consequence, the need to use financial policies for external stabilization was less urgent, many countries were still engaged in efforts aimed at bringing about a reduction in the rate of price inflation. Included among these countries were some in the Western Hemisphere, such as Brazil, Chile, and Peru. Stabilization efforts in the South American countries have come to assume a broadly comprehensive focus, relying on measures to curb the expansion of monetary demand, on improvements in public sector finances, on incomes policies to restrain cost-push forces, and on exchange rate adjustments to provide or maintain incentives for export activity.

Among the primary producing countries in the Western Hemisphere, only Argentina recorded a large balance of payments deficit in 1969, while Brazil, Chile, and Colombia recorded unusually large payments surpluses. (See Table 32.) These developments coincided with a speeding of output growth in most Latin American countries. The increase in real GNP for the region as a whole was about 6½ per cent in 1969, compared with 6 per cent in 1968 and an average growth rate of about 5 per cent in the period 1960–65 (Table 31). In Brazil, the large over-all balance of payments surplus in 1969 was accompanied by a 9 per cent increase in real output. Exchange rate adjustments, effected on eight occasions during the year, were sufficient to offset the changes in Brazil's costs relative to those of its principal trading partners, thereby contributing to an orderly development of its external transactions. Preliminary figures indicate that exports rose by 22 per cent from 1968 to 1969, reflecting mainly the development of new lines of export production, particularly in the manufacturing sector. With imports increasing at a rather moderate rate in 1969, the deficit on current account was thus reduced from $520 million in 1968 to an estimated $173 million in 1969. Since there was also a substantial increase in the inflow of capital, the over-all payments surplus rose from $70 million in 1968 to $400 million in 1969.

There was less progress in slowing the pace of Brazilian inflation during 1969 than had been expected, partly reflecting the effects of drought on food prices. The rate of increase in wholesale prices moderated, but the cost of living rose at the same rate (24 per cent) as in 1968. Fiscal policy was tightened considerably in 1969; the rise in public spending was held back and government revenues increased faster than gross domestic product, partly because of improvements in tax administration. As a result, the cash deficit of the Central Government was cut back substantially, with a consequent reduction in its credit needs. The rate of increase in total bank credit in 1969 was held to less than one half of that recorded for 1968, despite a still substantial rise in credit to the private sector.

The financial policies pursued by the Chilean authorities in 1969, like those followed in Brazil, aimed at improving the balance of payments position and reducing the rate of inflation. The result was Chile's largest payments surplus of the postwar period, a consequence of the continued pursuit of a flexible exchange rate policy together with unprecedentedly high copper prices. However, no progress was made in reducing the rate of price increase. As in previous years, incomes policy was a weak element in Chile's stabilization program. Because of union pressures, the guidelines for wage and salary increases initially set forth by the authorities were not adequately implemented. Wages in the private sector increased by amounts ranging from 30 per cent to 50 per cent, compared with increases ranging from 20 per cent to 30 per cent in 1968. Given the breakdown of incomes policy, the authorities relied entirely on fiscal and monetary policies to moderate inflationary pressures. A spurt in government revenue traceable to high world copper prices helped to balance the budget in 1969. Reflecting this fiscal development, over-all bank credit expansion was kept well below the rate of increase in nominal GNP, without undue restriction on the increase in credit to the private sector. But consumer prices rose over the year as a whole by 29 per cent, slightly more than in 1968.

In the last few years, Peru's exports have grown erratically and, on average, rather slowly; the value of export earnings was virtually unchanged from 1968 to 1969. In addition, the external payments position has also been affected by a decline in the inflow of capital. The primary objectives of economic policy in 1969 remained those of improving the balance of payments and of reducing the rate of inflation. Attainment of these objectives required strong demand management through a sharp reduction in the fiscal deficit, slower expansion of credit to the private sector, and strict incomes policy. The dual exchange rate system was maintained in 1969 with no change in the principal rate, but restrictions on trade were increased. The combination of these policies and a partial refinancing of the external debt produced a balance of payments surplus of $31 million. In May 1970 the Peruvian authorities established new capital controls by extending to the draft market the exchange controls previously applied to the certificate market; they also required as a general rule the repatriation of bank deposits held abroad by the private sector.

The stabilization policies pursued in 1969 reduced the rate of increase in the cost of living to 6 per cent during 1969, compared with 19 per cent during 1968. Although financial stability was restored, the Peruvian economy failed to recover from its 1968 recession. The rate of real GNP growth in 1969 was 2 per cent, compared with 1½ per cent in 1968. As a result, per capita income suffered an additional small decline.

In Argentina the rate of increase in real output accelerated markedly, from 4½ per cent in 1968 to nearly 7 per cent in 1969. The rates of expansion in both years represented a rather sharp break with the longer-term trend of relatively more modest increases in the volume of output. (See Table 31.) The higher rate of expansion in the past two years proved compatible with a marked reduction in the rate of inflation. Consumer prices rose during 1969 by less than 7 per cent, compared with 9½ per cent during 1968 and substantially higher rates of increase in earlier years. However, the balance of payments position worsened in 1969 after two years of surpluses. (See Table 32.) Strong export gains did not prevent the current account deficit from widening, and the capital account position also deteriorated, despite increased public sector use of foreign credits. Several factors lay behind this weakening of the external position. Relatively easy monetary policies and a reduction in the gap between domestic and foreign interest rates induced business firms to switch some financing from foreign to domestic sources and led to some capital outflows. Rising internal demand and the rapid expansion of bank credit contributed to a sharp increase in imports. Moreover, political strife and uncertainties regarding incomes policy appear to have sparked speculative capital outflows and caused some speculative imports. Following the change of government in June 1970, the Argentine peso was devalued by 12.5 per cent.

The relatively favorable external conditions confronting many less developed countries in the past few years have tended to obscure one disquieting feature of balance of payments developments affecting this group of countries. In a number of them, the level of outstanding foreign debt has been rising sharply, bringing an increasingly heavy burden of debt servicing. The total external public debt of the less developed countries rose during the 1960's at an average rate of 15 per cent per annum, or about twice as fast as the rate of increase in these countries' exports. At the end of 1968 the total official foreign debt outstanding in the developing countries was some $48 billion. By 1968 the debt service payments of the less developed countries totaled some $4.2 billion (Table 34).

One factor that has contributed to the problem of debt servicing, and has focused attention on it, is the high level of interest rates prevailing in international financial markets during recent

TABLE 34. EXTERNAL PUBLIC DEBT OUTSTANDING AND DEBT SERVICE PAYMENTS OF DEVELOPING COUNTRIES, 1965–68[1]

(In millions of U. S. dollars)

	Total	Africa	East Asia	Middle East	South Asia [2]	Western Hemisphere [3]
Debt outstanding (end of year)						
1965	33,650	6,284	4,167	2,428	8,528	12,243
1966	38,370	7,349	4,632	3,149	10,147	13,093
1967	42,878	8,058	5,480	3,866	10,766	14,708
1968	47,901	8,719	5,950	4,456	12,045	16,731
of which still undisbursed [4]	*11,892*	*1,777*	*1,180*	*1,223*	*2,892*	*4,820*
Service payments [5]						
1965	2,954	468	194	285	355	1,652
1966	3,457	466	225	358	428	1,970
1967	3,724	472	273	315	514	2,150
1968	4,184	625	310	411	540	2,298

Source: International Bank for Reconstruction and Development.

[1] Includes countries as follows:

Africa: Botswana, Burundi, Cameroon, Central African Republic, Chad, Democratic Republic of Congo, Dahomey, Ethiopia, Gabon, Guinea, Ivory Coast, Kenya, Lesotho, Liberia, Malagasy Republic, Malawi, Mali, Mauritania, Mauritius, Morocco, Niger, Nigeria, Rhodesia, Rwanda, Senegal, Sierra Leone, Somalia, Sudan, Swaziland, Tanzania, Uganda, United Arab Republic, Upper Volta, Zambia.

East Asia: China, Indonesia, Korea, Malaysia, Philippines, Singapore, Thailand.

Middle East: Iran, Iraq, Israel, Jordan, Lebanon, Syrian Arab Republic.

South Asia: Afghanistan, Ceylon, India, Pakistan.

Western Hemisphere: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, Venezuela.

[2] Does not include suppliers' credits to India.

[3] For Brazil includes private debt and excludes undisbursed amounts.

[4] Because of lack of information on amounts undisbursed for Ghana, Indonesia, Israel, and Lebanon, the entire amount outstanding is considered as disbursed.

[5] Principal and interest.

years. Also contributing to the rising costs of borrowed funds has been a noticeable shift during the past several years toward a predominance of private capital—typically carrying substantially higher interest rates and shorter maturities than the average for official capital and aid—in the total flow of financial resources to developing countries.[15] At the same time the terms of official flows have been hardening, in the sense that the proportion of grants in the total has fallen. As a result of these developments, a number of countries have encountered debt servicing problems in the past decade, and for some of these countries, debt rescheduling operations became necessary. Experience during the last few years has underscored the fact that high and growing debt service payments in relation to foreign exchange earnings constitute an element of rigidity in the balance of payments and complicate the task of financial management.

[15] The total flow of financial resources from the countries belonging to the Development Assistance Committee (DAC) of the OECD to the developing countries (including those in Southern Europe) is provisionally estimated at slightly over $13 billion in 1969—approximately the same figure as in 1968. The share of official aid and capital in this total financial flow declined from two thirds in 1964 to less than half in 1969.

Chapter 6

Foreign Exchange and Gold Markets

Foreign Exchange Markets

THE substantial instability that was apparent in the foreign exchange markets during much of the first three quarters of 1969 gave way to a significant easing of tensions in late 1969 and the first half of 1970 after the establishment of new par values for the French franc on August 10, 1969, representing a devaluation of 11.11 per cent, and for the deutsche mark on October 26, 1969. On September 25 and 26 and for most of September 29, the official foreign exchange markets were closed in Germany. On the latter date the Government decided not to maintain the rate for the deutsche mark within the limits hitherto observed; a new par value for the deutsche mark, which represented an appreciation of 9.29 per cent over its former parity, was declared about one month later. The subsequent period of general stability in the foreign exchange markets was the first since well before the devaluation of sterling in November 1967.

On May 31, 1970 the Canadian authorities announced that the exchange rate of the Canadian dollar would not be maintained, for the time being, within the prescribed margins of 1 per cent either side of its parity of US$0.925 = Can$1.00, which was established with the Fund in May 1962.

In the first half of 1969, the widespread expectations of possible changes of parity of some currencies were reflected in a wide range of spot and forward quotations against the U. S. dollar. During this period the Italian lira, sterling, the French franc, the Netherlands guilder, and the Belgian franc were at varying and often substantial discounts in terms of the U. S. dollar, while the Swiss franc, the deutsche mark, the Canadian dollar, and the Japanese yen were quoted at premiums. By the end of June 1970, however, the spot quotations for almost all leading currencies, with the exception of the Italian lira and the Swedish krona, were virtually at par or at premiums in terms of the U. S. dollar.

The markets for forward currencies during the earlier part of 1969 were not only very active, but margins were exceptionally wide in terms of their spot quotations. Between September 1969 and June 1970, the increased confidence in the stability of exchange rates was reflected in quotations for forward currencies; three-month contracts, for example, have been quoted at rates usually within 3 per cent per annum of their spot quotations. These relatively narrow forward margins have in general reflected changes in international interest rate differentials.

Day-to-day fluctuations in exchange rate quotations since September 1969 have, however, been considerable. To a large extent these fluctuations in exchange rates reflect the sensitivity of the flows of short-term capital among markets to changes in conditions in various domestic money markets and, in particular, to relative changes in the level of interest rates in those markets and in the Euro-currency markets. The movement of both spot and forward exchange rates largely in response to changes in interest rates is in itself an indicator of the comparatively high level of confidence in existing parities that had been achieved after the realignment of European exchange rates. The greater flexibility of spot exchange rates within accepted margins also reflects some shifts in official intervention policies and in reserve management policies, as well as changes in policies specifically designed to control the flows of short-term capital abroad.

In general, it appears that countries that were recovering from heavy deficits in their balances of payments, for example, the United Kingdom and France, did not let their exchange rates fully reflect the balance of payments improvement but accumulated external reserves and repaid debt. During April 1970 France stated that it had repaid all individual central bank indebtedness, and the United Kingdom announced that very substantial progress in the repayment of debt (especially that to central banks) had been achieved. In the United Kingdom the inflow of capital tended to slow down after the relative fall in interest rates in May and June, while in France the inflow of funds continued and the exchange rate appreciated to near its upper intervention limit. Countries that experienced comparatively large-scale outflows of funds, like Italy, the Netherlands, and Sweden, allowed the spot rates for their currencies to fall more freely and more quickly than for some time in the past, as a means of diminishing the rate of outflow. In addition, short-term interest rates were raised and direct measures were introduced in the course of 1969 and early 1970. These measures were aimed at limiting the rate of export of capital by requiring the commercial banks either to balance their net exchange position or to reduce their net asset positions over certain periods of time. Other countries experiencing net inflows of funds, for example, Belgium and Canada, let their spot rates appreciate and applied other measures to limit or neutralize the size of capital inflows.

During the first nine months of 1969, tensions had built up in the foreign exchange markets not only as a result of speculative flows of capital on a massive scale among the main European money markets but also as a result of developments in the Euro-currency markets that arose from progressively tighter monetary conditions in the United States. For example, borrowing by the U. S. commercial banks from their overseas branches rose from about $6 billion in December 1968 to almost $14.5 billion by the end of September 1969. Euro-dollar three-month deposit rates rose from about 7 per cent to about 12 per cent during the same period. The sharp tightening of conditions in the Euro-currency markets was reflected in increases in interest rates in domestic money markets in Europe, and also put pressure on some European currencies in the earlier part of the year.

Flows of short-term funds between the European money markets, which had earlier had severe destabilizing effects on exchange rate and domestic interest rate policies, contributed to greater stability in the exchange markets in the latter part of 1969 and the first half of 1970. Large-scale outflows of funds occurred from Germany; in addition, Austria, Belgium, Italy, the Netherlands, and Switzerland experienced outflows of funds after it had become clear that the exchange parities of these currencies were not to be changed. The progressive and large improvement in the basic balance of payments positions of the United Kingdom and France has also been significant in helping to restore confidence in the exchange system. Further, both countries benefited from an unwinding of speculative positions that had been built up against their currencies over a prolonged period of time.

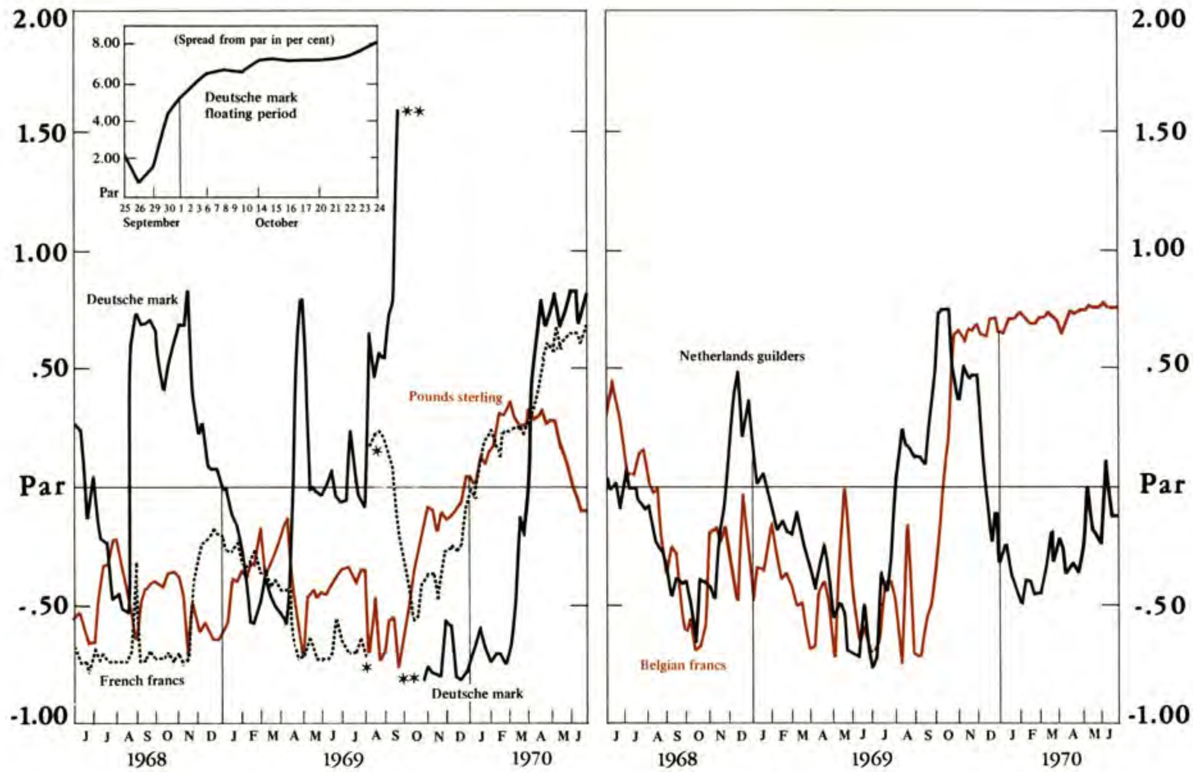
During the first half of 1970, a significant easing of conditions in the Euro-currency market occurred, as the U. S. commercial banks returned funds to their overseas branches and Euro-dollar interest rates fell. These developments helped bring about not only a fall in short-term interest rates in some countries but also a better balance between the leading money markets in Europe and the Euro-currency markets, thereby having a generally stabilizing effect on the foreign exchange markets. However, in some countries that were in substantial external surplus and with comparatively high domestic interest rates, the fall in interest rates in the Euro-currency markets led to an inflow of funds, which tended to increase the size of their over-all balance of payments surpluses and led to a sharp appreciation of their exchange rates.

Spot Foreign Exchange Markets

Chart 26 shows quotations in New York for the spot exchange rates in terms of the U. S. dollar for some of the leading currencies for the period June 1968 to June 1970. As can be seen, substantial fluctuations occurred in quotations during 1969 and the first half of 1970. The fluctuations were sharpest for the deutsche mark, the Netherlands guilder, the Belgian franc, and the Italian lira. For example, the deutsche mark fluctuated between a discount in New York of 0.62 per cent of parity on April 14, 1969 and a premium of 2 per cent on May 9, before falling rapidly to its parity. Between July 11 and October 15, 1969, the rate for the Netherlands guilder moved from a discount of 0.75 per cent of parity to a premium of 0.76 per cent; the Belgian

CHART 26. SPOT EXCHANGE RATES:[1] SELECTED CURRENCIES AGAINST U.S. DOLLAR, JUNE 1968–JUNE 1970

(*Spread from par in per cent*)



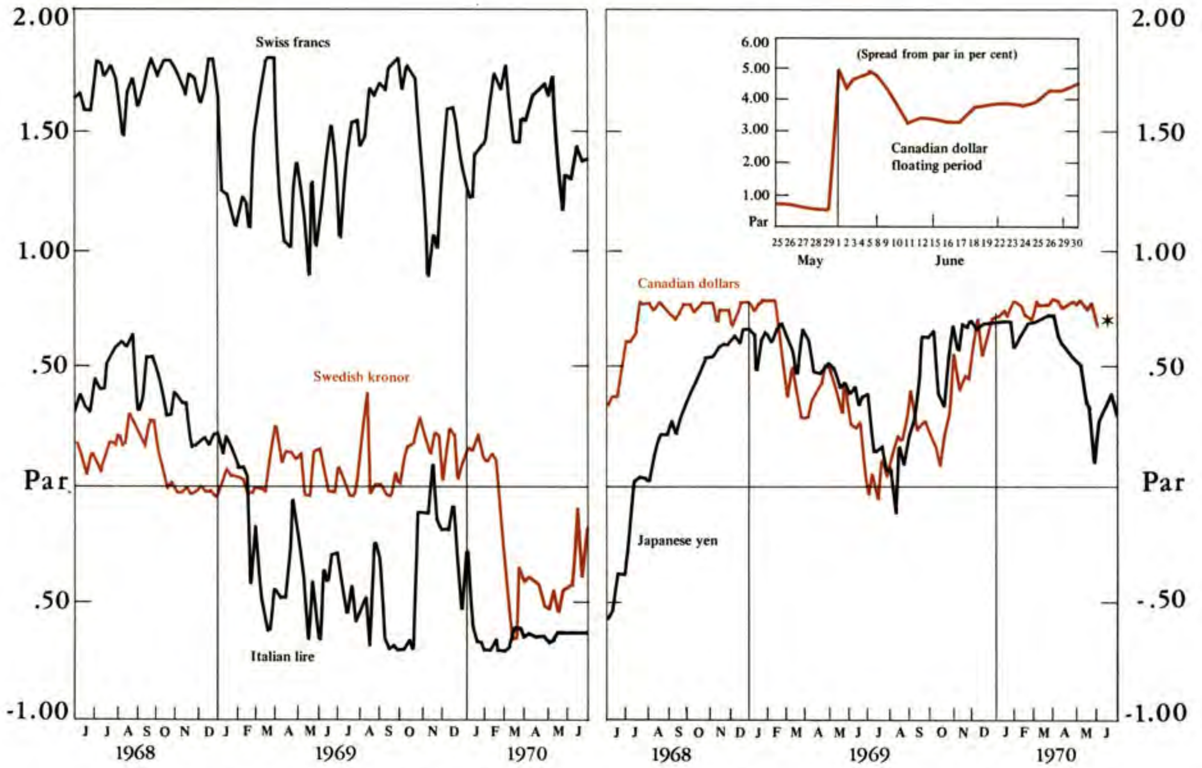
* Devaluation of the French franc, effective August 10, 1969.
** Revaluation of the deutsche mark, effective October 26, 1969.
[1] Based on Wednesday noon quotations in New York.

franc followed a similar pattern. With the exception of the French franc, the currencies of the countries of the European Economic Community tended to appreciate sharply during this period and were affected in particular by changing expectations as to the likelihood of an alteration of their par values—especially that of the deutsche mark. During the first half of 1969, the French franc generally weakened in the market, particularly in April and May, as a result of heavy speculative selling pressure on the currency; sterling remained at a discount during this period and also moved erratically in the market. The Swiss franc showed sharp month-to-month fluctuations, at a premium that ranged from 1 per cent to 1.80 per cent of its parity. The Canadian dollar and Japanese yen, which at the beginning of 1969 were quoted at close to their upper intervention limits, declined sharply to their parities by mid-1969.

In August 1969 the exchange markets were in a period of temporary calm when the French Government announced, on August 8, its intention to devalue the franc by 11.11 per cent. The new rate of F 5.55419 = US$1 was established with effect from August 10, 1969. The reaction in the exchange markets following the devaluation was well contained; substantial selling pressure developed for about five days against the Belgian franc, sterling, some of the Scandinavian currencies, and, to a lesser extent, the Italian lira. The rates for the deutsche mark, the Netherlands guilder, and the Swiss franc strengthened sharply. By the latter part of the month, the markets regained a better equilibrium and trading conditions became significantly calmer. However, comparatively small-scale flows of short-term funds brought about substantial changes in the daily quotation of exchange rates; the movements of

CHART 26 (*concluded*). SPOT EXCHANGE RATES:[1] SELECTED CURRENCIES AGAINST U.S. DOLLAR, JUNE 1968–JUNE 1970

(*Spread from par in per cent*)



* Effective June 1, 1970 the Canadian dollar was permitted to fluctuate outside the prescribed margins.
[1] Based on Wednesday noon quotations in New York.

exchange rates also reflected changes in a number of official discount rates, as well as changes in exchange controls and the adoption of measures influencing commercial bank operations in the Euro-currency markets. Following its devaluation, the French franc was quoted at a premium of about 0.25 per cent of its new parity. By mid-September, however, the rate had fallen back to par.

Throughout September 1969 the exchange markets and the Euro-currency markets were affected by large-scale movements of short-term funds to Germany, induced by a prospective revaluation of the deutsche mark. The spot rate for the deutsche mark in New York appreciated sharply. The rate of inflow of short-term funds into Germany began to accelerate markedly and for the week ended September 15 the foreign exchange reserves of the Bundesbank increased by $383 million, notwithstanding the fact that the Bundesbank had fixed its U. S. dollar buying rate at the lowest support limit of DM 3.97 = US$1.

Massive speculative buying of deutsche mark continued. After the close of business in Europe on September 24, in view of the growing uncertainty in the foreign exchange situation, the German authorities announced that at the request of the Bundesbank the official foreign exchange markets in Germany would be closed on September 25 and 26. Following this announcement and without official intervention the deutsche mark appreciated sharply in active trading in New York and the spot rate rose to $0.2540, which represented a premium of 1.60 per cent of its parity, and later to $0.2552½ (a premium of 2.10 per cent).

The official foreign exchange markets in Germany were reopened for a short period of time on September 29, but then closed again. On that day, the German authorities decided, as a means of avoiding possible pressures on the international monetary system, that "they will not ensure that rates for exchange transactions involving the deutsche mark within their territory will be confined to the limits hitherto observed. In pursuing this course they will resume the maintenance of the limits around par at the earliest opportunity." At a meeting of the Executive Directors on September 29, the Fund recognized the exigencies of the situation and noted the intention of the German authorities to collaborate with the Fund and to resume the maintenance of the limits around par at the earliest opportunity.

The exchange rate for the deutsche mark fluctuated outside its prescribed limits between September 30 and October 26 when a new par value was established. The spot rate for the deutsche mark in New York appreciated sharply to a premium of 6.50 per cent of its parity during the first week of October, before leveling off for a few days. By October 15, however, the rate in New York appreciated further to $0.2683, or a premium of 7.32 per cent above its parity, despite a large outflow of funds from Germany; the rate remained fairly steady until October 22 and 23 when, on a renewed inflow of funds into Germany, it appreciated further to a premium of about 8 per cent. During October the Bundesbank steadily lowered the rate at which it was prepared to offer U. S. dollars in Frankfurt and usually, though not continuously, offered U. S. dollars at rates slightly below those prevailing in the market on the previous day. The rate of outflow of funds from Germany was, however, substantial during the period that the exchange rate for the deutsche mark fluctuated.

On October 24 the German Government announced its intention to establish a new par value at US$0.273224 = DM 1 (or DM 3.66 = US$1). This new rate, which was effective on October 26, 1969, represented an upward revaluation of 9.29 per cent over the former parity. The German authorities also announced that the normal intervention limits would remain DM 0.03, as previously, thereby increasing the margin as a percentage of parity from 0.75 to 0.82 either side of par.

The developments involving the deutsche mark in September 1969 generally affected all other leading currencies and money markets. The Netherlands guilder, the Swiss franc, the Austrian schilling, and, to a lesser extent, the Belgian franc experienced substantial speculative buying pressures and appreciated toward their market ceilings. Sterling, the French franc, and the Italian lira, however, showed considerable weakness throughout the month. The level of interest rates in the Euro-dollar market rose sharply partly as a result of the inflow of funds into Germany and closely associated countries. A number of industrial countries, including Germany, Austria, Switzerland, and Belgium, raised their official discount rates during September. While these increases in interest rates further strengthened their exchange rates in terms of the U. S. dollar in the spot exchange markets, they did not have a significant effect on intra-European exchange rates, largely because the flows of funds at this time were influenced more by speculative considerations than by changing interest rate differentials.

The sharp appreciation of the rate for the deutsche mark during October led to a massive and sustained outflow of funds, reversing the inflows of previous months and inducing a sharp fall in the level of interest rates in the Euro-dollar market. The quotations for most of the other leading currencies appreciated sharply in the foreign exchange markets. By the second week of November, almost all leading currencies, with the exception of the deutsche mark and the French franc, were quoted close to their parities or at substantial premiums above their parities.

Toward the end of the year the foreign exchange markets had calmed significantly. The spot rate for the deutsche mark was under heavy pressure, as a result of the continuing large outflow of funds, and the rate was quoted virtually continuously at its new lower intervention limit. Movements in other rates reflected in large part an unwinding of speculative positions that had been built up in the course of 1969, although widening interest rate differentials and substantial improvements in the basic balance of payments positions of countries, in particular of the United Kingdom and France, also affected exchange rate quotations. Sterling, the French franc, the Belgian franc, the Canadian dollar, and the Japanese yen appreciated, largely as a result of these factors. The inflow of funds into the United Kingdom and

France was, however, only partly reflected in the strengthening of the exchange rates, as the authorities absorbed the inflow by adding to reserves and by making substantial debt repayments. The Netherlands guilder and the Italian lira showed marked weaknesses in the exchange markets, partly as a result of an outflow of funds after it was announced that the par values of these currencies were not to be changed.

By the end of 1969, sterling reached parity with the U. S. dollar for the first time since April 1968. The rate in the market was firm during the first five months of 1970 on a continued inflow of funds, which reflected the large current account surplus of the balance of payments, a liquidation of speculative positions that had been built up against sterling, and an inflow of short-term funds largely on an uncovered basis. The U. K. authorities continued to repay official debts, so that the exchange rate did not fully reflect the over-all inflow of funds. In the second half of May and in June 1970, however, the rate of inflow of funds slowed down considerably and the sterling exchange rate declined from a premium of about 0.25 per cent to a small discount by the end of June.

The French franc showed a movement similar to that of sterling up to about April 1970 and for the same basic reasons. The franc reached parity with the U. S. dollar at the end of 1969. The rate strengthened sharply in April and May, after the Government announced that all central bank debts had been repaid, and moved close to its upper intervention limit. The continued inflow of funds during May and June reflected not only the improved basic balance of payments position but also the relatively high level of interest rates in France compared, in particular, with the level of rates in the Euro-dollar market.

The Canadian dollar and the Japanese yen generally followed similar patterns of change throughout 1969 and the first few months of 1970, which reflected the substantial over-all balance of payments surpluses of these countries. However, between April and June 1970, the rate for the Japanese yen tended to weaken, declining from a premium of about 0.70 per cent above parity at the end of March to a premium of about 0.32 per cent at the end of June 1970.

The Canadian dollar continued to strengthen through May 1970, not only because of the strong basic payments position but also as a result of an accelerated inflow of short-term funds. Official reserves rose by $262 million during May; in addition, $360 million of foreign exchange was acquired as a result of swap transactions and through operations in the forward market.

On May 31, 1970 the Canadian authorities decided that for the time being Canada would not maintain the exchange rate of the Canadian dollar within the prescribed limits of 1 per cent either side of its parity of US$0.925 = Can$1.00, which has been effective since May 2, 1962. The Canadian authorities stated that this action was necessary in the light of additions to the over-all foreign exchange position at an unmanageable pace, and would prevent disruptive effects upon the international payments system from occurring. They would remain in consultation with the Fund and intended to resume the fulfillment of the obligations of Article IV, Section 3, of the Fund's Articles of Agreement, as soon as circumstances permitted. The Fund noted the current situation in Canada, which had been described by the Canadian authorities. The Fund emphasized the undertaking by members to collaborate with the Fund to promote exchange stability and to maintain orderly exchange arrangements with other members. The Fund welcomed the intention of the Canadian authorities to remain in close consultation with the Fund with a view to the resumption of an effective par value at the earliest possible date.

At the time the Canadian authorities announced that they would not maintain the rate for the Canadian dollar within its prescribed margins, they stated that the Canadian Exchange Fund would stand ready to maintain orderly conditions in the exchange market and to operate for the time being to moderate any appreciation of the Canadian dollar. After a sharp appreciation when the market opened in New York on June 1, 1970, the spot rate was quoted during the rest of the month at a premium that ranged between 3.30 per cent and 5.00 per cent above its parity.

The Belgian franc and the Swiss franc also strengthened sharply after the revaluation of the deutsche mark, and these currencies have been quoted at comparatively high premiums. During the first six months of 1970, the quotation for the Belgian franc in the official market has been generally close to its upper intervention limit. In the free exchange market, through which most capital transactions are channeled, the rate for the Belgian franc during the greater part of 1969 fluctuated sharply and was generally at a substantial discount from the rate in the official market. During the last part of 1969 and the first half of 1970, however, the free market exchange rate was quoted at only a small discount from the official exchange market rate. The Swiss franc, while being quoted at a premium in terms of the U. S. dollar usually in excess of 1.25 per cent of its gold parity, has fluctuated considerably, particularly in light of the changing domestic liquidity needs of the commercial banks.

Between the revaluation in late October 1969 and the beginning of March 1970, the deutsche mark was quoted at close to its lower intervention limit. During March the exchange rate appreciated to close to its parity and by the end of April it was quoted at a premium of 0.68 per cent of parity; the rate remained firm during May and during June rose close to its upper intervention limit. The renewed strength of the deutsche mark in the exchange markets in the second quarter of 1970 was largely a consequence of the comparatively tight liquidity conditions and rising interest rates in the German money markets, which have attracted funds, especially from the Euro-currency market. A further factor has been the improved balance of payments position. In addition, the Bundesbank has gradually lowered its buying rate for U. S. dollars.

During most of the latter part of 1969 and the first half of 1970, the Italian lira has been quoted at a discount of about 0.65 below its parity. The comparative weakness of the lira exchange rate has been due in part to a sustained outflow of funds arising largely from the comparatively large discrepancy between domestic Italian interest rates and interest rates abroad. As a means of discouraging the outflow, the Italian authorities allowed increases in domestic interest rates from mid-1969, first in short-term rates and later in long-term rates. With the outflow of capital continuing, interest rates were raised sharply in March 1970. In February 1970, as a means of halting the illegal export of banknotes, the authorities tightened the rules relating to spot lira and banknote transactions.

The Netherlands guilder also declined sharply after the revaluation of the deutsche mark and particularly after it was announced that the par value for the guilder was not to be changed. The movements in the exchange rate have been closely influenced by the ebb and flow of capital, especially between the Euro-currency market and the Amsterdam money market.

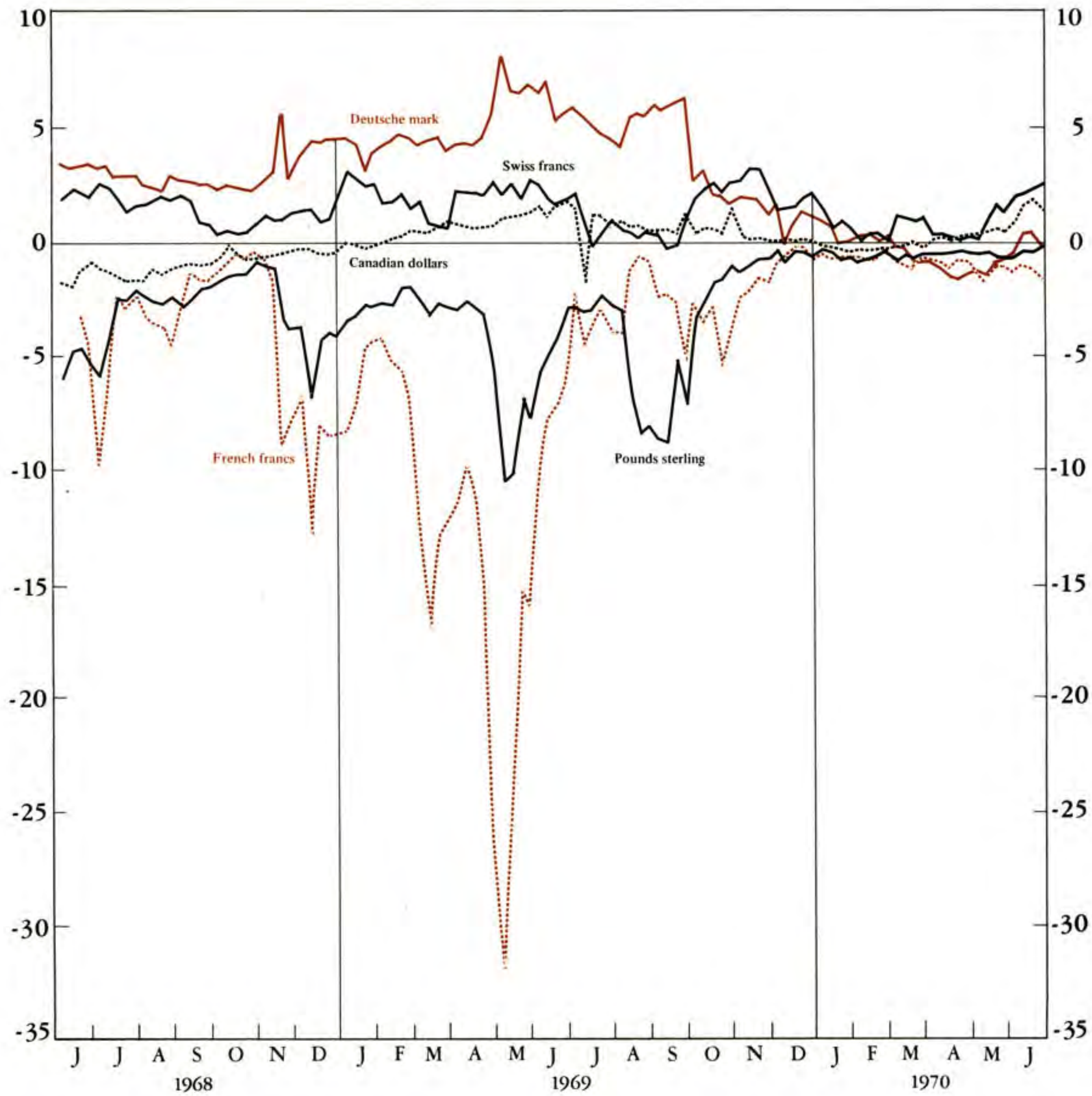
The Swedish krona also experienced substantial selling pressure during the first few months of 1970. The authorities, however, maintained the exchange rate at slightly above its parity. In an attempt to check the outflow of funds, the Swedish authorities, on February 18 and 19, changed their lower intervention point for the krona from the equivalent of a discount of 0.03 per cent of parity to a discount of 0.11 per cent and then to a discount of 0.32 per cent. Shortly afterward the authorities decided to let the spot rate fluctuate within the existing margins of ¾ of 1 per cent either side of par. By early March 1970 the rate had fallen to a discount of about 0.60 per cent of parity; however, it improved slightly in the two subsequent months and then firmed considerably in June, as the rate of capital outflow diminished. At the end of June 1970 the discount was about 0.22 per cent of the parity rate.

Forward Exchange Markets and Interest Arbitrage

Quotations on three-month forward contracts for some of the leading currencies, expressed as annual percentage discounts or premiums on their spot quotations, are shown in Chart 27. Since most forward exchange rates are left to the interplay of market forces, the premiums and discounts on forward quotations reflect not only movements in the spot exchange markets but also the factors influencing spot quotations on a magnified scale, without the cushioning of systematic official intervention. During each period of renewed tensions in the spot exchange markets, the quotations for forward exchange tend to widen sharply, as, for example, at the time of the exchange market crisis of April–May 1969, and, again, at the time of the devaluation of the French franc in August 1969, when the diver-

CHART 27. THREE-MONTH FORWARD EXCHANGE RATES:[1] SPREAD OF SELECTED CURRENCIES AGAINST SPOT U. S. DOLLAR, JUNE 1968–JUNE 1970

(In per cent per annum)



[1] Based on Wednesday noon quotations in New York.

gence between the premium on forward deutsche mark and the discount on forward sterling was in excess of 15 per cent per annum. With increased stability in the exchange markets, the divergence between forward margins of different currencies narrowed significantly. Throughout the first half of 1970 the maximum divergence between premiums and discounts on three-month forward contracts for the leading currencies was less than 3 percentage points. This was narrower than at any time since the summer of 1967, which was a period of active official intervention by some authorities in the forward markets for their currencies. The increase in confidence also resulted in a reduced level of activity in the forward exchange markets compared with recent years. Further, changes in the pattern of forward quotations have tended to reflect changes in the pattern of interest rates in domestic money markets and the Euro-dollar market.

During the exchange market crisis of April–May 1969, the discount on forward French francs was the equivalent of 33 per cent per annum and the discount on forward sterling was about 10 per cent per annum; in contrast, the premium on the forward deutsche mark rose to over 8 per cent per annum. The discounts and premiums narrowed sharply during the following three months but again widened at the time of the devaluation of the French franc. By early September 1969, the discount on forward sterling reached almost 9.2 per cent per annum, while the premium on forward deutsche mark rose to 6.3 per cent.

Since late 1969 both forward premiums and discounts have tended to narrow. The discounts on forward sterling and French francs have generally been less than 1 per cent per annum. The forward Netherlands guilder has usually been quoted at a small premium while the forward Belgian franc fluctuated between a premium and a discount of usually less than 1 per cent per annum. The forward Italian lira changed from a small premium to a discount, which by the end of June was the equivalent of 9.1 per cent per annum. The deutsche mark also changed from a premium to a discount while the forward Swiss franc fluctuated between a very small discount and a premium, which by the end of June was about 2.2 per cent per annum. The premium on the forward Canadian dollar rose steadily from the end of March and at the end of June was quoted at about 1.1 per cent per annum.

Throughout 1969 and for the first five months of 1970, investment on a forward covered basis in the Euro-dollar market was, in general, relatively more profitable than investment in domestic money markets. For the first nine months of 1969, interest rates in the Euro-dollar market were rising sharply, and discounts on forward quotations for a number of currencies—including sterling, the French franc, and the Belgian franc—were relatively large and tended to induce a comparatively large outflow of funds. Meanwhile, the comparatively low level of interest rates in some countries, for example, Italy and Switzerland, tended to induce an outflow of capital even though forward quotations for these currencies were at a premium. In Germany, the Bundesbank induced a partial outflow of funds by providing favorable swap rates for forward dollars with the commercial banks.

Despite the fall in interest rates in the Euro-dollar market and despite the narrowing of the discounts on forward currencies, the margin of profitability on covered investment has generally been in favor of the Euro-dollar market. However, after the realignments of par values in the latter half of 1969, an increasing volume of funds flowed among the various money markets on an uncovered basis. Indeed, on occasion funds flowed to money markets, for example, London and Paris, when interest rates were lower in those markets than in the Euro-dollar market. Details on the flows of funds among money market centers are provided in Chapter 5.

Gold

Prior to the establishment of the two-tier system in March 1968, the international gold market had been subject to intense speculative activity. Between mid-March 1968 and the early months of 1969, the leading gold markets were generally active with, at times, heavy speculative buying of gold and with prices rising sharply. By March 1969 the price of gold in London had risen to a peak of $43.825 a fine ounce. The price remained comparatively stable for the next few months but then began to decline, responding to a fairly prolonged liquidation of holdings. By December 1969 the price had fallen to its official level of $35. In early January 1970 the price declined to a low point of $34.75 before rising to $36.24 in mid-May and again declining to about $35.50 a fine ounce at the end of June. The decline in prices in the London market was paralleled by a corresponding fall in price in Zurich and in other gold markets.

The relative fall both in the demand for gold and its price, particularly in the autumn of 1969, can in part be attributed to a change in expectations regarding a possible revaluation of the official price of gold. The change in expectations was, to some extent, a consequence of the greater calm in the foreign exchange markets and also of the prospective activation of the special drawing rights facility. Further, investors began to liquidate their positions partly to take advantage of the relatively high price of gold in the market until about October 1969 and partly because of the increased opportunity cost of holding gold that resulted from the rise in interest rates.

The agreement made in March 1968 by the seven active members of the gold pool not to sell gold to the private market and to let the price of gold for nonmonetary transactions fluctuate in response to private transactions effectively stopped the drain of gold from existing monetary stocks to the private market. Consequently, for the first time in a number of years, additions to the supply of gold on the private market were determined largely by current output of gold. The total new supply of gold (recorded and estimated production plus net sales by CMEA countries, mainland China, etc.[1]) amounted to the equivalent of $1,408 million in 1969; this total represented a small increase from 1968, when it amounted to $1,388 million. There were no reported sales of gold by CMEA countries in 1969. It is estimated that mainland China bought a comparatively small amount of gold totaling $17 million in that year, compared with estimated purchases of $43 million in 1968.

Although South Africa's gold reserves showed a decrease during 1969, total official gold holdings increased by $110 million in 1969, the first increase since 1965. The rise reflected in part South African transactions with the Fund and also sales of rand by the Fund for which South Africa arranged conversion in gold for the purchasing member. A number of countries, including the United States, Japan, the Democratic Republic of Congo, Uruguay, and Portugal, had substantial increases in gold holdings in 1969. Taking into account the rise in official stocks of gold and estimated small purchases by mainland China, new supplies of gold placed on the free market during 1969 are estimated at about $1.3 billion (valued at $35 a fine ounce). In 1968 over $2 billion of gold was placed on the free market, of which $700 million had been drawn from official stocks of gold in the first quarter of the year and the remainder from new production. However, with the substantial speculative overhang of gold that remained in the market, resulting from large private purchases of gold from official stocks in late 1967 and early 1968, the market was amply supplied with gold during 1969, despite the fall in the total amount of new gold placed on the market. About $148 million, or about 40 per cent of estimated gold production during the first quarter of 1970, was placed on the free market during that period. The remainder was largely accounted for by purchases of gold by the Fund from South Africa and was, therefore, reflected in a rise of official reserves of gold by about $217 million.

Industrial and artistic demand for gold in 1969 might be estimated at about $930 million when valued at $35 a fine ounce; this represented about 72 per cent of the newly available gold placed on the free market, or about 65 per cent of current gold production. Over the last few years industrial and artistic demand for gold has been increasing rapidly—from about 48 per cent of current production in 1965 to about 63 per cent in 1968. During 1969, however, the annual rate of growth of demand for industrial and artistic gold declined in comparison with the annual rates of growth over the last five years. Although industrial and artistic demand for gold rose during 1969 and new supplies of gold offered on the market fell substantially, the competition for the available supplies was minimal because net hoarding and investment demand fell, as is indicated in the sharp fall in gold prices in the last quarter of the year. Indeed, the amount of the gold absorbed by net hoarding demand was the smallest in over a decade. During the first quarter of 1970, industrial and artistic demand for gold increased at about the same rate as in 1969 taken as a whole. However, in light of the increase in official stocks of gold, industrial and artistic demand exceeded the amount of gold placed on the market thereby leading to dishoarding.

As pointed out above, the gold reserves of a number of countries increased substantially in 1969, while those of Denmark, France, Germany, Ireland, Kuwait, and South Africa, for example, showed substantial falls. In connection with the Fund's decision to purchase gold from South Africa described in Chapter 3, during the first half of 1970, the Fund purchased the equivalent

[1] See footnote 1, page 42.

TABLE 35. GOLD: VALUE OF WORLD PRODUCTION,[1] 1940, 1945, AND 1964–69

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

	1940	1945	1964	1965	1966	1967	1968	1969
South Africa	492	428	1,019	1,069	1,081	1,062	1,088	1,091
Canada	186	95	133	126	115	104	94	85
United States	170	32	51	59	63	55	54	61
Australia	57	23	34	31	32	28	28	24
Ghana	31	19	30	27	24	27	25	25
Rhodesia [2]	29	20	20	19	18	18	18	18
Japan	30	3	16	18	19	24	22	24
Philippines	39	—	15	15	16	17	19	20
Colombia	22	18	13	11	10	9	8	8
Congo, Dem. Rep. of	20	12	8	2	6	5	6	5
Mexico	31	17	7	8	8	6	5	8
Others [2]	157	69	60	55	54	51	53	56
Total [2]	1,264	736	1,406	1,440	1,446	1,406	1,420	1,425

Sources: *International Financial Statistics* and Fund staff estimates.
[1] Excluding the output of CMEA countries, mainland China, etc.
[2] These figures include estimates for data not available.

of $307 million of gold from South Africa. Distribution of gold held by the Fund will depend on the Fund's need to replenish its currency holdings by sales of gold.

Gold Production

Gold production for all countries (excluding CMEA countries, mainland China, etc.) was virtually unchanged in 1969 at 40.7 million ounces valued, on the basis of $35 a fine ounce, at $1,425 million.

In South Africa gold production rose by 0.25 per cent in 1969 over the level of 1968, to 31.17 million ounces, which, when valued at $35 a fine ounce, was the equivalent of $1,091 million. As in 1968, South African gold output accounted for about 77 per cent of world production (excluding CMEA countries, mainland China, etc.). In contrast to 1968, when both tonnage and average grade of ore increased, the rise in output in 1969 reflected an increase in tonnage combined with a slight decrease in the average grade of ore. Combined working profits from gold, uranium, and other products rose by 5.1 per cent from R 309.2 million ($432.8 million) in 1968 to R 325.0 million ($455.0 million) in 1969; this was a marked acceleration in the rate of increase which in 1968 was only 0.4 per cent above the level of 1967 and was due mainly to increased premium payments resulting from free market sales at prices in excess of $35. According to reports of the Chamber of Mines of South Africa, premiums paid to the mines in 1968 as a result of free market sales in May and June of that year totaled R 6.6 million ($9.3 million). The premium obtained as a result of free market sales in 1969 reportedly amounted to R 57.2 million ($80 million), of which R 32.1 million ($44.9 million) was paid in the first half of the year. Without these premium payments, it is likely that working profits of the mines would have declined in 1969. Nevertheless, the total amount of gold production mined at a loss rose to 5.4 per cent in 1969, compared with 3.5 per cent in 1968. Over the last few years a rising volume of output has been mined at a loss.

Output of the ten largest producers declined slightly in 1969, while profits of these producers rose by 2.7 per cent and working costs increased by 6.1 per cent, compared with 0.7 per cent and 4.7 per cent, respectively, in 1968. Production of the country's largest gold mine, West Driefontein, fell by 15.5 per cent in 1969 because of severe flooding of the mine in November 1968. The fall in output of this mine, together with relatively small reductions in output of other mines, was offset by increases in production achieved by some of the large mines, such as Harmony and Western Deep Levels, and the coming into full production of new mines such as Kloof, Kinross, and Elsburg. Two large new gold mining projects in East Driefontein and Vaal Reefs South, initiated in 1968, are due to start operations during the next two years or so. It is expected that pro-

TABLE 36. GOLD: MARKETED STOCKS AND DISTRIBUTION BY USE, 1966–FIRST QUARTER 1970

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

	1966	1967	1968	1969	First Quarter 1970
Production	1,446	1,406	1,420	1,425	365
Net sales (+) or net purchases (−) by CMEA countries, mainland China, etc.	−75	−5	−32	−17	—
Total new supplies	1,371	1,401	1,388	1,408	365
Changes in countries' official stocks of gold [1]	−950	−1,400	−570	195	38
IMF gold transactions [2,3]	783	30	−394	22	202
BIS and EF gold transactions [2]	121	−209	263	−109	−21
Total added to official stocks of gold [1] (rounded)	−45	−1,580	−700	110	217
Residual: supplies absorbed by industry, arts, and private hoarding	1,416	2,981	2,088	1,298	148

Sources: *International Financial Statistics* and Fund staff estimates.
[1] Excluding CMEA countries, mainland China, etc.
[2] Minus sign denotes net outflow of gold from the International Monetary Fund, the Bank for International Settlements, and the European Fund.
[3] Excluding gold placed on general deposit in London and New York totaling $254 million at the end of 1966, $278 million at the end of 1967, $272 million at the end of 1968, and $259 million at the end of 1969.

duction by these new mines will at least maintain production at recent levels over the next few years.

Canadian gold production showed a further decline in 1969 to 2.43 million ounces ($85 million valued at $35 a fine ounce) from 2.69 million ounces ($94 million) in 1968. In the United States gold output increased from 1.54 million ounces ($54 million) in 1968 to 1.73 million ounces ($61 million) in 1969. Although one mine was closed and some mines suspended their operations temporarily, gold production in 1969 was higher than in 1968, largely as a result of the resumption of work in the copper mines from which the bulk of U. S. gold is extracted. Gold production in 1969 in most other countries listed in Table 35 was about the same as in 1968.

Gold Holdings

Official Holdings

Total recorded official stocks of gold rose by about $110 million to a total of about $41 billion by the end of 1969. Gold stocks of national monetary authorities increased by $195 million in 1969 after falling by $2,920 million over the three years 1966–68 (Table 36 and Chart 28). Gold holdings of international organizations fell by $87 million during 1969. This was entirely the result of sales of gold by the Bank for International Settlements; the Fund's bar gold holdings increased by $22 million during the year. As noted earlier, official holdings of gold increased by about $217 million during the first quarter of 1970.

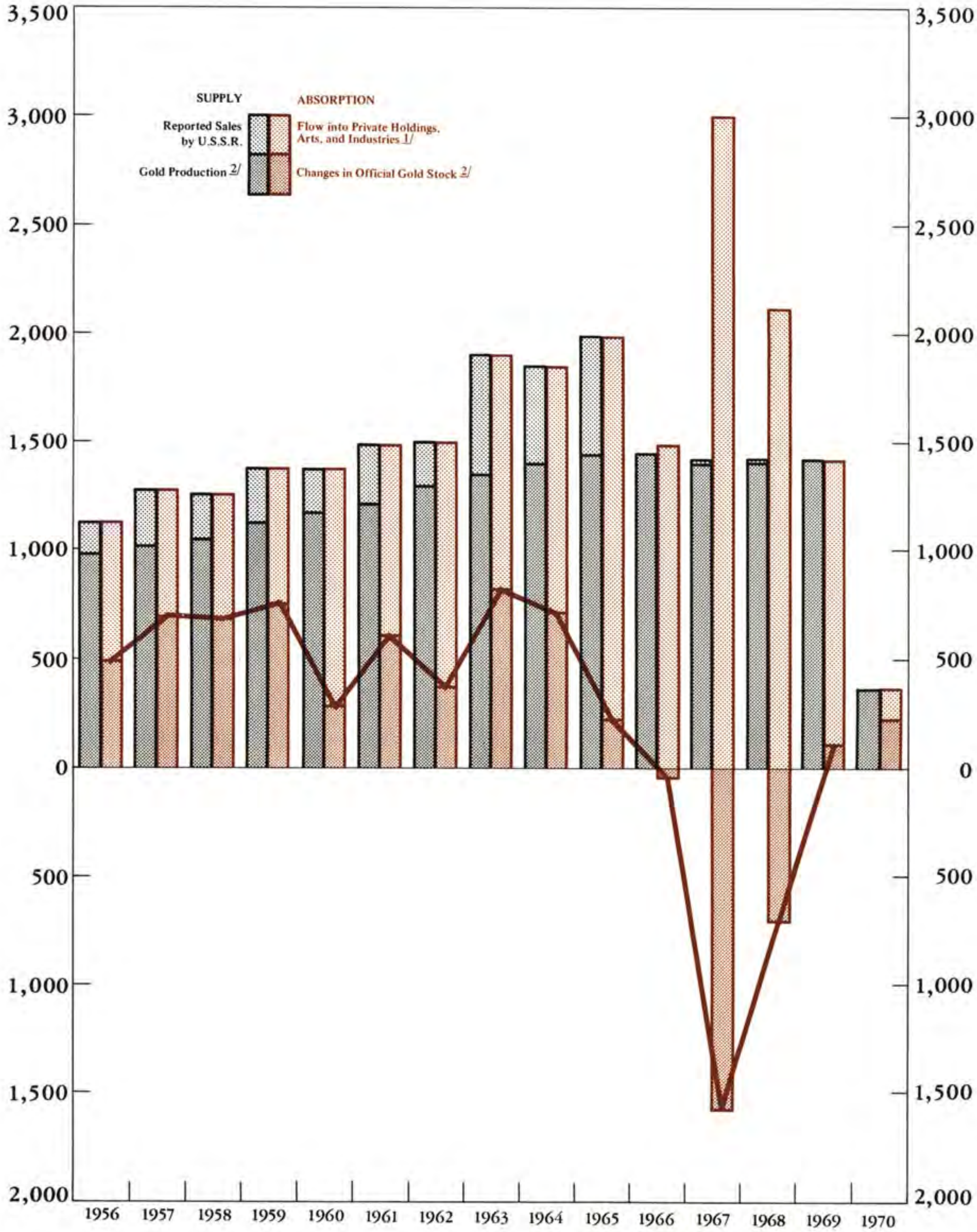
Gold holdings of the Fund amounted to $3,369 million at the end of 1969. This total included $800 million invested in U. S. Government securities and $259 million held under general deposit. During the first quarter of 1970 the gold holdings of the Fund increased by a net $202 million. The Fund purchased an amount of $287 million of gold from member countries; $283 million from South Africa under the Fund's decision of December 30, 1969 and $4.4 million from Austria when it was designated to provide currency in connection with the special drawing rights facility. Further details on the Fund's gold transactions for the year ended April 30, 1970 are given in Chapter 3.

Private Absorption

During 1969 private net absorption of gold for industrial and artistic use and in the form of private hoarding was of the order of 37 million ounces (or about $1.3 billion valued at $35 a fine ounce), compared with 60 million ounces in 1968 and 85 million ounces in 1967. As pointed out above, the supply of gold to the private

CHART 28. GOLD: ESTIMATED NEW SUPPLIES AND ABSORPTION, 1956–FIRST QUARTER 1970

(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, $20 million in 1967, $43 million in 1968, and $17 million in 1969.
[2] Excluding CMEA countries, mainland China, etc.

TABLE 37. GOLD: MARKETED STOCKS AND DISTRIBUTION BY USE, 1956–FIRST QUARTER 1970

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

Year	Newly Available Gold [1] (A)	Additions to World Monetary Stocks [2] (B)	Estimated Industrial and Artistic Use [3] (C)	Estimated Private Hoarding [4] (D)
1956	1,130	490	310	330
1957	1,279	690	320	269
1958	1,261	680	360	221
1959	1,382	750	380	252
1960	1,378	280	430	668
1961	1,490	605	470	415
1962	1,500	370	510	620
1963	1,906	820	540	546
1964	1,856	710	600	546
1965	1,840	220	690	930
1966	1,371	−45	745	671
1967	1,401	−1,580	815	2,166
1968	1,388	−700	890	1,198
1969	1,408	110	930	368
1970				
First Quarter	365	217	235	−87

[1] New production plus sales by the U.S.S.R. less purchases by mainland China.
[2] Data from *International Financial Statistics.*
[3] Fund staff estimates.
[4] The residual amount. Columns A − (B + C) = D.

market in 1969 was slightly less than current output of gold as a result of the rise in official gold holdings. The amount of gold absorbed for private hoarding purposes is shown as the difference between current production and official, industrial, and artistic absorption of gold. As can be seen from Table 37, estimated private hoarding amounted to $368 million in 1969, the smallest estimated amount since 1959. The fall in the amount of gold privately hoarded during 1969 was mainly the result of the reduced attractiveness of gold as a means of short-term investment not only in the face of better opportunities in the foreign exchange market and international money markets but also in light of a change in expectations regarding the official price of gold. The restoration of calm in the foreign exchange markets following the realignment of the par values of the French franc and the deutsche mark in the later part of 1969 and the impending distribution of special drawing rights also had a marked effect on investor interest in the gold market.

It is difficult to obtain information on the net use of gold for industrial and artistic purposes in all countries. In Table 37 an attempt has been made to provide estimates of private industrial and artistic demand since 1956; hoarding demand is estimated as a residual. These estimates have been based on information submitted to the Fund by individual members over the last few years, and on estimates made by the U. S. Bureau of the Mint, which cover a longer time span. Together the estimates cover 75 countries, with 40 members submitting information to the Fund. For the earlier part of the period the estimates have been based largely on information published by the U. S. Bureau of the Mint and on information published by the Bank for International Settlements. For some countries estimates have been made for earlier years than those for which data are available by assuming that earlier annual rates of growth were the same as the average annual rate of growth for all members for which data were available. Almost all the large industrial countries have been included in the series, but information is not available for some of the larger developing countries; no estimates have been made for those countries for which no information is available. The estimates should thus be regarded as conservative and also subject to a considerable margin of error, particularly as the distinction between consumption of gold and the hoarding of gold is, at best, blurred. The estimates are, however, more comprehensive than those published hitherto by the Fund.

It is estimated that about $930 million of gold (valued at $35 a fine ounce) was absorbed for industrial and artistic purposes in 1969, compared with about $890 million in 1968 and $815 million in 1967. During the first quarter of 1970, it is estimated that about $235 million of gold was absorbed for industrial and artistic purposes. Industrial and artistic consumption of gold has increased at an average annual rate of about 9 per cent over the last decade. However, the annual rate of increase has varied considerably owing largely to the variable increases in demand for gold for jewelry, which in a number of countries is influenced by speculative considerations; the rate of increase of demand for gold for industrial purposes does not, in general, fluctuate noticeably. The rate of increase of industrial and artistic demand in 1969 and the first quarter of 1970 appears to have fallen considerably below the long-run average and also to have been markedly below the rate of increase recorded in 1968. In part this can be attributed to the substantial, and largely speculative, increase in gold inventories that occurred in 1968, and which were in part worked off during 1969 and early 1970. It is also likely that the demand for artistic gold fell in

TABLE 38. UNITED STATES: NET GOLD TRANSACTIONS, 1967–FIRST QUARTER 1970

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

	1967	1968	1969	First Quarter 1970
Purchases from				
Canada	150.0	50.0	—	—
France	—	600.0	325.0	—
Germany	—	—	500.0	—
Ireland	—	—	41.0	2.2
Kuwait	—	—	—	24.9
Peru	35.0	—	—	—
Philippines	—	9.4	39.9	1.2
Other countries	19.0	2.5	53.8	2.5
International Monetary Fund	—	—	7.4	23.7
Bank for International Settlements	—	—	199.5	—
Domestic transactions	—	—	0.9	—
Total	204.0	661.9	1,167.5	54.5
Sales to				
Algeria	149.6	49.9	0.7	—
Argentina	0.8	25.0	25.0	5.0
Belgium	—	57.6	—	—
Iraq	21.3	42.2	—	—
Ireland	1.9	52.4	—	—
Italy	85.0	209.0	76.0	—
Lebanon	—	94.5	—	—
Peru	—	—	11.6	—
Netherlands	—	18.5	—	—
Saudi Arabia	—	50.0	—	—
Singapore	—	81.0	—	—
Switzerland	30.0	50.0	25.0	—
Turkey	0.1	—	17.6	0.3
United Kingdom	878.5[1]	834.6[1]	—	—
Other countries	46.2	201.4	44.0	5.2
International Monetary Fund	—	17.0	—	—
Domestic transactions	160.2	52.3	—	—
Total	1,373.6	1,835.4	199.9	10.5
Net changes in stocks	−1,169.6	−1,173.5	+967.6	+44.0

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.

1969 in view of the comparatively sharp rise in the price in 1968 and early 1969. Further, it is also possible that, with the tightening of exchange and other controls in some countries, for example France, which made it more difficult to import gold, the opportunities for increasing private gold holdings, except by pushing up prices, declined in 1969.

As mentioned earlier, private hoarding, as shown in column D of Table 37, is a residual estimate. The decline in private hoarding was associated with changed expectations of an increase in the official price of gold and, more directly, with the resulting decline in the price of gold on the private market after March 1969. During a considerable part of 1969 there was a close interaction between falling prices and falling demand for gold. Although prices remained relatively stable during the first quarter of 1970, and for considerable periods lower than $35 a fine ounce, net private demand for gold remained relatively weak.

Gold Movements

United States

During 1969 the U. S. gold stocks showed a net increase of $968 million to $11,903 million; they increased by a further $44 million in the first quarter of 1970 (Table 38).

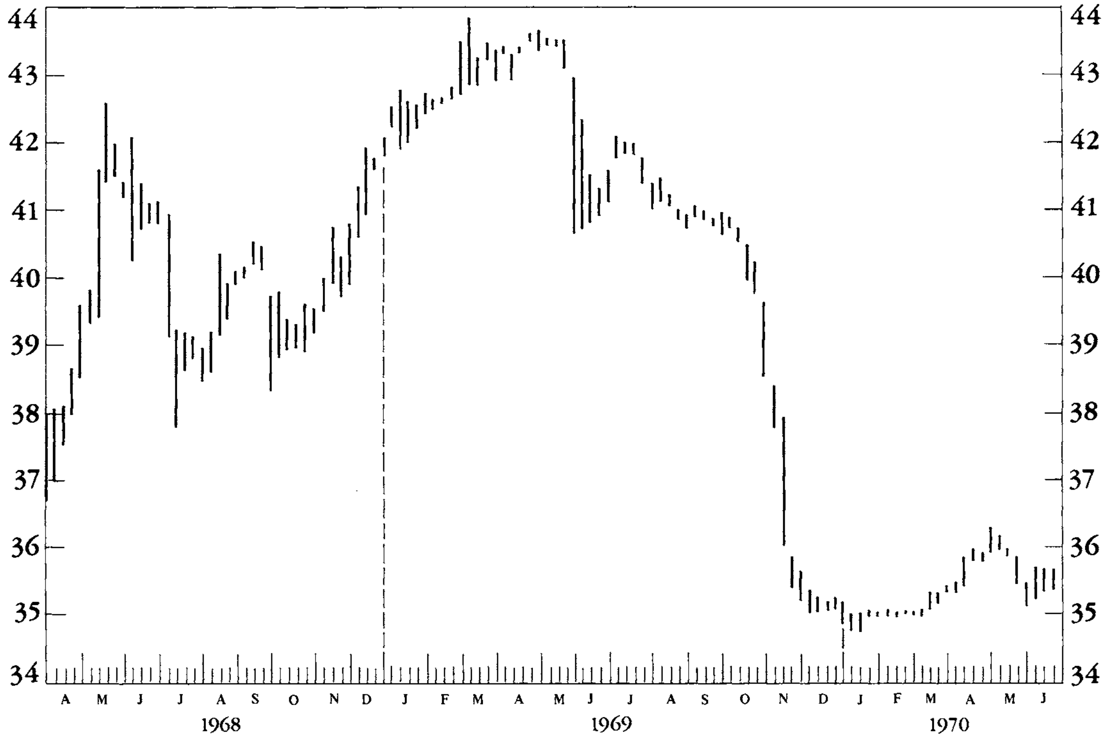
Purchases of gold from abroad by the United States amounted to $1,167 million in 1969, of which $500 million was bought from Germany, $325 million from France, $199.5 million from the Bank for International Settlements, $41 million from Ireland, $40 million from the Philippines, and $54 million from five other countries; in addition, the Fund sold $7.4 million to the United States at the time of a purchase transaction by France. In the first quarter of 1970 the United States purchased a further $23.7 million from the Fund, again at the time of a purchase transaction with France, and also purchased almost $25 million from Kuwait.

The United States sold $76 million of gold to Italy and $25 million to both Argentina and Switzerland in 1969. Smaller sales of gold were made to a number of countries, of which the majority were to countries that required gold for the payment of charges to the Fund, or for gold repayments under the European Monetary Agreement. In addition, small sales of gold, amounting to $2.9 million, were made to six countries in connection with payment of gold subscription for quota increases; this gold was placed by the Fund on general deposit with the United States in accordance with paragraph 20 of the Report by Executive Directors to the Board of Governors on "Increases of Quotas of Members—Fourth Quinquennial Review." In mid-May 1969, the total amount of general gold deposits placed by the Fund with the United States had reached the maximum permissible gross total of $250 million, and no further gold deposits were made by the Fund. As a result of previous withdrawals the amount of gold held on general deposit in the United States at that time was $233 million. At the end of June 1970, after further withdrawals, the amount was $210 million. At the same date gold held on general deposit in the United Kingdom was $38 million.

The amount of gold held under earmark by the Federal Reserve Banks for accounts of foreign

CHART 29. GOLD: PRICES IN LONDON, APRIL 1968–JUNE 1970

(*Weekly high and low quotations: U. S. dollars a fine ounce*)



governments, central banks, and international organizations decreased in 1969 by $755 million to $12,311 million.

United Kingdom

Exports of gold bullion from the United Kingdom amounted to $207 million during 1969 (compared with $1,607 million in 1968), while imports totaled $446 million (compared with $1,559 million in 1968). The sharp decline both in exports and imports of bullion largely reflected the discontinuation of gold pool operations, for which the Bank of England had acted as agent.

Gold Prices and Markets

Between mid-March 1968 and the end of May 1969, the price of gold in London and Zurich was generally rising. The peak price in London during the period was $43.825 a fine ounce, which was reached on March 10, 1969. Throughout the period of sharply rising gold prices to May–June 1969, the gold markets were characterized by considerable uncertainties and by actively speculative conditions. Further, the amount of new metal being placed on the market was comparatively small. In the 1969 Annual Report, it was estimated that only about 18 million ounces ($636 million when valued at $35 a fine ounce) was placed on the market between the end of March 1968 and the end of April 1969, whereas in the previous three years the estimated amount of gold placed on the private market had been between two and a half and four and a half times this figure.

Between May 1969 and the end of June 1970, the trend of gold prices in the free markets was sharply downward (as can be seen from Chart 29), the level of activity in the gold markets diminished, and conditions became generally more calm. Between the end of May and the end of December 1969, the price of gold in London fell from $43.225 a fine ounce to its official price of $35. During this period the average monthly decline in price amounted to the equivalent of $1.18 a fine ounce. From the beginning of October to the end of November, the price in London fell by $5.15, to $35.60 a fine ounce. During the first three months of 1970 the price of gold in the free markets in London and Zurich remained close to its official price, falling to a low point of $34.75 a fine ounce in January 1970. In April and May 1970 the price rose by about $1, to about $36 a fine ounce in both London and Zurich; it fell slightly in June 1970.

The price of gold in other markets generally followed the price of gold in London and Zurich—the two leading international gold markets. The price in the Paris market fell from $47.06 a fine ounce at the end of May 1969 to about $35.88 at the end of June 1970, which represents a decline of about 25 per cent compared with one of about 20 per cent in London and Zurich. In Beirut and Hong Kong gold prices also fell. Of the large markets, only in Bombay did the price of gold not fall in the year to June 1970.

The widespread decline in the price of gold between May 1969 and June 1970 can be attributed to a number of factors, some of which can be regarded as reactions to other international financial developments. However, the supply of gold placed on the free market in the year to April 1970 was significantly larger than in the previous year, and was ample to meet demand for industrial and artistic consumption. After April 1969 South Africa began to place the bulk of its newly mined gold on the free market as a consequence of its growing balance of payments deficit. On the assumption that total new gold production, other than that of South Africa, was placed on the free market, but also taking into account South Africa's production as well as the change in South Africa's gold reserves and Fund-related gold transactions, it might be estimated that slightly less than 39 million ounces ($1,350 million, valued at $35 a fine ounce) was placed on the free market in the 12 months to the end of April 1970. This was more than twice as much as in the previous 12 months. Further, the effective supply of gold on offer was affected by the prolonged liquidation of positions that had been established partly as a result of the large private purchases of gold made late in 1967 and early in 1968. The size of the overhang of gold in the market was greatly reduced during 1969 and early 1970. On balance, the over-all supply available in the market in 1969 and early 1970 was more than sufficient to meet offtake of the metal at existing prices.

In the early summer of 1969, the supply of newly mined gold offered on the market began to increase, and short-term investors began to liquidate the gold holdings that they had built up on the expectation of an increase in the price. To these factors on the supply side there were added, on the demand side, both the slowdown in the rate of increase in demand for gold for industrial and other consumption, and the decline in speculative demand arising from changes in circumstances and expectations, which were referred to earlier. The change in expectations can, in part, be attributed to the prospective activation of the special drawing rights facility. Further, speculative interest focused on the foreign exchange markets and, particularly from early September 1969, a massive inflow of short-term funds into Germany occurred on the expectation of the revaluation of the deutsche mark. During this period of active speculation in the foreign exchange markets, however, liquidity conditions in the international money markets—especially the Euro-currency market—tightened, and short-term interest rates rose sharply. Under these circumstances the opportunity cost of holding gold increased markedly, and there also occurred an actual increase in the cost of holding gold with borrowed money.

London and Zurich Markets

Throughout the latter part of 1968 and until May 1969, the price of gold rose steadily in both London and Zurich, reaching an average monthly high of $43.47 a fine ounce in London and $43.44 in Zurich in May 1969. At this comparatively high level some liquidation of speculative holdings occurred, and, as a result of renewed sales by South Africa, the price of gold fell by about $2 a fine ounce in June 1969.

After a comparatively sharp rise in early July, a prolonged fall in gold prices occurred. The devaluation of the French franc on August 10 caused only a slight reaction in the gold markets. By the late summer of 1969 speculative interest in gold was reportedly diminishing and ample supplies were being offered on the market.

Following the revaluation of the deutsche mark on October 26, 1969, potential buyers withdrew from the market and continued offerings of gold, particularly by small-scale holders, caused the fall in prices to accelerate sharply. The price of gold fell from $40.05 a fine ounce on October 24 to $35.00 on December 9, 1969.

The lower trend of prices continued through the first two weeks of March 1970, although with a considerably smaller range of fluctuation. The price of gold in the free market was fixed below its official price of $35 a fine ounce on January 8, 1970 for the first time since the Washington Agreement of March 17, 1968, under which the price of gold in the private market was permitted to fluctuate. The price fell further to $34.75 a fine ounce on both January 16 and 19, 1970; these were the lowest fixing prices since the London market was reopened on March 22, 1954.

Market activity was relatively light during January and February, as buyers tended to be unresponsive to offers at prices above $35, while sellers were reluctant to accept prices below the official level. The gold price in London was fixed at or below $35 for 41 days out of 62 days in the period January to March. South Africa did not appear as a large seller of gold on the market at this time.

The market price of gold began to rise gradually from the middle of March 1970, as sellers became more reluctant to part with their holdings of the metal, while industrial demand from Europe and the United States and traditional hoarding demand in Middle and Far Eastern countries increased. As a result, gold prices in both London and Zurich remained relatively stable in most of May, around the level of $36 a fine ounce. Gold prices declined relatively sharply at the end of May under the steady pressure of selling on behalf of gold producers. After a recovery at the beginning of June, the price at the end of the month was $35.50.

Paris Market

Since the reintroduction of exchange controls in November 1968, the import and export of gold has been prohibited in France with the consequence that the Paris gold market has been partly insulated from other international gold markets. Although gold prices are generally higher in Paris than in London and Zurich, owing to the exchange controls, price movements, especially for the standard 12.5-kilo gold bars, have been generally similar to those in London and Zurich, with a wider range of day-to-day fluctuations.

The price of the 12.5-kilo bar fell sharply from the record of $49.00 a fine ounce on April 28, 1969, when President de Gaulle resigned, to $42.42 a fine ounce on June 25. Following the devaluation of the French franc on August 10, 1969, the U. S. dollar price for gold fell by about $2.70 a fine ounce.[2] As a consequence of these two sharp falls, the differential of gold prices in the Paris market over those in London and Zurich narrowed sharply, from about 10 per cent in April 1969 to 2 per cent at the end of August.

Prices continued to fall thereafter in line with prices in London and Zurich. By mid-March 1970 the price was fixed at $35.24 a fine ounce, which was the lowest price since the fixing system was introduced in May 1968 and represented a premium of only 0.6 per cent over the price in London.

The price of the popular and more actively traded 1-kilo ingot followed a trend similar to that of the standard 12.5-kilo bar. Turnover for the small bar was especially large in June and November 1969; in both months the price decline was extremely sharp, and some 15,000 and 13,150 ingots, respectively, were traded, in contrast to the average monthly volume of about 8,000 to 9,000 ingots.

Turnover of gold coins, particularly the napoleon (F 20 piece), was extremely large both in June and November 1969, but the largest turnover was recorded in January 1970, coinciding with the sharpest fall in prices in the history of the Paris gold coin markets. The price for the napoleon fell from the equivalent of $63.10 a fine ounce to $51.11 during the two weeks between January 2 and January 16. Compared with the record high price of the equivalent of $82.20 in April 1969, this represented a fall of about $31 or nearly 40 per cent.

Other Markets

The price of gold in New York moved closely with the London and Zurich prices, at a premium of between 40 to 50 cents a fine ounce. Dealers' buying prices were quoted at a low of $34.90 a

[2] In terms of French francs, the price of gold increased by almost F 10 a fine ounce, or about 4.5 per cent, over its predevaluation price.

fine ounce on January 16, 1970, which was the first time the price for gold in the United States had been below the official price since it was established in 1934.

The price of gold in Beirut closely paralleled prices in London and Zurich, with premiums of between 30 to 40 cents over the price in London. On occasion, however, the premium price in Beirut over London shrank to only a few cents.

In Hong Kong the rate of decline in the price of gold was generally slower than in London and Zurich. The premium over the London price has fluctuated markedly, from about \$2.50 a fine ounce at the end of May 1969 to over \$4.00 at the end of March 1970, but narrowed again to \$2.64 at the end of June. On January 15, 1970 the gold market in Hong Kong resumed dealings in gold of 99 per cent fineness rather than of 94.5 per cent fineness, which had been the standard dealing fineness for more than 20 years. The changeover was aimed at aligning the gold market in Hong Kong with the international standard of dealings and thereby to help maintain its importance as a large entrepôt center for international gold transactions.

Singapore opened a gold market for nonsterling area residents in April 1969. Prices quoted in this market were usually lower than those in Hong Kong (partly because of lower taxes than in Hong Kong) and this has reportedly contributed to the rapid expansion of the Singapore gold market. At the end of June 1970, the price of gold was quoted at \$37.38 a fine ounce, about \$1 lower than in Hong Kong.

Contrary to developments in other leading gold markets, the price of gold in Bombay, which remained stable for most of 1969 and early 1970, rose sharply between March and June 1970. The high price of \$75.48 a fine ounce in April 1969 was followed by a relatively sharp fall in May and June 1969. Price movements, however, were basically upward thereafter. The price at the end of June 1970 was \$73.61, which represented a rise of about \$6.11 since the end of June 1969.

Gold Subsidy Programs

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

Gold Transactions Service

Since the inauguration of the Fund's gold transactions service in March 1952, the central banks of 29 member countries and 5 international organizations have effected purchases or sales of gold through the facilities provided by the Fund. At the end of April 1970, the transactions completed by the Fund totaled 122, amounting to the equivalent of \$1,135 million. Only two transactions have been completed since 1965, of which one, amounting to the equivalent of approximately \$42 million, took place between two members in the fiscal year ended April 30, 1970.

[3] See *Annual Report, 1969,* pages 135–36.

SUPPLEMENTARY NOTES

This page intentionally left blank

A. The Fund in 1969/70

THIS note supplements the information given in Chapter 3 on the activities of the Fund during the past year. For some aspects of its operations, data covering the period since the Fund's inception are included. The data do not, however, cover the period after April 30, 1970, the end of the Fund's fiscal year.

Membership in the Fund and Participation in the Special Drawing Account

Four countries joined the Fund during 1969/70, bringing total membership to 115 at the end of the fiscal year. Swaziland became a member on September 22, 1969, with a quota of $6 million; Southern Yemen on September 29, 1969, with a quota of $22 million; Equatorial Guinea on December 22, 1969, with a quota of $6 million; and Cambodia on December 31, 1969, with a quota of $19 million. On October 3, 1969 the Board of Governors approved the terms and conditions for the admission of the Yemen Arab Republic to membership.[1] The aggregate of quotas of Fund members on April 30, 1970, including those of new members and increases in quotas shown in Table 41, was $21,349 million, compared with $21,231 million a year earlier.

Prior to the first allocation of special drawing rights for the first basic period on January 1, 1970, 105 members became participants in the Special Drawing Account, by depositing instruments in accordance with Article XXIII, Section 1, of the Fund Agreement. The 10 members of the Fund that had not deposited instruments of participation in the Special Drawing Account were Ethiopia, Iraq, Kuwait, Lebanon, the Libyan Arab Republic, Nepal, Portugal, Saudi Arabia, Singapore, and Thailand. No changes in the list of participants occurred during the balance of the fiscal year.

[1] The Yemen Arab Republic joined the Fund on May 22, 1970, with a quota of $8 million.

Executive Directors

A list of the Executive Directors and Alternate Executive Directors and their voting power on April 30, 1970 is given in Appendix II, and changes in the membership of the Executive Board during 1969/70 are shown in Appendix III.

Article VIII

No additional countries accepted the obligations of Article VIII, Sections 2, 3, and 4, of the Fund Agreement during 1969/70. The 34 members that have rendered their currencies conver-

TABLE 39. COUNTRIES THAT HAVE ACCEPTED ARTICLE VIII, APRIL 30, 1970

Member	Effective Date of Acceptance
Argentina	May 14, 1968
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
Malaysia	November 11, 1968
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
Singapore	November 9, 1968
Sweden	February 15, 1961
United Kingdom	February 15, 1961
United States	December 10, 1946

tible under the Articles of Agreement are listed in Table 39.

Par Values

Changes in par values during the year under review included two major trading currencies: the French franc and the deutsche mark. On the proposal of the French Government, in which the Fund concurred, the par value of the franc was changed from F 4.93706 = US$1 to F 5.55419 = US$1, effective August 10, 1969. This change represented a devaluation of the franc by 11.11 per cent. Effective at the same time, corresponding changes were agreed in the par values of most of the separate currencies in nonmetropolitan areas in respect of which France accepted the Articles of Agreement, as shown in Table 40. Par values for the currency which circulates in the Territory of the Afars and the Issas (the Djibouti franc) and the French currency of the Condominium of the New Hebrides remained unchanged. The change in the par value of the French franc was followed by equivalent changes in the rates of exchange of the currencies of the countries whose banks of issue are linked to the French Treasury by Operations Accounts and for which par values have not yet been agreed with the Fund. The Fund concurred in proposals of the Governments of Cameroon, the Central African Republic, Chad, the People's Republic of the Congo, Dahomey, Gabon, Ivory Coast, Mauritania, Niger, Senegal, Togo, and Upper Volta for a change in the exchange rate of the CFA franc from CFAF 246.853 = US$1 to CFAF 277.710 = US$1; of the Malagasy Republic for a change in the exchange rate of the Malagasy franc from FMG 246.853 = US$1 to FMG 277.710 = US$1; and of Mali for a change in the exchange rate of the Mali franc from MF 493.706 = US$1 to MF 555.419 = US$1, all effective August 11, 1969.

On September 29, 1969 the German authori-

TABLE 40. INITIAL PAR VALUES ESTABLISHED AND CHANGES IN PAR VALUES, FISCAL YEAR ENDED APRIL 30, 1970

Member	Currency Unit	Units of Currency Per U.S. Dollar of the Weight and Fineness in Effect on July 1, 1944: Initial par value	Changes in par value: From	Changes in par value: To	Effective Date
Botswana	South African rand	0.714286			Aug. 13, 1969
France	Franc		4.93706	5.55419	Aug. 10, 1969
Germany	Deutsche mark		4.00000	3.66000	Oct. 26, 1969
Jamaica	Dollar		0.416667 [1]	0.833333	Sept. 8, 1969
Malta	Pound	0.416667			June 27, 1969
Swaziland	South African rand	0.714286			Dec. 22, 1969
Separate Currencies in Nonmetropolitan Areas					
France [2]					
French Guiana Guadeloupe Martinique	Franc (parity with French franc)		4.93706	5.55419	Aug. 10, 1969
Comoro Islands Réunion St. Pierre and Miquelon	CFA franc (=0.02 French franc)		246.853	277.710	Aug. 10, 1969
French Polynesia New Caledonia Wallis and Futuna Islands	CFP franc (=0.055 French franc)		89.7647	100.985	Aug. 10, 1969
United Kingdom					
Bahama Islands	Bahamian dollar (2.40 per pound sterling)		1.02041	1.00000	Feb. 2, 1970
Bermuda	Bermuda dollar (2.40 per pound sterling)		0.416667 [3]	1.00000	Feb. 6, 1970
Fiji	Fiji dollar (2.09 per pound sterling)		0.435417 [4]	0.870836	May 14, 1969

[1] Par value of the Jamaica pound, former currency unit. The par value of the new currency unit did not involve any appreciation or depreciation of the currency.
[2] There was no change in the par values of the currency of the Territory of the Afars and the Issas (known as the Djibouti franc) and the French currency of the Condominium of the New Hebrides.
[3] Par value of the Bermuda pound, former currency unit. The par value of the new currency did not involve any appreciation or depreciation of the currency.
[4] Par value of the Fiji pound, former currency unit. The par value of the new currency did not involve any appreciation or depreciation of the currency.

ties informed the Fund of their decision that in the conditions prevailing at that time they would not ensure that rates for exchange transactions involving the deutsche mark within their territory would be confined to the limits hitherto observed. This situation existed from September 30, 1969 until October 26, 1969. On the proposal of the German Government, in which the Fund concurred, the par value of the deutsche mark was changed from DM 4.0 = US$1 to DM 3.66 = US$1, effective October 26, 1969. This change represented a revaluation of 9.29 per cent.

An initial par value for the Malta pound at the rate of £M 0.416667 = US$1 was established by agreement between the Government of Malta and the Fund, effective June 27, 1969. This did not involve any change in the existing rate of exchange.

The Governments of Botswana and Swaziland formally notified the Fund, and the Fund accordingly noted on August 13 and on December 22, 1969, respectively, that the South African rand is the currency of those countries and that the par value of the South African rand, as established in agreement with the Fund, effective February 14, 1961, is R 0.714286 = US$1.

A decimal monetary unit, the dollar, was introduced by the Government of Jamaica to replace the Jamaica pound, effective September 8, 1969. On the proposal of the Government of Jamaica, in which the Fund concurred, the par value of the Jamaica dollar was established at J$0.833333 = US$1. No appreciation or depreciation of the Jamaican currency was involved. Decimal units were also introduced in two nonmetropolitan territories in respect of which the United Kingdom accepted responsibility under the Articles of Agreement. The Fund concurred in proposals of the Government of the United Kingdom for par values for the Fiji dollar, which replaced the Fiji pound, at $F 0.870836 = US$1, effective May 14, 1969, and for the Bermuda dollar, which replaced the Bermuda pound, at BER$1 = US$1, effective February 6, 1970; neither change involved any appreciation or depreciation of the respective currencies. On the proposal of the Government of the United Kingdom in which the Fund concurred, the par value of the Bahamian dollar circulating in the Bahama Islands, in respect of which the United Kingdom has also accepted responsibility under the Fund Agreement, was changed from B$1.02041 = US$1 to B$1 = US$1, effective February 2, 1970.

Quotas

The major action on quotas in 1969/70, the adjustment of quotas proposed in connection with the Fifth General Review, is described in Chapter 3 and the relevant report of the Executive Directors and Resolution of the Board of Governors appear in Appendix I.

During the year, two members—the Democratic Republic of Congo and Jamaica—increased their quotas under the Compensatory Financing Decision, which specified that the Fund was 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. These were the last increases under this Decision as its quota provisions have been superseded by the Board of Governors' Resolution on "Increases in Quotas of Members—Fifth General Review."

In December 1969 the quota of Laos was increased to the amount previously authorized under the First Resolution of the Board of Governors relating to "Increases in Quotas of Members—Fourth Quinquennial Review." In 1965/66 Laos had consented to an increase in its quota from $7.5 million to $10 million under the terms of this Resolution but later requested that its quota remain unchanged, which request was granted by the Board of Governors.[2]

In addition, the quotas of 14 other members were increased under the First Resolution 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.[3] All of these members had elected to increase their quotas in five equal annual installments. Eleven of them accelerated payment of

[2] Resolution No. 21-4; see *Summary Proceedings of the Twenty-First Annual Meeting of the Board of Governors,* pages 241–42.

[3] See *Annual Report, 1965,* pages 31–34 and 124–32.

TABLE 41. INCREASES IN QUOTAS, FISCAL YEAR ENDED APRIL 30, 1970

(In millions of U.S. dollars)

Member	Quota on May 1, 1969	New Quota in Accordance with General Increase in Quotas	New Quota in Accordance with Compensatory Financing Decision	Effective Date of Change
Algeria	72.0	75.0[1]		Dec. 24, 1969
Cameroon	17.4	18.2[2]		May 23, 1969
Central African Rep.	9.0	9.5[2]		May 6, 1969
Chad	9.0	9.5[2]		June 27, 1969
		10.0[1]		Dec. 19, 1969
Congo, Democratic Republic of	57.0		90.0	Dec. 15, 1969
Congo, People's Republic of the	9.0	9.5[2]		July 7, 1969
		10.0[1]		Dec. 31, 1969
Dahomey	9.0	9.5[2]		June 18, 1969
		10.0[1]		Dec. 26, 1969
Gabon	9.0	9.5[2]		May 23, 1969
Ivory Coast	18.2	19.0[1]		Dec. 31, 1969
Jamaica	30.0		38.0	Oct. 31, 1969
Laos	7.5	10.0[3]		Dec. 15, 1969
Luxembourg	17.4	18.2[2]		Aug. 16, 1969
		19.0[1]		Dec. 31, 1969
Malaysia	120.0	125.0[1]		Dec. 16, 1969
Mauritania	9.5	10.0[1]		Dec. 23, 1969
Morocco	86.4	90.0[1]		Dec. 26, 1969
Niger	9.0	9.5[2]		Aug. 29, 1969
		10.0[1]		Dec. 22, 1969
Upper Volta	9.0	9.5[2]		May 16, 1969
		10.0[1]		Dec. 23, 1969

[1] After completion of payment of fifth and final installment under the Fourth Quinquennial Review.
[2] After payment of fourth of five installments under the Fourth Quinquennial Review.
[3] Special increase in the light of First Resolution of Board of Governors on "Increases in Quotas of Members—Fourth Quinquennial Review."

the fifth installment in December 1969, thus completing the total increase in their quotas provided for in the First Resolution.

Increases in quotas during the fiscal year 1969/70, shown in Table 41, together with the quotas of the four new members, aggregated $117.8 million.

General Account

Purchases

Members' purchases of currencies from the Fund during the fiscal year amounted to $2,996 million, a new high level, exceeding by about 6 per cent the amount of $2,839 million purchased in 1968/69.[4] This large amount of Fund financial assistance was again to a large extent a reflection of the payments imbalance among industrial countries and uncertainties in foreign exchange markets. Purchases by industrial countries amounted to 87 per cent of the total. However, purchases of currencies by countries in less developed areas were smaller, amounting to $348 million or 12 per cent of the total, a reduction of about 34 per cent from the corresponding amount of $527 million in the previous year. At the same time, 19 of these countries used special drawing rights totaling SDR 138 million to obtain foreign exchange.

Four purchases by the United Kingdom totaled $1,000 million, the full amount of its stand-by arrangement. In connection with the first of these purchases, equivalent to $500 million in the currencies of 9 member countries, the Fund replenished its resources by sales of gold totaling $50 million to 9 members and by borrowing currencies amounting to $200 million from 5 participants in the General Arrangements to Borrow (GAB).

Purchases by France, amounting to a total of $985.8 million, comprised the amounts available in the gold tranche ($0.8 million)[5] and under a stand-by arrangement ($985 million). Purchases under the stand-by arrangement, equivalent to $500 million and $485 million in September 1969 and February 1970, respectively, in currencies of 14 member countries, were financed from the Fund's holdings of currencies equivalent to $501 million and from currencies derived through the sale of $200 million of gold to 14 members and through the acquisition of currencies totaling $284 million from 5 participants in the GAB.

The largest single purchase during the period, equivalent to $540 million, was made by Germany in its super gold tranche in November 1969.[6] The purchase comprised seven currencies and was financed from the Fund's currency holdings.

Belgium and Denmark made use of their gold tranche positions by purchasing currencies from the Fund equivalent to $46.5 million and $45 million, respectively. Ireland purchased the equivalent of $20 million within its super gold tranche.

Most of the purchases made by less developed

[4] Data on transactions are expressed in terms of U.S. dollars, regardless of the currencies in which they took place.

[5] In the amended Articles of Agreement, a gold tranche purchase is defined as "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."

[6] A super gold tranche position is the difference between the Fund's holdings of a member's currency and 75 per cent of the member's quota when the holdings are less than 75 per cent.

TABLE 42. PURCHASES OF CURRENCIES FROM THE FUND, FISCAL YEAR ENDED APRIL 30, 1970

(In millions of U. S. dollars)

Member Purchasing	Under Stand-By Arrangements	Under Decision on Compensatory Financing	Other Purchases	Total
Afghanistan	9.75	—	—	9.75
Belgium	—	—	46.50	46.50
Burma	11.99	—	0.01	12.00
Burundi	1.50	—	—	1.50
Ceylon	15.00	—	—	15.00
Chad	—	—	3.78 *	3.78
Chile	20.00	—	—	20.00
Colombia	33.25	—	—	33.25
Denmark	—	—	45.00	45.00
Dominican Republic	—	—	8.00	8.00
Ecuador	8.25	2.75 [1] *	—	11.00
El Salvador	6.00	6.25 *	—	12.25
France	985.00	—	0.84	985.84
Germany	—	—	540.00	540.00
Ghana	3.00	—	—	3.00
Guatemala	6.00	—	—	6.00
Guinea	—	—	3.80	3.80
Haiti	—	—	1.50	1.50
Indonesia	59.00	—	—	59.00
Ireland	—	—	20.00	20.00
Israel	—	—	45.00 [2]	45.00
Liberia	1.40	—	—	1.40
Mali	2.25	—	—	2.25
Nicaragua	14.00	—	—	14.00
Pakistan	35.00	—	—	35.00
Peru	15.00	—	—	15.00
Philippines	18.00	—	—	18.00
Rwanda	2.00	—	—	2.00
Syrian Arab Republic	—	—	9.50	9.50
Tunisia	4.50	—	—	4.50
Turkey	10.00	—	—	10.00
United Kingdom	1,000.00	—	—	1,000.00
Uruguay	—	—	1.84	1.84
Total	2,260.89	9.00	725.77	2,995.65

* Waiver granted (Article V, Section 4).
[1] Reclassified from purchase under stand-by arrangement.
[2] Waiver granted for purchase of $22.5 million (Article V, Section 4).

countries were under stand-by arrangements. These transactions amounted to $266 million, about 45 per cent less than during the previous year. In addition, gold tranche purchases were made by Israel for $22.5 million, by the Syrian Arab Republic for $9.5 million, and by Uruguay for $1.84 million. Burma purchased the remaining amount available within its gold tranche position concurrently with a purchase under its stand-by arrangement.

Purchases by Chad and Guinea included the balances of their gold tranche positions and part or all of their first credit tranches. A purchase by the Dominican Republic and a second purchase by Israel virtually amounted to all of their first credit tranches. The purchase by Haiti covered the remainder of that country's first credit tranche position.

As noted below, only Ecuador and El Salvador made purchases under the Compensatory Financing Decision.

Two members, Chad and Germany, purchased for the first time in 1969/70. This brought to 70 the number of members that have acquired currencies from the Fund since the inception of operations in 1947.

Table 42 shows members' use of Fund's resources during 1969/70 by amounts and types of purchase. Table 46 indicates the currencies obtained by members in purchases, together with members' sales of gold to the Fund for currency.

During the year, new procedures were adopted by the Fund for carrying out gold tranche purchases [7] and purchases under stand-by arrangements. Under the amended Articles of Agreement, the Fund no longer has the legal power to challenge a request for a gold tranche purchase. Accordingly, in September 1969 a procedure was adopted for gold tranche purchases under which such purchases are carried out as promptly as practically possible, normally within two to three business days of the receipt of a valid request. The relevant decision of the Executive Directors is reproduced in Appendix I. In the same decision the Executive Directors also abolished the service charge of ½ per cent on gold tranche purchases made after July 27, 1969. At the same time the Executive Directors confirmed in a formal manner the "floating" character of the compensatory financing facility by deciding that Fund holdings of currency resulting from purchases under the policies on the use of Fund resources for compensatory financing of export fluctuations shall be excluded for the purpose of defining a gold tranche purchase under Article XIX(*j*) of the Fund Agreement.

The new procedure for carrying out purchases under stand-by arrangements is described in the following subsection.

Stand-By Arrangements

Stand-by arrangements have been the form in which the Fund's financial assistance has been most frequently made available to members since 1952, when the first arrangements were approved. Since that time about 290 arrangements have been approved by the Fund for 58 members.

A stand-by arrangement assures a member that, during a specified period and in accordance with the terms of the arrangement, it will be able to purchase the currencies of other members from the Fund. Under the amended Articles, which eliminated the Fund's power to challenge requests for gold tranche purchases, it was not necessary to continue the practice of covering gold tranche purchases under stand-by arrangements. Accordingly, the Fund adopted a decision pursuant to which the amounts that a member may purchase under stand-by arrangements are in addition to the gold tranche purchases that the member can make. (See Decision No. 2836-(69/87), adopted September 15, 1969, in Appendix I.)

In March 1970 the Executive Directors adopted a decision to accelerate the procedure for processing purchases under stand-by arrangements, so that members might receive currencies requested not later than the third business day after the receipt of a valid request from the member. Previously, requests for purchases under stand-by arrangements were processed in accordance with Rule G-3 of the Fund's Rules and Regulations, and the member usually received the currencies purchased on the fifth business day following the receipt of its request. In view of the fact that stand-by arrangements give members the assurance that they can use the Fund's resources without further review as long as such use is in accordance with the terms of the arrangements, the Executive Directors decided that purchases under stand-by arrangements should henceforth be processed in a manner similar to that followed for purchases in the gold tranche.

During the fiscal year ended April 30, 1970, the Fund approved 23 stand-by arrangements authorizing purchases up to $2,381 million, the largest amount approved in any one year. Data on stand-by arrangements in effect during the fiscal year are shown in Table 43.

Arrangements for two industrial countries, France and the United Kingdom, for $985 million and $1,000 million, respectively, account for the sharp increase over 1968/69. By April 30, 1970 both of these arrangements had been fully utilized. The remaining stand-by arrangements authorized purchases up to $396 million for 21 primary producing countries. The arrangements approved during the fiscal year for 15 members, Afghanistan, Brazil, Ceylon, Colombia, Ghana, Guyana, Indonesia, Korea, Liberia, Mali, Morocco, Panama, Peru, Somalia, and Tunisia, continued to provide financial assistance given by the Fund in the form of stand-by arrangements in the preceding year. The stand-by arrangements for Brazil, Ceylon, and Korea were for the same amounts as those approved in the preceding fiscal year; those for Afghanistan, Colombia, Panama, and Tunisia were for larger amounts; and the others were for smaller amounts. All stand-by arrangements approved in 1969/70 were for peri-

[7] See footnote 5, above.

TABLE 43. FUND STAND-BY ARRANGEMENTS FOR MEMBERS, FISCAL YEAR ENDED APRIL 30, 1970

(In millions of U.S. dollars)

Member	Total Number of Stand-Bys Agreed for Member	Date of Inception	Date of Expiration	Amount Approved 1968/69	Amount Not Drawn at Expiration	Amount Approved 1969/70	Amount Not Drawn April 30, 1970
Afghanistan	4	July 10, 1968*	July 9, 1969	7.00	—		
		Oct. 23, 1969*	Oct. 22, 1970			12.00	4.00
Bolivia	11	Jan. 16, 1969*	Jan. 15, 1970	20.00	9.00		
Brazil	8	Apr. 29, 1969	Apr. 28, 1970[1]	50.00	50.00		
		Feb. 4, 1970	Feb. 3, 1971			50.00	50.00
Burma	1	Nov. 24, 1969	Nov. 23, 1970			12.00	0.01
Burundi	5	Apr. 19, 1969*	Apr. 18, 1970	4.00	0.50		
Ceylon	4	May 6, 1968*	May 5, 1969	19.50	—		
		Aug. 12, 1969*	Aug. 11, 1970			19.50	4.50
Chile	11	Apr. 19, 1969*	Apr. 18, 1970	40.00	20.00		
Colombia	12	Apr. 19, 1969*	Apr. 18, 1970	33.25	—		
		Apr. 21, 1970*	Apr. 20, 1971			38.50	38.50
Ecuador	7	Apr. 7, 1969*	Apr. 6, 1970	18.00	6.25[2]		
El Salvador	9	July 15, 1969*	July 14, 1970			17.00	11.00
France	3	Sept. 19, 1969*	Sept. 18, 1970			985.00	—
Ghana	4	May 28, 1968*	May 27, 1969	12.00	—		
		May 29, 1969*	May 28, 1970			5.00	2.00
Guatemala	6	Aug. 1, 1969*	July 31, 1970			12.00	6.00
Guyana	4	Mar. 29, 1969*	Mar. 28, 1970	4.00	4.00		
		Apr. 6, 1970*	Apr. 5, 1971			3.00	3.00
Honduras	11	Feb. 1, 1969*	Jan. 31, 1970[3]	11.00	11.00		
Indonesia	5	Apr. 4, 1969*	Apr. 3, 1970	70.00	11.00		
		Apr. 17, 1970*	Apr. 16, 1971			46.30	46.30
Korea	6	Apr. 15, 1969*	Dec. 31, 1969	25.00	25.00		
		Mar. 13, 1970*	Dec. 31, 1970			25.00	25.00
Liberia	7	June 1, 1968	May 31, 1969	3.20	—		
		June 1, 1969	May 31, 1970			2.00	1.00
Mali	4	Aug. 12, 1968*	Aug. 11, 1969	5.00	—		
		Oct. 23, 1969	Oct. 22, 1970			3.00	0.75
Morocco	6	Oct. 27, 1968*	Oct. 26, 1969	27.00	17.00		
		Dec. 15, 1969*	Dec. 14, 1970			25.00	25.00
Nicaragua	8	May 26, 1969*	May 25, 1970			15.00	1.00
Pakistan	3	Oct. 17, 1968*	Oct. 16, 1969	75.00	—		
Panama	4	Jan. 16, 1969*	Jan. 15, 1970	3.20	1.00		
		Feb. 3, 1970*	Feb. 2, 1971			10.00	10.00
Paraguay	9	Jan. 1, 1969*	Dec. 31, 1969	7.50	7.50		
Peru	16	Nov. 8, 1968*	Nov. 7, 1969	75.00	20.00		
		Apr. 17, 1970*	Apr. 16, 1971			35.00	35.00
Philippines	8	Feb. 20, 1970	Feb. 19, 1971			27.50	9.50
Rwanda	4	Apr. 28, 1969	Apr. 27, 1970	2.00	—		
Sierra Leone	3	Mar. 28, 1969	Mar. 27, 1970	2.50	2.50		
Somalia	7	Jan. 20, 1969*	Jan. 19, 1970	6.00	6.00		
		Jan. 20, 1970*	Jan. 19, 1971			3.98	3.98
Sudan	3	Dec. 5, 1968	Dec. 4, 1969	12.00	4.50		
Tunisia	6	Jan. 1, 1969	Dec. 31, 1969	6.00	1.50		
		Jan. 1, 1970	Dec. 31, 1970			7.50	7.50
Turkey	9	July 1, 1969	June 30, 1970			27.00	17.00
United Kingdom	9	June 20, 1969*	June 19, 1970			1,000.00	—
Total				538.15	196.75	2,381.28	301.04

*Waiver granted (Article V, Section 4).
[1] Canceled by Brazil on February 4, 1970.
[2] The stand-by was fully utilized, but $6.25 million was reclassified under the compensatory financing facility.
[3] Extended to April 30, 1970.

ods of 12 months, except that for Korea, which was approved in March 1970 for a period ending December 31, 1970.

Purchases made under stand-by arrangements reached a record level of $2,261 million; of this amount $2,080 million pertains to stand-by arrangements approved in 1969/70 and $181 million to those approved in 1968/69.

Compensatory Financing of Export Fluctuations

No widespread need for compensatory financing of export fluctuations was in evidence during the fiscal year 1969/70, in view of comparatively rapid rates of growth in exports from primary producing countries in 1968 and 1969. Two members, Ecuador and El Salvador, made use of the facility during the year, each for amounts of $6.25 million. Ecuador used the provision for reclassification of other purchases from the Fund, of which $2.75 million had actually been purchased in 1969/70 and $3.50 million in 1968/69. From September 1966, when the facility was amended, to April 1970, purchases under the facility amounted to $303 million (Table 44).

Repurchases in respect of purchases made under the compensatory financing facility were made by four members during the year, and the amount outstanding on April 30 was $151 million, compared with $213 million a year earlier. The major part of these repurchases ($62 million in a total amount of $74 million) was made in terms of recommendations under paragraph (7) of the Compensatory Financing Decision as a result of export excesses in years following the shortfall year on which the original need for compensatory financing was based. The largest of these repurchases was that of $49.5 million made by India. Repurchases also included the first such transaction—that of the Dominican Republic—falling due under a repurchase schedule since the

TABLE 44. PURCHASES AND REPURCHASES UNDER THE AMENDED DECISION ON COMPENSATORY FINANCING OF EXPORT FLUCTUATIONS, FISCAL YEARS ENDED APRIL 30, 1967–70

(In millions of U.S. dollars)

	Purchases		Related Repurchases		
	Date	Amount	Date	Total	Under para. (7) of the decision [1]
Fiscal year 1966/67					
Dominican Republic	Dec.	6.60	Jan. 1970	2.48	1.65
Ghana	Dec.	17.25	Mar. 1969	0.75	0.75
Ceylon	Mar.	19.50			
Colombia	Mar.	18.90	Mar. 1970	18.90	7.70
Total		62.25			
Fiscal year 1967/68					
New Zealand	May	29.20	Dec. 1968	29.20	
Haiti	Aug.	1.30			
	Dec.	1.00			
Syrian Arab Republic	Sept.	9.50			
Burma	Nov.	7.50			
Iceland	Nov.	3.75			
Iraq	Nov.	17.50 [2]	Mar. 1968	17.50	
India	Dec.	90.00	Jan. 1969	30.50	30.50
			Jan. 1970	49.50	49.50
Guatemala	Feb.	6.25 [2]	Dec. 1969	1.60	1.60
Uruguay	Feb.	9.50			
United Arab Republic	Mar.	23.00			
Ceylon	Apr.	19.30			
Colombia	Apr.	1.90 [2]	Dec. 1969	1.90	1.90
Total		219.70		*17.50* [3]	
Fiscal year 1968/69					
Afghanistan	June	4.80			
Ecuador	Apr.	3.50 [4]			
Iceland	Nov.	3.75			
Total		12.05		*60.45* [3]	*31.25* [3]
Fiscal year 1969/70					
Ecuador	Aug.	2.75 [2]			
El Salvador	Dec.	6.25			
Total		9.00		*74.38* [3]	*62.35* [3]
Cumulative Total		303.00		152.33	93.60

[1] Under which repurchases are recommended to be made out of export excesses in years subsequent to the shortfall year. See *Annual Report, 1969*, page 144.
[2] Reclassification. See *Annual Report, 1968*, pages 101–102.
[3] Total amount repurchased in the fiscal year shown at left of table.
[4] This purchase and that made in August 1969 were reclassified during 1969/70 (in October 1969).

amendment of the facility. In addition to that country, Ceylon and Ghana proposed the scheduling of repurchases falling due after three years of the dates of purchases under this decision. The Executive Directors approved these proposals.

Repurchases

During the fiscal year ended April 30, 1970, total repurchases also reached a record level, exceeding that of the previous year by 8 per cent.

TABLE 45. REPURCHASES OF CURRENCIES FROM THE FUND, FISCAL YEAR ENDED APRIL 30, 1970

(In millions of U.S. dollars)

Member Repurchasing	Repurchases in Respect of: Purchases under stand-by arrangements	Repurchases in Respect of: Schedules approved by Fund	Repurchases in Respect of: Article V, Section 7(*b*)	Voluntary Repurchases	Other Repurchases	Total
Afghanistan	3.4	1.3	5.5	—	—	10.2
Belgium	—	—	—	32.9	—	32.9
Burundi	—	—	—	—	0.2	0.2
Ceylon	—	20.6	—	—	—	20.6
Chile	—	36.0	19.0	—	—	55.0
Colombia	8.5	—	33.9	18.9	—	61.3
Congo, Democratic Republic of	—	—	—[1]	—	—	—[1]
Costa Rica	—	4.3	4.5	—	—	8.8
Cyprus	—	—	0.4	—	—	0.4
Dominican Republic	—	10.5	—	—	—	10.5
Ecuador	5.0	—	—	—	0.3	5.3
El Salvador	13.0	—	2.0	—	—	15.0
Ghana	—	15.0	—	3.5	—	18.5
Guatemala	4.0	—	—	—	1.6	5.6
Guinea	—	0.5	—	—	—	0.5
Haiti	—	2.2	—	0.1	0.1	2.4
India	—	130.0	—	49.5	7.5	187.0
Indonesia	—	13.4	—	—	—	13.4
Jamaica	—	—	—[1]	—	—	—[1]
Kenya	—	—	0.9	—	—	0.9
Korea	—	—	10.7	—	—	10.7
Lesotho	—	—	—	0.5	—	0.5
Liberia	4.6	—	—	—	—	4.6
Mali	—	3.0	—	—	—	3.0
Morocco	—	2.4	—	—	—	2.4
Nepal	—	—	—[1]	—	—	—[1]
New Zealand	20.6	—	—	—	—	20.6
Nicaragua	—	—	16.3	—	—	16.3
Pakistan	—	30.5	—	—	1.9	32.4
Panama	—	1.8	—	—	1.4	3.2
Peru	−3.4[2]	—	14.5	—	—	11.1
Sierra Leone	3.4	—	0.1	—	—	3.5
South Africa	—	—	49.2	0.8	—	50.0
Spain	—	—	3.7	—	—	3.7
Sudan	—	5.0	—	—	0.6	5.6
Swaziland	—	—	—	1.0	—	1.0
Syrian Arab Republic	—	2.5	—	—	—	2.5
Tanzania	—	—	0.1	—	—	0.1
Trinidad and Tobago	—	—	—	1.0	—	1.0
Tunisia	5.4	—	—	—	0.4	5.8
Turkey	12.4	—	12.1	—	—	24.5
United Arab Republic	—	20.0	—	—	—	20.0
United Kingdom	—	934.2	—	—	—	934.2
Uruguay	5.0	—	9.5	—	—	14.5
Yugoslavia	—	46.3	—	—	1.5	47.8
Zambia	—	—	3.4	—	—	3.4
Total	81.9	1,279.2	186.1	108.1	15.4	1,670.7

[1] Less than $50,000.
[2] Reversal of part of the amount repurchased in 1968/69, which was included among repurchase data for that year.

TABLE 46. CURRENCIES OBTAINED FROM THE FUND BY MEMBERS IN PURCHASES AND FOR GOLD; CURRENCIES, GOLD, AND SPECIAL DRAWING RIGHTS USED BY MEMBERS IN REPURCHASES, FISCAL YEAR ENDED APRIL 30, 1970

(In millions of U.S. dollars)

	Currencies Obtained						Repurchases			
	Purchases				Acquisition by sales of gold					
Medium	France	Germany	United Kingdom	Other countries		Total	United Kingdom	Other countries (not under Article V, Section 7(*b*))	Under Article V, Section 7(*b*)[1]	Total
SDR	—	—	—	—	—	—	65.0	117.6	—	182.6
Gold	—	—	—	—	—	—	—	0.8	80.1	80.8
Argentine pesos	—	—	16.0	—	—	16.0	10.0	—	—	10.0
Australian dollars	37.3	—	17.0	5.0	—	59.3	37.0	21.0	—	58.0
Austrian schillings	17.0	—	—	—	—	17.0	—	—	0.1	0.1
Belgian francs	21.9	20.0	20.0	—	10.0	71.9	25.0	10.3	0.1	35.4
Canadian dollars	75.3	60.0	97.5	59.5	25.0	317.3	20.2	58.5	0.8	79.5
Deutsche mark	127.5	—	169.5	14.0	—	311.0	163.5	34.1	5.7	203.3
Finnish markkaa	—	—	—	10.0	—	10.0	—	—	—	—
French francs	—	—	—	—	—	—	—	—	0.2	0.2
Irish pounds	12.2	—	—	—	—	12.2	—	—	—	—
Italian lire	117.8	55.0	80.5	9.0	22.3	284.6	138.0	66.7	2.8	207.4
Japanese yen	101.3	80.0	128.5	62.3	21.0	393.1	60.0	20.7	—[2]	80.7
Mexican pesos	14.0	—	11.5	—	—	25.5	—	40.0	—[2]	40.1
Netherlands guilders	48.6	40.0	20.0	26.0	22.3	156.9	90.0	46.2	0.2	136.4
Norwegian kroner	13.0	—	—	10.0	—	23.0	—	—	—	—
Pounds sterling	—	—	—	12.0	49.8	61.8	—	—	—	—
South African rand	46.0	25.0	35.0	—	—	106.0	—	—	—	—
Swedish kronor	—	—	—	—	—	—	12.5	27.9	—[2]	40.4
U.S. dollars	346.6	260.0	404.5	252.0	138.7	1,401.9	313.0	106.7	96.2	515.8
Venezuelan bolívares	7.3	—	—	10.0	—	17.3	—	—	—	—
Total	985.8	540.0	1,000.0	469.8	289.0	3,284.7	934.2	550.4	186.1	1,670.7

[1] Including discharge of repurchase obligations incurred in previous years.
[2] Less than $50,000.

Forty-six member countries repurchased $1,671 million, of which $934 million, or 56 per cent, was repurchased by the United Kingdom (Tables 45 and 46).

An amount of $82 million, or 5 per cent of the total, was repurchased in respect of purchases under *stand-by arrangements.*

The equivalent of $1,279 million, or 77 per cent of the total, was repurchased in accordance with *schedules approved by the Fund*, providing for repurchase within five years from the dates of purchases. Included were five repurchases by the United Kingdom, which, together with sales of sterling to other members, completely discharged the purchase equivalent to $1,400 million made by the United Kingdom in May 1965. As a result of the U.K. repurchase in May 1969, the Fund also completed repayment to its GAB creditors of all related borrowings. In May 1969 the United Kingdom also discharged its commitment to Switzerland in respect of the amount equivalent to $40 million made available by that country in May 1965.

Total repurchases also included $186 million in discharge of obligations incurred as of April 30, 1969 under *Article V, Section 7(b),* of the Fund Agreement. This Article provided that, subject to certain limitations, a member shall repurchase an amount of the Fund's holdings of its currency equivalent to one half of any increase in the Fund's holdings of its currency that has occurred during the Fund's financial year, plus or minus one half of any increase or decrease in its monetary reserves during the same period. In accordance with the limitation on repurchase obligations imposed by Article V, Section 7(*c*)(iii), which provides that repurchases shall not be carried to a point at which the Fund's holdings of any currency required to be used are above 75 per cent of the quota of the member concerned, the Fund could accept only a limited amount of U.S. dollars in repurchase as of April 30, 1969, thereby reducing the amount of final repurchase obligations for 16 members.

Voluntary repurchases were made in accordance with Executive Board Decision No. 7-(648) by 9 members and amounted to $108 million.[8] Of this amount, $49.5 million was repurchased

[8] A voluntary repurchase may be defined as one that is voluntary on both sides of the transaction, i.e., the member is not obligated to make the repurchase and the Fund is not obligated to accept it. (See Decision No. 7-(648) of March 8, 1951—*Selected Decisions of the Executive Directors and Selected Documents* (fourth issue, Washington, 1970), pages 63–64.)

by India in January 1970 as a result of the Fund's recommendations under the Compensatory Financing Decision. Colombia also repurchased the equivalent of $19 million in respect of a purchase of a like amount under that decision. Belgium and South Africa repurchased the balance of outstanding gold tranche purchases made during 1969. Lesotho and Swaziland repurchased the Fund's holdings of their currencies on subscription account, thereby increasing their gold tranche positions. Trinidad and Tobago made a partial repurchase in respect of its gold tranche purchase in June 1968. Ghana and Haiti repurchased part of purchases relating to increases in their quotas.

Other repurchases totaled $15 million and included one by Guatemala in response to recommendations under the Compensatory Financing Decision and repurchases by 9 members in respect of purchases made in connection with increases in their quotas.

The Executive Board agreed to the request of 11 members to schedule their repurchases for payment over periods up to five years from the date of purchase.

During the fiscal year member countries used gold to effect repurchases aggregating $81 million, almost all of which was in discharge of Article V, Section 7(*b*), obligations. In the first four months of 1970, 19 members elected to use special drawing rights equivalent to $183 million in repurchase transactions.

Summary of Purchases and Repurchases, 1947–70

Table 47 lists by fiscal years the total purchases and repurchases by member countries since the Fund began exchange operations in 1947. Chart 30 shows the length of time that purchases above 75 per cent of quota have been outstanding at the end of each of the last 11 fiscal years. Purchases outstanding on April 30, 1948–70 and amounts not drawn under stand-by arrangements in effect on the same dates are shown in Chart 31.

TABLE 47. SUMMARY OF MEMBERS' PURCHASES AND REPURCHASES, FISCAL YEARS ENDED APRIL 30, 1948–70

(In millions of U.S. dollars)

	Total Purchases by Members	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	184.96
1954	231.29	145.11
1955	48.75	276.28
1956	38.75	271.66
1957	1,114.05	75.04
1958	665.73	86.81
1959	263.52	537.32
1960	165.53	522.41
1961	577.00	658.60
1962	2,243.20	1,260.00
1963	579.97	807.25
1964	625.90	380.41
1965	1,897.44	516.97
1966	2,817.29	406.00
1967	1,061.28	340.12
1968	1,348.25	1,115.51
1969	2,838.85	1,542.33
1970	2,995.65	1,670.69
Total	20,430.10 [1]	10,877.33 [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 purchases 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 purchases, 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.

Fund Borrowing

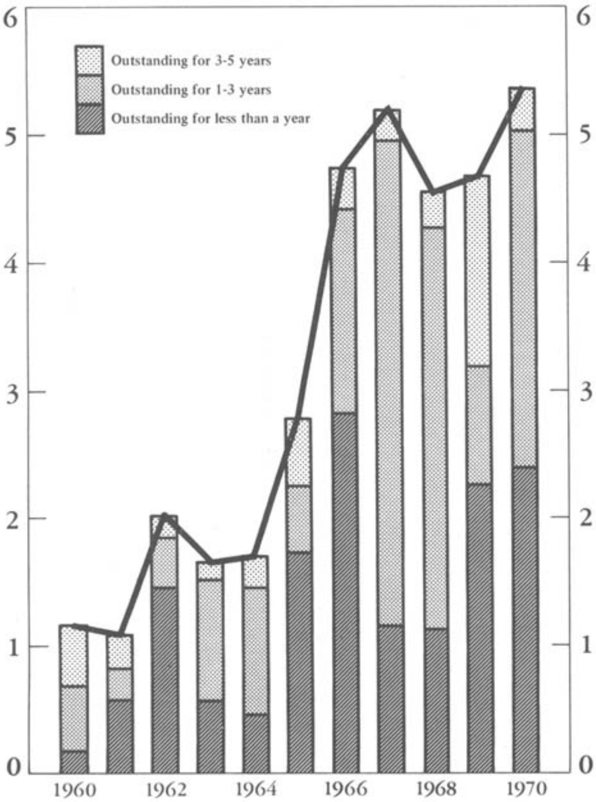
The General Arrangements to Borrow (GAB), which enable the Fund to supplement its General Account resources by borrowing up to $5.89 billion[9] in currencies of ten industrial member countries, came into force on October 24, 1962 for an initial period of four years. In October 1965 the GAB was renewed for an additional four-year period, until October 1970. After a review in October 1968 the Executive Directors concluded that there was no need for amendment or modification of the GAB. In October 1969 it was renewed for a further period of five years from October 24, 1970, without modification.

Including borrowings on three occasions during

[9] Since commitments to lend are in amounts of members' currencies, the value of the credit arrangements with the United Kingdom was reduced by 14.3 per cent to $857 million and that with France by 11.11 per cent to $489 million, as a result of devaluations of these currencies in November 1967 and August 1969; the arrangement with the Deutsche Bundesbank was increased by 9.29 per cent to $1,093 million with the revaluation of the deutsche mark in October 1969.

Chart 30. Length of Time for Which Purchases Have Been Outstanding on April 30, 1960–70

(In billions of U.S. dollars)



the past fiscal year, totaling the equivalent of \$484 million, the GAB has been activated seven times since it came into effect, with total borrowings amounting to the equivalent of \$2,155 million. Total repayment with respect to these borrowings has amounted to \$1,340 million, including \$515 million made in 1969/70, which reduced outstanding GAB borrowings to \$815 million on April 30, 1970.

The repayments in 1969/70 included an amount equivalent to \$105 million, paid in the creditor member currencies, in connection with the repurchase by the United Kingdom in May 1969. At the request of Belgium the Fund repaid its indebtedness, equivalent to \$70 million, to this country in three currencies in July 1969. In compliance with a request from the Deutsche Bundesbank, part of its claim, equivalent to \$340 million, was repaid by the Fund in four currencies in December 1969. At the same time the Fund also agreed to a proposal by the Deutsche Bundesbank for the transfer of the remainder of its claims on the Fund, amounting to \$210 million, to four other GAB participants (Canada, Italy, Japan, and the Netherlands). Details of transactions under the GAB and of the bilateral borrowing arrangement with Italy are shown in Table 48.

Special Drawing Account

The first allocation of special drawing rights, in an amount of SDR 3,414 million, was made on January 1, 1970.[10] This allocation was in accordance with the Managing Director's proposal adopted by the Board of Governors as Resolution No. 24–12 on October 3, 1969. The amounts allocated to participants are shown in Table 7.

During the first four months of 1970, 38 participants used a total of SDR 386 million. Approximately 45 per cent of this total was used in transactions to obtain currency from other participants. The remainder was used to effect repurchases of the participants' currencies from the Fund and to pay charges to the Fund. Table 49 gives a summary of transactions completed.

At the end of the fiscal year five participants needed to acquire special drawing rights to meet charges to their SDR Holdings Account, and prior to April 30, 1970 the General Account sold them SDR 251,082 for currency. On April 30, participants' holdings accounts were debited, and the General Account was credited, with a total of SDR 887,656 to cover the assessment, approved by the Executive Directors, on account of expenses incurred by the Fund for managing the Special Drawing Account from August 6, 1969 to April 30, 1970. The General Account also received interest amounting to SDR 413,883 on its SDR holdings. On April 30, 1970 total holdings of the General Account were SDR 212 million.

Further details on the operation and transactions of the Special Drawing Account are given in Chapter 3.

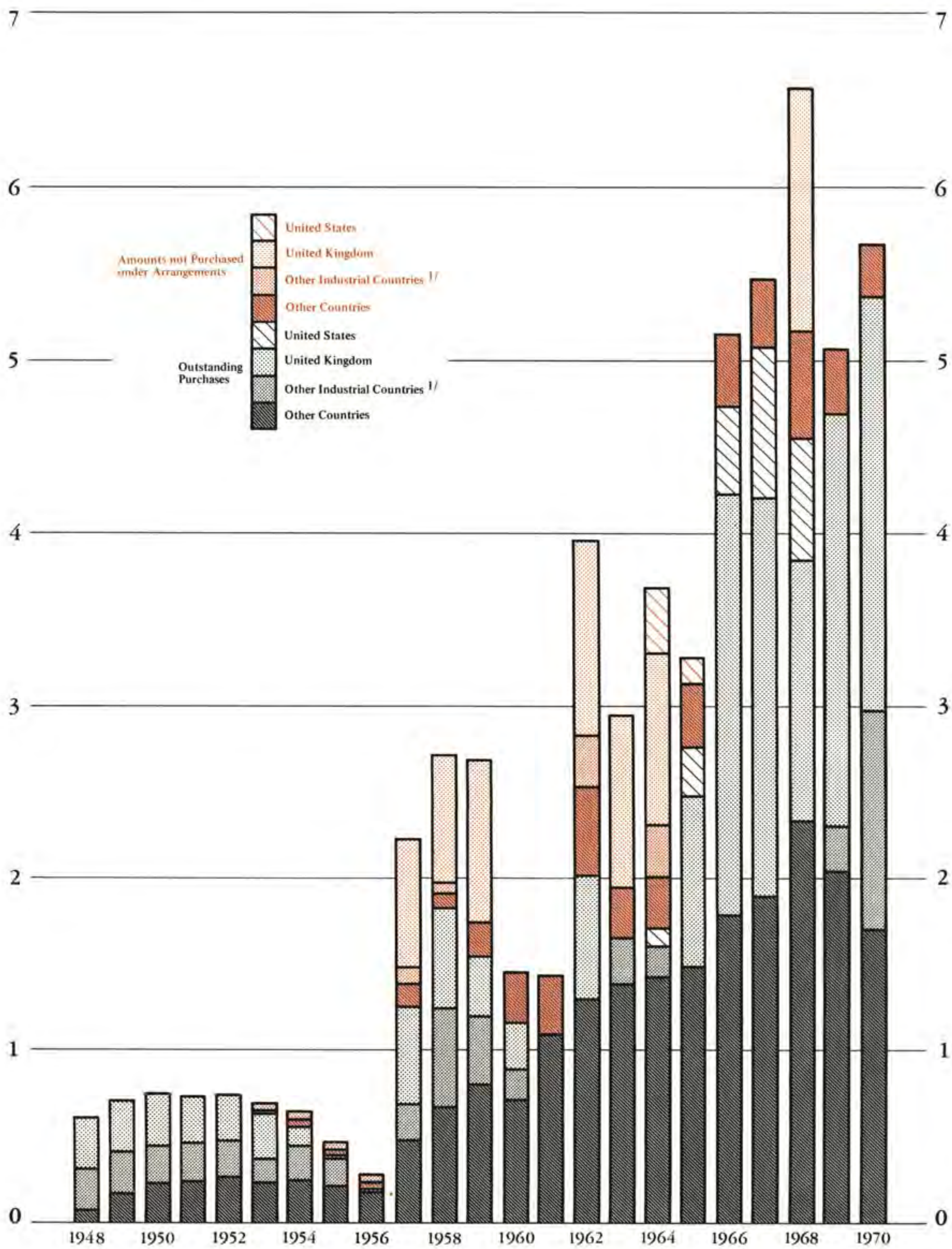
Consultations with Members

Member countries that are availing themselves of the transitional arrangements of Article XIV,

[10] The unit of value of special drawing rights is equivalent to 0.888671 gram of fine gold. This is equivalent to one U.S. dollar of the weight and fineness in effect on July 1, 1944.

CHART 31. OUTSTANDING PURCHASES FROM THE FUND AND AMOUNTS NOT PURCHASED UNDER EXISTING STAND-BY ARRANGEMENTS, ON APRIL 30, 1948–70

(In billions of U.S. dollars)



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

TABLE 48. FUND BORROWING AND REPAYMENT

(In millions of U.S. dollars)

	Under the General Arrangements to Borrow											
	Borrowing				Repayment				Transfer of claims		Unutilized	Other Borrowing
	Dec. 1964 to June 1968	June 1969	Sep. 1969	Feb. 1970	May 1967 to Feb. 1969	May 1969	July 1969	Dec. 1969	June 1968	Dec. 1969	Apr. 30 1970	Aug. 1966
Belgium	137.5	—	—	—	67.5	10.0	70.0	—	+10.0	—	150.0	—
Canada	50.0	40.0	25.5	24.5	50.0	—	—	—	—	+30.0	80.0	—
France	240.0	—	—	—	100.0	—	—	—	−140.0	—	488.9 [1]	—
Germany	713.5	90.0	94.0	—	374.0	53.5	—	340.0	+80.0	−210.0	1,092.9 [2]	—
Italy	255.0	20.0	30.5	29.5	87.0	23.0	—	—	+40.0	+65.0	220.0	250.0
Japan	45.0	40.0	33.0	32.0	40.0	5.0	—	—	—	+85.0	60.0	—
Netherlands	152.5	10.0	7.5	7.5	77.5	10.0	—	—	+10.0	+30.0	70.0	—
Sweden	77.5	—	—	—	29.0	3.5	—	—	—	—	55.0	—
United Kingdom	—	—	—	—	—	—	—	—	—	—	857.1 [3]	—
United States	—	—	—	—	—	—	—	—	—	—	2,000.0	—
	1,671.0	200.0	190.5	93.5	825.0	105.0	70.0	340.0	—	—	5,073.9	250.0

[1] Since commitments to lend are expressed in national currency, the French commitment fell from $550 million to $488.9 million with the devaluation of the French franc in August 1969.
[2] The German commitment increased from $1,000 million to $1,092.9 million with the revaluation of the deutsche mark in October 1969.
[3] The U.K. commitment fell from $1,000 million to $857.1 million with the devaluation of sterling in November 1967.

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 1969/70, 54 such consultations were completed with 52 countries; with some others the procedures had been initiated but had not been completed by the end of the fiscal year. Consultations were also held with 26 member countries 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. Both the Article VIII and the Article XIV consultations consist of two parts: discussions between a staff team and the authorities of the member country, normally held in the country concerned, and subsequent consideration of a report on these discussions by the Fund's Executive Directors.

During the past fiscal year the Executive Directors carried out a review of consultations procedures. It was recognized that the consultations had played a key role in helping the Fund to achieve its purposes and had fostered close working relationships between the Fund and its members. Through these consultations the Fund has been able to cover a broad area of members' economic situations and policies and to develop a stock of current information that has facilitated action when members wished to use the Fund's resources. The consultations have also been helpful in contributing to an understanding of the interrelations among members and groups of members. These interrelationships have changed markedly over the past two decades, and the interdependence of members in achieving the optimum degree of international monetary stability and world economic growth has been recognized to an increasing extent in the formulation of national economic policies. Because of its institutional character, its direct access to the authorities of its members, and its accumulated experience in the study of international economic trends, the Fund is well placed to appraise the international implications of national economic policies.

[11] *Selected Decisions of the Executive Directors and Selected Documents* (fourth issue, Washington, 1970), pages 98–100.

Technical Assistance

The regular consultations that have just been described frequently involve the provision of technical advice on the problems facing the countries being consulted. In addition to this consultation activity, the Fund provides substantial technical assistance, largely to developing countries, on matters close to its work. As noted in previous Annual Reports, this activity involves advice on the formulation and execution of appropriate fiscal, monetary, exchange, and general stabilization policies; institutional reforms in fiscal and banking systems; and improvements in statistical and balance of payments reporting and anal-

TABLE 49. USE OF SPECIAL DRAWING RIGHTS, JANUARY–APRIL 1970

(In millions of SDR)

	January	February	March	April	Jan.–Apr. Totals
Transactions with other participants					
Through designation [1]	77.15	45.08	10.77	22.00	155.01
To obtain the user's currency without designation [2]	—	—	20.00	—	20.00
Transactions with General Account [3]					
In repurchase	12.18	80.56	29.48	60.35	182.57
In payment of charges	0.08	0.25	25.04	3.49	28.85
Total	89.41	125.89	85.29	85.84	386.43

[1] Under Article XXV, Sections 2(*a*) and 3(*a*).
[2] Under Article XXV, Sections 2(*b*)(i) and 3(*a*).
[3] Under Article XXV, Section 7(*c*).

ysis. Experts in fiscal and monetary management from outside the Fund serve in a variety of advisory and technical positions and also in executive positions in central banks, and the extent of the advisory and technical aid rendered by the Fund's own staff has been increasing.

Twenty-five countries, or 3 more than in the previous year, received technical assistance through the Fiscal Affairs Department in 1969/70. Of the 49 assignments in the past year, 24 were undertaken by staff members, and 25 by members of the panel of fiscal experts; half of all assignments were for periods of six months or more. Since the Department was set up in 1964, it has provided technical assistance in the fiscal field to 41 countries and has drawn on 19 countries for the provision of fiscal experts for the panel.

The fiscal assistance provided by the Fund continued over a wide range, covering formulation, classification, execution, and accounting in the budget field; and policy, administration, and legislation in the field of taxation. The training of local staff is an important element in many of the assignments. Recently, the use of computers in government accounting has meant an extension of the scope of technical assistance; and in 2 countries general advisors to the finance ministers were provided. A significant proportion of the technical assistance is supplied from Fund headquarters in the form of written advice to the experts, as well as in the review of their proposed recommendations and of draft legislation. By close contact with the experts in the countries, the Fund attempts to ensure compatibility between the advice offered in different fields and makes available the experience and expertise of the entire Fiscal Affairs Department and of the Fund staff as a whole. Contact with headquarters is supplemented by the visits of senior staff members to the experts in the field. These visits also provide an opportunity for consultations with finance ministry officials on the progress and achievement of the technical assistance service. The success of the program is reflected in the number of requests for extension of the services of experts, as well as in the demand for additional experts to advise in new fields.

During the year ended April 30, 1970, 38 countries, or one less than in 1968/69, received assistance through the Central Banking Service. This took the form both of staff advisory missions to deal with specific problems and of the assignment of outside experts to various positions in the central banks of member countries.

Most of the advisory missions were concerned with the establishment of central banks or amendment to banking legislation. In addition, a number of countries requested aid in order to determine more precisely the nature of the assistance that they needed. The experts assigned to central banks were visited frequently, so as to achieve clearer assessments of the problems that they faced and that might arise in the future; and substantial efforts were needed to find persons qualified and available for assignment in the central banks requesting such services.

At the end of April 1970, 43 experts were serving in 26 countries on assignment for extended periods to assist in the organization and development of monetary institutions. Altogether, the Central Banking Service provided 71 experts from 27 countries for 73 assignments to 36 countries during 1969/70, an increase from 60 assignments in the previous year. As noted in last year's Report, there has been a gradual shift in the demand for experts toward more specialized and technical assignments instead of senior management positions. In part this has resulted from the planned replacement of experts provided by the Fund by local officials. Training officers were assigned to three central banks during the year to assist them in the development of competent staff and to help speed this replacement process. There also was some change in the countries from which experts were drawn, with more coming from the less developed areas of the world. Of the 71 experts serving in 1969/70, 19 came from 11 countries in these areas. Officials with experience of the less developed parts of the world frequently have the most appropriate background for work in countries where central banks have been established only recently.

During 1969 the Bureau of Statistics offered technical assistance to 26 member countries, to aid in the improvement or establishment of bulletins that bring together in one place and in suitable form the data relevant to the monetary and payments problem and useful to the monetary authorities in the formulation of sound policies. Under the Fund's project to assist central banks to establish or improve statistical bulletins, experts, drawn from the Bureau staff, followed a plan of recurrent visits in which each participating country received four visits of two weeks' duration spaced over 12 months. The experts reviewed the data assembled by the monetary authorities, helped in the solution of the definitional problems in the data, and suggested improvements in their presentation.

The Bureau's activities have been favorably received by the participating countries. Significant improvements have been made in the quality and currentness of data in existing bulletins, and in 13 countries this work assisted in the establishment of new or substantially revised bulletins. Several of the countries have requested that these activities be continued for an additional year. The work planned for 1970 will therefore include some of these countries where more intensive work is required and a number of additional countries that feel that they could benefit from this form of technical assistance. It is expected that about 20 countries will be assisted in 1970, a number largely determined by the Bureau's currently available staff resources.

The IMF Institute

During the past fiscal year, the IMF Institute completed one training course (financial analysis and policy conducted in English), which had begun in 1968/69. In addition the Institute offered six new courses, which were attended by 146 officials from 87 member countries. For most of the year two courses were conducted concurrently.

The principal 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 20 weeks. The first course, which started on September 15, 1969, was presented in French and was attended by 23 officials—the majority coming from French-speaking African countries. The second course, presented in Spanish, commenced on October 27, 1969; it was attended by 24 participants coming from 15 countries in Latin America. The third course, conducted in English, began on February 9, 1970 and was attended by 26 participants from 25 member countries.

The courses on financial analysis and policy draw extensively on the experience gained by the Fund in its contacts with member countries and are geared in particular to the needs of developing countries. The main objectives of these courses are to discuss the modern tools of economic analysis and their application, and to present a survey of the instruments of monetary and fiscal policy and a discussion of their effectiveness in the pursuit of a variety of economic policy objectives. At the same time the courses set forth the position taken by the Fund in respect of these matters.

As a result of a readjustment in the Institute's schedule, there was no course in public finance during the last year. However, one such course is being offered during the present fiscal year.

Three eight-week courses in balance of payments methodology were offered during the year, two conducted in English and one in French. These courses were administered by the Institute in collaboration with the Balance of Payments Division. The main object of these courses is to describe the principles and methods of collecting and presenting balance of payments statistics. In all, 73 participants from 59 member countries attended these courses.

In addition to organizing its regular courses, the Institute staff provided lectures to a number of other institutions. The Institute also received several groups and individuals from member countries and provided them with lectures and source material.

The program of the IMF Institute for the period August 1970 to July 1971 comprises five courses: three courses on financial analysis and policy (in English, French, and Spanish), one course on balance of payments methodology (in English), and a course on public finance (in French).

Relations with Other International Organizations

Liaison with other international and regional organizations in the economic field is an essential part of the Fund's work and is conducted through close and regular staff contact, as well as through participation at meetings at the plenary, committee, and working group levels, and by exchange of information and pertinent documents. The principal organizations with which the Fund collaborates most closely, in addition to United Nations organs, are the General Agreement on Tariffs and Trade (GATT), the Organization for Economic Cooperation and Development (OECD), the Bank for International Settlements (BIS), the Organization of American States (OAS), and the regional Development Banks.

In maintaining its active relations with the United Nations and its relevant organs, Fund representatives took part in meetings of the General Assembly; the Economic and Social Council (ECOSOC) and its Committee for Development Planning; the United Nations Development Program (UNDP) Governing Council and special meetings to consider the report by Sir Robert Jackson on the Capacity of the UN Development System;[12] the Economic Commission for Europe and its Committee on the Development of Trade; the Economic Commission for Asia and the Far East (ECAFE), its Committee on Trade, and an informal meeting of ECAFE on regional payments and trade liberalization; the Committee of the Whole of the Economic Commission for Latin American (ECLA); and various bodies of the United Nations Conference on Trade and Development (UNCTAD). A study prepared by the staff, entitled "The Use of Commercial Credits by Developing Countries for Financing Imports of Capital Goods," was transmitted to the Secretary-General of the UNCTAD on January 16, 1970, in response to Decision 29(II) adopted by the UNCTAD at its Second Session held in New Delhi in 1968.[13] The Fund was also represented at a UN Interregional Seminar on Government Accounting and Financial Management.

The Managing Director addressed the ECOSOC on the occasion of the presentation of the Fund's Annual Report and took part in meetings of the UN Administrative Committee on Coordination (ACC), including its joint meetings with the Committee for Program and Coordination. The Deputy Managing Director attended a meeting of the ACC, and staff members participated in activities of its various subcommittees.

Fund staff members have continued their participation in meetings of the OECD, including its Economic Policy Committee, Economic and Development Review Committee, Development Assistance Committee, Board of Management of the European Monetary Agreement, Committee for Invisible Transactions, Payments and Fiscal Committees, and various expert groups. Staff observers attended the annual meeting of the Asian Development Bank and a meeting of experts on economic growth in Southeast Asia organized by the Bank; the annual meeting of the African Development Bank; and the inaugural meeting of the Association of African Central Banks.

The staffs of the Fund and the International Bank for Reconstruction and Development (IBRD) undertook a review of their procedures

[12] United Nations, *A Study of the Capacity of the United Nations Development System* (Geneva, 1969), 2 vols.

[13] See *Annual Report, 1969*, page 158.

for cooperation, both at headquarters and in the field, in the light of recent Fund and Bank decisions to increase their mission activities and having in mind the Pearson Commission recommendation that "the World Bank and the IMF, in countries where both operate, should adopt procedures for preparing unified country assessments and assuring consistent policy advice." [14] The aim of this collaboration continues to be for the two organizations to complement each other as they work to achieve their common objectives, for each to make the fullest possible use of the expertise and information of the other, to reduce to a minimum the risk of inconsistent policy advice, and to minimize duplication of requests for information to member governments. The existing practices and proposals for their extension were reviewed by the Executive Directors.

A meeting of balance of payments experts from interested member countries and international organizations was held by the Fund staff at the Fund's headquarters to discuss informally the method of recording special drawing rights in balance of payments statements and related matters. Copies of the discussion paper were sent to all the Fund's balance of payments statistical correspondents for comment.

The Fund's concern with multilateral efforts related to debt burden and the coordination of aid is reflected in its continuing participation in meetings of consortia and consultative groups sponsored by the IBRD, the OECD, and member governments. At the request of the Government of Ghana, the Fund organized a meeting, as it had in 1967 and 1968, in cooperation with the IBRD, to bring together interested countries and international organizations for a review of Ghana's economic progress, balance of payments prospects, import program, and their implications for foreign aid. Fund staff participated in IBRD-sponsored meetings of the India and Pakistan Consortia, the Ceylon Aid Group, and the Consultative Groups for Kenya, Korea, Morocco, Tanzania, Tunisia, and Uganda and in the OECD-sponsored Turkey Consortium. The Fund continued to participate in meetings of the Inter-Governmental Group on Indonesia convened by the Netherlands Government for the coordination of aid and in meetings on Indonesia's foreign debts held by the French Government, and took part in the meetings held by the Government of Peru and its creditors to consider a refinancing of certain external debt. Fund observers attended a meeting called by the Government of Honduras to discuss the level, structure, and method of financing of its investment program and the third Aid Donor's Conference held by the Government of Guyana. Fund representatives also attended meetings of the Union d'Assureurs des Crédits Internationaux (Berne Union), which is concerned with commercial credits.

Fund staff members attended meetings of the Food and Agriculture Organization concerned with various commodities and those of the UNCTAD Committee on Commodities and Permanent Group on Synthetics and Substitutes. A Fund staff member participated in meetings of the Preparatory Committee for the Fourth International Tin Agreement held in London, and staff members attended other meetings of the International Tin Council in London and the United Nations Tin Conference, 1970 in Geneva, at which the proposed Agreement was considered. At the request of the International Coffee Organization, the Fund entered into an informal arrangement to provide information to it on exchange rates for payments by participants to the Organization's Diversification Fund.

In the Latin American and Caribbean area, the Fund was represented at meetings of the Organization of American States' Inter-American Economic and Social Council (IA-ECOSOC) at the Expert and Ministerial Levels, the Central American Monetary Council, the Central Banking Experts of the American Continent, the inaugural meeting of the Caribbean Development Bank, the Inter-American Development Bank, and the Inter-American Center of Tax Administrators (CIAT), and also participated in a CIAT workshop on the use of automatic data processing in tax administration. A joint study by the Fund staff and the executive secretariat of the Central American Monetary Council on the state of economic integration within the Central American Common Market was undertaken on the proposal of the Council. The staff continued its cooperation with the OAS Inter-American Committee on the Alliance for Progress (CIAP) in connection

[14] Commission on International Development, *Partners in Development* (Praeger), 1969, page 230.

with CIAP's country reviews and other matters of mutual interest.

As in previous years, Fund representatives took part in consultations with the CONTRACTING PARTIES to the GATT in connection with the GATT consideration of import restrictions and import deposit requirements maintained for balance of payments reasons by individual countries; they also attended the Twenty-Sixth Session and meetings of the Council of Representatives and other subsidiary bodies of the GATT.

Staff

At the end of the fiscal year, the Fund's regular staff numbered 995, compared with 927 a year earlier. During the year 191 new staff members, both regular and temporary, were appointed from 54 member countries. Nationals of 81 countries were on the staff on April 30, 1970. These figures do not include Assistants to Executive Directors.

Income, Expenditures, and Reserves

Income and Expenditures

Except for income from investment, which is credited directly to the Special Reserve, almost all the income of the Fund is operating income. It is derived from the charges paid by members on the Fund's holdings of their currencies in excess of quotas, the service charge on purchases of currency from the Fund, and the stand-by charges. Beginning in 1969/70, receipts also include interest on special drawing rights held by the General Account (treated as income) and the assessments to cover the expenses of conducting the business of the Special Drawing Account, levied under Article XXVI, Section 4, on all participants in proportion to their net cumulative allocations (treated as a deduction from expenditure); these amounts are payable in special drawing rights to the General Account of the Fund.

All charges are payable in gold or special drawing rights, and, at the member's option, the stand-by charge may be paid in U. S. dollars. However, the provisions of Article V, Section 8(*f*), of the Fund Agreement permit total or partial payment in national currencies, if the member's monetary reserves equal less than one half of the value of its quota.

Two developments during the year affected the payments of charges. In accordance with the amendment of Article XIX, Sections (*a*) and (*e*), effective July 28, 1969, currency liabilities are no longer deducted from members' official holdings of monetary reserves for the purpose of the computation of the amount of charges payable in the member's own currency. As a result some members' monetary reserves were larger, and members that heretofore paid charges in national currency because their currency liabilities exceeded their gold and foreign exchange holdings had to pay part or all of the charges in gold. The second development was the decision of the Executive Directors, adopted December 18, 1969, that authorized members, pursuant to Article XXV, Section 7(*c*)(i), to use special drawing rights for the payment of charges to the General Account.

The rate of charges levied on the Fund's holdings of members' currencies in excess of their quotas is based on the amount by which the quota level is exceeded by the holdings and also on the time period during which balances have been outstanding. The present schedule of charges, set forth in Table 50, has been in effect since May 1, 1963. An annual review of this schedule took place in April 1970, and the Executive Directors concluded that it should remain unchanged. Included in the table is a service charge equal to ½ of 1 per cent of amounts purchased from the Fund. As noted, the Fund has decided that no service charge is payable in respect of gold tranche purchases made after July 27, 1969. Further, there is a stand-by charge equivalent to ¼ of 1 per cent per annum on the amount of a stand-by arrangement. The proceeds of stand-by charges are considered income by the Fund only after the expiration or cancellation of the stand-by arrangement, because of possible refunds and other adjustments that may have to be made during the life of the arrangement.

The largest portion of the Fund's income has been provided by payments of charges on balances of members' currencies held by the Fund in excess of their respective quotas. On April 30, 1970, 39 members were subject to such charges, compared with 35 members on April 30, 1969. Aggregate payments of these charges during the fiscal year 1969/70 amounted to $125 million, of

TABLE 50. CHARGES ON TRANSACTIONS EFFECTED AFTER MAY 1, 1963

Charges in per cent per annum [1] for period stated and for portion of holdings in excess of quota by (per cent)			
More than	0	50	100
But not more than . . .	50	100	
Service charge [2]	0.5	0.5	0.5
0 to 3 months	0.0	0.0	0.0
3 to 6 months	2.0	2.0	2.0
½ to 1 year	2.0	2.0	2.5
1 to 1½ years	2.0	2.5	3.0
1½ to 2 years	2.5	3.0	3.5
2 to 2½ years	3.0	3.5	4.0 [3]
2½ to 3 years	3.5	4.0 [3]	4.5
3 to 3½ years	4.0 [3]	4.5	5.0
3½ to 4 years	4.5	5.0	
4 to 4½ years	5.0		

[1] Except for service charge which is payable once per transaction and stated as per cent of amount of transaction.
[2] No service charge is payable in respect of any gold tranche purchase effected after July 27, 1969.
[3] Point at which the Fund and the member consult.

which $63.0 million was paid in gold, $55.4 million in special drawing rights, and $6.3 million by members in their own currencies in accordance with the provisions of Article V, Section 8(*f*). During the preceding fiscal year, similar charges amounted to $107 million, of which $84 million was paid in members' own currencies and the balance in gold. Since the beginning of Fund operations 60 members have been subject to such charges. The remainder of the Fund's income stems mainly from service charges on purchases from the Fund. These charges amounted to a total of $12 million for the fiscal year ended April 30, 1970, compared with $14 million during 1968/69. The actual income derived from stand-by charges in the fiscal year under review, after cancellation or expiration of the arrangements, amounted to $0.4 million, the same as in 1968/69. Interest and assessments to cover the expenses of the Special Drawing Account aggregated SDR 1.3 million.

Beginning with the fiscal year 1964/65, the Fund's expenditures have included those incurred in connection with borrowings under the General Arrangements to Borrow (GAB) and a borrowing from Italy. The Fund's payments in gold of transfer charges in connection with the activation of the GAB in respect of purchases in June and September 1969 and February 1970 amounted to $2.4 million. Interest payments in accordance with paragraph 3(b) of the borrowing arrangement with Italy and paragraph 9(b) of the GAB, also in gold, amounted to a total of $17 million, about the same as in the preceding year. Expenditure in 1969/70, however, increased sharply, largely as a result of the payment of $27 million remuneration to all creditor members of the Fund, in accordance with Article V, Section 9, of the Fund Agreement as amended. The amendment provided that remuneration be paid at a uniform rate for all members 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. In accordance with Rule I–9 of the Fund's Rules and Regulations, remuneration is paid as of the end of the Fund's fiscal year in gold and the member's currency. Pursuant to an Executive Board decision adopted on April 29, 1970 and reproduced in Appendix I, members have the option to receive special drawing rights in place of gold or their own currency.

An analysis of the Fund's income and its disposition is shown in Table 51.

Reserves

With the exception of fiscal year 1947/48, the Fund operated with annual losses from the beginning of activity in 1946 until April 30, 1957. In order to raise current revenue, the Executive Directors decided on January 28, 1956 to invest part of the Fund's gold holdings in U. S. Government securities with the guarantee that the same quantity of gold can be reacquired upon termination of the investment.

On November 27, 1959 the Executive Directors decided to continue the investment to build up a reserve against future deficits, and to establish a Special Reserve to which the income from investments earned from November 1, 1957 would be placed. During the fiscal year 1969/70 the investment of $800 million was continued; the income of $57 million for the year was added to the Special Reserve, increasing the balance to $366 million.

The Fund has had a surplus of income over expenditure in every year beginning with 1957/58. In April 1958 a General Reserve was established and subsequently the Fund's net income has been transferred provisionally to the General Reserve at the end of each month, pending action by the Board of Governors at the Annual Meeting.

TABLE 51. INCOME AND EXPENDITURE, FISCAL YEARS ENDED APRIL 30, 1961–70

(In millions of U.S. dollars)

	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Income [1]										
Operational—service and stand-by charges, etc.	3.5	11.7	6.6	4.9	11.8	15.6	7.1	7.4	14.6	13.4
On balances in excess of quotas	11.0	21.4	24.4	31.5	35.9	65.7	82.5	82.0	107.5	124.7
Total	14.6	33.1	31.0	36.4	47.7	81.3	89.6	89.4	122.1	138.1
Expenditure										
Administrative (and property)	7.4	8.2	9.6	13.1	17.6	20.7	21.4	21.8	28.9	34.3 [2]
Operational										
Remuneration	—	—	—	—	—	—	—	—	—	27.2
Other	—	—	—	—	4.6	16.1	17.8	11.9	22.3	19.1
Total	7.4	8.2	9.6	13.1	22.2	36.8	39.2	33.7	51.3	80.6
Net Income [3]	7.2	25.0	21.5	23.2	25.5	44.5	50.4	55.7	70.8	57.6

[1] Excludes income from investments transferred to the Special Reserve.
[2] Net of assessment of $0.9 million in respect of Special Drawing Account operational expenses.
[3] Transferred to General Reserve until the fiscal year ended April 30, 1968. Of the $55.7 million and $70.8 million net income in 1968 and 1969, respectively, $18.3 million and $38.9 million were transferred to General Reserve and $37.5 million and $31.9 million were distributed under the provisions of Article XII, Section 6(*a*) and (*b*), of the Fund Agreement at a rate of 1½ per cent to members that had a super gold tranche position in the Fund during the 1968 and 1969 fiscal years. Pending Board of Governors' action, the net income for the fiscal year ended April 30, 1970 has been provisionally transferred to the General Reserve.

At the end of April 1969 the General Reserve amounted to $325 million. The Executive Directors recommended to the Board of Governors in July 1969 that $31.9 million be distributed to members that had super gold tranche positions in the Fund 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 its currency during the fiscal year ended April 30, 1969 and that $38.9 million, the remainder of the net income of that fiscal year, be allocated to the General Reserve. On October 3, 1969 the Board of Governors approved this recommendation and payments were made to 36 countries. In accordance with Article XII, Section 6(*b*), of the Articles of Agreement, payment to each member was made in the member's own currency.

For the fiscal year 1969/70 the Fund's operating income was $138.1 million and total expenditure was $80.6 million. The net income of $57.6 million was provisionally transferred to the General Reserve, pending action by the Board of Governors. The balance in that account was $350.3 million on April 30, 1970.

Administrative Budget and Audit

The administrative budget approved by the Executive Directors for the period May 1, 1970 to April 30, 1971 is presented in Appendix IV. Comparative income and expenditure figures for the fiscal years ended April 30, 1968, 1969, and 1970 are given in Appendix V.

The Executive Directors requested the Governments of France, Malaysia, and Sierra Leone to nominate members of the Audit Committee for 1970. The following nominations were made and confirmed: Mr. André Valls, Inspecteur des Finances, Ministry of Economy and Finance, France; Mr. Shamsir bin Omar, Accountant General of Malaysia; Mr. A. S. C. Johnson, Auditor General of Sierra Leone. The report of the Committee is submitted separately. Appendix VI gives the Auditors' Certificates, together with the audited Balance Sheets of the General Account and the Special Drawing Account as at April 30, 1970, the Statement of Income and Expenditure, the Statement of Reserves, and the audited Balance Sheet of the Staff Retirement Fund.

Publications

A notable development during the fiscal year was the publication of a three-volume history of the first 20 years of the Fund, *The International Monetary Fund, 1945–1965: Twenty Years of International Monetary Cooperation.* Volume I contains a chronological account of the evolution of the Fund from the original plans formulated in 1941 to the end of 1965. Volume II analyzes the Fund's policies in three major fields—exchange rates, exchange restrictions, and the use of the Fund's resources—and concludes with a series of chapters on constitutional development and change. Volume III reproduces the major documents referred to in the other two volumes, including some not hitherto published. The three volumes were edited by the Fund's former Chief Editor, J. Keith Horsefield, who also wrote Volume I and portions of Volume II; other contributors were past and present members of the Fund staff.

In addition to its regular publications, the Fund issued several others during the fiscal year, reflecting in part the need for new, updated editions of its publications following the amendment of the Articles of Agreement. Publications of this character included new printed editions of the *Articles of Agreement* and *By-Laws, Rules and Regulations* (in English, French, and Spanish), while a fourth issue of *Selected Decisions of the Executive Directors and Selected Documents* was due to appear in English in June 1970 and subsequently in French and Spanish. Other publications included *The Problem of Stabilization of Prices of Primary Products* published in English, French, and Spanish in September 1969 in the form of three sections: A *Joint Staff Study (Part I)* published jointly by the Fund and the World Bank; a *Report of the Executive Directors: Scope for Action by the Fund (Part II of a Staff Study)* published by the Fund; and a separate report published by the World Bank. Also published in 1969 was *A Report to the Board of Governors of the International Monetary Fund Containing the Managing Director's Proposal on the Allocation of Special Drawing Rights for the First Basic Period* (in English, French, and Spanish editions).

At the end of the fiscal year preparations were well advanced for the publication of Volume 3 of *Surveys of African Economies* covering the seven members of the West African Monetary Union (Dahomey, Ivory Coast, Mauritania, Niger, Senegal, Togo, and Upper Volta), and for a new edition of *Special Drawing Rights* in the Fund's Pamphlet Series. The books on the African economies are being made available in English and French editions and the Pamphlet Series is published in English, French, and Spanish.

Regular publications issued during the fiscal year were as follows:

Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1969 (with French and Spanish editions and a shorter German edition).

Balance of Payments Yearbook, Volume 21, 1964–68, also available in a hardbound edition.

Direction of Trade, monthly, issued jointly with the International Bank for Reconstruction and Development, with an annual edition covering 1964–68.

Finance and Development, quarterly, issued jointly with the International Bank for Reconstruction and Development (English, French, and Spanish editions with an annual Portuguese language edition issued in Brazil).

International Financial News Survey, weekly.

International Financial Statistics, monthly (in an English edition and in a combined English, French, and Spanish edition).

Schedule of Par Values, 47th and 48th issues.

Staff Papers, Volume XVI, Nos. 2 and 3, and Volume XVII, No. 1, as well as an Index covering Volumes I–XVI.

Summary Proceedings of the Twenty-Fourth Annual Meeting of the Board of Governors.

Twentieth Annual Report on Exchange Restrictions.

The Fund has continued to supply universities in developing countries with one free copy of each of its four subscription publications—*Balance of Payments Yearbook, Direction of Trade, International Financial Statistics,* and *Staff Papers.* University libraries, faculty members, and students may acquire these publications at the reduced subscription rate of $10 a year for all four periodicals, or $3 a year for any one of them. The normal annual rates for each publication range from $6 to $10, for a total subscription of $33.50 a year. Except for the four subscription publications, the Fund's three-volume history, and the series of books on the African economies, all the publications mentioned above are available free of charge.

B. Balance of Payments Statements

THE following Tables 52–64 present balance of payments statements, for 1968 and 1969 and, for most countries, for the first quarter of 1970, for Austria, Belgium-Luxembourg, Canada, Denmark, France, Germany, Italy, Japan, the Netherlands, Norway, Sweden, the United Kingdom, and the United States. Less detailed statements for 1968 and 1969 are presented in Tables 65 and 66 for the primary producing countries. For some countries the tables reflect revisions of the data that could not be incorporated elsewhere in the Report.

TABLE 52. AUSTRIA: BALANCE OF PAYMENTS SUMMARY, 1968–FIRST QUARTER 1970 [1]

(In millions of U. S. dollars)

			1969 [2]				1970 [2]
	1968	1969 [2]	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
A. Goods, Services, and Unrequited Transfers							
Exports f.o.b.	1,977	2,401	526	566	626	683	648
Imports f.o.b.	−2,432	−2,735	−624	−659	−697	−755	−778
Trade balance	−455	−334	−98	−93	−71	−72	−130
Services and unrequited transfers (net)	358	432	108	78	196	50	130
Total	−97	98	10	−15	125	−22	—
Memorandum item: Goods, Services, and Private Unrequited Transfers	*−93*	*100*	...	...	...	...	...
B. Long-Term Capital, n.i.e.							
Private	48	−37	−15	−10	−9	−3	13
Official	188	30	74	−47	−4	7	−2
Total	236	−7	59	−57	−13	4	11
C. Total (A plus B)	139	91	69	−72	112	−18	11
D. Short-Term Capital, n.i.e. (including net errors and omissions)							
Private nonmonetary	−21	−18	2	−8	−11	−1	−10
Net errors and omissions	43	52	4	−24	16	56	−14
Total	22	34	6	−32	5	55	−24
E. Commercial Bank Capital							
Liabilities	−63	125	−41	24	−50	192	57
Assets (increase −)	−63	−213	−73	−19	12	−133	−99
Total	−126	−88	−114	5	−38	59	−42
F. Total (C through E)	35	37	−39	−99	79	96	−55
G. Allocation of SDR's	—	—	—	—	—	—	29
H. Total (F plus G)	35	37	−39	−99	79	96	−26
I. Official Monetary Movements							
Monetary gold (increase −)	−13	−1	—	−1	—	—	—
SDR's (increase −)	—	—	—	—	—	—	−34
Reserve position in the Fund (increase −)	−43	−6	—	—	−5	−1	−5
Other short-term assets (increase −)	23	−30	39	100	−74	−95	65
Short-term liabilities	−2	—	—	—	—	—	—
Total	−35	−37	39	99	−79	−96	26

Source: Austrian National Bank.
[1] Positive figures are credits; negative figures are debits.
[2] Preliminary.

TABLE 53. BELGIUM-LUXEMBOURG: BALANCE OF PAYMENTS SUMMARY, 1968–FIRST QUARTER 1970[1]

(In millions of U. S. dollars)

			1969				1970[2]
	1968	1969	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
A. Goods, Services, and Unrequited Transfers							
Exports[3]	6,648	8,096	1,848	1,976	1,922	2,350	2,258
Imports[3]	−6,688	−7,920	−1,832	−2,014	−2,004	−2,070	−2,016
Trade balance	−40	176	16	−38	−82	280	242
Services (net)	140	24	32	−6	−50	48	26
Unrequited transfers (net)	−64	−116	−34	−20	−28	−34	−34
Total	36	84	14	−64	−160	294	234
Memorandum item: Goods, Services, and Private Unrequited Transfers	*144*	*210*	*60*	*−40*	*−134*	*324*	*268*
B. Long-Term Capital							
Private[4]	−92	214	−16	160	34	36	−84
Official	−22	−26	—	96	64	−186	−12
Total	−114	188	−16	256	98	−150	−96
C. Total (A plus B)	−78	272	−2	192	−62	144	138
D. Short-Term Capital, n.i.e. (including net errors and omissions)							
Treasury short-term certificates	−40	−26	—	8	−12	−22	10
Net errors and omissions	30	52	48	−48	36	16	−82
Total	−10	26	48	−40	24	−6	−72
E. Commercial Bank Capital	−190	−200	−128	10	−32	−50	−94
F. Total (C through E)	−278	98	−82	162	−70	88	−28
G. Allocation of SDR's	—	—	—	—	—	—	70
H. Total (F plus G)	−278	98	−82	162	−70	88	42
I. Official Monetary Movements							
Monetary gold (increase −)	−44	4	2	—	2	—	—
SDR's (increase −)	—	—	—	—	—	—	−80
Reserve position in the Fund (increase −)	27	145	79	35	117	−86	−44
Foreign exchange (increase −)[5]	420	−342	4	−142	−86	−118	−18
Other claims	−125	95	−3	−55	37	116	100
Total	278	−98	82	−162	70	−88	−42

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 changes in holdings of nonmarketable U. S. Treasury bonds and notes.

TABLE 54. CANADA: BALANCE OF PAYMENTS SUMMARY, 1968–FIRST QUARTER 1970 [1]

(In millions of U. S. dollars)

			1969				1970 [2]
	1968	1969	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
A. Goods, Services, and Unrequited Transfers							
Exports f.o.b.	12,523	13,770	3,209	3,520	3,290	3,751	3,641
Imports f.o.b.	−11,250	−12,967	−2,988	−3,428	−3,067	−3,484	−3,065
Nonmonetary gold	112	102	29	26	27	20	23
Trade balance	1,385	905	250	118	250	287	599
Investment income (net)	−888	−887	−209	−191	−203	−284	−269
Other services (net)	−578	−715	−281	−217	−27	−190	−269
Unrequited transfers (net)	26	28	2	2	9	15	−15
Total	−55	−669	−238	−288	29	−172	46
Memorandum item: Goods, Services, and Private Unrequited Transfers	*68*	*−537*	*−223*	*−244*	*72*	*−142*	*74*
B. Long-Term Capital							
Direct investment in Canada	565	578	120	222	88	148	153
Canadian direct investment abroad	−124	−237	−51	−102	−28	−56	−102
Transactions in Canadian securities							
New issues	1,788	1,904	589	475	530	310	481
Retirements and other transactions	−326	−289	−15	−81	−60	−133	−80
Columbia River Treaty loans	81	30	—	—	—	30	—
Other transactions in foreign securities	−432	89	−54	−7	59	91	108
Other loans by Canadian Government	−68	−62	−10	−38	−14	—	11
Other	−11	−13	−78	−21	2	84	22
Total	1,473	2,000	501	448	577	474	593
C. Total (A plus B)	1,418	1,331	263	160	606	302	639
D. Short-Term Capital (including net errors and omissions)	−1,089	−1,273	−297	−214	−610	−152	−276
E. Total (C plus D)	329	58	−34	−54	−4	150	363
F. Allocation of SDR's	—	—	—	—	—	—	124
G. Total (E plus F)	329	58	−34	−54	−4	150	487
H. Official Monetary Movements							
Monetary gold (increase −)	152	−9	—	−3	−6	—	−7
SDR's (increase −)	—	—	—	—	—	—	−133
Reserve position in the Fund (increase −)	230	−272	−15	−101	−80	−76	−37
Foreign exchange (increase −)	−711	223	49	158	90	−74	−310
Total	−329	−58	34	54	4	−150	−487

Source: Dominion Bureau of Statistics.

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

[2] Preliminary.

TABLE 55. DENMARK: BALANCE OF PAYMENTS SUMMARY, 1968–FIRST QUARTER 1970 [1]

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

			1969 [2]				1970 [2]
	1968	1969 [2]	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
A. Goods, Services, and Unrequited Transfers							
Exports f.o.b.	2,604	2,980	709	747	703	821	763
Imports f.o.b.	−3,059	−3,623	−834	−915	−882	−992	−966
Trade balance	−455	−643	−125	−168	−179	−171	−203
Services and unrequited transfers (net)	210	223	47	36	70	70	58
Total	−245	−420	−78	−132	−109	−101	−145
B. Capital Movements (excluding Group D) and Net Errors and Omissions							
Private capital	133	213	−27	−3	80	163	97
Official capital	52	52	−8	59	1	—	10
Net errors and omissions	53	63	6	9	18	30	20
Total	238	328	−29	65	99	193	127
C. Total (A plus B)	−7	−92	−107	−67	−10	92	−18
D. Commercial Bank Capital							
Liabilities	66	−8	−56	−5	−16	69	. . .
Assets (increase −)	−146	100	45	55	26	−26	. . .
Total	−80	92	−11	50	10	43	−7
E. Total (C plus D)	−87	—	−118	−17	—	135	−25
F. Allocation of SDR's	—	—	—	—	—	—	27
G. Total (E plus F)	−87	—	−118	−17	—	135	2
H. Official Monetary Movements							
Monetary gold (increase −)	−6	25	—	25	—	—	—
SDR's (increase −)	—	—	—	—	—	—	−27
Reserve position in the Fund (increase −)	−23	84	40	45	—	−1	—
Foreign exchange assets (net)	116	−109	78	−53	—	−134	25
Total	87	—	118	17	—	−135	−2

Source: Danish Government Statistical Office.
[1] Positive figures are credits; negative figures are debits.
[2] Preliminary.

TABLE 56. FRANCE: BALANCE OF PAYMENTS SUMMARY, 1968 AND 1969 [1]

(In millions of U. S. dollars)

	1968	1969 [2]	1969 [2] First quarter	1969 [2] Second quarter	1969 [2] Third quarter	1969 [2] Fourth quarter
A. Goods, Services, and Unrequited Transfers						
Exports f.o.b.	12,784	14,818	3,543	3,576	3,627	4,072
Imports f.o.b.	−12,942	−15,971	−3,948	−4,326	−3,659	−4,038
Trade balance	−158	−1,153	−405	−750	−32	34
Services (net)	−80	90	−22	−54	−44	210
Unrequited transfers (net)	−982	−1,020	−224	−278	−254	−264
Total	−1,220	−2,083	−651	−1,082	−330	−20
Memorandum item: Goods, Services, and Private Unrequited Transfers	*−819*	*−1,824*	*−591*	*−1,039*	*−277*	*83*
B. Long-Term Capital						
Private						
Liabilities	409	643	246	10	134	253
Assets (increase −)	−1,236	−240	−81	−20	−92	−47
Official	−81	−126	−17	−26	−74	−9
Total	−908	277	148	−36	−32	197
C. Total (A plus B)	−2,128	−1,806	−503	−1,118	−362	177
D. Short-Term Capital, n.i.e. (including net errors and omissions)						
Private nonmonetary	−956	19	−80	−31	−19	149
Net errors and omissions	−36	250	30	15	298	−93
Total	−992	269	−50	−16	279	56
E. Commercial Bank Capital						
Liabilities	1,025	2,612	328	609	625	1,050
Assets (increase −)	−1,585	−2,134	398	−717	−706	−1,109
Total	−560	478	726	−108	−81	−59
F. Total (C through E)	−3,680	−1,059	173	−1,242	−164	174
G. Official Monetary Movements						
Monetary gold (increase −)	1,357	330	50	275	7	−2
Reserve position in the Fund (increase −)	885	—	—	—	—	—
Foreign exchange (increase −)	551	37	164	101	−403	175
Use of Fund credit	—	500	—	—	501	−1
Other short-term liabilities (net)	887	192	−387	866	59	−346
Total	3,680	1,059	−173	1,242	164	−174

Source: Data provided by the French authorities.

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

[2] Preliminary.

TABLE 57. FEDERAL REPUBLIC OF GERMANY: BALANCE OF PAYMENTS SUMMARY, 1968–FIRST QUARTER 1970 [1]

(In millions of U. S. dollars)

	1968	1969	1969 First quarter	1969 Second quarter	1969 Third quarter	1969 Fourth quarter [2]	1970 First quarter [2]
A. Goods, Services, and Unrequited Transfers							
Exports f.o.b.	24,851	29,066	6,397	7,120	7,133	8,416	7,833
Imports c.i.f.	−20,150	−24,929	−5,676	−6,113	−6,111	−7,029	−7,002
Other merchandise	−215	−234	−2	−101	−42	−89	−77
Trade balance	4,486	3,903	719	906	980	1,298	754
Paid services to foreign troops	1,337	1,523	313	364	464	382	336
Other services (net)	−1,139	−1,519	−318	−261	−480	−460	−535
Total goods and services	4,684	3,907	714	1,009	964	1,220	555
Unrequited transfers (net)	−1,829	−2,102	−400	−449	−520	−733	−578
Total	2,855	1,805	314	560	444	487	−23
Memorandum item: Goods, Services, and Private Unrequited Transfers	*3,891*	*2,934*	*503*	*796*	*694*	*941*	*226*
B. Long-Term Capital							
Private liabilities	420	127	56	79	357	−365	−42
Private assets (increase −)	−2,959	−5,613	−1,456	−1,098	−1,047	−2,012	−967
Government long-term capital	−391	−532	−64	−23	−203	−242	−94
Total	−2,930	−6,018	−1,464	−1,042	−893	−2,619	−1,103
C. Total (A plus B)	−75	−4,213	−1,150	−482	−449	−2,132	−1,126
D. Short-Term Capital, n.i.e. (including net errors and omissions)							
Government short-term capital	329	5	−36	56	−1	−14	17
Other short-term capital	134	−187	126	522	679	−1,514	212
Net errors and omissions)	733	206	425	1,746	525	−2,490	635
Total	1,196	24	515	2,324	1,203	−4,018	864
E. Commercial Bank Short-Term Capital							
Liabilities	1,493	1,836	−741	864	613	1,100	433
Assets (increase −) [3]	−879	−650	−438	−774	431	131	−16
Total	614	1,186	−1,179	90	1,044	1,231	417
F. Total (C through E)	1,735	−3,003	−1,814	1,932	1,798	−4,919	155
G. Allocation of SDR's	—	—	—	—	—	—	202
H. Total (F plus G)	1,735	−3,003	−1,814	1,932	1,798	−4,919	357
I. Official Monetary Movements							
Monetary gold (increase −)	−312	460	−2	−22	−34	518	1
SDR's (increase −)	—	—	—	—	—	—	−222
Reserve position in the Fund (increase −)	−463	1,212	161	−16	−94	1,161	—
Foreign exchange [3]							
Bundesbank investment in U. S. and U. K. Treasury paper (increase −) [4]	−675	−125	—	−125	—	—	546
Other (increase −)	−345	1,468	1,584	−1,790	−1,892	3,566	−562
Miscellaneous claims (net) [5]	60	−12	71	21	222	−326	−120
Total	−1,735	3,003	1,814	−1,932	−1,798	4,919	−357

Sources: Deutsche Bundesbank, *Monthly Report*, June 1970, and reports to the Fund.

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

[2] The entries in Groups A through F have been converted from figures expressed in deutsche mark at the new par value rate of US$1 = DM 3.66. The figures in Group I are mainly based on data reported to the Fund by the German authorities in terms of U.S. dollars; however, changes in certain liabilities which constitute part of the item for "Miscellaneous claims (net)" have been converted from deutsche mark at the new par value rate without adjustments.

[3] U.S. dollars put at the disposal of the commercial banks by the Bundesbank through swap arrangements are included in the commercial banks' assets in Group E and excluded from the Bundesbank assets in Group I.

[4] Made in accordance with the U.S.-German agreements and the 1968 U.K.-German agreement.

[5] Covers mainly claims on the IBRD and post-EPU claims, as well as liabilities of the Bundesbank and liabilities resulting from the sale of German money-market paper to foreign monetary authorities.

TABLE 58. ITALY: BALANCE OF PAYMENTS SUMMARY, 1968–FIRST QUARTER 1970 [1]

(In millions of U. S. dollars)

	1968	1969 [2]	1969 [2] First quarter	1969 [2] Second quarter	1969 [2] Third quarter	1969 [2] Fourth quarter	1970 [2] First quarter
A. Goods, Services (net), and Unrequited Transfers (net)							
Exports f.o.b.	10,098	11,641	2,808	3,093	2,928	2,812	2,961
Imports f.o.b.	−9,050	−11,057	−2,561	−2,787	−2,725	−2,984	−3,063
Trade balance	1,048	584	247	306	203	−172	−102
Travel	1,112	1,139	142	281	505	211	123
Other services	176	319	55	80	162	22	−37
Unrequited transfers	291	326	72	61	110	83	−26
Total	2,627	2,368	516	728	980	144	−42
Memorandum item: Goods, Services, and Private Unrequited Transfers	*2,905*	*2,642*	*577*	*826*	*1,032*	*207*	*91*
B. Capital Movements (excluding Groups D and H) and Net Errors and Omissions							
Loans received by private sector	63	119	−8	−7	−13	147	252
Loans extended by private sector	−84	−467	−121	−120	−151	−75	−36
Trade credits	−340	−474	−32	−340	−134	32	−100
Other private investment in Italy	401	416	101	174	21	120	105
Other private investment abroad	−540	−679	−170	−183	−156	−170	−278
Miscellaneous government capital	−65	−24	−4	−18	−22	20	118
Repatriation of Italian banknotes [3]	−1,128	−2,256	−484	−550	−616	−606	−436
Other net errors and omissions [4] and other capital	−383	−203	−153	−228	−38	216	−340
Total	−2,076	−3,568	−871	−1,272	−1,109	−316	−715
C. Total (A plus B)	551	−1,200	−355	−544	−129	−172	−757
D. Commercial Bank Capital							
Liabilities	875	2,766	116	1,017	107	1,526	−705
Assets (increase −)	−1,563	−2,080	−142	−457	−170	−1,311	574
Total	−688	686	−26	560	−63	215	−131
E. Total (C plus D)	−137	−514	−381	16	−192	43	−888
F. Allocation of SDR's	—	—	—	—	—	—	105
G. Total (E plus F)	−137	−514	−381	16	−192	43	−783
H. Official Monetary Movements							
Monetary gold (increase −)	−523	−33	−1	−13	−17	−2	−22
SDR's (increase −)	—	—	—	—	—	—	−120
Reserve position in the Fund (increase −)	−52	37	103	64	−24	−106	−22
Foreign exchange (increase −)	697	338	184	−145	−183	482	74
Other claims (increase −)	40	18	−4	1	129	−108	32
Short-term liabilities	−25	154	99	77	287	−309	841
Total	137	514	381	−16	192	−43	783

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 the foreign investment 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. See also footnote 4.

[4] In the standard presentation of Italy's balance of payments, the repatriation of Italian banknotes forms a part of net errors and omissions.

TABLE 59. JAPAN: BALANCE OF PAYMENTS SUMMARY, 1968–FIRST QUARTER 1970 [1]

(In millions of U. S. dollars)

	1968	1969 [2]	1969 [2] First quarter	1969 [2] Second quarter	1969 [2] Third quarter	1969 [2] Fourth quarter	1970 [2] First quarter
A. Goods, Services, and Unrequited Transfers							
Exports f.o.b.	12,751	15,728	3,283	3,801	4,160	4,484	4,048
Imports f.o.b.	−10,222	−11,976	−2,676	−2,881	−3,088	−3,331	−3,461
Trade balance	2,529	3,752	607	920	1,072	1,153	587
Services and unrequited transfers (net)	−1,481	−1,567	−430	−362	−394	−381	−511
Total	1,048	2,185	177	558	678	772	76
Memorandum item: Goods, Services, and Private Unrequited Transfers	*1,197*	*2,344*	*202*	*611*	*719*	*812*	...
B. Long-Term Capital							
Direct investment	−144	−133	−12	−46	−31	−44	−53
Trade credits and loans extended	−823	−1,016	−232	−251	−245	−288	−500
Other	728	984	291	376	170	147	117
Total	−239	−165	47	79	−106	−185	−436
C. Total (A plus B)	809	2,020	224	637	572	587	−360
D. Short-Term Capital, n.i.e. (including net errors and omissions)							
Nonmonetary sectors' capital	209	179	−7	−16	62	140	182
Net errors and omissions	84	84	61	16	24	−17	162
Total	293	263	54	—	86	123	344
E. Commercial Bank Capital							
Liabilities	486	−88	−63	−276	−113	364	107
Assets (increase −)	−724	−1,395	104	−455	−377	−667	192
Total	−238	−1,483	41	−731	−490	−303	299
F. Total (C through E)	864	800	319	−94	168	407	283
G. Allocation of SDR's	—	—	—	—	—	—	122
H. Total (F plus G)	864	800	319	−94	168	407	405
I. Official Monetary Movements							
Monetary gold (increase −)	−18	−57	−1	−6	−8	−42	−56
SDR's (increase −)	—	—	—	—	—	—	−132
Reserve position in the Fund (increase −)	−50	−338	3	−95	−81	−165	−57
Foreign exchange (increase −)	−808	−353	−314	190	−81	−148	−159
Other assets (net)	12	−52	−7	5	2	−52	−1
Total	−864	−800	−319	94	−168	−407	−405

Sources: Bank of Japan, *Balance of Payments Monthly* and *Economic Statistics Monthly.*

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

[2] Preliminary.

TABLE 60. NETHERLANDS: BALANCE OF PAYMENTS SUMMARY, 1968–FIRST QUARTER 1970 [1]

(In millions of U. S. dollars)

	1968	1969 [2]	1969 [2] First quarter	1969 [2] Second quarter	1969 [2] Third quarter	1969 [2] Fourth quarter	1970 [2] First quarter
A. Goods, Services, and Unrequited Transfers							
Exports f.o.b. [3]	7,782	9,337	2,106	2,354	2,311	2,566	2,618
Imports f.o.b.	−8,117	−9,744	−2,230	−2,452	−2,346	−2,716	−2,765
Trade balance	−355	−407	−124	−98	−35	−150	−147
Services (net)	469	451	74	64	91	222	81
Unrequited transfers (net)	−73	−62	6	−26	−26	−16	7
Total	61	−18	−44	−60	30	56	−59
Memorandum item: Goods, Services, and Private Unrequited Transfers	*105*	*−5*	*−58*	*−44*	*36*	*61*	*−79*
B. Long-Term Capital, n.i.e.							
Private	−45	21	57	−224	51	137	72
Advance debt redemption	−65	—	—	—	—	—	—
Other official	−30	−31	−5	−7	−6	−13	−4
Total	−140	−10	52	−231	45	124	68
C. Total (A plus B)	−79	−28	8	−291	75	180	9
Total, excluding advance debt redemption	*−14*	*−28*	*8*	*−291*	*75*	*180*	*9*
D. Short-Term Capital, n.i.e. (including net errors and omissions)							
Private nonmonetary sectors' capital	−5	−49	−21	2	−14	−16	−32
Net errors and omissions	28	225	96	139	−42	32	110
Total	23	176	75	141	−56	16	78
E. Commercial Bank Capital							
Liabilities	447	1,311	3	642	248	418	256
Assets (increase −)	−559	−1,395	−142	−619	−293	−341	−291
Total	−112	−84	−139	23	−45	77	−35
F. Total (C through E)	−168	64	−56	−127	−26	273	52
G. Allocation of SDR's	—	—	—	—	—	—	87
H. Total (F plus G)	−168	64	−56	−127	−26	273	139
I. Official Monetary Movements							
Monetary gold (increase −)	14	−23	—	−6	−7	−10	−10
SDR's (increase −)	—	—	—	—	—	—	−96
Reserve position in the Fund (increase −)	−145	57	43	53	41	−80	−27
Other short-term assets (increase −)	298	−98	13	−3	−34	−74	−8
Short-term liabilities	1	—	—	83	26	−109	2
Total	168	−64	56	127	26	−273	−139

Source: Netherlands Bank.
[1] Positive figures are credits; negative figures are debits.
[2] Preliminary.
[3] Including the balance of merchandise transactions abroad.

TABLE 61. NORWAY: BALANCE OF PAYMENTS SUMMARY, 1968–FIRST QUARTER 1970[1]

(In millions of U. S. dollars)

			1969[2]				1970[2]
	1968	1969[2]	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
A. Goods, Services, and Unrequited Transfers							
Exports f.o.b.	1,949	2,215	578	548	512	577	581
Imports f.o.b.	−2,657	−2,908	−667	−704	−677	−860	−794
Trade balance	−708	−693	−89	−156	−165	−283	−213
Services and unrequited transfers (net)	860	785	174	190	224	197	198
Total	152	92	85	34	59	−86	−15
Memorandum item: Goods, Services, and Private Unrequited Transfers	*175*	*124*	*96*	*40*	*63*	*−75*	*−5*
B. Long-Term Capital, n.i.e.							
Private	26	−154	−65	−70	−26	7	3
Official	3	7	8	−10	−5	14	−7
Total	29	−147	−57	−80	−31	21	−4
C. Total (A plus B)	181	−55	28	−46	28	−65	−19
D. Short-Term Capital, n.i.e. (including net errors and omissions)							
Private nonmonetary sectors' capital[3]	−49	−79	−26	−20	−43	10	—
Net errors and omissions	36	78	11	17	4	46	17
Total	−13	−1	−15	−3	−39	56	17
E. Commercial Bank Capital							
Liabilities	—	101	−71	15	58	99	−93
Assets (increase −)	−138	−45	−14	56	−100	13	41
Total	−138	56	−85	71	−42	112	−52
F. Total (C through E)	30	—	−72	22	−53	103	−54
G. Allocation of SDR's	—	—	—	—	—	—	25
H. Total (F plus G)	30	—	−72	22	−53	103	−29
I. Official Monetary Movements							
Monetary gold (increase −)	−6	−2	—	—	−2	—	−2
SDR's (increase −)	—	—	—	—	—	—	−27
Reserve position in the Fund (increase −)	−20	−15	—	−10	−5	—	−5
Other short-term assets (increase −)	—	8	67	−12	63	−110	62
Short-term liabilities	−4	9	5	—	−3	7	1
Total	−30	—	72	−22	53	−103	29

Source: Central Bureau of Statistics of Norway.
[1] Positive figures are credits; negative figures are debits.
[2] Preliminary.
[3] Includes official short-term capital.

Table 62. Sweden: Balance of Payments Summary, 1968 and 1969 [1]

(In millions of U.S. dollars)

	1968	1969 [2]	1969 [2] First quarter	Second quarter	Third quarter	Fourth quarter
A. Goods, Services, and Unrequited Transfers						
Exports f.o.b.	4,883	5,657	1,307	1,421	1,344	1,585
Imports f.o.b.	−5,054	−5,824	−1,376	−1,441	−1,414	−1,593
Trade balance	−171	−167	−69	−20	−70	−8
Services and unrequited transfers (net)	63	−43	−26	2	−28	9
Total	−108	−210	−95	−18	−98	1
Memorandum item: Goods, Services, and Private Unrequited Transfers	*−36*	*−105*	*−58*	*−6*	*−53*	*12*
B. Long-Term Capital, n.i.e.						
Private	132	6	−10	−36	31	21
Official	−10	−47	8	−16	−14	−25
Total	122	−41	−2	−52	17	−4
C. Total (A plus B)	14	−251	−97	−70	−81	−3
D. Short-Term Capital, n.i.e. (including net errors and omissions)						
Private nonmonetary sectors' capital	−12	−4	—	−14	−5	15
Official nonmonetary sectors' capital	−1	1	—	−1	—	2
Net errors and omissions	−18	−71	−31	−56	−5	21
Total	−31	−74	−31	−71	−10	38
E. Commercial Bank Capital						
Liabilities	72	171	124	42	−10	15
Assets (increase −)	−73	14	−63	−65	51	91
Total	−1	185	61	−23	41	106
F. Total (C through E)	−18	−140	−67	−164	−50	141
G. Allocation of SDR's	—	—	—	—	—	—
H. Total (F plus G)	−18	−140	−67	−164	−50	141
I. Official Monetary Movements						
Monetary gold (increase −)	−22	−1	−1	—	—	—
SDR's (increase −)	—	—	—	—	—	—
Reserve position in the Fund (increase −)	−26	63	23	20	11	9
Other short-term assets (increase −)	74	57	38	143	35	−159
Short-term liabilities	−8	21	7	1	4	9
Total	18	140	67	164	50	−141

Source: Sveriges Riksbank.
[1] Positive figures are credits; negative figures are debits.
[2] Preliminary.

TABLE 63. UNITED KINGDOM: BALANCE OF PAYMENTS SUMMARY, 1968–FIRST QUARTER 1970[1]

(In millions of U.S. dollars)

			1969[2]				1970[2]
	1968	1969[2]	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
A. Goods, Services, and Unrequited Transfers (seasonally adjusted)							
Exports f.o.b.	15,055	16,934	3,965	4,159	4,360	4,450	4,538
Imports f.o.b. (excluding U.S. military aircraft)	−16,336	−17,165	−4,188	−4,291	−4,308	−4,378	−4,461
Payments for U.S. military aircraft	−262	−146	−79	−36	−7	−24	—
Trade balance	−1,543	−377	−302	−168	45	48	77
Services and unrequited transfers (net)	830[3]	1,373	357	346	308	362	269
Total	−713	996	55	178	353	410	346
Memorandum item: Goods, Services, and Private Unrequited Transfers, Seasonally Adjusted	*−283*	*1,414*	*177*	*275*	*461*	*501*	*461*
B. Long-Term Capital, n.i.e., seasonally adjusted							
Official	50[3]	−236	−105	−65	29	−95	−146
Private investment (net)							
Abroad (increase −)	−1,764	−1,423	−422	−372	−214	−415	−446
In United Kingdom	1,476	1,617	333	480	379	425	532
Total	−238	−42	−194	43	194	−85	−60
C. Total (A plus B), seasonally adjusted	−951	954	−139	221	547	325	286
Total (A plus B), unadjusted	−951	954	−199	427	523	203	300
D. Net Errors and Omissions	−300	526	408	−230	−274	622	869
E. Exchange Equalization Account Loss on Forward Commitments	−602	—	—	—	—	—	—
F. Short-Term Capital Movements, n.i.e.							
Miscellaneous capital	−96	324	228	79	−7	24	175
U.K. banks' net liabilities in foreign currencies							
Euro-dollar financing of new private investment abroad	408	168	84	36	24	24	36
Other	−434	−248	−65	−79	−34	−70	247
Sterling liabilities (net) other than to central monetary institutions, BIS, and IMF							
Sterling area countries	−136	−431	−31	−158	−300	58	48
Other	−861	−345	−219	−40	−155	69	98
Total	−1,119	−532	−3	−162	−472	105	604
G. Total (C through F)	−2,972	948	206	35	−223	930	1,773
H. Allocation of SDR's	—	—	—	—	—	—	410
I. Total (G plus H)	−2,972	948	206	35	−223	930	2,183
J. Official Monetary Movements							
Monetary gold (increase −)	−183	3	−2	3	14	−12	4
SDR's (increase −)	—	—	—	—	—	—	−305
Convertible currency reserves (increase −)	456	−109	−46	24	−5	−82	118
Use of Fund credit, including gold deposit liability	1,259	−36	−304	321	−27	−26	−251
Use of central bank assistance	1,895	−1,604	−282	−523	128	−927	−2,174
Other sterling liabilities (net) to central monetary institutions	−455	798	428	140	113	117	425
Total	2,972	−948	−206	−35	223	−930	−2,183

Source: U.K. Central Statistical Office, *Economic Trends*, June 1970, which gives these statistics in pounds sterling.
[1] Positive figures are credits; negative figures are debits.
[2] Preliminary.
[3] Excluding loan service due but not paid to the United States and Canada under waiver provisions ($84 million for interest and $90 million for principal).

TABLE 64. UNITED STATES: BALANCE OF PAYMENTS SUMMARY, SEASONALLY ADJUSTED, 1968–FIRST QUARTER 1970 [1]

(In millions of U.S. dollars)

	1968	1969 [2]	1969 [2] First quarter	1969 [2] Second quarter	1969 [2] Third quarter	1969 [2] Fourth quarter	1970 [2] First quarter
A. Goods, Services (net), and Unrequited Transfers (net)							
Exports f.o.b.	33,588	36,473	7,472	9,585	9,581	9,835	10,200
Imports f.o.b.	−32,964	−35,835	−7,576	−9,606	−9,263	−9,390	−9,685
Trade balance	624	638	−104	−21	318	445	515
Investment income	4,754	4,376	1,184	1,079	1,046	1,067	1,160
Military expenditures	−3,140	−3,336	−807	−874	−762	−893	−921
Other services, remittances, and pensions (excluding aid and military transfers)	−886	−919	−213	−165	−264	−277	−199
Total	1,352	759	60	19	338	342	555
B. Official Aid and Nonmonetary Sectors' Selected Capital							
Advance repayments on U.S. Government loans and other special financial transactions	269	−87	44	34	−154	−11	88
Other government capital and grants	−4,225	−3,741	−821	−1,193	−868	−859	−925
Direct investment abroad	−3,209	−3,070	−902	−1,015	−877	−276	−1,304
Portfolio investment abroad	−1,115	−1,588	−268	−588	−449	−283	−471
Foreign direct and portfolio investment in United States	5,495	4,744	1,884	609	818	1,433	909
Total	−2,786	−3,742	−63	−2,153	−1,530	4	−1,703
C. Total (A plus B)	−1,434	−2,983	−3	−2,134	−1,192	346	−1,148
D. Net Errors and Omissions	−514	−2,924	−1,196	−922	−927	121	−337
E. Short-Term Capital, n.i.e.							
Foreign nonliquid capital	866	400	−155	171	2	382	−83
Foreign liquid capital	423	−503	−102	−57	−122	−222	−3
U.S. private assets (increase −)	−1,087	−716	−43	−548	346	−471	218
Total	202	−819	−300	−434	226	−311	132
F. Liquid Liabilities to Foreign Commercial Banks	3,387	9,434	2,952	4,805	1,311	366	−1,717
G. Total (D through F)	3,075	5,691	1,456	3,449	610	176	−1,922
H. Total (C plus G)	1,641	2,708	1,453	1,315	−582	522	−3,070
I. Allocation of SDR's	—	—	—	—	—	—	217
J. Total (H plus I)	1,641	2,708	1,453	1,315	−582	522	−2,853
K. "Official Settlements" [3]							
Monetary gold (increase −)	1,173	−967	56	−317	−11	−695	−44
SDR's (increase −)	—	—	—	—	—	—	−270
Reserve position in the Fund (increase −)	−870	−1,034	−31	−228	−233	−542	−253
U.S. convertible currency holdings (increase −)	−1,183	814	−73	246	−442	1,083	831
Liabilities to foreign official agencies							
Nonliquid liabilities	2,340	−996	45	−367	−509	−165	−417
Liquid liabilities	−3,101	−525	−1,450	−649	1,777	−203	3,006
Total	−1,641	−2,708	−1,453	−1,315	582	−522	2,853
Memorandum item: Decrease or increase (−) in monetary reserve assets net of liquid liabilities [4]	−171	7,221	1,352	3,801	2,279	−211	1,545

Source: U.S. Department of Commerce, *Survey of Current Business*, June 1970.

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

[2] Preliminary. Yearly figures are totals of quarterly data.

[3] In this group, the adjustments for seasonal factors are attributed entirely to the increase in SDR holdings resulting from allocation and to the series for liabilities.

[4] Representing the financing of the deficit or surplus on the "liquidity basis" covering the liquid liabilities included in Groups E, F, and K and the official reserve assets in Group K.

TABLE 65. PRIMARY PRODUCING COUNTRIES—MORE DEVELOPED AREAS: BALANCE OF PAYMENTS SUMMARIES, 1968 AND 1969 [1,2]

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

		Exports f.o.b. (1)	Imports f.o.b.[3] (2)	Trade Balance (Cols. 1 + 2) (3)	Services and Private Unrequited Transfers (4)	Goods, Services, and Private Unrequited Transfers (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)
Australia	1968	3,425	−3,693	−268	−921	−1,189	−95	1,120	−164	228	64
	1969	4,040	−3,767	273	−1,097	−824	−280	859	−245	45	−200
Finland	1968	1,627	−1,602 [5]	25	43	68	45	66	179	66	245
	1969	1,976	−2,028 [5]	−52	51	−1	8	30	37	−51	−14
Greece	1968	483	−1,249 [5]	−766	530	−236	14	193	−29	36	7
	1969	530	−1,433 [5]	−903	551	−352	22	182	−148	93	−55
Iceland	1968	83	−131	−48	1	−47	23	9	−15	1	−14
	1969	107	−107	—	4	4	14	6	24	−12	12
Ireland	1968	848	−1,211 [5]	−363	291	−72	−1	58	−15	130	115
	1969	862	−1,387 [5]	−525	380	−145	35	55	−55	201	146
Malta	1968	28	−110	−82	73	−9	20	−3	8	57	65
	1969	39	−158	−119	99	−20	16	−18	−22	8	−14
New Zealand	1968	1,018	−738	280	−202	78	25	−6	97	−16	81
	1969	1,194	−858	336	−231	105	6	−5	106	−18	88
Portugal	1968	845	−1,289	−444	489	45	15	88	148	−13	135
	1969	895	−1,385	−490	560	70	4	34	108	−58	50
South Africa	1968	3,170	−2,702	468	−434	34	104	393	531	113	644
	1969	3,272	−3,080	192	−508	−316	106	101	−109	53	−56
Spain	1968	1,667	−3,241	−1,574	1,313	−261	150	436	325	−271	54
	1969	1,994	−3,865	−1,871	1,463	−408	8	481	81	−345	−264
Turkey	1968	498	−688	−190	3	−187	183	18	14	−60	−46
	1969	537	−737	−200	7	−193	224	25	56	−81	−25
Yugoslavia	1968	1,265	−1,797 [5]	−532	426	−106	243	—	137	−192	−55
	1969	1,475	−2,135 [5]	−660	541	−119	211	—	92	−12	80
Total	1968	14,957	−18,451	−3,494	1,612	−1,882	726	2,372	1,216	79	1,295
	1969	16,921	−20,940	−4,019	1,820	−2,199	374	1,750	−75	−177	−252

Source: International Monetary Fund, *Balance of Payments Yearbook*.
[1] Positive figures are credits; negative figures are debits.
[2] Data for 1969 are preliminary and include Fund staff estimates.
[3] F.o.b. unless otherwise noted.
[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.

TABLE 66. PRIMARY PRODUCING COUNTRIES—LESS DEVELOPED AREAS: BALANCE OF PAYMENTS SUMMARIES, 1968 AND 1969 [1, 2]

(In millions of U. S. dollars)

	1968									
	Exports f.o.b. (1)	Imports f.o.b.[3] (2)	Trade Balance (Cols. 1 + 2) (3)	Services and Private Unrequited Transfers (4)	Goods, Services, and Private Unrequited Transfers (Cols. 3 + 4) (5)	Central Govern-ment 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)
Western Hemisphere										
Argentina	1,368	−1,169[5]	199	−216	−17	−14	−20	−51	118	67
Bolivia	157	−161	−4	−52	−56	40	20	4	−5	−1
Brazil	1,881	−1,855	26	−546	−520	28	205	−287	379	92
Chile	914	−802[5]	112	−245	−133	77	217	161	−54	107
Colombia	609	−615	−6	−182	−188	104	88	4	41	45
Costa Rica	170	−194	−24	−24	−48	−1	23	−26	32	6
Dominican Republic	163	−197	−34	−43	−77	18	27	−32	36	4
Ecuador	211	−213	−2	−73	−75	18	50	−7	−7	−14
El Salvador	212	−199	13	−30	−17	1	13	−3	2	−1
Guatemala	233	−237	−4	−44	−48	13	37	2	−6	−4
Guyana	117	−110[6]	7	−22	−15	14	7	6	−2	4
Haiti	36	−39	−3	1	−2	4	1	3	−2	1
Honduras	181	−169	12	−40	−28	14	17	3	3	6
Jamaica	222	−330	−108	7	−101	11	123	33	7	40
Mexico	1,258	−1,968[6]	−710	−28	−738	106	441	−191	271	80
Nicaragua	161	−165	−4	−39	−43	14	27	−2	3	1
Panama	117	−247	−130	109	−21	4	21	4	−9	−5
Paraguay	50	−70	−20	−9	−29	14	12	−3	4	1
Peru	846	−663	183	−210	−27	74	5	52	−67	−15
Trinidad and Tobago	473	−427[6]	46	−48	−2	1	23	22	10	32
Uruguay	179	−159	20	1	21	27	−5	43	−8	35
Venezuela	2,475	−1,565	910	−1,131	−221	11	226	16	37	53
Subtotal, Western Hemisphere	12,033	−11,554	479	−2,864	−2,385	578	1,558	−249	783	534
Asia										
Burma	109	−177	−68	−23	−91	37	—	−54	47	−7
Ceylon	332	−396[5]	−64	—	−64	41	−2	−25	−11	−36
China, Republic of	826	−900	−74	−45	−119	32	84	−3	24	21
India	1,799	−2,434[6]	−635	−45	−680	943	−17	246	−170	76
Indonesia	873	−831	42	−293	−251	216	38	3	−15	−12
Korea	486	−1,322	−836	275	−561	141	407	−13	146	133
Malaysia	1,331	−1,115	216	−163	53	15	57	125	−94	31
Pakistan	646	−970	−324	−113	−437	453	48	64	−16	48
Philippines	866	−1,150	−284	−20	−304	82	102	−120	79	−41
Singapore	1,172	−1,555	−383	217	−166	59	40	−67	315	248
Thailand	638	−1,146[6]	−508	303	−205	96	82	−27	40	13
Viet-Nam	42	−669[5]	−627	284	−343	372	−12	17	−17	—
Subtotal, Asia	9,120	−12,665	−3,545	377	−3,168	2,487	827	146	328	474
Middle East										
Cyprus	84	−148	−64	62	−2	−1	10	7	45	52
Iran	1,844	−1,469[6]	375	−741	−366	347	71	52	−156	−104
Iraq	1,043	−406[6]	637	−475	162	−4	6	164	−86	78
Israel	649	−988	−339	62	−277	222	39	−16	−67	−83
Jordan	40	−160[6]	−120	—	−120	163	—	43	−3	40
Saudi Arabia	1,728	−740	988	−920	68	−77	−16	−25	−31	−56
Syrian Arab Republic	176	−303[6]	−127	97	−30	24	9	3	−30	−27
United Arab Republic	664	−849[5]	−185	−60	−245	270	−17	8	8	16
Subtotal, Middle East	6,228	−5,063	1,165	−1,975	−810	944	102	236	−320	−84
Africa										
Congo, Democratic Republic of	585	−345	240	−278	−38	82	8	52	18	70
Ethiopia	98	−129	−31	−9	−40	17	23	—	2	2
Ghana	319	−271	48	−104	−56	25	14	−17	4	−13
Ivory Coast	446	−341[6]	105	−106	−1	35	16	50	−45	5
Kenya	235	−337[5]	−102	39	−63	46	31	14	7	21
Libyan Arab Republic	1,867	−649[5]	1,218	−882	336	−86	−81	169	−15	154
Malawi	48	−68	−20	−22	−42	25	16	−1	1	—
Mali	18	−30	−12	−20	−32	27	—	−5	−9	−14
Mauritius	65	−65	—	−6	−6	9	—	3	4	7
Morocco	450	−511	−61	−45	−106	95	7	−4	20	−24
Nigeria	582	−535[5]	47	−319	−272	45	168	−59	64	5
Sierra Leone	93	−81	12	−17	−5	9	9	13	−1	12
Somalia	31	−47[6]	−16	−6	−22	23	3	4	−1	3
Sudan	237	−277[5]	−40	−23	−63	19	—	−44	30	−14
Tanzania	238	−264[6]	−26	12	−14	23	...	9	7	16
Tunisia	157	−218	−61	−3	−64	69	18	23	−7	16
Uganda	209	−185[5]	24	−32	−8	17	−3	6	7	13
Subtotal, Africa	5,678	−4,353	1,325	−1,821	−496	480	229	213	46	259
Grand Total	33,059	−33,635	−576	−6,283	−6,859	4,489	2,716	346	837	1,183

TABLE 66. *(concluded).* PRIMARY PRODUCING COUNTRIES—LESS DEVELOPED AREAS: BALANCE OF PAYMENTS SUMMARIES, 1968 AND 1969 [1, 2]

(In millions of U. S. dollars)

	1969									
	Exports f.o.b. (1)	Imports f.o.b.[3] (2)	Trade Balance (Cols. 1 + 2) (3)	Services and Private Unrequited Transfers (4)	Goods, Services, and Private Unrequited Transfers (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)
Western Hemisphere										
Argentina	1,610	−1,540 [5]	70	−259	−189	98	58	−33	−49	−82
Bolivia	169	−173	−4	−53	−57	64	...	7	−7	—
Brazil	2,297	−2,001	296	−469	−173	181	376	384	276	660
Chile	1,146	−934 [5]	212	−258	−46	92	102	148	35	183
Colombia	658	−656	2	−223	−221	99	151	29	17	46
Costa Rica	192	−225	−33	−27	−60	6	38	−16	37	21
Dominican Republic	184	−210	−26	−51	−77	25	45	−7	19	12
Ecuador	188	−220	−32	−71	−103	15	63	−25	29	4
El Salvador	202	−191	11	−32	−21	6	9	−6	−5	−11
Guatemala	261	−245	16	−40	−24	6	42	24	−13	11
Guyana	128	−118 [5]	10	−27	−17	11	6	—	−3	−3
Haiti	37	−42	−5	1	−4	4	2	2	−1	1
Honduras	172	−170	2	−36	−34	23	6	−5	1	−4
Jamaica	261	−383	−122	14	−108	10	...	−98	95 [6]	−3
Mexico	1,429	−2,091 [5]	−662	−67	−729	90	614	−25	48	23
Nicaragua	158	−158	—	−40	−40	9	21	−10	5	−5
Panama	136	−283	−147	124	−23	9	−13	−27	—	−27
Paraguay	55	−75	−20	−7	−27	13	20	6	−6	—
Peru	888	−673	215	−220	−5	117	10	122	−85	37
Trinidad and Tobago	494	−480 [5]	14	−62	−48	−5	47	−6	−1	−7
Uruguay	200	−197	3	−3	—	8	5	13	3	16
Venezuela	2,545	−1,619	926	−1,170	−244	104	91	−49	60	11
Subtotal, Western Hemisphere	13,410	−12,684	726	−2,976	−2,250	985	1,693	428	455	883
Asia										
Burma	115	−134	−19	−28	−47	−6	—	−53	22	−31
Ceylon	321	−446 [5]	−125	−11	−136	83	−2	−55	—	−55
China, Republic of	1,080	−1,101	−21	−28	−49	−3	139	87	46	133
India	1,850	−2,050	−200	−50	−250	790	−40	500	−117	383
Indonesia	975	−961	14	−359	−345	264	56	−25	3	−22
Korea	658	−1,656	−998	344	−654	308	391	45	77	122
Malaysia	1,647	−1,142	505	−281	224	53	49	326	−194	132
Pakistan	643	−967	−324	−90	−414	323	146	55	−19	36
Philippines	873	−1,131	−258	−27	−285	61	87	−137	29	−108
Singapore	1,460	−1,915	−455	226	−229	14	46	−169	263	94
Thailand	697	−1,230 [5]	−533	295	−238	60	102	−76	40	−36
Viet-Nam	33	−818	−785	350	−435	369	—	−66	6	−60
Subtotal, Asia	10,352	−13,551	−3,199	341	−2,858	2,316	974	432	156	588
Middle East										
Cyprus	93	−181	−88	72	−16	—	21	5	17	22
Iran	2,163	−1,541 [5]	622	−874	−252	371	89	208	−308	−100
Iraq	1,040	−445 [5]	595	−490	105	−3	7	109	−91	18
Israel	747	−1,152	−405	−7	−412	152	58	−202	−167	−369
Jordan	41	−189 [5]	−148	−26	−174	135	—	−39	15	−24
Saudi Arabia	1,785	−776	1,009	−968	41	−94	−39	−92	−25	−117
Syrian Arab Republic	207	−370 [5]	−163	113	−50	15	9	−26	27	1
United Arab Republic	735	−963 [5]	−228	−80	−308	296	...	−12	13 [6]	1 [7]
Subtotal, Middle East	6,811	−5,617	1,194	−2,260	−1,066	872	145	−49	−519	−568
Africa										
Congo, Democratic Republic of	682	−392	290	−285	5	44	5	54	6	60
Ethiopia	107	−123	−16	−5	−21	26	−3	2	2	4
Ghana	320	−239	81	−92	−11	37	14	40	−17	23
Ivory Coast	479	−366 [5]	113	−113	—	39	12	51	−46	5
Kenya	250	−339 [5]	−89	48	−41	37	51	47	16	63
Libyan Arab Republic	2,167	−677 [5]	1,490	−1,077	413	−136	84	361	16	377
Malawi	52	−72	−20	−27	−47	35	10	−2	2	—
Mali	24	−40	−16	−19	−35	21	1	−13	−3	−16
Mauritius	66	−59	7	−2	5	6	1	12	—	12
Morocco	484	−522	−38	9	−29	55	7	33	−20	13
Nigeria	876	−641 [5]	235	−400	−165	31	20	−114	126	12
Sierra Leone	107	−111	−4	−6	−10	3	15	8	2	10
Somalia	34	−51 [5]	−17	—	−17	21	1	5	1	6
Sudan	260	−257 [5]	3	−31	−28	35	−1	6	−12	−6
Tanzania	249	−249 [5]	—	25	25	12	...	37	−35	2
Tunisia	166	−257	−91	12	−79	71	14	6	2	8
Uganda	213	−195 [5]	18	−27	−9	21	−2	10	−8	2
Subtotal, Africa	6,536	−4,590	1,946	−1,990	−44	358	229	543	32	575
Grand Total	37,109	−36,442	667	−6,885	−6,218	4,531	3,041	1,354	124	1,478

Source: International Monetary Fund, *Balance of Payments Yearbook.*
For footnotes 1–5, see Table 65.
[6] Including private long-term capital.
[7] Not comparable with corresponding figure for 1968.

This page intentionally left blank

APPENDICES

This page intentionally left blank

Appendix I. EXECUTIVE BOARD DECISIONS AND REPORT TO THE BOARD OF GOVERNORS

A. Stabilization of Prices of Primary Products

1. The Executive Board, having considered the staff study on "The Problem of Stabilization of Prices of Primary Products," decides that the Fund will be prepared to extend assistance to members in connection with the financing of international buffer stocks of primary products in accordance with the principles and subject to the quantitative limits set forth in Chapter III, Section 2, and Annex A of Part II of the study.

2. In accordance with paragraph 1 above, the total of purchases outstanding pursuant to paragraph (5) of Executive Board Decision No. 1477-(63/8) of February 27, 1963, on Compensatory Financing of Export Fluctuations, as amended by Executive Board Decision No. 2192-(66/81) of September 20, 1966, and pursuant to paragraph 1 of this decision shall not exceed 75 per cent of quota; provided that under neither of these two paragraphs shall outstanding purchases exceed 50 per cent of quota.

3. In order to carry out the purposes of this decision, the Fund will be prepared to waive the limit on purchases that raise the Fund's holdings above 200 per cent of quota, where appropriate.

4. When purchases are made pursuant to paragraph 1 of this decision, the Fund will so indicate in an appropriate manner.

5. A member requesting a purchase pursuant to paragraph 1 of this decision will be expected to represent that it will make a repurchase corresponding to the purchase (i) in accordance with the principles of Executive Board Decision No. 102-(52/11) of February 13, 1952, as renewed by Executive Board Decision No. 270-(53/95) of December 23, 1953, or (ii) if the international buffer stock for the financing of which the purchase was made makes distributions in currency to the member at an earlier date, when these distributions are made and to the extent thereof.

6. In view of the Fund's purposes, which include the facilitation of "the expansion and balanced growth of international trade," the Fund, in its consultations with members, will pay increased attention to their policies in the commodity field.

Decision No. 2772-(69/47)
June 25, 1969

B. Gold Tranche Purchases Under Article V, Section 3(*d*)

I. The procedure for gold tranche purchases under the Articles of Agreement as amended will be as follows:

(a) Upon receipt of a request, the Executive Directors will be notified as soon as possible but not later than on the first business day after the receipt of the request. The notification will include a statement that a decision along the following lines will be recorded in the minutes of the next Executive Board meeting:

> [Member] is making a gold tranche purchase in an amount equivalent to ______ in [currencies], pursuant to its request dated ______. The Fund notes [member's] request, including its representation in accordance with Article V, Section 3(*a*)(i), and its statement that it will comply with the principles set forth in Executive Board Decision No. 102-(52/11), adopted February 13, 1952.

(b) Not later than the close of the first business day after the receipt of the request, the Fund will instruct the appropriate depository to make the transfer.

(c) If a request is made for a purchase in both the gold tranche and credit tranches, the procedure for purchases in the credit tranches will be followed unless the member requests that the gold tranche procedure be followed for the gold tranche portion of the request.

II. Pursuant to Article XIX(*j*) the Fund decides that purchases and holdings under policies on the use of the Fund's resources for compensatory financing of export fluctuations shall be excluded for the purposes of the definition of gold tranche purchases in that provision.

III. In stand-by arrangements the amount made available shall be expressed as follows:

> For a period of one year from ______, [member] will have the right, after making full use of any gold tranche that it may have, to make purchases from the Fund in the currencies of other members in exchange for its own currency in an amount equivalent to ______ million, etc.

IV. No service charge shall be payable in respect of any purchases made after July 27, 1969, to the extent that it is a gold tranche purchase.

Decision No. 2836-(69/87)
September 15, 1969

C. Use of Special Drawing Rights in Repurchases and Payment of Charges

1. For the first allocation of special drawing rights, increases in monetary reserves resulting from allocations of special drawing rights during the financial year ending April 30, 1970, shall not be taken into account in calculating monetary reserves and increases in them during that year.

2. Members are authorized to discharge with special drawing rights any repurchases outside Article V, Section 7(*b*).

3. Members are authorized to use, at their option, special drawing rights to settle all charges payable to the General Account.

4. Paragraphs 2 and 3 of this decision, including the amounts and proportions permitted thereunder, shall be subject to review in 1970 as soon as experience warrants.

Decision No. 2901-(69/122) G/S
December 18, 1969

D. Increases in Quotas of Members—Fifth General Review

Report of the Executive Directors to the Board of Governors

1. At its 1969 Annual Meeting in Washington, the Board of Governors adopted the following Resolution:

> WHEREAS the Executive Directors have been considering the question of an appropriate adjustment of the quotas of Fund members; and
>
> WHEREAS the Executive Directors have been considering this question in relation to the allocation of special drawing rights; and
>
> WHEREAS the Board of Governors has adopted a Resolution on the allocation of special drawing rights for a first basic period of three years beginning on January 1, 1970; and
>
> WHEREAS the Fifth Quinquennial Review of Quotas is to begin not later than the end of 1969; and
>
> WHEREAS Governors have expressed their views on the Fifth Quinquennial Review and the adjustment of quotas;
>
> NOW, THEREFORE, the Board of Governors hereby RESOLVES:
>
> That the Executive Directors proceed promptly with the consideration of the adjustment of the quotas of members of the Fund and submit an appropriate proposal to the Board of Governors not later than December 31, 1969.

2. Pursuant to the foregoing Resolution the Executive Directors have considered the adjustment of the quotas of members and recommend that the Board of Governors propose to members the increases in quotas set forth in the Annex to the proposed Resolution which is attached to this Report. The reasons for this recommendation are outlined in this Report.

3. Article III, Section 2, of the Articles of Agreement states in part that:

> "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."

The periodic general review of quotas which is required by this provision facilitates an adjustment of the size of the Fund to the growth of the world economy; it also offers an opportunity to adjust individual quotas to reflect changes in the position of members in the world economy.

4. The increase in Fund quotas which may be appropriate from time to time must be assessed chiefly on the basis of factors affecting the need for international liquidity in general and the need for conditional liquidity in particular. In connection with the Managing Director's *Proposal on the Allocation of Special Drawing Rights for the First Basic Period,* certain quantitative studies were undertaken that have a bearing on these questions. As was noted in the 1969 Annual Report of the Executive Directors, conditional and unconditional liquidity, although serving to some extent the same broad purpose, cannot be freely or fully substituted for each other. Decisions with respect to the creation of conditional liquidity should, therefore, be taken in the light of developments and decisions in the area of unconditional liquidity.

5. In the light of these considerations the Executive Directors propose increases in Fund quotas which, if all members were to avail themselves of the opportunity to increase their quotas to the maximum proposed to them, would bring Fund quotas to an approximate total of $28,900 million.

6. The individual quota adjustments that are recommended have been determined by the kind of considerations that have been applied by the Fund in the past. These considerations will be reviewed for the purpose of future adjustments. Changes in the economic and financial position of members have been taken into account in arriving at the proposed adjustments, as well as the maintenance of a balanced distribution of quotas within the whole membership of the Fund.

7. Under the proposed Resolution, a member will be able to consent to the increase in its quota at any time on or before November 15, 1971. Therefore, unless this period is extended by the Executive Directors, members will have until November 15, 1971 to take whatever action may be necessary under their laws to enable them to give their consent.

8. The increase in a member's quota under the Resolution will take effect when the member has consented to the increase in quota and has paid the increase in subscription, provided that no increase will take place before October 30, 1970. In other words, the increase in a member's quota will take effect on the latest of the following three dates:

(a) the date on which the Fund receives the member's consent to the increase in quota,

(b) the date of the payment of the increase in subscription,

(c) October 30, 1970.

9. Under the Resolution, a member may pay the increase in its subscription at any time before it is due. If a member pays before the increase in its quota takes effect, the increase in subscription will be kept in a separate suspense account of the Fund. A member is required to pay its increase in subscription not later than 30 days after the later of (a) the date of its consent to its quota increase and (b) October 30, 1970.

10. The increased quotas recommended in the attached Resolution are the maximum amounts to which quotas could be increased under the Resolution. Any member consenting to an increase under the Resolution may consent to a smaller increase in its quota than the amount shown against its name but the quota consented to should be a whole number in millions of U.S. dollars. At any time not later than Novem-

ber 15, 1971, or any later date to which the Executive Directors extend the period for consent, a member may consent to further increases up to the amount shown in the attached Resolution if it has not yet consented to the full increase.

11. Under the proposed Resolution, any member consenting in one step to the full increase in its quota as shown against its name in the Annex may consent to the increase by installments. Any member consenting to an increase by installments must pay an initial installment of the increase in subscription, and an installment in each period of 12 months thereafter. Each installment will be not less than one fifth of the full increase, but members may accelerate payment under this installment schedule. Each installment of the increase in quota would correspond to the amount of gold and currency paid by the member as an increase in subscription.

12. The maximum quotas recommended in the attached Resolution take account of the special adjustment of their present quotas that a few members could still obtain under the Fund's Decision on "Compensatory Financing of Export Fluctuations" (Executive Board Decision No. 1477-(63/8), February 27, 1963). Therefore, the policy on the special adjustment of quotas under that Decision together with the related Executive Board Decision (No. 1529-(63/33), June 14, 1963) will be regarded as having been superseded by the terms of the attached Resolution in those cases in which increases under Decision No. 1477 have not yet been approved by the Board of Governors.

13. Under Article III, Section 4(*a*), each member increasing its quota must pay an increase in its subscription equal to the increase in quota, of which 25 per cent must be in gold and the balance in the member's currency. Payment of both portions of the increase in subscription must be made before the increase in a member's quota can become effective, even if, under a Membership Resolution, the member has not yet been required to pay its original subscription.

14. Article III, Section 4(*a*), provides in part that "If, . . . on the date when the member consents to an increase, its monetary reserves are less than its new quota, the Fund may reduce the proportion of the increase to be paid in gold." The date for the calculation referred to in the provision is the date on which the member consents to the increase even if the increase will not become effective until later. The Executive Directors have again considered whether the Fund should exercise its discretion under the provision to reduce the portion of the increases in subscriptions payable in gold. The Executive Directors have concluded that on this occasion it would be desirable to exercise this discretion and that any member that would qualify should be permitted to pay in gold only that proportion of 25 per cent of the increase in quota which the member's monetary reserves bear to the increased quota to which the member has consented and the balance of the increase in quota in currency. If a member wishes to pay in currency more than 75 per cent of the increase in its subscription in accordance with this paragraph, the Fund will calculate the member's monetary reserves as of the date of each consent to an increase in quota, whether it be to an increase to the maximum amount, or to an increase less than the maximum amount, or to increases by successive amounts (see paragraph 10), or to increases by installments (see paragraph 11).

15. In connection with paragraph 14, the Executive Directors have felt that, as a condition of the exercise of the power to reduce the gold payment, the Fund should require that any additional currency subscription beyond 75 per cent of the increase in

quota be repurchased by the member unless the Fund's holdings of that currency are otherwise reduced. Repurchase must be made in five equal annual installments commencing one year after the date on which the quota increase becomes effective. When paying less than 25 per cent of its subscription in gold a member must undertake to repurchase in accordance with this paragraph. Members will be able to discharge these repurchases in the same reserve assets as may be used in other repurchases.

16. Many members will pay the increases in their gold subscriptions from their own gold holdings, but it is likely that in some cases members will purchase gold from other members. In order to mitigate the impact of these gold purchases, the Executive Directors believe that the Fund should take the action which is indicated in the following paragraphs and for which appropriate provision is made in the attached Resolution.

17. In connection with purchases of gold by members for the purpose of paying their increases in subscription under the proposed Resolution, it will be the policy of the Fund to sell gold under Article VII, Section 2 of the Articles of Agreement up to a maximum amount equivalent to US$700 million when the Fund needs to replenish its holdings of the currencies of members from which gold has been purchased by other members. As in the past, it may be expected that most members wishing to purchase gold for the purpose of paying their increases in subscription will buy that gold from the United States and that, therefore, to a very large extent the sale of gold by the Fund will be for the purpose of replenishing its holdings of U.S. dollars. To the extent that the Fund does not have a need to replenish its holdings of U.S. dollars, it will be suggested to members that they purchase the gold needed for the payment of their increases in subscription from members which agree to sell gold and the currencies of which the Fund needs to replenish.

18. Replenishment by the Fund of its holdings of the currency of a member in accordance with paragraph 17 above would normally take place on the same value date as the sale of gold by that member. Alternatively, this replenishment of a currency could take place on the occasion of sales of that currency to other members.

19. Under Article XII, Section 2(*b*)(ii), the power to take the action with respect to the payment of increases recommended in paragraphs 14 and 15 is reserved to the Board of Governors, and under Article III, Section 4(*c*) exercise of the power requires a majority of eighty-five per cent of the total voting power. The same rules apply to the action recommended in paragraphs 16 and 17 for the purpose of mitigating the effects of providing gold for payment of the gold portion of increases in the subscriptions of other members. Appropriate provision has been made in the attached Resolution for the Board of Governors to take the necessary action to give effect to these recommendations.

20. The Executive Directors recommend the adoption of the attached Resolution. This Resolution is designed to enable the Board of Governors to vote at one time on all matters connected with the increases in quotas under the Resolution, including those referred to in paragraph 19, which, under the Articles of Agreement, as amended, are reserved to the Board of Governors. To be adopted, the Resolution will need to receive the affirmative vote of eighty-five per cent of the total voting power of members. To be valid, votes on the Resolution as a whole must be received at the seat of the Fund on or before February 9, 1970.

December 24, 1969

Resolution Submitted to the Board of Governors

WHEREAS the Executive Directors have considered the adjustment of the quotas of members in accordance with the Resolution of the Board of Governors of the International Monetary Fund at its 1969 Annual Meeting:

> That the Executive Directors proceed promptly with the consideration of the adjustment of the quotas of members of the Fund and submit an appropriate proposal to the Board of Governors not later than December 31, 1969;

WHEREAS the Executive Directors have submitted to the Board of Governors a Report entitled "Increases in Quotas of Members—Fifth General Review"; and

WHEREAS the Executive Directors have recommended the adoption of the following Resolution of the Board of Governors, which Resolution proposes increases in the quotas of members of the Fund as a result of the fifth general review of quotas and deals with certain related matters, by vote 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 International Monetary Fund proposes that, subject to the provisions of this Resolution, the quotas of members of the Fund shall be increased to the amounts shown against their names in the Annex to this Resolution, provided that any member (a) may consent to an increase in its quota which is smaller than that shown in the said Annex and (b) may consent thereafter to further increases up to the said amount.
2. An increase in a member's quota under this Resolution shall become effective when the member has notified the Fund that it consents to the increase and has paid in full the increase in the quota, provided, however, that no increase in quota shall become effective before October 30, 1970. The increase in the quota of a member which has notified the Fund of its consent and has completed payment of the increase at any time prior to October 30, 1970, shall become effective on that date.
3. Notices in accordance with paragraph 2 shall be executed by a duly authorized official of the member.
4. Notices in accordance with paragraph 2 shall be received in the Fund not later than November 15, 1971, provided that the Executive Directors may extend this period as they may determine.
5. Subject to paragraph 6(b), each member shall pay to the Fund the increase in its quota within 30 days after the date on which it notified the Fund of its consent or October 30, 1970, whichever is later. Twenty-five per cent of the increase shall be paid in gold and the balance in the member's currency, provided, however, that, if on the date when a member consents to any increase under paragraph 1 or paragraph 6 its monetary reserves are less than the new quota to which it has consented, the member may pay in gold that proportion of 25 per cent of the increase in quota which the member's monetary reserves on the date of consent bear to the quota to which the member has consented and the balance of the increase in quota shall be paid in currency. A member which, in accordance with this paragraph, pays more than 75 per cent of the

increase in currency shall undertake to repurchase the currency paid in excess of 75 per cent of the increase. Unless the Fund's holdings resulting from such payment are otherwise reduced, repurchase shall be completed in five equal annual installments commencing one year after the date on which the increase becomes effective.

6. (a) In giving notice in accordance with paragraph 2, any member consenting to the increase in its quota to the full amount shown against its name in the Annex to this Resolution may consent to that increase as increases by installments.

   (b) Notwithstanding paragraph 2, a member increasing its quota by installments shall pay not less than one fifth of the increase in gold and currency in accordance with paragraph 5 within 30 days after the date on which it notified the Fund of its consent or October 30, 1970, whichever is later, and shall pay further installments of gold and currency of not less than one fifth of the increase in each twelve months after the first payment until the full amount has been paid. For the purpose of determining under paragraph 5 the gold and currency portions of an installment subsequent to the initial installment, a member shall be deemed to have consented to the increase in its quota equivalent to the installment 30 days before it pays the installment.

   (c) Subject to paragraph 2, on the completion of the payment of each installment of the increase, the member's quota shall be increased by an amount equal to the installment.

7. The Fund shall replenish its holdings of the currencies of members which sell gold to other members to enable the latter members to pay the increases in their quotas under this Resolution. Replenishment under this paragraph shall be by the sale of gold in accordance with the provisions of Article VII, Section 2 and shall not exceed an amount equivalent to US$700 million.

Board of Governors Resolution No. 25-3
Adopted February 9, 1970

Annex to Resolution

	Proposed Maximum Quota *(In millions of U.S. dollars)*		Proposed Maximum Quota *(In millions of U.S. dollars)*
1. Afghanistan	37	37. Greece	138
2. Algeria	130	38. Guatemala	36
3. Argentina	440	39. Guinea	24
4. Australia	665	40. Guyana	20
5. Austria	270	41. Haiti	19
6. Belgium	650	42. Honduras	25
7. Bolivia	37	43. Iceland	23
8. Botswana	5	44. India	940
9. Brazil	440	45. Indonesia	260
10. Burma	60	46. Iran	192
11. Burundi	19	47. Iraq	109
12. Cameroon	35	48. Ireland	121
13. Canada	1,100	49. Israel	130
14. Central African Republic	13	50. Italy	1,000
15. Ceylon	98	51. Ivory Coast	52
16. Chad	13	52. Jamaica	53
17. Chile	158	53. Japan	1,200
18. China	550	54. Jordan	23
19. Colombia	157	55. Kenya	48
20. Congo (Brazzaville)	13	56. Korea	80
21. Congo, Democratic Republic of	113	57. Kuwait	114
22. Costa Rica	32	58. Laos	13
23. Cyprus	26	59. Lebanon	56
24. Dahomey	13	60. Lesotho	5
25. Denmark	260	61. Liberia	29
26. Dominican Republic	43	62. Libya	67
27. Ecuador	33	63. Luxembourg	24
28. El Salvador	35	64. Malagasy Republic	26
29. Ethiopia	27	65. Malawi	15
30. Equatorial Guinea	8	66. Malaysia	186
31. Finland	190	67. Mali	22
32. France	1,500	68. Malta	16
33. Gabon	15	69. Mauritania	13
34. Gambia, The	7	70. Mauritius	22
35. Germany, Federal Republic of	1,600	71. Mexico	370
36. Ghana	87	72. Morocco	113
		73. Nepal	14
		74. Netherlands	700
		75. New Zealand	202

	Proposed Maximum Quota (In millions of U.S. dollars)		Proposed Maximum Quota (In millions of U.S. dollars)
76. Nicaragua	27	96. Swaziland	8
77. Niger	13	97. Sweden	325
78. Nigeria	135	98. Syrian Arab Republic	50
79. Norway	240	99. Tanzania	42
80. Pakistan	235	100. Thailand	134
81. Panama	36	101. Togo	15
82. Paraguay	19	102. Trinidad and Tobago	63
83. Peru	123	103. Tunisia	48
84. Philippines	155	104. Turkey	151
85. Portugal	117	105. Uganda	40
86. Rwanda	19	106. United Arab Republic	188
87. Saudi Arabia	134	107. United Kingdom	2,800
88. Senegal	34	108. United States	6,700
89. Sierra Leone	25	109. Upper Volta	13
90. Singapore	62	110. Uruguay	69
91. Somalia	19	111. Venezuela	330
92. South Africa	320	112. Viet-Nam	62
93. Southern Yemen	29	113. Yugoslavia	207
94. Spain	395	114. Zambia	76
95. Sudan	72	*115. Cambodia	25

* Cambodia was added by Board of Governors' Resolution No. 25-4, adopted June 15, 1970, which amended Resolution No. 25-3. The amendment allows Cambodia, which became a member of the Fund on December 31, 1969 after the Executive Directors' report and proposed Resolution had already been submitted to the Governors, the same opportunity as other members to increase its quota in accordance with Resolution No. 25-3.

E. South Africa: Policy on Sales of Gold to the Fund

1. The Fund notes the letter from the Minister of Finance of the Republic of South Africa set forth [below].

2. In this letter, South Africa has stated its intention to offer to sell gold to the Fund only in the following circumstances:

(a) (i) when the price for gold in the market is $35 per ounce or below, up to an amount to meet South Africa's current foreign exchange needs for that period and

(ii) regardless of the market price, up to the extent that South Africa has a need for foreign exchange over a semiannual period beyond the need that can be satisfied by the sale of all of its current production of newly-mined gold on the market or by sales to the Fund under (i) above;

(b) when South Africa has been designated under Article XXV, Section 5, up to the amount for which South Africa has been designated; and

(c) from the stock held by South Africa on March 17, 1968 up to $35 million in each quarter, beginning January 1, 1970.

3. As a matter of policy, with the understanding that members generally do not intend to initiate official gold purchases directly from South Africa and without prejudice to the determination of the legal position under the Articles of Agreement, the Fund decides that it will purchase gold from South Africa when South Africa states that it is offering gold in accordance with the terms of its letter. When South Africa offers to sell gold to the Fund under this policy, the Fund will follow a procedure similar to the procedure for gold tranche purchases.

4. In addition, the Fund will accept gold from South Africa in accordance with the Fund's normal policies and practices under Paragraph 3 of Decision No. 7-(648) or under provisions of the Articles other than Article V, Section 6.

5. A charge of one-quarter of one per cent shall be levied on sales of gold to the Fund under Sections 2(a) and (c) of this decision pursuant to Rule G-7 and Rule I-8.

6. This decision shall be subject to review whenever this is requested because of a major change in circumstances and in any event after five years.

Decision No. 2914-(69/127)
December 30, 1969

Letters to the Managing Director of the Fund from the Minister of Finance of the Republic of South Africa and the Acting Secretary of the Treasury of the United States

Ministry of Finance
Union Buildings
Pretoria
South Africa
23rd December, 1969

South African Embassy

Dear Mr. Schweitzer,

As you know, for some time the Republic of South Africa has been discussing with the United States, with other members, and with you procedures for the orderly sale of newly-mined gold in the market and the sale of gold to the International Monetary Fund. I wish to inform you that as a result of these discussions, the South African authorities have adopted a policy with respect to gold sales and I would like to request that the Fund confirm that it will be prepared in the light of this statement of policy to buy gold from South Africa in the circumstances and under the conditions set forth below.

The following are the intentions of the South African authorities as to the handling of newly-mined gold and reserves.

(1) Without prejudice to the determination of the legal position under the Articles of Agreement of the Fund, the South African authorities may offer to sell gold to the Fund for the currencies of other members at the price of 35 Dollars per ounce, less a handling charge, as follows:

(a) During periods when the market price of gold falls to 35 dollars per ounce or below, at which times offers to sell gold to the Fund under this paragraph (a) would be limited to amounts required to meet current foreign exchange needs, and

(b) regardless of the price in the private market, up to the extent that South Africa experiences needs for foreign exchange over semi-annual periods beyond those which can be satisfied by the sale of all current new gold production on the private market or by sales to the Fund under paragraph (1)(a) above.

(2) (a) The South African authorities intend to sell current production of newly-mined gold in an orderly manner on the private market to the full extent of current payments needs. It is anticipated that new production in excess of those needs during a semi-annual period may be added to reserves.

(b) When selling gold other than in the private market, the South African authorities intend in practice normally to offer such gold to the Fund.

(c) The South African authorities may use gold in normal Fund transactions, e.g. in repurchase of appropriate drawings from the Fund, and to cover the gold portion of any South African quota increase, and to obtain currency convertible in fact to exchange against special drawing rights for which South Africa is designated by the Fund. Rand drawn from the Fund by other members would generally be converted into gold when Rand are included in drawings under normal Fund procedures. These Fund-related transactions, which may take place without regard to the market price of gold, will be reflected by changes in the composition of South Africa's reserves but will not affect the volume of sales of newly-mined gold in the market.

(3) Notwithstanding paragraphs (1)(b) and (2)(a) above, the amount of gold held by South Africa on March 17, 1968, reduced by sales by South Africa to monetary authorities (including Fund-related transactions) after that date and further reduced by such future sales to monetary authorities as may be made to finance deficits or as a result of Fund-related transactions, will be available for such additional monetary sales as the South African authorities may determine, up to 35 million Dollars quarterly beginning January 1, 1970. It is also contemplated that as an implementation of this understanding, the Fund would agree to purchase the amount of gold offered to it by South Africa in May 1968.

In order to determine whether South Africa has balance of payments surpluses or deficits as well as to indicate other operational and procedural points with respect to this policy, I enclose a memorandum which clarifies these particular matters.

It would be appreciated if, in the light of these policy intentions, the Fund were able to decide that it would purchase gold from South Africa in the circumstances outlined above. I would expect that the Fund would review the situation at any time if there were a major change in circumstances and in any event after five years.

The South African authorities will work out with the Managing Director consultation procedures on the currencies to be purchased from the Fund with gold.

I hope that this announced policy, the implementation of which I believe will be a contribution to the stability of the International Monetary System, and my suggestion meet with the concurrence of the Fund. A copy of this letter has been sent to the Secretary of the Treasury of the United States.

Yours sincerely,
/s/
N. Diederichs
Minister of Finance
Republic of South Africa

The Managing Director,
International Monetary Fund,
19th and H Street, N.W.,
Washington, D.C. 20431,
United States of America.

Operational and Procedural Points

A. For the present purposes, balance of payments deficits and surpluses will be equal to the change during the accounting period in the total of South African official gold and foreign exchange reserves, the net IMF position and changes in SDR holdings, and any foreign assets held by other South African banking institutions and public agencies under swap arrangements with the Reserve Bank. It is understood that changes in gold holdings outside the monetary reserves and in monetary banks' positions not covered by Reserve Bank swaps are normally not significant. If they should at any time become significant, further consideration will be given to their inclusion in the calculation. SDR allocations will not be considered as reducing a deficit or increasing a surplus as above defined. South Africa does not envisage unusual or non-traditional foreign borrowings or other special transactions that would affect the elements listed in this paragraph.

B. Addition of newly mined gold to South African reserves under paragraph 2(a) will take place when there is a surplus for an accounting period. It is envisaged that all new gold production, less domestic consumption, during the accounting period will be treated as a balance of payments credit item and that it will, in fact, be sold currently under paragraph 1(a) and paragraph 2(a) to the full extent necessary to meet payments needs, except for the sales available under paragraph 3, apart from the Fund transaction initiated in May 1968.

C. Sales of gold by South Africa to monetary authorities under paragraph 1(a) may be made for any day when both London fixing prices are \$35.00 p.f.o. or below, in an amount reasonably commensurate with one-fifth of weekly sales from new production required to be marketed to meet balance of payments needs.

D. Subject to paragraph 2(a):

1. Should sales to monetary authorities under paragraph 1(b), plus sales of SDRs and drawings from the IMF by South Africa, exceed the deficit defined under paragraph A of this memorandum, such excess will be deducted from the amount allowable for the first succeeding accounting period wherein a deficit is again encountered.

2. Should sales to monetary authorities under paragraph 1(b), plus sales of SDRs and drawings from the IMF, fall short of the amount allowable for an accounting period in which South Africa aims to finance its entire deficit by these means, such shortfall will be added to the amount allowable for the next succeeding accounting period.

3. It is expected that any discrepancies under 1 and 2 above will be minimal.

4. Should sales to monetary authorities under paragraph 1(b), plus sales of SDRs and drawings from the IMF, fall short of the amount allowable for an accounting period in which South Africa does not aim to finance its entire deficit by these means but chooses to sell more on the free market than it undertakes to do in paragraph 2(a), no correction will be made for any succeeding accounting period.

E. When the price criterion is operative, sales of gold to the IMF shall be attributed to the total deficit, if any, during the accounting period. The balance of such sales, if any, will be attributed to newly mined gold to the extent of gold production during the accounting period.

F. Sales or payments under paragraph 2(c) in connection with IMF-related transactions are expected to take place only within the criteria normally envisaged for IMF drawings by members, for use of members' currencies in drawings by other members and for SDR transactions.

G. Fundamentally, it is expected that the composition of South African reserves will not be greatly changed. In particular, it is understood that the ratio of gold to total reserves will remain relatively stable. If South Africa should desire to make additional sales of gold or otherwise exchange assets for the purpose of achieving a basic change in the composition of its reserve holdings, further discussion would be held with a view to clarifying intentions.

The Secretary of the Treasury
Washington

December 24, 1969

Dear Mr. Schweitzer:

I have received a copy of the letter dated December 23, 1969, sent to you by Mr. Diederichs in which he sets forth the intentions which South Africa proposes to follow with respect to the handling of its newly-mined gold and reserves. This matter bears importantly on the continued effective functioning of the two-tier gold market which was initiated at a meeting on March 16–17, 1968, which you attended.

In view of the intentions of South Africa, and in view of discussions we have had with other Fund members, I should like to inform you that I have instructed the U.S. Executive Director to take the following position. The United States is prepared to support decisions of the International Monetary Fund to purchase gold offered for sale by South Africa in the circumstances and under the conditions described in that letter, assuming that there is an understanding among Fund members generally that they do not intend to initiate official gold purchases directly from South Africa. With this understanding, I believe that the policies to be followed will be consistent with the stability and proper functioning of the international monetary system.

Sincerely yours,
/s/
PAUL A. VOLCKER
Acting Secretary

Mr. Pierre-Paul Schweitzer
Managing Director
International Monetary Fund
19th and H Streets, N.W.
Washington, D.C. 20431

F. Sale of Gold to the Fund by Participant Designated Under Article XXV, Section 5

If a participant wishes to obtain currency by the sale of gold to the Fund in order to discharge the participant's obligation under Article XXV, Sections 4 and 5 of the Articles of Agreement, the Fund will not levy a handling charge under Rule I-8 of the Rules and Regulations or collect the costs referred to in Rule G-7.

Decision No. 2916-(69/127)
December 30, 1969

G. Currency to Be Used by Participants Acquiring Special Drawing Rights from the General Account for Payment of Charges and Assessments

Participants in the Special Drawing Account that are obligated and entitled, in accordance with Article XXVI, Section 5, to obtain special drawing rights in a transaction with the Fund conducted through the General Account in order to pay any charge or assessment, and do not wish to use gold, may use any convertible currency acceptable to the Fund in repurchases, provided that the participant has consulted the Managing Director on the currencies and the amounts of each to be used to acquire the special drawing rights.

Decision No. 3010-(70/25) G/S
March 25, 1970

H. Exclusion of Special Drawing Rights in Certain Calculations of Monetary Reserves

Paragraph 1 of Executive Board Decision No. 2901-(69/122) G/S, adopted December 18, 1969 shall be applied in accordance with the following Rule:

In calculating monetary reserves and increases in them for the purposes of Article V, Section 7*(b)* and Schedule B for the Fund's financial year ending April 30, 1970, the lowest amount of special drawing rights held by a participant in the period January 1 to April 30, 1970 shall be excluded from the calculation.

Decision No. 3032-(70/38) G/S
April 29, 1970

I. Use of Special Drawing Rights in Payment of Remuneration

Pursuant to Article XXV, Section 7*(f)*, the Fund shall offer to pay participants, at their option, in special drawing rights for any amount of gold or currency payable as remuneration, provided that the General Account's holdings of special drawing rights at the end of a financial year exceed the amount of remuneration payable for that year.

Decision No. 3033-(70/38)
April 29, 1970

J. Treatment of Holdings of Special Drawing Rights in Certain Calculations of Monetary Reserves for the Financial Years Ending April 30, 1971 and 1972

Increases in monetary reserves resulting from allocations of special drawing rights during the financial years ending April 30, 1971 and 1972 shall not be taken into account in calculating monetary reserves and increases in them during those years.

Decision No. 3034-(70/38)
April 29, 1970

Appendix II. Executive Directors and Voting Power on April 30, 1970

Director *Alternate*	Casting Votes of	Votes by Country	General Account Total Votes [1]	General Account Per Cent of Total	Special Drawing Account Total Votes [1]	Special Drawing Account Per Cent of Total
APPOINTED						
William B. Dale *Vacant*	United States	51,850	51,850	22.03	51,850	22.63
Derek Mitchell *Guy Huntrods*	United Kingdom	24,650	24,650	10.47	24,650	10.76
Guenther Schleiminger *Lore Fuenfgelt*	Germany	12,250	12,250	5.20	12,250	5.35
Georges Plescoff *Bruno de Maulde*	France	10.100	10,100	4.29	10,100	4.41
B. K. Madan *S. S. Marathe*	India	7,750	7,750	3.29	7.750	3.38
Francesco Palamenghi-Crispi *Carlos Bustelo (Spain)*	Italy[2]	6,500	6,500	2.76	6,500	2.84
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 Rep.	630				
	United Arab Rep.	1,750	12,440	5.29	8,710	3.80
Hideo Suzuki (Japan) *Seitaro Hattori (Japan)*	Burma	730				
	Ceylon	1,030				
	Japan	7,500				
	*Nepal	350				
	*Thailand	1,200	10,810	4.59	9,260	4.04
Robert Johnstone (Canada) *Maurice Horgan (Ireland)*	Canada	7,650				
	Guyana	400				
	Ireland	1,050				
	Jamaica	630	9,730	4.13	9,730	4.25
J. O. Stone (Australia) *G. P. C. de Kock (South Africa)*	Australia	5,250				
	Lesotho	280				
	New Zealand	1,820				
	South Africa	2,250	9,600	4.08	9,600	4.19

Appendix II (*continued*). EXECUTIVE DIRECTORS AND VOTING POWER on April 30, 1970

Director *Alternate*	Casting Votes of	Votes by Country	General Account Total Votes[1]	General Account Per Cent of Total	Special Drawing Account Total Votes[1]	Special Drawing Account Per Cent of Total
ELECTED (continued)						
Byanti Kharmawan (Indonesia)	Algeria	1,000				
Malek Ali Merican (Malaysia)	Ghana	940				
	Indonesia	2,320				
	Laos	350				
	*Libyan Arab Rep.	440				
	Malaysia	1,500				
	Morocco	1,150				
	*Singapore	550				
	Tunisia	600	8,850	3.76	7,860	3.43
Pieter Lieftinck (Netherlands)	Cyprus	450				
Tom de Vries (Netherlands)	Israel	1,150				
	Netherlands	5,450				
	Yugoslavia	1,750	8,800	3.74	8,800	3.84
Leonard A. Williams (Trinidad and Tobago)	Botswana	280				
Maurice Peter Omwony (Kenya)	Burundi	400				
	Gambia, The	300				
	Guinea	440				
	Kenya	570				
	Liberia	450				
	Malawi	362				
	Mali	420				
	Nigeria	1,250				
	Sierra Leone	400				
	Sudan	820				
	Tanzania	570				
	Trinidad and Tobago	690				
	Uganda	570				
	Zambia	750	8,272	3.51	8,272	3.61
André van Campenhout (Belgium)	Austria	2,000				
Jacques Roelandts (Belgium)	Belgium	4,470				
	Luxembourg	440				
	Turkey	1,330	8,240	3.50	8,240	3.60
Alfredo Phillips O. (Mexico)	Costa Rica	500				
Marcos A. Sandoval (Venezuela)	El Salvador	500				
	Guatemala	500				
	Honduras	440				
	Mexico	2,950				
	Nicaragua	440				
	Venezuela	2,750	8,080	3.43	8,080	3.53

Appendix II *(concluded)*. EXECUTIVE DIRECTORS AND VOTING POWER on April 30, 1970

Director / *Alternate*	Casting Votes of	Votes by Country	General Account Total Votes[1]	General Account Per Cent of Total	Special Drawing Account Total Votes[1]	Special Drawing Account Per Cent of Total
ELECTED (concluded)						
Eero Asp (Finland)	Denmark	1,880				
Sigurgeir Jónsson (Iceland)	Finland	1,500				
	Iceland	400				
	Norway	1,750				
	Sweden	2,500	8,030	3.41	8,030	3.51
Alexandre Kafka (Brazil)	Brazil	3,750				
Eduardo da S. Gomes, Jr. (Brazil)	Colombia	1,500				
	Dominican Republic	570				
	Haiti	400				
	Panama	530				
	Peru	1,100	7,850	3.34	7,850	3.43
Luis Escobar (Chile)	Argentina	3,750				
Ricardo H. Arriazu (Argentina)	Bolivia	540				
	Chile	1,500				
	Ecuador	500				
	Paraguay	400				
	Uruguay	800	7,490	3.18	7,490	3.27
Beue Tann (China)	China	5,750				
Nguyên Huu Hanh (Viet-Nam)	Korea	750				
	Viet-Nam	640	7,140	3.03	7,140	3.12
Antoine W. Yaméogo (Upper Volta)	Cameroon	432				
Léon M. Rajaobelina (Malagasy Republic)	Central African Rep.	345				
	Chad	350				
	Congo, Dem. Rep. of	1,150				
	Congo, People's Rep. of	350				
	Dahomey	350				
	Gabon	345				
	Ivory Coast	440				
	Malagasy Republic	440				
	Mauritania	350				
	Mauritius	410				
	Niger	350				
	Rwanda	400				
	Senegal	500				
	Togo	362				
	Upper Volta	350	6,924	2.94	6,924	3.02
			235,356[2]	100.00	229,086[2]	100.00

* Not a participant in the Special Drawing Account.

[1] Voting power varies on certain matters pertaining to the General Account with use of the Fund's resources in that Account. In voting on matters relating exclusively to the Special Drawing Account, only the number of votes allotted to members which are participants may be cast.

[2] This total does not include the votes of Greece, Malta, *Portugal, and Spain, which did not participate in the 1968 Regular Election of Executive Directors. These members have designated the Executive Director appointed by Italy to look after their interests in the Fund. The votes of Cambodia, Equatorial Guinea, Southern Yemen, and Swaziland, which joined the Fund after the 1968 Regular Election of Executive Directors, are also not included.

Appendix III. Changes in Membership of Executive Board

Changes in the membership of the Executive Board between May 1, 1969 and April 30, 1970 were as follows:

E. W. Maude (United Kingdom) resigned as Executive Director for the United Kingdom, effective November 6, 1969.

Derek Mitchell (United Kingdom) was appointed Executive Director by the United Kingdom, effective November 7, 1969.

Guy Huntrods (United Kingdom), formerly Alternate Executive Director to E. W. Maude (United Kingdom), was appointed Alternate Executive Director to Derek Mitchell (United Kingdom), effective November 7, 1969.

John S. Hooker (United States), Alternate Executive Director to William B. Dale (United States), retired, effective March 31, 1970.

The following served at certain times during 1969/70 as Temporary Alternate Executive Directors to the Executive Directors indicated:

Temporary Alternate Executive Director	Executive Director for whom Temporary Alternate Served
Michel Bako (Chad)	Antoine W. Yaméogo (Upper Volta)
Horacio Bobadilla (Guatemala)	Alfredo Phillips O. (Mexico)
Angel R. Caram (Argentina)	Luis Escobar (Chile)
Jean P. Carrière (France)	Georges Plescoff (France)
J. M. Chona (India)	B. K. Madan (India)
Ian A. Craik (United Kingdom)	E. W. Maude (United Kingdom) Derek Mitchell (United Kingdom)
Daniel Fernández (Argentina)	Luis Escobar (Chile)
Dieter Frommel (Germany)	Guenther Schleminger (Germany)
Brian Jensen (Peru)	Alexandre Kafka (Brazil)
Juan Moro (Spain)	Francesco Palamenghi-Crispi (Italy)
Carlos G. Muñiz (Nicaragua)	Alfredo Phillips O. (Mexico)
Riccardo Patti (Italy)	Francesco Palamenghi-Crispi (Italy)
Adelio Pipino (Chile)	Luis Escobar (Chile)
H. G. Schneider (Austria)	André van Campenhout (Belgium)
Johan Skutle (Norway)	Eero Asp (Finland)
J. A. Sogo (Nigeria)	Leonard A. Williams (Trinidad and Tobago)
Hugo Spechar (Bolivia)	Luis Escobar (Chile)
Pieter Stek (Netherlands)	Pieter Lieftinck (Netherlands)
Willy Stoop (Belgium)	André van Campenhout (Belgium)
Atmono Surjo (Indonesia)	Byanti Kharmawan (Indonesia)
G. F. Taylor (Australia)	J. O. Stone (Australia)
Norio Tsukagoshi (Japan)	Hideo Suzuki (Japan)
Jean R. Vallet (France)	Georges Plescoff (France)
John C. C. Yuan (China)	Beue Tann (China)

Appendix IV. Administrative Budget

Letter of Transmittal

July 22, 1970

My dear Mr. Chairman:

The administrative budget of the Fund approved by the Executive Board for the Fiscal Year ending April 30, 1971 is presented herewith, in accordance with Section 20 of the By-Laws. The presentation also shows actual expenditures for the past two fiscal years.

I should like to 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

Administrative Budget as Approved by the Executive Board for the Fiscal Year Ending April 30, 1971 Compared with Actual Expenditures for the Fiscal Years Ended April 30, 1969 and 1970

Category of Expenditure	Fiscal Year Ending Apr. 30, 1971 Budget	Fiscal Year Ended Apr. 30, 1970 Budget	Fiscal Year Ended Apr. 30, 1970 Actual Expenditures	Fiscal Year Ended Apr. 30, 1969 Actual Expenditures
I. Board of Governors	$ 850,000	$ 662,000	$ 659,829	$ 581,523
II. Executive Directors				
Salaries	$ 1,860,000	$ 1,710,000	$ 1,704,610	$ 1,447,539
Other compensations and benefits	590,000	480,000	460,102	405,476
Travel	525,000	340,000	308,712	393,177
Total	$ 2,975,000	$ 2,530,000	$ 2,473,424	$ 2,246,192
III. Staff				
Salaries	$13,700,000	$11,870,000	$11,858,137	$10,240,699
Other compensations and benefits	5,407,000	4,713,000	4,708,909	3,923,257
Travel	3,680,000	3,264,000	3,086,714	2,480,911
Total	$22,787,000	$19,847,000	$19,653,760	$16,644,867
IV. Special Services to Member Countries	$ 2,599,000	$ 2,176,000	$ 2,175,493	$ 1,944,966
V. Other Administrative Expenses				
Communications	$ 919,000	$ 845,000	$ 797,914	$ 655,101
Office occupancy expenses	997,000	745,000	741,181	527,714
Books and printing	665,000	655,000	636,996	507,238
Supplies and equipment	707,000	570,000	542,085	604,486
Miscellaneous	1,201,000	970,000	951,914	672,429
Total	$ 4,489,000	$ 3,785,000	$ 3,670,090	$ 2,966,968
Total	$33,700,000	$29,000,000	$28,632,596[1]	$24,384,516

[1] Net administrative expenditures totaled $27,744,940 after the deduction of $887,656 reimbursed to the General Account by assessments levied on the net cumulative allocations of participants in the Special Drawing Account.

Appendix V. COMPARATIVE STATEMENT OF INCOME AND EXPENDITURE

	Fiscal Year Ended		
	Apr. 30, 1968	Apr. 30, 1969	Apr. 30, 1970
INCOME [1]			
Service charges			
Received in gold	$ 4,843,963	$ 7,031,923	$ 8,442,107
Received in special drawing rights	—	—	822,427
Received in members' currencies	1,897,287	7,162,331	2,599,790
Total	$ 6,741,250	$ 14,194,254	$ 11,864,324
Charges on Fund's holdings of members' currencies and securities in excess of quotas			
Received in gold	$21,076,076	$ 23,732,642	$ 62,976,228
Received in special drawing rights	—	—	55,418,982
Received in members' currencies	60,952,605	83,719,504	6,333,182
Total	$82,028,681	$107,452,146	$124,728,392
Other operational income	$ 663,353	$ 432,853	$ 1,520,608
Miscellaneous income	9,472	11,267	13,611
TOTAL INCOME	$89,442,756	$122,090,520	$138,126,935
EXPENDITURE			
Administrative	$21,299,439	$ 24,384,516	$ 27,744,940 [2]
Operational	11,945,077	22,335,693	46,310,902 [3]
Fixed property	454,515	4,532,489	6,518,615
TOTAL EXPENDITURE	$33,699,031	$ 51,252,698	$ 80,574,457
NET INCOME	$55,743,725	$ 70,837,822	$ 57,552,478

[1] Excludes income from investments transferred to Special Reserve for the fiscal years ended April 30, 1968 $39,750,857; 1969 $46,589,710; and 1970 $56,741,734.

[2] After deduction of $887,656 reimbursed to the General Account by assessments levied on the net cumulative allocations of participants in the Special Drawing Account.

[3] Includes provision of $27,181,314 for the payment of remuneration pursuant to Article V, Section 9, for the period July 28, 1969 through April 30, 1970.

Appendix VI. Financial Statements of the General Account, Special Drawing Account, and Staff Retirement Fund

Letter of Transmittal

July 22, 1970

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 General Account and the Staff Retirement Fund for the year ended April 30, 1970, and the Special Drawing Account for the period from January 1, the date on which the first allocation of special drawing rights was made, through April 30, 1970, 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, France, Malaysia and Sierra Leone nominated auditors to serve on this Committee. They respectively nominated Mr. André Valls, Inspecteur des Finances, Ministry of Economy and Finance, France; Mr. Shamsir bin Omar, Accountant General of Malaysia; and Mr. A. S. C. Johnson, Auditor General of Sierra Leone. The Auditors thus nominated were confirmed by the Executive Directors.

It will be noted that, in the period under review for the General Account, ordinary income amounted to $138,126,935, and expenditure amounted to $80,574,457 (including $27,181,314 in remuneration on members' net creditor positions pursuant to Article V, Section 9, of the Articles of Agreement), resulting in a net income of $57,552,478, which has been transferred provisionally to General Reserve pending action by the Board of Governors. In addition, income of $56,741,734 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 26, 1970

To the Managing Director
and the Executive Directors
International Monetary Fund

The report of the Audit Committee, dated June 26, 1970, submitted through you to the Board of Governors, on the audit of the financial records, operations and transactions of the International Monetary Fund, for the fiscal year ended April 30, 1970, 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 operations and transactions conducted through the General Account or the Special Drawing Account 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 and liabilities of the Fund and for special drawing rights. In considering the authority for operations and transactions, reference was made to the Articles of Agreement, the By-Laws, the Rules and Regulations, 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 General Account of the International Monetary Fund as at April 30, 1970, the Statement of Income and Expenditure and the Statement of Reserves for the year then ended, and the schedules related thereto; and the Balance Sheet of the Special Drawing Account of the International Monetary Fund as at April 30, 1970 and its related schedules. 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, these Balance Sheets and Statements, together with the notes appearing thereon, present fairly the financial position of the International Monetary Fund as at April 30, 1970, and the results of the operations and transactions in the General Account for the year then ended, and in the Special Drawing Account for the period from January 1, the date on which the first allocation of special drawing rights was made, through April 30, 1970, in conformity with generally accepted accounting principles, and, with respect to the General Account, applied on a basis consistent with that of the preceding year.

Audit Committee:

/s/ André Valls, Chairman (France)

/s/ Shamsir bin Omar (Malaysia)

/s/ A.S.C. Johnson (Sierra Leone)

GENERAL

BALANCE

as at April

Values expressed in U.S. dollars on the
one U.S. dollar is equivalent

ASSETS

GOLD ACCOUNT			
Gold with depositories (See Note 1)			
(*78,993,505.271 fine ounces at $35 per ounce*)			
Bars	$2,516,082,708		
General deposits	248,689,976		
	$2,764,772,684		
Less: 42,857.363 fine ounces held in suspense for the account of the Yemen Arab Republic pending completion of the formalities of membership	1,500,008	$2,763,272,676	
Investments (See Note 2)			
U.S. Government securities maturing within 12 months at cost (face amount $844,250,000)	$799,944,728		
Funds awaiting investment	46,783	799,991,511	$ 3,563,264,187
SPECIAL DRAWING RIGHTS (See Note 3)			212,472,421
(*212,472,421 units*)			
CURRENCIES AND SECURITIES (See Note 4)			
With depositories			
Currencies		$ 4,745,801,045	
Securities		13,818,725,552	18,564,526,597
(*nonnegotiable, noninterest-bearing demand obligations, payable at face value by members in their currencies*)			
SUBSCRIPTIONS TO CAPITAL—RECEIVABLE			
Balances of original quotas—not due		$769,182,177	
Balances of increases in quotas—not due (Contra)		1,075,000	770,257,177
OTHER ASSETS (See Note 5)			55,423,808
TOTAL ASSETS			$23,165,944,190

NOTES:

1. Excludes 24,948.188 fine ounces held under earmark 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. The unit of value of special drawing rights is equivalent to 0.888671 gram of fine gold.
4. Total outstanding drawings of members amount to $5,369 million. Currency holdings in excess of members' quotas subject to Fund charges amount to $4,018 million.
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 the arrangement. 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.

ACCOUNT

SHEET

30, 1970

basis of established parities or provisional rates—
to 0.888671 gram of fine gold

CAPITAL, RESERVES, AND LIABILITIES

CAPITAL		
Subscriptions of members		$21,348,700,000
RESERVES (Exhibit C)		
Special reserve	$366,224,001	
General reserve	350,303,618	716,527,619
SUBSCRIPTIONS IN RESPECT OF INCREASES IN QUOTAS CONSENTED TO BUT NOT YET EFFECTIVE		
Balances not due (Contra)	$1,075,000	
Partial payments	725,000	1,800,000
INDEBTEDNESS (See Note 6)		
To Participants under General Arrangements to Borrow	$815,000,000	
Other	250,000,000	1,065,000,000
PROVISION FOR POTENTIAL REFUNDS OF STAND-BY CHARGES (See Note 7)		740,447
OTHER LIABILITIES (See Note 5)		33,176,124
TOTAL CAPITAL, RESERVES, AND LIABILITIES		$23,165,944,190

/s/ WALTER O. HABERMEIER
Treasurer

/s/ FRANK A. SOUTHARD, JR.
Acting Managing Director

General Account

Statement of Income and Expenditure

for the year ended April 30, 1970

Income			
Operational charges		$ 12,971,049	
Charges on balances in excess of quotas		124,728,392	
Interest on holdings of special drawing rights		413,883	
Other		13,611	
Total Income (See Note 1)			$138,126,935
Expenditure			
Administrative expenditure			
Board of Governors		$ 659,828	
Executive Directors			
Salaries and expense allowances	$1,704,610		
Other compensations and benefits	460,102		
Travel	308,712	2,473,424	
Staff			
Salaries	$11,858,137		
Other compensations and benefits	4,708,909		
Travel	3,086,714	19,653,760	
Special services to member countries		2,175,493	
Other administrative expenses			
Communications	$797,915		
Office occupancy expenses	741,181		
Books and printing (See Note 2)	636,996		
Supplies and equipment	542,085		
Miscellaneous (See Note 3)	951,914	3,670,091	
Total administrative expenditure		$28,632,596	
Deduct: Estimated expenses of operating the Special Drawing Account		887,656	
Net administrative expenditure		$27,744,940	
Operational expenditure			
Remuneration	$27,181,314		
Transfer charges on currencies borrowed under General Arrangements to Borrow	2,420,000		
Interest on indebtedness			
Under General Arrangements to Borrow	12,990,916		
Other	3,750,000		
Gold handling and sundry other costs (net)	31,328 Cr.		
Total operational expenditure		46,310,902	
Fixed property expenditure		6,518,615	
Total Expenditure			80,574,457
Net Income (Transferred provisionally to General Reserve pending action by Board of Governors) (Exhibit C)			$ 57,552,478

Notes:

1. Excludes income from investments amounting to $56,741,734 transferred to Special Reserve (Exhibit C).
2. After deduction of $90,604 for sales of Fund's publications.
3. After deduction of $306,561 for food service sales.

General Account

Statement of Reserves

for the year ended April 30, 1970

Special Reserve (See Note 1)		
Balance, April 30, 1969	$309,482,267	
Add		
Income from investments in U.S. Government securities	56,741,734	
Balance, April 30, 1970		$366,224,001
General Reserve		
Balance, April 30, 1969 (See Note 2)	$324,646,839	
Deduct		
Distribution of net income for fiscal year 1969 in accordance with Board of Governors' Resolution No. 24-14	31,895,699	
	$292,751,140	
Add		
Net income (Exhibit B), transferred provisionally pending action by Board of Governors	57,552,478	
Balance, April 30, 1970		350,303,618
Total Reserves (per Balance Sheet)		$716,527,619

Notes:

1. From November 1, 1957 income from investments in U.S. Government securities has been placed to this reserve. Any administrative deficit for any fiscal year of the Fund must be written off first against this reserve. Pursuant to Article XII, Section 6 (*c*), of the Articles of Agreement, the Fund may make transfers from this reserve to the General Reserve.
2. Includes net income of $70,837,822 for fiscal year ended April 30, 1969 transferred provisionally to the General Reserve pending action by the Board of Governors. In accordance with Board of Governors' Resolution No. 24-14, $38,942,123 was allocated to the General Reserve and $31,895,699 was distributed to members pursuant to Article XII, Section 6 (*b*).

Appendix VI (*continued*)
Exhibit A (Special Drawing Account)

SPECIAL DRAWING ACCOUNT

BALANCE SHEET

as at April 30, 1970

Values expressed in units of value of special drawing rights—one unit of value is equivalent to 0.888671 gram of fine gold

ALLOCATIONS			
Net cumulative allocations of special drawing rights to participants (See Note 1)			SDR 3,414,045,600
HOLDINGS			
Holdings of special drawing rights (See Note 2)			
Participants			
Holdings above allocations			
Allocations	SDR 1,944,936,000		
Received (net)	175,013,254	SDR 2,119,949,254	
Holdings below allocations			
Allocations	SDR 1,469,109,600		
Used (net)	387,485,675	1,081,623,925	SDR 3,201,573,179
General Account			212,472,421
			SDR 3,414,045,600

NOTES:

1. Under Articles XXX and XXXI of the Fund Agreement which cover termination of participation in or the liquidation of the Special Drawing Account, each participant has an obligation to pay to the Fund an amount equal to its net cumulative allocation of special drawing rights and any other amounts that may be due and payable because of participation in the Special Drawing Account. The Fund also has an obligation to redeem, in accordance with these Articles, the special drawing rights held by each participant.
2. Special drawing rights allocated by the Fund do not constitute claims by holders against the Fund to provide currency, except as prescribed by the provisions of Articles XXX and XXXI relating to the termination of participation and liquidation. Participants may use their special drawing rights to obtain currency in accordance with the provisions of Article XXV, and under Section 5 of this Article they are entitled to request the Fund's assistance in the form of designation of participants to provide currency in exchange for special drawing rights. The obligation of a participant to provide currency for special drawing rights does not extend beyond the point at which its holdings of special drawing rights in excess of its net cumulative allocations 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, however, provide currency in excess of the obligation limit or any agreed higher limit.

/s/ WALTER O. HABERMEIER
Treasurer

/s/ FRANK A. SOUTHARD, JR.
Acting Managing Director

Staff Retirement Fund

Memorandum by the Audit Committee

June 26, 1970

To the Managing Director
and the Executive Directors
International Monetary Fund

The report of the Audit Committee, dated June 26, 1970, 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, 1970, includes the following paragraphs relating to the scope of the audit conducted, and the audit certificate given 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, 1970. In the course of the examination, the Committee referred to the Articles of the Staff Retirement Plan and to the decisions of the Pension, Administration and Investment Committees created under the Plan. The Audit Committee made what it considered an adequate test check of the various classes of transactions, taking into account the audit coverage of the Internal Auditor, whose report to the Committee showed that a detailed examination had been made of the participants' accounts.

Audit Certificate

In our opinion, the Balance Sheet, Statement of Source and Application of Funds, and the related Schedules of Participants' Account, Accumulation Account, Retirement Reserve Account and Reserve Against Investments present fairly the financial position of the Staff Retirement Fund as at April 30, 1970, 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/ André Valls, Chairman (France)

/s/ Shamsir bin Omar (Malaysia)

/s/ A.S.C. Johnson (Sierra Leone)

STAFF RETIREMENT FUND

BALANCE SHEET

as at April 30, 1970

ASSETS

CASH AT BANKS			$ 130,377
INVESTMENTS			
Bonds at amortized cost			
United States Government (including de facto guaranteed notes) (*market value, $4,982,417*)	$ 6,011,097		
International Bank for Reconstruction and Development and Inter-American Development Bank (*market value, $3,376,520*)	4,484,246		
Corporate (*market value, $3,921,414*)	5,368,804		
Corporate Convertible (*market value, $28,200*)	30,000	$15,894,147	
Stocks, at cost			
Preferred Convertible (*market value, $8,625*)	$ 7,073		
Common (*market value, $15,320,073*)	15,888,707	15,895,780	31,789,927
ACCRUED INTEREST ON BONDS AND CONTRIBUTIONS FROM PARTICIPANTS AND EMPLOYER			298,402
TOTAL ASSETS			$32,218,706

LIABILITIES AND RESERVES

PARTICIPANTS' ACCOUNT	$ 6,574,515
ACCUMULATION ACCOUNT	19,892,863
RETIREMENT RESERVE ACCOUNT	4,866,991
RESERVE AGAINST INVESTMENTS	872,692
ACCOUNTS PAYABLE	11,645
TOTAL LIABILITIES AND RESERVES	$32,218,706

/s/ WALTER O. HABERMEIER
Treasurer

/s/ FRANK A. SOUTHARD, JR.
Acting Managing Director

INDEX

This page intentionally left blank

INDEX

Numbers refer to pages. An asterisk (*) denotes a table, a dagger (†) denotes a chart.